



SOUTH AFRICAN POST OFFICE  
**ANNUAL REPORT 2018**

# Highlights

## Financial Highlights

- Revenue declined by 4,6% from R4,6 billion in 2017 to R4,4 billion in 2018
- Expenses declined by 7% from R5,6 billion in 2017 to R5,2 billion in 2018
- Operating losses decreased by R142 million from R815 million in 2017 to R674 million in 2018
- Loss for year decreased by R79 million from R987 million in 2017 to R908 million in 2018
- Net asset value improved from R901 million in 2017 to R3,5 billion in 2018.

## Operational Highlights

- The Post Office group achieved an unqualified audit report for the first time since the Auditor General took over responsibility for this function
- Irregular expenditure declined by 64% from R308 million to R109 million
- Mail delivery standards improved by 18% from 73,6% to 87,1%
- 655 860 new street delivery addresses rolled out
- Performance on KPI's measured improved by 75% from 27.8% to 48.6%.

### Postbank

- Section 16 application to register a Bank lodged with SARB
- Postbank SOC Limited has been registered
- Initial board of Directors appointed
- Increase of 177 703 (3%) in new customer accounts.

### Labour

- Labour environment remained stable
- Increase in engagements with labour unions
- Staff numbers reduced from 18 729 to 18 119.

### Government projects

- BDM Programme – 686 150 qualifying needy households registered and 356 402 DTT set-top box kits issued to recipients
- Payment of Social Grants - the Post Office has been appointed to distribute SASSA social grants on behalf of government. The joint Post Office and SASSA teams have achieved good progress with on-boarding grant recipients, new card issues and payments.



“The Post Office will leverage its extensive infrastructure, systems and footprint to deliver government and commercial services to the citizens of South Africa.”

Mark Barnes, CEO



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## PART A: GENERAL INFORMATION





# General Information

Registered name	South African Post Office SOC (Limited)
Registration number	1991/005477/30
Registered office address	497 Sophie de Bruyn Street, Pretoria 0001
Postal address	PO Box 10 000, Pretoria, 0001
Contact telephone number	(012) 407 7000
Email address	Customer.service@postoffice.co.za
Website address	www.postoffice.co.za
External auditors information	Auditor-General of South Africa
Banker's information	Standard Bank South Africa
Company Secretary	Mr Dawood Dada, (ACIS)

## Photographs:

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## Designed in-house by:

Rachel-Mari Ackermann and Thea Clemons  
South African Post Office: Philatelic Services



# List of Abbreviations and Acronyms

ALCO	Asset and Liability Committee	NCD	Negotiable Certificates of Deposits
ALM	Asset and Liability Management	NPS	National Payment System
BOT	Build Operate Transfer	PAA	Public Audit Act, No 25 of 2004
CENTRIQ	Centriq Insurance Innovation (Pty) Ltd	PFMA	Public Finance Management Act, No. 1 of 1999 (as amended)
CFG	The Courier and Freight Group (Pty) Ltd	PRMA	Post-Retirement Medical Aid
Companies Act	The Companies Act, No. 71 of 2008 (as amended)	RDMS	Retail Document and Management System
DAFF	Department of Agriculture, Forestry and Fisheries	RFQ	Request for Quotation
DOCEX	The Document Express (Pty) Ltd	SADC	Southern African Development Community
DTPS	Department of Telecommunications and Postal Services	The Post Office	The South African Post Office (SOC) Limited
DTT	Digital Terrestrial Television	The Post Office Act	The South African Post Office Act No. 22 of 2011 (as amended)
EBDN	Electronic Bulk Mail Delivery Note	SASSA	South African Social Security Agency
ERP	Enterprise Risk Plan	SOC	State-owned company
FRA	Forward Rate Agreed	STFP	Secure File Transfer Protocol
ICASA	The Independent Communications Authority of South Africa	STP	Strategic Turnaround Plan
IFRS	International Financial Reporting Standards	TVBC	Transkei, Venda, Bophuthatswana and Ciskei
ICT	Information and communications technology	UPU	Universal Postal Union
KING IV	The King Report on Corporate Governance IV	USO	Universal Service Obligation
MCP	Mail Collection Point		
MD	Managing Director		
MTEF	Medium-term Expenditure Framework		

**The South African Post Office (SOC) Ltd is referred to in the text of the document as the Post Office.**





## Foreword by the Chairperson

The strategy of the Post Office for the 2017/2018 financial year was to bring stability to the entity through revenue growth; optimising the cost base, stabilising labour relations and improving operational efficiency and performance of the organisation, whilst strengthening governance and compliance. The Post Office under leadership of the Board was able to improve the public image of the Post Office as an entity of change, opportunity and service delivery.

The Post Office received a capital injection of R3,7 billion which was used to settle historical debt with commercial banks. This has also resulted in significant savings in interest which was paid to the banks.

The company participated in the Digital Terrestrial Terrain Project for the roll-out of digital Set-Top Boxes (STBs) and in the reporting period a total of 686 150 qualifying applicants had been registered and 356 402 STB kits had been issued up to 31 March 2018.

The application process for the Postbank Banking Licence commenced in the past year with the banking licence application submitted to the South African Reserve Bank (SARB) and the incorporation of Postbank

as a State Owned Company as well as the institution of a Postbank Board. Postbank is in engagements with the Department of Telecommunications and Postal Services (DTPS) regarding the legislative amendment requirements to the Banks Act and finalisation of the Bank Controlling Company (BCC) structure.

The performance of the entity against set objectives was unfortunately hampered by lack of resources. A process is underway to review the strategic planning process to improve the smartness of targets and objectives.

The entity enjoyed labour peace in spite of trying times especially for employees who did not receive any salary increases over two years.

The entity was able to in the face of immense opposition and doubt secure a strategic partnership with SASSA for the payment of social grants. An agreement was signed with SASSA in December 2017 for the Post Office to participate in the payment of social grants through a hybrid system, which excluded cash payments. As trust increased in the relationship with SASSA and as the Post Office proved its capability to pay social grants,





increasing support of government and in particular the Minister of Social Development, Honourable Susan Shabangu, the payment of grants for cash beneficiaries was also entrusted to the Post Office. This strategic project and partnership with SASSA will benefit the Post Office and the Postbank in the next years and into perpetuity as the Government has now resolved to abandon the Built Operate Transfer (BOT) model.

The Board as the Accounting Authority engaged numerous times with the Portfolio Committees on Telecommunications and Postal Services; Social Development, Standing Committee on Public Accounts (SCOPA); Standing Committee on Appropriations on various governance, oversight and performance matters. The intervention of the Inter-Ministerial Committee (IMC) on Comprehensive Social Grants provided significant impetus to the Post Office and SASSA partnership.

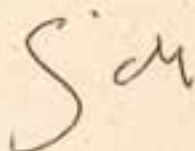
Liquidity and solvency remained a challenge for the Board over the reporting period with declining revenue and no investment in enabling infrastructure. Initiatives are underway to secure the previously allocated substantial subsidy from National Treasury for the delivery of postal services under the Universal Services Obligations (USO). Bloated staff costs are also a drain on revenue and efforts are being developed to reduce these costs without impacting operations.

The Board over the financial year operated with two vacancies including an Acting Chairperson as well as an Acting Deputy Chairperson. The finalisation of the Postbank Licensing process remains a challenge with an amendment in legislation required.

The Post Office is poised to become a major player in the e-commerce space, thereby expanding revenue generating prospects. Innovative schemes which could involve current employees in the provision of services through different models are being explored. In seeking to become the Post Office of the future, various partnerships are being considered which would bring new and future capabilities to the Post Office. The Post Office has a national footprint and presence in South Africa and the success of the SASSA project has given

real traction to the ambition of the Post Office to become the service delivery hub of government.

I wish to express my thanks and gratitude to my fellow board members, the CEO, COO, CFO and management of the Post Office for their dedication and commitment over what was a challenging year. A special word of thanks and appreciation goes to the Post Office staff who in spite of very challenging times continued to make us proud with many anecdotes of excellence, dedication and sacrifice. My appreciation also goes to the Shareholder, the Minister of Telecommunications and Postal Services as well as the Department.



**Comfort Ngidi**

*Chairperson*





## Chief Executive Officer's Overview

The past financial has been one of remarkable change and extraordinary challenges across all dimensions of the Post Office group.

The infra-structure which houses the Post Office is a strategic national footprint which is commercially irreplaceable, but nonetheless in need of repair, maintenance and modernisation.

The core business of the Post Office, up until fairly recently, has been the provision of postal services throughout South Africa, through the distribution of parcels and letters. It is common cause, throughout the world, that the delivery of physical mail is a declining business. South Africa is no exception, although mail revenue still constitutes 70% of total revenue.

Revenue declined by 4,6% for the 2018 financial year, from R4,6 billion to R4,4 billion, contributed to by a 15% decline in mail volumes.

Despite difficult trading conditions and a low growth rate in GDP for the economy as a whole there have been improvements within the Post Office worth noting:

- The Post Office group achieved an un-qualified audit

report for the first time since the Auditor General took over responsibility for this function

- Whilst we ultimately aim for zero tolerance for irregular expenditure, there has been encouraging progress in this regard, which has seen irregular expenditure decline from R308 million in the prior year to R109 million during the 2018 Financial Year (FY), an improvement of 64%. However, the prior year's irregular expenditure awaiting condonation has increased from R633 million in the 2017 FY to R940 million in 2018 FY, an increase of 49%
- Loss for year decreased by R79 million from R987 million in 2017 to R908 million in 2018, an improvement of 8%
- Half of the KPI's measured achieved 100% whilst another third achieved above 70% of the target
- Fruitless and wasteful expenditure increased by 5% from R296 million in 2017 FY to R311 million in 2018 FY, however awaiting condonation.

The Post Office remains solvent, with a healthy net asset value in excess of R3,5 billion as at 31 March





2018. The Post Office's liquidity position does however remain a challenge, primarily due to declining revenue streams and market share. Lack of investment in infrastructure and technology has allowed competitors into our core business, notwithstanding the regulatory protection which should apply.

The Post Office, in terms of the USO obligations, is required to execute a public service mandate to provide postal services to the furthest rural citizens of our country, despite this not being commercially viable. The Post Office is engaged with National Treasury to address the funding of this social obligation, which currently accounts for over two thirds of the Post Office's annual loss.

In line with our purposeful strategy to leverage the infrastructure of the Post Office in the service of government, the Post Office entered into an agreement to partner with SASSA in the payment of social grants to the most vulnerable citizens in our society. As a result, significant investment will be made into the physical and technical capacity of the Post Office, realising one of our primary purposes as an organ of state, which is to create state assets and capacity to replace private sector dependencies and retain the economics of government within the fiscus.

Progress towards obtaining a fully-fledged banking license for Postbank SOC Limited has been slower than anticipated. I remain confident, however, that the final legal and structural hurdles will be crossed soon. It is critical for the Post Office to diversify its income sources beyond mail, and financial services is an obvious area of growth for the group.

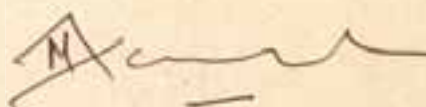
Likewise, our progress into the fast growing E-commerce world is not where it should be. At least we find ourselves in a position today where we are able to engage with capital and technological partners in this space.

A number of executive changes have been implemented over the last twelve months. As an organisation we recognise the need to up our game and change our culture, to win in the competitive environment in which the Post Office now operates.

The Post Office has made significant progress towards its future sustainability over the past year. This would not have been possible without the support and involvement of the Minister, Board of Directors of the Post Office, the team at DTPS, and the commitment of our employees.

A strong argument can now be made that the Post Office has finally turned the corner, and I still look forward to delivering a prosperous enterprise within my tenure.

Thank you.



**Mark Barnes**  
*Group Chief Executive Officer*





## Chief Operations Officer's Overview

The postal industry went through a difficult patch during the period under review. All our lines of business are under serious threat from economic disruptors. As a result of radical market changes, we have had to revisit our value proposition. This entailed a review of our product mix as well as a complete operations reform.

Following a diagnostic assessment of our Operations, we collaborated to formulate a revitalised Operations Blueprint. This demanded a critical assessment of capabilities required to give life to the new Blueprint as well as meet future customer expectations. Moreover, it defined the desired performance behaviour and targets for those required capabilities. This paradigm shift led to us remodelling the management structure from that of being product driven to a value chain perspective. All of the above were guided by the organisational Corporate Plan that ultimately seeks to transform the Post Office from a rigid and inflexible enterprise to one that is modern, customer centric and agile.

We have thus far made some strides in stabilising Operations. We have since implemented the operations governance framework that seeks to strengthen our existing policies and standardise our management sys-

tems, processes and operating procedures. Ultimately, improving our systems of internal controls and enhancing our risk management culture. Additionally, we have operationalised the performance management system to enforce accountability. Although we still have a long way to go, these initiatives and others underway, have had some positive impact on our ability to deliver on critical projects of national strategic importance. In this regard, we are proud to be participating in the digitisation of broadcasting, assigning addresses to household thus enabling the maintenance of a legal compliant voters' roll, the delivery of school books and distributing social grants.

With regards to the digitisation of broadcasting, 686 150 households were registered and 356 402 set top boxes were distributed. We are looking forward to reach the target of 5 million households by 2020. On the address roll out project, we have managed to assign over 1.9 million addresses to households in this financial year. We are confident to meet our commitment to assign 3,5 million addresses in the next financial year. We are also very proud of the on time delivery of 4 million books to 3 568 schools this year. The social grant payment platform was also implemented.





Moreover, there was limited traction on the migrant remittances notwithstanding large population and the backing of postal operators in the Region. In addition, if one also considers the reduction in letter volumes, this has resulted in underutilisation of existing infrastructure and ultimately, misaligned capacity. As a result, to counter this exposure, we have considered re-alignment of spare capacity with exports and imports towards securely facilitate trade with other countries.

In line with effectively facilitating trade, the Office of Exchange is our catalytic initiative. This initiative is the epicentre of the Operations Blueprint. It drives our eCommerce Operational Readiness, which is a program of Universal Postal Union (UPU) to capture the international parcel market. As a result, there has been significant growth in inbound parcels. Parcels are taking up and utilising greater space in mail centres, vehicles and branches than ever before. This line of business required new competencies as well as more sophisticated technology. Unfortunately, our existing solutions failed to keep up with the growth, which led to delivery delays and increase in customer complaints.

Despite that, there have been advances in handling international parcels. There was an integration of parcels last mile delivery in line with our new logistics strategy. Specific sorting processes were reallocated to alternative facilities thus maximising our property portfolio. Digitisation of notification to recipients has reduced returns to senders and increased the number of successfully delivered parcels. Moreover, the postal industry and Customs authorities have collaborated to develop a system that makes the declaration process seamless. These enablers are in line with new Customs Act, which will have a big impact in acceptance, delivery and data exchange.

Having initiated the above operational reforms, the cost to income ratio will receive the much needed focused attention as our costs remained consistent, whilst the revenue declined. This resulted in significant cash flow challenges and threatened sustainability. This prolonged challenged financial situation had a negative impact on our ability to execute routine maintenance on our infrastructure and therefore ultimately resulting in service disruptions. In the endeavour to remedy the situation, the "Open Post Office" initiative was introduced. This initiative makes available the infrastructure under the stewardship of Operations for utilisation by our customers to securely trade. It is expected that this will uplift revenue, increase transaction per consumer in our branch or virtual channels and improve customer experience.

We appreciate that this cannot be accomplished without eradicating an embedded culture. In this regard, we have dedicated efforts during this reporting period to co-create strategy, increase trust, improve responsiveness and enforce accountability through execution from the management team. We are collectively creating an empowering culture based on Batho Pele principles that also endeavours for an improved labour environment in the future.



**Lindiwe Kwele**

*Chief Operations Officer*





## Acting Chief Financial Officer's Overview

The Post Office continues to face challenges such as increasing digitisation, stronger competition and weaker economic conditions that drive structural declines in letter post volumes. As parcel post volumes continue to grow internationally, the Post Office's focus over the medium term is to re-align and streamline its operations to support expansion into new areas of growth such as e-commerce fulfilment utilising parcel post channels. We also aim at retaining and reclaiming the lost market share through investment in infrastructure and improved customer services at all our centres.

The Post Office signed a contract with SASSA for the payment of social grants to 5,7 million beneficiaries that use the National Payment System (NPS). The Post Office was further required by the Inter-Ministerial Committee (IMC) to provide a solution to the cash grant payments using its current infrastructure. The Post Office is expecting to pay up to 7,9 million beneficiaries through the NPS and 789 000 through contracted CIT services. The SASSA contract has been changed from a

5 year Build Operate Transfer (BOT) model to continue in perpetuity, which also has a significant positive impact on the sustainability of the Post Office in the long term. Revenue expected from this project is R10 billion over the next five years.

The Department of Telecommunications and Postal Services allocated R3,7 billion in the 2017/18 financial year for the capitalisation of the Post Office. The Post Office has been tasked with managing the distribution of set-top boxes and antennae for the broadcasting digital migration project, and was allocated R240 million in the 2017 financial year, with a further allocation of R240 million in the 2018 financial year.

Revenue for the year is below budget and year-on-year decline of R115 million (4,6%), mainly due to decline in mail volumes and increase in competition. Expenditure for the year is 13% below budget and a year-on-year decline of (7%).

Group restructuring and cost containment is a priority and a phased approach will be adopted to address the





challenge of low productivity due to high staff numbers. The focus will be on reduction of labour related costs such as overtime and extended hours resulting in estimated savings of R80 million per annum and business reorganisation of non-core business support services.

It is clear that the Post Office, whilst solvent as a result of the equity injections from the fiscus, has a serious liquidity challenge. The liquidity position has not yet improved resulting in suppliers' liabilities remaining unsettled.



**Jabulani Dlamuka**  
*Acting Group CFO*







## Postbank Acting Managing Director's Overview

The financial year was characterised by significant progress in acquiring government business. This included the award of the SASSA contract to the Post Office/Postbank for the payment of social grants to the roughly 5.7million beneficiaries that use the National Payment system (NPS) and the roll out of the Department of Environmental Affairs (DEA) and Waste Bureau (WB) programmes.

Postbank also made progress in its corporatisation programme:

- The Postbank Board was appointed and established because this was a requirement of the SA Reserve Bank. The Department of Telecommunications and Postal Services is in the process of fully capacitating the Board, by appointing the remaining members.
- The Incorporation and registration of the Postbank Company was completed in April 2017. The Postbank Company was registered for Income tax and the first set of annual financial statements for the company was prepared and presented to the Postbank Board for approval.

- The Section 16 Application to Register as a Bank was submitted to the SA Reserve Bank on the 26th of June 2017. Issues relating to the legislative changes required in the Banks Act and the finalisation of the Bank Controlling Company (BCC) corporate structure have not yet been resolved. The Department of Telecommunications and Postal Services (DTPS) is engaged in addressing these matters.
- Postbank appointed staff into critical positions required for the banking license – Head of Treasury, Head of Financial Crime, Head of Regulatory Reporting and a Compliance Officer.

Postbank's financial performance for the year ended 31 March 2018 reflects the impact of an increase in non-interest revenue, with net fee and commission income rising to R206 million in 2018 from R162 million in the previous financial year. Net interest income has also increased in the current year even though Postbank was operating in a decreasing interest rate environment, rising to R521 million (FY17: R439 million).

Postbank deposits due to the public increased margin-



ally by 1% to R5,07 billion (FY17: R5,03 billion), predominantly as result of an absence of marketing campaigns. The number of customer accounts increased to 5,9 million from 5,7 million in FY17 mainly due to the increase in the number of beneficiaries paid under the Eastern Cape Department Public Works (ECDPW) programme, the roll out of the Department of Environmental Affairs (DEA) programme and the on boarding of SASSA private banking beneficiaries in early 2018. Investments increased by 4% to R8.0bn (FY17: R7.77bn).

Postbank's core banking system was relatively stable throughout the year, reporting an overall 99% uptime on ATM and POS (point of sale) transactions. This exceeds the required industry uptime of 98%.

Achievements for the past year include:

- Just over 223 000 new accounts opened;
- Postbank successfully hosted the World Savings Bank Institute's (WSBI) General Assembly meeting in Cape Town in November 2017
- The SASSA contract was signed on the 8th of December 2017 and the SASSA card which is fully operational in the NPS was launched on 1 May 2018
- Approval of the Postbank Tax Free Savings Account by National Treasury;
- Conclusion of the MoU with the Department of Environmental Affairs, thus increasing government business;
- Implementation of a government business specific product and;
- Numerous financial inclusion/literacy programmes were supported in conjunction with the Banking Association of South Africa (BASA).

Key activities for the rest of 2018 include the on-boarding of the remaining SASSA beneficiaries and capacitating the IT infrastructure and network to deal with the increased transaction volumes. Initiatives are also underway to increase the number of channel options available to our customers. These include a Digital

Banking offering and Postbank branded ATMs.

I would like to extend a word of thanks to the Board of the Post Office as well as the Board of the Postbank company for their unwavering support in making the previous year a period marked by progress in accelerating the Postbank Corporatisation process as well as a year in which Postbank greatly enhanced its competitive position in the financial services industry.



**Mr Shaheen Adam**

*Acting Managing Director: Postbank*





# Strategic Overview

## 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.**



# Legislative and Other Mandates

## Mandate, regulation and license

The South African Post Office SOC Limited was established on 1 October 1991 as a 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 the Companies Act No. 71 of 2008 (as amended), the SA Post Office was designated as a state-owned company (SOC) as per the South African 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).

## Regulation

The SA Post Office is mandated to provide postal services in accordance with the Postal Services Act of 1998. This Act provides for the regulation of postal services including its Universal Service Obligations (USO).

The license to operate as South Africa's postal services provider was issued to the SA Post Office by 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 is afforded a legislated monopoly over reserved services, and until the 2012/2013 financial year received a government subsidy. The Postal Services Act of 1998 charges the regulator, Independent Communications Authority of South Africa (ICASA), with protecting the provision of the 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 developmental programme for 2030. The Postal Services Act further requires ICASA to monitor the incumbent against 'anti-competitive' behaviour.

## Legislative and Governance Framework

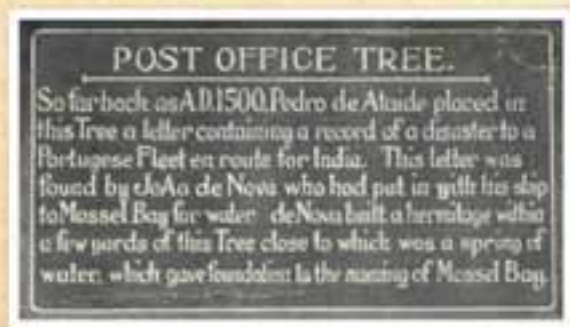
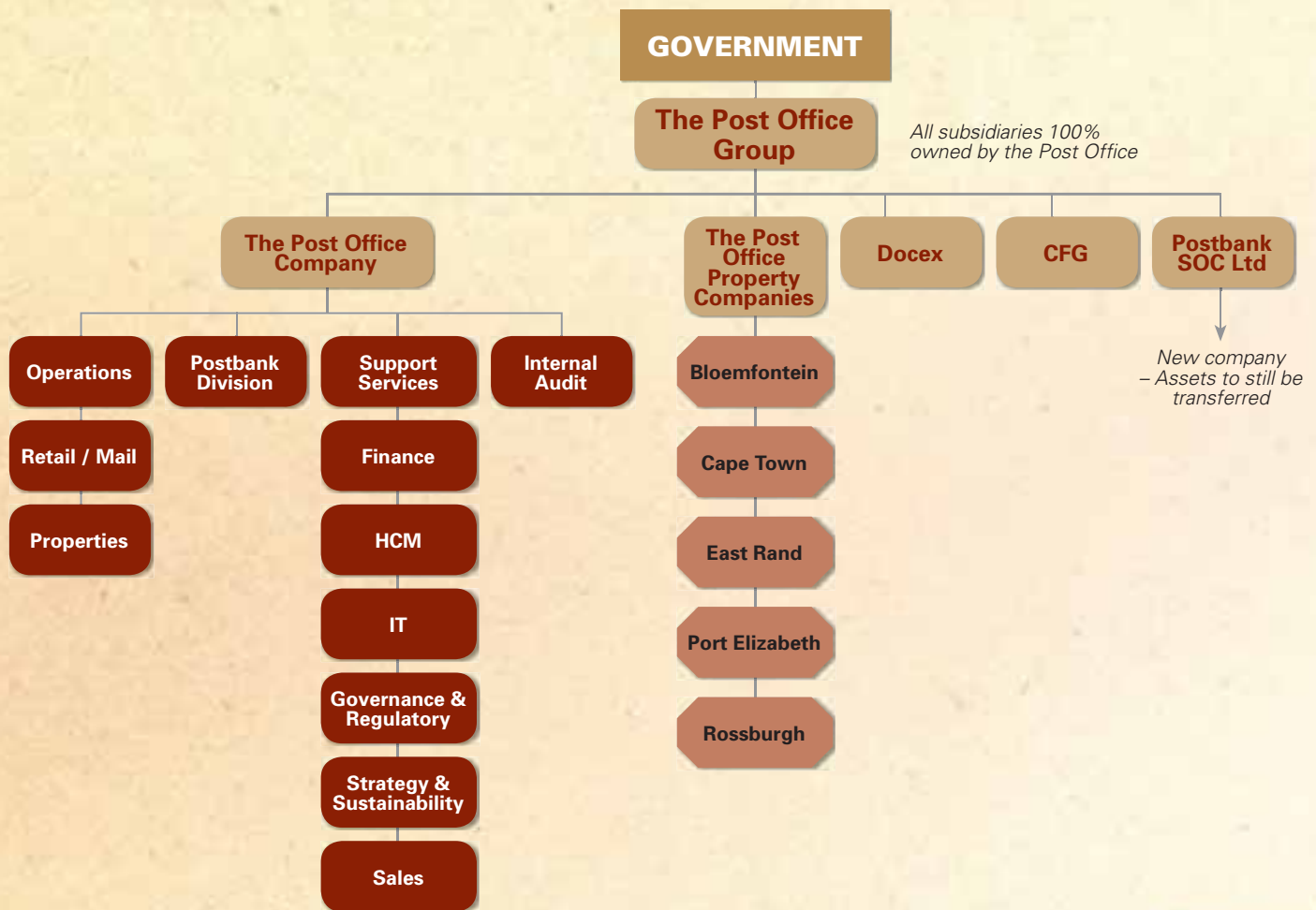
The SA Post Office complies with the protocols and legislation governing SOC's and is guided by various postal, courier and financial regulations laid down by the regulatory bodies such as ICASA, the Financial Intelligence Centre (FIC) and the Financial Services Board (FSB).

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

- SA Post Office Act No. 22 of 2011 (as amended);
- Postbank Act No. 9 of 2010 (as amended);
- Postal Services Act No. 124 of 1998.
- Public Finance Management Act No.1 of 1999 (as amended);
- Companies Act No. 71 of 2008 (as amended);
- Relevant legislation applicable to the postal sector and to SOC's;
- King IV Code on Good Corporate Governance.
- Other relevant local and international codes for the postal sector.



# Organisational Structure









## South African Post Office Heritage

On 2 March 1792, the acting governor, Johan Isaac Rhenius, issued a proclamation to establish a post office in a small room next to the pantry in the Castle in Cape Town. Adriaan Vincent Bergh was appointed postmaster and Aegidius Benedictus Ziervogel the first postman. Letters were accepted every morning between 09:00 and 10:00 at a cost of six "stuiwers" (half pennies). The postman would deliver the mail the next morning at an additional cost of two "stuiwers".

During the early nineteenth century mail ordinances on horseback replaced the runners on the routes between Stellenbosch, Paarl, Tulbach and Swellendam. From Swellendam Khoi took the mail on foot to Graaff-Reinet and Uitenhage. Matthew Gall was appointed Cape Postmaster General.

A mail boat service was introduced between England and the Cape during 1815. Fast ships conveying mail, passengers and light freight for the Cape Colony, Mauritius and India departed monthly from Britain. The first mail boat, the Eclipse, reached Cape Town 114 days later. The first steam ships were commissioned in 1925 and covered the same distance in 58 days. The Union Castle Steamship Company was founded in 1900, handling the conveyance of mail to Britain until 1977. The surface mail contract between South Africa and the

Union Castle Steamship Company, which for a century ensured a weekly dispatch of mail between Cape Town and Southampton, lapsed at the end of September 1977. From 1 October 1977 mail was transported only by container ships and aeroplanes.

The first mail coach to transport passengers and mail departed from Cape Town to Swellendam during August 1843. The guard was dressed in a bright red uniform. The main gold reef was discovered on the Witwatersrand in 1886 and that augured one of the most colourful periods in our postal history. The coaches of George Heyes & Co ran between Matjesfontein and Kimberley, and between Kimberley and Johannesburg. Matjesfontein was then the end of the railroad.

The first South African stamp, the Cape Triangular stamp, was commissioned in 1853. The figure of Hope appears on the stamp. Sir George Cathcart requested that the Cape stamps should look quite different from British stamps. The triangular stamp appeared in two values, the 'four-pence blue' and the 'one-penny red'. The stamps were not perforated and had to be cut with a pair of scissors. These stamps could be used to pay inland postage only – postage for mail to other countries had to be paid in advance, in cash.





The first postboxes were erected in the Cape on 8 June 1860. To this day, one of these postboxes can be used in Worcester Street, Grahamstown. It was manufactured in 1857 by Smith & Hawkes in Birmingham, Great Britain.

The railroad track from Cape Town to Wellington was completed by 1862 and shortly afterwards, mail was transported here by train. The mail train was commissioned in 1883. Railroad coaches specially equipped for this purpose acted as mobile post offices between Cape Town and Hutchinson, where the railroad ended at the time. Until 1950 this service was offered in the remote areas of South Africa.

Mail was transported by motor car for the first time in 1911.

The first time that mail was transported by air, was between Kenilworth and Muizenberg, and in fact it took the form of a novelty and was not a serious attempt at introducing an air-mail service. This service was introduced on a regular basis in 1929. The first overseas air-mail service was introduced in 1932. The Springbok Air Service between the Union of South Africa and Britain began to operate during 1945. An air-mail parcel service was introduced simultaneously.

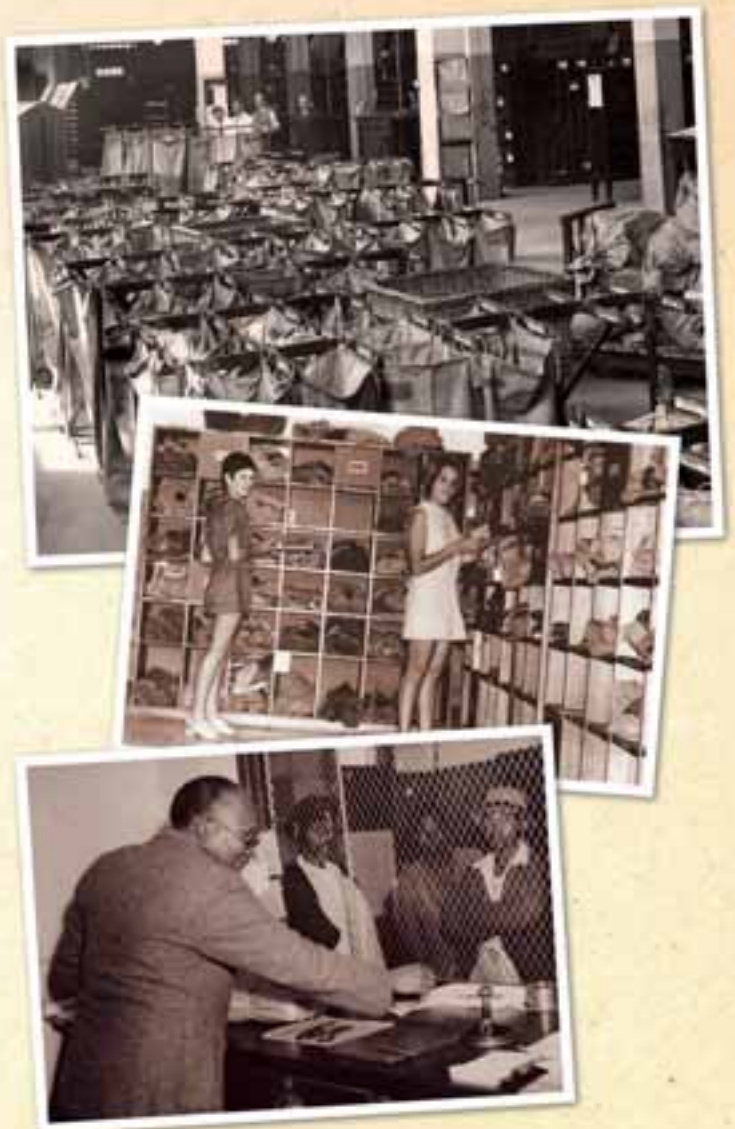
The first mail-sorting machine was installed in Pretoria in 1967. This was the result of a study started in the Johannesburg office in 1963 to compare the cost of manual and automatic sorting of mail. The mail-sorting machine was commissioned in 1968, and that was also the year when the office was made financially independent.

