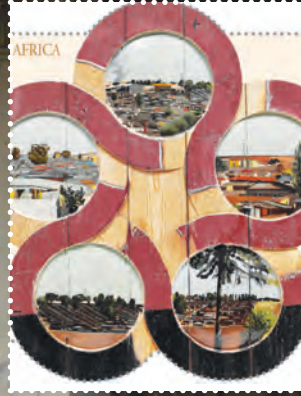


# Post Office



We deliver, whatever it takes.

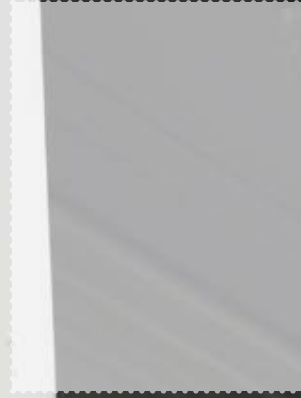


## INTEGRATED Report 2015



Connecting You & I, our government, our business – for growth and prosperity



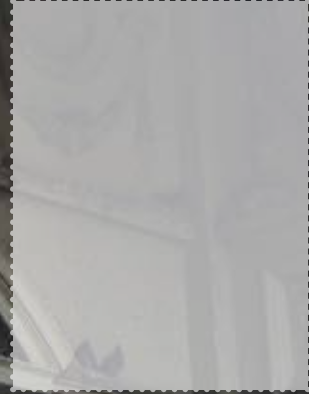


# Vision

A leading provider of postal, logistics and financial services that is responsive to market changes whilst achieving sustainable growth.

# Mission

We facilitate communication and delivery of services by linking government, business and customers with each other across the world by leveraging our broad reach, employees, technology and innovation.



# Values

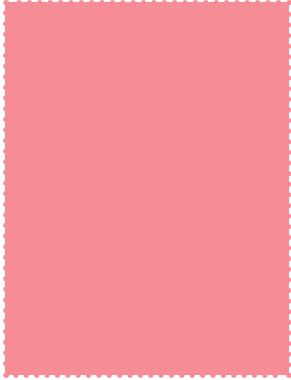
- We have a passion for our customers and will meet their specific needs through excellent service
  - We aim to contribute positively to our communities and environment
- We treat each other with respect, dignity, honesty and integrity
  - We recognise and reward individual contributions
- We embrace diversity in the way we conduct business

*Connecting You & I, our government, our business – for growth and prosperity*



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# Post Office



## Group Management Report

# Chairperson's Statement

The 2014/15 financial year has arguably been one of the most eventful periods of the SA Post Office SOC Ltd (SA Post Office). The period under review saw the SA Post Office having to make the tough decision of whether to allow itself to be uprooted by turbulences or convert the adverse situation into a springboard for its rebirth. This situation trails the much publicised five month long labour unrest in 2014 which put significant strain on the ability of the SA Post Office to provide services to its customers.

## **GOVERNMENT'S MUCH-NEEDED HAND TO THE RESCUE**

The asking price of the labour unrest on the SA Post Office operations and the economy, together with the departure of members of the then board of directors, led to the Honourable Minister of Telecommunications and Postal Services, Dr Siyabonga Cwele, instituting the Administration process on the SA Post Office. Together with a full-strength Technical Intervention Team, each of whom brought unique business administration skills, my priority (on my appointment) was to put an end to the corrosive labour unrest, bring stability to the SA Post Office and develop a Strategic Turnaround Plan.

While this remains a focal area, given that much still needs to be invested in order to fully bring in line all the underlying issues affecting the company's labour environment, there has not been any noticeable standoff with labour at the SA Post Office since the advent of the Administration. Reassuringly, all the SA Post Office stakeholders were able to maintain this sound position at the height of particularly strenuous circumstances.

The revenue-generation capacity of the company remains constrained and inevitably some domino effect casts its web wider, but we were all able to remain firmly on course. This only serves to give us the confidence to be optimistic of a brewing fertile atmosphere for the much-needed stability of the oncoming governance and operations structures. We are eternally indebted to all stakeholders, especially customers and suppliers, that supported the South African Post Office through its turbulence. We are also grateful to those that criticized us constructively because they were all driven by a shared desire to see this national asset succeed through the trying times.

Indeed, all the signs are that the SA Post Office's stakeholders, in particular management and labour formations, recognise the importance of continuously engaging on issues of mutual interest without any need to cave in the bridge. We are confident that this culture will take root as it is amongst the key pillars of organizational stability.

## **ACHIEVING A SUSTAINABLE CUSTOMER-CENTRIC BUSINESS THAT IS HIGH AT THE CENTRE OF GOVERNMENT SERVICES**

I believe that if the pervasive availability of alternative electronic communication marks a death chime to the postal business globally, then the public outcry that greeted the turbulences, which resulted from the protracted strike, was a contradictory signal.

The relevance of the SA Post Office in the economy and its potential for becoming an unparalleled conduit for government services were clearly without question. So our signals were that if the market has shifted elsewhere, then the oracle may still be largely off-mark at this point in our developing economy that sadly has a history of disproportions.

Therefore, an important development during the period under review has been the Cabinet's approval of the SA Post Office's Strategic Turnaround Plan (STP). The STP models the SA Post Office on a sound path of becoming a sustainable business capable of delivering its important mandate of connecting our people in their quest to access services inexpensively.

Notably, the STP recognises the need for change in the SA Post Office's business in order to sidestep past mistakes. The unprecedented customer-centricity that the STP places on the SA Post Office business is one of the factors that make us confident that the business will achieve much-desired financial growth, including products and services adaptability to consumer needs.



Aligning the business to shake-off its traditional high costs structure and modelling it to bring into focus its products and services around evolving customer needs are some of the noted profitability and sustainability pillars. The costs restructuring recommended in the STP will not only take a human resources form, but will also be implemented across the business to enhance the efficiencies in areas such as supply chain and sourcing policies, product and services innovation and selling, including the efficient management of our properties.

## **ENSURING SEAMLESS AND CONSTRUCTIVE RELATIONSHIPS WITH STAKEHOLDERS**

Proactively taking part in guarding the SA Post Office's reserved business from unwarranted cannibalisation is one aspect of ensuring the sustainability of the business. Stoic engagements with the relevant stakeholders in this regard, especially the regulator, are central.

Also principal to the business' sustainability is engagements on Universal Services Obligations (USO) and other licensing conditions. The foundation for these engagements has been laid during the reporting period, and outlined in the corporate plan, and we assure all our stakeholders that the SA Post Office will air its views on these issues reverentially and in a consensus seeking manner.

It is pleasing that at the helm of our stakeholder matrix sits government with whom we are fortunate to interact, as a shareholder, regulator, and most importantly, a vital potential customer that has been earmarked in our STP. Our positive relationship with this stakeholder, which continued to improve over the reporting period, can only serve as a building block in our achievement of our uppermost strategic objectives, as outlined in the STP.

Undeniably, the robustness with which government engaged the STP and the eventual endorsement signals the vote of confidence on the business. As the SA Post Office, we owe it to ourselves to reward our shareholder confidence by conducting the transformed business in a manner that shows its commitment to the transformation of this country in line with the National Development Plan. It is that level of dedication that undoubtedly will result in the SA Post Office obtaining the desired share of government business.

We have also noticed an encouragingly meaningful improvement in the SA Post Office's relationship with labour stakeholders during this reporting period. Deliberate and pointed communications from the Intervention team and Acting Group CEO targeting employees and our labour partners through various forums were deployed to achieve this objective. We never stopped believing that the acrimonious labour environment that prevailed was a design we could improve significantly by maintaining a steady hand of friendship extended to our labour partners. This attitude should become the hallmark of leadership as a matter of course. If that positive attitude of this centre holds, then the much-needed stability in operations will prevail and management will be allowed to focus on the business of running the company's operations.

Major strides were also made to improve a dialogue with our customers - it would have been reckless of us if we had failed to reassure our customers of our commitment to put the business back on track. The feedback from these dialogues was intrinsically insightful; they apprised us of where they thought we had dropped the ball, alerted us to the business impact caused to their own businesses and also hammered home the nature and form of the service provider they wish out of the current remodelling efforts.

Our assessment is correct therefore that the business opportunity of the SA Post Office still exists provided we can tick the right boxes with our customers. On this aspect, the SA Post will embark on a major drive to seek to improve how it is perceived in the market by delivering reliable services to our customers.

## STEERING THE BUSINESS INTO A POSITIVE FUTURE GROWTH DIRECTION

The STP is the blueprint for the SA Post Office's growth path as it is aimed at implementing strategic initiatives that will stabilise the business and steer it in a competitive trajectory. Underpinning this plan, amongst others, include:

- Developing capacity to match and eventually drive agility of the markets that we serve;
- Enhancing regulatory capacity beyond compliance to effect a viable and sustainable Post Office;
- Growing the retail and logistics business' profitable revenue streams;
- Growing financial services offering through a licensed Postbank;
- Extracting operational efficiencies; and
- Streamlining and improving productivity.

The new operating model outlined in the corporate plan will assist the SA Post Office in charting healthy and profitable revenues towards becoming a sustainable business over the years. Technology enablement of the SA Post Office and its customers will be an engine that propels growth rather than a threat to our existence!

I would like to personally thank the very capable members of the technical intervention team for their contribution in the SA Post Office assignment during the reporting period. We are grateful for the guidance that we continue to enjoy from the Minister of Telecommunications and Postal Services Honourable Dr Siyabonga Cwele (MP), Minister of Finance Honorable Nhlanhla Nene (MP) and Deputy President of the Republic of South Africa, Honorable Cyril Ramaphosa. Further, I would also like to thank the SA Post Office employees and management for their dedicated efforts during these testing times.

On 13 August 2015, the Cabinet announced its appointment of the Board of Directors for the SA Post Office. On behalf of the rest of the SA Post Office Community, I warmly welcome them! I have no doubt that their leadership will propel the SA Post Office to the desired heights.



**Dr Simo Lushaba CD (SA)**

**Chairperson: SA Post Office Board**

# Acting Group Chief Executive Officer's Report

The year under review proved particularly adverse to the SA Post Office Group. The effects of unfavourable economic conditions and fierce competition were made worse by lengthy postal strikes. As a result both mail volumes and transactions at Retail stores dropped markedly.

While this sounds alarming, it should be noted that the Group stabilised in terms of labour relations and operations towards the end of 2014. This, together with steps to fill vacant leadership positions, revise the internal structure, and improve products and operations, should enable the Group to improve both financial performance and customer satisfaction over time. We already see excellent results from cost containment measures.

The SA Post Office Group was placed under administration at the end of 2014. A new, leaner structure developed during the administration period is expected to reduce cost and better place the Group to respond to customer expectations.

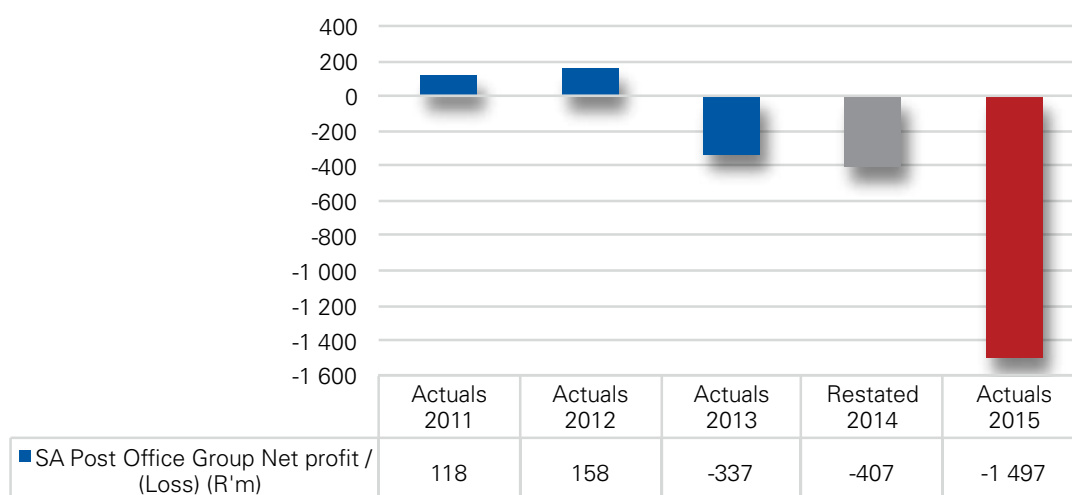
Postal administrations worldwide are experiencing a reduction in physical mail volumes as customers replace letter mail with electronic communication. The SA Post Office's E-Business unit is meant to provide this service. Although the strike had a negative effect on hybrid mail, and made it hard to acquire new business, the Electronic Bill Presentment and Payments (EBPP) product grew noticeably during the year under review and the market shows positive signs regarding the take-up of online signatures. The SA Post Office will actively pursue government business in the electronic communications space.

The operating environment has been challenging for the South African Post Office SOC Limited during the 2014/15 financial year with lower volumes presented by customers for mail, hybrid and logistics. Labour instability during the year and negative publicity adversely affected the South African Post Office SOC Limited brand, customer confidence and financial performance.

The group recorded a net loss after tax for the year ended 31 March 2015 of R 1,49 billion. This represented an increase of 268% from the net loss after tax of the prior year of R 406,671 million.



**SA POST OFFICE GROUP NET PROFIT / (LOSS) (R'M)**



Group revenue decreased by 13% from R 5,752 billion in the prior year to R 5,012 billion for the year ended 31 March 2015. The prolonged strike action had negative impact on the declining revenue as the decline continued well after the labour unrest ended. Trading conditions were challenging for mail business, with volumes declining as customers found alternative modes of distributing their mail.

The lower revenues were to some extent offset by implementation of cost optimisation programs and resulted in operating expenses declining to R 6,302 billion from prior year of R 6,451 billion.

Group cash flows used in operating activities increased by 34% from R 154,480 million in the prior year to R 207,775 million for the year ended 31 March 2015.

A funds transfer of R 50 million was received from the Department of Telecommunication and Postal Services (DTPS) as financial assistance towards settling existing liabilities related to Universal Service Obligation Post Offices.

There was no subsidy funding received from the Shareholder for the 2015 financial year. The group will therefore need to review the future extent of its universal service costs. The Universal Service Obligation priorities that are being carried out by the group will have to be reviewed in line with the business sustainability model, funding model and the execution of mandate in light of the subsidy removal from government. In the meantime discussions with the DTPS and Independent Communications Authority of South Africa (ICASA) to review the licence requirements over the medium term have commenced.

The effect of the industrial action in 2014 was most notable at Mail Business, where mail volumes, revenue and profitability were significantly impaired. This situation is being addressed by focusing on improving service standards and by improving relationships with major customers. A total of 500 109 new addresses were rolled out against a planned target of 500 000 as at 31 March 2015 of which 45.3% were in urban areas and 54,7% in rural areas.

Freight volumes at the Logistics business units were similarly affected by the industrial action, which affected transport arrangements. Nevertheless, Logistics had excellent results in fulfilling specific projects to deliver textbooks for the Limpopo and Northern Cape Departments of Education as well as projects for Government Communication and Information Services. Once again, Post Office Logistics completed the delivery of textbooks to schools in these provinces before the academic year started. This is in sharp contrast to previous years when delivery extended well into the second half of the academic year. As with Mail Business, the focus is on improving service standards, reducing cost and accommodating customer needs in order to improve revenue and profitability.

Postbank saw growth in deposits held, investments and cash and cash equivalents. Moreover, the current Postbank balance sheet is now ring-fenced for transfer to the new post bank corporate entity, pending approval from the SA Reserve Bank. The Section 12 banking license application was submitted in September 2013. Since then there have been constant engagements with the South African Reserve Bank (SARB). The Postbank team is preparing the following deliverables: the cooperation agreement between the new Postbank entity and SAPO as well as the finalisation of the Memorandum of Incorporation (MOI) for the new Postbank entity which depends on the finalisation of the Postbank controlling structure. We are expecting a response from the SA Reserve Bank on the Section 12 application as soon as the board nominees "fit and proper" assessment is completed, which would pave the way for progression to the next level - the incorporation of Postbank.

The Post Office still has an unrivalled network, of 2,448 branches consisting of 1,568 conventional Post Offices and 880 Retail Postal Agencies, making it an ideal partner for entities that need to reach all corners of South Africa. During the 2014/2015 financial year, SAPO has opened eleven (11) additional branches and upgraded/relocated fourteen (14) existing branches. A total of 40 branches have been amalgamated and consolidated with closely located existing branches. During this financial period SAPO has also converted four (4) Retail Postal Agencies (RPAs) to on-line status against a target of 20 for the financial year. The target has not been reached due to lack of network connectivity in the targeted areas, non-availability of point of sale equipment and delays in finalising the RPA solution on the new online WRE point of sale system.

To grow its business, the company plans to strengthen its ties in particular with government where it is important to provide a service to all citizens, no matter where they are. The agreement to pay motor vehicle licences is a particularly successful example with millions of motorists renewing car licences at the Post Office. There is huge potential for ventures that will diversify income sources for the Group, such as international remittances and ticket sales for events and bus lines. The Post Office intends to grow these product lines.

A total of one thousand two hundred and seventy six (1,276) branches have been converted to WebRiposte. The phase two (2) roll-out includes the conversion of the remainder of the Post Office branches that are currently operating on Postlink point of sale system to WebRiposte point of sale system. During the financial year 2014/15 a total of nine hundred and twenty one (921) branches were converted. Three hundred and fifty five (355) branches were converted during WRE Phase one (1) roll-out in the previous financial year 2013/2014.

Despite the recent deteriorating financial situation of the organisation, Human Capital Development ensured that they continued with the development of 11,058 employees by focusing on internal training interventions. The graduate program, through experiential learning processes, gives opportunities to people from designated groups with qualifications, yet lacking experience to acquire the experience complementing the qualification at hand. Participants follow a structured learning program to afford them the opportunity to acquire practical experience required for entry in the particular field of expertise. A total of 36 graduates participated in the graduate program for unemployed youths.

Trauma counselling was provided to 263 employees during the 2014 strikes. Apart from the normal trauma counselling special initiatives were launched to reintegrate employees back into the workplace. Partnerships were formed with the Psychological Department of SAPS and Helpline.

South Africa and the rest of Southern Africa are switching to broadcasting a digital signal, as required by the International Telecommunication Union (ITU). These countries will use the advanced European technology standard called digital video broadcasting terrestrial2 (DVB-T2), for which users will need set-top boxes (STBs) or decoders to get the signal. The Department of Communication, USAASA, SABC, the Department of Telecommunications and Postal Services and the SA Post Office are collaborating efforts for the distribution and delivery of the STBs to the needy households.

To ensure active participation in Africa's development agenda the SA Post Office signed agreements with the following countries for the exchange of International Money Orders via the UPU International Financial System (IFS): Cameroon, Gabon, Mauritius, Nigeria, Tanzania, Uganda and Zimbabwe.

The Post Office Group remains under intense pressure to regain lost business and income, and will address this by reducing costs, improving service delivery standards, and introducing new products. At the same time, it will take steps to address issues from the past which have severely impacted labour relations during the year under review.

The implementation of the Strategic Turnaround Plan provides us with a good opportunity to chart a new path underpinned by a new operating model. This journey has commenced and will see us using new business and operating models to create a healthy, financially stable, a highly efficient and customer centric organisation that is a key contributor to the South African economy. Our main focus will be on ensuring that the new business model is successfully deployed across the organisation, that the business is self-sustaining, and that we improve our financial position.

All recovery initiatives of the organisation continue to be aligned to our mandate, license agreement, priorities of Government, and the National Development Plan. The financial position of the SA Post Office has been largely affected by declines in our mail volumes compounded by an inflexible operating model that has failed to adapt to the substitution effect of digital trends.

The focus in the new financial year includes the implementation of a new organisational structure in support of the Strategic Turnaround Plan. The new structure is intended to introduce a new commercial and business delivery focus within the Group, in addition to entrenching a new culture of responsibility and accountability. The SA Post Office is confident that the plans put in place will ensure the successful execution of the STP. Management remains committed to the implementation of the STP as it aligns to our goal of delivering value to our primary shareholder, the South African Government and delivering vital services to all South Africans.



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**Mr Trevor Ndlazi**  
**Acting Group Chief Executive Officer**



Post Office



Strategy

# The Strategic Corporate Plan

The postal industry has for a number of years, experienced major transformation to adjust to structural changes in its core mail business, which has seen declines in revenue and volumes. The SA Post Office remains a monopoly entity in the reserved mail business, which constitutes the biggest component of its business. The global trend has seen a steady decline in mail volumes as other forms of communication pervade the market. In an effort to reduce its dependency on mail and exploit new revenue streams, the SA Post Office needs to focus on further diversifying its products and services.

The SA Post Office faces several challenges including negative customer perceptions, declining revenues, loss of Universal Services Obligation (USO) subsidy and a large fixed cost base. The 2015/16 – 2017/18 Corporate Plan of the SA Post Office is aimed at addressing these challenges.

Remaining financially viable and true to our mandate requires us to radically transform the organisation to find sustainable alternative revenue streams. This focus will enable the organisation to become less dependent on the mail business.

The SA Post Office management team has implemented short term initiatives to address the current performance barriers and concerns in the Group. This has led to the development of the Strategic Turnaround Plan (STP) that is aimed at implementing strategic initiatives that will stabilise the business and steer it in a positive growth direction. This plan sets the course for the organisation going forward.

Although it is critical to create an enabling environment for the SA Post Office, the organisation must also resolve a plethora of internal issues that threaten its sustainability. The SA Post Office's main revenue streams remain the mail business, with limited success in diversifying revenue to other related and adjacent markets. A number of offerings have been deployed as revenue diversification opportunities, however, achieving scale in any of them remains a challenge.

The 2015/16 – 2017/18 Corporate Plan provides us with a good opportunity to chart a new path, underpinned by a new operating model. This journey will see us using a new business and operating model to create a healthy, financially stable, and highly efficient and customer centric organisation that is a key contributor to the South African economy.

Over the next three years, our main focus will be on ensuring that the new business model is successfully deployed across the organisation, that the business is self-sustaining, and that we improve our financial position (i.e. increasing our revenue base and aggressively managing our costs) and that we improve overall efficiencies throughout our new operating business functions.

Our focus in the new financial year includes the implementation of a new organisational structure and the SA Post Office Strategic Turnaround Plan. The new structure is intended to introduce a new commercial and business delivery focus within the Group, in addition to entrenching a new culture of responsibility and accountability. The Strategic Turnaround Plan will focus on different phases that will address the organisation's fundamental building blocks (including addressing its capacity and capability shortcomings).

The phases will include focusing on revenue improvement, cost containment initiatives, implementing initiatives that will drive diversification, and innovation to enable the business to drive growth. Key to our plans will be the following:

- Redefining the way that we serve our customers
- The roll-out of the Government's Digital Terrestrial Television (DTT) project
- A revised digital strategy that is responsive to current, local and global trends
- A rationalised mail processing and retail delivery function
- Rationalisation of transport capability,
- Optimisation of our property portfolio to unlock value
- Corporatisation of Postbank which will give more people access to financial services.



### ***Phase 1: Stop the Bleeding***

This phase intends to arrest the current financial distress faced by SA Post Office. The key milestones within this phase includes short term cash management, capacitate SA Post Office with strong and capable leadership who will be required to ensure the successful implementation of SA Post Office's sustainable growth strategy. The management team is also required to drive the various revenue initiatives identified in the strategic plan. The process of implementing the new model is also planned to start in this phase. The duration of this phase is estimated to continue for the first half of the 2015/16 financial year.

### ***Phase 2: Strategic Positioning for the Future***

The focus area in phase 2 will be a continuation of the business model implementation to systematically address fundamental flaws in SA Post Office's business model. The business model initiatives will address the key flaws first.

### ***Phase 3: Sustainable Growth***

This phase will focus on building the newly established business model and sustaining its growth trajectory. At this point, SA Post Office should declare significant profits which will be recycled into the organisation to maintain the momentum gained over the previous two phases.

The SA Post Office management team has been working on a detailed list of initiatives to address the current performance barriers and concerns in the Group. This integrated programme is currently under review, including an assessment of the overall business impact, integration requirements and costs. Underpinning all this, is our goal to deliver value to our primary Shareholder, the South African Government and delivering vital services to all South Africans.

# Group Key Performance Indicators

The SA Post Office continues to give meaning to its strategic intent through the implementation of the initiatives in its approved strategic corporate plan.

## PREDETERMINED OBJECTIVES: FINANCIAL PERFORMANCE

STRATEGIC GOAL	OBJECTIVE	KEY PERFORMANCE INDICATOR	TARGET 2014/15	ACHIEVEMENT 2014/15	ACHIEVED STATUS	REMARKS
1. Attain financial sustainability while delivering on government social mandate	Growth	Year over year group revenue growth	Grow by 12% over prior year actual	Declined by 12.8% on prior year actual	Not achieved	The total revenue declined by 12.8% (R739m) compared to prior year. [Postal 13% (R529m); Logistics 31.4% (R213m); Postbank service charges 13.8% (R43m). Retail revenue 4.6% (R20m). Marginally off-set by increase in interest revenue of 23.6% = R65m]. The operating environment has been challenging for the South African Post Office during the 2014/15 financial year with lower volumes mailed by customers for mail, hybrid and logistics. Labour instability during the year and negative publicity adversely affected the South African Post Office brand, customer confidence and financial performance.

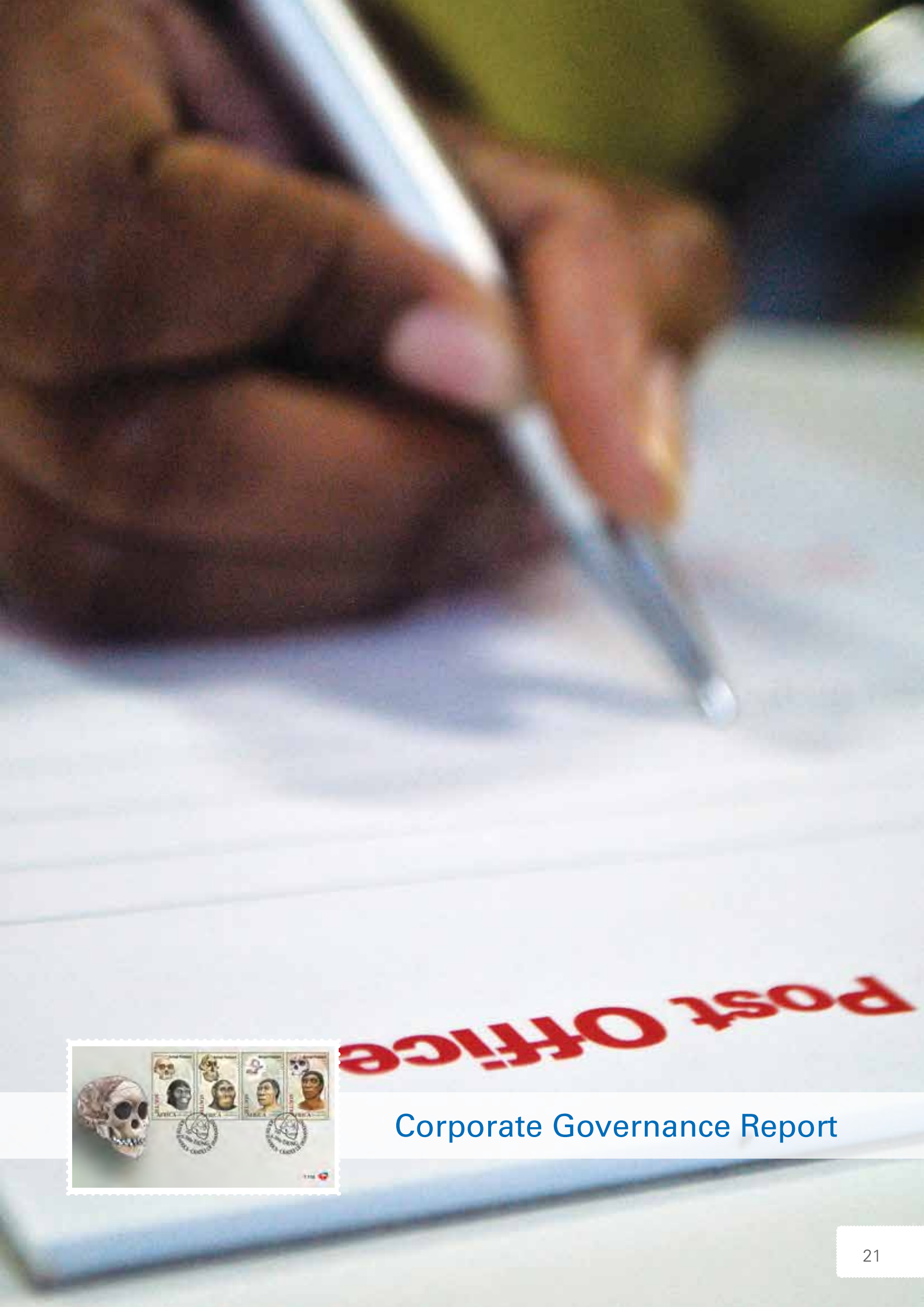
STRATEGIC GOAL	OBJECTIVE	KEY PERFORMANCE INDICATOR	TARGET 2014/15	ACHIEVEMENT 2014/15	ACHIEVED STATUS	REMARKS
		Group operating profit/loss	Operating loss of R315m	Operating loss of R994m	Not achieved	Lower volumes Labour instability Negative publicity
		Year over year Post bank deposits growth	Grow by 5% over prior year actual	Grew by 3.2% (R150m)	Not achieved	Depositors' withdrawals were higher than expected during the festive season (Dec/Jan), which contributed to the lower growth in depositors' funds overall.
	Sustainability	Current ratio	Maintain minimum of 1.1	1.02	Not achieved	Sufficient revenues were not generated to fund operating activities.
		Customer satisfaction survey (43% overall result based on survey conducted in 2009)	Survey to be conducted by 31 March 2015	Survey was not done	Not achieved	Due to lack of appropriate resources, human and financial, this did not materialise.

**PREDETERMINED OBJECTIVES: NON-FINANCIAL PERFORMANCE**

STRATEGIC GOAL	OBJECTIVE	KEY PERFORMANCE INDICATOR	TARGET 2014/15	ACHIEVEMENT 2014/15	ACHIEVED STATUS	REMARKS
2. Remain customer centric by effectively and efficiently fulfilling customer wants and needs	Mail	Delivery standard of 95% (target for 2015/16 re-negotiated with ICASA for 90%)	95%	78%	Not achieved	Impact of the strike is still a main contributor, and the inability to clear backlogs speedily/efficiently within some areas.
	Logistics	Delivery performance levels	96%	87.9%	Not achieved	The main contributor is the flight delays experienced due to the non-payment of SAA and the technical problems. The biggest impact was in KZN due to the line-haul that was impounded by the service provider.
3. Provide a secure, efficient and integrated infrastructure for consistent and seamless service delivery	Retail	Conformance to queue wait time of 7 minutes (to be negotiated with ICASA)	98%	98%	Achieved	
	Properties	Number of refurbished workplaces environments	45	9	Not achieved	All upgrades were stopped due to the company's financial challenges. Only emergency and critical OHS related work being done.

STRATEGIC GOAL	OBJECTIVE	KEY PERFORMANCE INDICATOR	TARGET 2014/15	ACHIEVEMENT 2014/15	ACHIEVED STATUS	REMARKS
3. Provide innovative, affordable and relevant services that meet the needs of our customers	USO	Number of additional domestic addresses served	1 195 680 (Target for 2015/16 re-negotiated with ICASA to be reduced to 500 000)	500 109	Not achieved	SA Post Office submitted a proposal to ICASA to review the target to 500 000. ICASA approved the revised target for the 2015/16 financial year. Due to SA Post Office's financial constraints boxes were not procured for rolling out of additional addresses.
		Additional retail points of presence	50 Target 2015/2016 re-negotiated with ICASA to be reduced to zero	11	Not achieved	6 new branches opened and 5 new mobiles completed. SA Post Office submitted a proposal to ICASA to review the target to 0. ICASA approved the revised target for the 2015/16 financial year. Lack of network connectivity in the targeted areas, non-availability of point of sale equipment and delays in finalising the RPA solution on the new online WRE point of sale system contributed to the non-achievement.
4. Invest in our people by creating opportunities, building capacity and implementing transformation programs	Gender equity	Total females/base (at 31 March 2014 46%)	47.5%	45%	Not achieved	
		Total black females/base (currently 35%)	38%	37%	Not achieved	
		Black females as % of total graduates & learners (currently 53%)	60%	56%	Not achieved	Total of 193 participants which included 109 females
		Total blacks/base (85%)	87%	86%	Not achieved	
	Disability targets	Disability/base (0.44%)	0.5%	0.44%	Not achieved	

STRATEGIC GOAL	OBJECTIVE	KEY PERFORMANCE INDICATOR	TARGET 2014/15	ACHIEVEMENT 2014/15	ACHIEVED STATUS	REMARKS
6. Maintain good corporate governance principles to continuously improve as a trusted corporate citizen	Governance	Ethics strategy and programme	Develop and implement an ethics strategy and programme	Ethics implementation plan was developed and approved by the BoD.	Not achieved	The protracted labour unrest disrupted normal business and the implementation of programmes. The erosion in leadership at executive level also stalled progress in implementation.
		Audit findings	Resolution of all high risk audit findings within 12 months	Total of 211 audit issues older than 12 months not resolved	Not achieved	Mail – 31 Postbank – 10 IT – 118 Finance – 18 HCM – 15 SCM – 8 Properties – 8 Although management are trying to resolve issues speedily, a more concerted effort needs to be put towards resolving outstanding issues.
7. Continue adopting and embedding environmentally sustainable business practices across the organisation		Compliance findings	Resolution of all high risk compliance findings within 6 months	Number of key compliance findings (FICA & FAISA) identified remain unresolved	Not achieved	Management attrition resulting in lack of continuity in tasks.
	Environmental	Carbon emissions	Reduce emissions by 2.5% of prior year actual emissions of 43 479 tCO <sub>2</sub> e	Reduced by 8.9% to 39 575 tCO <sub>2</sub> e	Achieved	
		Reduction in energy consumption (R/KWh)	Reduce energy consumption by 3% of prior year actual consumption of 46 009 976 KWh	Reduced by 39% to 28 032 824 KWh	Achieved	



# Corporate Governance Report

# Corporate Governance Report

## MANDATE, REGULATION AND LICENSE

The South African Post Office SOC Limited was established on 1 October 1991 as a public company in terms of the Companies Act, No. 61 of 1973. The state (Republic of South Africa), represented by the Minister of Telecommunications and Postal Services, is the sole Shareholder.

Following the repealing amendment of the Companies Act No. 61 of 1973 and the enactment of by the Companies Act No. 71 of 2008 (as amended), the SA Post Office was designated as a state-owned company (SOC) Limited SA as per the Post Office Limited Act No. 22 of 2011, as amended.

The SA Post Office is also a major state entity in terms of Schedule 2 of the PFMA No. 1 of 1999 (as amended) and is a SOC Limited in terms of the Companies Act No. 71 of 2008 (as amended).

## REGULATION

The SA Post Office is mandated to provide postal services according to the Postal Services Act of 1985 and the exclusive mandate of 1998. This Act provides for the regulation of postal services and the operational functions of the company, including its USOs (USOs).

The license to operate as South Africa's postal services provider was issued to the SA Post Office on behalf of the regulator in August 2001. This license is valid for 25 years and is reviewed every three years in terms of targets and performance.

The SA Post Office still enjoys a monopoly over reserved services, one that is currently being liberalised in many European countries. Until 2012/2013 this privilege was accompanied by government subsidies, provided in return for a USO. The Postal Services Act of 1998 charges the regulator, Icasa, with ensuring the provision of universal service through the reserved postal services licensee, namely the SA Post Office.

Through the SA Post Office's USO, a strategic priority for the Company is rolling out new addresses and branches in remote areas, in line with the government's development programme for 2030. The Postal Services Act further appoints ICASA to monitor the incumbent against 'anti-competitive' behaviour.

## LEGISLATIVE AND GOVERNANCE FRAMEWORK

The SA Post Office complies with the protocols and legislation governing SOCs and is guided by various postal, courier and financial regulations laid down by the regulatory bodies such as ICASA and the Financial Services Board (FSB).

The Group is required to comply with, inter alia, the following:

- SA Post Office Act No.1. 22 of 2011;
- Postbank Act No.1. 9 of 2010;
- Postal Services Act No.1 124 of 1998.
- Public Finance Management Act No.11 of 1999 (as amended);
- Companies Act No.1 71 of 2008 (as amended);
- Relevant legislation applicable to the postal sector and to SOCs;
- King III Code on Good Corporate Governance.

Other relevant local and international codes for the postal sector.

The Group is committed to sound corporate governance principles and is guided primarily by generally accepted corporate governance practices, in particular the King III Report on Corporate Governance plus the Protocol on Corporate Governance in the Public Sector. These practices seek to ensure that the entity's mandate is fulfilled with due consideration to responsible decision-making, accountability, effective and ethical leadership, as well as fairness and transparency, whilst performance is monitored and statutory requirements are satisfied.



In support of the Shareholder's drive to impact positively on poverty alleviation and the social wellbeing of all citizens, the SA Post Office engages in a range of support activities, such as serving as a conduit for BBBEE share schemes and a vehicle for the payment of government services. Through Postbank, the company also provides accessible and affordable banking to the unbanked and lower income segment of the population.

## SA POST OFFICE GROUP SHAREHOLDING STRUCTURE

The State is the sole Shareholder represented by the Minister of Telecommunications and Postal Services.

The SA Post Office operates in terms of a Group holding structure, with the SA Post Office as the Group holding company, with two operating subsidiaries and several property companies. The subsidiary companies have their own boards comprising SA Post Office non-executive and executive directors and the holding company executives who are appointed in a non-executive capacity to the subsidiary boards. The managing director of the subsidiary company acts as the executive director of the subsidiary. In line with the founding documents and articles of association of the subsidiaries, the SA Post Office Board appoints the directors of the subsidiary boards.

The relationship between the subsidiary companies and the SA Post Office, as the Shareholder, is governed by the individual Shareholders' compacts between the holding company and the subsidiary. The Shareholder compact, as well as spelling out the roles and responsibilities of the parties, outlines the performance targets to be met by the subsidiary in terms of the overall annual corporate plan for the Group.

The SA Post Office Board has delegated some authority to the subsidiary Boards and has determined the relevant materiality and significance thresholds required by the PFMA for both subsidiaries in terms of approval of transactions.

The Postbank Act has allowed for the creation of the Postbank Company (SOC) Limited as part of the process of corporatising Postbank. The processes to register Postbank as a fully fledged commercial bank with a banking license and as a SOC are currently underway and will result in changes in the current Group structure. The SA Post Office will, in terms of the Postbank Act, become the 100% Shareholder of the Postbank company, once it has been registered.

## THE MANDATE OF THE BOARD

The SA Post Office has, as its accounting authority, a Board appointed by the Minister of Telecommunications and Postal Services, who is the Shareholder representative.

The mandate of the SA Post Office Board is set out in the South African Post Office Act and has been encapsulated in the SA Post Office Board charter as well as in the Shareholders' compact signed by the Board and the Minister.

The SA Post Office license and social mandate are derived from the following:

- The SA Post Office's legislative mandate in terms of its license and USO (USO)
- The mandate of the SA Post Office as a state-owned company (SOC) to ensure alignment of its programmes with the overall programmes of the government
- Triple bottom line reporting principles, ie profit, people, planet.

The mandate of the SA Post Office Board, as set out in the Board charter, is aligned to the requirements stipulated by the Protocol on Governance in State-owned Institutions as well as in the Shareholders' compact.

To fulfil its mandate, the SA Post Office Board strives to increase Shareholder value and maximising of socio-political benefits in terms of the broader principles and policies of the government.

## INDEPENDENCE OF THE BOARD

Board members are appointed by the Shareholder and the Minister of Telecommunications and Postal Services. The Board considers submissions and recommendations made by management and makes independent decisions based on its fiduciary responsibilities and the strategic direction of the company. The Board has a formal charter that defines its mandate, roles and responsibilities.

The Board committees meet independently and report back to the Board through their chairpersons. Each committee has a formal charter that clearly defines its roles and responsibilities.

The Audit Committee regularly meets individually with the external and internal auditors. Furthermore, the Board, its committees and individual directors may engage independent counsel and advisers on request and at the discretion of the Board.

Similarly, the subsidiary companies have their own independent and unitary Boards that meet independently and make policy pronouncements for the subsidiary company or recommendations to the Group Holding Board in line with the Shareholders' agreements; and delegation of authority/materiality framework and their respective Board charters.

A comprehensive framework setting out the authorities and responsibilities of the various sub-committees and subsidiary companies is in place through an approved system of delegation of authority, which also sets out the applicable financial thresholds for transacting.

## COMPOSITION OF THE SA POST OFFICE BOARD

The SA Post Office Board is a Unitary Board comprising of a majority of non-executive directors. The non-executive directors of the Board are appointed by the Minister in accordance with section 11 of the SA Post Office Act. The SA Post Office Board has executive directors who are appointed by Cabinet on the recommendation of the Minister of Telecommunications and Postal Services. The executive directors are responsible for the day to day running of the company.

In terms of the SA Post Office Act No 22 of 2011, the Board should comprise of:

- Not more than 11 non-executive directors including the Managing Director of the Postbank appointed in terms of section 11 of the SA Post Office Act
- Three executive directors who must include the Chief Executive Officer (CEO), Chief Operations Officer (COO) and the Chief Financial Officer (CFO)

## BOARD MEMBERS

DIRECTOR	OFFICE	DESIGNATION	CHANGES
Dr SD Lushaba	Chairperson of the Board: Group	Non-executive Independent	Appointed 13 August 2015 as Chairperson of the Board /
Ms BP Soci	Deputy Chairperson of the Board: Group	Non-executive Independent	Appointed 13 August 2015
Dr HN Manzini	Acting Chairperson of the Board: Group	Non-executive Independent	Resigned 07 November 2014
Mr CJ Hlekane	CEO: Group / Director: CFG / Director: Docex / Director: Sapos Properties	Executive	Resigned 01 September 2015
Ms K Mzozoyana	CFO: Group / Director: CFG / Director: Docex / Director: Sapos Properties	Executive	
Mr M Mathonsi	Acting CEO: Group / COO: Group	Executive	Appointed 01 July 2014 as COO / Acting CEO from 03 October 2014 / Resigned 31 November 2015
Mr T Ndlazi	Acting CEO: Group	Executive	Appointed 01 November 2015
Ms NJ Dewar	Acting CFO: Group	Executive	Appointed 16 July 2015
Mr S Adam	Acting MD: Postbank	Executive	Resigned 15 October 2014
Mr MJ Mathibe	MD: CFG / Acting MD: Docex	Executive	Resigned 25 July 2014
Ms G Simelane	Director: Group	Non-executive Independent	Resigned 22 October 2014
Mr H Daniels	Director: Group	Non-executive Independent	Resigned 22 April 2014
Mr JS Ngubane	Director: Group	Non-executive Independent	Resigned 07 November 2014 / Appointed 13 August 2015
Mr JS Kotsi	Director: Sapos Properties	Non-executive	Resigned 31 December 2014
Dr LM Molefi	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr ME Zakwe	Director: Group	Non-executive Independent	Appointed 13 August 2015
Ms MLD Marole	Director: Group	Non-executive Independent	Appointed 13 August 2015

DIRECTOR	OFFICE	DESIGNATION	CHANGES
Mr MS Patel	Director: Group / Director: CFG	Non-executive Independent	Resigned 07 November 2014
Ms N Kela	Director: Group / Director: CFG / Director: Docex	Non-executive Independent	Resigned 07 November 2014
Mr N Mnisi	Director: Sapos Properties	Non-executive	Resigned 30 April 2014
Mr NC Dube	Director: Docex	Non-executive	Resigned 08 December 2014
Ms NG Mthethwa	Director: Group / Chairperson of the Board: CFG / Director: Docex	Non-executive Independent	Resigned 23 October 2014
Ms NV Simamane	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr PE Rabohale	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr R Nkuna	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr R Sithuba	Director: Group / Director: CFG / Chairperson of the Board: Docex	Non-executive Independent	Resigned 23 October 2014
Mr S Gounden	Director: Group	Non-executive Independent	Resigned 07 November 2014
Ms SP Mothelesi	Director: Group	Non-executive Independent	Resigned 07 November 2014
Mr T Mageza	Director: Group	Non-executive Independent	Resigned 07 November 2014
Mr ZC Ngidi	Director: Group	Non-executive Independent	Appointed 13 August 2015

## COMMITTEES OF THE BOARD

The Group Board as the Accounting Authority oversees the overall decision making across the Group to ensure it retains proper direction and control of the Group.

The Board has a formal delegation of authority framework agreed to with the Minister. The Board has delegated certain powers to the CEO and to management but has reserved certain powers exclusively for the Board and these are set out in the Board Charter.

The Board has also appointed several committees to help it meet these responsibilities. Delegating various functions and authorities to committees and management however does not absolve the Board and its directors of their duties and responsibilities.