A world first for the Post Office in 2002, as South African President Thabo Mbeki electronically signs the Electronic Communication and Transaction Act into law. This was the first Act in the world to be signed into law by an electronic signature. The signing was enabled using the Post Office authentication service. The Act defines the Post Office as the "preferred authentication service provider" of identification procedures necessary for the issuing of advanced electronic signatures.

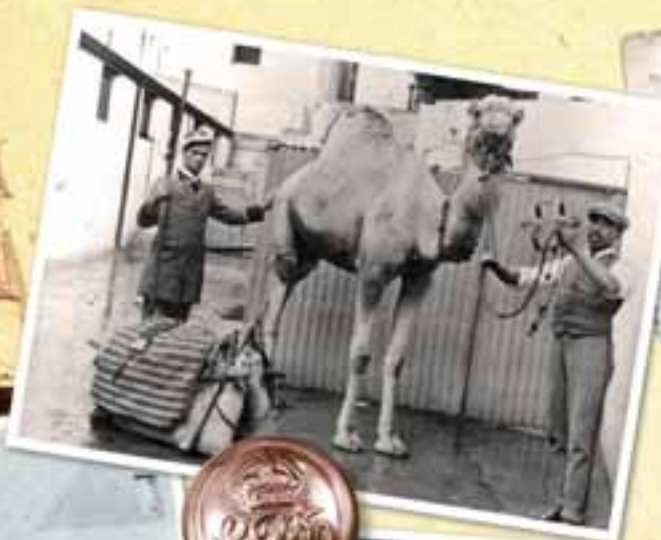
Following accreditation under the Electronic Communication and Transaction Act, the Post Office Trust Centre was launched to the public in 2013. Through its digi-

tal certificates and public key infrastructure, the Trust Centre can authenticate users of electronic devices and ensure the users are who they say they are; validate the transaction to ensure non-repudiation; protect messages from tampering; encrypt messages to protect the message from unauthorised access; and make it possible for users to digitally sign transactions and communications to authenticate code, data messages and documents.

From the beginning of 2018, the Post Office and Postbank begin an era of partnership with the South African Social Security Agency (SASSA) for the onboarding of new social grant recipients, and the issuing of new bank cards to beneficiaries. The task is enormous. Roughly 17 million South Africans receive social grants.







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## PART B: PERFORMANCE INFORMATION





# Report on performance on predetermined objectives

## Service delivery environment

The past year has seen tough economic conditions prevail with higher fuel and interest costs which hampered the operating environment for the Post Office. The loss in customer volumes and the impact of digital communication has seen revenues performing below the planned targets.

The revenue shortfall has increased the monthly deficit to meet operational expenses. This placed additional pressure on the constrained cash position of the organisation. The R3,7 billion term loan was settled in January 2018 and the Post Office will save approximately R30 million per month on interest payments. The Post Office has secured a term loan facility of R400 million of which have been utilised to pay critical suppliers to sustain operations. These funds have however been insufficient to eradicate the backlog in critical supplier payments.

The service delivery standard has improved to 87,1% for the 2017/18FY from 73,6% in the prior year, despite not achieving the ICASA approved target of 92%. Improvement in the service delivery performance is evident with the achievement peaking above 90% and showing signs of stability. Although not at the desired level of 92%, the progress for the financial year have been satisfactory and on an upward curve. Some operational challenges have been resolved over the past couple of months, however there are still some key operational blockages that are not resolved, which are aggravated by lack of funding and non-payment of suppliers.

The Digital Terrestrial Television (DTT) Project has seen an uptake in results with the total Set Top Box (STB) registrations processed. A total of 686 150 qualifying applicants have been registered to date and 356 402 STB kits have been issued up to 31 March 2018. Going forward the full

leveraging on the SASSA customer base from a DTT registration and distribution platform, will therefore be a critical success factor for the Post Office to achieve the global completion date of June 2019.

The Post Office and SASSA integrated project team and work streams are fully operational and the project is on track. The social grant disbursements for some beneficiaries started on the 1st April 2018. The first SASSA new bank card was issued on 16 April 2018 to a beneficiaries.

## Organisational environment

The Post Office Group headcount reduced to 18 119 at 31 March 2018 and decreased by 610 employees from the prior year. Whilst the reduction in the headcount is contributing to the right-sizing of the organisation there is an exit of some skilled resources.

Due to the financial constraints in the organisation a decision was taken to only fill the executive vacancies to strengthen the governance and place all other non-critical vacancies on hold. The critical executive positions of the Post Office Group Chief Operating Officer, Post Office Company Secretary, Managing Director: Docex and the General Manager: Financial Reporting have been populated during the year. A suitable candidate was recruited for the critical position of Group Executive: Supply Chain Management during the year but only took up the position on 3 April 2018. The recruitment of the four Postbank Executive positions, Managing Director, Chief Financial Officer, Chief Risk Officer and Company Secretary, are currently in progress and will be concluded in the new financial year.

Due to the SASSA project the Retail vacancies (Branch Manager and Teller) have also been identified as critical and are in the process of being filled.



In some areas fixed term contractors have been appointed to assist with critical projects within the IT and project management areas. The risk of not filling critical vacancies may have a negative impact on operations especially in IT, Finance, Project Management as well as Retail.

The section 16 application to register a bank was submitted to the SARB on 26 June 2017. Postbank is in engagements with the Department of Telecommunication and Postal Services (DTPS) regarding the critical legislative change requirements to the Banks Act and finalisation of the Bank Controlling Company (BCC) structure.

## Strategic Outcome Oriented Goals

### Performance information

#### Strategic objectives, performance indicators planned targets and actual achievements

The strategic objectives over this reporting period covered the under-mentioned key areas which focused the organisation on recovery and to set it on a growth trajectory for sustainability.

The Post Office planned to *grow revenue* with the in-

roduction of revised product and service offerings that will offer increased value to customers.

*Cost reductions* will be realised by increasing *operational efficiencies* across the organisation.

To *enhance a performance-based culture*, the Post Office will embark on reskilling and rebuilding lost capacity as well as redesigning the performance management system and workplace environments for its employees.

Whilst some strategic areas like *optimise the cost base* and *stakeholder engagement* achieved 100% while other areas performed poorly, resulting in an overall achievement of 48,6%. Of the 37 KPI's measured for the year 18 achieved the planned targets whilst an additional 6 KPI's achieved above 70% of the year target. The summary performance of the strategic areas are included in the table below.

### Revenue Growth

The revenue growth strategic area recorded an achievement of 38% for the year. The main contributor for the underperformance was the loss of customers and volumes and declines in mail revenues as well as the delay in the activation of the planned growth initiatives. Other contributors were a weak or incomplete e-commerce offering and a lack of funding for marketing and investment into systems. Overall performance and conse-

Strategic Themes	Planned target	Actual Achievement	Deviation from Plan	% Achievement	Additional KPI's achieved 70% -99%
1. Revenue Growth	13	5	-8	38%	3
2. Optimise the Cost Base	4	4	0	100%	0
3. Operational Efficiency	8	3	-5	38%	1
4. Be a Performance driven Organisation	8	4	-4	50%	2
5. Governance and Compliance	2	0	-2	0%	0
6. Stakeholder Engagement	2	2	0	100%	0
<b>Total</b>	<b>37</b>	<b>18</b>	<b>-19</b>	<b>48,6%</b>	<b>6</b>



quence management to drive accountability must also be elevated. Continued customer engagements to create growth opportunities through solution selling. Partnership strategies will be implemented and initiatives undertaken for new products and channels for Internet & mobile banking and ATM/POS devices.

## Optimise the Cost Base

Optimise the cost base strategic area recorded an achievement of 100% for the year. The cost containment measures implemented have realised benefits. IT costs performed below budget by R80 million due to the delays in revenue projects and the IT Network project. The decline in the number of staff during the year, especially due to the voluntary severance packages (which saw an uptake of 768 employees) contributed to lower staff costs during the year. The reduction in fuel usage which linked to the changes in transport schedules also produced savings. Management will continue with cost saving measures to the optimise cost base, although some areas like the fleet requires funding to improve distribution capability.

## Operational Efficiency

The operational efficiency strategic area recorded an achievement of 38% for the year. The delivery standard for mail has performed at 87.1% below the target of 92% due to non-operational machines, high inflow of international items, and shortage of bicycles. There were delays in the upgrade of IT Business systems due to lack of funds. The number of oversight visits by Area managers decreased due to financial constraints to enable travel. To improve performance the funding for machine repairs and the procurement of bicycles must be prioritised. The available upgrades for IT Business systems, must be fast tracked and Area Manager Branch visits during new financial year must be enabled.

## Be a Performance driven Organisation

*Be a performance driven organisation* strategic area recorded an achievement of 50% for the year. The main

contributors to the underperformance was the lack of funds to populate the revised organisational structure and critical vacancies, the timely completion of performance contracts and reviews and the delay in implementing the process to address non-performance. In order to address the underperformance some initiatives will be implemented like the development of a robust reward, incentives and recognition scheme for great performance, the follow-up on performance reviews with line managers and enforcement of performance contracts and 6 month reviews to be put in place. Due to the SASSA project the Retail vacancies (Branch Managers and Tellers) have been identified as critical and are in the process of being filled. Enforcement of the process should yield tangible results in the new financial year.

## Governance and Compliance

The total number of outstanding Audit matters is 369, after the resolution of some audit findings during the year. There is no systemic breakdown in the control framework of the Post Office – but rather, that such control framework is generally adequate, but remains ineffective on a number of levels. A back to basics project has been started within the Finance/Accounting Unit (with some good results), and should also be launched across many of the other key functional areas. The strategy is being formulated by Management to drive this aspiration of control improvement. This will receive priority focus in the new financial year and thereafter ongoing focus by Management and other assurance providers.

The detailed performance for the key performance indicators are indicated in the tables below.



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Revenue Growth	Total Revenue	1.1	Achievement of CP targeted revenue from 2016/17FY baseline revenue	R6,6 billion	R4,674 billion	-R1,927 billion	Not Achieved	The main reasons for not achieving the target are the continued loss of customers and volumes and the delayed implementation of the planned revenue initiatives. Performance against the baseline revenue has been mostly affected by a decline in mail revenues. Although this was anticipated, the extent of the decline has been reduced by continued customer engagements. This was due to lack of expected investment to enable solutions during the financial year resulting in an overall performance of 71% against budget.
	Customer Focus	1.2	Nr of Marketing Programs to key customer segments	8	6	-2	Not Achieved	The Rates brochure available on-line on the internet and intranet, the SASSA launch invitation programme, and promotional items (RFQ) TV clock design have been achieved during the year. The key dependencies are budget, funding, campaign approval on time all the time. The inherent risks for the Post Office if marketing programs are not prioritised is the diminished brand presence and awareness.
		1.3	% of Customer Complaints resolved within 7 calendar days	80%	97,3%	17,3%	Achieved	The target has been achieved.
	E-Commerce	1.4	Nr of e-Commerce Solutions launched	4	-	-4	Not Achieved	The main reason for the target variance for the year is that the Post Office has an incomplete e-commerce offering. Part of the mitigation plans include continued engagements with customers to customise solution e.g. DAFF solution.  Whilst adequate funding is key to the development of e-Commerce solutions the Post Office is in collaboration with the DTPS and UPU on an e-Commerce project so the Post Office can be a key player in Africa. To date this project is progressing well with the Post Office setting up an e-Commerce pilot warehouse at the SCM in Silverton, Pretoria.
	New Revenue	1.5	Nr of New Products Launched	4	-	-4	Not Achieved	The main reason for the target variance for the year is that the Post Office has not developed any new products due to the lack of funding for investment into new products and solutions. This will be further explored in the 2018/19FY.





Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Revenue Growth	New Revenue	1.6	Nr of Digital Solutions Launched	3	8	5	Achieved	The target has been achieved.
	Key Account Management	1.7	% Growth as per the CP for Baseline Revenue 2016/17FY from Key Accounts	16%	-12,5%	-28,5%	Not Achieved	The variance has been contributed by customer's substitution on Mail products and weak or incomplete e-commerce offering. Continued engagements with customers to customise solution e.g. Home Choice solution.
								Partnership strategies for growth will be implemented in the coming financial year. Appointment of permanent Key Account Managers in vacant positions and the appointment of Senior Manager in the corporate sales environment. The key dependencies still remain as project funding, operational excellence, skills development/training for sales personnel and enhance quick technology adoption to allow rapid response to customer requirements.
	Revenue Protection	1.8	Revenue Leakage recovered (Including from Reserved Market)	R100 million	R14,5 million	-R85,5 million	Not Achieved	The variance has been contributed by customer's improving the bulk lodgements in mail posted that decreases the non-conformance.  Bulk of the revenue recovery target however relates to the engagements with ICASA to better police the reserved market. The Post Office is waiting for an official communication from ICASA with regards to the date of the hearing at the Complaints and Compliance Committee (CCC).
	New Revenue - Government business	1.9	Nr of New Business Segments	3	3	0	Achieved	The target has been achieved.

Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Revenue Growth (Postbank)	Increase and Diversify Revenues - Postbank Base Case Revenue - Net Interest Income	1.10	Achieve Net Interest Revenue target from 2016/17FY Baseline Revenue	R558 million	R520,2 million	-R37,8 million	Not Achieved	The negative variance resulted from the lower interest rate market. The current budget was prepared using the FRA curve rates as there was an expectation that the interest rates would continue with the increasing trend, however this has not happened in the current year thus the decrease in the interest income when compared to the target.
								To optimise return on Postbank investments by ensuring fruitful investment deals are made. Postbank expect that the current investment counter parties will assist in increasing the investments thus increasing the interest earned.
				R192 million	R206,5 million	R14,5 million	Achieved	The target has been achieved.
Revenue Growth	Sustainable Delivery of Social Mandate - Increase financial inclusion of the mass market	1.12	Year on Year % increase in Depositor Accounts	3%	3,1%	0,1%	Achieved	The target has been achieved.
				As per project plan	8,33%	-91,67%	Not achieved	The planned target has not been achieved due to delays in the project and missing 11 of the 12 key milestones. The first draft business requirements document was completed in March 2018 and reviewed with a few minor changes to be made. Document will be signed off April 2018 after the modification has been completed. This project is dependent on the availability of the specialists in order to complete the relevant documents. The delay in the implementation of the project could result in a negative impact on Docex readiness to enter and compete in the electronic legal market fraternity. Docex is also looking into alternative solutions concurrently.



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Optimise the Cost Base	Remain within Operating Expenditure Budget	2.1	Expenditure of Operational Budget	Less than or equal R6,45 billion	R5,629 billion	R822 million	Achieved	The target has been achieved.
	Rebalance the Post Office network	2.2	Finalise Retail Network Balancing Strategy	30 Sep 2017	Completed	0	Achieved	The target has been achieved.
	Enhance mechanisation/ digitisation of Postal and Parcel operations	2.3	% of Mail and Parcels handled by Machines by target date	20% by March 2018	27,3%	7,3%	Achieved	The target has been achieved.
	Energy and carbon emissions Reduction*	2.4	3% Reduction of Carbon Emissions -3% Reduction in Scope 1 (Direct emissions from fleet) -3% reduction in Scope 2 (Indirect emissions from electricity use)	3% reduction from target of prior year for both scope 1 and scope 2	46 408,10 tCO2eq 2,41% reduction	4 414,95 tCO2eq	Achieved	The target has been achieved.
Operational Efficiency	Resilient Operations	3.1	Board Approved Business Continuity Plan	30 Sep 2017	Approved by the Post Office Board on 24 Oct 2017	0	Achieved	The target has been achieved.
	IT Optimisation	3.2	Nr of Core Operations IT Systems Redesign and Implemented	2 systems per quarter	0	-8	Not Achieved	The Secure File Transfer Protocol (SFTP) was redesigned and implemented in quarter 4. However the Post Office Call Centre Systems and Infrastructure and Consolidation, IBM Message Broker Upgrade and the Post Office Network Stabilisation and Upgrade was not achieved and is still in progress.



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				Reason for Target Variance
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	
Operational Efficiency	IT Optimisation	3.3	% of Enterprise Business Systems Upgraded					It should be noted that during quarter 4 most resources and effort was focused on the SAS-SA project compressed timelines in delivering Biometrics System and the Integrated Grant Payment System. On the Call Centre system, the service provider halted work due to non-payment of outstanding invoices. The outstanding systems will be reprioritised and implemented once funding is available. The Network project is still ongoing and intended completion is end of March 2019. This will alleviate the lack of skilled resources to manage the Network. The Post Office needs to obtain funding to settle outstanding debts with service providers. Key dependencies are funding and skilled resources.
				100%	33,3%	-66,7%	Not Achieved	<p>Various reasons contributed to the non-achievement of the set target.</p> <ul style="list-style-type: none"> <li>• Webriposte (the Post Office Retail Front End System) – the project was put on hold due to other priorities and dependencies on upgrading the hardware in the Post Office branches which will only take place in the second quarter of financial year 2018/19.</li> <li>• SAP (the Post Office ERP) – Taking the Post Office's financial constraint into consideration the upgrade was too expensive. Hence the upgrade was cancelled.</li> <li>• EBDN (Electronic Bulk Delivery System) – this was linked to the SAP ERP upgrade. This upgrade will continue in the new financial year, once funding is allocated and skilled resources are employed.</li> <li>• IPMS (International Parcel Management System – Funding required</li> <li>• T&amp;T (Project to upgrade existing or replace with IPS) - Funding required</li> </ul>



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Operational Efficiency	IT Optimisation							<ul style="list-style-type: none"> <li>Upgrade to Windows 10 on Desktop – was put on hold due to resource constraints</li> </ul> <p>The Post Office needs to obtain funding to settle outstanding debts with service providers. Key dependencies are funding and skilled resources.</p>
	Rebuild Operations	3.4	Nr of Oversight visits by Area Managers per Branch per Quarter	1 per quarter per branch	1337	-4727	Not Achieved	<p>Area Managers could not visit all branches per set target due to financial constraints to enable travel. However, oversight visits are also done by the internal audit oversight team to the various branches during the year. During the period April 2016 to September 2017 the oversight audits were undertaken for 917 post offices.</p> <p>Funds to be made available to enable Area Managers to visit all their branches.</p>
		3.5	Nr of Deviations from Standard Operating Procedure	0	1,949	-1,949	Not Achieved	<p>The target of 0 deviations from the standard operating procedure was not achieved.</p> <p>Operational audits were undertaken by Internal Audit until September 2017 but halted. During the period April to September 2017 audits were undertaken at 724 post offices. 8,008 findings were initially made but were reduced to 1,949 during the follow up audits, an improvement of 76%. This process has however been revived to improve the operational environment.</p>
		3.6	Implementation of MIS	30 Nov 2017	Implemented	0	Achieved	The target has been achieved.



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Operational Efficiency	Rebuild Operations	3.7	% of Service Delivery Standard achieved	92%	87,1%	-4,9%	Not Achieved	The ICASA Approved target was not met, however improvement in the performance is evident and progress since quarter 4 of the 2016/17 financial year was recorded at 6,6%. It is promising to report on the achievement for February and March 2018 which achieved performances above 90% and showing signs of stability. Although not at the desired level of 92% the progress for the financial year have been satisfactory and on an upward curve.  Some operational challenges have been resolved over the past couple of months, however there are still some key operational blockages that are not resolved, which are aggravated by lack of funding and non-payment of suppliers.
	Attain Postbank SLA	3.8	% Uptime for ATM and POS Transactions	98%	98.67%	0.67%	Achieved	The target has been achieved.
Be a Performance Driven Organisation	Workforce Training	4.1	% of Key Employees trained per the Critical Skills Plan	100% per skills plan	197%	97%	Achieved	The target has been achieved.
	Restructure the operating model	4.2	Approved Revised Organisational Structure	30 Sep 2017	Approved on 25 Apr 2017	+5 Months	Achieved	The target has been achieved.
		4.3	% of Revised Structure populated up to Management level by Target Date	70% by 31 Mar 2018	62%	-8%	Not Achieved	The lack of funding is the key reason that recruitment for non-critical positions are on hold.  Due to the cash flow challenges a decision was made to place all other executive positions on hold until the situation improves.



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Be a Performance Driven Organisation	Capacitate critical positions	4.4	% of Critical Vacancies Filled	100% by 31 Mar 2018	36%	-64%	Not Achieved	<p>Due to the financial constraints in the organisation a decision was taken to only fill the executive vacancies and place all other critical vacancies on hold. The COO, Company Secretary, MD Docex and the GM: Financial Reporting position have been filled. The filling of the four Postbank Executive positions are in process.</p> <p>Due to the SASSA project the Retail vacancies (Branch Manager and Teller) have been identified as critical and are in the process of being filled.</p> <p>Once the financial situation improves priority will be given to critical positions identified within the organisation. Currently employees within IT/ Finance /Project Management with these skills have been identified within the company and are being seconded to these areas. Further to this development opportunities have been advertised within these areas and the intention is to attract and place employees that have these qualifications or busy studying towards them, on a development programme in these areas.</p> <p>In some areas fixed-term contractors have been appointed to assist with critical projects within the IT and project management areas. Critical vacancies within Retail have been identified and are in the process of being filled. The risk of the non-filling of critical vacancies may have a negative impact on operations especially in IT, Finance, Project Management as well as retail. The filling of vacancies within the IT environment have been seriously impacted by measures to save costs as well as continuous high staff turnover. There is a skills gap in terms of resources for this department. Not filling IT vacancies will impact on systems being ineffective and network connectivity problems continuing. Projects will not be implemented and managed properly.</p>



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
Be a Performance Driven Organisation	Critical skills retention	4.5	% of Critical Skills Retained	85%	95,68%	10,68%	Achieved	The critical skills retained in the identified areas are IT personnel – 97%, Tellers – 91,46% and Branch managers – 108,25%. The total staff for these areas decreased from 4,671 at 31 March 2017 to 4,469 at 31 March 2018, equating to 95,68% retention of these critical skills.
	Revised Performance management framework	4.6	% of Management Employees enrolled onto Performance Management System	100%	94%	-6%	Not Achieved	The submission of the Performance contracts has improved dramatically to 96%. This has been due to continuous communication and creating awareness among managers to drive performance among their teams, and encouraging them to realise that performance management is a tool to enable them to encourage discussions on performance and dialogue in line on the corporate plan, and the set objectives.  In a number of business areas this has improved, but requires some work for it to be sustainable and not just for compliance. The challenge is still the culture of lack of engagement within the Post Office, as well as the lack of incentives and recognition for performance due to the financial situation of the organisation. Buy-in of the Corporate Plan, organisational objectives and targets. Culture of not taking Performance Management seriously. Only management level's performance is measured. Lack of financial compensation for high performers. Lack of consequence management.
	Enforcement of Performance Management	4.7	% of Non-Performing employees leaving the Organisation after due process	100%	0%	100%	Not Achieved	This process that has not been implemented within the Post Office yet, because of the culture within the Post Office and the process that has to be followed before the process can be implemented. Managers have been encouraged to follow up on employees who are performing below acceptable standards, discuss the development plans for corrective action. Enforcement of the process should yield tangible results in the new financial year.



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
<b>Be a Performance Driven Organisation</b>	Change Organisation Culture	4.8	% Completed of Implementation of a Change Management Program	As per project plan	Ethics	0	Achieved	The target has been achieved.
<b>Compliance and Governance</b>	Rebuild Operations	5.1	% of High Risk Quality & Operations Audit Findings resolved within 14 days (Governance)	100%	0%	-100%	Not Achieved	The efficiency with which Audit issues are being resolved remains inadequate. Internal Audit acknowledges the efforts from various process owners to resolve audit issues. In our view, there need to be an acknowledgement that due to the significant liquidity challenges over the last number of years, which had an impact on the general control environment of the Post Office (people, processes and resources). As audits are continuing, more of the same problems are identified and which will likely continue until adequate investment can be made regarding the latter.
		5.2	% of Medium and Low risk Quality & Operations Audit Findings resolved within 30 days (Governance)	80%	0%	-80%	Not Achieved	The Corporate target for the 2019 Financial Year has also been adjusted to reflect a more reasonable outcome to achieve being "an unqualified audit opinion". It is our view that this is more relevant and achievable in the current the Post Office environment.
								Total number of outstanding matters (overall) as at 31 March 2018 is 379. There is no systemic breakdown in the control framework of the Post Office – but rather, that such control framework is generally adequate, but that on a number of levels it remains ineffective. This can be attributed to, and this is not an exhaustive list of reasons: Staff vacancies at critical points in the various processes; poor skills and competencies at tactical level; inadequate management and supervision responsibilities.



Theme	Goal	KPI Ref	Key Performance Indicator	Annual Performance				
				Annual Target 2017/18	Annual Actual	Variance	Achieved/ Not achieved	Reason for Target Variance
<b>Stakeholder Engagement</b>	Improve External Stakeholder Relationships	6.1	% Implementation of External Stakeholder Management Programs	100%	100%	0	Achieved	The target has been achieved.
<b>Stakeholder Engagement</b>	Improve Internal Stakeholder Relationships	6.2	% Implementation of Internal Stakeholder Management Programs	100%	100%	0	Achieved	The target has been achieved.





# Performance Information by Function

## Sales

Business for the Financial year under review has been under tough trading conditions. The slowdown in the economy affected most sectors and companies that utilise the services of the Post Office. The division continued to present the Post Office products and services to existing and new customers. This culminated in the Post Office being awarded the SASSA grant payments.

The awarding of this business is in line with the vision of the Post Office of being the payment hub for most Government services. We hope that this will unlock more opportunities where the Post Office will be utilised to facilitate payments on behalf of Government. There has been traction in the Local Municipalities space as the Post Office continued to respond to tenders with a view to growing the business with this sector.

Government business is not the only focus for the division as engagements continue with our Corporate and SMME customers in order to retain and grow the business.

## Corporate KPI Overview

<b>1.1 - Achieve current baseline Revenues target as per Corporate Plan (Commercial)</b>		<b>2017/18</b>
Target		R4 222 383 622
Actual		R3 538 442 277
Variance		-R683 941 345
PERFORMANCE		84%

Base line revenues were affected mostly by the decline experienced in mail revenue. This is a direct result of substitution by customers onto digital platforms in response to poor delivery standards by the Post Office.

Despite the decline, Sales continued to engage with Key Account customers in order to co-create solutions that will grow existing revenues or offer additional revenue streams. 36% of the Key Account customers attained growth from the past year's revenues. 64% performed below the 90% percent mark when compared to the previous year. Key Account management continued to be a focus area for the rest of the year.

Motor Vehicle Licence renewals and the DTT migration project contributed positively towards the revenue line for Retail. Cash flow constraints impacted on stock availability at the branches and therefore sales volumes.

Performance against the planned growth target was poor due to lack of funding for the identified projects. The pipeline required investment into platforms that would enable delivery of services. Most of the potential projects required integration which the Post Office has not been able to implement thus far.

Non achievement of the growth target brought the overall performance against target for the division down to 66%.

Customer Services is striving for required achievements in terms of SLA required by ICASA of resolving complaints within 14 working days, which was achieved with the exception of the 7 working days SLA required by Executive Management.

The Call Centre update project is still incomplete due to funding challenges. These delays continue to impact on the overall effectiveness of the Call Centre management process.

Over the past financial year 1,9 million addresses were rolled out. This was due to the accelerated programme driven by a Constitutional Court Ruling.



## Mail Operations

The past year was recognised by further stabilising of the entity and the adopting of an integrated Operations Blue Print strategy. Initiatives within the consolidated approach focussed on improving the operational performance and efficiency with visible signs testament to that, however the organisation still faces various operations and financial challenges.

In 2017/18 there was an improvement on delivery standards to 87,1% from 73,6% in the prior year and 61,2% in 2015/16. Although not at the desired level of 92% the progress for the financial year have been satisfactory and on an upward curve and customer experience are continuously enhanced through an expanded retail integration.

## Automation

Not all the mail handling machines are fully operational and outstanding spare parts and consumables need to be procured to address the outstanding challenges, but lack of funding remains a challenge. The machine availability is recorded at 53,8% as at the end of quarter 4.

## Route Optimisation – Transport Optimisation

The initiative has been included as part of the new Logistics strategy. Focus in the new fin-year will be on the consolidation of the transport and logistics aspects and to execute on the route optimisation as an integral component.

## Staffing Optimisation – Crewing Model Review

Consultative sessions with organised labour were more productive and the success rate has improved to such an extent that a framework for consultation was adopted. Over and above the improved consultations, agreements on redeployment and shift frameworks have been signed between the Post Office and Communication Workers Union (CWU). These agreements

are fundamental to the entire crewing exercise and the implementation thereof.

## Meeting the Challenge

Operations will continue to drive for business effectiveness and operational efficiency and efforts to achieve such will be expanded and optimised to meet customer needs. With continued support from our customers, employees, and stakeholders we believe that operational efficiency will be further enhanced.

## Retail Operations – Being the “Face of Government”

During the period under consideration Retail increased revenue by 19% (R91million) on the 2016/2017 financial year.

Motor Vehicle Licensing renewal was the strongest Retail revenue line at 52% (R295 million) of total revenue, followed by digital terrestrial television (DTT) revenue at 21% (R116 million), municipalities at 3% (R19 million), Telkom at 3% (R19 million), National Housing at 3% (R14 million), Lottery at 2% (R11 million), financial institutions at 2% (R11 million) and fax and photocopier revenue at 3% (R15 million).

Other Retail revenue lines include television license renewals, retailers, money transfer services, and social grant revenue.

Operating expenses incurred for the 2017/2018 financial year showed an unfavourable variance of 2% (R29 million) against budget, when compared to the 2016/2017 financial year, operating expenses decreased by 1% (R2 million).

With SAPO having been appointed as distribution agent for the payment of Social Grants, the strategic theme of becoming “The Face of Government” is strengthened.

## Points of Presence – Competitive Advantage

The SAPO has a Retail outlet footprint which is very difficult to replicate, comprising of 2,209 Points of





Presence, of which 1,512 are conventional Post Office branches and 697 are Post Office Agencies. This is viewed as a strategic competitive advantage and will be leveraged to secure additional revenue streams to the benefit of South African citizens, particularly payment of Social Grants.

During the period under consideration 10 branches were amalgamated and consolidated with closely located existing branches. A further 5 Retail Post Office Agencies were closed.

A Distribution Network Optimisation Framework which covers both Mail – and Retail Operations is currently being developed and will be finalised during the 2018/2019 financial year.

## **Customer Service – Service with a Smile**

The quality of the customer service provided is gauged by the type and number of customer complaints received. Based on the type of customer complaints, the required remedial action is implemented.

### **Customer complaints**

The total annual complaints received for the year amounted to 2 130, a 9% (171) increase on the previous 2016/2017 financial year (during which 1 959 complaints were received). Each complaint is recorded as regarded as finalised only once the situation has been addressed.

### **Customer compliments**

Total annual compliments for the 2017/2018 financial year received were 3 098, a 29% (697) increase of compliments compared to the year before (during which 2 401 compliments were received).

## **Staff – Voluntary Severance Packages, Vacancies and Crewing**

The current Retail staff compliment is 5 813 with (38%) 3 509 vacancies. The process of filling Branch Manager positions is ongoing. A comprehensive selection pro-

cess has been developed by Human Capital Management to ensure that the correct candidates are appointed in vacant positions. All positions have been filled internally to date, with no increase in head count.

To ensure that branches are adequately staffed, a new crewing model has to be revised in line with the new Operations new blueprint.

## **Process Optimisation – Operational Efficiency**

As part of process optimisation, tips are sent out to branches when a specific matter needs to be resolved or taken note of. Management Information Systems Retail utilises a comprehensive management system developed in-house known as ODMS (Operations Document and Management System) on the SharePoint platform.

The system covers all aspects of control and is synchronised with the Operations manuals on branch, area and regional level. In line with the proposals received by the process optimisation committee, enhancements are made to the ODMS.

Required approval for monthly cash forecast etc. are done via ODMS. Daily reports with regards overnight cash levels etc. are also drawn from ODMS.

## **Equipment**

### **Multi-functional Devices (Printers, Copiers, Scanners)**

We are currently finalising Integration testing, after successful testing, monitoring of the Proof of Concept sites will commence for three months. Rollout of the Multi-functional Devices will commence in the 2018/2019 financial year.

### **Pin pads**

Roll out of pinpads to branches has been completed, however operations at branches have been severely affected due to software and hardware related errors supporting pinpads.



## Broadcast Digital Migration (BDM / DTT)

The DTT distribution process has been activated in all nine (9) provinces to date.

A total of 686 150 qualifying needy households has been registered nationally up to 31 March 2018. The registration uptake improved in 2017/18 by more than 388% from 114 815 in 2016/17 to 560 521 registrations in 2017/18.

A total of 356 402 Set Top Boxes (STBs) (335 019 DTT STBs and 21 383 DTH STBs) has been issued as at 31 March 2018. The registered STBs issued by SAPO improved in 2017/18 by more than 617% from 43 278 STB issued in 2016/17 to 310 485 STB issued in 2017/18.

## SASSA

Preparation and planning for the payment of Social Grants has commenced. We are eagerly anticipating the commencement of payment of Social Grants. This will not be without challenges, we will however succeed in the delivery thereof to the citizens of South Africa.

## Security and Investigations

### Overview

In comparison to the previous financial year, both reported incidents and losses decreased over the past financial year, with no single incident incurring material loss for the Post Office being reported.

- *Reported Incidents:* Over the past financial year as indicated in the graph below, a total of 2873 incidents were reported in comparison to the 3067 incidents reported during 2016/2017 – a decrease of 6% in reported incidents.
- Postal Crime: the Post Office had during 2017/2018 processed and delivered postal items. The 1449 Postal Crime related incidents (mail violation, theft and dumping) reported for investigation amounts to 0,00021 % of all items processed.

Reported Incidents per Category

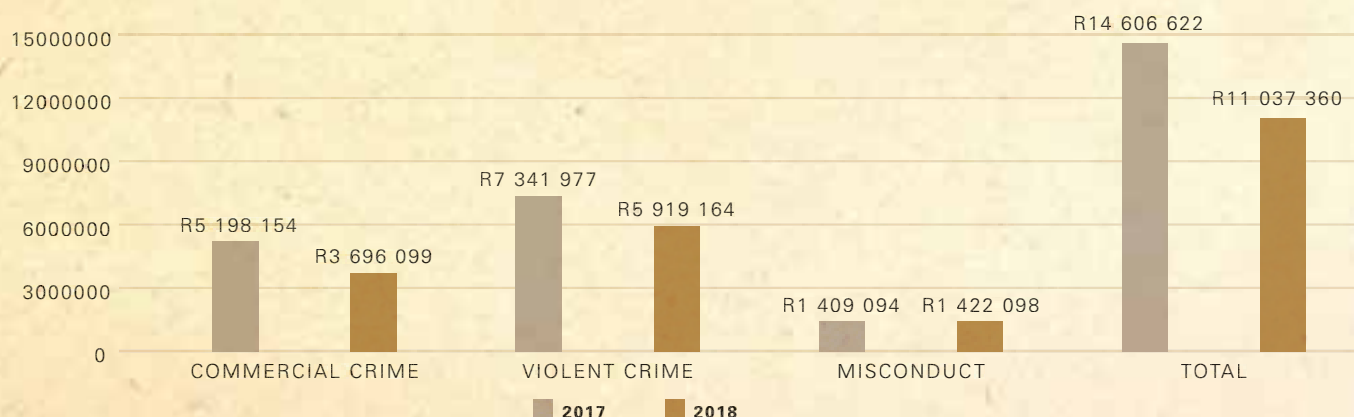


- *Reported Loss:* In comparison to the reported loss of R14 606 621,97 during 2016/2017, the reported loss during 2017/2018 amounted to R11 037 360,94 - a decrease of R3,6 million (24%).
- Commercial Crime Loss (Fraud & Theft): In comparison to the previous financial year, losses attributed to fraud and theft decreased by R1,5 million (29%).
  - Account Fraud Loss (R1 825 234,15) amounts to 67% of all Fraud reported (R2 730 571,16)





Reported Incidents per Category



- Violent Crime Loss (Armed Robbery, CIT Robberies and Housebreaking): In comparison to the previous financial year, losses attributed to violent crime decreased by R1,4m (19%)
  - In comparison to the R36 billion cash handled / held post offices during 2017/2018, the reported loss relating to Armed Robberies and Housebreaking (R5 858 155,95) amounts to 0,0163% of the cash processed/handled

The Post Office fully subscribes to Government's Crime Prevention Strategy and is continuously focussed on creating ethical behaviour amongst its employees, customers and service providers.

In addition to the deployment of its crime prevention and investigation strategies the Post Office works closely with the South African Police Service (SAPS), SABRIC and all other Financial Institutions across South Africa.

**The Post Office Group has developed a fraud prevention activity plan that is directed at deploying a comprehensive approach towards the management of fraud and corruption risks with specific focus on:**

- Understanding fraud risks that can undermine the Company's business objectives;
- Determining whether fraud and corruption prevention programs and controls are also adequately effective in reducing instances of fraud;

- Gaining insight into better ways of designing and evaluating controls to prevent, detect and respond appropriately to fraud and corruption;
- Reducing exposure to liability, sanctions and litigation that may arise from violations of law or stakeholder expectations;
- Deriving practical value from the development of a sustainable process of managing fraud, corruption risk and improving performance

The Post Office is committed towards a zero tolerance approach pertaining to acts of criminality and dishonesty and discourages unethical conduct and encourages all employees and stakeholders to act ethically, comply with laws and policies and where assigned with such responsibility, ensure compliance of laws, policies and procedures.

In accordance with the Security & Investigation Policy of the Group, all employees of the Post Office have an obligation to report incidents of unethical conduct to management or their supervisors, who in turn have a responsibility to report all such incidents to the Groups' Security & Investigation Services for investigation.

In addition to implementing disciplinary actions where appropriate, as a Corporate Citizen, and in upholding the South African Government's strategy towards crime prevention, the Board requires that all acts of criminality where sufficient prima facie evidence exists and/or



identity of an alleged suspect is known, are reported to the SAPS for investigation

The Post Office operates a Whistleblowing Hotline that serves as a mechanism by which employees and other stakeholders are able to report illegalities anonymously in terms of the Protected Disclosures Act regarding improprieties where they have reasonable grounds for believing that acts of criminality, dishonesty, misconduct and/or other malpractices has occurred or is about to occur. The intention of the Policy is:

- To assure employees that they can blow the whistle on malpractices and illegalities in the work environment without the fear of suffering an occupational detriment.
- To confirm management's encouragement for employees to raise concerns responsibly and in good faith through the procedures.

## International Relations and Participation

### Introduction

The Post Office is an active and respected member of international bodies such as the Universal Postal Union (UPU), Pan African Postal Union (PAPU), Southern Africa Postal Operators' Association (the SAPOA) and the Conference of Commonwealth Postal Administrations (CCPA). Invariably South Africa, through the Post Office, is expected to take leadership positions on behalf of the African community.

These advantages need to be leveraged to create the conditions for our entry into the SADC and African markets. These advantages also provide a platform from which the Post Office can and must offer various services to postal operators in Africa.

A brief description of the strategic importance of the Post Office's participation in the above mentioned international bodies is given below:

### Universal Postal Union (UPU)

- To keep abreast of rules governing international mail exchange, with a view of stimulating growth in mail volumes and improve the quality of service to customers;
- To obtain advice on modernisation and upgrading postal products and services; and
- To obtain recommendations on standards for technological, operational and other processes where uniform practices are essential.

### Pan African Postal Union (PAPU)

- To help strengthen PAPU's role as a viable regional postal body;
- To advance the Post Office's business interests;
- To ensure that PAPU is utilised to strengthen the protection of the African postal space and interests; and
- To utilise PAPU to bring on board the French speaking West African Nations, especially in relation to the Post Office interests and projects driven through the SAPOA.

### Southern African Postal Operators Association (the SAPOA)

- To advance the Post Office's business interests within the Region;
- Participate in the creation of a business partnership with SADC postal administrations;
- Assist in strengthening the SAPOA's capacity for Regional agenda setting;
- Utilise the SAPOA platform to present a Regional perspective and legitimise the Post Office's Africa strategy';
- Continue to ensure that the SAPOA is strengthened in respect of its influence in the PAPU structure and





through that ensure the Post Office's continued and enhanced African influence;

- Leverage the Post Office's position in the SAPOA to drive the development of innovative Regional products and services; and
- Proactively work towards the eventuality of Regional economic integration and the possibility for a Regional postal network.

### **Conference of Commonwealth Postal Administration (CCPA)**

- To leverage South Africa's membership of the Commonwealth for business and political benefits;
- As an active member, the Post Office stands to benefit by obtaining the support of the Commonwealth fraternity when lobbying the UPU;
- The Commonwealth has certain twinning projects that the Post Office can tap into to grow its business; and
- To leverage the Post Office's leadership role to mobilise support for African campaigns within the body (Until recently, the Post Office was a member of the management team).

### **Participation in these events during the financial year under review (2017/18)**

The company's financial situation did not allow for normal active participation at the meetings organised by these organisations. There was limited participation in the UPU CEO's Forum and limited participation at a UPU-sponsored workshop and at the African Postal Forum and the SAPOA Postal Forum.

This lack of participation resulted in the organisation not being afforded an opportunity to influence policies and decisions that affect the Post Office business. South Africa has to ensure continued participation and maintenance of a seat at the decision making body of the UPU, the Postal Operations Council (POC).

## **Corporate Social Investment**

It is worth noting that due to the company's financial situation in the year under review, the Corporate Social Investment Programme of the Post Office was driven purely from partnerships.

### **Digital Literacy partnership with the UN Women**

The United Nations Entity for Gender Equality and the Empowerment of Women, also known as **UN Women**, is a United Nations entity working for the empowerment of women.

The Post Office partnered with UN Women in extending the Digital literacy to rural women in the Eastern Cape. As part of its outreach, the Post Office had a planning workshop with the **UN Women** and **Isibaya** (an Eastern Cape-based NGO) in Port St Johns in December. The focus of the workshop was two-fold:

- To explore the option of training the more than 5000 farmers in digital and financial literacy and involve Postbank for the co-ops.
- To assist the farmers with access to markets by connecting them to the large retail stores such as Pick n Pay, Spar, Shoprite and Checkers. All these retailers have outlets in Mthatha.

The procurement of laptops for the project was identified as a priority and Old Mutual came to the rescue and provided the laptops.

The next phase of the project was to have post offices converted into digital hubs. This will enable farmers within a certain radius from the identified post offices, have access to internet.

### **Collaboration with Nali Bali in Limpopo**

Nali Bali is a publication that encourages literacy amongst children. The Post Office partnered with Nali Bali in distributing the publications, with a pilot starting in Limpopo.



This partnership was very successful with the Post Office saving Nali Bali in excess of R80 000. Discussions are underway to extend the Nali Bali partnership to the Free State this year as well as include early development centres in the distribution list.

### **Joint Action Management (JAM)**

JAM is an NGO working with Early Childhood Development (ECD) centres across the country mostly in informal settlements.

The Post Office engaged JAM to explore volunteering options for staff. The Post Office staff members can “adopt” a centre and improve it so that the ECD centre becomes eligible for a grant. The centre can then open

Postbank accounts and the grant money can be paid into the Postbank account.

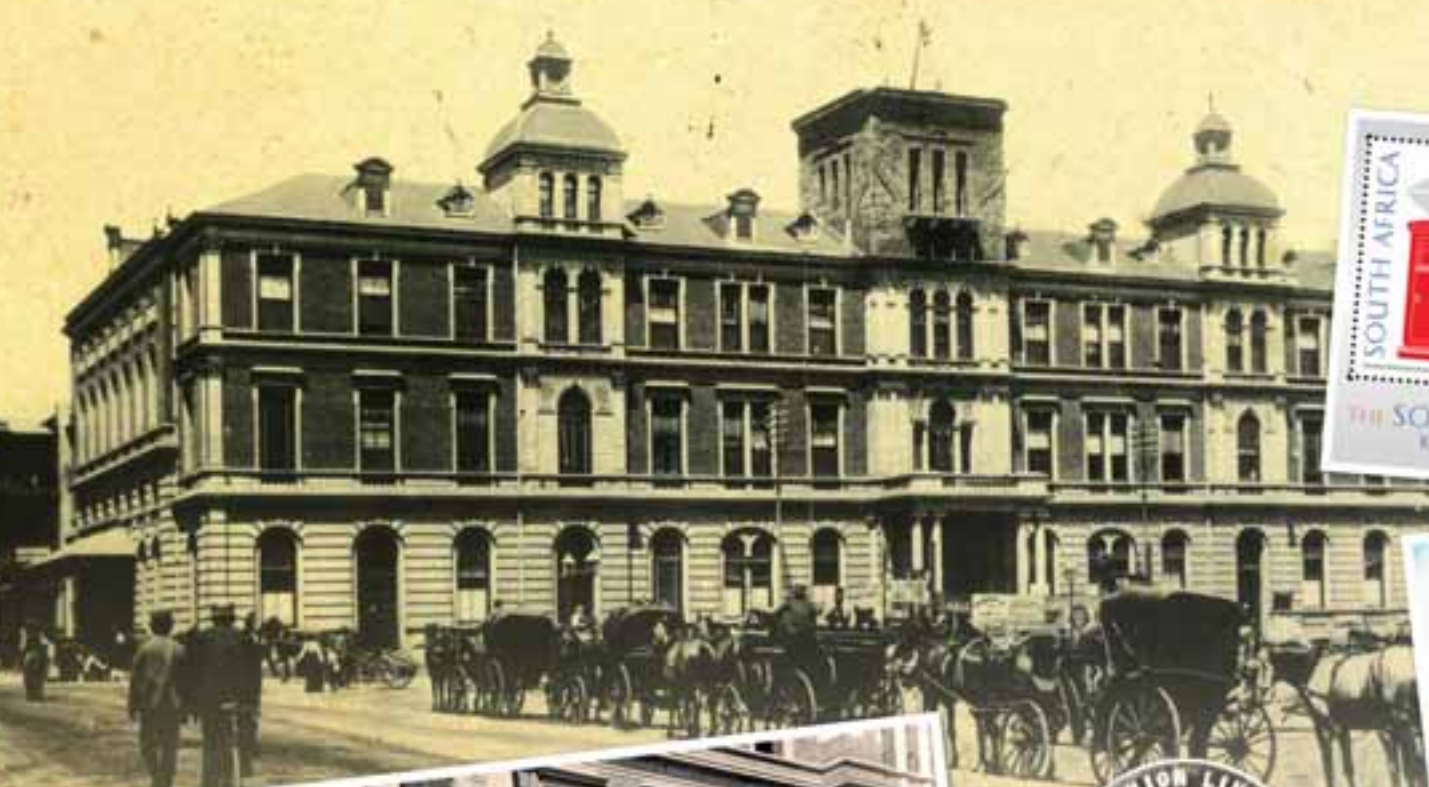
### **The Nelson Mandela Centenary Partnership Project**

The Post Office was invited by the Nelson Mandela Foundation to participate in the Centenary Celebrations. The role of the Post Office was to collect letters from students, telling Nelson Mandela what he meant to them.

Letter boxes were to be stationed in post offices across the country and children encouraged to post their letters to Madiba.







*Handwritten text on a postcard or letter, partially obscured by other items.*



One hundred years  
of postal history

*The South African Stamp Heritage Collection*

*Our Historic Postage Stamps are Mounted in Precious Metal*

*Quality Mount / Collection Worldwide*







## PART C: GOVERNANCE





## Introduction

The Post Office is designated a State Owned Company in terms of Schedule 2 of the PFMA, Act 1 of 1999 and the Companies Act, 71 of 2008 and has to comply with the requirements of these acts. The provision of statutory postal services by the Post Office, is legislated and in international commitments in terms of the Universal Service Obligations (USO). Relevant licensing, financial and regulatory requirements stipulated by statutory bodies such as; Independent Communications Authority of South Africa (ICASA), The Financial Intelligence Centre (FIC) and the Financial Services Board (FSB) are applicable to the Post Office.

The Post Office Group comprises the following companies: The Postbank (SOC) Ltd; The Document Exchange (Pty) Ltd (DOCEX); The Courier Freight Group (Pty) Ltd (CFG); five property companies: the Post Office Properties Companies (Pty's) Ltd: Bloemfontein; Cape Town; East Rand; Port Elizabeth and Rossburgh.

## Portfolio Committees

Parliament exercises oversight over the Post Office through its Executive Authority, the Minister of Telecommunications and Postal Services. The Board of Directors of the Post Office which is the Accounting Authority of the Post Office is accountable to the Minister.

In the financial year under reporting the Post Office appeared before the Portfolio Committee on Telecommunications and Postal Services; the Standing Committee on Public Accounts (SCOPA); the Standing Committee on Appropriations (SCOA); and Joint Portfolio Committees on Telecommunications and Postal Services and Social Development. Oversight reporting dealt with amongst others the following matters; quarterly and annual performance reporting; strategic and annual performance plans; financial performance and the social grants project. The Post Office over the reporting period also provided replies for Parliamentary questions on varied matters through the Minister.

## Executive Authority

The Minister of Telecommunications and Postal Services fulfils the PFMA defined role of Executive Authority over the Post Office, and is also the sole shareholder on behalf of the South African Government. The Minister had numerous interactions with the Board of the Post Office in relation to performance, funding and governance matters. An Inter-Ministerial Committee (IMC) on Comprehensive Social Grants provided strategic leadership and oversight over the Post Office's participation in the payment of social grants project.

## The Accounting Authority/ The Board

The Board of Directors (Accounting Authority) had three vacancies with the Chief Operating Officer as one of the three executive directors was appointed in June 2017. Mr Comfort Ngidi served as the Acting Chairperson of the Board over the financial year and Ms Nomahlubi Simamane as Acting Deputy Chairperson of the Board. The Board also appointed Mr Dawood Dada as the Company Secretary to the position which had been vacant over a number of financial years. The Board provided strategic leadership and proprietorship of the Post Office Strategic Plan, Annual Performance Plans (APP) and in specific over the process of acquiring and implementing of the project for the payment of social grants.

The Board approved the Annual Financial Statements, Auditor General Report as well as the Annual Report for the Post Office Group of Companies for the 2016/2017 year. The Postbank was incorporated with the Companies and Intellectual Property Commission (CIPC) and the Board along with the Postbank Board entered into a transition agreement which regulates the relationship between the two companies and Boards during the Postbank banking licence process. No assets had been transferred from the Post Office to the Postbank.

In challenging financial times along with contraction of revenue the Board approved various projects within its mandate related to the upgrade of IT infrastructure; and the Operations Blue Print which had been developed by the incoming COO.



The 2018 Nelson Mandela centenary year was recognised with the approval of among others a Nelson Mandela stamp issue along with other stamp themes for 2018.

The Post Office move from the leased property in Eco Park to its own head office premises at the National Postal Center was approved by the Board.

## Composition of the Board

The Board consists of not more than ten non-executive members and three executive members which are the following; the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Operations Officer (COO). Two of the non-executive positions remained vacant until the appointment of two new members by the Minister on 01 April 2018. The Board served the third year of a three year term with the current term ending on 31 July 2018. No Board members had resigned during the reporting period.

Mr Comfort Ngidi and Ms Nomahlubi Simamane were appointed Chairperson and Deputy Chairperson respectively with effect 15 March 2018 to the end of their current term which is 31 July 2018.

## Board Members

### Mr Comfort Ngidi

Full-time director at Ngidi & Company Inc; part-time Chairperson of Ezemvelo KZN Wildlife.

#### Qualifications:

BA (Law) and LLB degrees from the University of Natal.  
Completed course on Judicial Skills for future judges.  
Completed courses on Board Skills at Wits Business School.



### Mr Phetole Elvis Rabohale

Mr Rabohale is Human Resource Director at SepFluor Ltd, a mining company, since 2012. He has held executive and management positions as General Manager, Chief Finance Officer, Chief Operating Officer and Managing Director at various organisations since 1994. He was General Manager for Processing Planning and Development (Mail) at the Post Office until 2004.

Mr Rabohale possesses the following academic qualifications: MBA; Master of Development Finance; BComm-Honours (Business Management); BComm; National Higher Diploma (Industrial Engineering); National Diploma (Organisation & Work Study).

His key area of contribution to the Board was attributed to his past employment with the Post Office and knowledge of, and working experience at mail operations, Mr Rabohale assisted the Board in turnaround strategy matters relating to the Post Office's mail operations and workforce. He also contributed in Strategic Management, project management, fleet management, operations research and management, job design and performance management.



## Ms Nomahlubi Victoria Simamane

Ms Simamane is the CEO of Zanusi Brand Solutions, a branding consultancy she founded in 2001. She has delivered brand building strategies and activated plans for blue chip companies and state owned entities and has over 20 years international experience in application of effective strategies. She gained her vast experience in Unilever and British American Tobacco where she worked for 12 and 5 years respectively, in roles of Marketing Manager and Marketing Director. She became the first black female Managing Director of a top 20 SA Advertising Agency in 1999.



Ms Simamane holds the following qualification: B.Sc. Honours in Chemistry and Biology - University of Botswana and Swaziland (1981).

Her area of contribution to the Board was in business strategy, business development, retail, sales and marketing.



## Ms Lesego Dawn Marole

Ms Marole is Executive Chairperson of Executive Magic, an investment holding company. Prior to that she worked in executive and senior management roles of Executive Director: Strategic Projects, Executive Director: HR, Deputy CEO, Executive Director at the African Bank Investment Ltd and Fabcos Investment Holdings Company as well as Thebe Health Care (Strat-med) since 1996. She has served on the Presidential Review Committee of State-Owned Enterprises and the Export Advisory Board. She serves on the boards of various companies including MTN, DBSA, Santam, and Richards Bay Mining Holdings.

She holds the following qualifications: BComm; Diploma in Tertiary Education; MBA; Executive Leadership Development Programme; and Global Executive Leadership Programme. Her key areas of expertise are Strategy, Business Leadership, Governance, Banking and Human Resource Management.

## Mr Mdu Zakwe

Mr Zakwe is Executive Chairman of Cyber Core (Pty) Ltd, an entity primarily focused at cyber talent development, research and development into cyber offensive and defensive products and solutions and generally assists other companies mature towards an acceptable business resiliency against cyber-attacks, threats, risks and vulnerabilities



Prior to that he held positions of Partner and Director at EY (Africa Enterprise Intelligence) KPMG (Head of KZN IT Advisory) and Nkonki (Head of IT Audit). He has worked at Unilever, FirstRand, AngloGold in SAP Project Implementation, Credit Re-engineering and IFRS Implementation respectively.

Mr Zakwe is a Chartered Accountant with an MBA in IT & Commerce. He has authored a journal on Electronic Bill Presentment & Payment and he continues to contribute to literature like the IRMSA Annual Risk Report. He is certified in Applied Cyber Security with the Massachusetts Institute of Technology.

He has served as Chairperson of various audit & risk committees (Department of Science & Technology, UIF, Department of Labour, and State Security Agency) and also served as member of the audit committee at Trade & Investment KZN, FASSET, and City of Johannesburg, Public Service Commission.

When he was President of the South African Institute of Chartered Accountants in KZN he also served as non-executive Board Member of SAICA nationally and the Black IT Forum. He currently serves as a member of Risk Intelligence Committee with the Institute of Risk Management South Africa. He is a founding member and ex-Chair of Cebisa Financial Services Cooperative operating primarily in KwaZulu Natal. He also contributes to our national food basket through his hydroponics farm which plants various capsicums.



### **Dr Moretlo Molefi**

B.Sc., MBCHB, TelemedDip, SMP

Dr Lynette Moretlo Molefi is a South African medical doctor, a dynamic and versatile entrepreneur and business executive, with a reputation for exemplary leadership. She has been one of the few pioneers of telemedicine in South Africa and Africa with representations at various levels of government and non-governmental organisations.

Currently she holds executive positions at Telemedicine Africa (Pty) Ltd and Sunpa Africa (Pty) Ltd. She also serves as a board member of HCI, a JSE listed company; The International Society for Telemedicine and eHealth; Business System's Group Africa, a business and software company; Syntell, a leading blue chip company providing technology based services for Road Safety, Traffic Management and Revenue Collection and most recently she has been appointed to serve on the Board of Lodox Systems- A South African company that produces a unique full-body X-ray scanner, the only one of its kind currently on the market.

Dr Molefi's leadership abilities can be evidenced in the number of leadership positions she has undertaken both in South Africa and across the globe in various business that she runs.

Dr Molefi's success has been built on a solid work ethic, a belief in the power of technology, and an unwavering insistence that business must do good to do well.



## Mr Kgosi Matthews

Mr Kgosi Matthews is executive chairman of the Imvula Group, where his responsibilities include overseeing and managing all activities that are of interest to the Group. Moreover, his job includes leveraging new business opportunities and developing the business.

Before that, he was MD of Fordworks and Associates in New York, USA where he focused on clients in African and Caribbean markets.

He holds a Master's degree in Public Administration, concentrating in international relations and international finance from Harvard University, in the USA. He also has an Honours degree in political science from the Warwick University in the United Kingdom.

Mr Matthews is fluent in French.



## Mr Mark Barnes

Mark Barnes is widely known as an Investment Banker in South Africa. He has 30 years of experience in financial services, holding positions of leadership at Standard Bank, Capital Alliance and Brait. Mark has had a wide exposure to financial markets previously as Head of the biggest Treasury operation in South Africa and as Chairman of the South African Futures Exchange. He is currently the Chairman and the single biggest shareholder in the Purple Group, a listed company with interests primarily in financial markets trading and asset management.

Mark Barnes graduated from UCT with an Honours Degree in Actuarial Science and attended a Management Programme at Harvard Business School.

In January 2016, Mark joined the Post Office as CEO, to head up a turnaround strategy at the SOC.

## Ms Lindiwe Kwele

Lindiwe Kwele was appointed as Chief Operating Officer of the Post Office on 5 June 2017.

Before that, she was Deputy City Manager for the City of Tshwane Metropolitan Municipality from January 2012, and acted as City Manager from August 2016 until she was appointed at the Post Office. The City of Tshwane employs 25 000 people.

From December 2008 until her appointment in Tshwane, she was CEO of the Joburg Tourism Company. She was also CEO of



Durban Africa and head of the Business Support Unit at the eThekweni Metropolitan Municipality.

She holds an MBA from the University of Wales and has successfully completed the Gordon Institute of Business Science's Executive Leadership Programme, the Municipal Finance Management Programme at the University of Pretoria, an Advanced Business Programme at the Natal Technicon, as well as a B Admin degree (majoring in Economics and Public Administration) at the University of Durban-Westville (now UKZN).



### **Mr Jabulani Dlamuka**

Jabulani is currently the General Manager Finance and Acting CFO of the Post Office, and prior to that served as the CFO of Ushaka Marine World, EC Tourism and also as the Acting CFO of the Amatola Water Board. Jabulani counts amongst his achievements; fund raising for bulk water infrastructure projects, the implementation of a significant turnaround strategy at Amatola Water, introduction and implementation of new internal control policies and procedures in Finance Department and achievements of unqualified and clean audits. He has BComm Honours in Accounting, a BComm in Tax and Estate Planning and is a CA (SA).

### **Mr Dawood Dada**

Dawood was appointed as the Group Company Secretary with effect 01 August 2017. Previously he was the Board Secretary and Manager in the Office of the National Director of the CCMA. Mr Dada is a seasoned manager with experience in defence, acquisition, human resources and labour relations. He is a qualified Chartered Secretary and an Associate member of the Institute of Chartered Secretaries Southern Africa. He holds a Masters Degree in Management and Public and Development Management, a Post Graduate Diploma in Labour Law and a BComm Degree with specialisation in Human Resource Management.





# Attendance of SAPO Board of Directors meeting and committee meetings

**1 April 2017 to 31 March 2018**

Name	Sapo board	Docex board	Audit committee	Risk committee	It governance committee	Postbank committee	Hr & transformation committee	Remuneration & performance committee	Social & ethics committee	Stamp advisory committee	Strategic turn around plan (stp) committee
	[15]	[4]	[5]	[4]	[5]	[4]	[4]	[4]	[4]	[2]	[4]
Mr ZC Ngidi	#12/15	4/4	-	-	-	-	4/4	3/3	#4/4	-	1/1
Ms NV Simamane	10/15	-	-	-	3/5	-	-	-	4/4	-	#4/4
Ms MLD Marole	13/15	-	-	-	-	2/4	#4/4	4/4	-	-	1/1
Mr ZK Matthews	13/15	-	4/5	3/4	-	#4/4	-	-	-	2/2	-
Dr LM Molefi	12/15	#4/4	-	-	-	-	3/4	-	4/4	-	1/1
Mr PE Rabohale	9/15	-	1/5	2/4	3/5	-	-	#1/1	-	#2/2	2/3
Mr ME Zakwe	12/15	-	#4/5	#3/4	#5/5	3/4	-	1/1	-	-	4/4
Mr MA Barnes	14/15	3/4	5/5	3/4	4/5	3/4	3/4	3/4	3/4	1/2	4/4
Ms NJ Dewar (resigned 30 June 2018)	12/15	2/4	4/5	3/4	5/5	-	3/4	3/4	2/4	0	4/4
Ms LO Kwele	12/13	3/3	4/4	2/3	4/4	3/3	3/3	2/3	3/3	0	2/2

# Chairperson



## Committees

The statutory committees of the Board are: the Audit Committee; Human Resource and Transformation Committee; Remuneration and Performance Committee, Social and Ethics Committee. The Board may establish committees to assist it in its work and the following committees have been established in this regard: the IT Governance Committee, the Strategic Turnaround Committee (STP), the Postbank Committee; the Risk Committee and the Stamp Advisory Committee. The Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operations Officer and other group executives are permanent invitees to all committee meetings.

### Audit Committee

The 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 the Post Office Memorandum of Incorporation. The Audit and Risk Committee is responsible for, evaluating the Group's financial statements which is submitted 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 assessing the Group's financial performance against its Corporate Plan are among the Audit Committee's main functions. Representatives of external and internal audit have direct access to the Chairperson of the Committee. The committee is chaired by Mr Mdu Zakwe, with Mr Kgosie Matthews and Mr Elvis Rabohale.

### Risk Committee

During the reporting period it was decided to establish a stand-alone Risk Committee in order to provide sufficient time and reporting of risk management. The committee also 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 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 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 Risk Committee is chaired by Mr Mdu Zakwe with two non-executive members Mr Elvis Rabohale and Mr Kgosie Matthews.

### Remuneration and Performance Committee

The Remuneration and Performance Committee was established in accordance with the Post Office Act, section 14(2)(a)(i) during the financial year. The committee reviews all aspects relating to remuneration and performance within the Group. The committee comprises Mr Elvis Rabohale (chairperson), Mr Comfort Ngidi, Ms Dawn Marole and Mr Mdu Zakwe.

### Human Resource and Transformation Committee

The Human Resource and Transformation Committee was established during the financial year in accordance with the Post Office Act, section 14(2)(a)(ii). The committee 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 matters and comprises Ms Dawn Marole (chairperson), Mr Comfort Ngidi and Dr Moretlo Molefi.

### Postbank Committee

The Postbank Committee was established with an oversight role to ensure that the Postbank division operates within all 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



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 entity (to be formed) when it starts operating as a licensed bank. The committee is chaired by Mr Kgosi Matthews, supported by Ms Dawn Marole, Mr Mdu Zakwe and the chairperson of the Postbank Board, Ms Phumzo Noxaka.

## **IT Governance Committee**

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 and comprises Mr Mdu Zakwe (chairperson), Ms Nomahlubi Simamane and Mr Elvis Rabohale.

## **Stamp Advisory Committee**

This is an advisory committee 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 the Department of Telecommunications and Postal Services and a representative from the Post Office Board. The committee meets twice a year and on an ad-hoc basis if required and comprises; Mr Elvis Rabohale (chairperson), Mr Kgosi Matthews and independent specialists, Mr David Wigson, prof Gavin Younge and Ms Marilyn Martin.

## **Strategic Turnaround Committee (STP)**

The scope of the STP Committee, founded in 2014/15, extends to ensuring the necessary oversight within the

legislative and regulatory framework, as contained in the Postal Services Act, Post Office SOC Limited Act, Dedicated Bank's Bill 2004, etc. and has been established to deal specifically with the activities of the Post Office.

In general the Committee is responsible to the Board for overseeing the overall strategic planning, budget and reporting process, stewardship and related reporting.

The Committee is further responsible to exercise oversight on initiatives implemented in order to address strategic issues identified from time to time.

Members are appointed by the Board and comprise of at least three non-executive members of the Board on a term of maximum three years, extendable thereafter.

The Board members serving on the STP committee since their appointment to the Board in August 2015 are: Ms Nomahlubi Simamane (chairperson), Mr Mdu Zakwe, Mr Elvis Rabohale.

## **Subsidiary Companies**

### **Document Exchange Group (DOCEX) Board**

The Document and Exchange Group (DOCEX) is an operating subsidiary company of the Post Office. DOCEX has its own Board of Directors which is accountable to the Post Office Group which is the sole Shareholder. The company provides 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 Post Office Group Board including independent non-executive directors with expertise in the courier and freight industry.