The Board has delegated certain functions without abdicating its own responsibilities to the following committees:

- a. Audit Committee
- b. Risk Management Committee
- c. Postbank Committee
- d. Human Resources, Remuneration and Performance Management Committee
- e. Nominations Committee; (ad hoc Committee)
- f. Social, Ethics and Transformation Committee
- g. IT Governance Committee

The various Committees of the Board each have formal terms of reference embodied into a charter which further defines the mandates, roles and responsibilities of each Committee. The charters are reviewed and updated on an annual basis where required.

The Committees of the Board are chaired by a non-executive director and members are drawn from the ranks of non-executive directors. The executive directors attend Committee meetings in their capacity as executives and other representatives from management are also invited to Committee meetings when required to report to the Committee.

The Committees meet at pre-arranged meeting dates at least four times in a year and at such other times as deemed necessary by the Chairperson.

The mandates of the various committees of the SA Post Office Board as tasked to assist the Board in fulfilling its oversight responsibilities, are detailed below:

## BOARD OF DIRECTORS

The SA Post Office Articles of Association provide for a maximum of sixteen (16) directors, including the Chief Executive Officer, the Chief Operations Officer, the Chief Financial Officer and the Postbank Managing Director provided that the majority of the directors are non-executive directors. The Board meets at pre-arranged meeting dates at least four times in a year and at such other times as deemed necessary by the Chairperson. The Board holds annual workshops at least twice a year to review the Group's business strategy and to conduct the Group annual risk assessment.

### ATTENDANCE AT SA POST OFFICE BOARD MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015

NAME	22/04/2014	28/05/2014	29/06/2014	09/07/2014	23/07/2014	24/07/2014	06/08/2014	27/08/2014	28/08/2014	28/08/2014	04/09/2014	10/09/2014
Dr HN Manzini <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓
Ms N Kela <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms N Mthethwa <sup>2</sup>	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr MS Patel <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms G Simelane <sup>3</sup>	✓	✓	✓	✓	✓	✓	-	✓	X	✓	✓	✓
Mr R Sishuba <sup>2</sup>	✓	✓	✓	✓	✓	✓	✓	X	X	X	✓	✓
Mr S Gounden <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr PT Mageza <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	X	-	✓	✓
Ms SP Mothelesi <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr SJ Ngubane <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓
Mr CJ Hlekane	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms K Mzozoyana	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr S Adam	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr M Mathonsi <sup>4</sup>				✓	✓	✓	✓	✓	✓	✓	✓	-

NAME	15/09/2014	24/09/2014	30/09/2014	15/10/2014	28/10/2014	06/11/2014	07/11/2014	22/12/2014	TOTAL
Dr HN Manzini <sup>1</sup>	X	✓	✓	✓	✓	✓	✓	-	17
Ms N Kela <sup>1</sup>	✓	✓	✓	✓	✓	✓	X	-	18
Ms N Mthethwa <sup>2</sup>	✓	✓	-	✓	-	-	-	-	14
Mr MS Patel <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	-	19
Ms G Simelane <sup>3</sup>	✓	-	✓	✓	-	-	-	-	13
Mr R Sithuba <sup>2</sup>	✓	✓	-	✓	-	-	-	-	12
Mr S Gounden <sup>1</sup>	✓	✓	-	✓	✓	✓	✓	-	18
Mr PT Mageza <sup>1</sup>	✓	✓	✓	✓	X	✓	✓	-	16
Ms SP Mothelesi <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	-	19
Mr SJ Ngubane <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	-	18
Mr CJ Hlekane	X	✓	-	✓	-	-	-	-	14
Ms K Mzozoyana	X	✓	✓	✓	✓	✓	✓	✓	19
Mr S Adam	✓	-	✓	-	-	-	-	-	13
Mr M Mathonsi <sup>4</sup>	X	✓	✓	-	X	✓	✓	✓	13

**LEGEND**

✓	=	Present
X	=	Absent with apology
1	=	Resigned from the Board on 7 November 2014
2	=	Resigned from the Board on 23 October 2014
3	=	Resigned from the Board on 22 October 2014
4	=	Appointed 01 July 2014

## COMMITTEES OF THE BOARD

### AUDIT COMMITTEE

The SA Post Office Audit committee was established in terms of section 51 (1) (a) (ii) of the Public Finance Management Act No 1 of 1999 (PFMA) as amended and relevant Treasury Regulations and in accordance with Article 15.1.1 of the SA Post Office Articles of Association. As a major public entity in terms of Schedule 2 of the PFMA, SA Post Office is required to, to establish an Audit Committee. The Audit Committee is responsible for, evaluating the Group's financial statements which will be provided to Parliament and other stakeholders, the systems of internal control which management and the Board have established, the audit processes, the risk management framework and assesses the Group's financial performance against its Corporate Plan. Representatives of external and internal audit have direct access to the Chairperson of the Committee.

The Audit Committee meets at least four times a year.

#### **Chairperson (Non-Executive):**

Mr S Gounden <sup>1</sup>

#### **Members:**

Ms G Simelane <sup>2</sup>

Mr MS Patel <sup>1</sup>

Mr T Mageza <sup>1</sup>

#### **ATTENDANCE AT AUDIT COMMITTEE MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015**

NAME	28/05/2014	02/07/2014	24/10/2014	TOTAL
Mr S Gounden <sup>1</sup>	✓	✓	✓	<b>3</b>
Mr T Mageza <sup>1</sup>	✓	✓	✓	<b>3</b>
Mr MS Patel <sup>1</sup>	✓	✓	-	<b>2</b>
Ms G Simelane <sup>2</sup>	✓	✓	-	<b>2</b>

<b>LEGEND</b>	✓	=	Present
	X	=	Absent with apology
	1	=	Resigned from the Board on 7 November 2014
	2	=	Resigned from the Board on 22 October 2014

## RISK MANAGEMENT COMMITTEE

The SA Post Office Risk Management Committee was established in terms of section 51 (1) (a) (i) of the Public Finance Management Act No 1 of 1999 (PFMA) as amended. The committee monitors, evaluates and advises the Board on the adequacy of risk management processes and strategies within the Group and recommends the approval of risk policies to the Board. It further reviews significant risks facing the company and reports these to the Board. The scope of the Risk management Committee extends across the Group to include the subsidiary companies whose products and processes expose the Group to Credit Risk, Liquidity Risk, Market Risk Balance Sheet Risk and Operational Risk within the legislative and regulatory framework that governs the SA Post Office Group. Representatives of Group Risk Management, Internal Audit, the Security and Investigations division and all core Business Units attend all meetings of the Committee. The committee meets four times a year.

### **Chairperson (Non-Executive):**

Mr T Mageza <sup>1</sup>

### **Members:**

Mr S Gounden <sup>1</sup>

Mr SJ Ngubane<sup>1</sup>

Ms N Mthethwa<sup>2</sup>

### **ATTENDANCE AT RISK MANAGEMENT COMMITTEE MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015**

NAME	10/06/2014	24/06/2014	21/08/2014	TOTAL
Mr T Mageza <sup>1</sup>	✓	✓	✓	3
Mr S Gounden <sup>1</sup>	✓	✓	✓	3
Mr SJ Ngubane <sup>1</sup>	✓	✓	✓	3
Ms N Mthethwa <sup>2</sup>	✓	✓	✓	3

<b>LEGEND</b>	✓	=	Present
	1	=	Resigned from the Board on 7 November 2014
	2	=	Resigned from the Board on 23 October 2014

## HUMAN RESOURCES, REMUNERATION, PERFORMANCE MANAGEMENT COMMITTEE (2014)

The Human Resources, Remuneration and Performance Management Committee was established in accordance with Article 15.1.4 of the SA Post Office Articles of Association. The committee reviews all aspects relating to human resources and transformation within the Group. It also monitors compliance with relevant labour and employment legislative matters and recommends approval of significant human resources related policies to the Board. This committee's mandate includes transformation issues. The committee meets four times a year.

### Chairperson (Non-Executive):

Ms N Kela<sup>1</sup>

### Members:

Ms N Mthethwa<sup>2</sup>

Ms G Simelane<sup>3</sup>

Mr T Mageza<sup>1</sup>

### ATTENDANCE AT HUMAN RESOURCES, REMUNERATION AND PERFORMANCE MANAGEMENT AND TRANSFORMATION COMMITTEE MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015

NAME	14/05/2014	09/06/2014	TOTAL
Ms N Kela <sup>1</sup>	✓	✓	2
Mr T Mageza <sup>1</sup>	✓	✓	2
Ms N Mthethwa <sup>2</sup>	✓	✓	2
Ms G Simelane <sup>3</sup>	✓	✓	2

<b>LEGEND</b>	✓	=	Present
	1	=	Resigned from the Board on 7 November 2014
	2	=	Resigned from the Board on 23 October 2014
	3	=	Resigned from the Board on 22 October 2014



## POSTBANK COMMITTEE

The Postbank Committee was established with an oversight role over the Postbank to ensure that the Postbank operates within all the applicable legislation, monitors the performance of the investment portfolio of depositors' funds as well as ensuring that these funds are invested appropriately. It also recommends the approval of ledger fees and bank charges to the Board. The committee meets four times a year. The Postbank Act which came into operation in late 2010 now provides for the establishment of a Board of Directors for the Postbank when it starts operating as a licensed bank.

### **Chairperson (Non-Executive):**

Ms B Mothelesi <sup>1</sup>

### **Members:**

Mr S Ngubane <sup>1</sup>

Mr R Sishuba<sup>2</sup>

Mr S Adam [Acting MD: Postbank]

### **ATTENDANCE AT POSTBANK COMMITTEE MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015**

NAME	24/04/2014	10/07/2014	22/10/2014	TOTAL
Ms B Mothelesi <sup>1</sup>	✓	✓	✓	<b>3</b>
Mr S Ngubane <sup>1</sup>	✓	✓	X	<b>2</b>
Mr R Sishuba <sup>2</sup>	✓	✓	✓	<b>3</b>
Mr S Adam <sup>1</sup>	✓	✓	✓	<b>3</b>

<b>LEGEND</b>	✓	=	Present
	X	=	Absent with apology
	1	=	Resigned from the Board on 7 November 2014
	2	=	Resigned from the Board on 23 October 2014

## IT GOVERNANCE COMMITTEE (2014)

The Committee is responsible for overseeing on behalf of the Board, the execution of IT-related decisions across the Group. The committee reports to the Board and is responsible for the governance of IT across the Group, which includes monitoring and reviewing IT policies and practices to ensure that the required IT support is provided and that IT is positioned as a key enabler for business. The Group CEO, the CIO and relevant representatives from management attend meetings of the committee. The committee meets at least four times a year.

### **Chairperson (Non-Executive):**

Mr S Ngubane <sup>1</sup>

### **Members:**

Mr R Sishuba<sup>2</sup>

Ms S Mothelesi <sup>1</sup>

### **ATTENDANCE AT IT GOVERNANCE COMMITTEE MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015**

NAME	21/05/2014	08/08/2014	TOTAL
Mr R Sishuba <sup>2</sup>	✓	✓	2
Mr S Ngubane <sup>1</sup>	✓	✓	2
Ms S Mothelesi <sup>1</sup>	✓	✓	2

<b>LEGEND</b>	✓	=	Present
	X	=	Absent with apology
	1	=	Resigned from the Board on 7 November 2014
	2	=	Resigned from the Board on 23 October 2014

## SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE (2014)

The committee was established to monitor the Group's socio-economic development and transformation activities, and its adherence to generally accepted ethics standards, and to ensure it is seen as a good corporate citizen through its strategies to combat corruption, protect the environment, and labour and employment practices. The Group CEO and key representatives from management attend meetings of the committee. The committee meets at least four times a year.

### **Chairperson (Non-Executive):**

Mr MS Patel<sup>1</sup>

### **Members:**

Mr S Gounden <sup>1</sup>

Ms N Kela<sup>1</sup>

### **ATTENDANCE AT SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015**

NAME	20/05/2014	12/08/2014	TOTAL
Mr MS Patel <sup>1</sup>	✓	✓	2
Ms N Kela <sup>1</sup>	✓	✓	2
Mr S Gounden <sup>1</sup>	X	✓	1

**LEGEND**

✓	=	Present
X	=	Absent with apology
1	=	Resigned from the Board on 7 November 2014

## STAMP ADVISORY COMMITTEE

This is an advisory committee to the Minister of Telecommunications and Postal Services which has been established to advise the Minister of Telecommunications and Postal Services on the South African annual stamp issue program and related issues. The Committee is made up of specialists in philately and representatives from Department of Communications and a representative from the Post Office Board. The committee meets twice a year and on an ad-hoc basis if required.

### **Chairperson (Non-Executive):**

Ms G Simelane<sup>1</sup>

### **Members:**

Ms BJ Hendricks

Ms M Martin

Mr D Wigston

Prof G Younge

Mr TM Mabaso

Mr W Vukela

### **ATTENDANCE AT STAMP ADVISORY COMMITTEE MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015**

<b>NAME</b>	<b>18/06/2014</b>	<b>TOTAL</b>
Ms G Simelane <sup>1</sup>	✓	<b>1</b>
Ms M Martin	X	<b>0</b>
Mr D Wigston	✓	<b>1</b>
Ms BJ Hendricks	-	<b>0</b>
Prof G Younge	✓	<b>1</b>
Mr TM Mabaso	-	<b>0</b>
Mr W Vukela	-	<b>0</b>

<b>LEGEND</b>	✓	=	Present
	X	=	Absent with apology
	1	=	Resigned from the Board on 22 October 2014

## SUBSIDIARY COMPANIES

### THE COURIER AND FREIGHT GROUP

The Courier and Freight Group (CFG) is an operating subsidiary company of the South African Post Office. CFG has its own Board of Directors which is accountable to the SA Post Office Group which is the sole Shareholder. The company provides courier services which range from overnight to seventy two hour delivery, as well as express freight for consignment ranging from twenty kilograms up to thirty tons. The Board of Directors of CFG comprises of on-executive directors appointed by the SA Post Office Group Board including independent non-executive directors with expertise in the courier and freight industry.

#### Board Composition

##### Members:

Ms N Mthethwa<sup>1</sup> (Chairperson)

Mr MS Patel<sup>2</sup>

Mr CJ Hlekane

Ms K Mzozoyana

Mr JM Mathibe (Managing Director)

Mr M Mathonsi<sup>3</sup>

#### ATTENDANCE AT THE COURIER AND FREIGHT GROUP BOARD MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015

NAME	09/04/2014	10/04/2014	16/04/2014	25/06/2014	30/06/2014	30/07/2014	26/08/2014	14/10/2014	TOTAL
Ms N Mthethwa <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	8
Mr MS Patel <sup>2</sup>	✓	✓	✓	✓	✓	✓	✓	✓	8
Mr CJ Hlekane	-	✓	X	✓	✓	✓	✓	✓	6
Ms K Mzozoyana	-	✓	✓	X	✓	✓	✓	✓	6
Mr JM Mathibe **	-	✓	✓	✓	✓	-	-	-	4
Mr M Mathonsi <sup>3</sup>						✓	✓	-	2

<b>LEGEND</b>	✓	=	Present
	X	=	Absent with apology
	**	=	Executive Director
	1	=	Resigned from the Board on 7 November 2014
	2	=	Resigned from the Board on 23 October 2014
	3	=	Resigned from the Board on 22 October 2014

## DOCUMENT EXCHANGE GROUP (DOCEX) BOARD

The Document and Exchange Group (DOCEX) is an operating subsidiary company of the South African Post Office. DOCEX has its own Board of Directors which is accountable to the SA Post Office Group which is the sole Shareholder. The company provides a secure and expeditious delivery of documents, letters and parcels or postal articles within the country. The Board of Directors of DOCEX comprises of non-executive directors appointed by the SA Post Office Group Board including independent non-executive directors with expertise in the courier and freight industry.

### Board Composition

#### Members:

Mr R Sishuba<sup>1</sup> (Chairperson)

Ms N Kela<sup>2</sup>

Mr JM Mathibe (Managing Director)

Mr CJ Hlekane

Ms K Mzozoyana

Mr M Mathonsi<sup>3</sup>

#### ATTENDANCE AT THE DOCUMENT EXCHANGE GROUP BOARD MEETINGS FOR THE YEAR 1 APRIL 2014 TO 31 MARCH 2015

NAME	15/04/2014	30/07/2014	TOTAL
Mr R Sishuba <sup>1</sup>	✓	✓	2
Ms N Kela <sup>2</sup>	✓	✓	2
Mr CJ Hlekane	X	✓	1
Ms K Mzozoyana	✓	✓	2
Mr JM Mathibe <sup>**</sup>	✓	-	1
Mr M Mathonsi <sup>3</sup>		✓	1

<b>LEGEND</b>	✓	=	Present
	X	=	Absent with apology
	**	=	Executive Director
	1	=	Resigned from the Board on 23 October 2014
	2	=	Resigned from the Board on 07 November 2014
	3	=	Appointed 01 July 2014

## **NO MEETINGS 1 APRIL 2014 TO 31 MARCH 2015**

### **REMUNERATION AND PERFORMANCE MANAGEMENT COMMITTEE**

The Remuneration and Performance Committee was established in accordance with Article 15.1.2 of the SA Post Office Articles of Association. The committee reviews compensation matters, makes recommendations to the Board on appointments and remuneration as well as benchmarks salaries for executives in accordance with the Articles of Association. The committee also ratifies the appointment and remuneration of executives at general manager level within the approved range and approves those that are outside or above the approved range. The committee meets four times a year.

## **NO LOGISTICS AUDIT COMMITTEE - 2014**

### **LOGISTICS AUDIT AND RISK SUB-COMMITTEE**

A Logistics Audit Committee has been established as a sub-committee of the Group Audit Committee. The sub-committee acts in accordance with the Public Finance Management Act and reports to the Group Audit Committee. It evaluates the financial statements for the DOCEX and CFG Groups which are submitted to the Group holding Board for approval and for inclusion in the Group annual report. The composition of the sub-committee comprises of representatives from the two subsidiary Boards as well as representatives from both internal and external audit. The Committee meets four times a year.

## **AUDIT AND ASSURANCE**

Internal control is a framework designed to provide reasonable assurance regarding the achievement of organizational objectives. The system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's strategic objectives will be achieved. The Board has the overall responsibility for internal control.

Management prepares the company's financial statements and the auditors examine the underlying accounting assumptions, principles and procedures management has adopted, with Board approval. To make the comparisons required by an audit, the auditor must examine not only the financial statements themselves by the records on which they have been based and the company's system of internal controls, including internal audit.

The executive management, as mandated by the Board, has established an organisation-wide system of internal control to manage significant risks. There is on-going monitoring and reporting processes by Business Unit heads to provide feedback on the status of internal controls.

The Board also receives assurance from the Audit Committee, which derives some of the information from regular internal and external audit reports.

## **INTERNAL AUDIT**

The purpose, authority and responsibility of Group Internal Audit are defined in a Board approved charter that is consistent with the Institute of Internal Auditors definition of internal auditing and the principles of King III. Although not reliant on external audit for any resource support, the internal audit function continues to liaise with the external auditors and other relevant assurance providers, to maximize efficiencies in assurance coverage and risks.

The primary scope in providing assurance includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information;
- Evaluating the systems established to ensure compliance with policies and procedures, plans and legislation which could be significant to the Group;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or projects to ensure results are consistent with established objectives, and whether the operations are being carried out as planned;

- Monitoring and evaluating governance processes; and
- Monitoring and evaluating the risk management process.

The assurance mandate is informed by the results of the risk based Audit Coverage Plan, which is approved annually by the Board Audit Committee, as well as a rudimentary Combined Assurance Forum which was started during the current financial year, to assist with the monitoring of internal control, governance and risk management at an operational level in the business.

## RISK AND REGULATORY COMPLIANCE

### RISK MANAGEMENT

The Board acknowledges the legislative, governance and compliance requirements which define and direct the risk management responsibilities of the Board, executive management, management and employees as pertained in the Public Finance Management Act (Act 1 of 1999 as amended by Act 29 of 1999 - PFMA) and King III.

The South African Post Office has adopted a risk management methodology that is aligned to Par.14 of the National Treasury Practice Note 4 of 2009/2010 issued in terms of Section 52 of the Public Finance Management Act as well as certain principles of the King III code. The Board through the Risk Management Policy and Framework has duly accepted accountability for risk management across the Group and has additionally established risk governance structures to monitor risk and compliance levels within the organisation.

The Risk Management Policy and Framework is aimed at ensuring the deployment of a common and systematic risk management operating standards across operational activities within the South African Post Office. This is aimed at ensuring the timely identification and measurement of risks across the organization as well as the deployment of appropriate mitigation strategies.

The Board is responsible for the total risk management process within the Group as well as overseeing the implementation of mitigation strategies to address significant risks facing the Group.

### Group 2014 – 2015 risk register

The 2014/2015 strategic risk register for the Group has been approved by the Board and the following are the top key strategic risks for the Group:

NO	RISK	INHERENT RISK	CONTROL RATING	RESIDUAL RISK
1	Revenue Growth	Very High	Weak	Very High
2	IT Infrastructure	Very High	Weak	Very High
3	Business Continuity	Very High	Satisfactory	Very High
4	Employee Relations	Very High	Weak	Very High
5	Cost Optimisation	Very High	Weak	Very High
6	Property Infrastructure	Very High	Weak	Very High
7	Regulator Expectations	High	Weak	High
8	Leadership Continuity	High	Weak	High
9	Employee Life Cycle	High	Weak	High
10	Risk and Compliance	High	Satisfactory	Moderate
11	Group Synergies	High	Satisfactory	Moderate
12	Criminal Activities	High	Satisfactory	Moderate



Risk mitigation strategies for the Group's strategic risks are intended at improving the control environment and to mitigate those aspects that impact negatively on the following:

- The ability to build and grow an efficient and sustainable business, which is well defined in its purpose and whose products and services are well marketed and communicated;
- The ability to ensure adequate development of employees, so as ensure compliance and build a robust risk management culture in the future;
- The ability to align business operations to customer needs, shareholder priorities and government programmes;
- Improved stakeholder relations;
- Appropriate procurement governance - failures and the impact on reputation across the procurement value chain (project initiation, specifications, sourcing, contract management and supplier performance management);
- The ability to enhance adequate internal controls, good governance, streamlining processes and enhancing efficient decision making;
- The ability to renew and design the physical network (workplace infrastructure and systems) for the future and innovating new products and services.

The above were however not successfully implemented during the period under review. Due to the instability and numerous challenges faced by the organisation which led to the organisation being placed under administration during the period under review, consistent implementation of risk management processes were compromised. The leadership vacuum both at executive management and Board level as well as the protracted labour instability exacerbated the situation. This led to ineffective oversight over the risk management process.

Additionally and to the extent considered appropriate, external insurance cover is used as one of the mechanisms to mitigate operational risks and transfer some risk to third parties in the insurance market, including:

- Cover for damage to property and equipment;
- Cover for business interruption;
- Comprehensive cover for crime, including electronic crime;
- Directors' and Officers' liability;
- Public liability cover;
- Cover for legal liability arising out of the use of non-owned aircraft; and
- Cover for liabilities or damages arising out of any activities of consultants, contractors, suppliers, vendors, manufacturers or other advisors and third party contractors appointed by the Post Office, etc.

The stabilisation of leadership arising from the appointment of a new Board, filling of vacancies at executive management level as well as the approved Strategic Turnaround Plan (STP) approved by the Shareholder, will ensure effective risk management oversight. The STP was comprehensively risk assessed and the Board has mandated management to reinforce effective control measures. In this regard, management is therefore required to develop, implement and maintain risk management plans for their respective areas of responsibility and accountability towards the achievement of the STP.

To this extent the Board will:

- Through its Audit and Risk Management Committee oversees the Group's risk management program;
- In concert with management, conduct a formal annual risk assessment to identify the current and emerging risks facing the Group and the relevant risk mitigation strategies to be deployed to avert and manage the identified risks. *Ad hoc* risk assessments may be performed from time to time, as informed by emerging risks or changes in the corporate plan and external environment.
- Has duly delegated to management the responsibility to design, implement and monitor the risk management plan by delegating the day-to-day responsibility for risk management to management;
- Has assigned the responsibility for overseeing the implementation of the Group risk plan and the identified risks to the Group Executive: Governance & Regulatory Affairs as well as the Chief Risk Officer who are required to report to the Risk Management Committee on the steps being taken to manage or mitigate such risks;
- Requires the various business and support units to submit their quarterly operational risk plans for quarterly review by the Risk Management Committee;
- Ensure that the management reports on the implementation of the annual Group risk management plan are a standing agenda item at the Audit and Risk Management Committee.

## **REGULATORY COMPLIANCE**

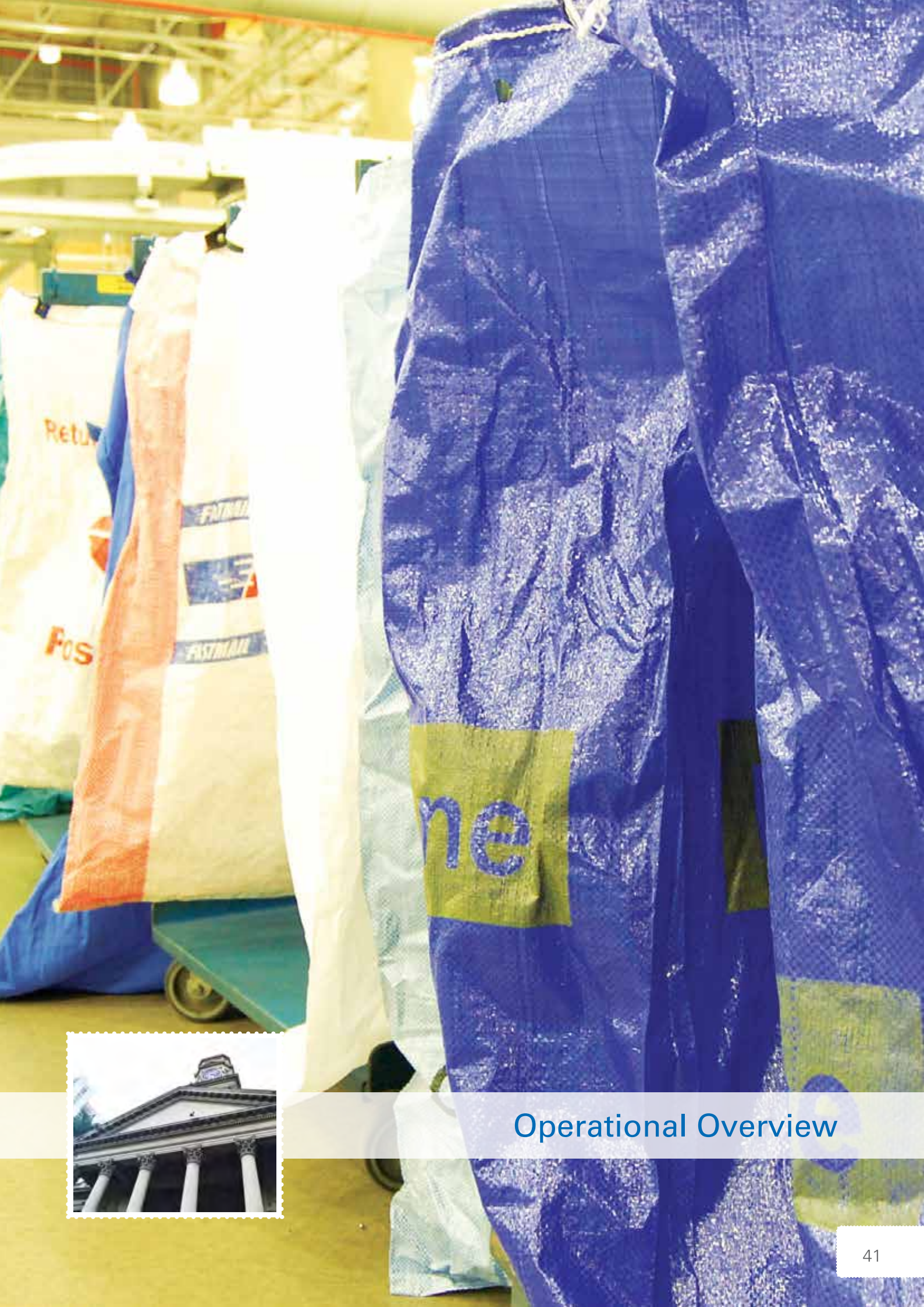
As a State Owned Company, and a Schedule 2 public entity, the South African Post Office recognizes compliance as an integral part of governance and this regard has established appropriate structures and processes to ensure adequate and effective adherence to applicable statutes, guidelines, rules and codes.

To this end, the South African Post Office has developed a regulatory framework encompassing business critical legislation that impacts the operations of the Group. This framework is then deployed at business and support unit level, and entrenched through the development, implementation, monitoring and evaluation of appropriate policies and procedures.

The laws that hold the most significant risk for the Group relate to, the SA Post Office licence requirements as determined by ICASA, the FAIS licence issued by the Financial Services Board, and other prescripts including, but not limited to:

- Public Finance Management Act, No. 1 of 1999 - Public Entities Schedule 2
- Postal Services Act, No. 124 of 1998;
- Banks Act, No. 94 of 1990
- Consumer Protection Act, No. 68 of 2008;
- Financial Advisory and Intermediary Services Act, No. 37 of 2002;
- Financial Intelligence Centre Act, No. 38 of 2001;
- Prevention and Combating of Corrupt Activities Act, No. 12 of 2004;
- Prevention of Organised Crime Act, No. 121 of 1998; and
- Protection of Constitutional Democracy Against Terrorist and Related Activities Act, No. 33 of 2004; etc.

Monitoring of compliance with the regulatory framework is done through independent assessments, and reporting is done regularly to the respective business and support units' management teams, the Group executive management, the Risk Management Committee and the Board.



# Operational Overview

# Operational Overview

The current economic climate and the competitive landscape remain a challenge for the overall business. The key business interventions that have been formulated are continuing and are more focused in an effort to find stability for the business, given the persistent unstable environment the SA Post Office Group finds itself in. This will provide an enabling position for future growth and will be instrumental in the delivery of the SA Post Office's services and therefore goals.

Mail business revenue suffered a 2.9% decrease in operating revenue in the current year. The operating profit margin decreased from 39% to 28% with a corresponding decrease in the net profit margin from 12% to 5%.

The decline in mail business' profitability was greatly aggravated by the strike, which to date resulted in a loss of over R475 million. Consequently, customers resorted to investing in alternatives. Competitors have since made concerted efforts to exploit the negative perceptions created during the strike and as such there is an urgent need to improve communication strategies to counter this negative image.

Operational profitability was reduced by 40% due to the reduction of revenue and high infrastructure costs. This was addressed by an improved compliance and risk management and regulatory conformity programme improving audit figures and overall focus.

Complications brought on by the strike were evident in the retention of certification status of the quality management system, implementation of lean management philosophy and service delivery programmes.

In response to the aforementioned inadequacies, customer value propositions have been reviewed, resulting in the offering of hybrid solutions for mail, improving tracking systems and moving to sms notification for the collection of parcels.

Despite market and environmental setbacks, the logistics business unit continues to do well by making use of integrated platforms that have proven success in reducing costs. The line-haul in particular improved efficiency by optimising trips, boosting success for not only the logistic unit but the group as a whole.

Success in this particular unit was further enhanced by the implementation of a track and trace system aimed at improving service delivery and the creation of an e-platform, which combined will better meet customer needs and lead to overall customer satisfaction.

Logistics also fared well in the maintenance of integral partnerships with the Department of Education in Limpopo and the Northern Cape, as well as GCIS SA. This initiative has sparked sterling results in the delivery of books, yearbooks and booklets through the nation.

The logistics business unit is set to execute the delivery project of television set-top boxes in the next financial year.

Logistics will continue to leverage the existing relations it has with government to increase its footprint and to create opportunities for further projects.

Postbank, the SA Post Office's banking division, experienced significant growth in deposits held, investments and cash and in cash equivalents. This sound performance is reflected in the financial results.

The Minister of Telecommunications and Postal Services, the Honourable Dr Cwele, signed the determination of business to be transferred to the new Postbank entity in terms of section 5 of the South African Postbank Limited Act, 9 of 2010. As a result, the current Postbank balance sheet is now ring-fenced for transfer to the new Postbank corporate entity (pending approval from the South African Reserve Bank).

The Postbank also ran a successful marketing campaign that proved fruitful in reviving the awareness and visibility of the Postbank brand.

In line with its marketing initiatives and commitment to responsible banking, Postbank implemented a number of educational events. These included independent projects as well as collaborations with key stakeholders such as the banking association of South Africa, KZN Treasury, the Nelson Mandela Foundation, and Imbumba Foundation amongst others.

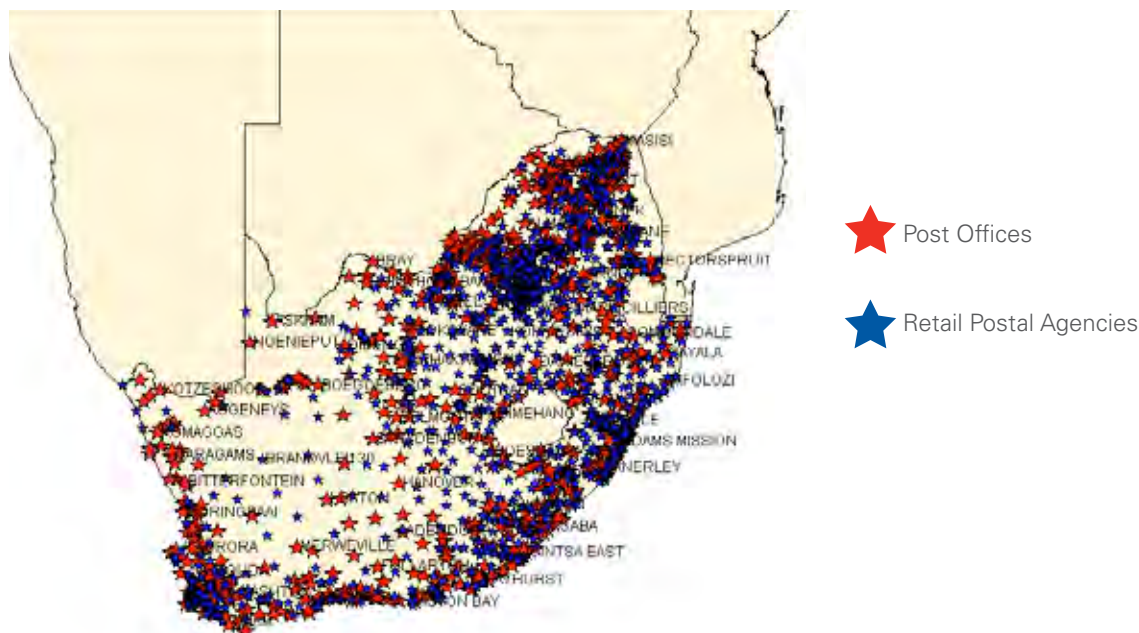
These programmes ranged from providing basic financial skills to varying social and community based outreach projects, aimed at improving the public's perceptions of Postbank.

The Postbank saw further success in the reduction of cost by terminating the MMT DCH participation, saving the company R290 000 in annual fees paid to BankservAfrica.

MasterCard and Visa also granted the Post Office, through its respective Postbank divisions, an acquiring license which will enable the Postbank to be an acquirer for ATM and card transactions.

The SA Post Office's branch network consist of 2 454 access points, consisting of 1 573 branches and 881 retail post agencies.

**Post Offices and Agencies**



The Post Office further expanded its reach with an additional 11 points of presence comprising of both fully fledged branches and retail agencies. In addition, 14 post office buildings were renovated to improve the trading environment.

Currently, the Post Office services various government businesses which include civic pay-outs and government employee pension funds, angling and hunting licence renewals and applications, TV licence applications and annual payments, payment of utility bills for municipalities and state owned enterprises, government retail bonds investment acceptance, money transfer with bilateral agreements with countries in the Southern African Development Community and (within certain provinces) motor vehicle licence renewals and registration, pay-outs of household payment to claimants as well as accepting of government housing rentals.

During the year under review, the facility for paying motor vehicle licence was deployed in seven outlets in the North West province. There are great expectations of the launching of prepaid electricity and ticketing products and the introduction of an International Financial System money transfer serve within the Southern African Development Community (SADC).

Phase 2 of the Web-Riposte Rollout commenced in the 2014/15 financial year and to date a total of 1 127 branches were successfully converted to Web-Riposte.

Unfortunately, as a result of unfavourable economic conditions worsened by the disruptions of the strike, the retail unit faces challenges with regard to low customer confidence, financial constraints and diminishing competitive advantage. As a result the unit received 1 939 complaints about poor service, all of which were appropriately resolved. It also received total of 3 538 compliments comprising of 1 114 for individuals and 2 424 for the branches.

As with the other units, due to the effect of the strike, e-business did not produce sufficient growth with regards to revenue costing. The hybrid services in particular suffered a loss of R44 million.

The strike also impeded efforts to acquire new business. Despite the complications, Electronic Bill Presentment and Payments (EBPP) have shown extraordinary growth of 550% from last year and now accounts for 29% of the total e-business revenue.

There have also been encouraging results with the public key infrastructure market and the demand for online signature solutions enabled by digital certification.

New business comprises mainly of government sectors interested in EBPP and Hybrid Mail. From February 2015, SA Post Office received additional administrative communications regarding AARTO (the Adjudication of Road Traffic Offences Act) as the project moves into new phases of compliancy. The increased volumes promises additional revenue estimated at R60 million per annum.

Other promising endeavours include a customised and tested new e-registered mail service as defined by the Electronic Communications and Transaction Act 95 of 2002. This solution provides for an electronic mail address for life for every citizen who registers. It includes an electronic post box, enabling the customers to retrieve and send registered and ordinary mail electronically, securely and within legal status. The registration process is free and companies and bulk senders will save costs incurred in updating addresses.

In response to the service failures brought about by the strike, financial constraints, the exiting of key e-business resources and the effect these issues had on the preservation of current e-business revenue, the unit seeks to expedite digital needs with greater vigour. E-business thus plans to launch the new e-registered mail solution and the new enhanced virtual post office channel in June 2015.





**AIRMAIL  
CUSTOMS**



**Business Support**

# Business Support

## HUMAN CAPITAL MANAGEMENT

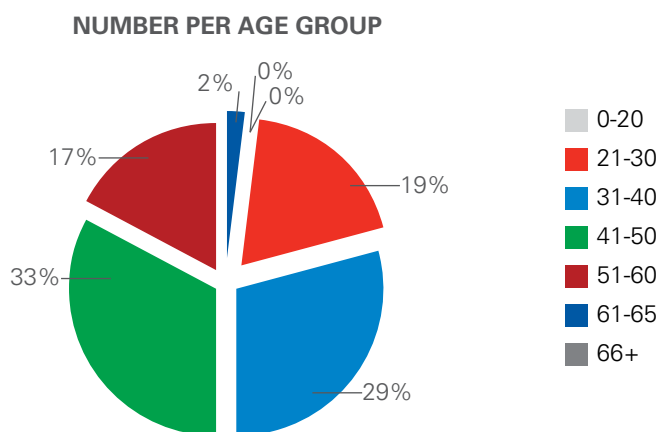
### Executive summary

One of the SA Post Office Group's key drivers is to "Invest in our people by building capacity and implementing transformation programmes." Human Capital Management has partnered with business to understand the needs and to provide pro-active solutions and is continuously focussing on increasing operational efficiency through revising and refining policies and procedures to ensure the effective management of resources.

### Workforce

The SA Post Office Group currently employs 16 046 permanent full time employees and 6 625 permanent employees with limited benefits. The group's total salary bill for 2014/15 was R3.2bn compared to R2.9bn in the previous year. The major contributor to the increase in the payroll is the conversion of casuals to permanent limited benefits category employees.

The current employee age profile of the group shows that the workforce is an ageing workforce with an average age of 43, which is much higher in comparisons to the market.



### Management of workforce numbers

In an attempt to right-size the organisation with strategic capabilities, the following initiatives were affected;

- Supernumerary employees were reduced from 326 in April 2014 to 198 by end of March 2015.
- Permanent positions vacant for longer than two years and casual positions vacant for more than two months have been abolished from the structure. This resulted in vacant positions being reduced by 2 321 by the end of March 2015.

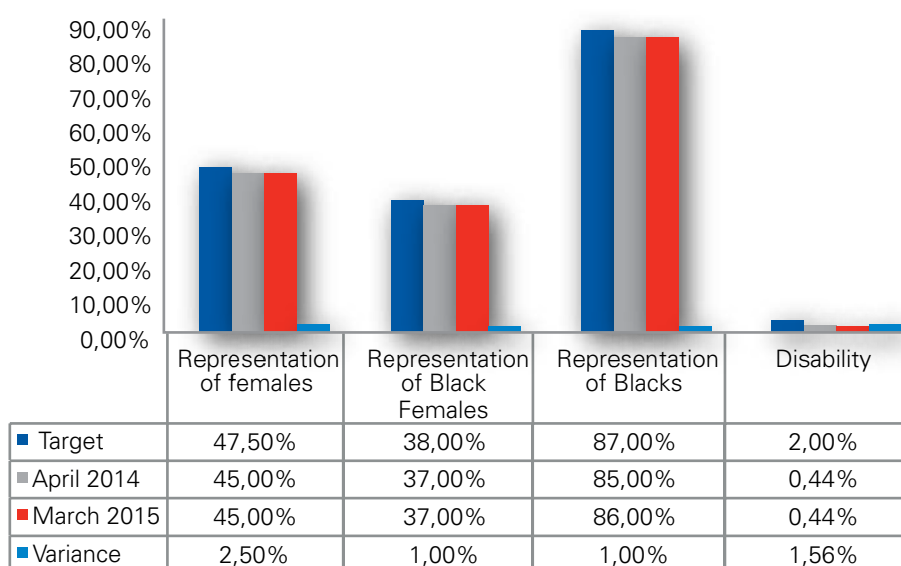


## Workforce Transformation (Employment Equity)

The SA Post Office uses the EAP (Economically Active Population) to set its Employment Equity targets and aims to ensure that previously disadvantaged groups are gainfully employed in the group. Black employees have increased by 1% from (85%) as at April 2014 compared to 86% in March 2015. However, this is still 1% below target of 87%. In the same period, the overall numbers of females, and black females in particular, has declined by 3.5%.

Therefore, the focus is on affirmative action through recruitment, talent and succession management initiatives that seek to empower and develop suitably qualified females according to the employment equity targets, in order to address racial and gender disparity at Specialist and Management levels.

### RACIAL AND GENDER DISPARITY AT SPECIALIST AND MANAGEMENT LEVELS



## Integration of people with disabilities in the workplace

A National Steering Committee was established to address the integration of people with disabilities in the workplace and the following milestones were reached.

- A disability management plan has been developed and partly implemented.
- Regional HR and Regional Employment Equity and Skills Development Committees (ESDC) were trained in all regions.
- Although there is still an under-performance on the target for people with disabilities, in 2014 the overall representation for people with disabilities was 0.44%.

## Human Capital Development

The human capital development leg (Learning and Development) of Human Capital Management (HCM) (HR) focusses on long and short term interventions to enable vocational as well as personal capabilities for achieving the SA Post Office's strategic goals. This is done through various initiatives and some key drivers are shared below.

## Training for the financial year 2014/15 as per the Workplace Skills Plan

The Workplace Skills Plan for 2014/15 provided for a total of 21 362 interventions for implementation with an actual number of 9 055 employees planned for these interventions. Of the 21 362 planned interventions, 13 718 were implemented, representing a 64.2% implementation. Of the 9 055 actual employees who were to receive training, 10 729 were trained, representing a 118.5% implementation, thus exceeding the target by 18.5% with 1674 more employees trained than planned for.