### **Board Composition**

The DOCEX Board consists of the following:

Dr LM Molefi (Chairperson) - Non-executive Director

Mr ZC Ngidi - Non-executive Director



Mr MA Barnes - Executive Director

Ms NJ Dewar - Executive Director (resigned 30 June 2018).

Subsidiary companies are represented at Group Board Committees and thus do not have their own separate Board Committees.

## The Courier and Freight Group

During the year under review, the Courier and Freight Group was inactive.

## 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 and employees as found in the Public Finance Management Act, 1999 as amended (PFMA), other legislation and King IV.

The organisation has adopted a "Risk Management Policy and Framework" aligned to the National Treasury "Risk Management Framework" with the aim to institutionalise risk management in the organisation. The Board, through this policy, has duly accepted accountability for risk management across the Group and has additionally established a Board Sub-Committee to monitor risk and compliance levels within the organisation.

The Policy is aimed at:

- Ensuring the deployment of a common and systematic risk management operating standard across operational activities within the Group.
- Integrating a risk management approach to direct decision making on deviations threatening achievement of goals and objectives;
- Ensuring the timely identification and measurement of risks across the organisation as well as the deployment of appropriate mitigation strategies;
- Continuous monitoring and identification of risks

that would negatively impact the functioning of the organisation, thereby allowing risks or opportunities to be managed effectively.

## Group 2016 – 2018 Risk Assessment

Steady improvement of the organisation's progressive risk management practices imposed on identified risk exposures over the period from 2016-19, suggests that the organisation has improved. The reviewed corporate strategy is anticipated to place the Post Office on a path that will provide the needed changes. This includes institutionalisation of risk management practices through the organisation. The following risks still continue to affect operations.

1. **Impaired Brand Value:** The continued decline in mail volume negatively impacted on the organisation. The procurement of the payment of SASSA grants provides the opportunity to expand financial services through government.
2. **Market Competition:** Competitors continue to expose the organisation's frailties which has enabled new entrants.
3. **Operational Inefficiencies:** Effects from aged infrastructure hampers the organisation's ability to deliver services in a changing demand environment.
4. **Financial Structure:** The operating expenditure still exceeds falling revenues keeping the organisation financially distressed.
5. **Contract Management:** Complex, cumbersome and onerous public sector procurement procedures have negatively affected the organisation's ability to operate flexibly and efficiently in competitive markets.
6. **Human Capital:** The organisation operates in a complex and difficult labour environment with multiple trade unions. The loss of specialised skills has negatively impacted operational capability as lost skills could not be replaced from the internal skills pool or acquired in the market.





**7. Control Environment:** Persistent operational risk and inefficiencies indicate that controls have not reached the desired levels as irregular and fruitless expenditure remains problematic. Losses resulting from inadequate internal processes, incidents caused by the actions of personnel, system malfunctions or external events still remain evident. However, the organisation is continuously improving its expenditure controls with the integration of risk mitigation procedures to achieve improved control management.

**8. Universal Service Obligation and Non-Commercial Initiatives:** The ongoing disconnect between compulsory fixed costs relating to the social mandate and declining reserved mail revenues over many years, without any external government funding to cover the shortfall, has created recurring financial distress for the organisation and needs to be addressed to create long-term financial stability for the organisation.

**9. Market Position:** The loss of market position remains a constraining factor. Inefficiency of services and products contributed to the loss of clients and market position. The sustained and successful existence of large customers is important for market position improvement and considerable efforts have been made to secure and retain these revenues.

**10. SASSA Project:** The complexity of the project has placed a strain on resources in the organisation.

## Risk financing

Risk financing responds to damage or loss incidents as a result of unforeseen events. 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.

## Regulatory compliance

As a State Owned Company, and a Schedule 2 public entity, the organisation recognises 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.

The compliance function has the responsibility to ensure compliance with various legislations impacting on the organisation, which includes compliance monitoring to detect and correct violations, provision of compliance assurance and evaluation of the compliance status of the organisation.

## Supervision by regulators during the year under review

### a) Financial Intelligent Centre

- The Financial Intelligence Centre (FIC) conducted their annual inspection to evaluate compliance with the Financial Intelligence Centre Act (FICA). A report in this regard was issued and queries raised were addressed by the relevant business unit.

### b) The Financial Services Board

- The annual compliance report required in terms of Section 17(4) of the FAIS Act was submitted to the Financial Services Board (FSB).
- Annual levies were paid.



### c) ICASA

- All four quarterly reports for the 2016/17 financial year have been filed with the regulator.
- A roll-out of 500 000 addresses nationally was planned but only 241,416 addresses were rolled out due to financial and resource constraints. It is anticipated that the shortfall of 258,584 will be rolled out during the 2017/18 financial year.
- The annual license fee of 0.55% of the audited annual turnover is paid annually but is an onerous cost that derives no value due to the lack of reserved market monitoring and enforcement.
- The annual price cap proposal was filed in September 2016 for the 2017/18 financial year. The authority approved an annual increase of 9.3% for the 2017/18 financial year.

The Post Office has developed the following governance documents for approval by the Board and Executive Management:

- Compliance Policy
- Compliance Framework and Procedure Manual
- Compliance Universe

The laws that hold the most significant risk for the organisation relates to, the postal 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.

Monitoring of compliance with the regulatory framework is done through independent internal assessments and reporting is done regularly to the respective business and support unit management teams, the group executive management, the risk management committee and the Board.

### Risk conclusion

The year under review was extremely challenging and although response strategies were developed to claw back lost market share and decrease costs.

Notwithstanding the consequence of the late receipt of funds to support the turn-around plan resulting in deferred strategy implementation and risk mitigation initiatives, the positive progress in the risk environment between 2016/2017 and 2017/2018, is based on the implementation of enhanced sound risk mitigation practices and achieved through an improving control environment.

## Social and Ethics Committee Report for the year ended 31 March 2018

The Social and Ethics Committee ("the Committee") is constituted as a statutory committee of the Board under section 72(4) of the Companies Act (read together with Regulation 43 of the Companies Regulations).

The Committee additionally fulfils the role of a group committee and therefore no other Post Office subsidiaries have established social and ethics committees.

This report describes how the committee discharged





its responsibilities in respect of the financial year ended 31 March 2018.

The Social and Ethics Committee guides the Company to perform its oversight role to ensure that the Group conducts its business in an ethical and properly governed manner and to develop or review policies, governance structures and existing practices which guide the Group's approach to new and emerging challenges.

The role of the Committee is, having regard to relevant legislation is to monitor the following activities:

- Social and economic development, including the Company's standing in terms of the goal and purposes of:
  - The Organisation of Economic Co-operation and Development (OECD) recommendations regarding corruption;
  - The Employment Equity Act (EEA); and
  - The Board Based Black Economic Empowerment Act (BBBEE).
- The Post Office is and is seen to be a good corporate citizen
- The environment, health and public safety, including the impact of the company's activities and of its products and services;
- Consumer relationships, including the Company's advertising, public relations and compliance with consumer protection laws;
  - Labour and employment policies and practices of the Post Office, including the Company's standing in terms of the International Labour Organisation (ILO) protocol on decent work and working conditions;
- Ensuring that ethics is managed effectively (as recommended in principle of King report on Governance);

- The Committee shall investigate, review and resolve any matters arising from the scope of the Post Office Code of Ethics, which are reported to the Committee or which it shall otherwise be or becomes aware of.
- The Committee shall ensure that policies and procedures required in order for the Post Office to perform its responsibilities in respect of social and ethics matters are implemented and reviewed on an annual basis, or as required.

## Membership of the Committee

The committee comprises three non-executive directors (including the Chairperson). Non-executive directors are members of the Committee for a maximum of three years, renewable once.

- Mr Comfort Ngidi (Chairperson and Acting Chairperson of the Board)
- Dr Moretlo Molefi
- Ms Nomahlubi Simamane

The Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operations Officer, five other group executives are permanent invitees to all Committee meetings.

## Meetings

The Social and Ethics Committee met 5 times over the reporting period and received reports from management and provided oversight over the key focus areas of the committee.

## Social Responsibility

In terms of its social responsibility policy, the Post Office focuses on the empowerment of the very poor, in particular rural women, reducing the impact of HIV/Aids and on literacy for early-age children.



The financial position of the company rules out projects that incur cost. For that reason, the company has partnered with Nali Bali, an organisation that promotes literacy and reading in mother languages.

The Post Office transports reading material on behalf of Nali Bali to 22 Post Office branches in KwaZulu-Natal, Northwest Province and Limpopo. Because these consignments use existing postal transport networks, no extra cost is incurred by the Post Office, and Nali Bali saves R15 903 on each dispatch.

Nali Bali has also undertaken to train interested Post Office employees in starting reading clubs for early-age children.

Various volunteer groups at Post Office facilities countrywide reach out to organisations that look after vulnerable members of society.

## **Compliance and Regulatory Matters**

Strengthening relations and reporting with ICASA.

Legal process against PostNet to enforce regulatory reserved postal services.

Development of Terms of Reference for the Protection of Personal Information Act (POPI Act no 4 of 2013).

## **Broad Based Black Economic Empowerment (BBBEE)**

Company status in terms of Broad Based Black Economic Empowerment (BBBEE), continued to be challenge over the reporting period with a zero rating achieved mainly due to restrictive compliance of BEE policies; ineffective spending procurement processes and being bound in multi-year contracts with suppliers. The recently appointed permanent group executive for supply chain management has proposed policy and structural improvements which has been approved by the Board.

## **Environmental, Health and Safety Issues**

Implementation of key health and safety activities were hampered by lack of resources. An extensive report by a service provider depicted the dire state of some buildings and due to lack of resources it was decided that a priority list should be developed to address the most critical requirements.

## **Consumer Relations**

Consumer relationships enhanced by communication and marketing campaigns on Post Office products and services.

Advancement of a Volunteerism Policy.

## **Environmental Sustainability**

Detailed focus on sustainability on water, paper, recycling and reduction of carbon footprint, through smart metering, energy management system implementation, Green Procurement Handbook Launch, Compressed Natural Gas Vehicle implementation. Scope 1 emissions were within target.

## **Ethics Management**

Implementation of highly successful Ethics Awareness Campaign and commencement of measurement of effectiveness of the campaign.

## **Employment Equity and Employment Practices and Policies**

There was a focus on improving collective bargaining with the conclusion of recognition agreements with unions; Communications Workers Union (CWU), Democratic Postal and Communications Union (DE-PACU) jointly with South African Postal Workers Union (SAPWU).





Employees with disabilities were encouraged to disclose their disabilities in order for management to effectively manage and report on this category.

High utilisation of employee assistance programmes denotes effectiveness of the programmes but also the economic and social stress experienced by employees. Lack of resources impacted training and skills development over the financial year. Challenges in meeting ILO standards on equal work for work of equal value and was being addressed in consultative forums.

## Universal Service Obligations

Performance on Universal Service Obligations (USO) was good with significant increase in address expansion roll-out but a consolidation and amalgamation of some retail outlets had been effected with no expansion due to lack of resources. The need to secure the out phased USO subsidy was emphasised.

S. M.

### Mr Comfort Ngidi

*Chairperson – Social and Ethics Committee*



# Milestones of the Post Office in South Africa

**1792:** On 2 March 1792, the acting governor, Johan Isaac Rhenius, issued a proclamation to establish a post office in a small room next to the pantry in the Castle in Cape Town.

**1815:** A mail boat service was introduced between



England and the Cape during this year. Fast ships conveying mail, passengers and light freight for the Cape Colony, Mauritius and India departed monthly from Britain.

**1843:** The first mail coach to transport passengers and mail departed from Cape Town to Swellendam during August that year. The guard was dressed in a bright red uniform.

**1848:** On 20 September the Government of the Transvaal decided to appoint postmen to transport official mail.

**1853:** The first South African stamp, the Cape Triangular stamp, was commissioned. The figure of Hope appears on the stamp.



**1860:** The first post-boxes were erected in the Cape on 8 June that year. To this day, one of these post-boxes can be used in Worcester Street, Grahamstown. It was manufactured in 1857 by Smith & Hawkes in Birmingham, Great Britain.

The first railroad line in Natal was commissioned between the Point and Durban itself. So mail was taken by train from the boats to Durban.

**1884:** The Postmaster General, Mr W Aitchinson, reported that in Janu-

ary 1884 the first Savings Bank was founded in Cape Town. By the end of that year savings bank business was done in 125 Post Office Savings Banks.

**1905:** The biggest diamond in the world, the Cullinan, was posted to London as an ordinary, registered mail article – and made it safely! Surely this was one of the biggest risks ever taken by the Post Office.

**1911:** Mail was transported by motor car for the first time that year.

The first time that mail was transported by air, was between Kenilworth and Muizenberg, and in fact it took the form of a novelty and was not a serious attempt at introducing an air-mail service.



**1932:** The first overseas air-mail service was introduced.

**1940:** The parcel insurance service providing for insurance against damage of parcels in transit came into operation on 1 October 1940.

**1945:** The Springbok Air Service between the Union of South Africa and Britain began to operate. An air-mail parcel service was introduced simultaneously.

**1961:** The first definitive stamp series of the Republic of South Africa was issued on 31 May 1961.



**1967:** The first mail-sorting machine was installed in Pretoria in 1967 and commissioned in 1968.

**1973:** Postcodes were used from 6

October 1973 in order to facilitate the automatic sorting of mail.

**1991:** A new company, the South African Post Office Limited, was founded in October.

**1994:** In March 1994, Track and Trace was introduced. Each registered mail article and parcel gets a unique bar-coded label which is scanned at each point where the article is handled.



**2002:** A world first for the Post Office, as South African President Thabo Mbeki electronically signs the Electronic Communication and Transaction Act into law. This was the first Act in the world to be signed into law by an electronic signature. The signing was enabled using the Post Office authentication service.

**2010:** The Post Office launches the Virtual Post Office at the Joburg International Stamp Show at the Sandton Convention Centre.

**2013:** Following accreditation under the Electronic Communication and Transaction Act, the Post Office Trust Centre was launched to the public

**2016:** The Post Office launches eRegistered mail, an electronic mail product which has the same legal standing as paper-based registered mail.

**2018:** From the beginning of 2018, the Post Office and Postbank begin an era of partnership with the South African Social Security Agency (Sassa) for the onboarding of new social grant recipients, and the issuing of new bank cards to beneficiaries.





*Via Capetown*



BY AIR MAIL  
PER LUGPOS







## PART D: HUMAN RESOURCES MANAGEMENT





## Overview of HR Matters at the Post Office

During the year under review, the main focus at the Human Capital Management unit was on fostering capabilities that will enable the organisation to deliver on its mandate. This included enhancing and improving organisational discipline and people management practices.

During this period of rebuilding the HCM policy framework was relaunched and relationships and was rebuild with trade unions through the development of consultation structures. The relationship between the organisation and other external stakeholder like Services SETA, was also prioritised to enable the growth envisaged in the corporate plan through the development of the skills profile of the organisation.

Another focus area was the enablement of the human capital of the Post Office to deliver on the SASSA project. A Training programme was developed and implemented and the appropriate structure for delivery on the SASSA project was developed. The capacitation of this structure taking into account the challenges on staff cost will be the priority for the new financial year.

Dealing with the bloated cost structure of the organisation was a focus for the HCM unit in the year under review and some initiatives in this regard were launched with limited success. This will be a continuing focus for the next financial year.

Parallel to the cost reduction strategies, initiatives to improve productivity and engagement is central to the organisations recovery path. The focus on entrenching a performance management culture in the Post Office was an important driver and during the year under review, more than 97% of employees expected to submit performance appraisals actually did so. This indicates a significant success rate, and improved employees' understanding of the workplace and the role each employee plays in turning the vision of the organisation into a reality.

Skills development remained a challenge because of

the financial situation, however the process of re-establishing the internal training division – known in the Post Office as the Learning Institute was started in the year under review. This will be an ongoing focus for the new financial year with the help of the Services SETA. This programme will be ramped up to reduce the cost of learning and development initiatives, whilst increasing the impact of capacity building.

An imperative for the Post Office during FY18/19 will be the implementation of a new operating model. Appropriate skills in the areas of IT, HR, finance and operations will be developed internally from the skills available within the organisation through skills rotation programmes and the skills development programme with the Services SETA.

## HR Priorities

The priorities set for the year were:

**Reduction of staff and staff cost:** there was a reduction of staff, but due to the filling of critical vacancies in anticipation of SASSA and overall organisational stability at market related cost, the staff cost remain stable.

**Cost containment:** Cost containments initiatives for overtime, acting allowance and extended hours were implemented. Overtime reduced by R160 000 due to overtime at our international mail centres, this was as a result of an unprecedented growth in parcels from China. Unfortunately, our leave liability increased during the period under review, a programme to drastically reduce this liability will be implemented in the new financial year.

**Implement Performance Management on managerial level:** The submission of the Performance contracts has improved dramatically to 96%. This has been due to all continuous communication and creating awareness among managers to drive performance among their teams, and encouraging them to realise that performance management is a tool to enable them to encourage discussions on performance and dialogue in line on the corporate plan, and the set objectives.



**Training Centre re-establishment:** The National Learning Institute will be established in Pretoria at one of the Post Office venues. This project will be completed by the end of 2018. Work in this regard have already started. The roll-out of the SASSA project will be an important element of this re-establishment.

Application for the extension of the Learning Institute accreditation was submitted to the Services SETA and the accreditation of the Post Office Qualifications, i.e. Postal Frontline Service & Management & Mail Handling is underway.

### **Workforce Planning Framework and key strategies to attract and recruit a skilled and capable workforce.**

The Post Office have an established dynamic crewing model benchmarked on world class postal service delivery to enable it to crew and plan the workforce effectively to ensure the right people for the right job. The focus is on enhancing the current framework to be more dynamic to take cognisance of the changing workforce drivers, i.e. decreasing volumes whilst taking into account the challenges of a vast geographic spread and USO obligation.

A key challenge for the new financial year will be the consolidation of regional services with specific reference to mail and Retail business functions to enable reduction of duplications in operational and support functions.

### **Employee performance Management Framework**

The historically poor culture of performance management has created an environment that has been slow to respond to the pressure for change and improvement that is required. Performance management for the top 70 had to be implemented by 2017/18. The submission of the Performance contracts improved dramatically to 97%.

In a number of business areas this has improved however more work will be done in the new financial year to ensure that it is sustainable.

The future performance management strategy is to include employees at all levels of the organisation. Generic performance standards have been determined for each job category and this will be followed by individual performance contracts. The next step that will be driven is the monitoring of performance and ensuring that employees who do not perform receive necessary support to develop the employees.

The challenge for the new financial year is to improve and develop incentives and recognition for great performance amidst the challenging financial situation of the organisation.

### **Policy Development**

Our philosophy is to attract, retain and enable high performance by ensuring that policies conform to supporting business and HCM strategies which must be legislatively compliant, internally integrated, consistent across topics and disciplines and aligned to market best practice.

The following policies were approved by the Board during the fin-year:

- Retrenchment
- Employee Leave
- Remuneration and Benefits
- Learning and Development
- Talent and Succession Management
- Recruitment and Selection
- Cellular Phones
- Performance Management

## **Human Resources Oversight Statistics**

### **Personnel cost by programme**





Total Expenditure for the entity (R'000)	Personnel Expenditure (R'000)	% of Personnel expenditure to total Personnel cost	No. of employees	Average personnel cost per employee (R'000)
5 569 162	3 507 086	63%	18 119	193 558
Total expenditure figure is preliminary and subject to change after the external audit is finalised.				

## Personnel cost by salary band

### Staff Establishment

The Post Office's staff establishment was 18 119 as at 31 March 2018, compared to the figure of 18 730 at 31 March 2017. The 4,17% reduction during the year under review was as a result of natural attrition (781).

Salary Band	Employment at beginning of period	Terminations	Appointments	Employment at end of the period
Board	11	0	4	15
Top Management	33	2	3	34
Senior Management	257	9	12	260
Professional qualified	415	46	18	387
Skilled	3 152	161	14	3 005
Semi-skilled	13 427	488	115	13 054
Unskilled	1435	75	4	1 364
<b>Total</b>	<b>18 730</b>	<b>781</b>	<b>170</b>	<b>18 119</b>

### Performance Rewards

The Post Office does not have a performance rewards system in place as a result of the financial situation. A key objective of the next financial year is the development of a variable remuneration programme with incentive schemes for target programmes and employees. This is a crucial driver to establish a high performance culture and to re-establish the discipline of performance management.

### Training Costs

Directorate/ Business Unit	Personnel Expenditure (R'000)	Training Expenditure (R'000)	Training Expenditure as a % of Personnel Cost	No. of employees trained	Avg training cost per employee (R'000)
The Post Office workforce across Business Units	3 507 086	3 133	0,1%	3 450	0,908

### Employment and vacancies

The total salary cost for the year under review (April 2017 – March 2018) was R3 507 086 billion. The Post Office group monthly salary cost as at 31 March 2018 was R227 million, showing an R8 million decrease as at 31 March 2017.



	2017	2018			
Level	Number of employees	Approved positions	Number of employees	Vacancies	% of vacancies per level
Board	11	19	15	4	21%
Top Mgt	33	59	34	25	42%
Snr Mgt	257	474	260	214	45%
Specialist	415	621	387	234	38%
Skilled	3 152	4 173	3 005	1 168	28%
Semi-Skilled	13 427	16 144	13 054	3 094	19%
Unskilled	1 435	1 981	1 364	617	31%
Total	18 730	23 471	18 119	5 356	23%

The focus was on internal recruitment as part of driving employee engagement and ensuring talent development whilst curtailing a rise in staff costs. The management of vacancies is closely aligned to the need to manage the cost structure of the Post Office and all vacancies are reviewed and if possible roles are combined to reduce the number of vacancies.

The Post Office's policy and practice is to first to fill positions internally. Only in cases where scarce skills are required and no suitable skills are found internally, the vacancies are filled with external applicants.

During the 2017/18 financial year positions within Post-bank and IT were filled with external candidates due to the lack of internal expertise. In order to ensure that capacity is built within the organisation an IT graduate

program was introduced to provide a pool of suitable IT qualified employees to fill current and future staffing needs. The purpose of the programme is to enable graduates that studied in the IT field, to gain experience within different specialised areas within IT. These graduates are appointed with a formal development plan and they rotate within IT in order to build capacity.

The Post Office also embarked on projects e.g. Address roll-out project as well as the Broadband Digital Migration Project and for these project and had to appoint external temporary staff on a fixed term contract to assist with the implementation of the projects.

The personnel cost by salary band is reflected in table below:

Level	Personnel expenditure (R'000)	% of Personnel expenditure to total cost	Number of employees	Average Personnel cost per employee (R'000)
Board	867	0,38%	15	58
Top Mgt	4 055	1,78%	34	119
Snr Mgt	11 818	5,20%	260	45
Specialist	13 996	6,16%	387	36
Skilled	55 972	24,64%	3 005	19
Semi-Skilled	130 857	57,60%	13 054	10
Unskilled	9 619	4,23%	1 364	7
<b>Total</b>	<b>227 184</b>	<b>100%</b>	<b>18 119</b>	<b>13</b>

The stabilisation in the salary bill was brought about through cost containment initiatives, which saved R15 837 995 in acting allowances for the period under review.



	2016/2017 (R'000)	2017/2018 (R'000)	Variance between 2017 and 2018
Acting Allowances	25 420 337	9 582 342	-62%
Extended hours	74 749 900	114 912 721	54%
Overtime	23 168 686	27 971 261	21%

## Employment Changes

### Attrition

The attrition rate from April 2017 - March 2018 was 4,17%.

Level	Employment at beginning of period	Appointments	Terminations	Employment at end of period
Board	11	0	4	15
Top Mgt	33	2	3	34
Snr Mgt	257	9	12	260
Specialist	415	46	18	387
Skilled	3 152	161	14	3 005
Semi-Skilled	13 427	488	115	13 054
Unskilled	1 435	75	4	1 364
<b>Total</b>	<b>18 730</b>	<b>781</b>	<b>5 356</b>	<b>1 8119</b>

The assumption underlying the targets for the EE plan was that the natural attrition rate for the previous years would continue and that the organisation would reduce staff through a voluntary staff reduction programme. The natu-

ral attrition was arrested by a more optimistic financial outlook and the voluntary severance programme has a lower than anticipated uptake. The targets will be reviewed and the 5 year EE plan will be aligned to take this into consideration.

Progress on the implementation of the Disability management programme was also not as anticipated, however efforts to address this challenge will be enhanced in the new financial year.

Reason for leaving	Number Exited	% level of number of staff exiting
Demise	83	11%
Dismissal	228	29%
End of Contract	11	1%
Resignation	228	29%
Retirement	231	30%
<b>Total</b>	<b>781</b>	<b>100%</b>

### Labour relations: Misconduct and disciplinary action

Nature of disciplinary Action	Number
Verbal Reprimand	144
Written Warning	174
Final Written Warning	180
Dismissal	187
<b>Total</b>	<b>685</b>

18 119 as at 31 March 2017

Misconduct and disciplinary action were reduced and it is currently only 4% of the total workforce (18 199), compared to 5 % in the previous financial year. The discipline of conforming to company policies and procedures have been instilled and 96% of employees conform to policies and procedures.

### EE Target and Employment Status

The Post Office continually reviews its Employment Eq-



uity targets taking into account the level of natural attrition and the strategic workforce skills plan. Although the Post Office largely mirrors the diversity profile of the economically active population, inroads have been made in ensuring greater representation at management level in specifically the retail business in the African and Coloured female target groups. Attaining targets in women development remains a challenge and the skills development programs that will be implemented in the new financial year will have this as a priority.

<b>Race</b>	<b>African</b>		<b>Coloured</b>		<b>Indian</b>		<b>White</b>		
<b>Level</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>	<b>All</b>
Board	5	4	0	0	0	0	1	1	11
Top Mgt	13	5	1	1	5	0	7	2	34
Snr Mgt	107	57	15	11	16	2	33	19	260
Specialist	147	92	27	8	19	8	60	26	387
Skilled	836	1 120	174	191	90	52	240	302	3 005
Semi-Skilled	5 896	4 394	963	511	250	89	344	607	13 054
Unskilled	261	911	55	120	2	0	5	10	1 364
<b>Total</b>	<b>7 265</b>	<b>6 585</b>	<b>1 236</b>	<b>842</b>	<b>382</b>	<b>151</b>	<b>691</b>	<b>967</b>	<b>18 119</b>

The assumption underlying the targets for the EE plan was that the natural attrition rate for the previous years would continue and that the organisation would reduce staff through a voluntary staff reduction programme. The natural attrition was arrested by a more optimistic financial outlook and the voluntary severance programme has a lower than anticipated uptake. The targets will be reviewed and the 5- year EE plan will be aligned to take this into consideration.

<b>Level</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
Board	8	7	15
Top Mgt	26	8	34
Snr Mgt	171	89	260
Specialist	253	134	387
Skilled	1 340	1 665	3 005
Semi-Skilled	7 453	5 601	13 054
Unskilled	323	1 041	1 364
<b>Total</b>	<b>9 574</b>	<b>8 545</b>	<b>18 119</b>

Progress on the implementation of the Disability management programme was also not as anticipated, however efforts to address this challenge will be enhanced in the new financial year.

<b>Disabled Staff</b>				
<b>Level</b>	<b>Female</b>	<b>Male</b>	<b>Grand Total</b>	<b>% of Disability</b>
Top Mgt		1	1	2,9%
Snr Mgt		4	4	1,5%
Specialist		1	1	0,3%
Skilled	3	8	11	0,4%
Semi-Skilled	16	13	29	0,2%
<b>Total</b>	<b>19</b>	<b>27</b>	<b>46</b>	<b>0,25%</b>







MEDUL

— GERALD —  
— BETTA —  
— ONBET —

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## PART E: FINANCIAL INFORMATION





# Report of the Auditor-General to Parliament on the Post Office

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the South African Post Office SOC Ltd (Post Office) and its subsidiaries set out on pages 86 to 217, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Post Office Group as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.

4. I am independent of the Post Office Group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 45 to the consolidated and separate financial statements, which indicates that the Post Office Group incurred a total loss for the year of R908 204 000 during the year ended 31 March 2018. The Post Office Group did not generate sufficient revenues to finance its high cost base. These conditions, along with other matters set forth in note 45, indicate that a material uncertainty exists on the Post Office group and company's ability to continue as a going concern.

### Emphasis of matters

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

### Restatement of corresponding figures

9. As disclosed in note 50 to the consolidated and separate financial statements, the corresponding figures for 31 March 2017 have been restated as a result of an error in the financial statements of



the Post Office Group at, and for the year ended, 31 March 2018.

### Uncertainty relating to the future outcome of litigation

10. With reference to note 41 to the financial statements, the public entity is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements. The amount of R326 286 000 has been disclosed as contingent liabilities for the Post Office Group.

### Material impairment – Trade and other receivables

11. As disclosed in note 15 to the financial statements, material impairment of R113 079 000 was incurred as a result of irrecoverable long outstanding trade receivables.

### Other matter

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

### Unaudited supplementary schedules

13. The supplementary information set out on pages 216 to 217 do not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### Responsibilities of the South African Post Office Group for the financial statements

14. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material

misstatement, whether due to fraud or error.

15. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the South African Post Office Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the Post Office Group or to cease operations, or has no realistic alternative but to do so.

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

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

## Report on the audit of the annual performance report

### Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected themes presented in the an-





annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected themes presented in the annual performance report of the public entity for the year ended 31 March 2018:

Strategic objectives	Pages in annual performance report
Theme 01 – Revenue Growth	31–33
Theme 03 – Operational Efficiency	35–37
Theme 04 – Be a Performance driven Organisation	37–40

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. The material findings in respect of the usefulness and reliability of the selected themes are as follows:

## Theme 01 – revenue growth

### Indicator: % of customer complaints resolved within 7 calendar days

23. I was unable to obtain sufficient appropriate evidence for the reported achievement of the planned target of 80%. This was due to limitations placed on the scope of my work as I could not obtain supporting schedules to substantiate the reported achievement. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 97,3% as reported in the annual performance report.

### Indicator: # of new products launched

24. I was unable to obtain sufficient appropriate evidence to support the reported achievement of the planned target of 4 new products to be launched. This was due to inadequate technical indicator descriptions, formal standard operating procedures and a proper performance management system and process that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 0 as reported in the annual performance report.

### Indicator: # of digital solutions launched

25. I was unable to obtain sufficient appropriate evidence to support the reported achievement of the target of 3 digital solutions to be launched. This was due to inadequate technical indicator descriptions, formal standard operating procedures and a proper performance management system and process that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was un-



able to determine whether any adjustments were required to the achievement of 8 as reported in the annual performance report

### **Revenue leakage recovered (including from reserved market)**

26. I was unable to obtain sufficient appropriate evidence for the reported achievement of the planned target of R100 million. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of R14,5 million as reported in the annual performance report.

### **Theme 03 – operational efficiency**

27. I did not raise any material findings on the usefulness and reliability of the reported performance information for this theme.

### **Theme 04 – be a performance driven organisation**

#### **% Completed of implementation of a change management program**

28. The target approved in the corporate plan was “as per the project plan”. However, the target reported in the annual performance report was “Ethics”. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of target “as per the project plan”. This was due to inadequate technical indicator descriptions, formal standard operating procedures and a proper performance management system and process that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of Ethics as reported in the annual performance report.

### **Other matters**

29. I draw attention to the matters below.

### **Achievement of planned targets**

30. Refer to the annual performance report on pages 31 to 40 for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 21 to 29 of this report.

### **Adjustment of material misstatements**

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Theme 1 – revenue growth, Theme 3 – operational efficiency and Theme 4 – be a performance driven organisation. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the Post Office Group with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislations are as follows:





## **Annual financial statements, performance and annual report**

34. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55(1)(a) and (b) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of non-current assets, current assets, liabilities, revenue, and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## **Expenditure Management**

35. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R108 567 000 as disclosed in note 48 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by splitting of orders and not following procurement processes by deviating as a result of poor planning.
36. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R13 485 000 as disclosed in note 46 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by Post Office incurring interest charges and legal fees due to non-payment of suppliers.

## **Revenue Management**

37. Effective and appropriate steps were not taken to collect all revenue due, as required by section 51(1)(b)(i) of the PFMA, this was mainly relating to irrecoverable long outstanding receivables as a result of disputes regarding the delivery of service.

## **Asset Management**

38. The company provided financial assistance to subsidiaries in the form of inter-company loans without approval by the shareholders per special resolution and without considering the solvency or liquidity of the company, in contravention of section 45(2) of the Companies Act. The post office company provided these loans as a result of transactions which Post Office administered on behalf of these subsidiaries; the loans have now been impaired.

## **Procurement and Contract Management**

39. Some of the goods, works or services were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. This was due to a bid advertised for a shorter period and reasons provided for a deviation considered not justifiable and an award made where the Bid Evaluation Committee did not meet the minimum required quorum.
40. Some of the contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations
41. Some of the contracts and quotations were awarded to bidders based on pre-qualification criteria that were not stipulated and/or differed from those stipulated in the original invitation for bidding and quotations, in contravention of the 2017 preferential procurement regulation 4(1) and 4(2).

## **Consequence Management**

42. In some instances disciplinary steps were not taken against officials who had incurred and/or permitted irregular expenditure in the prior year, as required by section 51(1)(e)(iii) of the PFMA. This was due to lack of further investigation at a business unit level to determine if there are disciplinary steps to be taken against an individual official.



## Other information

43. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate as required by Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected themes presented in the annual performance report that have been specifically reported in this auditor's report.
44. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
45. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected themes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

47. I considered internal control relevant to my audit of the consolidated and separate financial statements,

reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the Annual Performance Report and the findings on compliance with legislation included in this report.

## Leadership

48. The leadership of the entity did not adequately establish policies and procedures related to key finance business processes and components, in order to enable and support the understanding and execution of internal control objectives, processes and responsibilities. In addition, leadership also did not implement clarifying standard operating procedures relating to performance reporting.
49. The leadership did not timeously implement effective human resource management to ensure that resources within the finance and strategy business units were sufficiently skilled and that individuals were held accountable for non-performance. Additionally, no performance management system was in place for employees other than senior managers.
50. The entity developed a plan to address internal and external audit findings, but the appropriate level of management did not monitor adherence to the plan in a timely manner, resulting in material adjustments to the financial statements. This was mainly due to lack of decisive action to mitigate emerging risks and implement timely corrective measures to address non-performance. Additionally, the numerous material adjustments to the submitted financial statements and performance report are indicative of a lack of proper review processes by leadership.

## Financial and performance management

51. Management did not implement proper record keeping in a timely manner to ensure that com-





plete, relevant and accurate information is accessible and available to support credible financial and performance reporting. Further exacerbating this, were service providers appointed for document storage delaying in providing the requested documentation required for audit due to outstanding payments, resulting in information only being provided by management on average after 19 days, despite the agreed 5 days per the signed engagement letter.

52. Regular reconciliations for key financial components were not always adequately prepared during the year, necessitating many manual reconciliations being conducted at year-end. The volume of these manual reconciliations coupled with a lack of assurance processes not implemented in time to ensure that information was accurate and complete, resulted in a number of errors being identified.
53. Management made significant use of suspense accounts that are not regularly reviewed and reconciled. Where supporting listings were made available, management had not always acted to ensure that long-outstanding items were reconciled and cleared.
54. Management did not always understand the requirements of the National Treasury Framework for Programme Performance Information (FMPPi) and thus inadequately reviewed compliance with the requirements of the FMPPi.
55. The design and implementation of formal controls over information technology systems requires further improvement to ensure the reliability of the systems in terms of availability, accuracy and protection of information.

## Governance

56. The leadership did not act on a timely basis on internal audit's recommendations or reports, rendering these recommendations to improve the internal control environment ineffective.

## Other reports

57. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the Post Office Group's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
58. The internal investigations unit is conducting several investigations into financial misconduct. These investigations were on-going at the date of this report and could result in disciplinary proceedings against the parties concerned.

*Auditor-General*

**Pretoria**

*18 September 2018*



**AUDITOR-GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*



# Annexure – Auditor-general's responsibility for the audit

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

## Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
- conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained,

whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Post Office SOC Limited and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

## Communication with those charged with governance

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





# Annual Financial Statements

## Index

The reports and statements set out below comprise the separate and consolidated annual financial statements presented to the shareholder:

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## Directors' Responsibilities and Approval

We as the directors are required by the Companies Act 2008 to keep accurate and complete accounting records as necessary to enable the company to satisfy its obligations in terms of Companies Act 2008 and provide for the compilation of financial statements, and the proper conduct of an audit, of its annual financial statements.

The accounting records required to be kept must be kept in such a manner as to provide adequate precautions against theft, loss or intentional or accidental damage or destruction; and falsification. It is our responsibility to maintain an adequate system of internal financial control that places considerable importance on maintaining a strong control environment.

Our focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within pre-determined procedures and constraints.

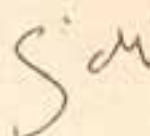
We as the directors are responsible for the approval of the annual financial statements in compliance with

Companies Act 2008, by acting in good faith, in the best interests of the company, for proper purpose; and with the degree of care, skill and diligence that may reasonably be expected of us.

Based on the legal duties expected of us as described above, we hereby approve the annual financial statements as set out on pages 85 to 215, and are signed on our behalf by:



**Mr MA Barnes (GCEO)**



**Mr ZC Ngidi (Chairperson)**

**Pretoria**

*30 July 2018*





# Audit Committee Report

The Audit & Risk Committee hereby presents its report for the financial year ended 31 March 2018, in accordance with Treasury Regulations issued in terms of the PFMA and the Companies Act. The task of strengthening the systems of internal control was wide ranging and needed an integrated approach in improving governance, accountability and systems in general. Our combined assurance providers i.e. Internal Audit and Enterprise Risk Management have continued to play their role on giving the committee independent professional assurance but management still have a way to go, with regard to resolving key audit issues in a timely and sustainable manner, so that repeat audit findings can be effectively eliminated.

Although there is a definitive downward trend in the overall experience of regularising contracts to ensure that irregular expenditure is ultimately eliminated, this remains an ongoing challenge. Although management have started to put certain processes in place, this issue of ongoing ineffective consequence management, remains a concern for the Committee, in this regard.

The Post Office continued to experience skills shortages in critical areas within Finance during the current year, but management did proactively put a number of initiatives in place which has reasonably mitigated many of the concerns of the previous financial year. This included achieving significant improvement, to meeting the required deadlines for the submission, and improving the overall quality, of the annual financial statements

Recruitment of required skills within Finance, has also reached an advanced stage, placing the finance unit in a good position, going into the new financial year, to meaningfully improve the overall internal control framework.

## 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. Membership is as follows:

Name	Effective date
Mr M E Zakwe	Appointed 13 August 2015
Mr P E Rabohale	Appointed 13 August 2015
Mr Kgosi Matthews	Appointed 01 October 2016

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 Operating Officer, Chief Financial Officer, Chief Information Officer, Chief Audit Executive, Group Executive: Human Capital Management, Group Executive: Governance and Regulation, Group Executive: Mail, Group Executive: Retail, General Manager: Risk Management, Group Executive: Supply Chain Management, Managing Director: DOCEX (The Document Exchange), Managing Director: Postbank, External Auditors.

Given the size and complexity of the group, the Board separated the Audit and Risk Committees to ensure appropriate focus on identifying and managing the risks facing the group, but subsequently separated them during the financial year to ensure adequate focus on risk management.



## 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.

### 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.

## Effectiveness of internal controls

The Committee acknowledges management's efforts to strengthen internal controls, and there has been some improvement through the last year. However, when seen in the context of the reports issued by External and Internal Audit, it is clear that management's efforts remain unsatisfactory in resolutely improving governance sustainably at the Post Office, the underlying cause is lack of investment in systems.

The Committee is concerned about the internal control weakness reported in prior years that have not been fully and satisfactorily addressed. This results in repeat audit findings. 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 emphasised that punitive measures against the responsible officials are required in instances of noncompliance of which to date, remains unsatisfactory.

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.

Although a performance management system is in place, it remains immature and is not yet fully effective

though improved since prior year to ensure executive performance can be objectively gauged.

It is of serious concern to the Committee that the performance targets of the organisation, have once again not been materially achieved. This is a strategic focus area that management must place significant effort on in the new financial year – this reflects directly on the status of the Strategy and Corporate plan of the Post Office.

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. These vacancies have not been filled but instead the Post Office sourced these skills from outside professional services firms.

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

Steady progress has been made however problems caused by people dynamics, inadequate skills and resources has resulted in ICT not being able to optimally support the business of the Post Office.

The Post Office has adopted aggressive anticorruption measures to prevent the frequency and magnitude of fraud and corruption.

## Specific focus areas

The Committee continues to monitor, support and actively advice management on:

Enhancement of reporting on performance information;

Modernisation of the information technology;

Improving the control environment, primarily through timely resolution of External and Internal audit issues and closing out on critical vacancies;





Effectiveness of the Enterprise Risk Management Unit;

Ongoing improvement to the strength of the SCM processes to ensure elimination of irregular expenditure;  
Embedding of a combined assurance model;

Improving quality of financial and operational reporting and monitoring.

## 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 remains a concern and it still needs further professionals to be able to complete their planned work and required intervention where management need guidance. The appointment of a Co Source IT auditing partner in the new financial year, has gone some way towards meeting this requirement.

Improved capacity will 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 continues to support 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 Post Office's multiple locations. The committee is however concerned about management who are not taking the work of Internal Audit seriously.

Throughout the audit cycle, audit issues are being raised and later affirmed by the External Auditors to which management gives minimal response in terms of concrete action plans to address identified audit deficiencies.

## Enterprise Risk Management Unit

The committee is satisfied with the participation of the Risk Unit during the design of a corporate plan and want to emphasise that the Risk Unit should further look into making the current risk register more robust and be in

line with the Post Office's risk appetite and tolerance levels.

Improved capacity will contribute to risk management becoming more embedded, thus enabling business units to mature their risk management processes.

The committee is concerned however that the Post Office still has not yet set tolerance levels and neither have they defined and adopted a risk appetite framework that is meant to guide the Board, committees and management on the management of enterprise risks within the organisation.

## Evaluation of the Financial Statements

The Committee has during the year reviewed the Quarterly and Annual Financial Statements at a high level by conducting the following specific functions:

Reviewed the accounting policies and generally recognised accounting practices; Reviewed the organisations's compliance with legal and regulatory provisions; Reviewed the Accounting officer's report;

Reviewed the presentation of the statements including notes.

Reviewed the AGSA management report and management responses thereto,

Reviewed any changes in accounting policies, changes in estimates and prior period errors, Reviewed the information on predetermined objectives to be included in the annual report, Reviewed any significant adjustments resulting from the Audit, and

Commentary on Annual Financial Statements prepared by the organisation

## 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 appraised of the issues supporting the audit opinion. The Committee appreciates the enormity of the challenge associated with improving the systems of internal control with less than adequate skills, resources, and IT systems however the Post Office should endeavour to improve their planning and their capacitation measures so that they are better prepared for the audit cycles.

### **Appreciation**

The Committee recognises and acknowledges the hard work put in by the Post Office. We believe that management, under the leadership and guidance of the GCEO will yield the desired level of good governance across the Post Office in the near future and that all emerging risks and internal control challenges as reported by assurance providers in their operations during the year

under review will be given due care and determination to have them resolved and not become repeat findings.

We wish to place on record our gratitude to the Minister and the Post Office Management for the support during the financial year as well as AGSA, Internal Audit and Enterprise Risk Management Unit for their consistent value-adding contributions.

On behalf of the Committee:



**Mr ME Zakwe**  
**Chairperson Audit Committee**  
30 July 2018





# Director's Report

The Board of Directors are pleased to present their report for the year ended 31 March 2018.

## 1. Incorporation

The company was incorporated on 01 October 1991 and obtained its certificate to commence business on the same day.

## 2. Holding company

The Group's holding company is South African Post Office SOC Ltd (Post Office) and the shareholder holds 100% (2017: 100%) of the Group's equity shares. The Post Office is incorporated in the Republic of South Africa.

## 3. Ultimate holding entity

The Group's ultimate holding entity is the South African Government which is represented by the Department of Telecommunications and Postal Services.

## 4. Nature of business

The 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 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.
- To provide an infrastructure for the movement of paper and electronic documents between members in various industries and become the preferred delivery partner in the judicial system; and
- To provide courier, freight and related logistical services to citizens and business, within and beyond the South African boundaries.
- To provide agency services.

The business of the Group is conducted through its operating divisions: Mail, Retail and Postbank as well as its operating subsidiaries within logistics, namely the Courier and Freight Group ("CFG") and Document Exchange ("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: Strategic Planning, Finance and Supply Chain Management, Human Resources, Information Technology, Internal Audit, Property Management, Commercial, and Governance and Compliance.

There have been no material changes to the nature of the Group's business from the prior year.



## 5. Directorate

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

Directors	Office	Designation	Changes
Mr ZC Ngidi	Chairperson of the Board: Group	Non-executive Independent	Appointed Chairperson of the Board from 13 March 2018
Ms NV Simamane	Director: Group	Non-executive Independent	Appointed Deputy Chairperson of the Board from 13 March 2018
Dr LM Molefi	Director: Group	Non-executive Independent	
Mr ZK Matthews	Director: Group	Non-executive Independent	
Mr PE Rabohale	Director: Group	Non-executive Independent	
Mr ME Zakwe	Director: Group	Non-executive Independent	
Ms LD Marole	Director: Group	Non-executive Independent	
Mr MA Barnes	CEO: Group	Executive	
Ms L Kwele	COO: Group	Executive	Appointed GCOO 5 June 2017
Ms NJ Dewar	CFO: Group	Executive	

## 6. Directors' interests in contracts

Refer to note 42 for all contracts that were entered into in which the Directors or officers of the group had an interest.

## 7. Secretary

As of 01 August 2017, Mr Dawood Dada was appointed Group Company Secretary.

Postal address  
PO Box 10000  
Pretoria  
0001

Business address  
NPC Building  
497 Sophie de Bruyn Street cnr  
Jeff Masemola Street  
Pretoria  
0001

## 8. Auditors

The Shareholder reappointed the Auditor-General of South Africa as auditor for the company and its subsidiaries at the company's previous annual general meeting.

## 9. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the Public Finance Management Act ("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 Post Office during the 2017/18 financial year and revenue continued to be depressed driven mainly by the declines in mail volumes, logistics volumes and loss of customers. The mail revenue business represents 69% of total Group revenues.

Group revenue decreased by 2.5% from R4,449 billion in the prior year to R4,564 billion for the year ended 31 March 2018 resulting from the tough retail environment.

The Group recorded a loss before tax for the year ended 31 March 2018 of R908 million, this represented a decrease of 6% from the net loss before tax of the prior year of R967 million.

The Group cash flows used in operations decreased



from R1,735 billion in the prior year to R425 million for the year ended 31 March 2018. This includes the settlement of certain prior period obligations in the current year. Capital expenditure for the year amounted to R44,1 million (2017: R53,7 million).

Government subsidy funds transfer of R240 million was received during the current year for the delivery of equipment as part of the Digital Terrestrial Television programme.

Equity injection of R3,7 billion was received from the shareholder in December 2017 and utilised to settle long term loans.

## **10. Liquidity and solvency**

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

The company's financial position is stronger with the carrying value of total assets exceeding the total carrying value of liabilities by R3,5 billion. In the prior year, total assets exceeded total liabilities by R901 million. The Board of directors are therefore comfortable with the solvency position of the company.

The company experienced cash flow constraints during the financial year and requires additional financial resources (with shareholder support) to continue in operation for the foreseeable future. The company has requested a going concern guarantee from the shareholder.

## **11. Property, plant and equipment, and investment property**

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 2018 the Group's investment in investment properties, and property, plant and equipment amounted to R2,546 billion (2017: R2,550 billion); land and buildings were revalued in the prior year.

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

The Group has commitments in respect of contracts placed for capital expenditure to the amount of R64 million (2017: R77 million).

The Group also has commitments in respect of contracts placed for operating leases of R829 million (2017: R1,008 billion) over the period of the lease. These commitments have been approved by the respective Group companies. Refer to note 40 of the financial statements for further details.

## **12. Interests in subsidiaries**

Details of material interests in subsidiary companies are presented in the separate and consolidated annual 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 2018 are as follows:



	2018	2017
	R '000	R '000
<b>Subsidiaries</b>		
Sapos Properties (Bloemfontein) (Pty) Ltd	(90)	3 423
Sapos Properties (Cape Town) (Pty) Ltd	74	13 384
Sapos Properties (East Rand) (Pty) Ltd	(97)	37 594
Sapos Properties (Port Elizabeth) (Pty) Ltd	15	1 357
Sapos Properties (Rossburgh) (Pty) Ltd	47	6 659
The Courier and Freight Group (Pty) Ltd	(966)	(52 750)
The Document Exchange (Pty) Ltd	2 300	80
<b>Total interest in profits and losses after tax</b>	<b>1 282</b>	<b>9 649</b>

### 13. Share capital

	2018	2017
<b>Authorised</b>	<b>Number of shares</b>	
Ordinary shares	1 000 000 000	1 000 000 000

	2018	2017	2018	2017
<b>Issued</b>	<b>R '000</b>	<b>R '000</b>	<b>Number of shares</b>	
<b>Ordinary shares</b>	<b>5 217 116</b>	<b>693 116</b>	<b>693 115 882</b>	<b>693 115 879</b>

### 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 board of directors may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the board of directors may pass on the payment of dividends. Given the current constrained cash flows of the company, the board of directors has not declared a dividend by the Post Office during the financial year ended March 31, 2018 (2017: R0).

### 15. Fruitless and wasteful and irregular expenditure

As per the requirement of the PFMA, the Post Office has formulated a Financial Misconduct Framework to enable the management of financial misconduct activities such as fruitless & wasteful and irregular expenditure. The Financial Misconduct Committee (FMC) is 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 as a result thereof. 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.





All identified fruitless and wasteful expenditure for the group has been fully investigated as at 31 March, 2018 (2017: R28 million was still under investigation). Refer to note 46 for more detail.

All identified irregular expenditure for the group has been fully investigated as at 31 March, 2018 (2017: R308 million was still under investigation). Refer to note 48 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 Post Office Act, the concurrent approval of both the Minister of Telecommunications and Postal Services and the Minister of Finance is required for borrowing. At end of 2018 financial year, the approved borrowing limits are R470 million (2017: R4 billion) backed by a R400 million (2017: R4,4 billion) guarantee from the shareholder.

## 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.

## 19. Material transactions

A section 54 PFMA application for approval to transfer the business of the Courier and Freight Group (Pty) Limited into the Speed Services division of the Post Office was submitted to the minister of Telecommunications and Postal Services during the 2017 year. Employees of CFG were transferred to Post Office on their existing contractual terms and conditions with effect from 1 September 2016.

## 20. Events after the reporting period

1. During July 2018 Post Office employees embarked on a national wide strike and this strike lasted for two weeks.

A settlement was reached with labour representatives, this settlement entails:

- Post Office employees across the board will receive a salary increase of 6,5%, backdated to 1 April 2018.
- Furthermore, the contracted working hours for permanent part time employees, have been moved from 21,5 hours a week to 27,5 hours a week.
- Five hundred (500) of these positions are earmarked to be phased in as permanent full-time employees in due course, following an appropriate process.

This agreement will result in an increase of staff costs by R286 million per annum.

2. In July 2018, The Commissioner of South African Revenue Services has agreed to allow the Post Office the full input tax deduction of R37,3 million that was claimed by the Appellant (the Post Office) and reduce the interest levied of R16,7 million (calculated until 01/03/2017) and penalties imposed of R3,7 million to nil in accordance with the reduction in capital, the total benefit to the Post Office amount to R58 million.

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



## 21. Going concern

The Post Office, as a state company, plays a strategic role in the provision of essential goods and services. The activities of the Post Office impact on the quality, accessibility and affordability of services provided to the community, especially the poor and vulnerable. In determining the appropriate basis of preparation of the financial statement, management are required to consider whether the group will continue in operational in the foreseeable future. The conditions noted below resulted in material uncertainty that might cast significant doubt on the Post Office's ability to continue as a going concern.

- Lack of available liquid funds and inability to access to credit due to weak balance sheet and operating losses (for the year ended 31 March 2018 the Group reported net loss of R908 million (2017:R987 million), this poses risks on the R400 million loan settlement due in December 2018.
- Existence of contingent liabilities, provisions, tax liabilities disclosed in the annual financial statements, the group have contingent liability to the value of R326 million as at year end.
- Negative financial trends such as recurring operating losses, working capital deficiencies, negative cash flows from operating activities and adverse key financial ratio.
- Financial difficulties such as defaults on suppliers' agreements, denials of trade credit from suppliers, a need to restructure debt to avoid default and a need to seek new sources or methods of financing and revenue enhancement initiatives.
- Lack of funding to fund for new capital projects and revenue initiatives, old and aging infrastructure backlog and outdated operating assets making competing in the market space almost impossible.
- Outdated IT solutions making competing in the market space almost impossible and an inappropriate and inefficient business model that has resulted in the Group not generating sufficient revenue to finance its high cost base.

- Continuous decrease in mail volumes and revenue due to emergence of a highly successful competitor there has been a number of competitors that have captured the courier market and the migration to digital communication has resulted in a significant decline in mail business over the past years.
- Loss of a major market, revenue from mail services has been on a declining trend and a number of key customers are migrating to digital platforms and a significant decline has been noted for the courier business.

Based on the above events the Post Office is without doubt currently experiencing substantial doubt on going concern, notwithstanding the substantial doubt based on the above events and conditions, management has adequate plans in place to mitigate this risk as detailed below:

The Post Office signed a contract with SASSA for the payment of social grants to R5,7 million beneficiaries that use the National Payment System (NPS). Subsequently the Minister of Social Development cancelled the cash tender, the Post Office was further required by the Inter-Ministerial Committee (IMC) to provide a solution to the cash grant payments using its current infrastructure. The Post Office is expecting to pay up to 7.9 million through the NPS and 789 000 through contracted CIT services. The SASSA contract has been changed from a 5 year BOT (build on transfer) period to continue in perpetuity, which also has a significant positive impact on the sustainability of the Post Office in the long term net revenue expected from this project is R2,7 billion over the next five year. This also means that the investment which will be acquired through SASSA projects will yield maximum benefits for the Post Office because these assets will forever remain the assets of the Post Office thereby continuously earning returns for the company.

The Department of Telecommunications and Postal Services allocated R3,7 billion in the 2018 financial year for the capitalisation of the Post Office. The Post Office has been tasked with managing the distribution of set-top boxes and antennae for the broadcasting digital migration project, and was allocated R240 million in the 2017





financial year, with a further allocation of R240 million in the 2018 financial year.

The Post Office resides within a commercially irreplaceable infrastructure which is a government asset. There are areas within our strategy of revenue diversification that will be best served by partnerships rather than organic growth primarily because of funding constraints, expertise, experience and the time it will take to get into the market.

- E-commerce: There are a number of fully developed e-commerce solutions globally, which could partner with the Post Office locally, both in terms of capital and technology.
- Postbank: Granting of banking licence to Postbank. A deal to aggregate balance sheet strength (with other small banks unlikely to compete at their size) and attract credit expertise would be a far more time and cost effective approach to getting into the lending space, than organic growth.

Group restructuring and costs containment a phased approach will be adopted to address the challenge of low productivity due to high staff numbers as detailed below:

- Reduction of labour related costs such as overtime and extended hours resulting in estimated savings of R80 million per annum.
- Business reorganisation of non-core business support services.
- Reduction in human resources cost to achieve a cost to income ratio of 40:60.

Section 189 application to the Post Office has already been raised in our engagement with labour and expected to be completed within the next twelve (12) months

Public Service Mandate, the funding of the public service mandate remains one of the key strategic option to ensure future sustainability of the Post Office, included in the MTEF submission is the detailed submission on the funding proposal for the mandate, we are looking to an annual average of R800 million over the MTEF. Labour unrest, the Post Office concluded wage agreement with the unions for the next twelve (12) months

effective from 1st April 2018, we therefore expect no labour unrest over the medium term.

The Post Office experienced cash flow constraints during the financial year and requires additional financial resources (with shareholder support) to continue in operation for the foreseeable future. There is risks that the company may not be able to discharge its obligation to the creditors but there are sufficient mitigation initiatives to provide assurance that the entity will be able to meet its obligations during the normal course of business over the medium to long term.

The Shareholder and National Treasury have approved the guarantee application and therefore the Directors believe that the company will have adequate financial resources to continue in operation for the foreseeable future, and accordingly, the annual financial statements have been prepared on a going concern basis.

## 22. 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 41 for more details regarding these.

## 23. 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 Post Office, namely the South African Postbank SOC 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 was submitted to the South African Reserve Bank on 25 September 2013. Postbank strengthened its banking capabilities and submitted its section 16 application for registration as a bank in 2017.

The South African Postbank SOC Limited company has been registered, and the first Postbank board of directors have been appointed.



## 24. Date of authorisation for issue of financial statements

The financial statements have been authorised for issue by the Board of Directors on 30 July 2018.

## 25. Acknowledgements

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





# Statement of Financial Position as at 31 March 2018

		Group			Company		
			Restated*	Restated*		Restated*	Restated*
		2018	2017	2016	2018	2017	2016
Note(s)	R '000	R '000	R '000	R '000	R '000	R '000	R '000
<b>Assets</b>							
<b>Non-Current Assets</b>							
Property, plant and equipment	3	2 342 553	2 400 888	967 809	2 260 857	2 317 152	953 806
Investment property	4	203 684	149 155	43 086	191 637	137 108	39 858
Heritage assets	5	46 247	46 247	46 247	46 247	46 247	46 247
Intangible assets	6	122 430	137 616	133 444	122 430	137 611	133 396
Investments in subsidiaries	7	-	-	-	31 933	31 933	5 279
Intercompany Loans & Receivables	8	-	-	-	3 345	-	538
Other financial assets	9	860 746	792 268	617 883	860 746	792 268	617 883
Operating lease asset	10	4 202	4 703	3 530	4 052	3 733	3 313
Retirement benefit asset	11	35 551	32 173	15 117	35 551	32 173	15 117
Deferred tax	12	338	265	727	-	-	-
Prepayments	13	-	1 548	10 107	-	1 548	10 107
		<b>3 615 751</b>	<b>3 564 863</b>	<b>1 837 950</b>	<b>3 556 798</b>	<b>3 499 773</b>	<b>1 825 544</b>
<b>Current Assets</b>							
Inventories	14	61 499	70 001	54 784	61 313	69 975	54 740
Trade and other receivables	15	479 970	408 655	436 227	464 128	389 064	416 895
Other financial assets	9	5 057 594	5 118 846	4 863 690	5 047 794	5 118 846	4 863 690
Operating lease asset	10	293	141	116	274	107	142
Prepayments	13	10 194	16 511	16 138	10 194	16 511	16 138
Cash and cash equivalents	16	4 242 831	4 055 510	2 885 035	4 231 385	4 033 842	2 871 479
		<b>9 852 381</b>	<b>9 669 664</b>	<b>8 255 990</b>	<b>9 815 088</b>	<b>9 628 345</b>	<b>8 223 084</b>
<b>Total Assets</b>		<b>13 468 132</b>	<b>13 234 527</b>	<b>10 093 940</b>	<b>13 371 886</b>	<b>13 128 118</b>	<b>10 048 628</b>



# Statement of Financial Position as at 31 March 2018

		Group			Company		
			Restated*	Restated*		Restated*	Restated*
		2018	2017	2016	2018	2017	2016
Note(s)	R '000	R '000	R '000	R '000	R '000	R '000	R '000
<b>Equity and Liabilities</b>							
<b>Equity</b>							
Share capital	17	5 217 116	693 116	693 116	5 217 116	693 116	693 116
Reserves		1 630 836	2 444 715	268 193	1 559 229	2 373 108	268 193
Accumulated loss		(3 325 166)	(2 236 421)	(1 203 241)	(3 247 167)	(2 152 914)	(1 150 725)
		<b>3 522 786</b>	<b>901 410</b>	<b>(241 932)</b>	<b>3 529 178</b>	<b>913 310</b>	<b>(189 416)</b>
<b>Liabilities</b>							
<b>Non-Current Liabilities</b>							
Other financial liabilities	22	-	3 700 980	-	-	3 700 980	-
Operating lease liability	10	41 088	69 200	62 972	40 808	69 004	62 954
Retirement benefit obligation	11	1 272 143	1 202 166	1 246 562	1 272 143	1 202 166	1 246 178
Deferred tax	12	18 567	18 809	159	-	-	-
Provisions	20	311 008	400 472	378 719	309 409	397 983	371 405
		<b>1 642 806</b>	<b>5 391 627</b>	<b>1 688 412</b>	<b>1 622 360</b>	<b>5 370 133</b>	<b>1 680 537</b>





# Statement of Financial Position as at 31 March 2018

		Group			Company		
			Restated*	Restated*		Restated*	Restated*
		2018	2017	2016	2018	2017	2016
Note(s)		R '000	R '000	R '000	R '000	R '000	R '000
<b>Current Liabilities</b>							
Trade and other payables	21	1 422 486	860 552	1 509 007	1 349 182	772 787	1 438 400
Other financial liabilities	22	400 305	-	1 008 246	400 305	-	1 008 246
Operating lease liability	10	4 155	11 019	6 141	4 079	10 964	6 097
Retirement benefit obligation	11	155 229	136 294	150 202	155 229	136 294	150 144
Deferred income	23	226 849	223 564	258 635	221 075	214 698	250 804
Current tax payable	39	438	736	419	-	-	-
Provisions	20	285 049	322 380	551 221	282 449	322 987	540 227
Deposits from the public	24	5 101 285	5 031 724	4 819 725	5 101 285	5 031 724	4 819 725
Funds collected on behalf of the third parties	25	284 387	89 095	114 451	284 387	89 095	114 451
Government grants	54	422 357	266 126	-	422 357	266 126	-
Bank overdraft	16	-	-	229 413	-	-	229 413
		<b>8 302 540</b>	<b>6 941 490</b>	<b>8 647 460</b>	<b>8 220 348</b>	<b>6 844 675</b>	<b>8 557 507</b>
<b>Total Liabilities</b>		<b>9 945 346</b>	<b>12 333 117</b>	<b>10 335 872</b>	<b>9 842 708</b>	<b>12 214 808</b>	<b>10 238 044</b>
<b>Total Equity and</b>							
<b>Liabilities</b>		<b>13 468 132</b>	<b>13 234 527</b>	<b>10 093 940</b>	<b>13 371 886</b>	<b>13 128 118</b>	<b>10 048 628</b>



# Statement of Profit or Loss and Other Comprehensive Income

		Note(s)	Group Restated*		Company Restated*	
			2018 R '000	2017 R '000	2018 R '000	2017 R '000
Revenue	28		4 448 529	4 563 563	4 401 564	4 486 412
Other income	29		44 993	203 307	43 949	178 090
Operating expenses			(1 424 256)	(1 398 681)	(1 411 859)	(1 343 241)
Employee costs			(3 315 244)	(3 687 427)	(3 296 634)	(3 628 112)
Transport costs			(290 176)	(354 900)	(278 771)	(330 347)
Total depreciation, amortisation and impairments	30		(137 381)	(140 930)	(140 496)	(170 983)
<b>Operating loss</b>	<b>31</b>		<b>(673 535)</b>	<b>(815 068)</b>	<b>(682 247)</b>	<b>(808 181)</b>
Interest and dividend income	32		829 981	830 174	828 675	832 345
Fair value adjustments	33		70 784	77 849	70 784	77 849
Finance expense	34		(1 135 338)	(1 060 079)	(1 130 924)	(1 057 879)
<b>Loss before taxation</b>			<b>(908 108)</b>	<b>(967 124)</b>	<b>(913 712)</b>	<b>(955 866)</b>
Income tax expense	35		(96)	(19 728)	-	-
<b>Loss for the year</b>			<b>(908 204)</b>	<b>(986 852)</b>	<b>(913 712)</b>	<b>(955 866)</b>
<b>Other comprehensive income:</b>						
<b>Items that will not be reclassified to profit or loss:</b>						
Re-measurements on net defined benefit liability			(180 541)	(46 358)	(180 541)	(46 358)
Gains and (losses) on valuation	36		-	1 511 556	-	1 439 949
<b>Total items that will not be reclassified to profit or loss</b>			<b>(180 541)</b>	<b>1 465 198</b>	<b>(180 541)</b>	<b>1 393 591</b>
<b>Items that may be reclassified to profit or loss:</b>						
Available-for-sale financial assets adjustments			11 569	10 795	11 569	10 795
Total items that may be reclassified to profit or loss			11 569	10 795	11 569	10 795
Other comprehensive income (loss) for the year net of taxation	36		(168 972)	1 475 993	(168 972)	1 404 386
<b>Total comprehensive (loss) income for the year</b>			<b>(1 077 176)</b>	<b>489 141</b>	<b>(1 082 684)</b>	<b>448 520</b>