A figure of R 26 172 591 (still in audit phase) was spent on training for the financial year 2014/15 which includes payments to providers for training, travelling to attend training and bursaries. The interventions implemented addressed training needs in the Academic, Compliance, Soft Skills and Special Programmes as well as Vocational categories which includes, amongst others:

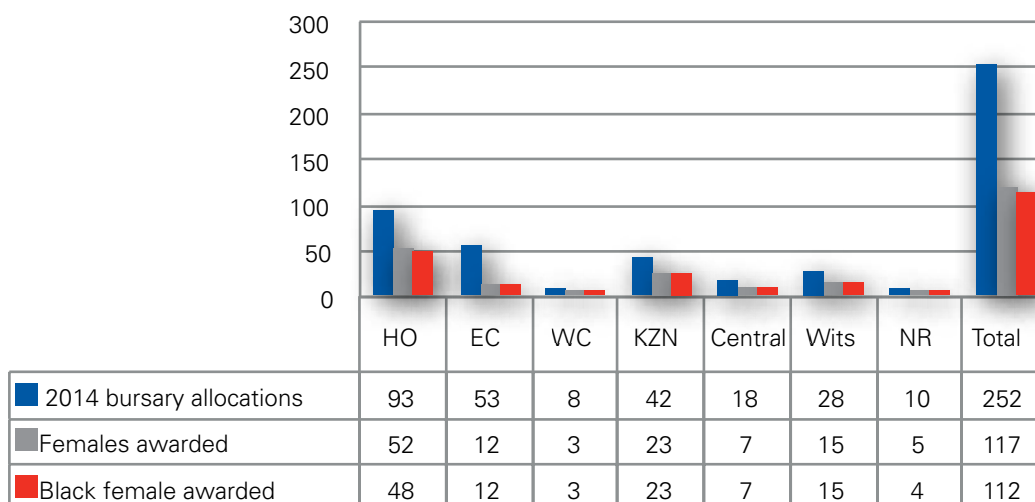
- Bachelors in Business Administration (BBA)
- FAIS Financial Advisory and Intermediary Services (FAIS)
- FICA Financial Intelligence Centre Act (FICA)
- Induction
- Webriposte
- Total Operating Management System (TOMS)
- Product Knowledge (various)
- International Financial services (IFS)
- Customer Service and others

## Bursary Scheme

The South African Post Office’s investment in skills development expands beyond functional and/or occupationally directed training to formal education and training. Employees are afforded opportunities to further their studies and thus acquire formal qualifications within the higher education and training field, within fields where skills are scarce and critical to the organisation and in line with the employees’ current and/or future roles within the organisation. In 2014, a total of 252 part time bursaries were awarded which included 117 that was awarded to females.

The table below represents a breakdown of allocations and progress.

### ALLOCATIONS AND PROGRESS



## Graduate programme

The graduate programme provides opportunities to people from the designated groups who have qualifications but lack experience, to acquire the relevant experience through experiential learning. Participants follow a structured learning programme to afford them the opportunity to acquire practical experience required for entry in the particular field of expertise.

In April 2014, a total of 72 graduates participated in the graduate programme for unemployed youths, 43 of whom were females. In March 2015, there were 18 graduates, seven of whom were females. The intake is informed by business unit requirements as well as employment equity, race and gender targets. Experienced employees serve as coaches for the graduates in a drive to achieve the level of competency required per work area.

## Health and wellness

Health and wellness represent one of the core values of the SA Post Office strategy and supports employees at all levels. The following programmes are in place:

- **Occupational health** which focuses on employee health and safety at work and includes disability management and medical surveillance. The management of the Temporary Total Disability (TTD) has resulted in a decline in these numbers.
- **The Employee Assistance Programme (EAP)** focuses on the psychosocial support of our employees. During the volatile time of labour unrest, there was a special drive for additional assistance to employees to help integrate them back into the workplace.
- **Health promotion** focuses on encouraging healthy lifestyles to employees' and reducing health risks for those who are at risk for chronic diseases. In partnership with external parties, these initiatives continue and are rolled out nationally in all regions.
- **The HIV and Aids programme** includes sensitisation, health promotion and HIV testing. A total of 80% of our employees know their status and the prevalence of HIV remains at 6%. There has been a marked decrease in disability due to Aids related illnesses. The SA Post Office support group for employees who live with HIV has shown to be a positive instigator in coping skills and life style changes to assist employees in living a healthy life to their full capacity.

## INFORMATION TECHNOLOGY

SA Post Office IT has achieved significant progress in the past year towards achieving its mandate to support the rest of the business units by providing the Information Technology services that enable them to achieve their strategic goals. IT has endeavoured to meet its Service Level Agreements with business, despite all the challenges experienced during the year. SA Post Office IT will continue its efforts to align to industry standards and guidelines such as King III, ITIL, COBIT, and PMBOK.

The primary focus within IT during the past financial year continued to be on stabilising and improving existing IT capabilities. Specifically, IT activities were focused on the following areas:

### **IT Governance**

More attention was given to addressing audit and risk issues that were outstanding for a while, and creating awareness of the approved governance structures and policies. A significant number of audit issues were addressed through the implementation of projects such as the Universal Banking System upgrade and implementation of the Infrastructure Refresh projects. The progress on the major IT projects is dealt with later in the report. It should be noted that a number of unresolved audit findings were not resolved due to availability of funding.

### **Operational Efficiency**

The state of repair and maintenance of 7 W.F Nkomo (Church) Street data centre continues to be undesirable and poses major risk to the organisation. Two significant outages were experienced in the data centre due to power failure. Despite these challenges, systems were kept relatively stable during the year achieving an average availability of 98%. The focus was on the efficient utilisation of IT resources (people & IT infrastructure) and cost effective use of IT for growth. The IT architecture was reviewed and a number of applications which were in the old environment were migrated to the new infrastructure. Legacy applications which are still in the old environment will be phased out or upgraded to supportable versions.

### **IT Security**

The IT Security Remediation Project gained traction during the year. Focus was put on equipping the IT security function with suitably skilled resources and to this end, a general manager was recruited to head up this area. Additional resources have been recruited for firewall and patch management. Emphasis is also starting to be placed on IT Security governance. This will also establish the platform for ensuring that IT Security is managed proactively. This approach will assist SA Post Office towards achieving the objective of ISO 27001 compliance. Vulnerability and threat monitoring of the environment continued to be carried out through the use of Managed Security Services. The security strategy is being revised to capacitate and address some of the gaps identified. A number of security policies were presented to the Board and were approved and implemented.

During the year under review, a number of projects were delivered. Some of the major projects worth noting are the following.

- **Infrastructure Refresh:** The project aims to replace all legacy systems with upgraded technology systems, at the same time achieving the objective of rationalising and simplifying the IT environment. The project will also help to address a significant number of audit findings and risks identified in the current environment. The platform commissioning was completed and the application migration is 95 % complete. The outstanding applications in the old environment that still need to be migrated are legacy systems that need upgrading to supported versions.

- **Disaster Recovery (DR) and Network Upgrade:** This project is still outstanding but during the year, an interim DR site was implemented for the Postbank systems. The interim site was established at Telkom and is operational for Postbank. However, the DR hosting remains an urgent project to be finalised by SA Post Office. The network project is still outstanding and is also a key dependency for the unlocking of other business opportunities. The review of the technical specifications for these projects has been completed by the appointed transactional advisor to the Board. The procurement process will commence in the new financial year.
- **Flexcube upgrade to Universal Banking Solution (UBS):** The purpose of the project was to upgrade the Flexcube core banking solution to the UBS version and provide better stability and functionality to Postbank. The project was implemented in November 2014 and the system has reached stability. The implementation of the system will improve the security and address some of the audit and risk findings identified within the banking environment. The upgrade will form a sound base on which the Postbank Corporatisation will be dependent on. .
- **Upgrade of Middleware Integration platform:** This project aimed to upgrade the various versions of Middleware solutions in the environment. The project was implemented and completed in August 2014.

## Going forward

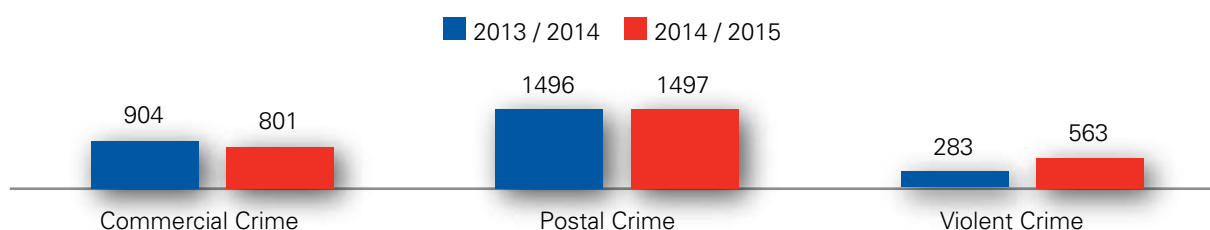
While the emphasis will continue to be on stabilisation of the IT systems environment, focus within IT will gradually move towards becoming a true business partner by providing flexible and scalable solutions that will be responsive to business needs and reduce time to the market. This will be achieved through considering modern ways of provisioning IT services and transforming the IT environment to move with current trends. IT will need to build sufficient competence and investment to become a true partner and support business in realising its strategies. The corporatisation of Postbank and the implementation of the Shared Service Model will pose new challenges and require a well-defined technology architecture and strategy. The IT organisation will enhance its project execution capability and to improve speed of execution and ensure that projects are delivered within acceptable timelines. IT will also build capacity to manage contracts and licencing arrangements more efficiently.

## SECURITY AND INVESTIGATION

### OVERVIEW

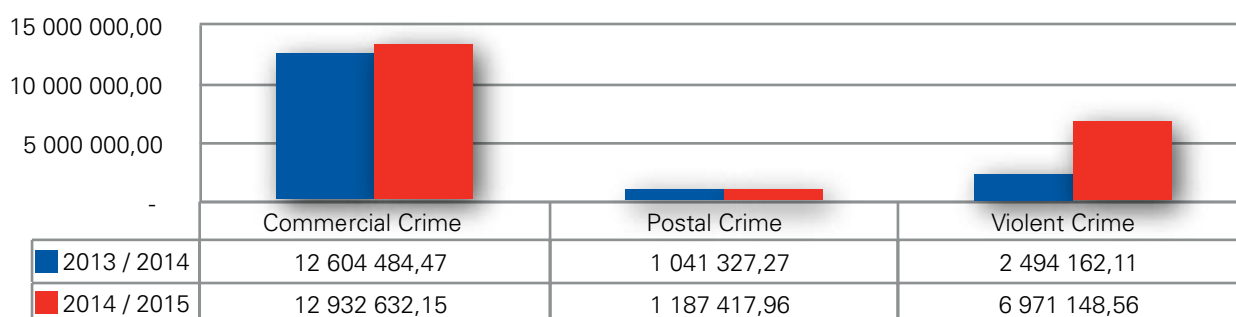
During the 2014/2015 financial year, the South African Post Office experienced its longest and most challenging wave of industrial actions which stretched from 18 August 2014 to 30 November 2014 (Continuously for 3 and a half months). In total, 237 strike related incidents were reported with a reported loss of R3.9m. Costs for the deployment of additional private security at SA Post Office workplaces amounted to R10m over the 3 and a half months. Apart from the direct loss in revenue SA Post Office property was damaged and vandalized and non-striking employees were intimidated and/or assaulted.

#### REPORTED INCIDENTS: CATEGORY OF INCIDENTS



During the period under review, a total of 3 121 incidents, comprising of 2 884 non-strike related incidents and 237 strike related incidents were recorded compared to 2 901 incidents reported during the of 2013/14 financial year. The total number of incidents represents an 8% increase. The increase was directed related to the labour unrest in which violent crime increased by 99% in comparison to the previous financial year – 283 incidents in 2013/2014 to 563 incidents in 2014/2015.

#### REPORTED LOSS: CATEGORY OF INCIDENTS



During 2014, the labour unrest and the number of reported incidents had a negative financial impact on the SA Post Office. The strike related loss of R3,889,044.84 amounts to 56% of the total reported loss pertaining to violent crime - R6,971,148.56. For 2014/2015 the reported loss for all reported incidents amounted to R21,294,273.29 in comparison to the 2013/2014 reported loss of R16,455,470.76.

In comparison to 2013/2014, the reported total loss increased by 29% (R4,838,802.53). 80% of the increased reported loss is directly attributed to the impact of the labour unrest.

## Crime categories



### Armed Robbery

During the past financial year, armed robberies decreased by nine incidents – from 60 incidents in 2013/2014 to 51 during 2014/2015.

Financial loss over the same period increased by R251,878.14 - from R1,646,752.16 to R1,898,630.30. Fifty three percent of all armed robberies (27) occurred in the Eastern Cape Region. The reported loss pertaining to armed robberies in the Eastern Cape amounted to R1,189,429.56 – 62% of the total loss nationally.

**EASTERN CAPE** The Eastern Cape is the only SA Post Office Region where House Hold Payments are still done and the cash on hand at Post Offices attributes directly to the incidents reported.

SA Post Office has however established effective relationship with the SAPS in the provinces and it provides additional support to SA Post Office on the days of high volume payments.

### Fraud & Theft



In total, 446 fraud & theft related incidents were recorded during the financial year compared to 547 in the previous year, a decrease of 101 incidents. Of the 446 commercial crime related incidents, 236 incidents are fraud specific. In comparison to 2013/2014 fraud incidents have decreased by 127 (34%).

During 2014/2015 there was an additional 33% (R3.2m) decrease in losses due to fraud from R10m to R6.5m. Account Fraud Loss of R5 564 772.96 comprises 85% of the total fraud.



### Housebreaking

In comparison to the previous financial year (158), 206 housebreaking incidents were reported in the 2014/2015 financial year – an increase of 48 incidents.

### Postal Crime



1497 Incidents of all types of postal articles i.e. standard, non-standard and parcel-related crime was reported for investigation (an increase of one).



### CIT and Hijacking

At the end of March 2014, seven incidents of vehicle hi-jacking was recorded (six incidents in 2013/2014) with two incidents of CIT robbery recorded during the past financial year (0 during 2013/2014). For both categories, it is far lower than what the industry is experiencing.

## Investigations

Of the 3 121 cases investigated during the 2014/2015 financial year, 2481 (80%) investigations were completed at the end of the financial year. 275 (9%) of all cases investigated were unfounded/false and 657 cases concluded were referred to line management to institute disciplinary action.

## Anonymous crime reporting

During the 2014/2015 financial year, 156 incidents were through the Hotline reported for investigation. Of all these incidents reported to Security and Investigation Services, 77 (49%) were following investigation found to be unfounded/false. 71 reported incidents were of criminal nature.

## Conclusion

Management within and across SA Post Office has shown a vast improvement in accepting ownership for preventing crime within their spheres of responsibility. Greater focus is being placed upon assessing causes and implementing corrective actions.

Labour unrest continues in 2015, it will have a major impact on the South African Post Office.

## SUSTAINABILITY

### Group Environmental Sustainability

Over the past three years, the Sustainability unit focused on improving operations and employee engagement. Smart meters were installed in the major mail centres to improve the credibility of data, power-saving lights were retrofitted in all mail centres, the scope for recycling was increased, and a delivery vehicle which can run on both compressed natural gas (CNG) and petrol was purchased to reduce carbon emissions. Discussions with internal stakeholders highlight that much remains to be done to make environmental sustainability part of the Post Office culture.

This environmental sustainability report uses the GRI tool to indicate how the company performed in the previous three years and what actions were taken to improve the performance.

#### GRI INDEX

CATEGORY: ENVIRONMENTAL			
ASPECT: MATERIALS			PAGE REF
G4-DMA	Generic disclosures on management approach	Report how the organisation manages the material aspect or its impacts.	54-57
G4-EN1	Materials used by weight or volume	Report the total weight or volume of materials that are used to produce and package the organisation's primary products and services during the reporting period.	54-57
G4-EN2	Percentage of materials used that are recycled input materials	Report the percentage of recycled input materials used to manufacture the organisation's primary products and services.	54-57
ASPECT: ENERGY			PAGE REF
G4-DMA	Generic disclosures on management approach	Report how the organisation manages the material aspect or its impacts.	54-57
G4-EN3	Energy consumption within the organisation	Electricity consumption	54-57
G4-EN6	Reduction of energy consumption	Report the basis for calculating reductions in energy consumption such as base year or baseline, and the rationale for choosing it.	54-57
ASPECT: WATER			PAGE REF
G4-DMA	Generic disclosures on management approach	Report how the organisation manages the material aspect or its impacts.	54-57
G4-EN8	Total water withdrawal by source	Report the total volume of water withdrawn from municipal water supplies or other water utilities	54-57
ASPECT: EMISSIONS			PAGE REF
G4-DMA	Generic disclosures on management approach	Report how the organisation manages the material aspect or its impacts.	54-57
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	Report gross direct (Scope 1) GHG emissions in metric tons of CO <sub>2</sub> equivalent, independent of any GHG trades, such as purchases, sales, or transfers of offsets or allowances.	54-57
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	a. Report gross energy indirect (Scope 2) GHG emissions in metric tons of CO <sub>2</sub> equivalent, independent of any GHG trades, such as purchases, sales, or transfers of offsets or allowances. c. Report the chosen base year, the rationale for choosing the base year, emissions in the base year, and the context for any significant changes in emissions that triggered recalculations of base year emissions. d. Report standards, methodologies, and assumptions used.	54-57

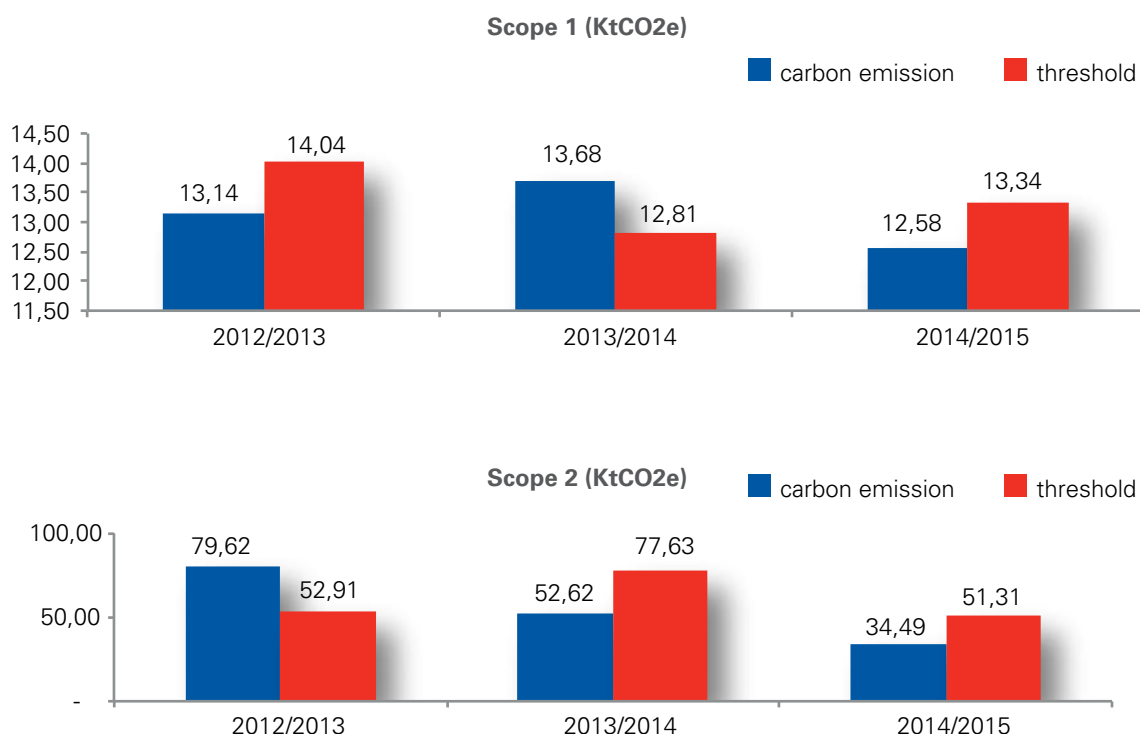


CATEGORY: ENVIRONMENTAL			
ASPECT: TRANSPORT			PAGE REF
G4-DMA	Generic disclosures on management approach	Report why the aspect is material. Report the impacts that make this aspect material.	54-57
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce	Report the significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce. Where quantitative data is not provided, report the reason.	54-57
ASPECT: OVERALL			PAGE REF
G4-DMA	Generic disclosures on management approach	Report why the aspect is material. Report the impacts that make this aspect material.	54-57
G4-EN31	Total environmental protection expenditures and investments by type	Report total environmental protection expenditures by: <ul style="list-style-type: none"> <li>• Waste disposal, emissions treatment, and remediation costs</li> <li>• Prevention and environmental management costs</li> </ul>	54-57
ASPECT: SUPPLIER ENVIRONMENTAL ASSESSMENT			PAGE REF
G4-DMA	Generic disclosures on management approach	Report how the organisation manages the material aspect or its impacts.	54-57

The electricity and water bills for the SA Post Office buildings are used to record the KWh of electricity used and the kilolitres of water used.

The target was to reduce electricity and water usage by 3% compared to the year before.

The target for paper consumption was a reduction in usage of 2,5% and to recycle 95% of paper used.



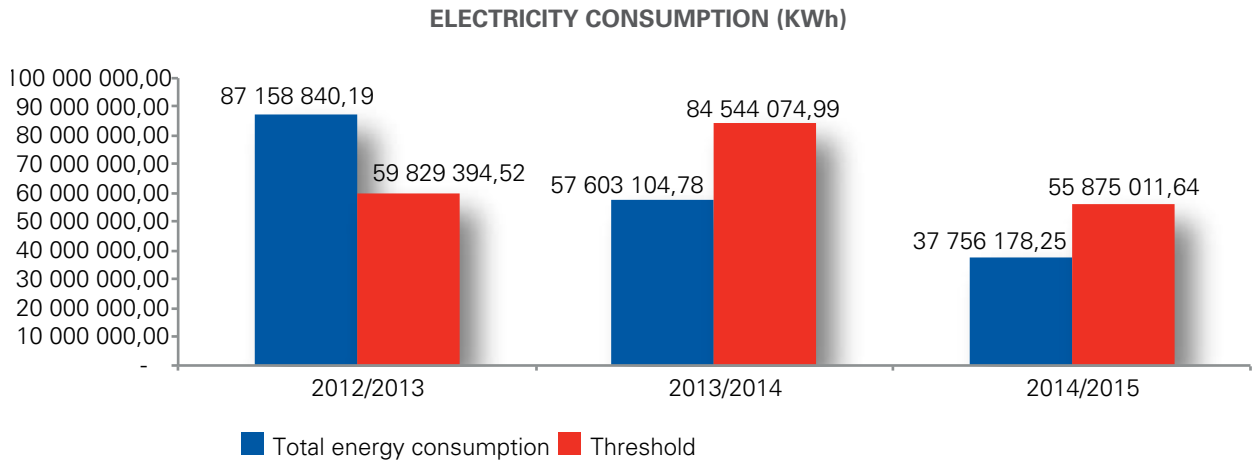
**FIGURE 1: DIRECT AND INDIRECT EMISSIONS OVER THE PAST THREE FINANCIAL YEARS COMPARED TO THE THRESHOLD (TARGET).**

Scope 1 emissions (direct emissions) are the annual carbon emissions of the Post Office fleet. The litres of fuel consumed are used to calculate these carbon emissions.

Scope 2 emissions (indirect emissions) are calculated using electricity bills for the SA Post Office. The carbon calculator is used to calculate the carbon emissions in kilotons of CO<sub>2</sub>.

Scope 3 emissions (other indirect emissions) are calculated using the carbon emitted by the subcontracted route fleet. Scope 3 emissions were 10,632 tCO<sub>2</sub> which is the same for the past three years (2013-2015).

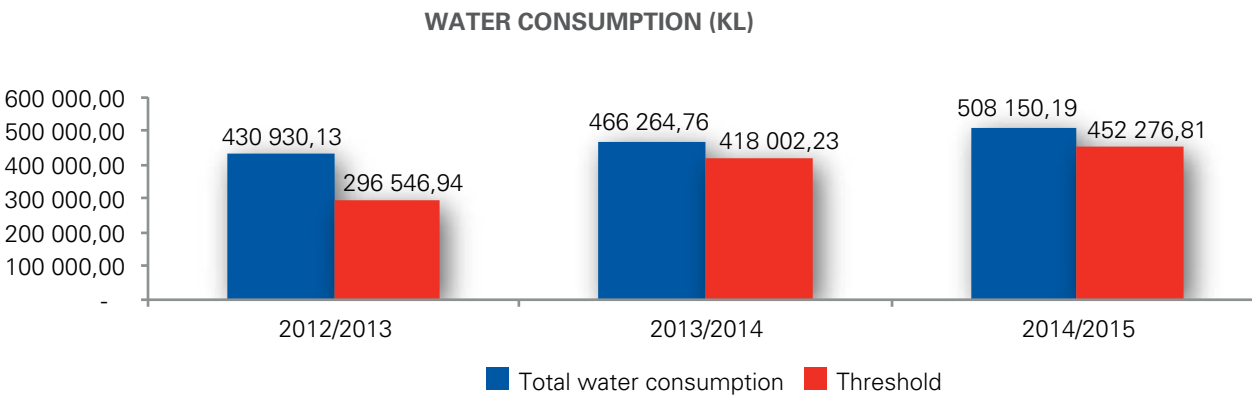
Both scope 1 and scope 2 emissions were better than the target. Carbon emissions were substantially reduced by the four-month postal strike when the fleet was used less and buildings at times not used. Scope 3 emissions remain the same since the external delivery fleet is contracted for three years and covered similar distances.



**FIGURE 2: ELECTRICITY CONSUMPTION PROFILE**

There was a decline of almost 40% in electricity consumption during 2014/15 compared to the previous financial year. One reason for this was the retrofit of the energy-efficient lights; however, the four-month strike also reduced electricity consumption.

**WATER MANAGEMENT**

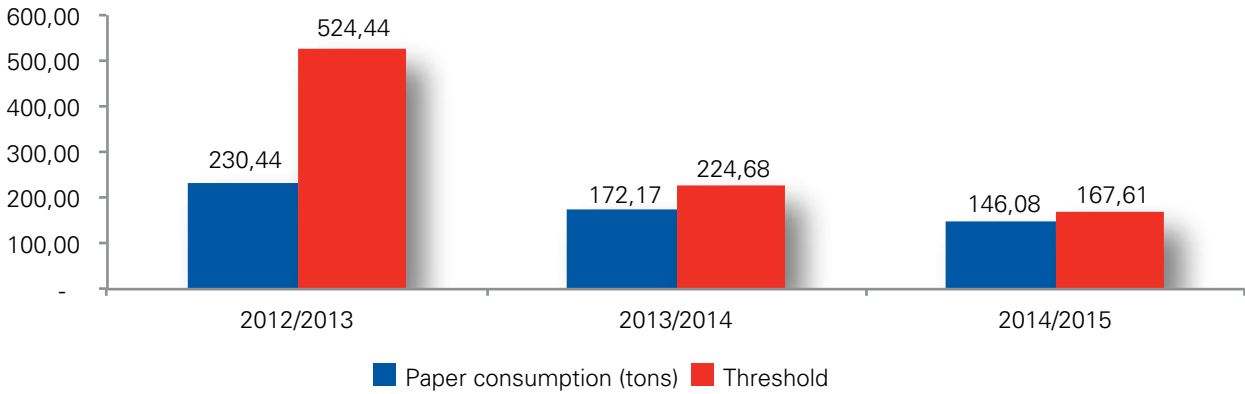


**FIGURE 3: WATER CONSUMPTION PROFILE**

The water consumption target has never been met in the past three years, partly because no direct water reduction projects have been implemented. Also, the past two years were used to acquire data regarding opportunities for water reduction. Municipal data presents a challenge because some municipal statements do not state water usage in buildings occupied by the SA Post Office. Nonetheless, available date shows that the target was exceeded by 12% in 2014/15.

**WASTE MANAGEMENT**

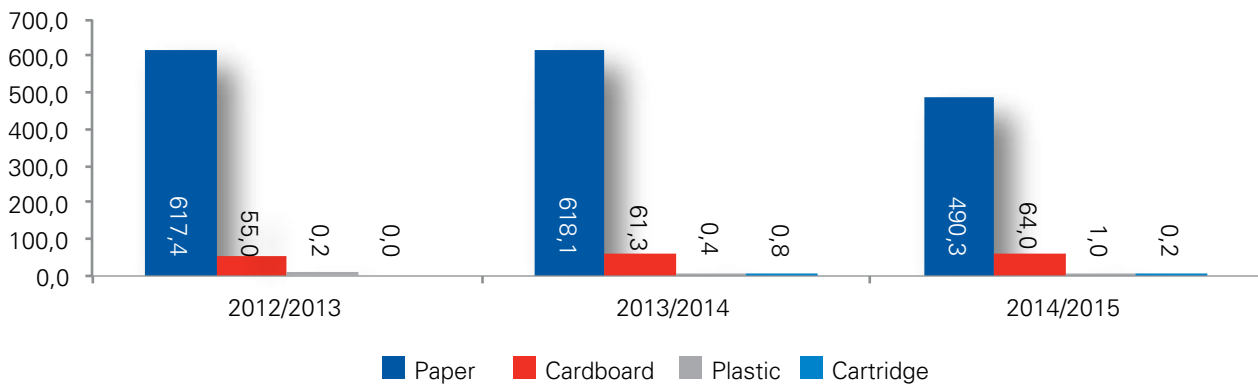
**PAPER CONSUMPTION (tons)**



**FIGURE 4: PAPER CONSUMPTION PROFILE**

The paper consumption in 2014/15 declined by 15% compared to the year before.

**RECYCLING BREAKDOWN (tons)**



**FIGURE 5: RECYCLING BREAKDOWN PROFILE FOR MATERIALS**

For the first time during the year under review, enough plastic and cartridges were recycled to warrant mention. In the two years before that, only paper and cardboard were reported on. Paper recycling is decreasing, which correlates with the drop in paper consumed.

The SA Post Office is a member of the International Postal Corporation (IPC), which sets a target of ultimately reducing carbon emissions of the postal sector by 90%.

It is noteworthy that the SA Post Office contributed substantially towards achieving the shared target of postal services all over the world, because the SA Post Office is ranked 20% from the IPC leader.

The Sustainability unit used several events during the year under review to engage employees and to make environmental awareness part of the company culture. These include World Environmental Day in June 2014, when employees in KwaZulu-Natal, Eastern Cape and Western Cape teamed up with schools to clean beaches. During March 2014, Sustainability held a World Water Week competition where all employees were asked to answer a quiz on energy and water related issues

During September 2014, Sustainability ran an art piece competition. SA Post Office employees were urged to submit an art piece of an indigenous plant to South Africa (flower or tree).

To further increase awareness, a publication about an online carbon calculator was sent to all employees. Employees were requested to share their insights and commented very favourably.

Externally, the National Business Initiative published an article about the Post Office's annual saving of 10 million kilowatt-hours in electricity by retrofitting power-saving light bulbs.





## Consolidated Audited Annual Financial Statements for the year ended 31 March 2015

South African Post Office SOC Limited  
(Registration number 1991/005477/30)

These consolidated audited annual financial statements were prepared by:

Bianca Branford CA (S.A.)  
Senior Manager: Financial Reporting

These consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act by the

Auditor-General of South Africa  
Chartered Accountants (S.A.)  
Registered Auditors

Published 4 December 2015



## Index

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

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# Audit and Risk Committee Report for the year ended 31 March 2015

The Audit & Risk Committee and Administrator (Committee) hereby presents its report for the financial year ended 31 March 2015, in accordance with Treasury Regulations issued in terms of the PFMA and the Companies Act.

During the year all non-executive Directors of the Board resigned and subsequently all its committees dissolved. Up until the date of resignation, the Board of Directors (in compliance with The King III) and all its committees were active and functional. On 7 November 2014, the Shareholder appointed Dr SD Lushaba as an Administrator in terms of section 25 of the SA Post Office Act and he duly took over the responsibilities of the Board of Directors until the new Board of Directors was approved on 13 August 2015.

The Committee acknowledges the extensive and wide ranging control matters that have resulted from the current year's external audit processes and outcomes.

The issues generally have their root cause in non-compliance to and with policies and procedures, as well as being further complicated by matters of capacity in terms of skills and competencies, exacerbated by key critical vacancies.

The new Committee has been tasked to inject effective effort and focused oversight in enabling the re-assessment, comprehensive review and rebuilding of the control environment, governance and risk management frameworks. Through combined assurance management, risk and audit will jointly play a critical role in supporting a robust "back to basics" programme to achieve this objective before the end of this ensuing financial year.

## 1. Members

The Committee was established in accordance with the provisions of PFMA and the Companies Act. The Committee Charter requires that the Committee comprise of a minimum of three members. The Administrator and members in office at the date of this report are as follows:

NAME	CHANGES
Mr S Gounden (Chairperson)	Appointed 29 January 2014; resigned 07 November 2014
Mr T Mageza	Appointed 29 January 2014; resigned 07 November 2014
Mr MS Patel	Resigned 07 November 2014
Ms G Simelane	Appointed 29 January 2014; resigned 22 October 2014
Dr S Lushaba	Appointed 07 November 2014 as Administrator; resigned 13 August 2015
Mr ME Zakwe (Chairperson)	Appointed 13 August 2015
Ms BP Soci	Appointed 13 August 2015
Mr PE Rabohale	Appointed 13 August 2015

The Committee is satisfied that the members have the required knowledge and experience as set out in Section 94(5) of the Companies Act and Regulation 42 of the Companies regulation, 2011.

In addition, the following persons are also permanent invitees to all meetings:

Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Chief Audit Executive, Group Executive: Human Capital Management, Group Executive: Legal, Group Executive: Mail, Group Executive: Retail, Group Executive: Risk Management, Group Executive: Supply Chain Management, Managing Director: CFG (The Courier & Freight Group), Managing Director: DOCEX (The Document Exchange), Managing Director: Postbank, External Auditors.

Given the size and complexity of the group, the Board has combined the Audit and Risk Committees to ensure appropriate focus on identifying and managing the risks facing the group.

## 2. Meetings held by the committee

In terms of the Committee Charter, the Committee must meet at least four times a year. Details of the meetings during the financial year under review are disclosed in the Corporate Governance Report.

The Chairman of the Committee and Administrator (while in office) held meetings with the Group Chief Executive Officer, senior management, External Auditors and Internal Auditors, collectively and individually, on matters related to governance, internal control and risk, throughout the reporting period.

## Audit and Risk Committee Report for the year ended 31 March 2015 (continued)

### 3. Responsibility

The Committee has complied with its responsibilities arising from the PFMA, Treasury Regulation and Companies Act. It further also operated in terms of the Committee Charter as its terms of reference in performing all its responsibilities until 7 November 2014. Thereafter its responsibilities was performed by the Administrator until the appointment of the new committee.

### 4. Effectiveness of internal controls

The Committee acknowledges management's efforts to strengthen internal controls. However, when seen in the context of the reports issued by External and Internal Audit, it is clear that management's efforts have not yielded the required benefits to date.

The Committee is concerned about the internal control weakness reported in prior years that have not been fully and satisfactorily addressed. Management has given assurance that effective corrective action will be implemented in respect of all internal control weaknesses and the Committee will monitor these.

The Committee emphasise that punitive measures against the responsible officials are required in instances of non-compliance. The Committee heightened levels of work ethic, accountability, and this should be addressed through a fair and rigorous application of the performance management system and adherence to defined risk tolerance levels informed by the group's risk appetite.

Vacancies undermine the effective functioning of the system of internal control and it is imperative that management reviews its recruitment procedures and processes to ensure that vacancies are filled expeditiously with properly qualified, skilled and experienced personnel.

The Committee noted concerns about levels of fraud and corruption. The SA Post Office has adopted aggressive anti-corruption measures to curb the frequency and magnitude of fraud and corruption.

Owing to the strategic importance of and huge dependence on information and communication technology (ICT), the Committee emphasized the need for an ICT environment to operate at an optimal level and supported with the required infrastructure refresh.

### 5. Specific focus areas

Going forward, the Committee has identified the following specific focus areas to monitor, support and advice management on:

- Enhancement of reporting on performance information;
- Modernisation of the information technology;
- Ongoing effectiveness of the Internal Audit Function;
- Improving the control environment;
- Effectiveness of the Enterprise Risk Management Unit;
- Cohesive risk management framework and
- Embedding of a combined assurance model

### 6. The quality of management / monthly / quarterly reports submitted in terms of the PFMA

The Committee was satisfied with the content and quality of the financial reports prepared and issued by management, in compliance with the statutory reporting framework during the year under review. The Committee has requested and received the monthly management accounts for deliberations at the Committee meetings. The Committee suggested improvements to these reports, especially relating to performance information and cash-flow projections. The Committee recommended that the SA Post Office move towards preparing interim financial statements, which would assist it in attending to reconciliations timeously as well as eliminate year-end adjustments.



## Audit and Risk Committee Report for the year ended 31 March 2015 (continued)

### 7. Internal audit function

The Committee is satisfied that Internal Audit has properly discharged its functions and responsibilities during the year under review. The capacity of Internal Audit has been enhanced through the redesign of the internal audit process, employment of additional personnel and investments in an intensive training programme. The Committee expects these initiatives to contribute to Internal Audit becoming more efficient, more responsive to the challenges and providing audit reports of a high quality to management and the Committee on a timely basis. The Committee supports the direction that Internal Audit is adopting in providing the necessary skills and agility required for Internal Audit to respond quickly and effectively to the demands for internal audit across SA Post Office's multiple location.

The Committee is satisfied that the Internal Audit is operating effectively and that it has addressed the risks pertinent to SA Post Office, within the year under review.

### 8. Enterprise Risk Management Unit

The Committee is satisfied that the Risk Management Unit has assisted the SA Post Office with risk management. This unit continues to improve risk management through establishing a risk culture that is informed and guided by the group's risk appetite and that operates within the defined risk tolerance levels. The unit continues to acquire the necessary skills to respond to the demands of risk identification and risk mitigation.

### 9. Evaluation of the financial statements

The Committee has:

- reviewed and discussed the financial statements with the External Auditor and management;
- reviewed the External Auditor's management letter and management's response thereto;
- reviewed and discussed the Performance Information with management;
- reviewed changes in Accounting Policies and practices; and
- reviewed the entity's compliance with Legal and Regulatory provisions.

### 10. External Auditors Report

The Committee concurs with and accepts the conclusions and the audit opinion of the External Auditors on the financial statements and is of the view that the financial statements be accepted and read together with the report of the External Auditors.

The Committee confirms that it has been actively involved throughout the audit process and is thoroughly apprised of the issues giving rise to the audit opinion.

The Committee appreciates the enormity of the challenge associated with managing a large, geographically dispersed and complex audit. However, the external audit issues raised should have been avoided given the effort put in by certain officials and the ongoing assurances given by management to the Committee that these matters were under control.

**On behalf of the Committee:**



Mr ME Zakwe (Chairperson)

30 November 2015

## Directors' Responsibilities and Approval

During the year, all non-executive Directors of the Board resigned and subsequently all its committees dissolved. Up until the date of resignation, the Board of Directors (in compliance with King III) and all its committees were active and functional. On 7 November 2014, the Shareholder appointed Dr SD Lushaba as Administrator in terms of section 25 of the SA Post Office Act and he duly took over the responsibilities of the Board of Directors until the new Board of Directors was approved on 13 August 2015.

The Board of Directors is required in terms of the Companies Act to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with the IFRS and interpretations issued by the IFRS Interpretations Committee. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Board of Directors acknowledges that they are ultimately responsible for the system of internal financial control established by the group and places considerable importance on maintaining a strong control environment. To enable the Board of Directors to meet these responsibilities, the Board of Directors set 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 group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board of 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss. During the audit several control weaknesses were identified which are highlighted in the audit report. The financial statements were found to be materially mistated due to a number of individually material misstatements as well as the cumulative effect of numerous individually immaterial uncorrected mistatements (refer to point 6 to 16 of the audit report).

The Board of Directors have reviewed the group's cash flow forecast for the 12 months after the Statement of Financial Performance date and, in the light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue in operational existence for the foreseeable future. The SA Post Office was granted an additional guarantee from the Shareholder to support the use of the going concern preparation.

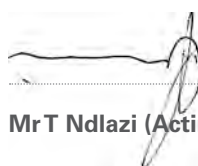
The financial statements set out on pages 87 to 188, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 November 2015 and signed on its behalf by:



**Bulelwa Soci**

**Deputy Chairperson of the SA Post Office**

**30 November 2015**



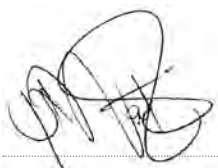
**Mr T Ndlazi (Acting Group CEO)**

**30 November 2015**

## Group Company Secretary's Certification

### **DECLARATION BY THE GROUP COMPANY SECRETARY IN RESPECT OF SECTION 88(2)(E) OF THE COMPANIES ACT**

In terms of Section 88(2)(e) of the Companies Act, I, in my capacity as Group Company Secretary certify that the group has lodged with the Companies and Intellectual Property Commission (CIPC) all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.



**Ms N Matanzima**

**Group Company Secretary**

**30 November 2015**

## Report of the auditor-general to parliament on the South African Post Office SOC Limited

### REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the consolidated and separate financial statements of the South African Post Office SOC Limited (SAPO) and its subsidiaries set out on pages 87 to 186 which comprise the consolidated and separate statement of financial position as at 31 March 2015, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

#### The board of director's responsibility for the consolidated and separate financial statements

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa, 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
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. The SAPO group and company did not adequately review the useful lives of property, plant and equipment at each reporting date in accordance with the International Financial Reporting Standards, IAS 16, *Property, plant and equipment*. In addition, some items of property plant and equipment were not recorded in the asset register, while some items were recorded but their existence could not be verified. As a result I was unable to determine the correct net carrying amount of property, plant and equipment and depreciation, amortisation and impairments stated at R1 228 999 000 (Company: R1 212 743 000) and R148 227 000 (Company: R235 175 000) respectively in notes 3 and 31 to the consolidated and separate financial statements, as it was impracticable to do so. I was also not able to determine the consequential impact that any adjustments would have on the surplus for the period and the accumulated surplus in the consolidated and separate financial statements.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

7. The SAPO group and company did not adequately assess property, plant and equipment for impairment at the reporting date in accordance with the International Financial Reporting Standards, IAS 36, *Impairment of assets*. The system on which I relied for the purpose of the audit was inadequate, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that no assets would be impaired. Because of the nature of these assets, I was unable to confirm or verify by alternative means the value of the property, plant and equipment. As a result I was unable to determine the correct net carrying amount of property, plant and equipment and depreciation, amortisation and impairments stated at R1 228 999 000 (Company: R1 212 743 000) and R148 227 000 (Company: R235 175 000) respectively in notes 3 and 31 to the consolidated and separate financial statements, as it was impracticable to do so. I was also not able to determine the consequential impact that any adjustments would have on the surplus for the period and the accumulated surplus in the consolidated and separate financial statements.

### **Site restoration provision**

8. The SAPO group and company lease properties from third parties and need to restore the leased space to its original condition at the end of the lease period as required by the contract with the third parties. These transactions should be recognised when the recognition criteria are met in accordance with the International Financial Reporting Standards, IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and IAS 16, *Property, Plant and Equipment*. The group and company did not have adequate systems to collate and maintain data to calculate a current best estimate for the site restoration provision. I was not able to determine the impact on the site restoration provision by alternative means. Consequently, I was unable to determine if any adjustment relating to the site restoration provision stated at R197 895 000 (2014: R265 986 000) (Company: R195 423 000 (2014: R263 659 000)) in note 21 to the consolidated and separate financial statements was necessary. I was also not able to determine the consequential impact that any adjustments would have on interest paid in note 35, the related site restoration asset balance in property plant and equipment in note 3 and any depreciation and impairment in note 31, the previous period's error note 51, the surplus for the period and the accumulated surplus. This limitation applies equally to the comparative figures in the consolidated and separate financial statements.

### **Retirement benefit obligation**

9. The SAPO group and company did not disclose the statutory retirement benefit plan as required by section 10A of the South African Post Office Act (Act No 44 of 1958, as amended) at each reporting date in accordance with the International Financial Reporting Standards, IAS 19, *Employee benefits*. The existing provident fund benefit plan, which is a result of past employment agreements that distribute excess leave benefits to the beneficiaries on termination, was also not disclosed in accordance with IAS 19. The valuation could not be completed by management within the timeframes for the preparation of these financial statements; therefore limited disclosure was made about these benefit plans in notes 11.1 and 11.2 to the separate and consolidated financial statements. Because of the nature of these defined benefit plans, I was unable to confirm or verify the fair presentation of these benefit plans in the consolidated and separate financial statement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the retirement benefit notes 11.1 and 11.2, the previous period's error note 51, the surplus for the period, the accumulated surplus in the consolidated and separate financial statements or other items in the consolidated and separate financial statements. This limitation applies equally to the comparative figures in the consolidated and separate financial statements.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited

### **Irregular expenditure**

10. Section 55(2) (b) (i) of the (PFMA), requires the group and company to include particulars of irregular expenditure in the notes to the annual financial statements. The group and company incurred expenditure in contravention of the supply chain management (SCM) requirements that were not included in irregular expenditure, which resulted in irregular expenditure being understated by R15 483 376. In addition, the group and company did not have adequate systems to maintain complete records of irregular expenditure. Due to this lack of systems, I was not able to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure, as disclosed in note 49 to the consolidated and separate financial statements, was necessary.

### **Fruitless and wasteful expenditure**

11. Section 55(2) (b) (i) of the (PFMA), 1999 requires the group and company to include particulars of fruitless and wasteful expenditure in the notes to the annual financial statements. The group and company incurred fruitless and wasteful expenditure that was not disclosed in the notes to the financial statements, which resulted in fruitless and wasteful expenditure being understated by R15 663 787. In addition, the group and company did not have adequate systems to maintain complete records of fruitless and wasteful expenditure. Due to this lack of systems, I was not able to confirm the amount of fruitless and wasteful expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment to fruitless and wasteful expenditure, as disclosed in note 47 to the consolidated and separate financial statements, was necessary.

### **Deferred tax and income tax**

12. The SAPO group and company did not have adequate systems to ensure that the income tax, deferred tax and taxation note disclosures submitted for auditing were supported by accurate and complete underlying accounting records. I was unable to confirm the income tax, deferred tax and note disclosures by alternative means. In addition management did not disclose the deferred tax movements between 2014 and 2015 and the rate reconciliation in the separate and consolidated financial statements as required by IAS 12, *Income Taxes*. Consequently, I was not able to determine whether any further adjustments relating to the deferred tax and income tax disclosed in note 12 and 36 respectively to the consolidated and separate financial statements, were necessary. I was also not able to determine the consequential impact that any adjustments would have on the taxation notes 12 and 36, the surplus for the period and the accumulated surplus in the consolidated and separate financial statements.

### **Intangible assets**

13. The SAPO group and company did not adequately assess intangible assets for impairment at the reporting date in accordance with the International Financial Reporting Standards, IAS 36, *Impairment of assets*. The system on which I relied for the purpose of the audit was inadequate, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that intangible assets was valued correctly. Because of the nature of these assets, I was unable to confirm or verify by alternative means the value of the intangible assets. As a result I was unable to determine the correct net carrying amount of intangible assets and depreciation, amortisation and impairments stated at R124 810 000 (Company: R124 720 000) and R148 227 000 (Company: R235 175 000) respectively in notes 6 and 31 to the consolidated and separate financial statements, as it was impracticable to do so. I was also not able to determine the consequential impact that any adjustments would have on the surplus for the period and the accumulated surplus in the consolidated and separate financial statements.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### **Heritage assets**

14. I was unable to obtain sufficient appropriate audit evidence regarding heritage assets for the SAPO group and company, as the valuation could not be substantiated by supporting evidence. I was unable to confirm the fair value of heritage assets by alternative means. In addition all items of heritage assets were not recorded in the asset register. Consequently, I was also not able to determine whether any further adjustment relating to heritage assets stated at R21 965 000 in note 5 to the consolidated and separate financial statements was necessary. I was also not able to determine the consequential impact that any adjustments would have on the surplus for the period and the accumulated surplus in the consolidated and separate financial statements.

### **Aggregation of immaterial uncorrected misstatements**

15. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial position and the statement of financial performance for the group and company:
- » Operating expenses reflected as R1 821 577 000 (Company: R1 797 047 000) was understated by R20 610 197.
  - » The retirement benefit obligation reflected as R1 447 110 000 (Company: R1 446 561 000), as disclosed in note 11, was overstated by R22 961 285.
  - » Accrued expenses reflected as R529 791 000 (Company: R468 480 000) in trade and other payables, as disclosed in note 22, was understated by R18 880 676.
  - » International debtors reflected as R120 611 000 (Company: R120 611 000) in trade and other receivables, as disclosed in note 15, was understated by R13 892 914.
  - » Bonus provision reflected as R74 889 000 (Company: R70 674 000) in provisions, as disclosed in note 21, was overstated by R14 068 016.
  - » Management did not adequately assess the useful lives and impairment of Investment property reflected as R53 561 000 (Company: R52 599 000) as disclosed in note 4.
16. In addition, I was unable to obtain sufficient appropriate audit evidence regarding the following item included in the statement of financial position, which had a cumulative effect on the financial statements:
- » Evidence could not be obtained for R45 683 959 relating to the deposits from the public liability reflected as R4 888 043 000 (Company: R4 888 043 000) as disclosed in note 25.
17. As a result, I was unable to determine whether any adjustment to this item was necessary.

### **Qualified opinion**

18. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly, in all material aspects, the financial position of the SAPO and its subsidiaries as at 31 March 2015 and their financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards and the requirements of the PFMA and the Companies Act of South Africa.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### Emphasis of matters

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

#### *Going concern*

20. Note 46 to the consolidated and separate financial statements indicated that a net loss was incurred during the year ended 31 March 2015 and, as of that date, the group is projecting a loss of R1.4 billion for the year ending 31 March 2016. These conditions, along with other matters as set forth in note 46, indicate the existence of a material uncertainty that may cast significant doubt on the public entity's ability to operate as a going concern.

#### *Significant uncertainties*

21. With reference to note 42 to the consolidated and separate financial statements, the SAPO group and company was a defendant in a number of lawsuits. At the time of this report, the ultimate outcome of these matters could not be determined, and no provision for any liability that may result was made in the consolidated and separate financial statements.

#### *Restatement of corresponding figures*

22. As disclosed in note 51 to the financial statements, the corresponding figures for 31 March 2014 have been restated as a result of errors discovered during the period ended 31 March 2015 in the financial statements of the SAPO group and company at, and for the year ended, 31 March 2014.

#### *Material losses and impairment*

23. As disclosed in note 48 to the separate and consolidated financial statements, material losses of R6 725 000 were incurred as a result of criminal conduct.

24. As disclosed in note 8 to the separate financial statements, the SAPO provided for the impairment of loans and long-term receivables of R269 461 000 and R285 432 000 respectively over the last number of years as a result of the SAPO not being able to recover long-outstanding debts from its subsidiary, but the SAPO continues to provide support to these subsidiary.

### Additional matters

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

#### *Other reports required by the Companies Act*

26. As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2015, I have read the director's report, the audit committee's report and the SAPO 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 these reports and the audited financial statements in respect of which I expressed a qualified opinion. I have not audited these reports and, accordingly, do not express an opinion on these reports.



## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### ***Prior period audited by a predecessor auditor***

27. The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA). The audit report on these financial statements was issued on 22 December 2014.

### ***Unaudited supplementary information***

28. The supplementary information set out on pages 187 to 189 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

29. In accordance with the 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 strategic goals 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**

30. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic goals presented in the annual performance report of the public entity for the year ended 31 March 2015:
- » Strategic goal 1: Attain Financial Sustainability while delivering on Government social mandate on page 16 to 17
  - » Strategic goal 2: Remain customer centric by effectively and efficiently fulfilling customer wants and needs on page 18
  - » Strategic goal 4: Provide innovative, affordable and relevant services that meet the needs of our customers on page 19
  - » Strategic goal 6: Maintain good corporate governance principles to continuously improve as a trusted corporate citizen on page 20
31. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
32. 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 strategic goals. 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).
33. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
34. The material findings in respect of the selected strategic goals are as follows:

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### **Strategic goal 1: Attain Financial Sustainability while delivering on Government social mandate**

#### **Reliability of reported performance information**

35. 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. I was unable to obtain the information and explanations I considered necessary to satisfy myself of the reliability of the reported performance information. This was because that the auditee could not provide sufficient appropriate evidence in support of the reported performance information for financially linked indicators. The auditee's records did not permit the application of alternative audit procedures.

### **Strategic goal 2: Remain customer centric by effectively and efficiently fulfilling customer wants and needs**

#### **Usefulness of reported performance information**

36. The FMPPI requires the following:
- » Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator/measure. A total of 67% of the indicators were not verifiable.
  - » Performance targets must be measurable. I could not measure the required performance for 67% of the targets
37. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes for the development of performance indicators and targets included in the corporate plan and shareholder's compact.

#### **Reliability of reported performance information**

38. 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. I was unable to obtain the information and explanations I considered necessary to satisfy myself of the reliability of the reported performance information. This was because the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

### **Strategic goal 4: Provide innovative, affordable and relevant services that meet the needs of our customers**

#### **Reliability of reported performance information**

39. 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. I was unable to obtain the information and explanations I considered necessary to satisfy myself of the reliability of the reported performance information. This was because the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### **Strategic goal 6: Maintain good corporate governance principles to continuously improve as a trusted corporate citizen**

#### **Usefulness of reported performance information**

40. The FMPPI requires the following:
- » Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 33% of the indicators were not well defined.
  - » Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator/measure. A total of 33% of the indicators were not verifiable.
  - » Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 33% of the targets were not specific.
41. This was because management did not adhere to the requirements of the FMPPI and a lack of proper systems and processes for the development of performance indicators and targets included in the corporate plan and shareholder's compact.

#### **Reliability of reported performance information**

42. 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. I was unable to obtain the information and explanations I considered necessary to satisfy myself of the reliability of the reported performance information. This was because the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records did not permit the application of alternative audit procedures.

#### **Additional matters**

43. I draw attention to the following matters:

#### **Achievement of planned targets**

44. Refer to the annual performance report on page(s) 16 to 20 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 strategic goals reported in paragraphs 35 to 42 of this report.

#### **Adjustment of material misstatements**

45. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of Strategic goal 1: Attain Financial Sustainability while delivering on Government social mandate. As management subsequently corrected only some of the misstatements, I identified material findings on the reliability of the reported performance information.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### Compliance with legislation

46. 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

47. The accounting authority did not, in consultation with its executive authority, conclude a shareholder's compact for the year under review as required by Treasury Regulations 29.2.1.
48. Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management were not in place as required by section 51(1)(a)(i) of the PFMA.

### Annual financial statements, performance and annual reports

49. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55(1)(a) and (b) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of provisions, accrued expenses, vat liability, equity and various disclosure matters identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
50. The annual return for the company for the year ended 2014 was not filed within the 30 day period, required by section 33 of the Companies Act and Companies Regulation 30(1).
51. The Information Technology (IT) audit revealed significant control weaknesses due to key risks that were not adequately managed and mitigated within the IT focus areas resulting in non-compliance with section 51(1)(a)(i) of the PFMA.

### Expenditure management

52. The accounting authority did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA.
53. Goods and service were not in all instances procured through a procurement process which is fair, equitable, transparent and competitive as required by section 51(1)(a)(iii) of PFMA.

### Asset management

54. Proper control systems to safeguard and maintain assets were not implemented, as required by sections 50(1)(a) and 51(1)(c) of the PFMA.

### Liability management

55. The accounting records of the company's liabilities and obligations were not complete and accurate, as required by section 28(1) of the Companies Act and prescribed in Companies Regulation 25(3)(a)(iii).
56. Money was borrowed without the approval of the accounting authority, in contravention of section 66(3)(a) of the PFMA.
57. The entity provided financial assistance to its subsidiary without obtaining a special resolution by the shareholder for these transactions, and did not assess the liquidity and solvency requirements required by section 45 of the Companies Act prior to advancing the financial assistance.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### Internal audit

58. Internal audits annually within a broad-based audit plan, however they did not evaluate the reliability and integrity of the SAPO group performance targets and related operational information as required in terms of Treasury regulation 27.2.10 (b).
59. Internal Audit did carry out certain limited legal compliance reviews; however the evaluation of legal and regulatory compliance by Internal Audit was not comprehensive, as required by Treasury Regulation 27.2.10(e).

### Internal control

60. I considered internal control relevant to my audit of the financial statements, report on predetermined objectives 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 report on predetermined objectives and the findings on compliance with legislation included in this report.

### Leadership

61. The entity experienced instability in leadership as a result of a number of suspensions, dismissals and resignations in key leadership positions. Instability in top leadership has contributed to the overall decline in the internal control environment.
62. An effective organisational structure that places people with appropriate skills has not been established.
63. The lack of decisive action to mitigate emerging risks and implement timely corrective measures to address non-performance was evident by the failure of management to adequately address the internal and external audit findings in a timely manner. The entity failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause.
64. The leadership of the SAPO did not adequately establish and communicate adequate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
65. The leadership of the SAPO did not establish mechanisms to communicate and hold individuals accountable for the non-performance of internal control responsibilities.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### Financial and performance management

66. Weekly and monthly reconciliations were not always adequately prepared for financial items during the year including payroll, taxation, creditors, international revenue and debtors' and fixed assets. This resulted in the entity being required to rely on manual reconciliations at year-end. Due to the significant increase in the volume of manual reconciliation required, assurance processes were not implemented in time to ensure that information is accurate and complete. As a result, a number of errors in the reconciliations were identified by the external auditors.
67. Significant use is made of suspense accounts that are not regularly reviewed and reconciled. This is partially due to IT infrastructure constraints; however, where supporting listings are available, management did not always act to ensure that long outstanding items are either reconciled and cleared; or written off. This control weakness also gives rise to a material fraud risk for the entity.
68. Effective financial systems and management thereof have not been implemented to ensure accurate financial statements. Timeframes in place for the preparation and internal review of the financial statements have not been adhered to, to ensure a comprehensive review of year-end adjustments and final financial statements.
69. The annual performance report contained numerous items that could not be traced to supporting listings and documentation. This was due to staff within the reporting units not fully understanding the performance information requirements as set out in the FMPPI.
70. Design and implementation of formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information, were not adequate.

### Governance

71. The company was under administration from November 2014. This resulted in key governance structures not being in place to effectively monitor the performance of the organisation through a structured board and audit committee.
72. Although a risk assessment framework is in place, management does not adequately monitor and report on the progress of controls implemented, or respond to new risks that may arise. Therefore, the risk management process of the entity is not considered to be adequate or effective.
73. Leadership does not act on a timely basis to internal audit's recommendations or reports, thereby impacting their effectiveness as an assurance provider to the leadership of the entity.
74. A number of key oversight units are not adequately capacitated to deliver on their mandate namely the risk, compliance and internal audit units. This has resulted in entity level risks not being addressed timeously.

## Report of the auditor-general to parliament on the South African Post Office SOC Limited (continued)

### Other reports

#### *Investigations*

##### Completed during the year

75. The internal investigations unit conducted several investigations. The investigations resulted in recommendations for disciplinary and/or criminal proceedings to be instituted against the parties concerned.

##### Investigations in progress

76. Investigations are currently underway relating to the conduct of Executive members of SAPO. These investigations may or may not result in disciplinary proceedings against the parties concerned.
77. Investigations by the Public Protector regarding potential irregularities relating to procurement are finalised and the investigation team is on the verge of finalising its report. It is envisaged that this process would be finalised during the next financial year.
78. The Special Investigations Unit completed the investigation at the SAPO and the report was submitted to the President for his consideration on 25 June 2015 in terms of Section 4(1)(g) of the Special Investigating Units and Special Tribunals Act 74 of 1996.
79. The internal investigations unit is conducting several investigations. These investigations are ongoing and may or may not result in disciplinary proceedings against the parties concerned.

*Auditor-General*

Pretoria

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Directors' Report

During the year, all non-executive Directors of the Board resigned and subsequently all its committees dissolved. Up until the date of resignation, the Board of Directors (in compliance with King III) and all its committees were active and functional. On 7 November 2014, the Shareholder appointed Dr SD Lushaba as Administrator in terms of section 25 of the SA Post Office Act and he duly took over the responsibilities of the Board of Directors until the new Board of Directors was approved on 13 August 2015.

The Board of Directors have pleasure in submitting their report on the financial statements of the SA Post Office and the group for the year ended 31 March 2015.

### **1. Incorporation**

The company was incorporated on 1 October 1991 and obtained its certificate to commence business on the same day.

### **2. Holding company**

The group's holding company is SA Post Office which holds 100% (2014: 100%) of the group's equity. The SA Post Office is incorporated in RSA.

### **3. Ultimate holding company**

The group's ultimate holding company is South African Government which is incorporated in RSA. During the the year, The SA Post Office's Shareholder was changed from the Department of Communication to the Department of Telecommunications and Postal Services.

### **4. Nature of business**

The SA Post Office was incorporated in South Africa with interests in the communication and services industry. The activities of the group are undertaken through the company and its principal subsidiaries. The group operates principally in South Africa.

The business of the group is:

- The provision of universal, accessible, reliable and affordable postal services to the people of the Republic of South Africa in terms of the SA Post Office Act No. 22 of 2011 (as amended) and the Postal Services Act No. 124 of 1998 (as amended);
- To conduct the business of a bank that will encourage and attract savings amongst the people of the Republic of South Africa in accordance with the Postbank Act No. 9 of 2010 (as amended) and the relevant sections of the Postal Services Act No. 124 of 1998 and also to provide agency services;
- To provide an infrastructure for the movement of paper and electronic documents between members in various industries and become the preferred partner in the judicial system; and
- To provide courier, freight and related logistical services to business within and beyond the South African boundaries.

The business of the group is conducted through its operation divisions: Mail, Consumer Services and Postbank as well as its operating subsidiaries within logistics, CFG and Docex.

These divisions and subsidiaries are responsible for all the trading activities of the group, which are conducted through the mail distribution network as well as the infrastructure of service points available throughout the country. The main support divisions in the group are: Corporate Services, Finance, Human Resources, Information Technology, Internal Audit, Marketing, Property Management, Risk and Compliance, Sales and Customer Services, Security and Investigation Services, Supply Chain Management and Strategic Planning.

There have been no material changes to the nature of the group's business from the prior year, except for the fact that the company is under administration.



## Directors' Report (continued)

### 5. Administrator and Directorate

During the year, all non-executive Directors of the Board resigned and subsequently all its committees dissolved. Up until the date of resignation, the Board of Directors (in compliance with King III) and all its committees were active and functional. On 7 November 2014, the Shareholder appointed Dr SD Lushaba as Administrator in terms of section 25 of the SA Post Office Act and he duly took over the responsibilities of the Board of Directors until the new Board of Directors was appointed on 13 August 2015.

The Administrator and Directors in office at the date of this report are as follows:

ADMINISTRATOR/ DIRECTOR	OFFICE	DESIGNATION	CHANGES
Dr SD Lushaba	Chairperson of the Board: Group / Administrator	Non-executive Independent	Appointed 13 August 2015 as Chairperson of the Board / Appointed 07 November 2014 as Administrator
Ms BP Soci	Deputy Chairperson of the Board: Group	Non-executive Independent	Appointed 13 August 2015
Dr HN Manzini	Acting Chairperson of the Board: Group	Non-executive Independent	Resigned 07 November 2014
Mr CJ Hlekane	CEO: Group / Director: CFG / Director: Docex / Director: Sapos Properties	Executive	Resigned 01 September 2015
Ms K Mzozoyana	CFO: Group / Director: CFG / Director: Docex / Director: Sapos Properties	Executive	
Mr M Mathonsi	Acting CEO: Group / COO: Group	Executive	Appointed 01 July 2014 as COO / Acting CEO from 03 October 2014 / Resigned 31 November 2015
Mr T Ndlazi	Acting CEO: Group	Executive	Appointed 01 November 2015
Ms NJ Dewar	Acting CFO: Group	Executive	Appointed 16 July 2015
Mr S Adam	Acting MD: Postbank	Executive	Resigned 15 October 2014
Mr MJ Mathibe	MD: CFG / Acting MD: Docex	Executive	Resigned 25 July 2014
Ms G Simelane	Director: Group	Non-executive Independent	Resigned 22 October 2014
Mr H Daniels	Director: Group	Non-executive Independent	Resigned 22 April 2014
Mr JS Ngubane	Director: Group	Non-executive Independent	Resigned 07 November 2014 / Appointed 13 August 2015
Mr JS Kotsi	Director: Sapos Properties	Non-executive	Resigned 31 December 2014
Dr LM Molefi	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr ME Zakwe	Director: Group	Non-executive Independent	Appointed 13 August 2015
Ms MLD Marole	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr MS Patel	Director: Group / Director: CFG	Non-executive Independent	Resigned 07 November 2014
Ms N Kela	Director: Group / Director: CFG / Director: Docex	Non-executive Independent	Resigned 07 November 2014
Mr N Mnisi	Director: Sapos Properties	Non-executive	Resigned 30 April 2014
Mr NC Dube	Director: Docex	Non-executive	Resigned 08 December 2014
Ms NG Mthethwa	Director: Group / Chairperson of the Board: CFG / Director: Docex	Non-executive Independent	Resigned 23 October 2014
Ms NV Simamane	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr PE Rabohale	Director: Group	Non-executive Independent	Appointed 13 August 2015

## Directors' Report (continued)

ADMINISTRATOR/ DIRECTOR	OFFICE	DESIGNATION	CHANGES
Mr R Nkuna	Director: Group	Non-executive Independent	Appointed 13 August 2015
Mr R Sithuba	Director: Group / Director: CFG / Chairperson of the Board: Docex	Non-executive Independent	Resigned 23 October 2014
Mr S Gounden	Director: Group	Non-executive Independent	Resigned 07 November 2014
Ms SP Mothelesi	Director: Group	Non-executive Independent	Resigned 07 November 2014
Mr T Mageza	Director: Group	Non-executive Independent	Resigned 07 November 2014
Mr ZC Ngidi	Director: Group	Non-executive Independent	Appointed 13 August 2015

Resigned implies resigned or retired

### 6. Administrator and Directors' interests in contracts

Refer to note 43 for all contracts that were entered into in which the Administrator and Directors or officers of the group had an interest.

### 7. Secretary

The Acting Company Secretary for the group was Adv. MM Mphelo who retired on the 28th of February 2015. He was replaced by Ms T Sihlaba as the Acting Company Secretary from 01 May 2015. Subsequently Ms Ms N Matanzima was appointed as the Group Company Secretary on 01 October 2015.

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 0001

#### Business address

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 Highveld Extension 70  
 Centurion  
 0157

### 8. Auditors

The Auditor-General of South Africa has been appointed as auditors for the company and its subsidiaries for 2015.

At the Annual General Meeting, the Shareholder will be requested to reappoint the Auditor-General of South Africa as the independent external auditors of the company and subsidiaries for the 2016 financial year.

## Directors' Report (continued)

### 9. Review of financial results and activities

The financial statements have been prepared in accordance with IFRS, the PFMA and the requirements of the Companies Act. The accounting policies have been applied consistently compared to the prior year.

The operating environment has been challenging for the SA Post Office during the 2014/15 financial year with lower volumes presented by customers for mail, hybrid and logistics. Labour instability during the year and negative publicity adversely affected the SA Post Office brand, customer confidence and financial performance.

The group recorded a net loss after tax for the year ended 31 March 2015 of R 1,497 billion. This represented an increase of 268% from the net loss after tax of the prior year of R 406,671 million.

Group revenue decreased by 13% from R 5,752 billion in the prior year to R 5,012 billion for the year ended 31 March 2015. The prolonged strike action had negative impact on the declining revenue as the decline continued well after the labour unrest ended. Trading conditions were challenging for mail business, with volumes declining as customers found alternative modes of distributing their mail.

The lower revenues were to some extent offset by implementation of cost optimisation programs and resulted in operating expenses declining to R 6,302 billion from prior year of R 6,451 billion.

Group cash flows used in operating activities increased by 34% from R 154,480 million in the prior year to R 207,775 million for the year ended 31 March 2015.

A funds transfer of R 50 million was received from the DTPS as financial assistance towards settling existing liabilities related to USO Post Offices.

There was no subsidy funding received from the Shareholder for the 2015 financial year. The group will therefore need to review the future extent of its universal service costs. The USO priorities that are being carried out by the group will have to be reviewed in line with the business sustainability model, funding model and the execution of mandate in light of the subsidy removal from government. In the meantime discussions with the DTPS and ICASA to review the licence requirements over the medium term have commenced.

### 10. Liquidity and solvency

The Board of Directors have performed the required liquidity and solvency tests required by the Companies Act.

### 11. Property, plant and equipment

There was no change in the nature of the property, plant and equipment of the group or in the policy regarding their use.

At 31 March 2015 the group's investment in property, plant and equipment amounted to R 1,229 billion (2014: R 1,314 billion), of which R 81,313 million (2014: R 132,895 million) was added in the current year through additions.

There were no significant asset disposals and/or significant asset write-offs in the period.

The group has commitments in respect of contracts placed for capital expenditure to the amount of R 141,309 million (2014: R 181,330 million). The group also has commitments in respect of contracts placed for operating leases of R 835,969 million (2014: R 1,022 billion) over the period of the lease. These commitments have been approved by the Administrator and the Board of Directors for the respective group companies. Refer to note 41 of the financial statements for further details.

The useful lives and residual values of certain property, plant and equipment have been revised during the year. Refer to note 52 for more detail.

In terms of the ICASA license agreement, the SA Post Office is required to own a museum which contains assets of a historical nature, including stamps, paintings, artefacts and machinery. These assets have been recognised for the first time in the previous financial year after management catalogued and valued the assets. Refer to note 5 for more detail.

## Directors' Report (continued)

### 12. Interests in subsidiaries

Details of material interests in subsidiary companies are presented in the financial statements in note 7.

The interest of the group in the profits and losses of its subsidiaries before inter group eliminations for the year ended 31 March 2015 are as follows:

	2015	2014
	R'000	R'000
Sapos Properties (Bloemfontein) (Pty) Ltd	(86)	(25)
Sapos Properties (Cape Town) (Pty) Ltd	(1,003)	(102)
Sapos Properties (East Rand) (Pty) Ltd	(10,246)	(309)
Sapos Properties (Port Elizabeth) (Pty) Ltd	(2,074)	188
Sapos Properties (Rossburgh) (Pty) Ltd	(3,983)	34
The Courier and Freight Group (Pty) Ltd	(104,101)	(75,345)
The Document Exchange (Pty) Ltd	(2,459)	1,735
<b>Total interest in profits and losses after tax</b>	<b>(123,952)</b>	<b>(73,824)</b>

There were no significant acquisitions or divestitures during the year ended 31 March 2015.

### 13. Share capital

	2015	2014
<b>Authorised</b>	<b>Number of shares</b>	
Ordinary par value shares of R1 each	1,000,000,000	1,000,000,000

	2015	2014	2015	2014
<b>Issued</b>	<b>R '000</b>	<b>R '000</b>	<b>Number of shares</b>	
Ordinary par value shares	200,940	200,940	200,939,821	200,939,821

There have been no changes to the authorised or issued share capital during the year under review. However, the company is in the process of converting certain Shareholder loans to capital. Refer to note 20 for more detail.

### 14. 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 Administrator or Board of Directors may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the Administrator or Board of Directors may pass on the payment of dividends.

Given the current constrained cash flows of the company; the Administrator nor the Board of Directors declared a dividend by the SA Post Office for the financial year ending 31 March 2015 (2014: R 0).

A dividend of R 20 million was declared and paid by Docex on 24 November 2014 to its holding company, the SA Post Office.

Upon consolidation, the dividend transaction is fully eliminated.

The local dividends tax rate is 15%, but dividend transactions between companies are exempt from this.

## Directors' Report (continued)

### 15. Fruitless and wasteful and irregular expenditure

As per the requirement of the Administrator and the Board of Directors, the SA Post Office has formulated a Financial Misconduct Framework to enable the management of financial misconduct activities such as fruitless & wasteful and irregular expenditure.

A Financial Misconduct Committee (FMC) has been established and mandated through the group's financial misconduct policy to regulate, monitor and report on all fruitless, wasteful and irregular expenditure and institute management consequences that need to be implemented.

Irregular expenditure is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation or Treasury Regulation.

Categories of irregular expenditure include:

- Expenditure incurred as a result of non-compliance with a Treasury regulation;
- Expenditure incurred as a result of procuring goods or services by means other than through competitive bids; and
- Expenditure incurred as a result of non-compliance with a requirement of the institution's delegation of authority framework.

The total fruitless and wasteful expenditure under investigation identified for the group for the year amounted to R 53,859 million (2014: R 2,065 million). Refer to note 47 for more detail.

The total irregular expenditure under investigation identified for the group for the year amounted to R 197,441 million (2014: R 96,274 million). Refer to note 49 for more detail.

### 16. Insurance and risk management

The group follows a policy of reviewing the risks relating to assets and possible liabilities arising from business transactions with its insurers on an annual basis. Wherever possible, assets are automatically included. There is also a continuous asset risk control program, which is carried out in conjunction with the group's insurance brokers. All risks are considered to be adequately covered, except for political risks, in the case of which as much cover as is reasonably available has been arranged.

### 17. Borrowing limitations

The company is a Schedule 2 entity as per the PFMA. In terms of Section 66 (3)(a), the accounting authority may not borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind that public entity to any financial commitment without prior approval. In terms of the SA Post Office Act, the approval of both the Minister of Telecommunications and Postal services and the Minister of Finance is required for borrowing.

### 18. Special resolutions

No special resolutions, the nature of which might be significant to the Shareholder in their appreciation of the state of affairs of the group were made by the group or any of its subsidiaries during the period covered by this report.

## Directors' Report (continued)

### 19. Events after the reporting period

Judgment was passed on the settlement agreement against the SA Post Office in favour of NASASA Cellular (Pty) Ltd (NASASA), for a legal matter which commenced more than 10 years ago. The SA Post Office's legal team was in the process of reviewing the validity and legal enforceability of the settlement agreement with a view to challenge it. Hence during this period of time the SA Post Office did not comply with the payment plan obligations under the settlement agreement. In April 2015 NASASA caused a warrant of execution to be issued and executed through the Deputy Sheriff of the Court on net positive balances in the banking accounts of the SA Post Office. This issue was subsequently resolved by the SA Post Office being compelled to pay the judgment debt into the account of The Deputy Sheriff of the Court, to stay execution.

During the financial year the Minister of DTPS, in concurrence with the Minister of Finance, approved an overdraft borrowing limit of R 320 million for the SA Post Office, backed by a State Guarantee. On 30 June 2015, the SA Post Office received a joint approval by the Minister of DTPS and the Minister of Finance to increase the company borrowing limits by R 1,25 billion, backed by a separate State Guarantee of R 1,67 billion.

Subsequent to year end, the Administrator compiled the revised STP that was submitted to the Minister of DTPS and Parliament. The Cabinet has approved this STP. The STP targets the achievement of benefits to the values of R 7,4 billion over the next three years which will see the SA Post Office turn around and remain sustainable through the implementation of the new business model. The macro structure as recommended in the STP is being implemented to stabilise the operating environment.

The new turnaround plan has been communicated to senior levels of staff and the roadshow is planned to roll the STP out to all employees, this will include the restructuring and retrenchment plans.

The company is in the process of converting Shareholder loans to the value of R 492,176 million into capital. Refer to note 20 for more detail.

### 20. Going concern

For the year ended 31 March 2015 the group generated net losses of R 1,497 billion (2014: R 406,671 million), while the total assets exceeded the total liabilities by R 815,506 million (2014: R 2,336 billion) which implies that the entity is technically solvent.

The organisation has been experiencing cash constraints and has not had sufficient working capital. The cause of the deterioration of the group's liquidity position is both due to internal and external factors, such as the migration of customers towards digital communication, general decline in the mail business volumes and revenue as well as an inappropriate and inefficient business model. This has resulted in the group not generating sufficient revenue to finance its high cost base and thus a material uncertainty of the entity's ability to continue as a going concern for the foreseeable future exists. It is important that the turnaround interventions are implemented to mitigate this risk.

An overdraft facility is utilised to assist the entity with working capital requirements in the normal course of business. This facility is backed by a State Guarantee. Furthermore the company is engaging several funding institutions to raise debt of R 1,25 billion in order to meet short- and long-term funding requirements of the organisation including the implementation of the STP. The R 1,25 billion debt will be backed by an existing R 1,67 billion State Guarantee (expiring December 2016) as well as the newly received letter of Guarantee of R 2,5 billion (expiring September 2017) which was issued by the Shareholder to act as a letter of comfort to the creditors which also partially supports the going concern assumptions on which the financial statements have been prepared.

## Directors' Report (continued)

The Board of Directors are not aware of any new material changes that may adversely impact the company. The Board of 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, other than those listed in the auditor's report.

The 2015/16 STP provides the group with a good opportunity to chart a new path underpinned by a new operating model. This journey will see the implementation using a new business and operating model to create a healthy, financially stable, and highly efficient customer centric organisation that is a key contributor to the South African economy.

The group's focus in the new financial year includes the implementation of a new organisational structure and the SA Post Office STP. The new structure is intended to introduce a new commercial and business delivery focus within the group, in addition to entrenching a new culture of responsibility and accountability. The STP will focus on different phases that will see the organisation addressing its fundamental building blocks including addressing its capacity and capability shortcomings.

The phases will include focusing on revenue improvement, cost containment initiatives, implementing initiatives that will drive diversification, and innovation to enable the business to drive growth.

The first phase is aimed at addressing the current financial distress faced by SA Post Office. The key milestones within this phase include short term cash management and capacitating the group with strong and capable leadership. This team is required to ensure the successful implementation of the SA Post Office's sustainable growth strategy. The leadership team is also required to drive the various revenue initiatives identified in the strategic plan. The process of implementing the new model is also planned to commence in this phase. The duration of this phase is estimated to continue for the first half of 2015/16 financial year.

The second phase will involve Strategic Positioning for the Future. The focus area in phase two will be a continuation of the business model implementation to systematically address fundamental flaws in the group's business model. The business model initiatives will be executed in a manner to address key flaws first.

The third phase will focus on Sustainable Growth by building onto the newly established business model. A focus on sustaining the group's growth trajectory should result in the SA Post Office declaring significant profits. The implementation of the turnaround strategy will result in a significant improvement in the financial position of the group.

The implementation of the STP will result in a significant improvement in the financial position of the group.

### **21. Litigation statement**

The group becomes involved from time to time in various claims and lawsuits incidental to the ordinary course of business. Refer to note 42 for more details regarding these.

### **22. Postbank corporatisation**

During the 2010/2011 financial period, the South African Postbank Limited Act No. 9 of 2010 was signed into law providing for the establishment of a subsidiary company of the SA Post Office, namely the South African Postbank Limited, to which the designated assets and liabilities of the current Postbank division will be transferred in terms of the Postbank Act No. 9 of 2010. It is envisaged that the new subsidiary will operate as a fully-fledged bank and will be regulated in terms of the Banks Act. The Application to Establish a Bank (AEB) was submitted to the South African Reserve Bank on 25 September 2013. Postbank is in the process of strengthening its banking capabilities.

## Directors' Report (continued)

### **23. Date of authorisation for issue of financial statements**

The financial statements have been authorised for issue by the Board of Directors on 4 December 2015. No authority was given to anyone to amend the financial statements after the date of issue.

### **24. Acknowledgements**

Thanks and appreciation is extended to all of the SA Post Office's Shareholders, staff, suppliers and consumers for their continued support of the group.



## Statement of Financial Position as at 31 March 2015

	Note(s)	Group			Company		
		2015 R '000	2014 (Restated) R '000	2013 (Restated) R '000	2015 R '000	2014 (Restated) R '000	2013 (Restated) R '000
<b>Assets</b>							
<b>Non-Current Assets</b>							
Property, plant and equipment	3	1,228,999	1,314,166	1,325,222	1,212,743	1,293,978	1,303,355
Investment property	4	53,561	20,686	21,161	52,599	20,686	21,161
Heritage assets	5	21,965	21,965	-	21,965	21,965	-
Intangible assets	6	124,810	110,094	85,604	124,720	109,481	84,443
Investments in subsidiaries	7	-	-	-	5,884	17,744	17,589
Inter group loans and long term receivables	8	-	-	-	-	3,487	2,905
Other financial assets	9	741,190	653,485	645,367	741,190	653,485	645,367
Operating lease assets	10	1,996	-	-	1,939	-	-
Retirement benefit assets	11	21,733	18,032	16,046	21,733	18,032	16,046
Deferred tax assets	12	-	800,568	654,537	-	798,018	651,308
Prepayments	13	20,693	23,711	20,014	20,693	23,711	20,014
		<b>2,214,947</b>	<b>2,962,707</b>	<b>2,767,951</b>	<b>2,203,466</b>	<b>2,960,587</b>	<b>2,762,188</b>
<b>Current Assets</b>							
Inventories	14	67,845	77,389	50,855	67,742	77,125	50,812
Inter group loans and long term receivables	8	-	-	-	-	-	38,921
Trade and other receivables	15	546,534	534,469	542,801	508,799	491,954	505,213
Other financial assets	9	3,615,895	3,629,949	4,057,920	3,615,895	3,614,337	4,042,920
Operating lease assets	10	116	1,904	1,594	134	1,828	1,479
Prepayments	13	27,351	40,009	26,286	27,351	40,009	17,354
Current tax asset	16	101	114	34,293	-	-	34,163
Cash and bank balances	17	3,386,648	4,050,086	3,276,756	3,347,218	4,013,868	3,237,395
		<b>7,644,490</b>	<b>8,333,920</b>	<b>7,990,505</b>	<b>7,567,139</b>	<b>8,239,121</b>	<b>7,928,257</b>
<b>Total Assets</b>		<b>9,859,437</b>	<b>11,296,627</b>	<b>10,758,456</b>	<b>9,770,605</b>	<b>11,199,708</b>	<b>10,690,445</b>
<b>Equity and Liabilities</b>							
<b>Capital and reserves</b>							
Issued share capital	18	200,940	200,940	200,940	200,940	200,940	200,940
Non-distributable reserves	19&20	557,791	545,605	46,708	557,791	545,605	46,708
Retained earnings		56,775	1,589,214	2,018,137	95,626	1,592,750	2,044,114
<b>Total capital and reserves</b>		<b>815,506</b>	<b>2,335,759</b>	<b>2,265,785</b>	<b>854,357</b>	<b>2,339,295</b>	<b>2,291,762</b>
<b>Liabilities</b>							
<b>Non-Current Liabilities</b>							
Operating lease accrual	10	73,490	76,134	48,756	73,337	76,134	48,498
Retirement benefit obligation	11	1,320,578	1,308,066	1,310,187	1,320,070	1,307,524	1,309,615
Deferred tax liability	12	37	244,288	251,126	-	243,421	250,594
Provisions	21	259,581	399,348	372,788	254,876	393,594	366,981
		<b>1,653,686</b>	<b>2,027,836</b>	<b>1,982,857</b>	<b>1,648,283</b>	<b>2,020,673</b>	<b>1,975,688</b>
<b>Current Liabilities</b>							
Trade and other payables	22	1,506,293	794,668	741,509	1,407,293	723,575	690,141
Amounts owing to shareholder		-	-	270,674	-	-	270,674
Government grants	23	-	85,305	94,401	-	85,305	94,401
Operating lease accrual	10	3,728	4,044	20,494	3,515	3,123	19,044
Retirement benefit obligation	11	131,243	131,243	126,648	131,202	131,202	126,607
Deferred income	24	268,997	284,848	276,915	259,330	273,141	263,504
Provisions	21	393,104	383,580	352,840	379,745	374,050	332,291
Deposits from the public	25	4,888,043	4,737,610	4,492,211	4,888,043	4,737,610	4,492,211
Funds collected on behalf of third parties	26	120,108	161,384	134,122	120,108	161,384	134,122
Bank overdraft	17	78,729	350,350	-	78,729	350,350	-
		<b>7,390,245</b>	<b>6,933,032</b>	<b>6,509,814</b>	<b>7,267,965</b>	<b>6,839,740</b>	<b>6,422,995</b>
<b>Total Liabilities</b>		<b>9,043,931</b>	<b>8,960,868</b>	<b>8,492,671</b>	<b>8,916,248</b>	<b>8,860,413</b>	<b>8,398,683</b>
<b>Total Equity and Liabilities</b>		<b>9,859,437</b>	<b>11,296,627</b>	<b>10,758,456</b>	<b>9,770,605</b>	<b>11,199,708</b>	<b>10,690,445</b>

## Statement of Comprehensive Income

	Note(s)	Group		Company	
		2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000
Revenue	29	5,012,490	5,752,012	4,711,219	5,371,564
Other income	30	294,991	110,114	346,826	205,248
Operating expenses		(1,821,577)	(1,963,174)	(1,797,047)	(1,980,315)
Employee costs		(3,769,657)	(3,618,068)	(3,599,091)	(3,448,565)
Transport costs		(562,184)	(704,326)	(405,468)	(502,367)
Depreciation, amortisation and impairments	31	(148,227)	(165,425)	(235,175)	(259,037)
<b>Operating loss</b>	32	<b>(994,164)</b>	<b>(588,867)</b>	<b>(978,736)</b>	<b>(613,472)</b>
Finance income	33	158,575	141,578	176,269	142,590
Fair value adjustments	34	95,031	88,970	95,031	88,970
Interest paid	35	(197,105)	(194,313)	(196,716)	(194,187)
<b>Loss before taxation</b>		<b>(937,663)</b>	<b>(552,632)</b>	<b>(904,152)</b>	<b>(576,099)</b>
Income tax (expense) income	36	(559,367)	145,961	(557,521)	147,019
<b>Loss for the year</b>		<b>(1,497,030)</b>	<b>(406,671)</b>	<b>(1,461,673)</b>	<b>(429,080)</b>
<b>Other comprehensive income:</b>					
<b>Items that will not be reclassified to profit or loss:</b>					
Remeasurements on net defined benefit liability		(26,743)	(30,918)	(26,785)	(30,950)
Income tax relating to items that will not be reclassified		(8,666)	8,666	(8,666)	8,666
<b>Total items that will not be reclassified to profit or loss</b>		<b>(35,409)</b>	<b>(22,252)</b>	<b>(35,451)</b>	<b>(22,284)</b>
<b>Items that may be reclassified to profit or loss:</b>					
Available-for-sale financial assets adjustments		119	8,264	119	8,264
Income tax relating to items that may be reclassified		12,067	(1,543)	12,067	(1,543)
<b>Total items that may be reclassified to profit or loss</b>		<b>12,186</b>	<b>6,721</b>	<b>12,186</b>	<b>6,721</b>
<b>Other comprehensive income for the year net of taxation</b>	37	<b>(23,223)</b>	<b>(15,531)</b>	<b>(23,265)</b>	<b>(15,563)</b>
<b>Total comprehensive loss for the year</b>		<b>(1,520,253)</b>	<b>(422,202)</b>	<b>(1,484,938)</b>	<b>(444,643)</b>

## Statement of Changes in Equity

	Issued share capital	Fair value adjustments on assets-available-for-sale reserve	Convertible Shareholder instruments	Total reserves	Retained earnings	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000
<b>Group</b>						
Opening balance as previously reported	200,940	46,708	750,000	796,708	1,307,348	2,304,996
Adjustments						
Prior year adjustments	-	-	(750,000)	(750,000)	710,789	(39,211)
<b>Balance at 01 April 2013 as restated</b>	<b>200,940</b>	<b>46,708</b>	<b>-</b>	<b>46,708</b>	<b>2,018,137</b>	<b>2,265,785</b>
Loss for the year	-	-	-	-	(406,671)	(406,671)
Other comprehensive income for the year	-	6,721	-	6,721	(22,252)	(15,531)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>6,721</b>	<b>-</b>	<b>6,721</b>	<b>(428,923)</b>	<b>(422,202)</b>
Convertible loans from Shareholder	-	-	492,176	492,176	-	492,176
<b>Total contributions by owners of company recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>492,176</b>	<b>492,176</b>	<b>-</b>	<b>492,176</b>
<b>Balance at 01 April 2014</b>	<b>200,940</b>	<b>53,429</b>	<b>492,176</b>	<b>545,605</b>	<b>1,589,214</b>	<b>2,335,759</b>
Loss for the year	-	-	-	-	(1,497,030)	(1,497,030)
Other comprehensive income for the year	-	12,186	-	12,186	(35,409)	(23,223)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>12,186</b>	<b>-</b>	<b>12,186</b>	<b>(1,532,439)</b>	<b>(1,520,253)</b>
<b>Balance at 31 March 2015</b>	<b>200,940</b>	<b>65,615</b>	<b>492,176</b>	<b>557,791</b>	<b>56,775</b>	<b>815,506</b>
<b>Notes</b>	<b>18</b>	<b>19 &amp; 37</b>	<b>20</b>		<b>37</b>	

## Statement of Changes in Equity

	Issued share capital	Fair value adjustments on assets-available-for-sale reserve	Convertible Shareholder instruments	Total reserves	Retained earnings	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000
<b>Company</b>						
Opening balance as previously reported	200,940	46,708	750,000	796,708	1,333,325	2,330,973
Adjustments						
Prior year adjustments	-	-	(750,000)	(750,000)	710,789	(39,211)
<b>Balance at 01 April 2013 as restated</b>	<b>200,940</b>	<b>46,708</b>	<b>-</b>	<b>46,708</b>	<b>2,044,114</b>	<b>2,291,762</b>
Loss for the year	-	-	-	-	(429,080)	(429,080)
Other comprehensive income for the year	-	6,721	-	6,721	(22,284)	(15,563)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>6,721</b>	<b>-</b>	<b>6,721</b>	<b>(451,364)</b>	<b>(444,643)</b>
Convertible loans from Shareholder	-	-	492,176	492,176	-	492,176
<b>Total contributions by owners of company recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>492,176</b>	<b>492,176</b>	<b>-</b>	<b>492,176</b>
<b>Balance at 01 April 2014</b>	<b>200,940</b>	<b>53,429</b>	<b>492,176</b>	<b>545,605</b>	<b>1,592,750</b>	<b>2,339,295</b>
Loss for the year	-	-	-	-	(1,461,673)	(1,461,673)
Other comprehensive income for the year	-	12,186	-	12,186	(35,451)	(23,265)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>12,186</b>	<b>-</b>	<b>12,186</b>	<b>(1,497,124)</b>	<b>(1,484,938)</b>
<b>Balance at 31 March 2015</b>	<b>200,940</b>	<b>65,615</b>	<b>492,176</b>	<b>557,791</b>	<b>95,626</b>	<b>854,357</b>
<b>Notes</b>	18	19 & 37	20		37	

## Statement of Cash Flows

	Note(s)	Group		Company	
		2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000
<b>Cash flows from operating activities</b>					
Cash used in operations	39	(147,357)	(135,879)	(190,140)	(173,021)
Interest income	33	136,799	141,578	134,525	142,590
Interest paid	35	(197,105)	(194,313)	(196,716)	(194,187)
Tax (paid) refunded	40	(112)	34,134	-	34,163
<b>Net cash from operating activities</b>		<b>(207,775)</b>	<b>(154,480)</b>	<b>(252,331)</b>	<b>(190,455)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	3	(81,313)	(132,895)	(80,922)	(132,112)
Purchase of investment property	4	-	(39)	-	(39)
Purchase of other intangible assets	6	(40,550)	(59,473)	(40,550)	(59,471)
Net movement in inter group loans and long term receivables		-	-	3,487	38,858
Net movement in financial assets		42,626	537,605	60,124	537,080
Dividends income	33	21,776	-	41,744	-
<b>Net cash from investing activities</b>		<b>(57,461)</b>	<b>345,198</b>	<b>(16,117)</b>	<b>384,316</b>
<b>Cash flows from financing activities</b>					
Proceeds from subsidy		50,000	-	50,000	-
Utilisation of subsidy		(135,305)	-	(135,305)	-
Movement in funds collected on behalf of third parties		(41,276)	27,262	(41,276)	27,262
Shareholder instruments received		-	205,000	-	205,000
<b>Net cash from financing activities</b>		<b>(126,581)</b>	<b>232,262</b>	<b>(126,581)</b>	<b>232,262</b>
<b>Total cash movement for the year</b>		<b>(391,817)</b>	<b>422,980</b>	<b>(395,029)</b>	<b>426,123</b>
Cash at the beginning of the year		3,699,736	3,276,756	3,663,518	3,237,395
<b>Total cash at the end of the year</b>	17	<b>3,307,919</b>	<b>3,699,736</b>	<b>3,268,489</b>	<b>3,663,518</b>

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1. Presentation of financial statements

The financial statements have been prepared in accordance with IFRS and the Companies Act. The financial statements have been prepared on the historical cost basis, except for the measurement of heritage assets and certain financial instruments at fair value. These financial statements incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous year.