# Statement of Changes in Equity

	Issued share capital	Revalu- ation reserve	Fair value adjust- ment assets- available- for-sale reserve	Convert- ible share- holder instru- ments	Total reserves	Accum- ulated loss	Total eq- uity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
<b>Group</b>							
<b>Balance at 01 April 2016</b>	<b>693 116</b>	<b>24 306</b>	<b>69 887</b>	<b>174 000</b>	<b>268 193</b>	<b>(1 203 241)</b>	<b>(241 932)</b>
Loss for the year	-	-	-	-	-	(986 852)	(986 852)
Other comprehensive income for the year	-	1 511 556	10 795	-	1 522 351	(46 358)	1 475 993
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>1 511 556</b>	<b>10 795</b>	<b>-</b>	<b>1 522 351</b>	<b>(1 033 210)</b>	<b>489 141</b>
Convertible loans from shareholder	-	-	-	650 000	650 000	-	650 000
Opening adjustment	-	-	-	-	-	30	30
<b>Total contributions by owners of company recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>650 000</b>	<b>650 000</b>	<b>30</b>	<b>650 030</b>
<b>Balance at 01 April 2017</b>	<b>693 116</b>	<b>1 535 862</b>	<b>84 853</b>	<b>824 000</b>	<b>2 444 715</b>	<b>(2 236 421)</b>	<b>901 410</b>
Loss for the year	-	-	-	-	-	(908 204)	(908 204)
Other comprehensive income for the year	-	-	11 569	-	11 569	(180 541)	(168 972)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>11 569</b>	<b>-</b>	<b>11 569</b>	<b>(1 088 745)</b>	<b>(1 077 176)</b>
Issue of shares	4 524 000	-	-	(824 000)	(824 000)	-	(824 000)
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>4 524 000</b>	<b>-</b>	<b>-</b>	<b>(824 000)</b>	<b>(824 000)</b>	<b>-</b>	<b>3 700 000</b>
<b>Balance at 31 March 2018</b>	<b>5 217 116</b>	<b>1 535 862</b>	<b>94 974</b>	<b>-</b>	<b>1 630 836</b>	<b>(3 325 166)</b>	<b>3 522 786</b>
Note(s)	17	36	18&36	19		36	



# Statement of Changes in Equity

	Issued share capital	Revalu- ation reserve	Fair value adjust- ment assets- available- for-sale reserve	Convert- ible share- holder instru- ments	Total reserves	Accumu- lated loss	Total eq- uity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
<b>Company</b>							
<b>Balance at 01 April 2016</b>	<b>693 116</b>	<b>24 306</b>	<b>69 887</b>	<b>174 000</b>	<b>268 193</b>	<b>(1 150 725)</b>	<b>(189 416)</b>
Loss for the year	-	-	-	-	-	(955 866)	(955 866)
Other comprehensive income for the year	-	1 439 949	10 795	-	1 450 744	(46 358)	1 404 386
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>1 439 949</b>	<b>10 795</b>	<b>-</b>	<b>1 450 744</b>	<b>(1 002 224)</b>	<b>448 520</b>
Convertible loans from shareholder	-	-	-	650 000	650 000	-	650 000
Opening adjustment	-	-	-	-	-	35	35
<b>Total contributions by owners of company recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>650 000</b>	<b>650 000</b>	<b>35</b>	<b>650 035</b>
<b>Balance at 01 April 2017</b>	<b>693 116</b>	<b>1 464 255</b>	<b>84 853</b>	<b>824 000</b>	<b>2 373 108</b>	<b>(2 152 914)</b>	<b>913 310</b>
Loss for the year	-	-	-	-	-	(913 712)	(913 712)
Other comprehensive income for the year	-	-	11 569	-	11 569	(180 541)	(168 972)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>11 569</b>	<b>-</b>	<b>11 569</b>	<b>(1 094 253)</b>	<b>(1 082 684)</b>
Issue of shares	4 524 000	-	-	(824 000)	(824 000)	-	3 700 000
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>4 524 000</b>	<b>-</b>	<b>-</b>	<b>(824 000)</b>	<b>(824 000)</b>	<b>-</b>	<b>3 700 000</b>
<b>Balance at 31 March 2018</b>	<b>5 217 116</b>	<b>1 464 255</b>	<b>94 974</b>	<b>-</b>	<b>1 559 229</b>	<b>(3 247 167)</b>	<b>3 529 178</b>
Note(s)	17	36	18&36	19		36	





# Statement of Cash Flows

		Group		Company	
		Restated*		Restated*	
		2018	2017	2018	2017
	Note(s)	R '000	R '000	R '000	R '000
<b>Cash flows from operating activities</b>					
Cash used in operations	38	(119 452)	(1 504 468)	(81 913)	(1 497 209)
Interest and dividend income		825 460	830 173	824 425	832 345
Finance expense		(1 135 338)	(1 060 079)	(1 130 924)	(1 057 879)
Tax (paid) received	39	(676)	154	-	-
Dividends received		4 521	1	4 250	-
<b>Net cash from operating activities</b>		<b>(425 485)</b>	<b>(1 734 219)</b>	<b>(384 162)</b>	<b>(1 722 743)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	3	(34 027)	(17 242)	(34 089)	(16 539)
Purchase of other intangible assets	6	(10 118)	(37 132)	(10 118)	(37 132)
Increase inter group loans and receivables		-	-	-	(20 053)
Increase in financial assets		(7 227)	(340 897)	(2 574)	(340 897)
Dividends received		-	-	-	-
<b>Net cash from investing activities</b>		<b>(51 372)</b>	<b>(395 271)</b>	<b>(46 781)</b>	<b>(414 621)</b>
<b>Cash flows from financing activities</b>					
Proceeds from equity injection	17	3 700 000	650 000	3 700 000	650 000
Increase in deposits from public		69 561	211 999	35 819	211 762
Increase/(decrease) in funds collected on behalf of third parties		195 292	(25 356)	195 292	(25 356)
Proceeds from term loans		-	2 692 735	-	2 692 734
Repayment of term loans		(3 300 675)	-	(3 300 675)	-
Movement in intergroup loan		-	-	(1 950)	-
<b>Net cash from financing activities</b>		<b>664 178</b>	<b>3 529 378</b>	<b>628 486</b>	<b>3 529 140</b>
<b>Total cash increase (decrease) for the year</b>		<b>187 321</b>	<b>1 399 888</b>	<b>197 543</b>	<b>1 391 776</b>
Cash at the beginning of the year		4 055 510	2 655 622	4 033 842	2 642 066
<b>Total cash at the end of the year</b>	<b>16</b>	<b>4 242 831</b>	<b>4 055 510</b>	<b>4 231 385</b>	<b>4 033 842</b>



# Notes to the Consolidated Financial Statements

## Accounting policies

### 1. Summary of significant accounting policies

Post Office is a company incorporated in South Africa. Its parent and ultimate holding entity is the South African government represented by the department of telecommunication and postal services. The address of its registered office and place of business are disclosed in the director's report. The principal activities of the company and its subsidiaries are also described in the directors' report.

The group and company consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and the requirements of the Public Finance Management Act and the South African Companies Act No 71 of 2008.

The accounting policies applied in preparation of these group and company financial statements are consistent in all material respects with those applied in the prior year, unless explicitly stated otherwise as changes in accounting policy. No standards were adopted before the effective date during the financial reporting period ended 31 March 2018.

The financial statements are presented in South African Rands (ZAR), the functional currency of the Group and Company. All amounts are rounded to the nearest thousand, except when otherwise indicated. They are prepared on the historical cost basis, except for heritage assets, investment properties and certain financial instruments at fair value.

The annual financial statements were prepared under the supervision of the acting group chief financial officer, Jabulani Dlamuka, CA(SA).

#### 1.1 Financial statements preparation

##### Basis of preparation

The consolidated annual financial statements have been prepared on the historical cost basis except for certain

properties and financial instruments that are measured at fair values at the end of the each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and /or disclosure purposes in these consolidated annual financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

Current / noncurrent distinction

All assets and all liabilities are classified and presented





# Notes to the Consolidated Financial Statements

as either current or noncurrent unless they are presented in order of their liquidity. The term 'current' is defined for:

(a) assets, as an asset that is:

(i) expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;

(ii) held primarily for the purpose of being traded;

(iii) expected to be realised within 12 months after the reporting period; or

(iv) cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period;

(b) liabilities, as a liability that:

(i) is expected to be settled in the entity's normal operating cycle;

(ii) is held primarily for the purpose of being traded;

(iii) is due to be settled within 12 months after the reporting period; or

(iv) the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counter party, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets include inventories and trade receivables that are sold, consumed or realised as part of the normal operating cycle and current liabilities include those liabilities that form part of the working capital used in a normal operating cycle of the entity, for example trade payables and accruals for employee benefits expense.

The principal accounting policies are set out below.

## Basis of consolidation

### Subsidiaries

The consolidated annual financial statements incorpo-

rate the annual financial statements of the company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee
- Is exposed, or has rights, to variable returns from its involvement with the investee and
- Has the ability to use its power to affect its return

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other voting holders;
- Potential voting rights held by the company, other vote holder or other parties;
- Rights arising from other contractual arrangements, and
- Any additional facts and circumstances that indicate that the company has, or does have, the current ability to direct the relevant activities at the time that decisions need to be made.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.



# Notes to the Consolidated Financial Statements

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the annual financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 1.2 Significant judgements and sources of estimation and uncertainty

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated 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 consolidated 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.

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

The allowance for stock write-off at the lower of cost or net realisable value requires the use of estimates to determine the selling price and direct cost to sell.

### 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.





# Notes to the Consolidated Financial Statements

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.

Other items that are subject to fair value as a significant judgement and source of estimation and uncertainty include property, plant and equipment, and investment property. Further detail on the valuation of these items is provided in notes 3 and 6 respectively.

## **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.

## **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.

## **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 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 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.

All capital assets are utilised through use except for land that is utilised through the sales tax rate.

## **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.

## **Post-employment benefit obligations**

In determining the value to be placed on these post em-



# Notes to the Consolidated Financial Statements

ployment 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 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.

## 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 Universal Service Obligations (USO) embodied in legislation governing the Post Office obliges the company to expand its presence in South Africa (SA), especially in rural SA. This means that the 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 Mail Collection Point (MCP) would probably not require restoration should they ever wish to relocate. The Post Office may not wish to relocate from shopping centres and malls. In the event that it does relocate the terms of the lease and the nature of its business are such that restoration of the premises might not be required. The date that the Post Office originally occupied leasehold premises is also an indication of the chances of ever moving out of the premises, thus negating the liability to restore such leasehold premises. During the year, the Post Office relocated from leasehold premises of which 11 of the lessors required restoration.

## Estimation of useful lives and residual Values

Property, plant and equipment are depreciated over their useful lives taking into account the residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessment consider issues





# Notes to the Consolidated Financial Statements

such as future market conditions, the remaining lives of the assets and the projected disposal values.

Intangible assets are amortised on a straight line basis over their estimated useful lives. The amortisation methods and remaining useful lives are reviewed at least annually. The estimation of the useful lives of intangible assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement.

## 1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the group holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost including any cost directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating as intended by management. Land is not depreciated. Where any item comprises of major components with different useful lives, these major components are accounted for as separate items.

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

Expenditure incurred subsequently for major services, additions to, or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the group and the cost can be measured reli-

ably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are de recognised.

Major spare parts and stand by equipment which are expected to be used for more than one year are included in property, plant and equipment.

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

Land and buildings are subsequently stated at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses

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.

On revaluation, the carrying amount of the asset is adjusted to the revalued amount. At the date of revaluation, the accumulated depreciation is eliminated against the gross carrying amount of the asset. The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount.

When an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, 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.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit



# Notes to the Consolidated Financial Statements

or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The revaluation reserve in equity related to a specific item of property, plant and equipment is transferred directly to retained income when the asset is de recognised.

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 de recognised.

The assumptions regarding estimated 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
Machinery and equipment	Straight line	3 - 20 years
Site restoration	Straight line	Expected term of the lease





# Notes to the Consolidated Financial Statements

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 de recognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the de recognition of an item of property, plant and equipment is included in profit or loss when the item is de recognised. Any gain or loss arising from the de recognition 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.

Assets which the group holds for rentals to others and subsequently routinely sells as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as noncurrent assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

## 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.

## 1.5 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

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 enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Trans-



# Notes to the Consolidated Financial Statements

action costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is de recognised.

## Fair value

Subsequent to initial measurement investment property is measured at fair value, which reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises. Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use.

Investment property is de recognised either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of de recognition.

## 1.6 Heritage assets

In terms of the ICASA license agreement, the Post Office is required to own a museum which contains assets of a historical nature, including stamps, paintings, artifacts 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 issued by the South African Accounting Standards Board.

A heritage asset is recognised when, and only when:

- 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 is measured at fair value on the date of acquisition. A non-exchange transaction is a transaction where an entity receives or gives value to another entity without directly giving or receiving an approximate equal value in exchange. Examples include gifts, fines and grants.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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. 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





# Notes to the Consolidated Financial Statements

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 de recognised 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 de recognised.

A heritage asset is not depreciated but the entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

In assessing whether there is an indication that an asset may be impaired, the group is considered, as a minimum, the following indications:

## External sources of information

(a) During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) The absence of an active market for a revalued heritage asset.

## Internal sources of information

(a) Evidence is available of physical damage or deterioration of a heritage asset.

(b) A decision to halt the construction of the heritage asset before it is complete or in a usable form.

## 1.7 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company does not have intangible assets with indefinite useful lives.

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.



# Notes to the Consolidated Financial Statements

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation period and the amortisation method for intangible assets are reviewed regularly.

## De recognition of intangible assets

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

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 Interests in subsidiaries

### Company annual 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 Financial Statements

## 1.10 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.

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 de recognised 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 time frame 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.

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



# Notes to the Consolidated Financial Statements

yield basis. The group's cash on hand and cash in the bank equivalents and short-term deposits (i.e fixed and cancellable 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. Negotiable Certificates of Deposits (NCDs) and equity investments held by the group are classified under available-for-sale financial assets. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Financial assets may be designated as available-for-sale in accordance with the group Asset and Liability Management (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.

## De recognition

Financial assets are de recognised 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 de recognised 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, is recognised as an extinguishment of the original financial liability and the recognition of a new financial liability.

## 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





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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.

## **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 categorised 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.



# Notes to the Consolidated Financial Statements

## 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.

## 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 loss 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





# Notes to the Consolidated Financial Statements

allowed.

## 1.11 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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### Operating leases – lessee

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

## 1.12 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 nonmonetary 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 noncumulative absences, when the absence occurs.

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

### 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.

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the projected unit credit method.

The service cost and net interest on the net defined benefit liability or asset are recognised in profit or loss.

Where the benefits of a plan are amended or curtailed, the change in the present value of the net defined benefit obligation relating to past service by the employees is recognised in profit or loss in the period of the amendment.

Past service costs are recognised immediately.

Re measurements of the net defined benefit liability or asset, comprising actuarial gains and losses, the effect of changes in the asset ceiling where applicable, and the return on the plan assets other than interest are recognised in other comprehensive income in the period in which they arise.

The post- benefit obligation recognised in the statement of financial position represents the present value



# Notes to the Consolidated Financial Statements

of the defined benefit obligation less the fair value of any plan assets. An asset resulting from this calculation is recognised only to the extent of any economic benefits available to the Post Office in the form of refunds or reductions in the future contributions (asset ceiling).

Actuarial gains or determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method and re measurements recognised as stated above.

## 1.13 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.

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.





# Notes to the Consolidated Financial Statements

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.

## 1.14 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.

## 1.15 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.

## 1.16 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.

## 1.17 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.



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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably

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.

## 1.18 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.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire noncurrent assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

## 1.19 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;





# Notes to the Consolidated Financial Statements

- 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 rev-

enue 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.

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 yearend 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.

## 1.20 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 us-



# Notes to the Consolidated Financial Statements

- ing the closing rate;
- nonmonetary 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
- nonmonetary 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 consolidated financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a nonmonetary 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 nonmonetary 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.

## 1.21 Related parties

As per IAS 24, the annual 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 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.

## 1.22 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 consolidated annual financial statements. Management expects these capital commitments to be financed from internally generated cash and other borrowings.

## 1.23 Fruitless and wasteful expenditure

Fruitless and wasteful 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.





# Notes to the Consolidated Financial Statements

## 1.24 Irregular expenditure

Irregular expenditure (IE) means expenditure, other than unauthorised expenditure (UE), incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:

- the Public Finance Management Act 1 of 1999 (as amended by Act 29 of 1999);
- the State tender Board Act, 1968 (Act No. 86 of 1968, or any regulation made in terms of that Act.

The company is considered to have incurred irregular expenditure when a transaction, condition or an event linked to the transgression that has financial implications is recognised as expenditure in the Statement of Financial Performance in accordance with IFRS.

When confirmed, irregular expenditure is recorded in the notes to the consolidated annual 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 impracticability exists, the reasons therefore is provided in the notes. Irregular expenditure is deducted 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 is de-recognised when the receivable is settled or subsequently written off as irrecoverable.

## 1.25 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 annual 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 annual 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 adjusts the amounts recognised in its consolidated annual financial statements to reflect adjusting events after the reporting period in terms of IAS 8.

The company discloses the date when the consolidated annual financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the annual 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 updates 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 consolidated annual financial statements. Accordingly, the company discloses 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 Financial Statements

## 2. New Standards and Interpretations

### IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the group are as follows:

#### Group as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected

against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.

- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

#### Group as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of





# Notes to the Consolidated Financial Statements

the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.

- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's annual financial statements.

## **Sale and leaseback transactions:**

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

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

The group expects to adopt the standard for the first time in the 2020 separate and consolidated annual financial statements. It is unlikely that the standard will have a material impact on the group's separate and consolidated annual financial statements.

## **Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers**

The amendment provides clarification and further guidance regarding certain issues in IFRS 15. These items include guidance in assessing whether promises to transfer goods or services are separately identifiable; guidance regarding agent versus principal considerations; and guidance regarding licenses and royalties.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The group expects to adopt the amendment for the first time in the 2019 separate and consolidated annual financial statements.

The impact of this amendment is currently being assessed.

## **IFRS 9 Financial Instruments**

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



# Notes to the Consolidated Financial Statements

## Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS

39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

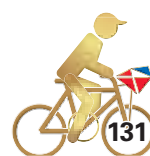
The effective date of the standard is for years beginning on or after 01 January 2018.

The group expects to adopt the standard for the first time in the 2019 separate and consolidated annual financial statements. The impact of this standard is currently being assessed.

## IFRS 15 Revenue from Contracts with Customers

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

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity rec-





# Notes to the Consolidated Financial Statements

recognises revenue in accordance with that core principle by applying the following steps:

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

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The group expects to adopt the standard for the first time in the 2019 separate and consolidated annual financial statements. The impact of this standard is currently being assessed.

## **Amendments to IAS 7: Disclosure initiative**

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The group has adopted the amendment for the first time in the 2018 separate and consolidated annual financial statements. The impact of the amendment is set out in note 53 Changes in Accounting Policy.

## **Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses**

In terms of IAS 12 Income Taxes, deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The following amendments have been made, which may have an impact on the group:

If tax law restricts the utilisation of losses to deductions against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Additional guidelines were prescribed for evaluating whether the group will have sufficient taxable profit in future periods. The group is required to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

The amendment also provides that the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The group has adopted the amendment for the first time in the 2018 separate and consolidated annual financial statements. The impact of the amendment is set out in note 53 Changes in Accounting Policy.



# Notes to the Consolidated Financial Statements

## 3. Property, plant and equipment

Group	2018			2017		
	Cost or re-valuation	Accumulated depreciation	Carrying value	Cost or re-valuation	Accumulated depreciation	Carrying value
Assets under construction	2 616	-	2 616	1 167	-	1 167
Buildings	1 481 822	(69 538)	1 412 284	1 509 516	(11 924)	1 497 592
Data processing equipment	475 812	(381 474)	94 338	418 345	(368 995)	49 350
Furniture and fixtures	61 210	(41 652)	19 558	61 821	(40 280)	21 541
Land	664 662	-	664 662	685 402	-	685 402
Leasehold improvements	345 025	(316 157)	28 868	348 598	(311 893)	36 705
Machinery and equipment	381 132	(322 241)	58 891	384 565	(312 673)	71 892
Motor vehicles	54 712	(29 448)	25 264	54 712	(27 693)	27 019
Site restoration	132 675	(96 603)	36 072	101 475	(91 255)	10 220
<b>Total property, plant and equipment</b>	<b>3 599 666</b>	<b>(1 257 113)</b>	<b>2 342 553</b>	<b>3 565 601</b>	<b>(1 164 713)</b>	<b>2 400 888</b>

Company	2018			2017		
	Cost or re-valuation	Accumulated depreciation	Carrying value	Cost or re-valuation	Accumulated depreciation	Carrying value
Assets under construction	2 616	-	2 616	1 167	-	1 167
Buildings	1 460 902	(69 538)	1 391 364	1 488 502	(11 924)	1 476 578
Data processing equipment	462 751	(369 827)	92 924	405 149	(357 703)	47 446
Furniture and fixtures	58 570	(39 078)	19 492	58 920	(37 465)	21 455
Land	609 574	-	609 574	630 314	-	630 314
Leasehold improvements	344 433	(315 573)	28 860	348 006	(311 314)	36 692
Machinery and equipment	353 459	(294 868)	58 591	356 869	(285 908)	70 961
Motor vehicles	33 323	(10 360)	22 963	33 323	(8 515)	24 808
Site restoration	131 076	(96 603)	34 473	98 986	(91 255)	7 731
<b>Total property, plant and equipment</b>	<b>3 456 704</b>	<b>(1 195 847)</b>	<b>2 260 857</b>	<b>3 421 236</b>	<b>(1 104 084)</b>	<b>2 317 152</b>





# Notes to the Consolidated Financial Statements

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

### Reconciliation of property, plant and equipment - Group - 2018

	Opening balance	Additions	Retire- ments	Transfers	Change in estimate	Deprecia- tion	Total
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Land	685 402	-	-	(20 740)	-	-	664 662
Buildings	1 497 592	8	(117)	(31 222)	-	(53 977)	1 412 284
Site restoration	10 220	32 089	(1 934)	6 492	(890)	(9 905)	36 072
Machinery and equipment	71 892	854	(418)	-	-	(13 437)	58 891
Furniture and Fittings	21 541	136	(98)	-	-	(2 021)	19 558
Motor vehicles	27 019	-	-	-	-	(1 755)	25 264
Data processing equipment	49 350	63 994	(224)	-	-	(18 782)	94 338
Leasehold improvements	36 705	-	(1)	-	-	(7 836)	28 868
Assets under construction	1 167	4 110	-	(2 661)	-	-	2 616
<b>Total property, plant and equipment</b>	<b>2 400 888</b>	<b>101 191</b>	<b>(2 792)</b>	<b>(48 131)</b>	<b>(890)</b>	<b>(107 713)</b>	<b>2 342 553</b>

### Reconciliation of property, plant and equipment - Group - 2017

	Opening balance	Additions	Retire- ments	Transfers	Change in estimate	Revalua- tion	Deprecia- tion	Total
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Land	191 377	-	(509)	435	-	494 099	-	685 402
Buildings	494 485	4 919	(936)	2 483	-	1 020 230	(23 589)	1 497 592
Site restoration	15 274	703	(115)	-	(3 118)	-	(2 524)	10 220
Machinery and equip- ment	89 894	91	(2 884)	-	-	-	(15 209)	71 892
Furniture and Fittings	23 725	-	(109)	-	-	-	(2 075)	21 541
Motor vehicles	29 010	-	(45)	-	-	-	(1 946)	27 019
Data processing equip- ment	72 412	11 418	(183)	-	-	-	(34 297)	49 350
Leasehold improve- ments	48 038	-	(77)	55	-	-	(11 311)	36 705
Assets under construc- tion	3 594	111	-	(2 538)	-	-	-	1 167
<b>Total property, plant and equipment</b>	<b>967 809</b>	<b>17 242</b>	<b>(4 858)</b>	<b>435</b>	<b>(3 118)</b>	<b>1 514 329</b>	<b>(90 951)</b>	<b>2 400 888</b>



# Notes to the Consolidated Financial Statements

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

### Reconciliation of property, plant and equipment - Company - 2018

	Opening balance	Additions	Retire- ments	Transfers	Change in estimate	Deprecia- tion	Total
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Land	630 314	-	-	(20 740)	-	-	609 574
Buildings	1 476 578	8	(116)	(31 129)	-	(53 977)	1 391 364
Site restoration	7 731	32 089	(1 934)	-	6 492	(9 905)	34 473
Machinery and equipment	70 961	854	(260)	-	-	(12 964)	58 591
Furniture and Fittings	21 455	136	(97)	-	-	(2 002)	19 492
Motor vehicles	24 808	-	-	-	-	(1 845)	22 963
Data processing equipment	47 446	63 908	(211)	-	-	(18 219)	92 924
Leasehold improvements	36 692	-	(1)	-	-	(7 831)	28 860
Assets under construction	1 167	4 110	-	(2 661)	-	-	2 616
<b>Total property, plant and equipment</b>	<b>2 317 152</b>	<b>101 105</b>	<b>(2 619)</b>	<b>(54 530)</b>	<b>6 492</b>	<b>(106 743)</b>	<b>2 260 857</b>





# Notes to the Consolidated Financial Statements

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

### Reconciliation of property, plant and equipment - Company - 2017

	Opening balance	Additions	Retire- ments	Transfers	Revalua- tion	Deprecia- tion	Total
	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Land	188 888	-	(509)	436	441 499	-	630 314
Buildings	492 467	4 919	(936)	2 483	998 449	(20 804)	1 476 578
Site restoration	12 670	-	(2 415)	-	-	(2 524)	7 731
Machinery and equipment	88 269	91	(2 871)	-	-	(14 528)	70 961
Data processing equipment	23 587	-	(108)	-	-	(2 024)	21 455
Motor vehicles	26 657	-	-	-	-	(1 849)	24 808
Data processing equipment	69 681	11 418	(177)	-	-	(33 476)	47 446
Leasehold improvements	47 993	-	(77)	55	-	(11 279)	36 692
Assets under construction	3 594	111	-	(2 538)	-	-	1 167
<b>Total property, plant and equipment</b>	<b>953 806</b>	<b>16 539</b>	<b>(7 093)</b>	<b>436</b>	<b>1 439 948</b>	<b>(86 484)</b>	<b>2 317 152</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.

### Borrowing costs capitalised

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



# Notes to the Consolidated Financial Statements

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

### Fair value

Land and buildings are carried at revaluation model, the fair values were obtained from an independent valuer.

Further disclosure on fair value information as it relates to land and buildings is provided in note 53.

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
Fair values of land and buildings	2 300 836	2 301 905	2 224 734	2 225 803

### Properties not recognised at year end

During the split of Post Office and Telkom, some assets were not allocated to either of the entities. An assessment to determine the Post Office's interest in these assets is underway. It was impractical for Post Office to quantify the value of these assets as at year end.

### 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 carrying value would be as follows:





# Notes to the Consolidated Financial Statements

<b>Group and company reconciliation - 2018</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Buildings	90 502	(27 677)	62 825
Data processing equipment	180	(180)	-
Furniture and fixtures	206	(206)	-
Leasehold improvements	275 963	(275 075)	888
Machinery and equipment	103 344	(72 280)	31 064
Motor vehicles	490	(490)	-
<b>Total property, plant and equipment by means of Government grants</b>	<b>470 685</b>	<b>(375 908)</b>	<b>94 777</b>

<b>Group and company reconciliation - 2017</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
Buildings	90 502	(26 702)	63 800
Data processing equipment	180	(180)	-
Furniture and fittings	206	(206)	-
Leasehold improvements	275 963	(275 075)	888
Machinery and equipment	103 344	(72 280)	31 064
Motor vehicles	490	(490)	-
<b>Total property, plant and equipment by means of Government grants</b>	<b>470 685</b>	<b>(374 933)</b>	<b>95 752</b>



# Notes to the Consolidated Financial Statements

## 4. Investment property

Group	2018			2017		
	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value
Investment property	203 684	-	203 684	149 155	-	149 155

Company	2018			2017		
	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value
Investment property	191 637	-	191 637	137 108	-	137 108

### Reconciliation of investment property - Group 2018

	Opening balance	Transfers	Total
Investment property	149 155	54 529	203 684

### Reconciliation of investment property - Group 2017

	Opening balance	Disposals	Transfers	Deprecia- tion	Fair value adjust- ments	Total
Investment property	43 086	(21)	(435)	(716)	107 241	149 155

### Reconciliation of investment property - Company 2018

	Opening balance	Transfers	Total
Investment property	137 108	54 529	191 637

### Reconciliation of investment property - Company 2017

	Opening balance	Disposals	Transfers	Deprecia- tion	Fair value adjust- ments	Total
Investment property	39 858	(21)	(435)	(917)	98 623	137 108

### Investment property is measured using the fair value model.

	2018 R '000	2017 R '000	2018 R '000	2017 R '000
Fair value of investment properties	203 684	149 155	191 637	137 108

The fair values of investment properties were obtained from an independent valuer.

Further disclosure on fair value information as it relates to investment property is provided in note 53 below.





# Notes to the Consolidated Financial Statements

## 4. Investment property (continued)

### 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 carrying value would be as follows:

Group and company reconciliation - 2018			
	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000
Investment property	217	(62)	155

Group and company reconciliation - 2017			
	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000
Investment property	217	(57)	160



# Notes to the Consolidated Financial Statements

## 5. Heritage assets

Group	2018			2017		
	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value
Documents	259	-	259	259	-	259
Other assets	1 433	-	1 433	1 433	-	1 433
Philatelic stationery	510	-	510	510	-	510
Stamps	36 348	-	36 348	36 348	-	36 348
Works of art	7 697	-	7 697	7 697	-	7 697
<b>Total heritage assets</b>	<b>46 247</b>	<b>-</b>	<b>46 247</b>	<b>46 247</b>	<b>-</b>	<b>46 247</b>

Company	2018			2017		
	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value	Cost / Valuation	Accu- mulated deprecia- tion	Carrying value
Documents	259	-	259	259	-	259
Other assets	1 433	-	1 433	1 433	-	1 433
Philatelic stationery	510	-	510	510	-	510
Stamps	36 348	-	36 348	36 348	-	36 348
Works of art	7 697	-	7 697	7 697	-	7 697
<b>Total heritage assets</b>	<b>46 247</b>	<b>-</b>	<b>46 247</b>	<b>46 247</b>	<b>-</b>	<b>46 247</b>

### Reconciliation of heritage assets - Group - 2018

	Opening balance	Total
Documents	259	259
Other assets	1 433	1 433
Philatelic stationery	510	510
Stamps	36 348	36 348
Works of art	7 697	7 697
	<b>46 247</b>	<b>46 247</b>





# Notes to the Consolidated Financial Statements

## 5. Heritage assets (continued)

### Reconciliation of heritage assets - Group - 2017

	Opening balance	Total
Documents	259	259
Other assets	1 433	1 433
Philatelic stationery	510	510
Stamps	36 348	36 348
Works of art	7 697	7 697
<b>Total heritage assets</b>	<b>46 247</b>	<b>46 247</b>

### Valuations

Fair value revaluations are made at intervals 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 last valuation was performed at 31 March 2017. The revaluation was performed by independent valuers that are 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 Post Office is required to own a museum which contains assets of a historical nature, including stamps, paintings, artefacts and machinery

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.



# Notes to the Consolidated Financial Statements

## 6. Intangible assets

Group	2018			2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	383 770	(321 650)	62 120	370 141	(290 246)	79 895
Intangible assets under development	60 310	-	60 310	57 721	-	57 721
<b>Total intangible assets</b>	<b>444 080</b>	<b>(321 650)</b>	<b>122 430</b>	<b>427 862</b>	<b>(290 246)</b>	<b>137 616</b>

Company	2018			2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Computer software	380 396	(318 276)	62 120	366 767	(286 877)	79 890
Intangible assets under development	60 310	-	60 310	57 721	-	57 721
<b>Total intangible assets</b>	<b>440 706</b>	<b>(318 276)</b>	<b>122 430</b>	<b>424 488</b>	<b>(286 877)</b>	<b>137 611</b>

### Reconciliation of intangible assets - Group - 2018

	Opening balance	Additions	Transfers	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000
Computer software	79 895	10 756	2 914	(31 445)	62 120
Intangible assets under development	57 721	5 503	(2 914)	-	60 310
<b>Total intangible assets</b>	<b>137 616</b>	<b>16 259</b>	<b>-</b>	<b>(31 445)</b>	<b>122 430</b>

### Reconciliation of intangible assets - Group - 2017

	Opening balance	Additions	Retirements	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000
Computer software	78 638	34 217	(428)	(32 532)	79 895
Intangible assets under development	54 806	2 915	-	-	57 721
<b>Total intangible assets</b>	<b>133 444</b>	<b>37 132</b>	<b>(428)</b>	<b>(32 532)</b>	<b>137 616</b>





# Notes to the Consolidated Financial Statements

## 6. Intangible assets (continued)

### Reconciliation of intangible assets - Company - 2018

	Opening balance	Additions	Transfers	Amortisa- tion	Closing balance
	R '000	R '000	R '000	R '000	R '000
Computer software	79 890	10 755	2 914	(31 439)	62 120
Intangible assets under development	57 721	5 503	(2 914)	-	60 310
<b>Total intangible assets</b>	<b>137 611</b>	<b>16 258</b>	<b>-</b>	<b>(31 439)</b>	<b>122 430</b>

### Reconciliation of intangible assets - Company - 2017

	Opening balance	Additions	Retire- ments	Amortisa- tion	Closing balance
	R '000	R '000	R '000	R '000	R '000
Computer software	78 590	34 217	(385)	(32 532)	79 890
Intangible assets under development	54 806	2 915	-	-	57 721
<b>Total intangible assets</b>	<b>133 396</b>	<b>37 132</b>	<b>(385)</b>	<b>(32 532)</b>	<b>137 611</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 period.