##### 1.1 Consolidation

###### *Basis of consolidation*

The financial statements incorporate the financial statements of the group and all investees which are controlled by the group.

The group has control of an investee when it has power over the investee; it is exposed to or has rights to variable returns from involvement with the investee; and it has the ability to use its power over the investee to affect the amount of the investor's returns.

The results of subsidiaries are included in the financial statements from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the financial statements of subsidiaries to bring their accounting policies in line with those of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

###### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

##### 1.2 Significant judgments and sources of estimation uncertainty

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

###### *Trade receivables, Held to maturity investments and Loans and receivables*

The group 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 group makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.2. Significant judgments and sources of estimation uncertainty (continued)

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### **Available-for-sale financial assets**

The group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance was made for stock to be written down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items.

##### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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 group for similar financial instruments.

##### **Impairment testing of non-financial assets**

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

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

##### **Provisions**

Provisions were raised and management determined an estimate based on available information. These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change which may then impact estimations and may then require a material adjustment to the carrying value of the provision.

##### **Expected manner of realisation for deferred tax**

Deferred tax is provided for on the fair value adjustments of investment properties based on the expected manner of recovery, i.e. sale or use. This manner of recovery affects the rate used to determine the deferred tax liability.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.2. Significant judgments and sources of estimation uncertainty (continued)

##### *Taxation*

Judgment is required when 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 group 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 group 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 group 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 group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

##### *Deferred income*

Judgment is required when determining the deferred revenue due to the stage of completion of the revenue contract at year end. There are many transactions and calculations for which the ultimate deferred revenue determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated deferred income based on the stage of completion. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the profit or loss and deferred income liability in the period in which such determination is made.

##### *Actuarial gains and losses*

In determining the value to be placed on these post employment benefits various assumptions in respect of various economic and demographic factors have been made. In order to have consistency between the benefits, the same assumptions for all benefits have been applied where relevant. In assessing the appropriateness of the assumptions used it is important to consider the assumptions as a whole rather than in isolation. In particular, the relationship between the assumptions for the discount rate and the rate of increase in benefits is important.

IAS 19 (AC 116) Employee Benefits (IAS19) requires that realistic assumptions be applied in the valuation and that this should be determined with reference to the yields on corporate stock of similar duration to the liabilities. The standard further indicates that if the corporate bond market is neither sufficiently deep nor liquid reference should be made to the yields on government stock. For the purpose of this valuation account has been taken of the yields on South African government stock as reflected in the yield curve of the Bond Exchange of South Africa. The basic inflation assumption has also been determined by reference to the inflation rate implied in the market by the difference between the yield on nominal and inflation linked government stock.

The demographic assumptions (e.g. mortality, withdrawal rates, etc.) have been based on standard actuarial tables and other assumption rates that are generally used in the market place for the valuation of liabilities of this nature. Allowance has been made for AIDS related deaths in respect of the long service and leave encashment benefits, but not the PRMA benefits, using the Actuarial Society of South Africa AIDS model.

The results of the valuation are highly dependent on the choice of assumptions and the relationship between them. Therefore, in order to assist the user in interpretation of the valuation, results show the impact on the liabilities of a number of different assumptions.

Actuarial valuations are performed on an annual basis.



## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.2. Significant judgments and sources of estimation uncertainty (continued)

##### *Site restoration and dismantling cost*

Decommissioning costs that are expected to be incurred upon the termination or conclusion of lease agreements have been capitalised in terms of the relevant lease agreements. It is uncertain whether these leases will be extended or terminated earlier and this creates uncertainties regarding the amount and timing of the cash flows. There are no expected reimbursements for the costs that will be incurred.

The main assumptions used in the calculation of this capitalisation are as follows:

The USO obliges the company to expand its presence in South Africa, especially in rural South Africa. This implies that the SA Post Office would most probably not reduce the number of leasehold premises, but instead expand its presence to more buildings. The type of leasehold premises has been taken into account when arriving at a conclusion regarding possible restoration requirements. A vacant stand with a MCP would probably not require restoration should they ever wish to relocate. In general the SA Post Office does not wish to relocate from shopping centres and malls. In the event that relocation is required, the terms of the lease and the nature of the company's business is such that restoration of the premises might not be required. The date that the SA Post Office originally occupied leasehold premises is also an indication of the intention to ever move out of the premises, thus negating the liability to restore such leasehold premises. During the year, the SA Post Office relocated from 7 (2014: 16) leasehold premises of which 6 (2014: 6) of the lessors required restoration.

#### 1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the group holds for its own use 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 carried at cost less accumulated depreciation and any accumulated impairment losses.

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.

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 group 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.

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 group. 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.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.3 Property, plant and equipment (continued)

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

ITEM	DEPRECIATION METHOD	AVERAGE USEFUL LIFE
Assets under construction	Straight line	Not depreciated until asset is complete and in use
Buildings	Straight line	30 - 100 years
Data processing equipment	Straight line	3 - 8 years
Furniture and fixtures	Straight line	3 - 12 years
Land	Straight line	Indefinite
Leasehold improvements	Straight line	Term of the lease
Motor vehicles	Straight line	3 - 20 years
Plant and machinery	Straight line	3 - 20 years
Site restoration	Straight line	Expected term of the lease

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. The 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.

#### 1.4 Site restoration and dismantling cost

The company has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. These assets are individually considered and depreciated over the expected lease term rather than the actual lease contract.

The related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in profit or loss.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.5 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the company, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value on straight line basis over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	30 - 100 years

Depreciation is not charged to an investment property if its estimated residual value exceeds or is equal to its carrying amount. Depreciation ceases at the earlier of the date that the asset is classified as held per sale or derecognised.

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

The depreciation charge for each period is recognised in profit or loss.

The gain or loss arising from the derecognition of a property is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of a property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### 1.6 Heritage assets

In terms of the ICASA license agreement, the SA Post Office is required to own a museum which contains assets of a historical nature, including stamps, paintings, artefacts and machinery.

Due to the absence of a Standard or an Interpretation that specifically applies to Heritage Assets, the group conforms to the standards as set out in GRAP 103 - Heritage Assets.

An entity shall recognise a heritage asset when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits associated with the asset will flow to the entity; and
- the fair value or cost of the asset can be measured reliably.

Heritage assets which qualify for recognition as an asset are initially measured at cost.

Where heritage assets were acquired for no cost or nominal cost, its cost should be measured at fair value on the date of acquisition.

The fair value of heritage assets are determined based on the price at which an orderly transaction to sell the assets would take place between market participants at the measurement date under current market conditions.

An inflow of resources from a non-exchange transaction recognised as an asset will be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow (which is the case when a stipulation is a condition).

Costs of day-to-day servicing i.e. repairs and maintenance are expensed, only costs incurred to enhance or restore an asset to preserve its indefinite useful life can be capitalised if they meet the recognition criteria.

Heritage assets are subsequently measured at the revalued amount less accumulated impairment losses.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.6 Heritage assets (continued)

Heritage assets have indefinite useful lives and are not depreciated.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited to other comprehensive income and accumulated in the revaluation surplus in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period.

The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An asset is derecognised when it is disposed of or when no future economic benefits or service potential is expected. Any gain or loss is recognised in profit or loss. The revaluation surplus included in equity in respect of a heritage assets may be transferred directly to retained earnings when it is derecognised.

#### 1.7 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.

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; and
- 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 lives.

The amortisation period and the amortisation method for intangible assets are reviewed regularly.

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 reassessed useful life.

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

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.7 Intangible assets (continued)

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

Item	Average useful life
Intangible assets under development	Not amortised until asset is complete and in use
Licenses	1 - 3 years
Software	2 - 8 years
Software - personal computers	1 - 3 years

#### 1.8 Impairment of non-financial assets

The group 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 group estimates the recoverable amount of the asset.

The recoverable amount of an asset 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 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 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 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 is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

#### 1.9 Non-current assets held for sale

Non-current assets are classified as held for sale if its 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 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 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.

#### 1.10 Interests in subsidiaries

##### *Company financial statements*

In the company's separate annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.11 Financial instruments

##### *Classification*

The group classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss - held for trading
- Financial assets at fair value through profit or loss - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through profit or loss - designated
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained or 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 (FTPL) category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

##### *Initial recognition and measurement*

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

The group 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.

Regular way purchases of financial assets are accounted for at trade date. Investments are recognised and derecognised on trade date. Trade date is defined as the day where all risks and rewards associated with the investment are transferred and where the purchase or sale of an investment is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned. The initial measurement is at fair value plus transaction costs, except for those financial assets classified at fair value through profit or loss which are initially measured at fair value.

##### *Subsequent measurement*

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Net gains or losses on the financial instruments at fair value through profit or loss exclude dividends and interest.

Dividend income is recognised in profit or loss as part of other income when the group's right to receive payment is established.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.11 Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses. Interest income is recognised by applying the effective interest rate except for short-term receivables where the recognition of interest would be immaterial.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the group has the intent and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses, with revenue recognised on an effective yield basis. The group's cash on hand and cash in the bank equivalents and short-term deposits (i.e fixed and cancelable deposits) are included in the held-to-maturity category.

Financial assets are classified as available-for-sale where the intention with regard to the instrument and its origination does not fall within the ambit of other financial asset classification. Available-for-sale financial assets are measured at fair value, with fair value gains and losses recognised directly in other comprehensive income as the available-for-sale equity revaluation reserve. Interest is calculated using the effective interest method. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available for sale reserve is included in profit or loss for the period. NCDs and equity investments held by the group are classified under available-for-sale financial assets. Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in profit or loss as part of other income when the group's right to receive payment is established.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the group's right to receive dividends is established. Financial assets may be designated as available-for-sale in accordance with the group's ALM investment strategy.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value excluding transaction cost on disposal. Change in fair value is directly recognised in profit and loss.

#### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of the transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Regular way sales of financial assets are accounted for at trade date.

A financial liability (or part of a financial liability) is derecognised and removed from the Statement of Financial Position when it is extinguished, that is, when the obligation is discharged, cancelled or expires.

An exchange between an existing borrower and lender of debt instruments with substantially different terms, or the modification of the terms of the existing financial liability, shall be recognised as an extinguishment of the original financial liability and the recognition of a new financial liability.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.11 Financial instruments (continued)

##### *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 group 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.

##### *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indications of impairment during the reporting period and at each reporting date in line with the group's treasury policy. Financial assets are impaired where there is objective evidence that, as result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For amounts due to the group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. The group's policy on the impairment of trade and other receivables is outlined in the below paragraphs of this note.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.



## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### **1.11 Financial instruments (continued)**

##### ***Financial instruments designated as at fair value through profit or loss***

Financial assets may be designated at initial recognition as at fair value through profit or loss if any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- the financial assets and liabilities contain an embedded derivative that would need to be separately recorded.

##### ***Loans to (from) group companies***

These include loans to and from holding companies, fellow subsidiaries and subsidiaries and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

##### ***Loans from the Shareholder***

These financial liabilities are classified as financial liabilities measured at amortised cost.

##### ***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 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 method.

Other payables are initially measured at fair value and are subsequently measured at fair value through profit or loss with any resulting gains and losses recognised in profit and loss.

##### ***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.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### **1.11 Financial instruments (continued)**

##### ***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 method.

##### ***Held-to-maturity***

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest method, less any impairment losses recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the group has the positive intention and ability to hold to maturity are classified as held-to-maturity.

##### ***Offsetting***

Where a legally enforceable right of offsetting exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset. Otherwise it is not allowed.

#### **1.12 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.

##### ***Operating leases - lessor***

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

Income from leases is disclosed under revenue in profit or loss.

##### ***Operating leases – lessee***

Operating lease payments are recognised as 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 asset is not discounted.

#### **1.13 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.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.13 Employee benefits (continued)

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.

##### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

A defined contribution plan is a pension plan under which the group pays fixed contributions. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions are recognised as an expense as incurred.

##### **Defined benefit plans**

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Defined benefit schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

#### 1.14 Taxation

##### **Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent that it is 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:
  - » is not a business combination; and
  - » at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries and branches, except to the extent that both of the following conditions are satisfied:

- the parent or investor is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.14 Taxation (continued)

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, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- 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 arising from investments in subsidiaries and branches, to the extent that it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

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

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.

#### 1.15 Inventories

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 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.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.16 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.

#### 1.17 Convertible loans

Financial instruments, or its component parts, are classified on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

The definitions in paragraph 11 of IAS 32 are used to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

- a. The instrument includes no contractual obligation:
  - i. to deliver cash or another financial asset to another entity; or
  - ii. to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.
- b. If the instrument will or may be settled in the issuer's own equity instruments, it is:
  - i. a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
  - ii. a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

#### 1.18 Provisions and contingencies

Provisions are recognised when:

- the group 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.

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 provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Management applies its judgment to the fact of patterns and advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable, more likely than not, or remote. This judgment application is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability.

Contingent assets and contingent liabilities are not recognised.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.19 Government grants

Government grants are recognised when there is reasonable assurance that:

- the group will comply with the conditions attaching to them; and
- the grants will be received.

These are included in subsidy received in advance until they are utilised.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate for.

A Government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the Statement Of Financial Position by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are deducted from the related expense.

#### 1.20 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 group;
- 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.

Service revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue earned from the provision of services over a fixed period, such as post box rental is recognised on a straight line basis over the period of the service.

Where the company's role in a transaction is that of a principal, revenue is recognised on a gross basis. This requires revenue to comprise the gross value of the transactions billed to customers after trade discounts. Where the company's role in a transaction is that of an agent, revenue is recognised on a net basis, with revenue representing the margin earned.

Revenue comprises income from services provided and the sale of retail products, excluding value added tax, rebates and discounts. These services include work performed as an agent of certain Government Departments, other authorities and businesses.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### 1.20 Revenue (continued)

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.

Payments received for activities or services occurring in future fiscal years are recorded as deferred revenue and are recognised as revenue when the goods or services have been provided.

Revenue from postal services occurring in the last week prior to year end is deferred based on the progress of delivery.

Revenue from box rental services is deferred based on the term of the rental agreement with customers.

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

Dividends are recognised, in profit or loss, when the company's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

#### 1.21 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 those at which they were translated on initial recognition during the period or in previous 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.

#### 1.22 Insurance contracts

The group issues short-term insurance contracts that protect the group's customers against the risk of loss or damage. These contracts transfer significant insurance risk. As a general guideline, the group defines significant insurance risk as the possibility of having to pay benefits, on the occurrence of an insured event, that is at least 10% more than the benefits payable if the insured event did not occur.

## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### **1.23 Related parties**

As per IAS 24, the financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The SA Post Office operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Related parties includes, but are not limited to other Government Owned Entities as above, management who holds positions of responsibility within the group including those charged with governance in accordance with legislation, members of management that are responsible for the strategic direction and operational management of the group and are entrusted with significant authority. Their remuneration may be established by statute or by another body independent of the company. However, their responsibilities may enable them to influence the benefits of office that flow to them, or their related parties or parties that they represent on the governing body.

#### **1.24 Capital commitments**

Capital commitments represent goods or services that have been ordered, but no delivery has taken place at the reporting date. These amounts are not recognised in the Statement Of Financial Position as an accrual or liability or as expenditure in the Statement Of Comprehensive Income.

Capital commitments are disclosed as Commitments in the notes to the financial statements.

Management expects these capital commitments to be financed from internally generated cash and other borrowings.

#### **1.25 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised in profit and loss in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, is subsequently accounted for as income in profit and loss in the relating period.

#### **1.26 Irregular expenditure**

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

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



## Notes to the Consolidated Audited Annual Financial Statements

### Accounting Policies

#### **1.27 Adjusting events after the reporting period**

Events after the reporting period are those events, favourable and unfavourable, that occur between the Statement Of Financial Position date and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- a. those that provide evidence of conditions that existed at the Statement Of Financial Position date (adjusting events after the reporting period); and
- b. those that are indicative of conditions that arose after the Statement Of Financial Position date (non-adjusting events after the reporting period).

Events after the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

The company shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period in terms of IAS 8.

The company shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

If the company receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of that users make on the basis of the annual financial statements. Accordingly, the company shall disclose the following for each material category of non-adjusting event after the reporting period:

- a. the nature of the event; and
- b. an estimate of its financial effect, or a statement that such an estimate cannot be made.

## Notes to the Consolidated Audited Annual Financial Statements

### 2. New Standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### ***Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets***

The amendment to IAS 36 Impairment of Assets now require:

- Disclosures to be made of all assets which have been impaired, as opposed to only material impairments,
- The disclosure of each impaired asset's recoverable amount, and
- Certain disclosures for impaired assets whose recoverable amount is fair value less costs to sell in line with the requirements of IFRS 13 Fair Value Measurement.

The effective date of the amendment is for years beginning on or after 01 January 2014.

The group has adopted the amendment for the first time in the 2015 financial statements.

The adoption of this amendment has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements.

##### ***Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities***

Clarification of certain aspects concerning the requirements for offsetting financial assets and financial liabilities.

The effective date of the amendment is for years beginning on or after 01 January 2014.

The group has adopted the amendment for the first time in the 2015 financial statements.

The impact of the amendment is not material.

##### ***IFRIC 21 Levies***

The interpretation provides guidance on accounting for levies payable to government. It specifies that the obligating event giving rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. A constructive obligation for levies that will be triggered by operating in future is not raised by virtue of the entity being economically compelled to operate in future or for being a going concern. Furthermore, if the obligating event occurs over a period of time, then the liability is recognised progressively. An asset is recognised if an entity has prepaid a levy before the obligating event. This accounting also applies to interim reporting.

The effective date of the interpretation is for years beginning on or after 01 January 2014.

The group has adopted the interpretation for the first time in the 2015 financial statements.

The impact of the interpretation is not material.

## Notes to the Consolidated Audited Annual Financial Statements

### 2. New Standards and interpretations (continued)

#### 2.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 April 2015 or later periods:

##### ***Amendment to IAS 24: Related Party Disclosures: Annual improvements project***

The definition of a related party has been amended to include an entity, or any member of a group of which it is a part, which provides key management personnel services to the reporting entity or to the parent of the reporting entity ("management entity"). Disclosure is required of payments made to the management entity for these services but not of payments made by the management entity to its directors or employees.

The effective date of the amendment is for years beginning on or after 01 July 2014.

The group expects to adopt the amendment for the first time in the 2016 financial statements.

The adoption of this amendment is not expected to impact on the results of the group, but may result in more disclosure than is currently provided in the financial statements.

##### ***Amendments to IAS 19: Defined Benefit Plans: Employee Contributions.***

The amendment relates to contributions received from employees or third parties for defined benefit plans. These contributions could either be discretionary or set out in the formal terms of the plan. If they are discretionary then they reduce the service cost. Those which are set out in the formal terms of the plan are either linked to service or not. When they are not linked to service then the contributions affect the remeasurement. When they are linked to service and to the number of years of service, they reduce the service cost by being attributed to the periods of service. If they are linked to service but not to the number of years' service then they either reduce the service cost by being attributed to the periods of service or they reduce the service cost in the period in which the related service is rendered.

The effective date of the amendment is for years beginning on or after 01 July 2014.

The group expects to adopt the amendment for the first time in the 2016 financial statements.

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

## Notes to the Consolidated Audited Annual Financial Statements

### **IFRS 9 Financial Instruments**

This new standard is the result of a three phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. To date, the standard includes chapters for classification, measurement and derecognition of financial assets and liabilities as well as new hedging requirements. The following are main changes from IAS 39:

- Financial assets will be categorised as those subsequently measured at fair value or at amortised cost.
- Financial assets at amortised cost are those financial assets where the business model for managing the assets is to hold the assets to collect contractual cash flows (where the contractual cash flows represent payments of principal and interest only). All other financial assets are to be subsequently measured at fair value.
- For hybrid contracts, where the host contract is an asset within the scope of IFRS 9, then the whole instrument is classified in accordance with IFRS 9, without separation of the embedded derivative. In other circumstances, the provisions of IAS 39 still apply.
- Voluntary reclassification of financial assets is prohibited. Financial assets shall be reclassified if the group changes its business model for the management of financial assets. In such circumstances, reclassification takes place prospectively from the beginning of the first reporting period after the date of change of the business model.
- Investments in equity instruments may be measured at fair value through other comprehensive income. When such an election is made, it may not subsequently be revoked, and gains or losses accumulated in equity are not recycled to profit or loss on derecognition of the investment. The election may be made per individual investment.
- IFRS 9 does not allow for investments in equity instruments to be measured at cost.
- The classification categories for financial liabilities remains unchanged. However, where a financial liability is designated as at fair value through profit or loss, the change in fair value attributable to changes in the liabilities credit risk shall be presented in other comprehensive income. This excludes situations where such presentation will create or enlarge an accounting mismatch, in which case, the full fair value adjustment shall be recognised in profit or loss.
- The new hedging provisions align hedge accounting more closely with the actual risk management approach.
- Certain non-derivative financial instruments are now allowed as hedging instruments.
- Additional exposures are allowed as hedged items. These exposures include risk components of non-financial items, net positions and layer components of items, aggregated exposures combining derivative and non-derivative exposures and equity instruments at fair value through other comprehensive income.
- The hedge effectiveness criteria have been amended, including the removal of the 80%-125% "bright line test" to qualify for hedge accounting.
- The concept of rebalancing has been introduced when the hedging relationship is ineffective because the hedge ratio is no longer appropriate. When rebalancing is required, and provided the risk management objective remains the same, the hedge ratio is adjusted rather than discontinuing the hedging relationship.
- Additional disclosure requirements have been introduced for hedging.

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 group expects to adopt the standard for the first time in the first annual financial period after the effective date.

The impact of this standard is currently being assessed.

## Notes to the Consolidated Audited Annual Financial Statements

### 3. Property, plant and equipment

Group	2015			2014 (Restated)		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Assets under construction	4,838	-	4,838	1,495	-	1,495
Buildings	772,425	(256,076)	516,349	786,863	(228,105)	558,758
Data processing equipment	423,565	(318,615)	104,950	445,949	(329,368)	116,581
Furniture and fixtures	63,312	(37,290)	26,022	65,455	(37,623)	27,832
Land	209,722	-	209,722	219,976	-	219,976
Leasehold improvements	325,487	(272,051)	53,436	522,355	(461,243)	61,112
Machinery and equipment	413,044	(304,143)	108,901	405,404	(295,796)	109,608
Motor vehicles	55,493	(23,969)	31,524	64,948	(30,740)	34,208
Site restoration	226,076	(52,819)	173,257	217,730	(33,134)	184,596
<b>Total property, plant and equipment</b>	<b>2,493,962</b>	<b>(1,264,963)</b>	<b>1,228,999</b>	<b>2,730,175</b>	<b>(1,416,009)</b>	<b>1,314,166</b>

Company	2015			2014 (Restated)		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Assets under construction	4,838	-	4,838	1,495	-	1,495
Buildings	767,090	(254,006)	513,084	780,349	(225,833)	554,516
Data processing equipment	409,595	(308,155)	101,440	431,850	(319,668)	112,182
Furniture and fixtures	60,174	(34,398)	25,776	62,061	(34,552)	27,509
Land	206,009	-	206,009	216,075	-	216,075
Leasehold improvements	324,895	(271,546)	53,349	521,722	(460,714)	61,008
Machinery and equipment	384,129	(277,653)	106,476	375,973	(269,788)	106,185
Motor vehicles	33,530	(5,016)	28,514	34,399	(3,987)	30,412
Site restoration	226,076	(52,819)	173,257	217,730	(33,134)	184,596
<b>Total property, plant and equipment</b>	<b>2,416,336</b>	<b>(1,203,593)</b>	<b>1,212,743</b>	<b>2,641,654</b>	<b>(1,347,676)</b>	<b>1,293,978</b>

#### Reconciliation of property, plant and equipment - Group - 2015

	Opening balance	Additions	Retirements	Transfers	Depreciation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Assets under construction	1,495	4,837	(177)	(1,317)	-	4,838
Buildings	558,758	1,462	(58)	(22,025)	(21,789)	516,348
Data processing equipment	116,580	35,486	(3,040)	-	(44,076)	104,950
Furniture and fixtures	27,832	758	(502)	(7)	(2,059)	26,022
Land	219,976	-	-	(10,254)	-	209,722
Leasehold improvements	61,112	6,923	(230)	236	(14,605)	53,436
Machinery and equipment	109,608	22,689	(2,639)	93	(20,850)	108,901
Motor vehicles	34,207	-	(691)	-	(1,993)	31,523
Site restoration	184,595	9,158	(496)	-	(20,001)	173,256
<b>Total property, plant and equipment</b>	<b>1,314,163</b>	<b>81,313</b>	<b>(7,833)</b>	<b>(33,274)</b>	<b>(125,373)</b>	<b>1,228,996</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Group - 2014 (Restated)

	Opening balance	Additions	Retirements	Depreciation	Closing balance
	R '000	R '000	R '000	R '000	R '000
Assets under construction	-	1,495	-	-	1,495
Buildings	589,141	1,951	(2,604)	(29,730)	558,758
Data processing equipment	107,589	55,848	(1,897)	(44,960)	116,580
Furniture and fixtures	27,765	3,732	(557)	(3,108)	27,832
Land	219,976	-	-	-	219,976
Leasehold improvements	64,182	11,424	(446)	(14,048)	61,112
Machinery and equipment	115,349	24,444	(5,541)	(24,644)	109,608
Motor vehicles	22,620	14,136	(22)	(2,527)	34,207
Site restoration	178,601	19,865	-	(13,871)	184,595
<b>Total property, plant and equipment</b>	<b>1,325,223</b>	<b>132,895</b>	<b>(11,067)</b>	<b>(132,888)</b>	<b>1,314,163</b>

#### Reconciliation of property, plant and equipment - Company - 2015

	Opening balance	Additions	Retirements	Transfers	Depreciation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Assets under construction	1,495	4,837	(177)	(1,317)	-	4,838
Buildings	554,516	1,463	(58)	(21,214)	(21,623)	513,084
Data processing equipment	112,182	35,093	(2,969)	-	(42,866)	101,440
Furniture and fixtures	27,509	758	(464)	(7)	(2,020)	25,776
Land	216,075	-	-	(10,066)	-	206,009
Leasehold improvements	61,009	6,923	(230)	236	(14,588)	53,350
Machinery and equipment	106,185	22,690	(2,568)	93	(19,924)	106,476
Motor vehicles	30,413	-	(17)	-	(1,881)	28,515
Site restoration	184,595	9,158	(496)	-	(20,001)	173,256
<b>Total property, plant and equipment</b>	<b>1,293,979</b>	<b>80,922</b>	<b>(6,979)</b>	<b>(32,275)</b>	<b>(122,903)</b>	<b>1,212,744</b>

#### Reconciliation of property, plant and equipment - Company - 2014 (Restated)

	Opening balance	Additions	Retirements	Depreciation	Closing balance
	R '000	R '000	R '000	R '000	R '000
Assets under construction	-	1,495	-	-	1,495
Buildings	584,695	1,953	(2,606)	(29,526)	554,516
Data processing equipment	102,532	55,081	(1,618)	(43,813)	112,182
Furniture and fixtures	27,587	3,727	(556)	(3,249)	27,509
Land	216,075	-	-	-	216,075
Leasehold improvements	64,036	11,411	(446)	(13,992)	61,009
Machinery and equipment	111,814	24,444	(6,405)	(23,668)	106,185
Motor vehicles	18,015	14,136	(13)	(1,725)	30,413
Site restoration	178,601	19,865	-	(13,871)	184,595
<b>Total property, plant and equipment</b>	<b>1,303,355</b>	<b>132,112</b>	<b>(11,644)</b>	<b>(129,844)</b>	<b>1,293,979</b>

#### Property, plant and equipment encumbered as security

No property, plant and equipment has been pledged as security for liabilities.

#### Changes in estimates

The group reassesses the useful lives and residual values of items of property, plant and equipment at the end of the reporting period, in line with the accounting policy and IAS 16 Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information. Refer to note 52 for more details.

## Notes to the Consolidated Audited Annual Financial Statements

### 3. Property, plant and equipment (continued)

#### Borrowing costs capitalised

There were no borrowing costs that required capitalisation during the year.

#### Fair value

Property, plant and equipment and significant components thereof are stated at the cost less accumulated depreciation and impairment thereof. According to company policy, valuations are done to assess the relevance of the cost model. Mail centres and hubs have been valued at depreciated replacement cost and all other fixed properties are reflected at municipal values. The fair value of the assets are not significantly different from the carrying value thereof and would have been as follows:

	Group		Company	
	2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000
Municipal value of land and buildings	1,382,962	1,227,640	1,382,962	1,227,640

#### Other information

A register containing the information required by Regulation 25(3) of the Companies Act Regulations, 2011 is available for inspection at the registered office of the company and its respective subsidiaries.

#### Property, plant and equipment obtained by means of Government grants

The following assets that are financed through project specific funding are recorded in the asset register and included therein at R1 in accordance with the accounting policy for Government grants. If these had been recorded at cost and depreciated over their useful lives, their book value would be as follows:

	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000
Buildings	87,800	(21,529)	66,271
Data processing equipment	362,009	(362,009)	-
Furniture and fixtures	206	(206)	-
Land	4,028	-	4,028
Leasehold improvements	292,115	(287,433)	4,682
Machinery and equipment	104,011	(64,764)	39,247
Motor vehicles	490	(490)	-
<b>Total property, plant and equipment by means of Government grants</b>	<b>850,659</b>	<b>(736,431)</b>	<b>114,228</b>

#### Group and company reconciliation 2014 (Restated)

	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000
Buildings	87,693	(18,506)	69,187
Data processing equipment	382,026	(380,151)	1,875
Furniture and fittings	593	(593)	-
Land	4,028	-	4,028
Leasehold improvements	303,504	(291,549)	11,955
Machinery and equipment	104,013	(54,491)	49,522
Motor vehicles	490	(490)	-
<b>Total property, plant and equipment by means of Government grants</b>	<b>882,347</b>	<b>(745,780)</b>	<b>136,567</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 4. Investment property

Group	2015			2014 (Restated)		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Investment property	67,467	(13,906)	53,561	25,659	(4,973)	20,686

Company	2015			2014 (Restated)		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Investment property	66,099	(13,500)	52,599	25,659	(4,973)	20,686

#### Reconciliation of investment property - Group - 2015

	Opening balance	Transfers	Depreciation	Closing balance
	R '000	R '000	R '000	R '000
Investment property	20,686	33,277	(401)	53,562

#### Reconciliation of investment property - Group - 2014 (Restated)

	Opening balance	Additions	Depreciation	Closing balance
	R '000	R '000	R '000	R '000
Investment property	21,161	39	(514)	20,686

#### Reconciliation of investment property - Company - 2015

	Opening balance	Transfers	Depreciation	Closing balance
	R '000	R '000	R '000	R '000
Investment property	20,686	32,277	(364)	52,599

#### Reconciliation of investment property - Company - 2014 (Restated)

	Opening balance	Additions	Depreciation	Closing balance
	R '000	R '000	R '000	R '000
Investment property	21,161	39	(514)	20,686

Investment property is stated at the cost less accumulated depreciation and impairment thereof. According to company policy, valuations are done to assess the relevance of the cost model. Mail centres and hubs have been valued at depreciated replacement costs and all other fixed properties are reflected at municipal values. The fair value of the assets are not significantly different from the carrying value thereof and would have been as follows:

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
Municipal value of investment properties	132,846	112,197	132,846	112,197



## Notes to the Consolidated Audited Annual Financial Statements

### 4. Investment property (continued)

#### Pledged as security

No investment property has been pledged as security for liabilities.

#### Borrowing costs capitalised

There were no borrowing costs that required capitalisation during the year.

#### Other disclosures

Transfers in investment property relate to properties previously used mainly as property, plant and equipment (owned) that are now mainly leased out to third parties.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

#### Investment property obtained by means of Government grants

The following assets that are financed through project specific funding are recorded in the asset register and included therein at R1 in accordance with the accounting policy for Government grants. If these had been recorded at cost and depreciated over their useful lives, their book value would be as follows:

##### Group and company reconciliation 2015

	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000
Investment property	217	(45)	172

##### Group and company reconciliation 2014 (Restated)

	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000
Investment property	217	(39)	172

## Notes to the Consolidated Audited Annual Financial Statements

### 5. Heritage assets

Group	2015			2014 (Restated)		
	Valuation R '000	Revaluation R '000	Fair value R '000	Valuation R '000	Revaluation R '000	Fair value R '000
Documents	10	-	10	10	-	10
Other assets	126	-	126	126	-	126
Philatelic stationary	206	-	206	206	-	206
Photographs	25	-	25	25	-	25
Stamps	18,319	-	18,319	18,319	-	18,319
Works of art	3,279	-	3,279	3,279	-	3,279
<b>Total heritage assets</b>	<b>21,965</b>	<b>-</b>	<b>21,965</b>	<b>21,965</b>	<b>-</b>	<b>21,965</b>

Company	2015			2014 (Restated)		
	Valuation R '000	Revaluation R '000	Fair value R '000	Valuation R '000	Revaluation R '000	Fair value R '000
Documents	10	-	10	10	-	10
Other assets	126	-	126	126	-	126
Philatelic stationary	206	-	206	206	-	206
Photographs	25	-	25	25	-	25
Stamps	18,319	-	18,319	18,319	-	18,319
Works of art	3,279	-	3,279	3,279	-	3,279
<b>Total heritage assets</b>	<b>21,965</b>	<b>-</b>	<b>21,965</b>	<b>21,965</b>	<b>-</b>	<b>21,965</b>

#### Reconciliation of heritage assets - Group and company - 2015

	Opening balance R '000	Closing balance R '000
Documents	10	10
Other assets	126	126
Philatelic stationary	206	206
Photographs	25	25
Stamps	18,319	18,319
Works of art	3,279	3,279
<b>Total heritage assets</b>	<b>21,965</b>	<b>21,965</b>

#### Reconciliation of heritage assets - Group and company - 2014 (Restated)

	Opening balance R '000	Additions R '000	Closing balance R '000
Documents	-	10	10
Other assets	-	126	126
Philatelic stationary	-	206	206
Photographs	-	25	25
Stamps	-	18,319	18,319
Works of art	-	3,279	3,279
<b>Total heritage assets</b>	<b>-</b>	<b>21,965</b>	<b>21,965</b>

#### Pledged as security

No heritage assets were pledged as security for liabilities.

## Notes to the Consolidated Audited Annual Financial Statements

### 5. Heritage assets (continued)

#### Borrowing costs capitalised

There were no borrowing costs that required capitalisation during the year.

#### Valuations

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The effective date of the last revaluation was 31 March 2014. The revaluation was performed by independent valuers, Phakamisani Consulting and Projects CC. Phakamisani Consulting and Projects CC is not connected to the group.

The valuation was based on current market values and no discount rates were used.

#### Other information

In terms of the ICASA license agreement, the SA Post Office is required to own a museum which contains assets of a historical nature, including stamps, paintings, artefacts and machinery.

The assets were recognised for the first time in the previous year after management compiled a catalogue of and valued the assets.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

### 6. Intangible assets

Group	2015			2014 (Restated)		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	305,946	(238,080)	67,866	293,388	(236,738)	56,650
Intangible assets under development	56,944	-	56,944	53,444	-	53,444
<b>Total intangible assets</b>	<b>362,890</b>	<b>(238,080)</b>	<b>124,810</b>	<b>346,832</b>	<b>(236,738)</b>	<b>110,094</b>

Company	2015			2014 (Restated)		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	302,572	(234,796)	67,776	289,930	(233,893)	56,037
Intangible assets under development	56,944	-	56,944	53,444	-	53,444
<b>Total intangible assets</b>	<b>359,516</b>	<b>(234,796)</b>	<b>124,720</b>	<b>343,374</b>	<b>(233,893)</b>	<b>109,481</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 6. Intangible assets (continued)

#### Reconciliation of intangible assets - Group - 2015

	Opening balance	Additions	Retirements	Transfers	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	56,650	15,534	(2,525)	21,516	(23,309)	67,866
Intangible assets under development	53,444	25,016	-	(21,516)	-	56,944
<b>Total intangible assets</b>	<b>110,094</b>	<b>40,550</b>	<b>(2,525)</b>	<b>-</b>	<b>(23,309)</b>	<b>124,810</b>

#### Reconciliation of intangible assets - Group - 2014 (Restated)

	Opening balance	Additions	Retirements	Transfers	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	85,603	18,082	(1,250)	(12,053)	(33,732)	56,650
Intangible assets under development	-	41,391	-	12,053	-	53,444
<b>Total intangible assets</b>	<b>85,603</b>	<b>59,473</b>	<b>(1,250)</b>	<b>-</b>	<b>(33,732)</b>	<b>110,094</b>

#### Reconciliation of intangible assets - Company - 2015

	Opening balance	Additions	Retirements	Transfers	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	56,037	15,534	(2,524)	21,516	(22,787)	67,776
Intangible assets under development	53,444	25,016	-	(21,516)	-	56,944
<b>Total intangible assets</b>	<b>109,481</b>	<b>40,550</b>	<b>(2,524)</b>	<b>-</b>	<b>(22,787)</b>	<b>124,720</b>

#### Reconciliation of intangible assets - Company - 2014 (Restated)

	Opening balance	Additions	Retirements	Transfers	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	84,443	18,080	(1,250)	(12,053)	(33,183)	56,037
Intangible assets under development	-	41,391	-	12,053	-	53,444
<b>Total intangible assets</b>	<b>84,443</b>	<b>59,471</b>	<b>(1,250)</b>	<b>-</b>	<b>(33,183)</b>	<b>109,481</b>

#### Individually material intangible assets

There are no individually material intangible assets that require specific disclosure.

#### Pledged as security

No intangible assets have been pledged as security for liabilities.

#### Borrowing costs capitalised

There were no borrowing costs that required capitalisation during the year.

## Notes to the Consolidated Audited Annual Financial Statements

### 6. Intangible assets (continued)

#### Other information

Included in intangible assets is computer software that is not considered integral to computer equipment.

There were no impairments of intangible assets during the year.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

#### Intangible assets obtained by means of Government grants

Intangible assets that are financed through project specific funding are recorded in the asset register and included therein at R1 in accordance with the accounting policy for Government grants. If these assets had been recorded at cost and depreciated over their expected useful lives, their carrying value would be as follows:

##### Group and company reconciliation 2015

	Cost	Accumulated amortisation	Carrying value
	R '000	R '000	R '000
Computer software	249,220	(248,766)	454

##### Group and company reconciliation 2014 (Restated)

	Cost	Accumulated amortisation	Carrying value
	R '000	R '000	R '000
Computer software	249,026	(247,685)	1,341

## Notes to the Consolidated Audited Annual Financial Statements

### 7. Investments in subsidiaries

#### Group

The following table lists the entities which are controlled by the group, either directly or indirectly through subsidiaries.

Name of company	Held by	% holding 2015	% holding 2014 (Restated)
The Courier and Freight Botswana (Pty) Ltd	The Courier and Freight Group (Pty) Ltd	100.00 %	100.00 %
The Courier and Freight Namibia (Pty) Ltd	The Courier and Freight Group (Pty) Ltd	100.00 %	100.00 %

#### Company

The following table lists the entities which are controlled directly by the company, and the carrying amounts of the investments in the company's separate financial statements.

Name of company	% holding 2015	% holding 2014 (Restated)	Cost amount 2015 R '000	Cost amount 2014 (Restated) R '000
Sapos Properties (Bloemfontein) (Pty) Ltd	100.00 %	100.00 %	750	750
Sapos Properties (Cape Town) (Pty) Ltd	100.00 %	100.00 %	4,085	4,085
Sapos Properties (East Rand) (Pty) Ltd	100.00 %	100.00 %	11,195	11,195
Sapos Properties (Port Elizabeth) (Pty) Ltd	100.00 %	100.00 %	1,670	1,670
Sapos Properties (Rossburgh) (Pty) Ltd	100.00 %	100.00 %	3,800	3,800
The Courier and Freight Group (Pty) Ltd	100.00 %	100.00 %	1,053	1,053
The Document Exchange (Pty) Ltd	100.00 %	100.00 %	-	-
<b>Total cost of investment in subsidiaries</b>			<b>22,553</b>	<b>22,553</b>
Impairment of investment in subsidiaries			(16,669)	(4,809)
<b>Total investment in subsidiaries net of impairment</b>			<b>5,884</b>	<b>17,744</b>

The investments in subsidiary companies listed above are unlisted.

#### Investments in subsidiaries pledged as security

No investments in subsidiaries have been pledged as security for liabilities.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000
<b>8. Inter group loans and long term receivables</b>				
<b>Loans</b>				
<b>Sapos Properties (Bloemfontein) (Pty) Ltd</b>	-	-	442	397
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>Sapos Properties (Cape Town) (Pty) Ltd</b>	-	-	1,576	1,394
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>Sapos Properties (East Rand) (Pty) Ltd</b>	-	-	3,024	2,962
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>Sapos Properties (Port Elizabeth) (Pty) Ltd</b>	-	-	475	709
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>Sapos Properties (Rosburgh) (Pty) Ltd</b>	-	-	3,704	3,322
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>The Courier and Freight Group (Pty) Ltd</b>	-	-	219,322	219,322
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>The Courier and Freight Group (Pty) Ltd</b>	-	-	40,918	40,918
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>The Courier and Freight Botswana (Pty) Ltd</b>	3,560	3,560	-	-
This company ceased trading in 2005, is dormant and in the process of being deregistered. The full amount has been impaired.				
<b>The Courier and Freight Namibia (Pty) Ltd</b>	2,294	2,294	-	-
This company ceased trading in 2005, is dormant and in the process of being deregistered. The full amount has been impaired.				
<b>Total loans</b>	<b>5,854</b>	<b>5,854</b>	<b>269,461</b>	<b>269,024</b>
Impairment of loans	(5,854)	(5,854)	(269,461)	(266,067)
<b>Total loans net of impairment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,957</b>

The SA Post Office does not anticipate the recovery of the above mentioned loans within the next 12 months.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 8. Inter group loans and long term receivables (continued)

#### Long term receivables

The Courier and Freight Group (Pty) Ltd	-	-	285,204	210,832
The Document Exchange (Pty) Ltd	-	-	228	530
<b>Total long term receivables</b>	-	-	<b>285,432</b>	<b>211,362</b>
Impairment of long term receivables	-	-	(285,432)	(210,832)
<b>Total long term receivables net of impairment</b>	-	-	-	<b>530</b>

All the long term receivable above accrues interest at the prime interest rate and have no fixed terms of repayment. These long term receivables have been fully impaired.

The SA Post Office does not anticipate the recovery of the above mentioned receivables within the next 12 months.

#### Credit quality of inter group loans and long term receivables

The credit quality of inter group loans and long term receivables that are neither past due nor impaired can be assessed by reference to the subsidiary companies' ability to generate profits. All inter group loans and long term receivables have been impaired in full.

#### Fair value of inter group loans and long term receivables

Inter group loans and long term receivables	-	-	-	3,487
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The fair value of the inter group loans and long term receivables was calculated as the cost less accumulated impairments.

#### Inter group loans and long term receivables past due but not impaired

Inter group loans and long term receivables which are less than 3 months past due are not considered to be impaired, unless the company is in an accumulated loss situation and is continuing to make losses, in which case the full amount is impaired. At 31 March 2015, R 0 (2014: R 2,239 million) were past due but not impaired.

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

4 to 6 months	-	-	-	19
Over 6 months	-	-	-	2,920

#### Inter group loans and long term receivables impaired

As of 31 March 2015, inter group loans and long term receivables of R 0 (2014: R 0) were impaired and provided for.

The amount of the provision was R 5,854 million as of 31 March 2015 (2014: R 5,854 million).

The ageing of these loans is as follows:

Over 6 months	-	-	5,854	5,854
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#### Reconciliation of provision for impairment of inter group loans and long term receivables

Opening balance	5,854	17,900	476,897	379,855
Provision for impairment	-	-	77,996	97,042
Amounts written off as uncollectable	-	(12,046)	-	-
<b>Total provision for impairment</b>	<b>5,854</b>	<b>5,854</b>	<b>554,893</b>	<b>476,897</b>



## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 8. Inter group loans and long term receivables (continued)

The creation and release of the provision for impaired inter group loans and long term receivables have been included in operating expenses in the Statement Of Comprehensive Income (note 32). Amounts charged to the provision account are generally written off when there is no expectation of recovering them.

The maximum exposure to credit risk at the reporting date is the fair value of each class of inter group loans and long term receivables mentioned above. The group does not hold any collateral as security.

#### Inter group loans and long term receivables pledged as collateral

No inter group loans and long term receivables have been pledged as security for liabilities.

### 9. Other financial assets

#### At fair value through profit or loss

Post Retirement Medical Aid Asset	924,433	833,104	924,433	833,104
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#### Available-for-sale

Gidani investment	-	-	-	-
Negotiable Certificates of Deposit	680,331	798,219	680,331	798,219
Promissory Notes	617,019	666,536	617,019	666,536
Unlisted shares - Centriq	85,084	87,964	85,084	87,964
<b>Total available-for-sale</b>	<b>1,382,434</b>	<b>1,552,719</b>	<b>1,382,434</b>	<b>1,552,719</b>

#### Held to maturity

Fixed Deposits	1,950,218	1,527,612	1,950,218	1,512,000
Jibar Linked Notes	100,000	370,000	100,000	370,000
<b>Total held-to-maturity</b>	<b>2,050,218</b>	<b>1,897,612</b>	<b>2,050,218</b>	<b>1,882,000</b>
<b>Total other financial assets</b>	<b>4,357,085</b>	<b>4,283,435</b>	<b>4,357,085</b>	<b>4,267,823</b>

#### Non-current assets

At fair value through profit or loss	656,106	565,521	656,106	565,521
Available-for-sale	85,084	87,964	85,084	87,964
<b>Total non-current assets</b>	<b>741,190</b>	<b>653,485</b>	<b>741,190</b>	<b>653,485</b>

#### Current assets

At fair value through profit or loss	268,327	267,582	268,327	267,582
Available-for-sale	1,297,350	1,464,755	1,297,350	1,464,755
Held-to-maturity	2,050,218	1,897,612	2,050,218	1,882,000
<b>Total current assets</b>	<b>3,615,895</b>	<b>3,629,949</b>	<b>3,615,895</b>	<b>3,614,337</b>
<b>Total other financial assets</b>	<b>4,357,085</b>	<b>4,283,434</b>	<b>4,357,085</b>	<b>4,267,822</b>

Investment balances held by the entity that are not available for use by the group.	3,347,568	3,362,367	3,347,568	3,346,755
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## Notes to the Consolidated Audited Annual Financial Statements

### 9. Other financial assets (continued)

The PRMA Asset of R 924,433 million (2014: R 833,104), has been ear-marked to partially fund the PRMA Liability of R 1,447 billion (2014: R 1,1434 billion). Refer to note 11 for more detail.

At 31 March 2015, the liability was 63.88% (2014: 58.09%) funded by the asset. In the previous year, the remaining liability was adequately offset by other assets of some R 740,191 million arising from an employer surplus on conversion of the Defined Benefit Pension Scheme to a Defined Contribution Scheme.

The group owns an equity stake of 100 ordinary shares in Gidani Management (Pty) Ltd, which represents 10.00% of Gidani shares. The fair value of the shares was determined by management to be zero at year end (2014: R 0). The shares were allocated to the SA Post Office by the Department of Trade and Industry.

The NCDs, Promissory Notes and the unlisted shares held in the cell captive Centriq are classified as available-for-sale financial assets, which are measured at fair value, with fair value gains and losses recognised directly in other comprehensive income.

The Fixed Deposits and Jibar Linked Notes are classified as held to maturity instruments, which are measured at amortised cost using the effective interest method, less any impairment, with revenue recognised on an effective yield basis. The Fixed Deposits and Jibar Linked Notes shown above are greater than 90 days and less than 12 months in time to maturity. The Fixed Deposits and Jibar Linked Notes that are less than 90 days in maturity are classified as cash and bank balances and are included under short-term deposits in note 17.

#### Fair value information of assets at fair value through profit or loss

Financial assets at fair value through profit or loss are recognised at fair value, which is therefore equal to their carrying amounts.

The following classes of financial assets at fair value through profit or loss are measured to fair value using quoted market prices:

- Local cash
- Local bonds
- Local equity
- Foreign cash
- Foreign bonds

#### Fair value hierarchy of financial assets at fair value through profit or loss

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets in active markets.

Level 2 applies inputs other than quoted prices included in level 1, that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 9. Other financial assets (continued)

#### Level 1

Local bonds	250,448	206,219	250,448	206,219
Local equity	393,831	352,776	393,831	352,776
Foreign bonds	24,232	24,099	24,232	24,099
<b>Total level 1</b>	<b>668,511</b>	<b>583,094</b>	<b>668,511</b>	<b>583,094</b>

#### Level 2

Local bonds	255,922	250,010	255,922	250,010
<b>Total level 1 and 2</b>	<b>924,433</b>	<b>833,104</b>	<b>924,433</b>	<b>833,104</b>

For the current and previous financial years, there were no transfers between levels 1, 2 and 3.

Financial assets at fair value through profit or loss are denominated in the following currencies:

Rand	924,433	833,104	924,433	833,104
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#### Fair value information of available-for-sale financial assets

Available-for-sale financial assets are recognised at fair value unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets. Management believes that the cost approximates the fair value.

The following classes of available-for-sale financial assets are measured to fair value using quoted market prices:

- Negotiable Certificates of Deposit
- Promissory Notes

The carry value (based on the audited annual financial statements of Centriq) is used in the determination of the fair value of unlisted shares for which no reference can be made to quoted market prices. Management believes that the carry value approximates the fair value of this investment.

#### Fair value hierarchy of available-for-sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets in active markets.

Level 2 applies inputs other than quoted prices included in level 1 that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 9. Other financial assets (continued)

#### Level 2

Negotiable Certificates of Deposit	680,331	798,219	680,331	798,219
Promissory Notes	617,019	666,536	617,019	666,536
Unlisted shares - Centriq	-	87,964	-	87,964
<b>Total level 2</b>	<b>1,297,350</b>	<b>1,552,719</b>	<b>1,297,350</b>	<b>1,552,719</b>

#### Level 3

Unlisted shares - Centriq	85,084	-	85,084	-
<b>Total level 2 and 3</b>	<b>1,382,434</b>	<b>1,552,719</b>	<b>1,382,434</b>	<b>1,552,719</b>

#### Transfers out of level 2

Unlisted shares - Centriq	(87,964)	-	(87,964)	-
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Management is of the opinion that the the carry value of the unlisted shares are more indicative of fair values derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs) and therefore for more accurate disclosure, the unlisted shares should be included in level 3.

#### Transfers into level 3

Unlisted shares - Centriq	87,964	-	87,964	-
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Management is of the opinion that the the carry value of the unlisted shares are more indicative of fair values derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs) and therefore for more accurate disclosure, the unlisted shares should be included in level 3.

## Notes to the Consolidated Audited Annual Financial Statements

### 9. Other financial assets (continued)

#### Reconciliation of available-for-sale financial assets measured at level 3

##### Reconciliation of available-for-sale financial assets measured at level 3 - Group - 2015

	Opening balance	Gains or losses in other comprehensive income	Transfers into level 3	Closing balance
	R '000	R '000	R '000	R '000
Unlisted shares - Centriq	-	(2,880)	87,964	85,084

##### Reconciliation of available-for-sale financial assets measured at level 3 - Company - 2015

	Opening balance	Gains or losses in other comprehensive income	Transfers into level 3	Closing balance
	R '000	R '000	R '000	R '000
Unlisted shares - Centriq	-	(2,880)	87,964	85,084

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

Available-for-sale financial assets are denominated in the following currencies:

Rand	1,382,434	1,552,719	1,382,434	1,552,719
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#### Held to maturity investments past due but not impaired

Held to maturity investments which are less than 3 months past due are not considered to be impaired.

At 31 March 2015, R 0 (2014: R 0) were past due but not impaired.

#### Held to maturity investments impaired

As of 31 March 2015, held to maturity investments of R 0 (2014: R 0) -were impaired and provided for.

Held to maturity financial assets are denominated in the following currencies:

Rand	2,050,218	1,897,612	2,050,218	1,882,000
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The maximum exposure to credit risk at the reporting date is the carrying amount of the held to maturity financial assets.

#### Fair value of held to maturity investments

Fixed deposits	1,950,218	1,527,612	1,950,218	1,512,000
Jibar Linked Notes	100,000	370,000	100,000	370,000

Management believes that the carrying amounts of the above mentioned held to maturity investments approximates fair value.

The group has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior years. There were no gains or losses realised on the disposal of held to maturity financial assets in 2015 or 2014, as all the financial assets were disposed of at their redemption date.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>10. Operating lease assets (accrual)</b>				
Non-current assets	1,996	-	1,939	-
Current assets	116	1,904	134	1,828
Non-current liabilities	(73,490)	(76,134)	(73,337)	(76,134)
Current liabilities	(3,728)	(4,044)	(3,515)	(3,123)
<b>Net operating lease accrual</b>	<b>(75,106)</b>	<b>(78,274)</b>	<b>(74,779)</b>	<b>(77,429)</b>

The group has entered into operating leases for buildings. The operating leases (as the lessee and lessor) are straight-lined over the period of the lease contract. Refer to note 41 for the future minimum payments/receipts under non-cancelable operating leases.

### 11. Retirement benefits

#### 11.1. The SA Post Office provident fund

The SA Post Office provident fund (the fund) was established on 1 August 1993 to hedge the leave liability beyond a specific threshold. The fund became dormant on 1 April 2004 when all leave entitlement and salaries were capped.

In terms of a surplus apportionment scheme conducted by the fund some years ago, an Employer Surplus Reserve was created within the ambit of the fund and in terms of the Pension Funds Act, No. 24 of 1956 (as amended) for the benefit of the SA Post Office.

The fund is a separate legal entity, distinct from its members and is capable in law, in its own name, of suing and of being sued, and of acquiring, holding and alienating property, movable and immovable. The assets held by the fund are registered in the name of the fund.

As per the rules of the fund, the SA Post Office is required to meet the balance of cost of financing the benefits provided by the fund, which would include any fund deficit. At year end, the SA Post Office met the balance of cost of financing the benefits provided by the fund. The Employer Surplus Reserve is available to fund future deficits should they arise.

#### 11.2. The SA Post Office retirement fund

The SA Post Office retirement fund (the fund) previously known as the Post Office Pension Fund, was established on 1 October 1991 in terms of section 9(1) of the Post Office Act No.44 of 1958 (as amended). The fund only allowed for defined benefit members until 30 November 2005 when it was converted into primarily a defined contribution scheme. It then became known as the SA Post Office retirement fund.

The fund is a separate legal entity, distinct from its members and is capable in law, in its own name, of suing and of being sued, and of acquiring, holding and alienating property, movable and immovable.

The assets held by the fund are registered in the name of the fund which has as its objective the provision of retirement and ancillary benefits to all its beneficiaries, being pensioners and active members.

## Notes to the Consolidated Audited Annual Financial Statements

### 11. Retirement benefits (continued)

In terms of section 10A of the South African Post Office Act No 44 of 1958 (as amended), the financial obligations of the fund in respect of its defined benefit members and pensioners are guaranteed by the SA Post Office whilst the Government of the Republic of South Africa in turn guarantees the obligations of the SA Post Office in this regard.

In terms of a recent actuarial capital adequacy analysis, the fund was fully funded and the actuary concluded that it was in a sound financial position.

#### 11.3. Post retirement telephone obligation

The group has undertaken to pay the telephone accounts for certain retired employees and their surviving spouses until either the time of their death, that of their spouse or when they change their phone numbers or addresses. The group's net obligation in this regard is the amount of future benefits that the employees have earned in return for their service in the prior periods. Any unrecognised actuarial gains or losses and past service costs are recognised immediately in other comprehensive income. There are no plan assets for this liability and the employer funds this as the need for settlement arises.

#### 11.4. Post retirement medical aid contribution

During the 2008/2009 financial period, R 456,800 million's worth of assets were transferred to the SA Post Office as a result of the Registrar for Medical Schemes' decision on 12 November 2008. The relevant assets are specifically and exclusively utilised for the future funding of the SA Post Office's PRMA liability and have consequently been ear-marked and invested according to a specific unique investment mandate. The current value of the PRMA asset is R 924,433 million (2014: R 833,104 million).

The company has negotiated with bargaining unit employees that employees retiring after 30 June 2005 will not receive PRMA benefits. This curtailment of benefits was accounted for during the 2005 period. In addition, spouses and dependants of employees who passed away whilst in the service of the SA Post Office after 2005 will also receive medical aid benefits as part of the Defined Benefit Plan.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000

### 11. Retirement benefits (continued)

#### Carrying value

Present value of the PRMA liability	(1,447,110)	(1,434,228)	(1,446,561)	(1,433,645)
Present value of the post retirement telephone obligation	(4,711)	(5,081)	(4,711)	(5,081)
Fair value of provident fund	21,733	18,032	21,733	18,032
<b>Total post retirement benefits</b>	<b>(1,430,088)</b>	<b>(1,421,277)</b>	<b>(1,429,539)</b>	<b>(1,420,694)</b>

Non-current assets	21,733	18,032	21,733	18,032
Non-current liabilities	(1,320,578)	(1,308,066)	(1,320,070)	(1,307,524)
Current liabilities	(131,243)	(131,243)	(131,202)	(131,202)
<b>Total post retirement benefits</b>	<b>(1,430,088)</b>	<b>(1,421,277)</b>	<b>(1,429,539)</b>	<b>(1,420,694)</b>

#### Movements for the year

Opening balance	(1,421,277)	(1,420,789)	(1,420,694)	(1,420,176)
Benefits paid	131,243	126,648	131,202	126,607
Net expense recognised in profit or loss	(140,054)	(127,136)	(140,047)	(127,125)
<b>Total post retirement benefits</b>	<b>(1,430,088)</b>	<b>(1,421,277)</b>	<b>(1,429,539)</b>	<b>(1,420,694)</b>

#### Net expense recognised in profit or loss

Interest cost - PRMA liability	(116,593)	(97,833)	(116,544)	(97,790)
Interest cost - post retirement telephone obligation	(419)	(371)	(419)	(371)
Actuarial losses - PRMA liability	(27,053)	(31,081)	(27,095)	(31,113)
Actuarial losses - post retirement telephone obligation	310	163	310	163
Fair value adjustments to provident fund	3,701	1,986	3,701	1,986
<b>Net post retirement expense</b>	<b>(140,054)</b>	<b>(127,136)</b>	<b>(140,047)</b>	<b>(127,125)</b>

#### Key assumptions used

Assumptions used on last valuation on 31 March 2015.

Discount rates used	8.00 %	8.65 %	8.00 %	8.65 %
General inflation rates used	6.25 %	6.85 %	6.25 %	6.85 %
Benefit inflation rates used	7.25 %	7.85 %	7.25 %	7.85 %
Salary inflation rates used	6.75 %	7.35 %	6.75 %	7.35 %



## Notes to the Consolidated Audited Annual Financial Statements

### 11. Retirement benefits (continued)

In determining the value to be placed on these post employment benefits various assumptions in respect of various economic and demographic factors have been made. In order to have consistency between the benefits, the same assumptions for all benefits have been applied where relevant.

In assessing the appropriateness of the assumptions used it is important to consider the assumptions as a whole rather than in isolation. In particular, the relationship between the assumptions for the discount rate and the rate of increase in benefits is important.

IAS 19 (AC 116) Employee Benefits (IAS19) requires that realistic assumptions be applied in the valuation and that this should be determined with reference to the yields on corporate stock of similar duration to the liabilities. The standard further indicates that if the corporate bond market is neither sufficiently deep nor liquid reference should be made to the yields on government stock. For the purpose of this valuation account has been taken of the yields on South African government stock as reflected in the yield curve of the Bond Exchange of South Africa. The basic inflation assumption has also been determined by reference to the inflation rate implied in the market by the difference between the yield on nominal and inflation linked government stock.

A discount rate of 8.00% p.a. (2014: 8.65%) was assumed in this valuation. This is a 0.65% decrease (2014: 1.4% increase) in the prior year valuation interest rate and reflects the general decrease in market interest rates over the year. The general inflation rate has decreased to 6.25% p.a. (2014: 6.85%), hence implying a salary inflation rate of 6.75% p.a. (2014: 7.35%) and a medical aid contribution inflation of 7.25% p.a. (2014: 7.85%). These assumptions results in a decrease of 0.05% (2014: 0.05% increase) p.a in the net discount rate applied to all benefits compared to the prior year with a resultant increase in liabilities in all cases.

The demographic assumptions (e.g. mortality, withdrawal rates, etc.) have been based on standard actuarial tables and other assumption rates that are generally used in the market place for the valuation of liabilities of this nature. Allowance has been made for AIDS related deaths in respect of the long service and leave encashment benefits, but not the PRMA benefits, using the Actuarial Society of South Africa AIDS model.

The results of the valuation are highly dependent on the choice of assumptions and the relationship between them. Therefore, in order to assist the user in interpretation of the valuation, results show the impact on the liabilities of a number of different assumptions.

Actuarial valuations are performed on an annual basis.

#### Valuation method

As required by IAS 19, the projected Unit Credit Method of valuation has been applied in determining the amounts to be recognised in the Financial statements.

In the Projected Unit Credit method the total liability in respect of each active member is determined with allowance for inflation, discounting and demographic factors (e.g. mortality and withdrawal) both before and after retirement where relevant. The full amount of the liability is then allocated between the service that the member has already served and that which they will still be required to serve before retirement. The portion that is allocated in respect of past service is referred to as the past service cost or the accrued liability. In respect of the next financial period of twelve months from the date of calculation, the portion of the total liability that is expected to accrue over the next year is determined in a similar manner. The resultant amount is referred to as the current service cost.

In respect of pensioner members the value of the current benefit being received is determined with allowance for inflation, discounting and mortality. The entire value falls into past service cost and there is no current service cost since the benefit is in payment.

Interest cost is determined as the effect of one year less discounting on the progression of the liability.

## Notes to the Consolidated Audited Annual Financial Statements

### 11. Retirement benefits (continued)

#### Sensitivity analysis - Post retirement telephone obligation

Discount rate analysis	Liability		Change in Liability	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	%	%
+ 1 %	4,382	4,714	(7.0)	(7.2)
Central	4,711	5,081	-	-
- 1 %	5,083	5,501	7.9	8.3

Benefit obligation at year-end	2012	2013	2014	2015	2016
	R '000	R '000	R '000	R '000	R '000
Projected benefit obligation	6,045	5,348	5,081	5,021	4,606

#### Sensitivity analysis - PRMA

Benefit inflation analysis	Liability		Change in Liability	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	%	%
+ 1 %	1,575,529	1,571,149	8.9	9.6
Central	1,446,561	1,433,645	-	-
- 1 %	1,335,610	1,314,927	(7.7)	(8.3)

Discount rate analysis	Liability		Change in Liability	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	%	%
+ 1 %	1,331,813	1,313,161	(7.9)	(8.4)
Central	1,446,561	1,433,645	-	-
- 1 %	1,582,380	1,575,707	9.4	9.9

Benefit obligation at year-end	2012	2013	2014	2015	2016
	R '000	R '000	R '000	R '000	R '000
Projected benefit obligation	1,293,162	1,431,487	1,434,228	1,420,057	1,431,112

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 12. Deferred tax (liability) asset

#### Deferred tax liability

Available-for-sale financial asset adjustments	-	(12,214)	-	(12,214)
Financial instruments	-	(78,934)	-	(78,934)
Property plant and equipment	(14)	(142,801)	-	(141,935)
Trade and other payables	(8)	(1,989)	-	(1,989)
Trade and other receivables	-	(8,350)	-	(8,350)
<b>Total deferred tax liability</b>	<b>(22)</b>	<b>(244,288)</b>	<b>-</b>	<b>(243,422)</b>

#### Deferred tax asset

Employee related	-	493,615	-	493,367
Income received in advance	-	70,988	-	69,701
Provisions	-	146,188	-	145,470
<b>Deferred tax balance from temporary differences other than unused tax losses</b>	<b>-</b>	<b>710,791</b>	<b>-</b>	<b>708,538</b>
Tax losses available for set off against future taxable income	(15)	89,777	-	89,479
<b>Total deferred tax asset</b>	<b>(15)</b>	<b>800,568</b>	<b>-</b>	<b>798,017</b>

Deferred tax liability	(22)	(244,288)	-	(243,422)
Deferred tax asset	(15)	800,568	-	798,017
<b>Total net deferred tax (liability) asset</b>	<b>(37)</b>	<b>556,280</b>	<b>-</b>	<b>554,595</b>

### 13. Prepayments

#### IT solutions paid in advance

Services receivable within one year	27,351	40,009	27,351	40,009
Services receivable within two to five years	20,693	23,711	20,693	23,711
<b>Total prepayments</b>	<b>48,044</b>	<b>63,720</b>	<b>48,044</b>	<b>63,720</b>

### 14. Inventories

Merchandise	40,795	35,898	40,795	35,898
Consumables	40,430	60,873	40,327	60,609
<b>Total inventories</b>	<b>81,225</b>	<b>96,771</b>	<b>81,122</b>	<b>96,507</b>
Write downs	(13,380)	(19,382)	(13,380)	(19,382)
<b>Total inventories net of write downs</b>	<b>67,845</b>	<b>77,389</b>	<b>67,742</b>	<b>77,125</b>

Carrying value of inventories carried at fair value less costs to sell	67,845	77,389	67,742	77,125
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#### Inventory pledged as security

No inventory has been pledged as security for liabilities.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 15. Trade and other receivables

Trade receivables (net of impairment)	199,264	231,713	164,696	191,292
Employee costs in advance	2,802	1,725	2,676	1,699
Deposits	728	725	-	-
Interest accrued on short-term investments	142,873	117,218	142,800	116,916
International debtors (net of impairment)	116,226	140,666	116,226	140,666
Other receivables (net of impairment)	84,641	42,422	82,401	41,381
<b>Total trade and other receivables</b>	<b>546,534</b>	<b>534,469</b>	<b>508,799</b>	<b>491,954</b>

#### Trade receivables (net of impairment) consists of:

Trade receivables (gross)	261,424	278,021	220,545	230,880
Impairment	(62,160)	(46,308)	(55,849)	(39,588)
<b>Trade receivables (net of impairment)</b>	<b>199,264</b>	<b>231,713</b>	<b>164,696</b>	<b>191,292</b>

#### International debtors (net of impairment) consists of:

International debtors (gross)	120,611	140,668	120,611	140,668
Impairment	(4,385)	-	(4,385)	-
<b>International debtors (net of impairment)</b>	<b>116,226</b>	<b>140,668</b>	<b>116,226</b>	<b>140,668</b>

#### Other receivables (net of impairment) consists of:

Other receivables (gross)	94,026	44,823	91,787	43,782
Impairment	(9,385)	-	(9,385)	-
<b>Other receivables (net of impairment)</b>	<b>84,641</b>	<b>44,823</b>	<b>82,402</b>	<b>43,782</b>

### Trade and other receivables pledged as security

No trade and other receivables have been pledged as security for liabilities.

### Credit quality of trade receivables

The credit quality of trade receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Counterparties with external credit rating (Transunion ITC)

Low	35,553	116,707	35,553	116,707
Medium	28,818	19,466	28,818	19,466
High	95,341	20,096	95,341	20,096
<b>Total trade receivables with external credit ratings</b>	<b>159,712</b>	<b>156,269</b>	<b>159,712</b>	<b>156,269</b>

#### Counterparties without external credit rating

Group 1	2,602	2,910	195	78
Group 2	71,247	60,683	48,097	47,783
Group 3	27,864	58,160	12,542	26,751
<b>Total trade receivables without credit ratings</b>	<b>101,713</b>	<b>121,753</b>	<b>60,834</b>	<b>74,612</b>

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 15. Trade and other receivables (continued)

Group 1 – new customer (less than 6 months).

Group 2 – existing customer (more than 6 months) with no defaults in the past.

Group 3 – existing customer (more than 6 months) with some defaults in the past. All defaults were fully recovered.

Group 4 – related parties. Refer to note 43 for more details.

None of the financial assets that are fully performing have been re-negotiated in the last year.

#### Fair value of trade receivables

Trade receivables	199,264	285,425	164,696	230,881
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Trade receivables are discounted at year end at the prime interest rate of 9.25% (2014: 9.00%) to bring them to their net present value. Trade receivables are shown net of impairment.

Long term related party receivables net of impairment have been reclassified to "Inter group loans and receivables". For more detail, refer to note 8.

#### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 30 days past due are not considered to be impaired. At 31 March 2015, R 142,680 million (2014: R 63,093 million) were past due but not impaired.

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

1 to 3 months past due	142,339	22,468	134,790	10,241
4 to 6 months past due	141	40,625	1,846	31,970
7 to 12 months past due	-	-	-	-
More than 1 year past due	200	-	200	-

#### Trade and other receivables impaired

As of 31 March 2015, trade and other receivables of R 75,931 million (2014: R 46,308 million) were impaired and provided for.

The ageing of these receivables are as follows:

##### Trade receivables

Current to 3 months	16,827	11,790	17,275	11,790
4 to 6 months	45,334	34,517	38,574	27,798

##### International debtors

More than 1 year	4,385	-	4,385	-
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##### Other receivables

More than 1 year	9,385	-	9,385	-
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#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	46,308	43,866	39,589	33,824
Provision for impairment	31,750	14,462	30,088	14,083
Amounts written off as uncollectable	(58)	-	(58)	-
Unused amounts reversed	(2,069)	(12,020)	-	(8,318)
<b>Total provision for impairment</b>	<b>75,931</b>	<b>46,308</b>	<b>69,619</b>	<b>39,589</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 15. Trade and other receivables (continued)

The creation and release of the provision for impaired receivables have been included in operating expenses in profit or loss (note 32). Unwinding of discount is included in operating expenses in profit or loss (note 32). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

The company operates under various credit terms. Bulkmail is seven days from date of invoice, and the rest of the business operates on thirty days from statement date. The group's domestic trade receivables are R 199,264 million (2014: R 285,425 million) of which R 142,680 million (2014: R 63,093 million) are older than 30 days.

At each reporting date, the group assesses whether there is any objective evidence that trade and other receivables should be impaired. Individual significant financial assets are tested for impairment. Group impairment losses for trade and other receivables amounting to R 29,623 million (2014: R 2,442 million) have been raised in profit and loss in the Statement Of Comprehensive Income, where there was objective evidence that the group will not be able to collect all amounts due, in accordance with the original terms agreed upon. The impairment allowances are considered to be adequate for the group.

Included in trade and other receivables are international debtors. Debt in this category is held with individual countries and trade is governed by rules set up by the UPU currently situated in Switzerland. Services are divided into various product categories and each product has a unique payment term ranging from 12 months and onwards. The nature of the business allows countries to operate trade debtors and creditors accounts. Average payment terms per country on letters and expedited mail services are about 18 months. International trade receivables are R 116,226 million (2014: R 140,668 million) of which R 0 (2014: R 0) is older than 18 months.

The SA Post Office and its subsidiary companies fall outside of the definition of a "Credit Provider" for purposes of registration with the National Credit Regulator. The SA Post Office and its subsidiary companies nevertheless have to comply with the National Credit Act where accounts are opened for Juristic persons such as Sole Proprietors and Trusts, where less than 3 trustees are appointed.

Trade receivables comprise a large number of customers, dispersed across different industries and geographical areas. The group uses an internal / external credit scoring system to assess all potential customers' creditworthiness. Customer's credit is assessed manually, using information derived from credit bureaus, financial accounting records, bank records and other sources, after which they are put through an internal grading system. Where appropriate, the necessary credit guarantees or deposits will be required before opening an account. Current guarantees on hand are R 214 million. Accounts are opened for clients who are creditworthy and who accept the terms and conditions prescribed by the group and its subsidiaries. Such accounts are assigned a credit limit. The account number, the terms as well as the credit limit is confirmed in writing to the customer. Assessments of accounts are done on a regular basis as outlined in the group procedure document. The frequency is determined by the nature of each business within the group.

Security or sureties are requested to support accounts which failed about 20% of the assessment criteria. This totals R 3,2 million (2014: R 4 million) of trade receivables discounted after impairment. The terms of trade receivables have not been re-negotiated.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 16. Current tax asset

Current tax for the year consists of:

Current tax receivable	114	114	-	-
Current tax payable	(13)	-	-	-
<b>Balance at the end of the year</b>	<b>101</b>	<b>114</b>	<b>-</b>	<b>-</b>

### 17. Cash and bank balances

Cash and bank balances consist of cash on hand and actual bank balances and investments in money market instruments.

The effective interest rate of money market instruments is 6.16% (2014: 5.64%).

Cash and bank balances consist of:

Bank balances	2,004,063	2,001,895	1,964,633	1,965,677
Short-term deposits	1,382,585	2,048,191	1,382,585	2,048,191
Bank overdraft	(78,729)	(350,350)	(78,729)	(350,350)
<b>Total cash and bank balances</b>	<b>3,307,919</b>	<b>3,699,736</b>	<b>3,268,489</b>	<b>3,663,518</b>

Current assets	3,386,648	4,050,086	3,347,218	4,013,868
Current liabilities	(78,729)	(350,350)	(78,729)	(350,350)
<b>Total cash and bank balances</b>	<b>3,307,919</b>	<b>3,699,736</b>	<b>3,268,489</b>	<b>3,663,518</b>

Cash and bank balances held by the entity that are not available for use by the group.	3,282,520	3,699,736	3,282,520	3,663,518
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The total amount of undrawn facilities available for future operating activities and commitments.

	-	-	-	-
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### Cash and bank balances pledged as collateral

No cash and bank balances equivalents have been pledged as security for liabilities.

### 18. Issued share capital

#### Authorised

1 000 000 000 Ordinary shares of R1 each	1,000,000	1,000,000	1,000,000	1,000,000
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#### Issued

Ordinary shares of R1 each	200,940	200,940	200,940	200,940
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799,060,179 unissued ordinary shares. This authority remains in force until the next Annual General Meeting. The company is in the process of converting Shareholder loans to capital. Refer to note 20 for more detail.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 19. Fair value adjustment on assets-available-for-sale reserve

Financial assets are classified as available-for-sale where the intention with regard to the instrument and its origination does not fall within the ambit of other financial asset classification.

NCDs, Promissory Notes and the unlisted shares held in the cell captive Centriq are classified as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value, with fair value gains and losses recognised directly in other comprehensive income as the available-for-sale equity revaluation reserve. Interest is calculated using the effective interest method. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the available-for-sale reserve is included in profit or loss for the period.

NCDs and Promissory Notes are measured to fair value using quoted market prices. The net asset value model is used in the determination of the fair value of unlisted shares for which no reference can be made to quote market prices.

Quoted market prices	581	(1,806)	581	(1,806)
Unlisted shares	65,034	55,235	65,034	55,235
<b>Total fair value adjustment</b>	<b>65,615</b>	<b>53,429</b>	<b>65,615</b>	<b>53,429</b>

### 20. Convertible Shareholder instruments

Capital reserves comprises equity where no share certificates are issued. The equity is transferred into share capital once shares of the company are issued.

During the 2013 / 2014 year, an amount of R 205 million was received from National Treasury for the corporatisation of Postbank. The company still needs to issue 205 million SA Post Office R 1 shares in exchange. These funds are included in Postbank's investment portfolio and are managed through Postbank's ALCO processes. The amount is interest free and has no fixed terms of repayment. There is no expectation to repay these funds which are viewed as being equity in nature.

As a result of the incorporation of the former TBVC states i.e. Transkei, Bophuthatswana, Venda and Ciskei post offices, a Shareholder loan to the amount of R 287 million was received. The incorporation was done in accordance with the Post and Telecommunications Reorganisation Act which provided for the integration of the departments of Post and Telecommunications of the TBVC states with Telkom and the SA Post Office. The amount was previously classified as a financial liability at cost and carried interest at a rate of 8.5% per annum in terms of section 80 of the PFMA and there were no fixed repayment terms for this liability. The company applied to the DTSPS for permission to convert this loan to share capital, which was granted during the 2013 / 2014 year and 287 million R 1 shares will be issued as compensation.

Department of Telecommunications and Postal Services (Postbank)	205,000	205,000	205,000	205,000
Department of Telecommunications and Postal Services (TBVC)	287,176	287,176	287,176	287,176
<b>Total convertible Shareholder instruments</b>	<b>492,176</b>	<b>492,176</b>	<b>492,176</b>	<b>492,176</b>



## Notes to the Consolidated Audited Annual Financial Statements

### 21. Provisions

#### Reconciliation of provisions - Group - 2015

	Opening balance	Additions	Utilised during the year	(Reversed) / transferred during the year	Unwinding discount factor	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
13th cheque	69,154	27,879	(22,144)	-	-	74,889
General provision	183,548	54,727	(28,279)	(127,050)	-	82,946
Leave pay	207,236	197,916	(178,455)	-	-	226,697
Legal proceedings	-	4,190	(58,390)	60,047	-	5,847
Long service cash awards	44,747	10,143	(8,556)	-	-	46,334
Long service leave awards	12,257	7,424	(1,604)	-	-	18,077
Site restoration	265,986	9,303	(1,239)	(48,244)	(27,911)	197,895
<b>Total provisions</b>	<b>782,928</b>	<b>311,582</b>	<b>(298,667)</b>	<b>(115,247)</b>	<b>(27,911)</b>	<b>652,685</b>

#### Reconciliation of provisions - Group - 2014 (Restated)

	Opening balance	Additions	Utilised during the year	Unwinding discount factor	Closing balance
	R '000	R '000	R '000	R '000	R '000
13th cheque	65,515	276,844	(273,205)	-	69,154
General provision	172,154	144,410	(133,016)	-	183,548
Leave pay	169,677	131,565	(94,006)	-	207,236
Long service cash awards	50,716	3,844	(9,813)	-	44,747
Long service leave awards	11,845	1,602	(1,190)	-	12,257
Onerous contract	7,325	-	(7,325)	-	-
Site restoration	248,396	40,668	-	(23,078)	265,986
<b>Total provisions</b>	<b>725,628</b>	<b>598,933</b>	<b>(518,555)</b>	<b>(23,078)</b>	<b>782,928</b>

#### Reconciliation of provisions - Company - 2015

	Opening balance	Additions	Utilised during the year	(Reversed) / transferred during the year	Unwinding discount factor	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
13th cheque	68,990	14,490	(12,806)	-	-	70,674
General provision	180,685	40,666	(13,756)	(127,028)	-	80,567
Leave pay	197,786	132,534	(112,075)	-	-	218,245
Legal proceedings	-	4,190	(58,390)	60,047	-	5,847
Long service cash awards	44,266	9,978	(8,456)	-	-	45,788
Long service leave awards	12,257	7,424	(1,604)	-	-	18,077
Site restoration	263,659	9,158	(1,239)	(48,244)	(27,911)	195,423
<b>Total provisions</b>	<b>767,643</b>	<b>218,440</b>	<b>(208,326)</b>	<b>(115,225)</b>	<b>(27,911)</b>	<b>634,621</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 21. Provisions (continued)

#### Reconciliation of provisions - Company - 2014 (Restated)

	Opening balance	Additions	Utilised during the year	Unwinding discount factor	Closing balance
	R '000	R '000	R '000	R '000	R '000
13th cheque	64,117	241,313	(236,440)	-	68,990
General provision	166,657	139,874	(125,846)	-	180,685
Leave pay	160,097	126,348	(88,659)	-	197,786
Long service cash awards	50,306	3,742	(9,782)	-	44,266
Long service leave awards	11,845	1,602	(1,190)	-	12,257
Site restoration	246,250	40,488	-	(23,079)	263,659
<b>Total provisions</b>	<b>699,272</b>	<b>553,367</b>	<b>(461,917)</b>	<b>(23,079)</b>	<b>767,643</b>

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
Non-current liabilities	259,581	399,348	254,876	393,594
Current liabilities	393,104	383,580	379,745	374,050
Total provisions	652,685	782,928	634,621	767,644

#### General provision

The provision relates to various items such as the provisions for VAT, audit fees and other similar obligations.

#### Leave obligation

Employees are entitled to 22 days leave per annum. Provided that a staff member has taken at least 15 days in a period the remaining leave may be carried over into future years. Any leave balance remaining when an employee leaves the service of the SA Post Office for whatever reason (e.g. resignation, death, retirement) is encashed at that time.

## Notes to the Consolidated Audited Annual Financial Statements

### 21. Provisions (continued)

#### Sensitivity analysis - Leave obligation

Discount rate analysis	Liability		Change in liability	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	%	%
+ 1 %	207,828	183,010	(1.3)	(3.9)
Central	210,637	190,427	-	-
- 1 %	213,760	195,613	1.5	2.7

#### Capped leave

In addition to their "normal" current accrued leave some staff members also have an amount of "capped" leave. During 2001 and 2002 the SA Post Office negotiated with staff in different categories that leave accrued up till that date would in future only be encashed at the salary as at that time. This leave can be taken as leave or encashed, but only after all other accrued leave has been taken. Any remaining balance will be paid out as cash when the employee leaves the service of the SA Post Office.

Given these rules, the SA Post Office recognises that the balances in both the "capped" leave and "normal" accrued leave will not be settled in the 12 months following the date of calculation, and therefore some form of calculation is required. In performing these calculations, has been applied an assumption that 50% of the balance standing in the "normal" accrued leave will be taken as leave in the next 12 months. The remainder of the "normal" and the balance in the "capped" leave will be paid out in cash when the employee leaves the service of the SA Post Office by death, resignation or retirement. In the case of the "accrued" leave, this will be based on the salary applicable at that date, and in the case of the "capped" leave, based on the current fixed rate.

A restricted number of employees are members of the leave provident fund. This provident fund provides for leave in excess of 60 days at a specific point in time. No additional employees may become members of this fund. Leave in this fund can only be en-cashed when the employee retires or resigns and cannot be utilised as leave. As provident fund assets are sufficient this leave is not accrued by the company.

#### Long service leave awards

The group has different policies in respect of long service leave awards. The group has valued this benefit in the current period, and shall be valuing the benefit annually. Any unrecognised actuarial gains or losses and past service costs are recognised immediately in profit or loss.

#### Sensitivity analysis - Long service leave awards

Discount rate analysis	Liability		Change in liability	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	%	%
+ 1 %	17,151	11,709	(5.1)	(4.5)
Central	18,077	12,257	-	-
- 1 %	19,102	12,855	5.7	4.9

## Notes to the Consolidated Audited Annual Financial Statements

### 21. Provisions (continued)

#### Long service cash awards

The group has a policy of increasing leave days due to employees reaching ten years of service with the SA Post Office. The increase in leave days is from 22 to 24 days in the employee's tenth period only. Any unrecognised actuarial gains or losses and past service costs are recognised immediately in profit or loss.

#### Sensitivity analysis - Long service cash awards

Discount rate analysis	Liability		Change in liability	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	%	%
+ 1 %	43,942	42,172	(4.0)	(4.7)
Central	45,788	44,266	-	-
- 1 %	47,795	45,606	4.4	3.0

#### Site restoration

The provision relates to the decommissioning costs that are expected to be incurred upon the termination or conclusion of lease agreements. These costs have been capitalised in terms of the relevant lease agreements. It is uncertain whether these leases will be extended or terminated earlier and this creates uncertainties regarding the amount and timing of the cash flows. There are no expected reimbursements for the costs that will be incurred.

The main assumptions used in the calculation of this provision are as follows:

The USO obliges the company to expand its presence in South Africa, especially in rural South Africa. This implies that the SA Post Office would most probably not reduce the number of leasehold premises, but instead expand its presence to more buildings. The type of leasehold premises has been taken into account when arriving at a conclusion regarding possible restoration requirements. A vacant stand with a MCP would probably not require restoration should they ever wish to relocate. In general the SA Post Office does not wish to relocate from shopping centres and malls. In the event that relocation is required, the terms of the lease and the nature of the company is business are such that restoration of the premises might not be required. The date that the SA Post Office originally occupied leasehold premises is also an indication of the intention to ever move out of the premises, thus negating the liability to restore such leasehold premises. During the year, the SA Post Office relocated from 7 (2014: 16) leasehold premises of which 6 (2014: 6) of the lessors required restoration.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>22. Trade and other payables</b>				
Trade payables	500,819	317,006	494,405	303,100
Accrued expenses	529,791	254,149	468,480	204,410
Deposits received	134,366	133,416	132,847	132,087
Employee benefit payments	142,016	18,231	138,127	14,133
Other payables	160,179	39,994	137,070	38,447
VAT	39,122	31,872	36,364	31,398
<b>Total trade and other payables</b>	<b>1,506,293</b>	<b>794,668</b>	<b>1,407,293</b>	<b>723,575</b>

### Fair value of trade payables

Trade payables	500,819	317,006	494,405	303,100
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Trade payables are discounted at interim and year end at the prime interest rate of 9.25% (2014: 9.00%) to bring them to their net present value.

### 23. Government grants

#### At fair value through profit or loss

Subsidy unutilised	-	85,305	-	85,305
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#### Current liabilities

Fair value through profit or loss	-	85,305	-	85,305
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The Government provided the company with a subsidy to cover a portion of its operating expenditure and to fund specific projects. The balances and transactions are summarised as below:

#### Subsidies received

Current period	43,860	-	43,860	-
Roll over from prior period	69,775	79,580	69,775	79,580

#### Less: expenditure acknowledged

Infrastructure	-	(9,805)	-	(9,805)
Universal Service Obligation	(69,775)	-	(69,775)	-
Financial support for costs	(43,860)	-	(43,860)	-

<b>Total subsidy unutilised</b>	<b>-</b>	<b>69,775</b>	<b>-</b>	<b>69,775</b>
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The Department of Telecommunications and Postal Services provided the company with a subsidy specifically for the Public Information Terminals and Citizens Post Offices during the past. However, no funding has been received for the last three financial years. The balances and transactions are summarised as below:

#### Subsidies received

Current period - interest accrued	-	709	-	709
Roll over from prior period	15,530	14,821	15,530	14,821

#### Less: expenditure acknowledged

Universal Service Obligation	(15,530)	-	(15,530)	-
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<b>Total subsidy unutilised</b>	<b>-</b>	<b>15,530</b>	<b>-</b>	<b>15,530</b>
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## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>24. Deferred income</b>				
<b>Deferred income consists of the following:</b>				
Bulk mail, parcels and registered letters revenue	34,664	22,631	34,664	22,631
Franking mail revenue	6,031	6,666	6,031	6,666
Box revenue	203,614	217,108	203,614	217,108
Stamp and envelope revenue	8,909	16,946	8,909	16,946
Speed services revenue	867	1,822	867	1,822
International revenue	391	486	391	486
Electronic Bill Presentment and Payments revenue (EBPP)	4,854	7,482	4,854	7,482
XPS freight	707	875	-	-
PX containers	136	456	-	-
Subscription fees	8,824	10,376	-	-
<b>Total deferred income</b>	<b>268,997</b>	<b>284,848</b>	<b>259,330</b>	<b>273,141</b>

### Relating to SA Post Office (company):

#### *Bulk mail, parcels and registered letters revenue*

The deferred income calculation is based on the mail delivery performance statistics. Assumptions were used that 30% of all mail posted was delivered within the same region and 70% between regions.

#### *Franking mail revenue*

The deferred income calculation is based on the assumption that eight working day's revenue is unearned. This period is formulated on a combination of the mail delivery standard and the holding time of customers after purchase.

#### *Box revenue*

The renewal cycle for the rental of the boxes is a calendar period from 1 January to 31 December, however, the financial period for the SA Post Office is 1 April to 31 March. This means that revenue for three months of the renewal cycle is earned for that financial period and the remaining nine months of the renewal cycle is regarded as deferred income.