### Other information

There were no impairments of intangible assets during the year.

### Intangible assets obtained by means of government grants

Intangible assets that are financed through project specific funding are recorded in the asset register and in-

cluded 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 - 2018	Cost	Accumulated amortisation	Carrying value
	R '000	R '000	R '000
Computer software	249 220	(249 220)	-
<b>Group and company reconciliation - 2017</b>	<b>Cost</b>	<b>Accumulated amortisation</b>	<b>Carrying value</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Computer software	249 220	(249 220)	



# Notes to the Consolidated Financial Statements

## 7. Investments in subsidiaries

The following table lists the entities which are controlled by the group, either directly or indirectly through subsidiaries.

### Group

Name of company	Held by	% holding 2018	% holding 2017
The Courier and Freight Botswana (Pty) Ltd - In deregistration process	The Courier and Freight Group (Pty) Ltd	100,00 %	100,00 %
The Courier and Freight Namibia (Pty) Ltd - In deregistration process	The Courier and Freight Group (Pty) Ltd	100,00 %	100,00 %
Postbank SOC Limited (registered 1 April 2017) *	South African Post Office (SOC) Limited	100,00 %	100,00 %

\* Postbank has been accounted for as a division of Post Office in this set of financial statements. However as part of supporting the application for the banking license, a separate entity Postbank SOC Limited has been registered with its own board of directors.

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.

### Company

Name of company	Place of incorporation	Principal Activities	% holding 2018	% holding 2017	Carrying amount 2018 R '000	Carrying amount 2017 R '000
Sapos Properties (Bloemfontein)(Pty) Ltd	South Africa	Renting of properties	100,00 %	100,00 %	1 314	1 314
Sapos Properties (Cape Town) (Pty) Ltd	South Africa	Renting of properties	100,00 %	100,00 %	5 976	5 976
Sapos Properties (East Rand) (Pty) Ltd	South Africa	Renting of properties	100,00 %	100,00 %	14 358	14 358
Sapos Properties (PE) (Pty) Ltd	South Africa	Renting of properties	100,00 %	100,00 %	1 885	1 885
Sapos Properties (Rossburgh) (Pty) Ltd	South Africa	Renting of properties	100,00 %	100,00 %	8 564	8 564





# Notes to the Consolidated Financial Statements

## 7. Investments in subsidiaries (continued)

Name of company	Place of incorporation	Principal Activities	% holding 2018	% holding 2017	Carrying amount 2018 R '000	Carrying amount 2017 R '000
The Courier and Freight Group (Pty) Ltd	South Africa	Provides courier, freight and related logistical services to business within and beyond the South African boundaries	100,00 %	100,00 %	1 053	1 053
The Document Exchange (Pty) Ltd	South Africa	Provides document exchange services	100,00 %	100,00 %	-	-
Truebill (Pty) Ltd	South Africa	*	100,00 %	100,00 %	-	-
Sapos Property (Pty) Ltd	South Africa	Renting of properties	100,00 %	100,00 %	-	-
		-	-	-	33 150	33 150
Impairment of investment in subsidiaries	-	-	-	-	(1 217)	(1 217)
<b>Total investment in subsidiaries net of impairment</b>					<b>31 933</b>	<b>31 933</b>

\*Truebill (Pty) Ltd remains dormant.

The investments in subsidiary companies listed above are unlisted.



# Notes to the Consolidated Financial Statements

## 8. Inter group loans and receivables

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>Loans</b>				
<b>Sapos Properties (Bloemfontein) (Pty) Ltd</b>	-	-	56	-
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>	-	-	212	-
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>	-	-	93	-
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>	-	-	401	-
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>Sapos Properties (Rossburgh) (Pty) Ltd</b>	-	-	1 188	-
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>	-	-	77 802	77 802
This loan is interest free and has no fixed terms of repayment. The full amount has been impaired.				
<b>Total loans</b>	-	-	<b>299 074</b>	<b>297 124</b>
Impairment of loans	-	-	(297 124)	(297 124)
<b>Total loans net of impairment</b>	-	-	<b>1 950</b>	-

The property companies do not have a separate bank account, the loan amounts arose as a result of transactions which Post Office administered on behalf of the companies.

All the above loans are interest free, have no fixed terms of repayment. The loans have been fully impaired except for those held with property companies.

The South African Post Office (SOC) Limited does not anticipate the recovery of the above mentioned loans within the next 12 months.





# Notes to the Consolidated Financial Statements

## 8. Inter group loans and receivables (continued)

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>Receivables</b>				
The Courier and Freight Group (Pty) Ltd	-	-	393 652	392 257
<b>Total long term receivables</b>	-	-	<b>393 652</b>	<b>392 257</b>
Impairment of long term receivables	-	-	(392 257)	(392 257)
<b>Total long term receivables net of impairment</b>	-	-	<b>1 395</b>	-

All the long term receivables above accrue interest at the prime rate.

The 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.

### Fair value of inter group loans and long term receivables

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 management may impair the amount. At 31 March 2018, R3,3 million (2017: R0) were past due but not impaired.

### Inter group loans and long term receivables impaired

As of 31 March 2018, inter group loans and receivables of R0 million (2017: R689 million) were impaired and provided for. The ageing of these loans is as follows:

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
Over 1 year	-	-	-	689 153



# Notes to the Consolidated Financial Statements

## 8. Inter group loans and receivables (continued)

### Reconciliation of provision for impairment of inter group loans and long term receivables

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
Opening balance	-	-	689 153	641 182
Provision for impairment	-	-	-	47 971
<b>Total provision for impairment</b>	<b>-</b>	<b>-</b>	<b>689 153</b>	<b>689 153</b>

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 profit or loss and other comprehensive income (note 31). 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.



# Notes to the Consolidated Financial Statements

## 9. Other financial assets

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
<b>At fair value through profit or loss</b>				
Investments at fair value: Post Retirement Medical Aid	1 064 970	997 565	1 064 970	997 565
<b>Available-for-sale</b>				
Negotiable Certificates of Deposit	1 729 576	1 904 136	1 729 576	1 904 136
Promissory Notes	591 927	663 299	591 927	663 299
Unlisted shares - Centriq Insurance Innovation (Pty) Ltd	113 514	103 388	113 514	103 388
<b>Total available-for-sale</b>	<b>2 435 017</b>	<b>2 670 823</b>	<b>2 435 017</b>	<b>2 670 823</b>
<b>Held to maturity</b>				
Fixed Deposits	2 418 353	2 242 726	2 408 553	2 242 726
<b>Total other financial assets</b>	<b>5 918 340</b>	<b>5 911 114</b>	<b>5 908 540</b>	<b>5 911 114</b>
<b>Noncurrent assets</b>				
At fair value through profit or loss	747 232	688 880	747 232	688 880
Available-for-sale	113 514	103 388	113 514	103 388
<b>Total noncurrent assets</b>	<b>860 746</b>	<b>792 268</b>	<b>860 746</b>	<b>792 268</b>
<b>Current assets</b>				
At fair value through profit or loss	317 738	308 685	317 738	308 685
Available-for-sale	2 321 503	2 567 435	2 321 503	2 567 435
Held-to-maturity	2 418 353	2 242 726	2 408 553	2 242 726
<b>Total current assets</b>	<b>5 057 594</b>	<b>5 118 846</b>	<b>5 047 794</b>	<b>5 118 846</b>
Investment balances held by the entity that are not available for use by the group.	4 739 856	4 810 161	4 730 056	4 810 161

The group owns an equity stake of 10 Ordinary shares in Ithuba Holdings (Pty) Ltd which represents 5,00% holding. The fair value of the shares was determined by the Post Office management to be zero at year end. The shares were allocated to the Post Office by the Department of Trade and Industry.





# Notes to the Consolidated Financial Statements

## 9. Other financial assets (continued)

The Negotiable Certificates of Deposit (NCDs), Promissory Notes and the unlisted shares held in the cell captive Centriq Insurance Innovation (Pty) Ltd 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 cash equivalents and are included under short-term deposits in note 16.

### 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).

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>Level 1</b>				
Local bonds	273 336	247 532	273 336	247 532
Local equity	477 648	460 380	477 648	460 380
Foreign bonds	-	5 403	-	5 403
<b>Total level 1</b>	<b>750 984</b>	<b>713 315</b>	<b>750 984</b>	<b>713 315</b>
<b>Level 2</b>				
Local and foreign investments & NCD's	313 987	284 249	313 987	284 249
<b>Total level 1 and 2</b>	<b>1 064 971</b>	<b>997 564</b>	<b>1 064 971</b>	<b>997 564</b>

For the current and previous financial years, there were no transfers between levels 1 and 2.

Financial assets at fair value through profit or loss are denominated in the following currencies:

Rand	1 064 971	997 564	1 064 971	997 564
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# Notes to the Consolidated Financial Statements

## 9. Other financial assets (continued)

### 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 cost approximates 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 be-

lieves 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).

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>Level 2</b>				
Negotiable Certificates of Deposit	1 729 576	1 904 136	1 729 576	1 904 136
Promissory Notes	591 927	663 299	591 927	663 299
<b>Total level 2</b>	<b>2 321 503</b>	<b>2 567 435</b>	<b>2 321 503</b>	<b>2 567 435</b>
<b>Level 3</b>				
Unlisted shares - Centriq Insurance Innovation (Pty) Ltd	113 514	103 388	113 514	103 388
	<b>2 435 017</b>	<b>2 670 823</b>	<b>2 435 017</b>	<b>2 670 823</b>
<b>Transfers out of level 2</b>				
Unlisted shares - Centriq Insurance Innovation (Pty) Ltd	-	-	-	-

Management are of the opinion that 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.

There were no transfers in or out of Level 3 during the current year.



# Notes to the Consolidated 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 - 2018

	Opening bal- ance	Gains or losses in other comprehen- sive income	Closing bal- ance
	R'000	R'000	R'000
Unlisted shares - Centriq Insurance Innovation (Pty) Ltd	103 388	10 126	113 514

#### Reconciliation of available-for-sale financial assets measured at level 3 - Company - 2018

	Opening bal- ance	Gains or losses in other comprehen- sive income	Closing bal- ance
	R'000	R'000	R'000
Unlisted shares - Centriq Insurance Innovation (Pty) Ltd	103 388	10 126	113 514

Post Office is a holder of preference share in Centriq Insurance Company Limited (Centriq). In terms of the preference share agreement, Centriq operates a cell captive facility for Post Office.

The financial position and results of the insurance operations conducted through the cell captive are presented

in the form of management accounts. The management accounts include a balance sheet as at 31 March 2018, as well as an income statement for the period then ended.

The fair value of the preference share is determined with reference to the management accounts.

### Held to maturity investments

	Group 2018	2017	Company 2018	2017
	R '000	R '000	R '000	R '000
Fixed deposits	2 418 353	2 242 726	2 408 553	2 242 726

Management believes that the carrying amounts of the above mentioned assets 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 2018 and 2017, as all the financial assets were disposed of at their redemption date.





# Notes to the Consolidated Financial Statements

## 10. Operating lease asset (accrual)

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Noncurrent assets	4 202	4 703	4 052	3 733
Current assets	293	141	274	107
Noncurrent liabilities	(41 088)	(69 200)	(40 808)	(69 004)
Current liabilities	(4 155)	(11 019)	(4 079)	(10 964)
<b>Net operating lease accrual</b>	<b>(40 748)</b>	<b>(75 375)</b>	<b>(40 561)</b>	<b>(76 128)</b>

The group has entered into operating leases for buildings. The operating leases (as the lessee) are straight-lined over the period of the lease contract. Refer to note 40 for the future minimum payments.



# Notes to the Consolidated Financial Statements

## 11. Retirement benefit obligation

	Group 2018	2017	Company 2018	2017
	R '000	R '000	R '000	R '000
<b>Post retirement benefits</b>				
Retirement benefit asset	35 551	32 173	35 551	32 173
Present value - noncurrent liability	(1 272 143)	(1 202 166)	(1 272 143)	(1 202 166)
Present value - current liability	(155 229)	(136 294)	(155 229)	(136 294)
	<b>(1 391 821)</b>	<b>(1 306 287)</b>	<b>(1 391 821)</b>	<b>(1 306 287)</b>

### Post Retirement benefit

Group 2018	Post retire- ment tele- phone subsidy R '000	Post-retire- ment medical aid subsidy R '000	Provident Fund R '000	Pension fund R '000	Total R '000
<b>Present value of obligation</b>					
Balance at the beginning of the year	4 153	1 335 124	1 790	5 558 781	6 899 848
Service cost	-	-	-	1 444	1 444
Finance expense	364	123 352	131	541 643	665 490
Benefits paid	(409)	(141 083)	(291)	(540 141)	(681 924)
Transfers	-	-	-	116 795	116 795
Actuarial (gain)/ loss	(649)	106 451	(81)	45 675	151 396
<b>Present value of obligation at end of the year</b>	<b>3 459</b>	<b>1 423 844</b>	<b>1 549</b>	<b>5 724 197</b>	<b>7 153 049</b>

### Present value of assets

Balance at the beginning of the year	-	-	34 121	6 268 510	6 302 631
Expected return on assets	-	-	2 709	613 570	616 279
Contributions received	-	-	-	2 072	2 072
Transfers	-	-	-	116 795	116 795
Benefits paid	-	-	(290)	(540 141)	(540 431)
Actuarial gains / losses	-	-	560	(71 269)	(70 709)
<b>Present value of assets at end of the year</b>	<b>-</b>	<b>-</b>	<b>37 100</b>	<b>6 389 537</b>	<b>6 426 637</b>

### Net present value (obligation) / asset

Present value obligation	(3 459)	(1 423 844)	(1 549)	(5 724 196)	(7 153 048)
Present value assets	-	-	37 100	6 389 537	6 426 637
(Deficit)/ surplus	(3 459)	(1 423 844)	35 551	665 341	(726 411)
Asset ceiling	-	-	-	(665 341)	(665 341)
<b>Net present (obligation) / asset</b>	<b>(3 459)</b>	<b>(1 423 844)</b>	<b>35 551</b>	<b>-</b>	<b>(1 391 752)</b>

Included in other financial assets is a post retirement medical aid asset of R1,065 billion (2017: R998 million) to support the post retirement medical aid liability. Refer to note 9.



# Notes to the Consolidated Financial Statements

## 11. Retirement benefit obligation (continued)

<b>Group 2017</b>	<b>Post retirement telephone subsidy R '000</b>	<b>Post- retirement medical aid subsidy R '000</b>	<b>Provident Fund R '000</b>	<b>Pension fund R '000</b>	<b>Total R '000</b>
<b>Present value of obligation</b>					
Opening balance at beginning of the year	3 555	1 393 210	2 684	5 212 676	6 612 125
Service cost	-	-	-	1 190	1 190
Finance expense	304	131 104	191	517 627	649 226
Benefits Paid	(505)	(135 247)	(1 039)	(497 253)	(634 044)
Transfers	-	-	-	391 148	391 148
Actuarial (gains) / Losses	799	(53 943)	(45)	(23 936)	(77 125)
<b>Present value of obligation at end of the year</b>	<b>4 153</b>	<b>1 335 124</b>	<b>1 791</b>	<b>5 601 452</b>	<b>6 942 520</b>
<b>Present value of assets</b>					
Opening balance at the beginning of the year	-	-	17 800	5 955 829	5 973 629
Expected return on assets	-	-	1 567	592 290	593 857
Contribution received	-	-	-	2 573	2 573
Transfers	-	-	-	391 148	391 148
Benefits paid	-	-	(836)	(497 253)	(498 089)
Actuarial gains / (losses)	-	-	15 590	(176 077)	(160 487)
<b>Present value of asset at end of the year</b>	<b>-</b>	<b>-</b>	<b>34 121</b>	<b>6 268 510</b>	<b>6 302 631</b>
<b>Net present value (obligation) / asset</b>					
Present value obligation	(4 153)	(1 335 124)	(1 791)	(5 601 452)	(6 942 520)
Present value asset	-	-	34 121	6 268 510	6 302 631
<b>(Deficit) / surplus</b>	<b>(4 153)</b>	<b>(1 335 124)</b>	<b>32 330</b>	<b>667 058</b>	<b>(639 889)</b>
Asset ceiling	-	-	-	(667 058)	(667 058)
<b>Net present (obligation) / asset</b>	<b>(4 153)</b>	<b>(1 335 124)</b>	<b>32 330</b>	<b>-</b>	<b>(1 306 947)</b>

Included in other financial assets is a post retirement medical aid asset of R1,065 billion (2017: R998 million) to support the post retirement medical aid liability. Refer to note 9.

<b>Company 2018</b>	<b>Post retirement telephone sub- sidy R '000</b>	<b>Post retirement medical subsidy R '000</b>	<b>Provident fund R '000</b>	<b>Retire- ment fund R '000</b>	<b>Total R '000</b>
<b>Present value of obligation</b>					
Balance at beginning of the year	4 153	1 335 124	1 790	5 558 781	6 899 848
Service cost	-	-	-	1 444	1 444
Finance expense	364	123 352	131	541 643	665 490
Benefits paid	(409)	(141 083)	(291)	(540 141)	(681 924)
Transfers	-	-	-	116 795	116 795
Actuarial (gains) losses	(649)	106 451	(81)	45 675	151 396
<b>Present value of obligation at end of year</b>	<b>3 459</b>	<b>1 423 844</b>	<b>1 549</b>	<b>5 724 197</b>	<b>7 153 049</b>





# Notes to the Consolidated Financial Statements

## 11. Retirement benefit obligation (continued)

Company 2017	Post retirement telephone subsidy R '000	Post retirement medical subsidy R '000	Provident fund R '000	Retirement fund R '000	Total R '000
<b>Present value of assets</b>					
Balance at the beginning of the year	-	-	34 121	6 268 510	6 302 631
Expected return on asset	-	-	2 709	613 570	616 279
Contribution received	-	-	-	2 072	2 072
Transfers	-	-	-	116 795	116 795
Benefits paid	-	-	(290)	(540 141)	(540 431)
Actuarial (Gain) / (Loss)	-	-	560	(71 269)	(70 709)
<b>Present value of asset at end of the year</b>	<b>-</b>	<b>-</b>	<b>37 100</b>	<b>6 389 537</b>	<b>6 426 637</b>

### Net present value (obligation) / asset

Present value of obligation	(3 459)	(1 423 844)	(1 549)	(5 724 196)	(7 153 048)
Present value of asset	-	-	37 100	6 389 537	6 426 637
<b>(Deficit) / surplus</b>	<b>(3 459)</b>	<b>(1 423 844)</b>	<b>35 551</b>	<b>665 341</b>	<b>(726 411)</b>
Asset ceiling	-	-	-	(665 341)	(665 341)
<b>Net present (obligation) / asset</b>	<b>(3 459)</b>	<b>(1 423 844)</b>	<b>35 551</b>	<b>-</b>	<b>(1 391 752)</b>

Included in other financial assets is a post retirement medical aid asset of R1,065 billion (2017: R998 million) to support the post retirement medical aid liability. Refer to note 9.

### Present value of obligation

Balance at beginning of the year	3 555	1 392 767	2 684	5 212 676	6 611 682
Service cost	-	-	-	1 190	1 190
Finance expense	304	131 104	191	517 627	649 226
Benefits paid	(505)	(135 247)	(1 039)	(497 253)	(634 044)
Transfers	799	-	-	391 148	391 947
Actuarial (gains) / losses	-	(53 943)	(45)	(23 936)	(77 924)
<b>Present value of obligation at end of the year</b>	<b>4 153</b>	<b>1 334 681</b>	<b>1 791</b>	<b>5 601 452</b>	<b>6 942 077</b>

### Present value of asset

Balance at beginning of the year	-	-	17 800	5 955 829	5 973 629
Expected return on assets	-	-	1 567	592 290	593 857
Contribution received	-	-	-	2 573	2 573
Transfers	-	-	-	391 148	391 148
Benefits paid	-	-	(836)	(497 253)	(498 089)
Actuarial gain / (loss)	-	-	15 590	(176 077)	(160 487)
<b>Present value of asset at end of the year</b>	<b>-</b>	<b>-</b>	<b>34 121</b>	<b>6 268 510</b>	<b>6 302 631</b>



# Notes to the Consolidated Financial Statements

## 11. Retirement benefit obligation (continued)

### Net present value (obligation) / liability

Company 2017	Post retirement telephone subsidy R '000	Post retirement medical subsidy R '000	Provident fund R '000	Retirement fund R '000	Total R '000
Present value of obligation	(4 153)	(1 335 124)	(1 791)	(5 601 452)	(6 942 520)
Present value of asset	-	-	34 121	6 268 510	6 302 631
<b>(Deficit) / surplus</b>	<b>(4 153)</b>	<b>(1 335 124)</b>	<b>32 330</b>	<b>667 058</b>	<b>(639 889)</b>
Asset ceiling	-	-	-	(667 058)	(667 058)
<b>Net present (obligation) / asset</b>	<b>(4 153)</b>	<b>(1 335 124)</b>	<b>32 330</b>	<b>-</b>	<b>(1 306 947)</b>

Included in other financial assets is a post retirement medical aid asset of R1,065 billion (2017: R998 million) to support the post retirement medical aid liability. Refer to note 9.

### Post retirement telephone subsidy

#### The amounts reorganised in profit and loss:

Finance expense	364	304	364	304
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The amounts recognised in other comprehensive income (OCI):

#### Re measurements of post retirement telephone subsidy (actuarial (gains) / losses)

Changes in assumptions	26	(15)	26	(15)
Experience adjustment	(675)	814	(675)	814
	<b>(285)</b>	<b>1 103</b>	<b>(285)</b>	<b>1 103</b>

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. There are no plan assets for this liability and the employer funds this as the need for settlement arises

The PA(90) mortality table was used to determine post retirement mortality, and there is no service cost as the liability only relates to pensioners and the liability is fully accrued. Allowance was made in the calculation for inflationary increases in respect of the subsidy.

### Actuarial Assumptions

Discount rate	8,25 %	9,16 %	8,25 %	9,16 %
Long term price inflation	5,90 %	6,65 %	5,90 %	6,65 %

### Post retirement medical subsidy

The amounts recognised in profit and loss:

Interest cost	123 352	131 104	123 352	131 104
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The amounts recognised in other comprehensive income (OCI):

#### Re measurements of post retirement medical subsidy (actuarial (gains) / losses)

Change in assumptions	59 773	(54 889)	59 773	(54 889)
Experience adjustment	46 678	956	46 678	956
	<b>229 803</b>	<b>77 171</b>	<b>229 803</b>	<b>77 171</b>



# Notes to the Consolidated Financial Statements

## 11. Retirement benefit obligation (continued)

During the 2008/2009 financial period, R456,8 million worth of assets were transferred to the 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 Post Office's Post Retirement Medical Aid (PRMA) liability and have consequently been ear-marked and invested according to a specific unique investment mandate.

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 Post Office after 2005 will also receive medical aid benefits as part of the Defined Benefit Plan.

The PA(90) mortality table was used to determine post retirement mortality, and there is no service cost as the liability only relates to pensioners, thus the liability is fully accrued. Allowance was made in the calculations for the liabilities of the Post Office to increase in line with medical inflation. For CFG pensioners with a fixed subsidy, we it was assumed that no future increases will occur. Should any increases in the fixed subsidy be implemented in future, this liability will increase.

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
<b>Actuarial Assumptions</b>				
Discount rate	8,88 %	9,75 %	8,88 %	9,75 %
Medical inflation increase rate	7,90 %	8,20 %	7,90 %	8,20 %
Long term price inflation	6,40 %	6,70 %	6,40 %	6,70 %
<b>Provident fund</b>				
<b>The amounts recognised in profit and loss:</b>				
Net interest cost / (income)	(2 578)	(1 331)	(2 578)	(1 331)
<b>The amounts recognised in other comprehensive income (OCI):</b>				
<b>Re measurements of provident fund (actuarial (gains) / losses)</b>				
Change in assumptions	(5)	(13)	(5)	(13)
Experience adjustment	86	59	86	59
	<b>(2 497)</b>	<b>(1 285)</b>	<b>(2 497)</b>	<b>(1 285)</b>





# Notes to the Consolidated Financial Statements

## 11. Retirement benefit obligation (continued)

The 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, 1956 (Act No. 24 of 1956, as amended) for the benefit of the 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 Post Office is required to meet the balance of cost of financing the benefits

provided by the fund, which would include the any fund deficit. At year end, the 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

The SA85-90 (Light) table was used to determine pre-retirement mortality. This is a table reflecting mortality experience in South Africa. A retirement age of 59 years was assumed, and for employees currently over age 59, the immediate value of the benefit was provided for. The accounting standard requires that the liabilities are valued using the Projected Unit Credit Method. This method was therefore used to value the liabilities. The service in respect of the leave days was fully accrued for.

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Actuarial Assumptions				
Discount rate	7,13 %	7,97 %	7,13 %	7,97 %
Expected return on plan assets	7,13 %	7,97 %	7,13 %	7,97 %
Long term price inflation	5,19 %	4,95 %	5,19 %	4,95 %
<b>Pension fund</b>				
<b>The amounts recognised in profit and loss:</b>				
Service cost	1 444	1 190	1 444	1 190
<b>Net interest income</b>	-	-	-	-
<b>Re measurements of post retirement fund (actuarial gains) / losses)</b>				
Changes in assumptions	(214 393)	151 089	(214 393)	151 089
Experience adjustment	168 719	(84 482)	168 719	(84 482)
<b>Re measurement of asset</b>				
Asset ceiling	665 341	709 729	665 341	709 729
	<b>621 111</b>	<b>777 526</b>	<b>621 111</b>	<b>777 526</b>



# Notes to the Consolidated Financial Statements

The South African Post Office (SOC) Limited 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, 1958 (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 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.

In terms of section 10A of the Post Office Act (Act No 44 of 1958, as amended), the financial obligations of the Post Office retirement fund in respect of its defined benefit members and pensioners are guaranteed by the Post Office whilst the Government of the Republic of South Africa in turn guarantees the obligations of the 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

The PA(90) mortality table was used to determine post retirement mortality.

Given the small number of active DB members and their age profile, no specific allowance for withdrawals was made. This implies that the actuarial reserve value is available to provide benefits on voluntary exit and re-trenchment. It was assumed, on average, that active members will retire early at age 59 (the normal retirement age of the remaining active defined benefit members is 65 years). The accounting standard requires that the liabilities are valued using the Projected Unit Credit Method, and this method was therefore applied.

The Fund provides benefits of both Defined Benefit and Defined Contribution nature. The liability in respect of active defined benefit members was based on the actual past service of Members in the active service of the Company. The liability in respect of current pensioners is fully accounted for.

The liabilities, assets and reserve accounts relating to the Defined Contribution section of the fund were excluded from the valuation. In aggregate, these liabilities (and assets) amount to approximately R8 billion.



# Notes to the Consolidated Financial Statements

## 11. Retirement benefit obligation (continued)

	Group 2018	2017	Company 2018	2017
	R '000	R '000	R '000	R '000
<b>Actuarial assumptions</b>				
Discount rate	9,37 %	10,12 %	9,37 %	10,12 %
Expected return on plan assets	9,37 %	10,12 %	9,37 %	10,12 %
Long term plan inflation	6,79 %	7,14 %	6,79 %	7,14 %

## 12. Deferred tax

<b>Deferred tax liability</b>				
Fixed assets	(18 538)	(18 538)	-	-
Trade and other payables	(27)	(271)	-	-
<b>Total deferred tax liability</b>	<b>(18 565)</b>	<b>(18 809)</b>	<b>-</b>	<b>-</b>

<b>Deferred tax asset</b>				
Tax loss	303	265	-	-
Deferred tax liability	(18 565)	(18 809)	-	-
Deferred tax asset	303	265	-	-
<b>Total net deferred tax (liability) asset</b>	<b>(18 262)</b>	<b>(18 544)</b>	<b>-</b>	<b>-</b>

<b>Reconciling deferred tax asset / (liability)</b>				
At beginning of year	(18 511)	568	-	-
Increases (decrease) in tax loss available for set off against future taxable income - gross of valuation allowance	5	191	-	-
Temporary difference on trade and other payables	277	(112)	-	-
Temporary difference on fixed assets	-	(19 191)	-	-
	<b>(18 229)</b>	<b>(18 544)</b>	<b>-</b>	<b>-</b>





# Notes to the Consolidated Financial Statements

## 12. Deferred tax (continued)

### Recognition of deferred tax asset

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

- the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and

- the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

The company has not recognised the deferred tax asset on assessed losses, while the company expects to return to marginal profitability in the 2019 financial year, the company has adopted a conservative view that anticipates the company not having future taxable profit to utilise the unused tax losses against, and as such, the deferred tax asset has not been recognised.

	Group 2018	2017	Company 2018	2017
	R '000	R '000	R '000	R '000
<b>Unrecognised deferred tax asset</b>				
Deductible temporary differences not recognised as deferred tax assets	(7 326)	(4 336)	(7 326)	(4 336)
Unused tax losses not recognised as deferred tax assets, with expiry date	-	(354 035)	-	(354 035)
Unused tax losses not recognised as deferred tax assets, with expiry date	399 664	374 769	399 664	374 769
Unused tax credits not recognised as deferred tax assets, with expiry date	1 380 202	1 097 066	1 197 969	915 838
Employee benefits	43 667	96 233	43 317	95 879
Trade and other receivables	(220)	1 563	(255)	1 528
Income received in advance	103 055	78 915	101 925	77 837
Trade and other payables	6 405	16 538	6 913	17 046
Provisions	71 955	71 436	70 481	68 520
Fixed assets	(72 335)	(73 932)	(74 308)	(75 646)
Financial instruments	(140 630)	(124 774)	(140 630)	(124 774)
	<b>1 784 437</b>	<b>1 179 443</b>	<b>1 597 750</b>	<b>992 626</b>

### Use and sales rate

The deferred tax rate applied to the fair value adjustments of financial assets is determined by the expected manner of recovery. Where the expected recovery of financial assets is through sale the capital gains tax rate of 22,4% (2017: 22,4%) is used. If the expected

manner of recovery is through indefinite use the normal tax rate of 28%(2017: 28%) is applied.

If the manner of recovery is partly through use and partly through sale, a combination of capital gains rate and normal tax rate is used.



# Notes to the Consolidated Financial Statements

## 13. Prepayments

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>IT solutions paid in advance</b>				
Services receivable within one year	10 194	16 511	10 194	16 511
Services receivable within two to five years	-	1 548	-	1 548
<b>Total prepayments</b>	<b>10 194</b>	<b>18 059</b>	<b>10 194</b>	<b>18 059</b>

## 14. Inventories

Merchandise	32 582	39 768	32 582	39 768
Consumables	44 429	45 771	44 243	45 745
<b>Total inventories</b>	<b>77 011</b>	<b>85 539</b>	<b>76 825</b>	<b>85 513</b>
Write-downs	(15 512)	(15 538)	(15 512)	(15 538)
<b>Total inventories net of write-downs</b>	<b>61 499</b>	<b>70 001</b>	<b>61 313</b>	<b>69 975</b>
Carrying value of inventories carried at fair value less costs to sell	61 499	70 001	61 313	69 975

## 15. Trade and other receivables

Trade receivables (net of impairment)	160 155	178 980	145 694	173 282
Employee costs in advance	2 750	2 094	2 775	2 196
Deposits	736	736	-	-
VAT	792	-	-	-
Interest accrued on short-term investments	5 358	8 249	4 942	8 198
International debtors (net of impairment)	242 943	170 176	242 943	170 176
Other receivables (net of impairment)	67 236	48 420	67 774	35 212
<b>Total trade and other receivables</b>	<b>479 970</b>	<b>408 655</b>	<b>464 128</b>	<b>389 064</b>

### Trade receivables (net of impairment) consists of:

Trade receivables (gross)	277 919	297 039	259 602	286 361
Impairment	(117 764)	(118 059)	(113 908)	(113 079)
<b>Trade receivables (net of impairment)</b>	<b>160 155</b>	<b>178 980</b>	<b>145 694</b>	<b>173 282</b>

### International debtors (net of impairment) consists of:

<b>International debtors</b>	<b>242 943</b>	<b>170 176</b>	<b>242 943</b>	<b>170 176</b>
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### Other receivables (net of impairment) consists of:

<b>Other receivables</b>	<b>67 236</b>	<b>48 420</b>	<b>67 774</b>	<b>35 212</b>
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# Notes to the Consolidated Financial Statements

## 15. Trade and other receivables (continued)

### Trade and other receivables pledged as security

No trade and other receivables have been pledged as security for liabilities.