#### *Stamp and envelope revenue*

The deferred income is based on the assumption that ten working days revenue is unearned. This period is formulated on a combination of the mail delivery standards and the holding time of customers after purchase.

#### *Speed services revenue*

- Domestic items:

40% of the revenue generated on the 31 March is deferred to the new financial year. This is due to the fact that the parcels must be delivered overnight and thus some of the parcels are only delivered on 1 April.

- International items:

80% of the revenue generated on the 31 March is deferred to the new financial year. This is due to the fact that the parcels must be delivered overnight and thus the majority of the parcels are only delivered on 1 April.

## Notes to the Consolidated Audited Annual Financial Statements

### **24. Deferred income (continued)**

#### ***International revenue***

As revenue has to be recognised when services are rendered and in terms of terminal dues, it will be recognised when items are delivered to their destinations. The mail delivery standards are applied for the different categories on a weighted average basis. The last seven days sales were extracted and the mail delivery performance statistics were used to calculate the revenue to be deferred for those days.

#### ***EBPP revenue***

The deferred income is for advance payments received for services that still needs to be rendered.

#### **Relating to CFG:**

#### ***XPS freight***

A report is extracted from the operational system, UNIVERSE, showing all items billed in the year, but not yet delivered.

Deferred income was calculated based on the stage of completion method, as follows:

The amount of days after year end until delivery divided by the total amount of days to complete delivery multiplied by the revenue billed and recognised.

#### ***PX containers***

A report is extracted from the operational system, INTAC, showing all containers billed in the year, but not yet delivered.

Deferred income was calculated based on the stage of completion method, as follows:

The amount of days after year end until delivery divided by the total amount of days to complete delivery multiplied by the revenue billed and recognised.

#### **Relating to Docex:**

#### ***Subscription fees***

Members pay the subscription fee annually. In cases where the membership overlaps two financial years, the portion of the amount belonging to the next financial year is the unearned revenue and is deferred to the next financial year.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>25. Deposits from the public</b>				
Term deposits	156,336	167,658	156,336	167,658
Transactional and savings accounts	4,731,707	4,569,952	4,731,707	4,569,952
<b>Total deposits from the public</b>	<b>4,888,043</b>	<b>4,737,610</b>	<b>4,888,043</b>	<b>4,737,610</b>

Deposit products include transactional accounts, savings accounts and term deposits. Transactional and savings accounts are all overnight deposits which are all payable on demand. Term deposits vary from one month to five years. All amounts owed to the depositors are classified as financial liabilities at cost. Interest payable on both transactional and deposit accounts are capitalised monthly. All account holders are individuals within the Republic of South Africa.

Interest paid on overnight deposit accounts is fixed and varies from 0.00% to 2.80% (2014: 0.00% to 2.83%) per annum depending on the account balance. Term deposits attract interest that varies from 3.75% to 5.65% per annum (2014: 4.80% to 5.30%) and all rates are linked to prime rate.

Deposits from the public are fully covered by investments and other financial assets as well as cash and bank balances, and these amounts are included in the total balances reflected in notes 9 and 17.

### 26. Funds collected on behalf of third parties

Agency services and collections	94,238	137,387	94,238	137,387
Money and postal orders	25,870	23,997	25,870	23,997
<b>Total funds collected on behalf of third parties</b>	<b>120,108</b>	<b>161,384</b>	<b>120,108</b>	<b>161,384</b>

Funds collected from the customers of the group third party clients are paid into their bank accounts within 24 hours following the collection at Post Office outlets. In terms of service level agreements with the clients, no interest will be paid to clients for the 24 hour period before the money collected is paid into the client's respective accounts. Money and postal orders are unclaimed obligations that are payable on demand.



## Notes to the Consolidated Audited Annual Financial Statements

### 27. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

#### Group - 2015

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available-for- sale	Closing balance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	3,386,648	-	-	-	3,386,648
Other financial assets	-	924,433	2,050,218	1,382,434	4,357,085
Trade and other receivables	546,534	-	-	-	546,534
<b>Total financial assets</b>	<b>3,933,182</b>	<b>924,433</b>	<b>2,050,218</b>	<b>1,382,434</b>	<b>8,290,267</b>

#### Group - 2014 (Restated)

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available-for- sale	Closing balance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	4,050,086	-	-	-	4,050,086
Other financial assets	-	833,103	1,897,612	1,552,719	4,283,434
Trade and other receivables	534,469	-	-	-	534,469
<b>Total financial assets</b>	<b>4,584,555</b>	<b>833,103</b>	<b>1,897,612</b>	<b>1,552,719</b>	<b>8,867,989</b>

#### Company - 2015

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available-for- sale	Closing balance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	3,347,218	-	-	-	3,347,218
Other financial assets	-	924,433	2,050,218	1,382,434	4,357,085
Trade and other receivables	508,799	-	-	-	508,799
<b>Total financial assets</b>	<b>3,856,017</b>	<b>924,433</b>	<b>2,050,218</b>	<b>1,382,434</b>	<b>8,213,102</b>

#### Company - 2014 (Restated)

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available-for- sale	Closing balance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	4,013,868	-	-	-	4,013,868
Other financial assets	-	833,103	1,882,000	1,552,719	4,267,822
Inter group loans and long term receivables	3,487	-	-	-	3,487
Trade and other receivables	491,954	-	-	-	491,954
<b>Total financial assets</b>	<b>4,509,309</b>	<b>833,103</b>	<b>1,882,000</b>	<b>1,552,719</b>	<b>8,777,131</b>

Trade and other receivables in the above tables exclude prepayments and VAT, which do not represent financial instruments.

## Notes to the Consolidated Audited Annual Financial Statements

### 28. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

#### Group - 2015

	Financial liabilities at amortised cost R '000	Fair value through profit or loss - designated R '000	Closing balance R '000
Bank overdraft	78,729	-	78,729
Deposits from the public	4,888,043	-	4,888,043
Funds collected on behalf of third parties	120,108	-	120,108
Trade and other payables	500,819	966,352	1,467,171
<b>Total financial liabilities</b>	<b>5,587,699</b>	<b>966,352</b>	<b>6,554,051</b>

#### Group - 2014 (Restated)

	Financial liabilities at amortised cost R '000	Fair value through profit or loss - designated R '000	Closing balance R '000
Bank overdraft	350,350	-	350,350
Deposits from the public	4,737,610	-	4,737,610
Funds collected on behalf of third parties	161,384	-	161,384
Trade and other payables	317,006	445,790	762,796
<b>Total financial liabilities</b>	<b>5,566,350</b>	<b>445,790</b>	<b>6,012,140</b>

#### Company - 2015

	Financial liabilities at amortised cost R '000	Fair value through profit or loss - designated R '000	Closing balance R '000
Bank overdraft	78,729	-	78,729
Deposits from the public	4,888,043	-	4,888,043
Funds collected on behalf of third parties	120,108	-	120,108
Trade and other payables	494,405	876,524	1,370,929
<b>Total financial liabilities</b>	<b>5,581,285</b>	<b>876,524</b>	<b>6,457,809</b>

#### Company - 2014 (Restated)

	Financial liabilities at amortised cost R '000	Fair value through profit or loss - designated R '000	Closing balance R '000
Bank overdraft	350,350	-	350,350
Deposits from the public	4,737,610	-	4,737,610
Funds collected on behalf of third parties	161,384	-	161,384
Trade and other payables	303,100	389,077	692,177
<b>Total financial liabilities</b>	<b>5,552,444</b>	<b>389,077</b>	<b>5,941,521</b>

At year-end there were no financial liabilities held for trading.

Trade and other payables in the above tables exclude VAT, which do not represent financial instruments.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>29. Revenue</b>				
Postbank service charges	265,568	308,160	265,568	308,160
Postbank interest revenue	340,658	275,575	340,658	275,575
Retail products	47,722	77,973	47,722	77,973
Services rendered - Postal	3,531,048	4,060,515	3,513,489	4,047,004
Services rendered - Agency and money transfer	363,395	353,059	363,395	353,059
Services rendered - Courier	464,099	676,730	180,387	309,793
<b>Total revenue</b>	<b>5,012,490</b>	<b>5,752,012</b>	<b>4,711,219</b>	<b>5,371,564</b>

Revenue comprises income from services provided and the sale of retail products, excluding VAT, rebates, and discounts as well as Postbank finance income, excluding VAT.

These services include work performed as an agent for certain Government departments, other authorities and businesses. Refer to note 43 for more information.

### 30. Other income

Commissions received	1,838	1,781	1,838	1,781
Fees earned	11,493	16,230	11,493	16,230
Foreign exchange differences	-	5,308	-	5,308
Other income	68,238	40,444	66,647	37,270
Recoveries	132,496	(41,427)	187,081	57,414
Rental income	38,110	49,839	36,964	49,635
Sundry income	13,688	6,302	13,675	5,973
Technology	29,128	31,637	29,128	31,637
<b>Total other income</b>	<b>294,991</b>	<b>110,114</b>	<b>346,826</b>	<b>205,248</b>

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 31. Depreciation, amortisation and impairments

The following items are included within depreciation, amortisation and impairments:

#### Depreciation

Property, plant and equipment	125,373	132,888	122,903	129,844
Investment property	401	514	364	514
<b>Total depreciation</b>	<b>125,774</b>	<b>133,402</b>	<b>123,267</b>	<b>130,358</b>

#### Amortisation

Intangible assets	23,309	33,730	22,787	33,183
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#### Impairments

Property, plant and equipment	-	-	-	-
Investment property	-	-	-	-
Heritage assets	-	-	-	-
Intangible assets	-	-	-	-
Investments in subsidiaries	-	-	11,860	-
Inter company loans and long term receivables	-	-	77,996	-
Inventories	(1,629)	(785)	(1,629)	(737)
Trade and other receivables	773	(922)	894	96,233
<b>Total impairments</b>	<b>(856)</b>	<b>(1,707)</b>	<b>89,121</b>	<b>95,496</b>

#### Total depreciation, amortisation and impairments

Depreciation	125,774	133,402	123,267	130,358
Amortisation	23,309	33,730	22,787	33,183
Impairments	(856)	(1,707)	89,121	95,496
<b>Total depreciation, amortisation and impairments</b>	<b>148,227</b>	<b>165,425</b>	<b>235,175</b>	<b>259,037</b>

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000

### 32. Operating loss

Operating loss for the year is stated after accounting for the following:

#### Operating lease charges

Premises				
▪ Contractual amounts	354,578	351,359	337,772	337,426
Motor vehicles				
▪ Contractual amounts	121,560	132,054	108,640	105,197
Equipment				
▪ Contractual amounts	16,070	15,484	16,022	15,385
<b>Total operating lease charges</b>	<b>492,208</b>	<b>498,897</b>	<b>462,434</b>	<b>458,008</b>
Impairment of investments in subsidiaries	-	-	11,860	-
Impairment of loans to group companies	-	-	77,996	-
Impairments (reversals) of trade and other receivables	773	(922)	894	96,233
(Profit) loss on exchange differences	726	(5,308)	726	(5,308)
Amortisation on intangible assets	23,309	33,730	22,787	33,183
Depreciation on property, plant and equipment	125,373	132,888	122,903	129,844
Depreciation on investment property	401	514	364	514
Employee costs	3,769,657	3,618,068	3,599,091	3,448,565
Research and development costs	905	818	905	818
Transport costs	562,184	704,326	405,468	502,367

### 33. Finance income

#### Dividend income

Unlisted financial assets - Local	21,776	-	41,744	-
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#### Interest income

Available-for-sale	-	135	-	135
Held-to-maturity	105,413	117,568	105,386	118,804
Trade and other payables discounting	31,386	23,875	29,139	23,651
<b>Total interest income</b>	<b>136,799</b>	<b>141,578</b>	<b>134,525</b>	<b>142,590</b>
<b>Total finance income</b>	<b>158,575</b>	<b>141,578</b>	<b>176,269</b>	<b>142,590</b>

Interest income on impaired financial assets amounted to R 1,881 million (2014: R 2,205 million).

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 34. Fair value adjustments

Heritage assets	-	21,965	-	21,965
Other financial assets	95,031	67,005	95,031	67,005
<b>Total fair value adjustments</b>	<b>95,031</b>	<b>88,970</b>	<b>95,031</b>	<b>88,970</b>

Heritage assets were recognised for the first time in the previous year. The inflow of resources from a non-exchange transaction recognised as an asset will be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow (which is the case when a stipulation is a condition). Refer to note 5 for more detail.

The fair value gains and losses recognised in other financial assets are derived from financial assets subsequently measured at fair value through profit or loss and relate to the PRMA Asset as well as the Provident Fund Asset. Refer to note 11 for more detail.

### 35. Interest paid

Actuarial valuations	129,664	108,087	129,289	107,757
Former TBVC States loan	1,259	18,997	1,259	18,997
Interest paid other	17,472	12,066	17,458	12,271
Postbank interest paid	55,229	35,613	55,229	35,613
Trade and other receivables discounting	(6,519)	(1,072)	(6,519)	(1,073)
Unwinding of site restoration provision	-	20,622	-	20,622
<b>Total interest paid</b>	<b>197,105</b>	<b>194,313</b>	<b>196,716</b>	<b>194,187</b>

### 36. Taxation

#### Major components of the tax expense (income)

#### Current

Local income tax - current period	125	45	-	-
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#### Deferred

Originating and reversing temporary differences	559,242	(75,346)	557,521	(76,328)
Arising from previously unrecognised tax loss / tax credit / temporary difference	-	79	-	-
Benefit of unrecognised tax loss / tax credit / temporary difference used to reduce deferred tax expense	-	(91,486)	-	(91,437)
Originating and reversing temporary differences (OCI)	-	20,411	-	20,411
Arising from prior period adjustments	-	336	-	335
<b>Total deferred taxation</b>	<b>559,242</b>	<b>(146,006)</b>	<b>557,521</b>	<b>(147,019)</b>
<b>Total taxation</b>	<b>559,367</b>	<b>(145,961)</b>	<b>557,521</b>	<b>(147,019)</b>

Applicable tax rate	28.00 %	28.00 %	28.00 %	28.00 %
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## Notes to the Consolidated Audited Annual Financial Statements

### 37. Other comprehensive income

#### Components of other comprehensive income - Group - 2015

	Gross	Tax	Net
	R '000	R '000	R '000
<b>Items that will not be reclassified to profit or loss</b>			
<b>Remeasurements on net defined benefit liability</b>			
Actuarial losses arising during the year	(26,743)	(8,666)	(35,409)
<b>Items that may be reclassified to profit or loss</b>			
<b>Available-for-sale financial assets adjustments</b>			
Gains arising during the year	119	12,067	12,186
<b>Total other comprehensive income</b>	<b>(26,624)</b>	<b>3,401</b>	<b>(23,223)</b>

#### Components of other comprehensive income - Group - 2014 (Restated)

	Gross	Tax	Net
	R '000	R '000	R '000
<b>Items that will not be reclassified to profit or loss</b>			
<b>Remeasurements on net defined benefit liability</b>			
Actuarial losses arising during the year	(30,918)	8,666	(22,252)
<b>Items that may be reclassified to profit or loss</b>			
<b>Available-for-sale financial assets adjustments</b>			
Gains arising during the year	8,264	(1,543)	6,721
<b>Total other comprehensive income</b>	<b>(22,654)</b>	<b>7,123</b>	<b>(15,531)</b>

#### Components of other comprehensive income - Company - 2015

	Gross	Tax	Net
	R '000	R '000	R '000
<b>Items that will not be reclassified to profit or loss</b>			
<b>Remeasurements on net defined benefit liability</b>			
Actuarial losses arising during the year	(26,785)	(8,666)	(35,451)
<b>Items that may be reclassified to profit or loss</b>			
<b>Available-for-sale financial assets adjustments</b>			
Gains arising during the year	119	12,067	12,186
<b>Total other comprehensive income</b>	<b>(26,666)</b>	<b>3,401</b>	<b>(23,265)</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 37. Other comprehensive income (continued)

#### Components of other comprehensive income - Company - 2014 (Restated)

	Gross R '000	Tax R '000	Net R '000
<b>Items that will not be reclassified to profit or loss</b>			
<b>Remeasurements on net defined benefit liability</b>			
Actuarial losses for the year	(30,950)	8,666	(22,284)
<b>Items that may be reclassified to profit or loss</b>			
<b>Available-for-sale financial assets adjustments</b>			
Gains arising during the year	8,264	(1,543)	6,721
<b>Total other comprehensive income</b>	<b>(22,686)</b>	<b>7,123</b>	<b>(15,563)</b>

	Group		Company	
	2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000
Fees	26,965	15,591	25,760	13,409

### 38. Auditors' remuneration

Fees	26,965	15,591	25,760	13,409
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### 39. Cash used in operations

Loss before taxation	(937,663)	(552,632)	(904,152)	(576,099)
<b>Adjustments for:</b>				
Depreciation and amortisation	149,083	167,132	146,054	163,541
Net loss on retirement of assets	10,358	12,317	9,503	12,894
Dividends income	(21,776)	-	(41,744)	-
Interest income	(136,799)	(141,578)	(134,525)	(142,590)
Interest paid	197,105	194,313	196,716	194,187
Fair value adjustments	(95,031)	(88,970)	(95,031)	(88,970)
Movements in operating lease assets and accruals	(3,168)	10,617	(2,650)	11,365
Movements in retirement benefit assets and liabilities	12,512	2,474	12,546	2,504
Movements in provisions	(130,243)	57,299	(133,023)	68,372
(Profit) or loss on exchange differences	726	(5,308)	726	(5,308)
Deferred income	(15,851)	7,934	(13,811)	9,637
Other non-cash items	8,482	(9,682)	(10,914)	(10,384)
<b>Changes in working capital:</b>				
Inventories	9,544	(26,534)	9,383	(26,312)
Trade and other receivables	(12,065)	11,815	(16,854)	13,260
Prepayments	15,676	(17,419)	15,676	(26,351)
Trade and other payables	711,625	49,679	683,718	33,431
Deposits from the public	90,128	192,664	88,242	193,802
<b>Total cash used in operations</b>	<b>(147,357)</b>	<b>(135,879)</b>	<b>(190,140)</b>	<b>(173,021)</b>



## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>40. Tax (paid) refunded</b>				
Balance at the beginning of the year	114	34,293	-	34,163
Current tax for the year recognised in profit or loss	(125)	(45)	-	-
Balance at the end of the year	(101)	(114)	-	-
<b>Tax (paid) refunded</b>	<b>(112)</b>	<b>34,134</b>	<b>-</b>	<b>34,163</b>

### 41. Commitments

#### Authorised capital expenditure

Capital expenditure authorised by the Administrator and the Board of Directors at reporting date, but not yet recognised in the financial statements are as follows:

##### Already contracted for:

▪ Property, plant and equipment	141,309	181,330	141,293	180,885
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This committed expenditure relates to property, plant and equipment and will be financed by existing cash resources.

#### Operating leases – as lessee (expense)

##### Minimum lease payments due - Buildings

- within one year	174,031	207,172	164,311	197,608
- in second to fifth year inclusive	528,263	603,733	520,162	598,907
- later than five years	57,111	74,531	57,111	74,531
<b>Total minimum lease payments due</b>	<b>759,405</b>	<b>885,436</b>	<b>741,584</b>	<b>871,046</b>

None of the lease agreements contain any contingent rent clauses and it is assumed that there are no contingent rent payments. It is also assumed that there are no restrictions that would impose additional debts that are not covered in the minimum contract terms. Rental payments are based on a rate per square meter relating to the prevalent market rate at the inception of the contract. Escalation clauses vary from contract to contract averaging at 8.00% (2014: 8.00%). Contract renewal options are assumed to be exercised by the company, unless decided otherwise by management.

##### Minimum lease payments due - Vehicles

- within one year	59,881	86,263	58,269	80,236
- in second to fifth year inclusive	18,424	50,207	17,404	46,300
<b>Total minimum lease payments due</b>	<b>78,305</b>	<b>136,470</b>	<b>75,673</b>	<b>126,536</b>

The group leases vehicles from Avis Fleet Services and Fleet Africa under Full Maintenance Lease (FML) agreements. The lease period ranges from two to five years at an interest rate of prime less 2.00% to prime plus 2.25% (2014: prime less 2.00% to prime plus 2.25%). The vehicles are being utilised for the delivery of parcels and mail.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 41. Commitments (continued)

#### Operating leases – as lessor (income)

##### Minimum lease payments due - Buildings

- within one year	11,543	7,869	9,180	8,303
- in second to fifth year inclusive	29,134	24,273	26,923	24,653
- later than five years	453	1,507	453	1,507
<b>Total minimum lease payments due</b>	<b>41,130</b>	<b>33,649</b>	<b>36,556</b>	<b>34,463</b>

Rental income has been based on a rate per square meter relating to the prevalent market rate at the inception of each contract. Escalation clauses vary from contract to contract with an average of 7.00% (2014: 7.00%). Lease agreements are entered into for a minimum of two years to a maximum of three year period. Contract renewal option period is assumed to be exercised by the company, unless decided otherwise by management. None of the lease agreements contain any contingent rent clauses.

##### Minimum lease payments due - Vehicles

- within one year	-	-	3,959	4,715
- in second to fifth year inclusive	-	-	2,640	3,144
<b>Total minimum lease payments due</b>	<b>-</b>	<b>-</b>	<b>6,599</b>	<b>7,859</b>

Vehicles are leased to CFG for a period of 36 months at an amount of R 392 939 per month with an interest cost of prime plus 1.00%.

### 42. Contingencies

The following contingent liabilities were identified:

Bank guarantees	8,341	8,353	6,264	6,275
Civil claim	-	40,400	-	40,400
Guarantees in respect of employee housing loans	1,371	1,503	1,371	1,503
Summons	-	296,725	-	296,725
Service providers	104,377	17,982	102,142	16,601
<b>Total contingencies</b>	<b>114,089</b>	<b>364,963</b>	<b>109,777</b>	<b>361,504</b>

In the lawsuit of NASASA Cellular (Pty) Ltd (NASASA) versus the SA Post Office the parties have purportedly signed a settlement agreement for SA Post Office to pay R 50 million to NASASA. SA Post Office was compelled to pay this amount into the bank account of the Deputy Sheriff of the Court. Despite this SA Post Office is challenging the validity and legal enforceability of the settlement agreement in the High Court.

### 43. Related parties

#### Relationships

Ultimate holding company	The South African Government
Holding company	The South African Post Office SOC Limited
Subsidiaries	Refer to note 7
Members of key management	Refer to note 44
Shareholder with significant influence	The Department of Telecommunications and Postal Services National Treasury
Post employment benefit plan for employees	Old Mutual Corporate Limited
Administrator and Directors' interest in contracts	People Perfect (Pty) Ltd - Dr. S Lushaba T-Systems South Africa (Pty) Ltd - Ms. G Simelane

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>43. Related parties (continued)</b>				
All related party transactions below have been made at arm's length.				
<b>Related party balances</b>				
<b>Loans and long term receivables - Owing by related parties</b>				
Sapos Properties (Bloemfontein) (Pty) Ltd	-	-	442	397
Sapos Properties (Cape Town) (Pty) Ltd	-	-	1,576	1,394
Sapos Properties (East Rand) (Pty) Ltd	-	-	3,024	2,962
Sapos Properties (Port Elizabeth) (Pty) Ltd	-	-	475	714
Sapos Properties (Rossburgh) (Pty) Ltd	-	-	3,704	3,322
The Courier and Freight Botswana (Pty) Ltd	3,560	3,560	-	-
The Courier and Freight Group (Pty) Ltd	-	-	549,245	471,071
The Courier and Freight Namibia (Pty) Ltd	2,294	2,294	-	-
The Document Exchange (Pty) Ltd	-	-	228	530
<b>Amounts included in trade receivables regarding related parties</b>				
Centriq Insurance Innovation (Pty) Ltd	79	3,321	79	3,321
Department of Telecommunications and Postal Services	-	1,422	-	200
Telkom SA Limited	3,087	-	3,050	-
The Document Exchange (Pty) Ltd	-	-	221	497
<b>Amounts included in trade payables regarding related parties</b>				
Centriq Insurance Innovation (Pty) Ltd	2,587	839	1,715	644
National Treasury	1,133	2,235	1,133	2,235
Telkom SA Limited	11,908	-	11,326	-
The Courier and Freight Group (Pty) Ltd	-	-	11,617	5,523
The Independent Communications Authority of South Africa	80	65	80	62
<b>Convertible Shareholder instruments</b>				
Department of Telecommunications and Postal Services	287,176	287,176	287,176	287,176
National Treasury	205,000	205,000	205,000	205,000
<b>Operating lease assets</b>				
The Courier and Freight Group (Pty) Ltd	-	-	2	3
The Document Exchange (Pty) Ltd	-	-	18	125
<b>Provision for bad debts</b>				
Sapos Properties (Bloemfontein) (Pty) Ltd	-	-	1,192	1,147
Sapos Properties (Cape Town) (Pty) Ltd	-	-	4,101	2,869
Sapos Properties (East Rand) (Pty) Ltd	-	-	9,894	2,962
Sapos Properties (Port Elizabeth) (Pty) Ltd	-	-	2,145	961
Sapos Properties (Rossburgh) (Pty) Ltd	-	-	7,504	4,642
The Courier and Freight Botswana (Pty) Ltd	3,560	3,560	-	-
The Courier and Freight Group (Pty) Ltd	-	-	551,194	472,124
The Courier and Freight Namibia (Pty) Ltd	2,294	2,294	-	-
The Document Exchange (Pty) Ltd	-	-	228	530

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
<b>43. Related parties (continued)</b>				
<b>Related party transactions</b>				
<b>Interest paid to (receivable from) related parties</b>				
Department of Telecommunications and Postal Services	-	709	-	709
The Courier and Freight Group (Pty) Ltd	-	-	(1,881)	(2,205)
<b>Purchases from related parties</b>				
Centriq Insurance Innovation (Pty) Ltd	30,755	-	28,312	-
National Treasury	420,576	399,937	420,576	399,937
People Perfect (Pty) Ltd	1,019	-	-	-
Telkom SA Limited	4,407,842	-	4,401,680	-
The Independent Communications Authority of South Africa	25,089	26,244	25,089	26,244
T-Systems South Africa (Pty) Ltd	508	-	-	-
<b>Sales to related parties</b>				
Centriq Insurance Innovation (Pty) Ltd	22,604	-	22,604	-
Department of Telecommunications and Postal Services	-	1,684	-	-
National Treasury	445	11	445	1
The Presidency	27	119	27	-
Telkom SA Limited	88,401	-	88,325	-
<b>Management fees expensed in relation to related parties</b>				
The Courier and Freight Group (Pty) Ltd	-	-	47,963	47,963
<b>Commission and administration fees received in relation to related parties</b>				
Centriq Insurance Innovation (Pty) Ltd	3,213	4,222	2,154	2,931
The Document Exchange (Pty) Ltd	-	-	1,200	1,200
<b>Support charges recoveries in relation to related parties</b>				
The Courier and Freight Group (Pty) Ltd	-	-	49,225	45,911
<b>Linehaul costs recoveries from related parties</b>				
The Courier and Freight Group (Pty) Ltd	-	-	70,007	94,936
<b>Rent received from related parties</b>				
The Courier and Freight Group (Pty) Ltd	-	-	40	41
The Document Exchange (Pty) Ltd	-	-	556	653
<b>Premiums paid to related parties</b>				
Centriq Insurance Innovation (Pty) Ltd	13,700	40,395	13,700	40,395

## Notes to the Consolidated Audited Annual Financial Statements

### 44. Administrator, Directors' and Prescribed Officer's emoluments

The following emoluments were paid to the Administrator, Directors or any individuals holding a prescribed office during the year:

#### Executive Directors 2015

		Emoluments	Pension paid or receivable	Other benefits <sup>1</sup>	Total
		R '000	R '000	R '000	R '000
Mr CJ Hlekane	2	2,844	267	-	3,111
Ms K Mzozoyana	3	2,067	196	24	2,287
Mr M Mathonsi	4	2,126	199	18	2,343
Mr S Adam	5	1,998	189	9	2,196
Mr MJ Mathibe	6	601	57	8	666
Ms NJ Dewar	7	1,615	152	9	1,776
<b>Total executive emoluments</b>		<b>11,251</b>	<b>1,060</b>	<b>68</b>	<b>12,379</b>

1. Other benefits include mainly telephone and various travel related reimbursements.
  2. Group CEO. Also a Director of CFG, Docex and Saspos Properties.
  3. Group CFO. Also a Director of CFG and Docex and Saspos Properties.
  4. Acting group CEO. Appointed 03 October 2014. Group COO. Appointed 01 July 2014.
  5. Acting MD: Postbank. Resigned as Director of the group on 15 October 2014. Still acting as MD: Postbank.
  6. MD: CFG. Also acting MD: Docex. Resigned 25 July 2014.
  7. Acting group CFO from 17 July 2015. Also CFO: Postbank.
- Resigned implies resigned or retired.

#### Executive Directors 2014 (Restated)

		Emoluments	Pension paid or receivable	Expense allowance	Other benefits <sup>1</sup>	Total
		R '000	R '000	R '000	R '000	R '000
Mr CJ Hlekane	2	2,844	264	-	-	3,108
Ms K Mzozoyana	3	2,098	194	53	-	2,345
Mr S Adam	4	1,825	169	-	9	2,003
Mr MJ Mathibe	5	1,890	220	36	9	2,155
Mr B Yafele	6	1,463	-	9	-	1,472
<b>Total executive emoluments</b>		<b>10,120</b>	<b>847</b>	<b>98</b>	<b>18</b>	<b>11,083</b>

1. Other benefits include mainly telephone and various travel related reimbursements.
  2. Group CEO. Also a Director of CFG, Docex and Saspos Properties.
  3. Group CFO. Also a Director of CFG, Docex and Saspos Properties.
  4. Acting MD: Postbank.
  5. MD: CFG. Also acting MD: Docex.
  6. Group COO. Resigned 14 November 2013.
- Resigned implies resigned or retired.

## Notes to the Consolidated Audited Annual Financial Statements

### 44. Administrator, Directors' and Prescribed Officer's emoluments (continued)

#### Administrator and non-executive Directors 2015

		Emoluments <sup>1</sup>	Expense allowance <sup>2</sup>	Total
		R '000	R '000	R '000
Dr SD Lushaba	3	1,362	-	1,362
Dr HN Manzini	4	352	3	355
Ms G Simelane	5	269	10	279
Mr JS Ngubane	6	300	8	308
Mr MS Patel	7	420	3	423
Ms N Kela	8	316	9	325
Ms NG Mthethwa	9	302	8	310
Mr R Sishuba	10	211	12	223
Mr S Gounden	6	349	15	364
Ms SP Mothelesi	6	335	6	341
Mr T Mageza	6	330	16	346
<b>Total non-executive emoluments</b>		<b>4,546</b>	<b>90</b>	<b>4,636</b>

- Emoluments include Administrator fees, Directors' fees for meetings and annual / quarterly retainer fees.
  - The group re-imburses travel and accommodation expenses for members outside the Gauteng province.
  - Administrator. Appointed 07 November 2014 to 13 August 2015. Chairperson of the Board. Appointed 13 August 2015.
  - Acting Chairperson of the Board. Also a Director of CFG. Resigned 07 November 2014.
  - Resigned 22 April 2014.
  - Resigned 07 November 2014.
  - Also a Director of CFG. Resigned 07 November 2014.
  - Also a Director of CFG and Docex. Resigned 07 November 2014.
  - Also Chairperson of the Board of Docex. Resigned 23 October 2014.
  - Resigned 23 October 2014.
- Resigned implies resigned or retired.

#### Non-executive Directors 2014 (Restated)

		Emoluments <sup>1</sup>	Expense allowance <sup>2</sup>	Total
		R '000	R '000	R '000
Dr HN Manzini	3	526	19	545
Mr G Mothema	4	75	2	77
Ms G Simelane		519	17	536
Mr H Daniels	5	546	21	567
Mr JS Ngubane	6	128	3	131
Mr MS Patel	7	615	40	655
Ms N Kela	8	597	17	614
Ms NG Mthethwa	9	650	18	668
Mr R Sishuba	10	588	32	620
Mr S Gounden	6	122	5	127
Ms SP Mothelesi	6	123	1	124
Mr T Mageza	6	141	7	148
<b>Total non-executive emoluments</b>		<b>4,630</b>	<b>182</b>	<b>4,812</b>

- Emoluments include both Directors' fees for meetings and annual / quarterly retainer fees.
  - The group re-imburses travel and accommodation expenses for members outside the Gauteng province.
  - Acting Chairperson of the Board. Also a Director of CFG.
  - Resigned 26 June 2013.
  - Resigned 22 April 2014.
  - Appointed 17 December 2013.
  - Also a Director of CFG.
  - Also a Director of CFG and Docex.
  - Also Chairperson of the Board of CFG and Director of Docex.
  - Also Chairperson of the Board of Docex.
- Resigned implies resigned or retired.

## Notes to the Consolidated Audited Annual Financial Statements

### 44. Administrator, Directors' and Prescribed Officer's emoluments (continued)

#### Prescribed officers 2015

		Emoluments	Pension paid or receivable	Leave pay	Other benefits <sup>1</sup>	Total
		R '000	R '000	R '000	R '000	R '000
Mr A Nongogo	2	237	24	-	6	267
Ms AR Seafield	3	296	28	-	6	330
Mr B Tiribabi	4	907	85	-	15	1,007
Mr CA Phillips	5	1,220	118	-	24	1,362
Ms D Lume	6	544	59	-	-	603
Mr FS Mamotsau	7	390	36	-	5	431
Mr G Bataille	8	237	-	-	3	240
Mr JS Kotsi	9	1,065	103	246	18	1,432
Mr K Mothobi	10	1,231	-	-	-	1,231
Ms KT Rapoo	11	932	92	-	-	1,024
Mr L Lose	12	1,227	118	-	22	1,367
Mr LP Govender	13	1,205	116	-	9	1,330
Mr M Borotho	14	1,250	118	-	24	1,392
Mr M Faasen	15	1,047	124	-	-	1,171
Ms M Kgari	16	831	82	-	13	926
Adv MM Mphelo	17	804	76	-	8	888
Ms MR Maleka	18	826	78	-	-	904
Mr NA Mnisi	19	99	12	163	2	276
Mr NC Dube	20	622	84	62	-	768
Mr P Ngomane	21	900	87	-	9	996
Mr PS Swart	22	303	30	-	3	336
Ms S Myburg	23	942	92	-	9	1,043
Mr TE Xiphu	24	1,361	129	-	24	1,514
MSTN Mashanda	25	2,393	-	-	9	2,402
<b>Total prescribed officers emoluments</b>		<b>20,869</b>	<b>1,691</b>	<b>471</b>	<b>209</b>	<b>23,240</b>

- Other benefits include mainly telephone and various travel related reimbursements.
  - Acting GE: Mail Business from 21 January 2015.
  - GE: Human Capital Management. Appointed 5 January 2015.
  - Acting group CIO. Resigned 03 April 2015.
  - Chief Audit Executive.
  - GM: Docex.
  - Acting MD: CFG. Also acting MD: Docex. Acting since 27 October 2014.
  - Acting GE: Retail from 19 January 2015.
  - Non-executive Director: Sapos Properties. Also GE: Mail Business. Retired 31 December 2014.
  - Acting GE: CEO. Contracted employee. Resigned 6 February 2015.
  - Acting MD: Sapos Properties
  - GE: Corporate Affairs. Resigned 28 February 2015.
  - GE: Management Accounting. Also GM: Office of the CEO from 31 March 2015.
  - GE: Supply Chain Management.
  - Group Principal Officer.
  - Acting GE: Retail from 5 January 2014. Acting period ended 18 January 2015.
  - Acting group Company Secretary. Resigned 28 February 2015.
  - Acting group CFO from 11 March 2015 to 16 July 2015. Also GM: Treasury. Appointed 14 July 2014.
  - Non-executive Director: Sapos Properties. Also GE: Retail. Resigned 30 April 2014.
  - Non-executive Director: Docex. Also GM: CFG. Resigned 8 December 2014.
  - GM: Security & Investigation Services.
  - Acting GE: Mail Business from 3 October 2014. Acting period ended 20 January 2015.
  - Acting GE: Human Resources. Acting period ended 5 January 2015.
  - GE: Corporate Affairs.
  - GE: Bank Controlling.
- Resigned implies resigned or retired.

## Notes to the Consolidated Audited Annual Financial Statements

### 44. Administrator, Directors' and Prescribed Officer's emoluments (continued)

#### Prescribed officers 2014 (Restated)

		Emoluments	Pension paid or receivable	Expense allowance	Leave pay	Other benefits <sup>1</sup>	Total
		R '000	R '000	R '000	R '000	R '000	R '000
Mr B Tiribabi	2	914	85	16	-	-	1,015
Ms BS Bulunga	3	969	90	28	-	21	1,108
Mr CA Phillips	4	1,245	115	30	-	23	1,413
Mr DD Jacobs	5	601	-	-	-	8	609
Mr JS Kotsi	6	1,454	135	30	-	23	1,642
Mr K Mothobi	7	1,427	-	-	-	-	1,427
Ms KT Rapoo	8	974	90	30	-	-	1,094
Mr L Lose	9	1,369	127	30	-	68	1,594
Mr LP Govender	10	1,233	114	30	-	9	1,386
Mr M Borotho	11	625	59	12	-	-	696
Mr M Faasen	12	1,103	120	30	-	-	1,253
Ms M Lancaster	13	822	87	20	84	16	1,029
Mr MC Sebusi	14	273	-	6	-	2	281
Adv MM Mphelo	15	881	83	-	-	-	964
Mr MS Diaz	16	973	90	20	53	16	1,152
Mr NA Mnisi	17	1,301	123	-	-	23	1,447
Ms NJ Dewar	18	1,615	150	-	-	9	1,774
Mr P Ngomane	19	933	86	36	-	9	1,064
Ms S Myburg	20	975	90	36	-	9	1,110
Mr TE Xiphu	21	1,362	126	10	-	23	1,521
Ms TN Mashanda	22	2,302	-	6	-	-	2,308
<b>Total prescribed officers emoluments</b>		<b>23,351</b>	<b>1,770</b>	<b>370</b>	<b>137</b>	<b>259</b>	<b>25,887</b>

1. Other benefits include mainly telephone and various travel related reimbursements.

2. Acting group CIO. Appointed 19 April 2013.

3. Group Company Secretary. Resigned 14 February 2014.

4. Chief Audit Executive.

5. Executive Legal Advisor. Resigned 30 September 2013.

6. GE: Mail Business.

7. Acting GE: CEO. Contracted employee.

8. Acting MD: Sapos Properties

9. GE: Corporate Affairs.

10. GE: Management Accounting. Appointed 01 October 2013. Acting GE: Supply Chain Management. Resigned 30 September 2013.

11. GE: Supply Chain Management. Appointed 01 October 2013.

12. Group Principal Officer.

13. GE: Strategy. Resigned 03 December 2013. Acting CIO. Resigned 18 April 2013.

14. GM: Treasury. Resigned 30 June 2013.

15. Acting group Company Secretary. Appointed 15 February 2014.

16. Acting GE: Human Resources. Resigned 01 July 2013.

17. GE: Retail.

18. CFO: Postbank

19. GM: Security & Investigation Services.

20. Acting GE: Human Resources. Appointed 01 July 2013.

21. GE: Government Relations.

22. GE: Bank Controlling.

Resigned implies resigned or retired.



## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 45. Risk management

#### Capital risk management

Capital risk refers to the risk that the group will become unable to absorb losses, maintain public confidence and support the competitive growth of the business. The management of capital risk will ensure that opportunities can be acted on timeously while solvency is never threatened.

The group's objectives when managing capital are to safeguard the group'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 group consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 8, 23 & 25, cash and cash equivalents disclosed in note 17, and equity as disclosed in the Statement Of Financial Position.

The group 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 bank balances. Total capital is calculated as 'equity' as shown in the Statement Of Financial Position plus net debt.

The group's exposure to capital risk arises from primarily the following:

- Funds which are being received from the Shareholder may cease before completion of the projects that they are intended to finance; and
- Funds received from the Shareholder are specifically for certain identified projects.

Capital risk is managed in terms of certain guidelines agreed between the group and Shareholder.

There are no externally imposed capital requirements.

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.

The gearing ratio at 31 March 2015 and 31 March 2014 and respectively were as follows:

Bank overdraft	17	78,729	350,350	78,729	350,350
Deposits from the public	25	4,888,043	4,737,610	4,888,043	4,737,610
<b>Total borrowings</b>		<b>4,966,772</b>	<b>5,087,960</b>	<b>4,966,772</b>	<b>5,087,960</b>
Less: Cash and bank balances	17	3,386,648	4,050,086	3,347,218	4,013,868
Net debt		1,580,124	1,037,874	1,619,554	1,074,092
Add: Capital and reserves		815,506	2,335,759	854,357	2,339,295
<b>Total capital</b>		<b>2,395,630</b>	<b>3,373,633</b>	<b>2,473,911</b>	<b>3,413,387</b>
Gearing ratio		66 %	31 %	66 %	32 %

## Notes to the Consolidated Audited Annual Financial Statements

### 45. Risk management (continued)

#### Financial risk management

The group'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.

A comprehensive treasury policy has been compiled and approved by the Board to ensure that all financial risks to which the group is exposed are understood and managed. The treasury policy covers all key areas of risk management namely identification, measurement, management and reporting of risk. Governance structures are in place to achieve effective independent monitoring and management of market risks through:

- The group's ALM function that is responsible for the day to day monitoring, evaluation and reporting of all market risks; and
- The Board's Group Risk Committee which is responsible for ensuring that from a strategic perspective, risk is handled as an area of competitive advantage and a key source of innovation.

#### Financial risk management objectives

The group's ALM function monitors and manages financial risks relating to the treasury operations of the group through internal risk reports which analyse the degree and magnitude of risks. These risks include fair value interest rate risk, currency risk, credit risk, liquidity risk and cash flow interest rate risk.

The group seeks to minimise the effects of the negative impact of these risks by ensuring compliance with the treasury policy limits and benchmarks with regard to the following:

- Proposed money market investment strategies do not result in the breach of asset / liability mismatch gap limit;
- Ensuring that the net interest income volatility is within approved benchmark;
- Adequate overnight liquidity limit is complied with by having sufficient call balances;
- The SA Post Office's credit exposure in the investment portfolio is diversified across a range of acceptable counterparties and the maximum investment with a particular counterparty will be limited to 25% of the total investments. Where the amount to be invested per counterparty is less than or equal to R50 million, the minimum investment with any one counterparty should be limited to 50% + 1 of the total investment and not exceeding R25 million; and
- Instrument limits are set to avoid excess concentration in any given financial investment instrument or with any counter party.

Overall the group's main financial risk management objective is to ensure enhanced return within the risk profiles or parameters approved by the Board.

#### Fair value assumptions of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair value of foreign currency forward contracts is measured using quoted forward exchange rates and interest rate differential between local and foreign rates derived from quoted interest rates matching maturities of contracts.

## Notes to the Consolidated Audited Annual Financial Statements

### 45. Risk management (continued)

#### *Valuation of unlisted shares in Gidani Management (Pty) Ltd*

The group had previously owned an equity stake of 1125 shares in Uthingo Management (Pty) Ltd. The liquidation of Uthingo Management (Pty) Ltd was finalised in the financial year ending 31 March 2010.

Subsequent to the liquidation of Uthingo Management (Pty) Ltd, the group had been allocated 100 ordinary shares in Gidani Management (Pty) Ltd, which represent 10% of Gidani shares. The shares were allocated to the SA Post Office by the Department of Trade and Industry on 28 July 2010.

The fair value of the SA Post Office's stake in Gidani was determined by management to be zero. The discounted cash flow model was used in the determination of the fair value.

#### **Liquidity risk**

Liquidity risk is the risk that the group will not be able to meet both expected and unexpected current and future cash flow needs without negatively affecting either the daily operations or the financial condition of the group.

The group's exposure to liquidity risk arises mainly as a result of the following:

- Unexpected withdrawal of cash by Postbank clients;
- Daily working capital requirements; and
- The group has signed contracts with third parties where its retail network is used as a collection agent for municipalities and other institutions. All contracts stipulate that funds collected for third parties are paid over to them after 24 hours.

Liquidity risk is managed in terms of the board approved treasury policy with appropriate dashboard liquidity risk profiles which are monitored by the group's ALM function. The management of liquidity risk and particularly the group's cash flows is strongly focused on the short to medium term to ensure that the group ALM function and the Treasury are quick to respond to immediate cash flow requirements under different stress scenarios.

On a quarterly basis, the group ALM function performs behavioural and stress analysis to identify business as usual as well as potential stress cash flow requirements.

The group manages its daily liquidity by having cash reserves on overnight call balances of at least R 250 million and maintaining overdraft credit facilities with all the major banks. The group's ALM function monitors the forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities of the banking division.

At year-end, the group had overnight call balances of R 384,736 million (2014: 346,504 million) and R 270 million (2014: R 50 million) in overdraft / credit facilities with the major banks. R 78,729 million overdraft facility was utilised at year-end (2014: R 350,350 million).

The table below analyses the group'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.

## Notes to the Consolidated Audited Annual Financial Statements

### 45. Risk management (continued)

#### Group

##### At 31 March 2015

	Overnight	Less than 3 months	Between 3 and 12 months	Greater than 1 year	Equity	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	1,921,469	1,136,369	-	-	-	3,057,838
Investments	-	95,903	1,153,093	2,637,190	-	3,886,186
Other financial assets	226,094	3,965	59,191	425,515	417,966	1,132,731
Trade and other receivables	-	546,534	-	-	-	546,534
Deposits from the public	(4,763,136)	(28,299)	(84,897)	(11,711)	-	(4,888,043)
Funds collected on behalf of third parties	(120,108)	-	-	-	-	(120,108)
Trade and other payables	-	(1,506,293)	-	-	-	(1,506,293)
	<b>(2,735,681)</b>	<b>248,179</b>	<b>1,127,387</b>	<b>3,050,994</b>	<b>417,966</b>	<b>2,108,845</b>

##### At 31 March 2014 (Restated)

	Overnight	Less than 3 months	Between 3 and 12 months	Greater than 1 year	Equity	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	1,402,833	2,394,784	-	-	-	3,797,617
Investments	-	211,664	972,698	2,222,984	-	3,407,346
Other financial assets	144,543	31,902	103,318	247,715	325,775	853,253
Trade and other receivables	-	534,469	-	-	-	534,469
Deposits from the public	(4,572,931)	(42,247)	(102,802)	(19,630)	-	(4,737,610)
Funds collected on behalf of third parties	(161,384)	-	-	-	-	(161,384)
Trade and other payables	-	(794,668)	-	-	-	(794,668)
	<b>(3,186,939)</b>	<b>2,335,904</b>	<b>973,214</b>	<b>2,451,069</b>	<b>325,775</b>	<b>2,899,023</b>

#### Company

##### At 31 March 2015

	Overnight	Less than 3 months	Between 3 and 12 months	Greater than 1 year	Equity	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	1,882,034	1,136,369	-	-	-	3,018,403
Investments	-	95,903	1,153,093	2,637,190	-	3,886,186
Other financial assets	226,094	3,965	59,191	425,515	417,966	1,132,731
Trade and other receivables	-	508,799	-	-	-	508,799
Deposits from the public	(4,763,136)	(28,299)	(84,897)	(11,711)	-	(4,888,043)
Funds collected on behalf of third parties	(120,108)	-	-	-	-	(120,108)
Trade and other payables	-	(1,407,293)	-	-	-	(1,407,293)
	<b>(2,775,116)</b>	<b>309,444</b>	<b>1,127,387</b>	<b>3,050,994</b>	<b>417,966</b>	<b>2,130,675</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 45. Risk management (continued)

At 31 March 2014 (Restated)

	Overnight	Less than 3 months	Between 3 and 12 months	Greater than 1 year	Equity	Total
	R '000	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	1,366,610	2,183,121	-	-	-	3,549,731
Investments	-	211,664	743,052	957,215	2,233,984	4,145,915
Inter group loans and long term receivables	-	-	-	3,487	-	3,487
Other financial assets	144,543	31,902	41,290	62,028	99,388	379,151
Trade and other receivables	-	491,954	-	-	-	491,954
Deposits from the public	(4,572,931)	(42,247)	(102,802)	(19,630)	-	(4,737,610)
Funds collected on behalf of third parties	(161,384)	-	-	-	-	(161,384)
Trade and other payables	-	(723,575)	-	-	-	(723,575)
	<b>(3,223,162)</b>	<b>2,152,819</b>	<b>681,540</b>	<b>1,003,100</b>	<b>2,333,372</b>	<b>2,947,669</b>

#### Market risk

Market risk is the potential negative impact on earnings resulting from unfavourable changes in exchange rates, interest rates, prices and other market volatilities i.e. the risk that the fair value or future cash flows of financial instruments will fluctuate.

The group's exposure to market risk arises primarily from its activities in four main areas:

- Interest rate risk in the group's portfolio as a result of the financial assets and financial liabilities re-pricing mismatch in line with the ALCO's view of the interest rates. Re-pricing risk is the risk of adverse impact on the group's interest return from mismatched financial assets and liabilities;
- Investment risk is the risk of falling interest rates at the time of the investment or re-investment of the group's surplus cash or the risk of the cash reserves maturing being re-invested at lower rates than expected;
- Foreign exchange is the risk arising from the group's exposure to international postal services and products as well as the import of capital goods sourced offshore; and
- Systemic risk is the risk that events either globally or locally threaten the ongoing financial soundness of financial markets.

Market risk is quantified by performing sensitivity analysis on both interest and exchange rates. For interest rate risk, the policy stipulates that a 1% point adverse shift in the yield curve should not result in a 10% reduction in the projected income in the money market portfolio return over a 12 months horizon. This is done for both the held to maturity portfolio where cash flow interest sensitivity is measured and the available-for-sale portfolio in respect of fair value sensitivity analysis.

The group's exposure to currency risk is also evaluated by the exchange rate sensitivity analysis. The group only enters into a foreign exchange forward cover agreement where the foreign exposure is greater than R 1 million and a 1% point adverse move in the exchange rate result in a projected loss of R 0,5 million over a one day horizon.

It is the responsibility of the group's ALM function to monitor compliance with risk limits and all breaches are discussed at the monthly ALCO meetings.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 45. Risk management (continued)

#### Interest rate risk

Interest rate risk is the risk that the group's earnings or economic value of the financial assets will decline as a result of changes in the interest rates. The group's exposure to interest rate risk arises primarily from the following:

- Re-pricing risk (mismatch risk) - timing differences in the maturity and re-pricing of financial assets and financial liabilities; and
- Investment risk on the group's surplus operational cash reserves arising from adverse movements in the interest rates.

The interest rate risk is managed in terms of the Board approved treasury policy. The policy specifies a percentage gap or re-pricing mismatch between interest rate sensitive financial assets and interest rate sensitive financial liabilities which in turn is monitored and measured by the group's ALM function. Interest rate limit breaches are reported at the ALCO meetings.

Appropriate interest rate risk dashboard indicators are compiled to provide the ALCO members with the necessary interest rate risk information on a monthly basis, including a measure of compliance with approved limits and benchmarks.

#### Cash flow interest rate risk

The table below reflects net interest income sensitivity for a given 1% up and downward shift in interest rates at year-end:

Increase (decrease)				
1% increase in interest rates	7,326	44,875	7,326	44,875
1% decrease in interest rates	(5,475)	(44,875)	(5,475)	(44,875)

#### Fair value interest rate risk

The table below reflects the impact on the available-for-sale equity reserve for a given 1% up and downward shift in interest rates at year end:

Increase (decrease)				
1% increase in interest rates	(7,206)	(7,625)	(7,206)	(7,625)
1% decrease in interest rates	7,297	7,718	7,297	7,718

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in the financial loss to the group.

The group's exposure to credit risk arises primarily from credit sales to its clients and money market investment activities. Credit risk is managed in terms of the Board approved group treasury risk policy, which in turn encompasses comprehensive credit procedures, limits and governance structure. Formal credit ratings are utilised in the credit evaluation process of the counterparties.

## Notes to the Consolidated Audited Annual Financial Statements

### 45. Risk management (continued)

The minimum credit ratings for investment counterparties are Fitch National Long Term Rating 'A' and Fitch National Short Term Rating 'F1'. The credit quality of counterparties is monitored by the group ALM function. The group's credit exposure is diversified across a range of acceptable counterparties and the maximum investment with any counterparty is limited to 25% of total investments. All counterparty limits are reviewed in line with balance sheet growth and at least on an annual basis.

It is the responsibility of the group ALM function to monitor compliance with the approved counterparty credit limits and any breach is reported at the monthly ALCO meeting.

The carrying amounts of financial assets recorded in the financial statements represents the group's maximum exposure to credit risk. The group is further exposed to the credit risk as a result of the housing guarantees that it issues on behalf of a certain category of its employees. At year-end the maximum amount the group could have to pay if the guarantees are called on amounts to R 1,370 million, (2014: R 1,502 million).

All financial assets except for those that are measured at fair value through profit or loss are assessed to determine any evidence of impairment. Any deterioration in any counterparty credit rating is regarded as evidence of impairment. During the course of the year, there was no evidence of impairment observed in held to maturity financial assets and available-for-sale assets held by the group.

The group credit risk is considered to be limited because all its investment counterparties are major banks with high credit ratings and other investments are in Government and liquid corporate paper. The credit risk profile and quality of the group's investment counterparties is considered to be sound, well managed and commensurate with the risk appetite of the Board.

#### Foreign exchange risk

Foreign exchange risk is the risk of the decline in the earnings or realisable value in the net financial asset position of the group arising from adverse movements in foreign exchange rates. The group is exposed to foreign exchange risk as a result of exposures that arise from rendering of international postal services and products as well as capital imports that are sourced offshore.

The group manages the foreign currency exposures relating to international postal services through the utilisation of UPU approved netting agreements between South Africa and debtor and creditor countries. In the event where the exposure after netting exceeds the limit specified below, a forward foreign exchange contract is taken to hedge the foreign exchange risk.

The group has a policy that manages foreign exchange risk arising from capital imports sourced offshore by utilisation of forward foreign exchange contracts as documented in the board approved treasury policy. The treasury policy stipulates the following in respect of utilisation of forward cover:

- No forward cover is required where the currency exposure is less than R1 million in value and a 1% adverse exchange rate move does not result in a R 0,5 million currency loss.
- Forward cover is taken where the exposure in respect of a specific foreign currency commitment is more than R 1 million and 1% adverse move in the exchange rate results in the group experiencing a loss of more than R 0,5 million. Actions taken in managing foreign exchange risk at the group ALCO meetings are reported to the group Risk Committee of the Board on a quarterly basis.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 45. Risk management (continued)

At year-end, the group was exposed to the following foreign currency denominated financial assets and financial liabilities for which no forward cover had been taken out:

#### Foreign currency exposure at the end of the reporting period

##### Financial assets

Botswana Pula	-	2	-	2
Euro	19	49	19	49
Great Britain Pounds	21	1,148	21	1,148
Special Drawing Rights	7,300	8,789	7,300	8,789
United States Dollar	14	1,213	14	1,213

##### Financial liabilities

Botswana Pula	-	299	-	299
Euro	1,243	412	1,243	412
Kenyan Shilling	351	9	351	9
Special Drawing Rights	10,643	10,595	10,643	10,595
New Zealand Dollar	37	-	37	-
Swiss Franc	22	9	22	9
United States Dollars	273	49	273	49
Zambian Kwacha	2	5	2	5

At year-end, the group's net income at risk from foreign exposure arose from the net asset currency position. A depreciation of 1% in the exchange rate would result in R 0,752 million foreign currency gain for the group (2014: R 0,033 million) currency gain.

#### Price risk

The table below reflects the impact on the group's income for a given 1% up and downward shift in market rates at period end:

##### Increase (decrease)

1% increase in interest rates	(13,158)	(5,622)	(13,158)	(5,622)
1% decrease in interest rates	15,148	6,479	15,148	6,479



## Notes to the Consolidated Audited Annual Financial Statements

### 45. Risk management (continued)

#### Method and assumptions: Sensitivity analysis of financial assets and liabilities

##### *(i) Fair value interest sensitivity*

On Government and corporate bonds classified as available-for-sale assets, the group determines fair value interest sensitivity using quoted yield to maturity rates for specific Government and corporate bonds held by the group. The group calculates the fair value interest sensitivity for a one day horizon and is measured for a 1% parallel shift in the rates. For fair value sensitivity the group treasury policy stipulates that a 1% adverse change in the rates should not result in a 0.75% capital loss in the portfolio over a one day period.

##### *(ii) Cash flow interest sensitivity*

The group calculates the cash flow interest sensitivity to determine interest at risk on held to maturity financial assets and financial liabilities at amortised cost. The cash flow interest sensitivity includes all variable interest bearing financial assets and liabilities included in these categories. The sensitivity is calculated by interpolating along the Jibar and FRA quoted rates. The interpolation is performed to coincide with the maturities and re-investments of the principal cash flows. The calculation of the cash flow interest sensitivity analysis is in line with the group's investment strategy. The cash flow sensitivity is measured for a 1% parallel shift in the rates.

##### *(iii) Equity risk sensitivity*

At year-end, the group had unlisted shares in Gidani Management (Pty) Ltd. The Directors had used the discounted cash flow model to determine the fair value of the shares. The equity risk in the shares was considered to be minimal as the equity holding wasn't exposed to the volatility of the stock market. On listed shares, the equity price risk is measured for 1% change in the share prices.

##### *(iv) Fair value of financial assets and financial liabilities recorded at amortised cost*

The Directors consider the carrying amount of financial assets and financial liabilities recorded at amortised cost and having a duration that is less or equal to twelve months as approximating their fair value. At year-end there were no financial assets and financial liabilities having a duration greater than twelve months that were carried at amortised cost.

##### *(v) Fair value measurements recognised in the Statement Of Financial Position*

For an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3, based on the degree to which the fair value is observable, see note 9.

## Notes to the Consolidated Audited Annual Financial Statements

### 46. Going concern

For the year ended 31 March 2015 the group generated net losses of R 1,497 billion (2014: R 406,671 million), while the total assets exceeded the total liabilities by R 815,506 million (2014: R 2,336 billion) which implies that the entity is technically solvent.

The organisation has been experiencing cash constraints and has not had sufficient working capital. The cause of the deterioration of the group's liquidity position is both due to internal and external factors, such as the migration of customers towards digital communication, general decline in the mail business volumes and revenue as well as an inappropriate and inefficient business model. This has resulted in the group not generating sufficient revenue to finance its high cost base and thus a material uncertainty of the entity's ability to continue as a going concern for the foreseeable future exists. It is important that the turnaround interventions are implemented to mitigate this risk.

An overdraft facility is utilised to assist the entity with working capital requirements in the normal course of business. This facility is backed by a State Guarantee. Furthermore the company is engaging several funding institutions to raise debt of R 1,25 billion in order to meet short- and long-term funding requirements of the organisation including the implementation of the STP. The R 1,25 billion debt will be backed by an existing R 1,67 billion State Guarantee (expiring December 2016) as well as the newly received letter of Guarantee of R 2,5 billion (expiring September 2017) which was issued by the Shareholder to act as a letter of comfort to the creditors which also partially supports the going concern assumptions on which the financial statements have been prepared.

The Board of Directors are not aware of any new material changes that may adversely impact the company. The Board of 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, other than those listed in the auditor's report.

The 2015/16 STP provides the group with a good opportunity to chart a new path underpinned by a new operating model. This journey will see the implementation using a new business and operating model to create a healthy, financially stable, and highly efficient customer centric organisation that is a key contributor to the South African economy.

The group's focus in the new financial year includes the implementation of a new organisational structure and the SA Post Office STP. The new structure is intended to introduce a new commercial and business delivery focus within the group, in addition to entrenching a new culture of responsibility and accountability. The STP will focus on different phases that will see the organisation addressing its fundamental building blocks including addressing its capacity and capability shortcomings.

The phases will include focusing on revenue improvement, cost containment initiatives, implementing initiatives that will drive diversification, and innovation to enable the business to drive growth.

The first phase is aimed at addressing the current financial distress faced by SA Post Office. The key milestones within this phase include short term cash management and capacitating the group with strong and capable leadership. This team is required to ensure the successful implementation of the SA Post Office's sustainable growth strategy. The leadership team is also required to drive the various revenue initiatives identified in the strategic plan. The process of implementing the new model is also planned to commence in this phase. The duration of this phase is estimated to continue for the first half of 2015/16 financial year.

The second phase will involve Strategic Positioning for the Future. The focus area in phase two will be a continuation of the business model implementation to systematically address fundamental flaws in the group's business model. The business model initiatives will be executed in a manner to address key flaws first.

The third phase will focus on Sustainable Growth by building onto the newly established business model. A focus on sustaining the group's growth trajectory should result in the SA Post Office declaring significant profits. The implementation of the turnaround strategy will result the in a significant improvement is the financial position of the group.

The implementation of the STP will result in a significant improvement in the financial position of the group.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000

### 47. Fruitless and wasteful expenditure

Opening balance under investigation	41,197	39,132	33,520	31,455
Add: Fruitless and wasteful expenditure under investigation - current year	53,859	2,065	53,859	2,065
Add: Fruitless and wasteful expenditure under investigation - prior years	-	-	-	-
Less: Amounts condoned	-	-	-	-
Less: Amounts recovered (not condoned)	-	-	-	-
Less: Amounts recoverable (not condoned)	-	-	-	-
<b>Total fruitless and wasteful expenditure awaiting condonation</b>	<b>95,056</b>	<b>41,197</b>	<b>87,379</b>	<b>33,520</b>

#### Analysis of awaiting condonation per age classification

Current year	53,859	2,065	53,859	2,065
Prior years	41,197	39,132	33,520	31,455
<b>Total fruitless and wasteful expenditure awaiting condonation</b>	<b>95,056</b>	<b>41,197</b>	<b>87,379</b>	<b>33,520</b>

Currently, the group is also in the process to finalise the investigations of alleged fruitless and wasteful expenditure with a potential value of R 70,000.

### 48. Material losses due to criminal conduct

Fraud and theft	6,725	5,275	6,725	6,725
Commercial crime	-	5,629	-	5,629
<b>Total material losses due to criminal conduct</b>	<b>6,725</b>	<b>10,904</b>	<b>6,725</b>	<b>12,354</b>

### 49. Irregular expenditure

Opening balance under investigation	213,655	117,381	188,393	117,381
Add: Irregular expenditure under investigation - current year	197,441	96,274	117,621	71,012
Add: Irregular expenditure under investigation - prior years	165,765	-	79,447	-
Less: Irregular expenditure - regularised	-	-	-	-
Less: Amounts condoned	-	-	-	-
Less: Amounts recoverable (not condoned)	-	-	-	-
Less: Amounts not recoverable (not condoned)	-	-	-	-
<b>Total irregular expenditure awaiting condonation</b>	<b>576,861</b>	<b>213,655</b>	<b>385,461</b>	<b>188,393</b>

#### Analysis of awaiting condonation per age classification

Current year	197,441	96,274	117,621	71,012
Prior years	379,420	117,381	267,840	117,381
<b>Total irregular expenditure awaiting condonation</b>	<b>576,861</b>	<b>213,655</b>	<b>385,461</b>	<b>188,393</b>

## Notes to the Consolidated Audited Annual Financial Statements

### 49. Irregular expenditure (continued)

Irregular expenditure is expenditure other than unauthorised expenditure incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation, including:

- the PFMA; or
- the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act; or
- any provincial legislation providing for procurement procedures in that Provincial Government.

Categories of irregular expenditure include:

- Expenditure incurred as a result of non-compliance with a Treasury Regulation which required cognisance to be taken of a National Treasury determination. For example, a department, trading entity, constitutional institution or public entity procured goods or services by means of price quotations where the value of the purchase exceeded the threshold values determined by the National Treasury for price quotations;
- Expenditure incurred as a result of institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the accounting officer or accounting authority; and
- Expenditure incurred as a result of non-compliance with a requirement of the institution's delegation of authority framework issued in terms of the PFMA.

The SA Post Office started reporting on irregular expenditure in the 2011 financial year in accordance with the PFMA requirement and continued accordingly. The SA Post Office is addressing the root causes resulting in irregular expenditure and it should also be noted that a total solution will only be achieved in the medium term due to the interventions considered and currently being implemented.

The process to identify any other irregular expenditure is continuing in order to have these investigated and condoned where relevant.

The SA Post Office has an established Financial Misconduct Committee (FMC) to review and to ensure that all "Financial Misconducts" within the group are managed in accordance with the requirements of the PFMA and related regulations.

In the previous years irregular expenditure was identified mainly in terms of non-compliance with the procurement policy. However, the FMC has applied leading and procurement best practices, and this approach has largely contributed to the significant increase in the irregular expenditure amounts for 2013 / 2014 and 2014 / 2015 because the criteria are more strictly applied.

An amount of R 192,813 million (2014: R 157,452 million) of the total of R 576,861 million (2014: R 213,655 million) disclosed as "awaiting condonation" concerns a particular contract where an investigation was initiated and where the results are pending in order to determine third party liability or not. These amounts cannot be condoned until the investigation has been concluded.

The group has identified an amount of R 151,926 million (2014: R 285,411 million) of potential "irregular expenditure" during the year and these instances are currently being investigated in accordance with the National Treasury Regulations. This amount is not reflected above, but will be disclosed as and when the investigation is completed and instances are confirmed as "irregular".

Included in the group is an amount of R 189,442 million (2014: R 23,304 million) that relates to "irregular expenditure awaiting condonation" for CFG.

Included in the group is an amount of R 1,958 million (2014: R 1,958 million) that relates to "irregular expenditure awaiting condonation" for Docex.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000

### 50. Deregistered Entities

The following dormant subsidiary entities which have never been consolidated were deregistered in the 2013 / 2014 financial year and the accumulated losses per the entities' 2007 annual financial statements were as follows:

Subsidiary company	2015	2014 (Restated)	2015	2014 (Restated)
	R '000	R '000	R '000	R '000
The Courier and Freight Swaziland (Pty) Ltd	7,742	7,742	-	-
CFG Zimbabwe (Pty) Ltd	698,384	698,384	-	-
<b>Total accumulated losses</b>	<b>706,126</b>	<b>706,126</b>	-	-

The accumulated losses in the companies were allocated to the related loan accounts which were subsequently impaired.

	Group		Company	
	2014 (Restated)	2013 (Restated)	2014 (Restated)	2013 (Restated)
	R '000	R '000	R '000	R '000

### 51. Comparative figures and prior period errors

Certain comparative figures have been restated.

The effects of the restatements are as follows:

#### Assets under construction:

##### Non-Current Assets

Property, plant and equipment	(53,444)	-	(53,444)	-
Intangible assets	53,444	-	53,444	-

During the year transfers were made from property, plant and equipment to intangible assets due to misclassifications in the prior year. The comparative figures and resulting opening balances should be corrected as required by IAS8.

##### Non-Current Assets

Intangible assets	(33,262)	-	(33,262)	-
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##### Capital and reserves

Retained earnings	(33,262)	-	(33,262)	-
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##### Profit or loss

Operating expenses	33,262	-	33,262	-
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Costs capitalised in relation to the Postbank corporatisation licence in the prior year, related to consultation and research on the asset to be developed. As such these expenses should have been expensed when incurred as per IAS 38.

#### Provident fund asset:

##### Non-Current Assets

Retirement benefit asset	18,032	16,046	18,032	16,046
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##### Current Assets

Other financial assets	(18,032)	(16,046)	(18,032)	(16,046)
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The provident fund is legally separate from the SA Post Office and exists solely to pay or fund employee benefits and as per IAS 19 it should be disclosed with the retirement benefit assets and liabilities.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2014 (Restated)	2013 (Restated)	2014 (Restated)	2013 (Restated)
	R '000	R '000	R '000	R '000

### 51. Comparative figures and prior period errors (continued)

#### Classification of prepayments:

##### Non-Current Assets

Prepayments	23,711	20,014	23,711	20,014
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##### Current Assets

Trade and other receivables	(63,720)	(46,300)	(63,720)	(37,368)
Prepayments	40,009	26,286	40,009	17,354

In accordance with IAS 1, prepayments that will be realised in a period exceeding 12 months should be classified as non-current assets. In addition to this prepayments are material and should thus be disclosed in a separate line item and not as part of trade and other receivable.

#### Classification of operating lease assets and liabilities:

##### Current Assets

Trade and other receivables	(2,404)	(4,535)	(2,404)	(1,479)
Operating lease asset	1,877	1,589	1,828	1,479

##### Non-Current Liabilities

Operating lease liability	78	48,461	-	-
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##### Current Liabilities

Trade and other payables	576	3,056	576	-
Operating lease liability	(127)	(48,571)	-	-

In prior periods certain accounts relating to operating leases were incorrectly classified and have subsequently been reclassified. The reclassification resulted in a decrease of trade and other receivables (current assets), an increase in the operating lease asset (current asset), a decrease in the operating lease liability (non-current liability), an increase in the operating lease liability (current liability) and a decrease in trade and other payables (current liabilities). There was no impact on the profit or loss before or after tax and thus has no impact on retained earnings.

#### Set-off of bank balances:

##### Current Assets

Cash and bank balances	38,972	-	38,972	-
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##### Current Liabilities

Bank overdraft	(38,972)	-	(38,972)	-
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A legally enforceable right of offsetting exists for certain bank accounts, and there is an intention to settle the liabilities and realise the assets simultaneously, or to settle on a net basis. These accounts were reclassified and resulted in an increase in the bank overdraft (current liability) and a decrease in the bank balances (current assets) in comparative periods. There was no impact on the profit or loss or retained earnings.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2014 (Restated)	2013 (Restated)	2014 (Restated)	2013 (Restated)
	R '000	R '000	R '000	R '000

### 51. Comparative figures and prior period errors (continued)

#### Government grant treated as equity:

##### Capital and reserves:

Retained earnings	750,000	750,000	750,000	750,000
Non-distributable reserves	(750,000)	(750,000)	(750,000)	(750,000)

As per the vote 26 ENE the R 750 million received from National Treasury was made to reimburse the Postbank for depositors' funds that had been used by the SA Post Office to fund its own operations. It should thus have been treated as a Government grant and been included in income when received.

#### First time recognition of heritage assets:

##### Capital and reserves

Non-distributable reserves	17,864	-	17,864	-
Retained earnings	(17,864)	-	(17,864)	-

##### Profit or loss

Fair value adjustments	(21,965)	-	(21,965)	-
Income tax expense	4,101	-	4,101	-

##### Other comprehensive income

First time recognition of heritage assets	21,965	-	21,965	-
Income tax relating to items that will not be reclassified	(4,101)	-	(4,101)	-

As per GRAP 103 Heritage Assets, an inflow of resources from a non-exchange transaction recognised as an asset will be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow (which is the case when a stipulation is a condition). In the previous financial year, the initial recognition was incorrectly treated as a revaluation gain through other comprehensive income.

#### Deferred income:

##### Capital and reserves

Retained earnings	15,809	-	15,809	-
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##### Current Liabilities

Deferred income	(15,809)	-	(15,809)	-
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##### Profit or loss

Revenue	15,809	-	15,809	-
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In the previous year the deferred income calculation for bulk mail, parcels and registered letters revenue was incorrect, mainly due to the stage of completion incorrectly applied over the last 7 days of the year (incorrect percentages used and progression over weekends).

##### Current Liabilities

Trade and other payables	(55,590)	(53,948)	(55,590)	(53,948)
Deferred income	55,590	53,948	55,590	53,948

The money received for box keys are, in accordance with the 2014-15 Postal rates schedule, deposits that are refundable and should be included in deposits received. In the past this was erroneously included in deferred income.

## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2014 (Restated)	2013 (Restated)	2014 (Restated)	2013 (Restated)
	R '000	R '000	R '000	R '000

### 51. Comparative figures and prior period errors (continued)

#### Value Added Tax:

##### Capital and reserves

Retained earnings	53,469	39,211	53,469	39,211
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##### Current Liabilities

Provisions	(53,469)	(39,211)	(53,469)	(39,211)
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##### Profit or loss

Operating expenses	12,491	9,883	12,491	9,883
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Interest paid	1,767	2,343	1,767	2,343
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The Value Added Tax Act requires a vendor to apportion the VAT incurred where the related costs are partly incurred to generate taxable as well as exempt supplies, according to a method of apportionment that is fair and reasonable. The SA Post Office has been apportioning the VAT on costs incurred using the varied input tax-based method of apportionment as it considers this method to be fair and reasonable for its business. However, the company is still waiting for confirmation from the South African Revenue Service to use this method. The company has obtained different opinions on the method of apportionment that would be fair and reasonable for its business. Due to the complexity of this area of legislation, as evidenced by the different opinions with different outcomes, from the reputable major four auditing and consulting firms, the company found it prudent to provide the above amounts to mitigate against any potential liability that may arise.

#### Funds collected on behalf of third parties incorrectly classified

##### Current Assets

Trade and other receivables	-	(64)	-	(64)
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##### Current Liabilities

Trade and other payables	69,344	11,941	69,344	11,941
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Funds collected on behalf of third parties	(69,344)	(11,877)	(69,344)	(11,877)
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In prior years certain accounts relating to funds collected on behalf of third parties were incorrectly classified and has subsequently been reclassified. There was no impact on the profit or loss before or after tax and thus has no impact on retained earnings.

#### Elimination of inter divisional transactions:

##### Profit or loss

Revenue	10,585	-	10,585	-
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Other income	90,221	-	90,221	-
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Transport costs	(100,806)	-	(100,806)	-
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Inter divisional transactions should be netted off as no economic benefits are expected to flow to or from the company.



## Notes to the Consolidated Audited Annual Financial Statements

	Group		Company	
	2014 (Restated)	2013 (Restated)	2014 (Restated)	2013 (Restated)
	R '000	R '000	R '000	R '000

### 51. Comparative figures and prior period errors (continued)

#### Separate disclosure of depreciation, amortisation and impairments:

##### Profit or loss

Operating expenses	(165,425)	(172,261)	(259,037)	(206,090)
Depreciation, amortisation and impairments	165,425	172,261	259,037	206,090

In prior years depreciation, amortisation and impairments were not separately disclosed on the face of the Statement of Comprehensive Income. There was no impact on the profit or loss before or after tax and thus has no impact on retained earnings.

#### Fair value adjustment on Provident Fund Asset:

##### Profit or loss

Other income	1,986	5,604	1,986	5,604
Fair value adjustments	(1,986)	(5,604)	(1,986)	(5,604)

In prior periods, the fair value adjustments on the provident fund was incorrectly classified as other income and has subsequently been reclassified. The reclassification resulted in a decrease in other income and an increase in fair value adjustments. There was no impact on the profit or loss before or after tax and thus has no impact on retained earnings.

#### Employee costs incorrectly included in operating expenses:

##### Profit or loss

Operating expenses	47,032	52,382	46,179	52,046
Employee costs	(47,032)	(52,382)	(46,179)	(52,046)

In prior periods, certain accounts relating to general operating expenses were separately disclosed as employee cost and has subsequently been reclassified. The reclassification resulted in an increase in operating expenses and a decrease in employee costs. There was no impact on the profit or loss before or after tax and thus has no impact on retained earnings.

#### Transport costs incorrectly included in operating expenses:

##### Profit or loss

Operating expenses	(61,862)	(66,441)	(43,407)	(46,950)
Transport costs	61,862	66,441	43,407	46,950

In prior periods, certain accounts relating to general operating expenses were separately disclosed as transport cost and has subsequently been reclassified. The reclassification resulted in an increase in operating expenses and a decrease in transport costs. There was no impact on the profit or loss before or after tax and thus has no impact on retained earnings.

## Notes to the Consolidated Audited Annual Financial Statements

### 52. Change in estimate

#### Property, plant and equipment

The useful life and residual value of certain buildings have been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R 5,314 million (2014: R 2,140 million decrease).

The impact on tax is a decrease of R 1,488 million (2014: R 0,599 million increase).

The useful life and residual value of certain data processing equipment have been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R1,779 million (2014: R 7,276 million).

The impact on tax is a decrease of R 0,498 million (2014: R 2,037 million).

The useful life and residual value of certain furniture and fixtures have been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R 0,976 million (2014: R 1,765 million).

The impact on tax is a decrease of R 0,273 million (2014: R 0,494 million).

The useful life and residual value of certain leasehold improvements have been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R 0,890 million (2014: R 45,512 million).

The impact on tax is a decrease of R 0, 249 million (2014: R 12,743 million).

The useful life and residual value of certain motor vehicles have been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R 1,472 million (2014: R 1,614 million).

The impact on tax is a decrease of R 4, 120 million (2014: R 0,452 million).

The useful life and residual value of certain plant and machinery has been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R 4,307 million (2014: R 8,518 million).

The impact on tax is a decrease of R 1,206 million (2014: R 2,385 million).

#### Intangible assets

The useful life and residual value of certain computer software has been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R 1,195million (2014: R 2,249 million).

The impact on tax is a decrease of R 4,120 million (2014: R 0,630 million).

#### Investment properties

The useful life and residual value of certain investment properties has been revised during the current year. The effect of this revision has increased the depreciation charges for the current and future periods by R 0,122 million (2014: R 0,063 million).

The impact on tax is a decrease of R 0,034 million (2014: R 0,010 million).

## Notes to the Consolidated Audited Annual Financial Statements

### 53. Subsequent events and other significant events

#### Change in the Shareholder:

During the year under the review there were two changes with regards to the Shareholder:

- The SA Post Office's Shareholder was changed from Department of Communication to DTSP.
- A new Minister, Mr. S Cwele, was appointed in May 2014.

#### Resignation of the non-executive Board of Directors and appointment of Administrator:

During the year, all non-executive Directors of the Board resigned and subsequently all its committees dissolved. On 7 November 2014, the Shareholder appointed Dr SD Lushaba as Administrator in terms of section 25 of the SA Post Office Act for an initial period of three months and he has duly taken over the responsibilities of the Board of Directors. Up until the date of resignation, the Board (in compliance with King III) and all its committees were active and functional. Extension of two terms, three months per term, was granted for the Administrator until 31 July 2015. The appointment process of the new Board concluded 13 August 2015.

#### Suspension of executive Directors:

Two executive Directors were suspended pending the result of due processes followed by the Administrator. The finalisation of these matters may have a significant impact on the company.

Suspension and recently finalised cases involving various senior employees:

During the year various employees at senior management went through disciplinary action processes. Some processes were finalised and the affected executives left the employment of the company. Some cases are still pending finalisation which has resulted in various other employees acting in senior management roles.

#### Oversight by the Deputy Presidency:

In December 2014 the President allocated the oversight function of the SA Post Office, amongst other entities, to the Deputy President.

#### Various SIU investigation:

The SIU are conducting various investigations of which the outcomes have not been concluded as at the end of the reporting period.

#### Judgement to seize positive net balances in banking account/s:

Judgment was passed on the settlement agreement against the SA Post Office in favour of NASASA, for a legal matter which commenced more than 10 years ago. The SA Post Office's legal team was in the process of reviewing the validity and legal enforceability of the settlement agreement with a view to challenge it. Hence during this period of time the SA Post Office did not comply with the payment plan obligations under the settlement agreement. In April 2015 NASASA caused a warrant of execution to be issued and executed through the Deputy Sheriff of the Court on net positive balances in the banking accounts of SA Post Office. This issue was subsequently resolved by the SA Post Office being compelled to pay the judgment debt into the account of The Deputy Sheriff of the Court, to stay execution.

## Notes to the Consolidated Audited Annual Financial Statements

### **53. Subsequent events and other significant events (continued)**

#### **Prolonged industrial action:**

During the year under review the SA Post Office experienced unprecedented illegal industrial action spanning over a 14 week period from August 2014 to December 2014. This resulted in closure of SA Post Office and huge backlog in mail items to be delivered. During this period the group also suffered loss of customers and revenues amounting to R 358 million. This revenue shortfall impacted negatively on the group's net loss position as a large portion of the operating cost structure is fixed in nature.

#### **Approved borrowings:**

During the financial year the Honourable Minister of the Department of Telecommunications and Postal Services, in concurrence with the Minister of Finance, approved a overdraft borrowing limit of R 320 million for the SA Post Office, backed by State Guarantee. On 30 June 2015, the SA Post Office received a joint approval by the Minister of Finance and the Minister of the DTPS to increase the company borrowing limits by R 1,25 billion, backed by a separate State Guarantee of R 1,67 billion.

#### **Submission of the Strategic Turnaround Plan:**

Subsequent to year end, the Administrator compiled the revised STP that was submitted to the Minister of DTPS and Parliament. The Cabinet has approved this STP. The STP targets the achievement of benefits to the values of R 7,4 billion over the next three years which will see the SA Post Office turn around and remain sustainable through the implementation of the new business model. The macro structure as recommended in the STP is being implemented to stabilise the operating environment.

The new turnaround plan has been communicated to senior levels of staff and the roadshow is planned to roll the STP out to all employees, this will include the restructuring and retrenchment plans.

#### **Conversion of Shareholder loans to shares:**

The company still needs to convert a loan to the value of R 205 million into shares. The company has applied to DTPS for permission to convert this loan to share capital, which was granted during the 2013 / 2014 year and shares to the value R 287 million will be issued as compensation.

## Supplementary Information

### Detailed Income Statement

	Note(s)	Group		Company	
		2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000
<b>Revenue</b>					
Postbank service charges		265,568	308,160	265,568	308,160
Postbank interest revenue		340,658	275,575	340,658	275,575
Retail products		47,722	77,973	47,722	77,973
Services rendered - Postal		3,531,048	4,060,515	3,513,489	4,047,004
Services rendered - Agency and money transfer		363,395	353,059	363,395	353,059
Services rendered - Courier		464,099	676,730	180,387	309,793
<b>Total revenue</b>	<b>29</b>	<b>5,012,490</b>	<b>5,752,012</b>	<b>4,711,219</b>	<b>5,371,564</b>
<b>Other income</b>					
Commissions received		1,838	1,781	1,838	1,781
Fees earned		11,493	16,230	11,493	16,230
Foreign exchange differences		-	5,308	-	5,308
Other income		68,238	40,444	66,647	37,270
Recoveries		132,496	(41,427)	187,081	57,414
Rental income		38,110	49,839	36,964	49,635
Sundry income		13,688	6,302	13,675	5,973
Technology		29,128	31,637	29,128	31,637
<b>Total other income</b>		<b>294,991</b>	<b>110,114</b>	<b>346,826</b>	<b>205,248</b>
<b>Expenses (Refer to page 111)</b>		<b>(6,301,645)</b>	<b>(6,450,993)</b>	<b>(6,036,781)</b>	<b>(6,190,284)</b>
<b>Operating loss</b>	<b>32</b>	<b>(994,164)</b>	<b>(588,867)</b>	<b>(978,736)</b>	<b>(613,472)</b>
Dividends revenue	33	21,776	-	41,744	-
Interest revenue	33	136,799	141,578	134,525	142,590
Fair value adjustment	34	95,031	88,970	95,031	88,970
Interest paid	35	(197,105)	(194,313)	(196,716)	(194,187)
<b>Loss before taxation</b>		<b>(937,663)</b>	<b>(552,632)</b>	<b>(904,152)</b>	<b>(576,099)</b>
Taxation	36	(559,367)	145,961	(557,521)	147,019
<b>Loss for the year</b>		<b>(1,497,030)</b>	<b>(406,671)</b>	<b>(1,461,673)</b>	<b>(429,080)</b>

The supplementary information presented does not form part of the financial statements and is unaudited.

## Supplementary Information

### Detailed Income Statement

	Note(s)	Group		Company	
		2015 R '000	2014 (Restated) R '000	2015 R '000	2014 (Restated) R '000
<b>Expenses</b>					
Administration and management fees		715	540	47,963	47,963
Advertising		57,788	50,800	57,586	49,446
Assessment rates & municipal charges		219,796	224,229	214,357	219,040
Auditors remuneration	38	26,965	15,591	25,760	13,409
Bad debts		21,609	(2,670)	19,865	208
Bank charges		101,607	108,671	101,006	108,220
Cleaning		1,346	1,569	-	-
Commission paid		341	513	71	118
Consulting and professional fees		239,478	217,715	225,621	205,618
Consumables		90,918	137,979	85,700	132,642
Delivery expenses		87,392	126,523	77,764	106,454
Depreciation, amortisation and impairments		148,227	165,425	235,175	259,037
Donations		1,433	2,325	1,237	2,244
Employee costs		3,769,657	3,618,068	3,599,091	3,448,565
Entertainment		80	306	69	315
Fines and penalties		4,684	3,343	4,668	3,251
General expenses		(16,627)	(14,378)	(21,290)	37,587
IT fees		124,463	107,582	124,453	106,906
Insurance		26,703	59,316	25,721	57,444
International terminal fees		88,711	97,898	88,711	97,898
Legal expenses		12,393	39,659	13,098	39,653
Loss on exchange differences		726	-	726	-
Loss on sale of assets and liabilities		-	2	-	-
Magazines, books and periodicals		742	1,881	742	1,881
Motor vehicle expenses		72	85	37	48
Operating lease charges		492,208	498,897	462,434	458,008
Other staff related costs		41,692	47,959	40,809	46,179
Petrol and oil		99,818	113,819	77,792	86,434
Printing and stationery		24,752	38,377	24,541	38,182
Promotions		89	230	63	213
Repairs and maintenance		129,342	184,324	116,197	163,691
Research and development costs		905	818	905	818
Risk expenses		17,214	1,840	17,213	1,841
Royalties and license fees		17,737	20,515	17,733	20,505
Security		1,397	6,911	1,175	6,768
Staff welfare		256	2,425	214	2,370
Storage fees		1,910	2,320	1,910	2,259
Subscriptions		(17,304)	(22,343)	-	-
Telephone and fax		153,537	158,856	146,508	150,789
Training		10,139	14,529	10,139	14,529
Transport and freight		286,191	366,000	161,164	211,534
Travel - local		26,748	34,864	24,489	31,690
Travel - overseas		5,795	17,680	5,364	16,527
<b>Total expenses</b>		<b>6,301,645</b>	<b>6,450,993</b>	<b>6,036,781</b>	<b>6,190,284</b>

The supplementary information presented does not form part of the financial statements and is unaudited.

## Supplementary Information

### 1. Three year period review - Group

<b>Statement of financial position</b>	<b>2015</b>	<b>2014 (Restated)</b>	<b>2013 (Restated)</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
<b>Funds supplied</b>			
Non-current assets	2,214,947	2,962,707	2,767,951
Current assets	7,644,490	8,333,920	7,990,505
<b>Total assets</b>	<b>9,859,437</b>	<b>11,296,627</b>	<b>10,758,456</b>
<b>Funds used</b>			
Equity	815,506	2,335,759	2,265,785
Non-current liabilities	1,653,686	2,027,836	1,982,857
Current liabilities	7,390,245	6,933,032	6,509,814
<b>Total equity and liabilities</b>	<b>9,859,437</b>	<b>11,296,627</b>	<b>10,758,456</b>
<b>Statement of comprehensive income</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Loss before tax	(937,663)	(552,632)	(270,820)
Finance income	158,575	141,578	119,582
Interest paid	(197,105)	(194,313)	(319,877)
<b>Statement of cash flows</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Net cash from operating activities	(207,775)	(154,480)	157,074
Net cash from investing activities	(57,461)	345,198	750,107
Net cash from financing activities	(126,581)	232,262	(11,852)
<b>Total cash movement for the year</b>	<b>(391,817)</b>	<b>422,980</b>	<b>895,329</b>
<b>Solvency and liquidity</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Debt-equity ratio	11.090 : 1	3.836 : 1	3.748 : 1
Current ratio	1.034 : 1	1.202 : 1	1.227 : 1
Acid test ratio	1.025 : 1	1.191 : 1	1.223 : 1

The supplementary information presented does not form part of the financial statements and is unaudited.

## Glossary

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
CENTRIQ	Centriq Insurance Innovation (Pty) Ltd
CFG	The Courier and Freight Group (Pty) Ltd
Companies Act	The Companies Act, No. 71 of 2008 (as amended)
DOCEX	The Document Express (Pty) Ltd
DTPS	Department of Telecommunications and Postal Services
Financial Statements	Consolidated Audited Annual Financial Statements
ICASA	The Independent Communications Authority of South Africa
IFRS	International Financial Reporting Standards
IGF	Intermediaries Guarantee Facility Limited
IOD	Incidents on duty
IPC	International Post Corporation
ICT	Information and communications technology
IT	Information technology
KING III	The King Report on Corporate Governance III
MCP	Mail Collection Point
MD	Managing Director
MOI	Memorandum of Incorporation
MSP	Mail Service Point
MTEF	Medium-term expenditure framework
NCD	Negotiable Certificates of Deposits
NT	National Treasury
PAA	Public Audit Act
PFMA	Public Finance Management Act, No. 1 of 1999 (as amended)
PRMA	Post Retirement Medical Aid
RemCom	Remuneration Committee
ROE	Return on expenditure
RPL	Recognition of prior learning
SAAA	South African Accreditation Authority
SADC	Southern African Development Community
SA Post Office	The South African Post Office (SOC) Limited
SA Post Office Act	The South African Post Office Act No. 22 of 2011 (as amended)
SARS	South African Revenue Service
SASSA	Social Security Agency
SOC	State-owned company
STP	Strategic Turnaround Plan



## Glossary

SU	Support Unit
TCTC	Total cost to company
TTD	Temporary total disability
TVBC	Transkei, Venda, Bophuthatswana and Ciskei
UPU	Universal Postal Union
USO	Universal Service Obligation
VCCT	Voluntary confidential counselling and testing
WRE	Webriposte
WSP	Workplace skills plan







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for growth and prosperity*