	Group 2018 R '000	2017 R '000	Company 2018 R '000	2017 R '000
<b>Fair value of trade and other receivables</b>				
Trade and other receivables	479 970	408 655	464 128	389 064

Trade receivables are discounted at year end at the prime interest rate of 10% (2017: 10,5%) 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 2018, R57 million (2017: R116 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	56 545	115 997	46 118	114 262
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### Trade and other receivables impaired

As of 31 March 2018, trade and other receivables of R118 million (2017: R118 million) were impaired and

provided for.

The ageing of these receivables are as follows:

### Trade receivables

4 to 6 months	117 764	118 059	113 908	113 079
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### Reconciliation of provision for impairment of trade other receivables

Opening balance	118 059	134 891	113 079	128 527
Provision for impairment	15 304	1 577	13 487	-
Amounts written off as uncollectable	(15 096)	(226)	(12 657)	(226)
Unused amounts reversed	(503)	(18 183)	-	(15 222)
<b>Total allowance for credit losses</b>	<b>117 764</b>	<b>118 059</b>	<b>113 909</b>	<b>113 079</b>

## 16. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	3 047 077	3 071 830	3 035 630	3 050 162
Short-term call deposits	1 195 754	983 680	1 195 754	983 680
	<b>4 242 831</b>	<b>4 055 510</b>	<b>4 231 384</b>	<b>4 033 842</b>





# Notes to the Consolidated Financial Statements

## 17. Share capital

	Group 2018	2017	Company 2018	2017
	R '000	R '000	R '000	R '000
<b>Authorised</b>				
<b>1 000 000 000 Ordinary shares of R1 each</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
<b>Issued</b>				
<b>Ordinary shares of R1 each issued at a premium</b>	<b>5 217 116</b>	<b>693 116</b>	<b>5 217 116</b>	<b>693 116</b>
<b>Reconciliation of number of shares issued:</b>				
Opening balance	693 116	693 116	693 116	693 116
Conversion of the shareholders loan into ordinary shares of R1 each (Postbank loan)	174 000	-	174 000	-
Recapitalisation funds	4 350 000	-	4 350 000	-
	<b>5 217 116</b>	<b>693 116</b>	<b>5 217 116</b>	<b>693 116</b>

At year end, there are 306,884,118 unissued ordinary shares. This authority remains in force until the next Annual General Meeting.

## 18. 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.

Negotiable Certificates of Deposit (NCDs), Promissory Notes and the unlisted shares held in the cell captive Centriq Insurance Innovation (Pty) Ltd 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 di-

rectly 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	1 511	1 678	1 511	1 678
Unlisted shares	93 463	83 175	93 463	83 175
<b>Total fair value adjustment</b>	<b>94 974</b>	<b>84 853</b>	<b>94 974</b>	<b>84 853</b>



# Notes to the Consolidated Financial Statements

## 19. 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 current financial year, convertible equity loans of R824 million were converted to share capital.

	Group 2018	2017	Company 2018	2017
	R '000	R '000	R '000	R '000
Department of Telecommunications and Postal Services (Postbank)	-	174 000	-	174 000
Department of Telecommunications and Postal Services	-	650 000	-	650 000
<b>Total convertible shareholder instruments</b>	<b>-</b>	<b>824 000</b>	<b>-</b>	<b>824 000</b>

## 20. Provisions

### Reconciliation of provisions - Group - 2018

	Opening balance	Additions / change in estimate	Utilised dur- ing the year	(Reversed) / transferred during the year	Closing bal- ance
	R '000	R '000	R '000	R '000	R '000
Contractual 13th cheque	64 294	18 778	(9 266)	-	73 806
General provision	119 615	18 537	(2 138)	-	136 014
Leave pay	211 153	20 386	(263)	(208 982)	22 294
Legal proceedings	3 971	-	-	(971)	3 000
Long service cash awards	47 687	11 473	(13 911)	-	45 249
Long service leave awards	16 386	380	(2 163)	-	14 603
Site restoration	259 746	41 345	-	-	301 091
<b>Total provisions</b>	<b>722 852</b>	<b>110 899</b>	<b>(27 741)</b>	<b>(209 953)</b>	<b>596 057</b>



# Notes to the Consolidated Financial Statements

## 20. Provisions (continued)

### Reconciliation of provisions - Group - 2017

	Opening balance	Additions / change in estimate	Utilised during the year	Reversed during the year	Unwinding discount factor	Closing balance
	R '000	R'000	R '000	R'000	R '000	R '000
Contractual 13th cheque	54 617	73 502	(63 825)	-	-	64 294
General provision	368 020	1 416	(1 535)	(248 286)	-	119 615
Leave pay	206 164	8 025	(3 036)	-	-	211 153
Legal proceedings	3 000	971	-	-	-	3 971
Long service cash awards	42 634	5 053	-	-	-	47 687
Long service leave awards	15 838	880	(332)	-	-	16 386
Site restoration	239 667	(6 570)	(913)	-	27 562	259 746
<b>Total provisions</b>	<b>929 940</b>	<b>83 277</b>	<b>(69 641)</b>	<b>(248 286)</b>	<b>27 562</b>	<b>722 852</b>

### Reconciliation of provisions - Company - 2018

	Opening balance	Additions / change in estimate	Utilised during the year	(Reversed) / transferred during the year	Closing balance
	R '000	R '000	R '000	R '000	R '000
Contractual 13th cheque	64 104	18 778	(9 232)	-	73 650
General provision	118 289	18 512	(2 138)	-	134 663
Leave pay	214 247	16 199	(263)	(208 982)	21 201
Legal proceedings	3 000	-	-	-	3 000
Long service cash awards	47 687	11 473	(13 911)	-	45 249
Long service leave awards	16 386	380	(2 163)	-	14 603
Site restoration	257 257	42 235	-	-	299 492
<b>Total provisions</b>	<b>720 970</b>	<b>107 577</b>	<b>(27 707)</b>	<b>(208 982)</b>	<b>591 858</b>





# Notes to the Consolidated Financial Statements

## 20. Provisions (continued)

### Reconciliation of provisions - Company - 2017

	Opening balance	Additions / change in estimate	Utilised dur- ing the year	Reversed during the year	Unwinding discount factor	Closing bal- ance
	R '000	R'000	R '000	R'000	R '000	R '000
Contractual 13th cheque	52 730	72 493	(61 119)	-	-	64 104
General provision	360 181	1 513	(1 755)	(241 650)	-	118 289
Leave pay	200 549	15 751	(2 053)	-	-	214 247
Legal proceedings	3 000	-	-	-	-	3 000
Long service cash awards	42 271	5 416	-	-	-	47 687
Long service leave awards	15 838	880	(332)	-	-	16 386
Site restoration	237 063	(6 570)	(798)	-	27 562	257 257
<b>Total provisions</b>	<b>911 632</b>	<b>89 483</b>	<b>(66 057)</b>	<b>(241 650)</b>	<b>27 562</b>	<b>720 970</b>

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
Noncurrent liabilities	311 008	400 472	309 409	397 983
Current liabilities	285 049	322 380	282 449	322 987
<b>Total provisions</b>	<b>596 057</b>	<b>722 852</b>	<b>591 858</b>	<b>720 970</b>

### 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 Post Office for whatever reason (e.g. resignation, death, retirement) is encashed at that time.

### 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 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 Post Office.

Given these rules, the 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 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.



# Notes to the Consolidated Financial Statements

## 20. Provisions (continued)

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 a policy of increasing leave days due to employees reaching ten years within the Post Office's employment. The increase in leave days is from 22 to 24 days in the employee's tenth period only.

### Long service cash awards

The group has a once off cash award policies in respect of long service. The group has valued this benefit in the current period, and shall be valuing the benefit annually.

### 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 Universal Service Obligations (USO) obliges the Post Office to expand its presence in South Africa (SA), especially in rural SA. This means that the 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 in arriving at a conclusion regarding possible restoration. A vacant stand with a Mail Collection Point (MCP) would probably not require restoration should they ever wish to relocate. The Post Office may not wish to relocate from shopping centres and malls. In the event that it does relocate the terms of the lease and the nature of its business are such that restoration of the premises would not be required. The date that the Post Office originally occupied the leasehold premises is also an indication of the chances of ever moving out of the premises, thus negating the liability to restore such leasehold premises. During the year, the Post Office relocated from 21 (2017: 31) leasehold premises of which 20 (2017: 11) of the lessors required restoration, thus further supporting the expectation that relocation and thus restoration would not occur in most instances.



# Notes to the Consolidated Financial Statements

## 21. Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
Trade payables	569 617	110 486	516 512	62 844
Accrued expenses	303 585	288 826	287 547	254 475
International trade payables	185 143	195 440	185 143	195 440
Deposits received	93 395	86 341	91 403	84 309
Employee benefit payments	134 383	70 657	132 679	69 497
Other payables	116 884	85 982	116 419	83 402
VAT	19 479	22 820	19 479	22 820
<b>Total trade and other payables</b>	<b>1 422 486</b>	<b>860 552</b>	<b>1 349 182</b>	<b>772 787</b>

### Fair value of trade and other payables

Trade payables	569 617	110 486	516 512	62 844
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Trade payables are discounted at year end at the prime interest rate of 10% (2017: 10,5%) to bring them to their net present value.

For explanation of the group's liquidity risk management processes, refer to note 44.





# Notes to the Consolidated Financial Statements

## 22. Other financial liabilities

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
<b>Held at amortised cost</b>				
Bank loans	-	3 700 980	-	3 700 980
Term loans (current portion)	400 305	-	400 305	-
The loans are secured by government guarantee, bears interest at JIBAR linked rate payable monthly and quarterly. The Capital Amount is repayable on maturity with a renewal option.				
	<b>400 305</b>	<b>3 700 980</b>	<b>400 305</b>	<b>3 700 980</b>
<b>Noncurrent liabilities</b>				
<b>At amortised cost</b>	<b>-</b>	<b>3 700 980</b>	<b>-</b>	<b>3 700 980</b>
<b>Current liabilities</b>				
At amortised cost	400 305	-	400 305	-
	<b>400 305</b>	<b>3 700 980</b>	<b>400 305</b>	<b>3 700 980</b>

The carrying amounts of financial liabilities at amortised cost are denominated in the following currencies:

Rand	400 305	3 700 980	400 305	3 700 980
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# Notes to the Consolidated Financial Statements

## 23. Deferred income

Deferred income consists of the following:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Bulk mail, parcels and registered letters revenue	15 901	24 595	15 901	24 595
Franking mail revenue	3 909	3 767	3 909	3 767
Box revenue	184 235	176 854	184 235	176 854
Stamp and envelope revenue	4 076	6 434	4 076	6 434
Speed services revenue	16	1 010	16	1 010
International revenue	12 228	1 498	12 228	1 498
Electronic Bill Presentment and Payments revenue (EBPP)	710	540	710	540
XPS freight	17	67	-	-
Subscription fees	5 757	8 799	-	-
<b>Total deferred income</b>	<b>226 849</b>	<b>223 564</b>	<b>221 075</b>	<b>214 698</b>

Relating to South African Post Office (SOC) Limited (company):

### Bulk mail, parcels and registered letters revenue

The deferred revenue calculation is based on the mail delivery performance statistics for March 2018. Revenue is recognised by reference to stage of completion at the reporting period. Revenue received in the last eight days prior to year end is deferred based on the progress of delivery.

### Franking mail revenue

The deferred revenue calculation is based on the assumption that eight (8) working days revenue is unearned. This period is formulated on a combination of the delivery standards and the holding time of customers after purchase.

### Box revenue

The renewal cycle for the rental of the boxes is a calendar year from 1 January to 31 December however; the financial year for the Post Office is 1 April to 31 March. This means that only the revenue for three (3) months of the renewal cycle is earned for that financial year and the remaining nine (9) months of the renewal cycle is

regarded as deferred revenue.

### Stamp and envelope revenue

The deferred revenue calculation is based on the assumption that eight days revenue is unearned. This period is formulated on a combination of the delivery standards and the holding time of customers after purchase.

### Speed services revenue

#### \* Domestic items:

The delivery period for parcels is overnight and for parcels mailed on the 31 of March a 40% is assigned based on the premise that the delivery of the parcel is the following day, 1 of April.

#### \* International items:

International parcel, a higher percentage of completion is applied (80%) and this is in consideration of a longer period it takes to deliver the international parcels.

### International revenue

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 perfor-



# Notes to the Consolidated Financial Statements

## 23. Deferred income (continued)

mance statistics were used to calculate the revenue to be deferred for those days.

Electronic Bill Presentment and Payments (EBPP) revenue.

The deferred revenue is for advanced payments received for services that still needs to be rendered.

Relating to The Courier and Freight Group (Pty) Ltd:

### **XPS freight**

Deferred revenue is calculated by determining the stage of completion at the reporting period. The stage of completion of delivery at year end, which is determined by dividing the number of days that have elapsed since the items have been accepted by the total number of days it takes to complete the delivery of an item

### **PX containers**

Deferred revenue is calculated by determining the stage of completion at the reporting period. The stage of completion of delivery at year end, which is determined by dividing the number of days that have elapsed since the items have been accepted by the total number of days it takes to complete the delivery of an item.

### **Relating to The Document Exchange (Pty) Ltd: Subscription fees**

Annual subscription fees are paid for a twelve (12) month period. In cases where the membership overlaps between two financial years, the portion of the amount attributable to the subsequent financial year is deferred.





# Notes to the Consolidated Financial Statements

## 24. Deposits from the public

	Group 2018	2017	Company 2018	2017
	R '000	R '000	R '000	R '000
Term deposits	124 453	132 321	124 453	132 321
Transactional and savings accounts	4 976 832	4 899 403	4 976 832	4 899 403
<b>Total deposits from the public</b>	<b>5 101 285</b>	<b>5 031 724</b>	<b>5 101 285</b>	<b>5 031 724</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 4,65% per annum (2017: 0,00% to 2,80%) depending on the account balance. Term deposits attract interest that varies from 4,35% to 6,25% per annum (2017: 3,75% to 5,65%) 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 cash equivalents, and these amounts are included in the total balances reflected in notes 9 and 16.

## 25. Funds collected on behalf of third parties

Agency services and collections	288 293	88 455	288 293	88 455
Money and postal orders	(3 906)	640	(3 906)	640
<b>Total funds collected on behalf of third parties</b>	<b>284 387</b>	<b>89 095</b>	<b>284 387</b>	<b>89 095</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 Financial Statements

## 26. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

### Group - 2018

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available- for- sale	Closing bal- ance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	4 242 831	-	-	-	4 242 831
Other financial assets	-	1 064 971	2 418 353	2 435 017	5 918 341
Trade and other receivables	479 970	-	-	-	479 970
<b>Total financial assets</b>	<b>4 722 801</b>	<b>1 064 971</b>	<b>2 418 353</b>	<b>2 435 017</b>	<b>10 641 142</b>

### Group - 2017

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available- for- sale	Closing bal- ance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	4 055 510	-	-	-	4 055 510
Other financial assets	-	997 565	2 242 726	2 670 822	5 911 113
Trade and other receivables	408 655	-	-	-	408 655
<b>Total financial assets</b>	<b>4 464 165</b>	<b>997 565</b>	<b>2 242 726</b>	<b>2 670 822</b>	<b>10 375 278</b>



# Notes to the Consolidated Financial Statements

## 26. Financial assets by category (continued)

### Company - 2018

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available- for- sale	Closing bal- ance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	4 231 385	-	-	-	4 231 385
Other financial assets	-	1 064 971	2 408 553	2 435 017	5 908 541
Trade and other receivables	464 128	-	-	-	464 128
<b>Total financial assets</b>	<b>4 695 513</b>	<b>1 064 971</b>	<b>2 408 553</b>	<b>2 435 017</b>	<b>10 604 054</b>

### Company - 2017

	Loans and receivables	Fair value through profit or loss - held for trading	Held to maturity investments	Available- for- sale	Closing bal- ance
	R '000	R '000	R '000	R '000	R '000
Cash and bank balances	4 033 842	-	-	-	4 033 842
Other financial assets	-	997 565	2 242 726	2 670 822	5 911 113
Trade and other receivables	389 064	-	-	-	389 064
<b>Total financial assets</b>	<b>4 422 906</b>	<b>997 565</b>	<b>2 242 726</b>	<b>2 670 822</b>	<b>10 334 019</b>

Trade and other receivables in the above tables exclude prepayments and VAT, which do not represent financial instruments.

## 27. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

### Group - 2018

	Financial liabilities at amortised cost
	R '000
Deposits from the public	5 101 285
Funds collected on behalf of third parties	284 387
Other financial liabilities	400 305
Trade and other payables	1 431 265
<b>Total financial liabilities</b>	<b>7 217 242</b>





# Notes to the Consolidated Financial Statements

## 27. Financial liabilities by category (continued)

### Group - 2017

	Financial liabilities at amortised cost
	R '000
Deposits from the public	5 031 724
Funds collected on behalf of third parties	89 095
Other financial liabilities	3 700 980
Trade and other payables	860 552
<b>Total financial liabilities</b>	<b>9 682 351</b>

### Company - 2018

	Financial liabilities at amortised cost
	R '000
Deposits from the public	5 101 285
Funds collected on behalf of third parties	284 387
Other financial liabilities	400 305
Trade and other payables	1 357 961
<b>Total financial liabilities</b>	<b>7 143 938</b>

### Company - 2017

	Financial liabilities at amortised cost
	R '000
Deposits from the public	5 031 724
Funds collected on behalf of third parties	89 095
Other financial liabilities	3 700 980
Trade and other payables	772 787
<b>Total financial liabilities</b>	<b>9 594 586</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 Financial Statements

## 28. Revenue

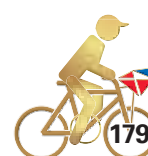
	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
Postbank service charges	233 639	211 392	233 639	211 392
Postbank interest revenue	457 256	433 590	457 256	433 590
Rental income	59 778	48 398	57 651	46 073
Retail products	10 838	16 670	10 838	16 670
Services rendered - Postal	3 059 452	3 234 066	3 023 543	3 198 217
Services rendered - Agency and money transfer	524 017	489 105	524 017	489 105
Services rendered - Courier	103 549	130 342	94 620	91 365
<b>Total revenue</b>	<b>4 448 529</b>	<b>4 563 563</b>	<b>4 401 564</b>	<b>4 486 412</b>

Revenue comprises income from services provided and the sale of retail products, excluding VAT, rebates, and discounts as well as Postbank interest revenue excluding VAT.

These services include work performed as an agent for certain Government departments, other authorities and businesses. Refer to note 42 for more information.

## 29. Other income

Commissions received	3 042	1 842	3 042	1 842
Fees earned	3 995	6 188	3 995	6 188
Foreign exchange differences	8 109	770	8 109	770
Other income	13 865	45 826	13 158	31 253
Recoveries	15 982	35 444	15 645	33 715
Sundry income	-	113 237	-	104 322
<b>Total other income</b>	<b>44 993</b>	<b>203 307</b>	<b>43 949</b>	<b>178 090</b>



# Notes to the Consolidated Financial Statements

## 30. Depreciation, amortisation and impairments

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
The following items are included within depreciation, amortisation and impairments:				
<b>Depreciation</b>				
Property, plant and equipment	107 966	108 067	106 745	106 311
Investment property	-	954	-	917
<b>Total depreciation</b>	<b>107 966</b>	<b>109 021</b>	<b>106 745</b>	<b>107 228</b>
<b>Amortisation</b>				
<b>Intangible assets</b>	<b>31 444</b>	<b>32 574</b>	<b>31 439</b>	<b>32 532</b>
<b>Impairments</b>				
Investments in subsidiaries	-	-	-	(16 057)
Inter company loans and long term receivables	-	(36 681)	-	(9 221)
Inventories	(2 029)	(868)	(2 029)	(972)
Trade and other receivables	-	36 884	4 341	57 473
<b>Total impairments</b>	<b>(2 029)</b>	<b>(665)</b>	<b>2 312</b>	<b>31 223</b>
<b>Total depreciation, amortisation and impairments</b>				
Depreciation	107 966	109 021	106 745	107 228
Amortisation	31 444	32 574	31 439	32 532
Impairments	(2 029)	(665)	2 312	31 223
<b>Total depreciation, amortisation and impairments</b>	<b>137 381</b>	<b>140 930</b>	<b>140 496</b>	<b>170 983</b>





# Notes to the Consolidated Financial Statements

## 31. Operating loss

	Group 2018	(Restated) 2017	Company 2018	(Restated) 2017
	R '000	R '000	R '000	R '000
Operating loss for the year is stated after accounting for the following (among others):				
<b>Operating lease charges</b>				
Premises				
• Contractual amounts	284 191	320 632	280 221	318 837
Motor vehicles				
• Contractual amounts	78 847	91 081	79 148	83 424
Equipment				
• Contractual amounts	12 975	13 805	12 958	13 788
	<b>376 013</b>	<b>425 518</b>	<b>372 327</b>	<b>416 049</b>
Impairment (reversal) of investments in subsidiaries	-	-	-	(16 057)
Impairment on loans to group companies	-	(36 681)	-	(9 221)
Impairments (reversals) of trade and other receivables	-	36 884	4 341	57 473
(Profit) loss on exchange differences	(8 109)	(770)	(8 109)	(770)
Amortisation on intangible assets	31 444	32 574	31 439	32 532
Depreciation on property, plant and equipment	107 966	108 067	106 745	106 311
Depreciation on investment property	-	954	-	917
Employee costs	3 315 244	3 687 427	3 296 634	3 628 112

## 32. Interest and dividend income

<b>Dividend revenue</b>				
Unlisted financial assets - Local	4 521	1	4 250	-
<b>Interest revenue</b>				
Available-for-sale	20 238	24 189	20 238	24 189
Held-to-maturity	788 746	811 088	787 194	810 005
Trade and other payables discounting	16 476	(5 104)	16 993	(1 849)
<b>Total interest revenue</b>	<b>825 460</b>	<b>830 173</b>	<b>824 425</b>	<b>832 345</b>
<b>Interest and dividend income</b>	<b>829 981</b>	<b>830 174</b>	<b>828 675</b>	<b>832 345</b>



# Notes to the Consolidated Financial Statements

## 33. Fair value adjustments

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
Post Retirement Medical Aid asset, and Provident Fund asset	70 784	77 849	70 784	77 849

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 Post Retirement Medical Aid Asset as well as the Provident Fund Asset. Refer to note 11 for more detail.

## 34. Finance expense

Finance charges attributable to post-retirement employee benefits	670 934	672 771	670 934	672 771
Term loan interest	309 911	282 561	307 794	280 408
Interest paid (bank)	2 297	9 747	-	9 700
Postbank interest paid	97 956	96 793	97 956	96 793
Trade and other receivables discounting	24 307	(5 372)	24 307	(5 372)
Unwinding of site restoration provision	29 933	3 579	29 933	3 579
<b>Total finance expense</b>	<b>1 135 338</b>	<b>1 060 079</b>	<b>1 130 924</b>	<b>1 057 879</b>



# Notes to the Consolidated Financial Statements

## 35. Taxation

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
<b>Major components of the tax expense (income)</b>				
<b>Current</b>				
Local income tax - current period	378	615	-	-
Local income tax - recognised in current tax for prior periods	-	-	-	-
	<b>378</b>	<b>615</b>	<b>-</b>	<b>-</b>
<b>Deferred</b>				
Originating and reversing temporary differences	(282)	395 520	352 341	371 394
Arising from previously unrecognised tax loss / tax credit / temporary difference	-	(265)	-	-
Benefit of unrecognised tax loss / tax credit / temporary difference used to reduce deferred tax expense	-	74	-	-
De recognition of deferred tax asset that is no longer probable to be utilised	-	(376 217)	(352 341)	(371 394)
	<b>(282)</b>	<b>19 112</b>	<b>-</b>	<b>-</b>
	<b>96</b>	<b>19 727</b>	<b>-</b>	<b>-</b>
<b>Reconciliation of the tax expense</b>				
Reconciliation between applicable tax rate and average effective tax rate.				
Applicable tax rate	28,00 %	28,00 %	28,00 %	28,00 %
Exempt income	(15,37)%	(16,14)%	(15,19)%	(15,49)%
Disallowable charges	17,74 %	17,62 %	17,66 %	16,88 %
Increase in tax rate	- %	- %	0,16 %	0,15 %
Capital gains tax	- %	- %	- %	- %
Subject to tax at reduced rate	- %	58,22 %	- %	- %
Net deferred tax not raised	(153,12)%	(133,31)%	(50,52)%	(73,05)%
Recognised in equity	- %	38,59 %	- %	43,51 %
	<b>(122,75)%</b>	<b>(7,02)%</b>	<b>(19,89)%</b>	<b>- %</b>
Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset has been recognised.	1 815 130	1 199 479	1 815 130	1 199 479

No provision has been made for 2018 tax as the group has no taxable income. The estimated tax loss available for set off against future taxable income is R4 449 364 684 (2017: R3 553 471 722).





# Notes to the Consolidated Financial Statements

## 36. Other comprehensive income

### Components of other comprehensive income - Group - 2018

	Gross	Tax	Net
<b>Items that will not be reclassified to profit or loss</b>			
<b>Re measurements on net defined benefit liability</b>			
Actuarial losses arising during the year	(224 966)	-	(224 966)
Asset Ceiling	44 425	-	44 425
	<b>(180 541)</b>	<b>-</b>	<b>(180 541)</b>

### Items that may be reclassified to profit or loss

#### Available-for-sale financial assets adjustments

<b>Gains arising during the year</b>	<b>11 569</b>	<b>-</b>	<b>11 569</b>
--------------------------------------	---------------	----------	---------------

### Components of other comprehensive income - Group - 2017

	Gross	Tax	Net
<b>Items that will not be reclassified to profit or loss</b>			
<b>Re measurements on net defined benefit liability</b>			
Actuarial losses arising during the year	(122 453)	-	(122 453)
Asset ceiling	76 095	-	76 095
	<b>(46 358)</b>	<b>-</b>	<b>(46 358)</b>

### Movements on revaluation

Gains (losses) on property revaluation	1 511 556	-	1 511 556
<b>Total items that will not be reclassified to profit or loss</b>	<b>1 465 198</b>	<b>-</b>	<b>1 465 198</b>

### Items that may be reclassified to profit or loss

#### Available-for-sale financial assets adjustments

Gains arising during the year	10 795	-	10 795
<b>Total other comprehensive income</b>	<b>1 475 993</b>	<b>-</b>	<b>1 475 993</b>



# Notes to the Consolidated Financial Statements

## 36. Other comprehensive income (continued)

### Components of other comprehensive income - Company - 2018

	Gross	Tax	Net
<b>Items that will not be reclassified to profit or loss</b>			
<b>Re measurements on net defined benefit liability</b>			
Actuarial losses arising during the year	(224 966)	-	(224 966)
Asset ceiling	44 425	-	44 425
	<b>(180 541)</b>	<b>-</b>	<b>(180 541)</b>
<b>Items that may be reclassified to profit or loss</b>			
<b>Available-for-sale financial assets adjustments</b>			
Gains arising during the year	11 569	-	11 569

### Components of other comprehensive income - Company - 2017

	Gross	Tax	Net
<b>Items that will not be reclassified to profit or loss</b>			
<b>Re measurements on net defined benefit liability</b>			
Actuarial losses for the year	(122 453)	-	(122 453)
Asset ceiling	76 095	-	76 095
	<b>(46 358)</b>	<b>-</b>	<b>(46 358)</b>
<b>Movements on revaluation</b>			
Gains (losses) on property revaluation	1 439 949	-	1 439 949
<b>Total items that will not be reclassified to profit or loss</b>	<b>1 393 591</b>	<b>-</b>	<b>1 393 591</b>
<b>Items that may be reclassified to profit or loss</b>			
<b>Available-for-sale financial assets adjustments</b>			
Gains arising during the year	10 795	-	10 795
<b>Total other comprehensive income</b>	<b>1 404 386</b>	<b>-</b>	<b>1 404 386</b>

No tax figures are disclosed in this note as they are disclosed as unrecognised deferred tax items. Refer to note 12.



# Notes to the Consolidated Financial Statements

## 37. Auditors' remuneration

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
<b>Fees</b>	<b>25 807</b>	<b>19 455</b>	<b>24 735</b>	<b>17 604</b>

## 38. Cash used in operations

Loss before taxation	(908 108)	(967 124)	(913 712)	(955 866)
<b>Adjustments for:</b>				
Depreciation and amortisation	139 410	141 595	138 184	139 760
Foreign exchange movements	(8 109)	(2 595)	(8 109)	(2 595)
Assets written off	859	5 110	685	5 110
Dividends received	(4 521)	(1)	(4 250)	-
Interest income	(825 460)	(830 173)	(824 425)	(832 345)
Finance expense	1 135 338	1 060 079	1 130 924	1 057 879
Fair value adjustments	(70 784)	(77 849)	(70 784)	(77 849)
Impairment (reversals) loss	(2 029)	(665)	2 312	31 223
(Increase) decrease in operating lease assets and liability	(34 627)	9 908	(35 567)	-
Increase (decrease) in retirement benefit liabilities	(95 007)	(121 719)	(95 007)	(121 277)
Increase (decrease) in provisions	(126 795)	(207 088)	(129 112)	(190 662)
Non cash interest on site restoration	29 933	-	29 933	-
Other non-cash items	(542)	(28 383)	18 861	(26 474)
Prior period adjustment taken to accumulated loss	-	630	-	669
Non cash increase/decrease on assets	-	6 398	-	-
Actuarial gain and loss	-	19 142	-	19 142
Fair value investment property	-	(131 667)	-	(123 047)
<b>Changes in working capital:</b>				
Inventories	(7 010)	(14 349)	10 691	(14 263)
Trade and other receivables	(71 315)	(9 312)	(79 405)	(29 642)
Prepayments	7 865	8 186	7 865	8 186
Trade and other payables	561 934	(595 646)	576 395	(615 178)
Deferred income	3 285	(35 071)	6 377	(36 106)
Government grants	156 231	266 126	156 231	266 126
	<b>(119 452)</b>	<b>(1 504 468)</b>	<b>(81 913)</b>	<b>(1 497 209)</b>





# Notes to the Consolidated Financial Statements

## 39. Tax paid

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
Balance at the beginning of the year	(736)	(419)	-	-
Current tax for the year recognised in profit or loss	(378)	(615)	-	-
Balance at the end of the year	438	736	-	-
<b>Tax (paid) refunded</b>	<b>(676)</b>	<b>(298)</b>	<b>-</b>	<b>-</b>

## 40. Commitments

### Authorised capital expenditure

Capital expenditure authorised by the board of directors at reporting date, but not yet recognised in the annual financial statements are as follows:

#### Contracted for and authorised:

• Property, plant and equipment	2 678	4 799	2 546	4 799
• Intangible assets	61 695	72 397	61 695	72 355
<b>Total commitments</b>	<b>64 373</b>	<b>77 197</b>	<b>64 241</b>	<b>77 134</b>

This committed expenditure will be financed by existing cash resources.

### Capital commitments treatment

Capital commitments are disclosed in respect of contracted amounts for which delivery is outstanding at the accounting date.

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 a liability or as expenditure in the statement of comprehensive income, but are however disclosed as part of the disclosure notes. Management expects these capital commitments to be financed from internally generated cash and other borrowings.



# Notes to the Consolidated Financial Statements

## 40. Commitments (continued)

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
<b>Operating leases – as lessee (expense)</b>				
<b>Minimum lease payments due - Buildings</b>				
- within one year	218 865	245 901	218 820	243 943
- in second to fifth year inclusive	540 679	652 803	538 983	650 339
- later than five years	69 753	109 068	69 152	107 212
<b>Total minimum lease payments due</b>	<b>829 297</b>	<b>1 007 772</b>	<b>826 955</b>	<b>1 001 494</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 each contract. Escalation clauses vary from contract to contract averaging at 8% (2017: 8%). Contract renewal option is assumed to be exercised by the Company, unless decided otherwise by Management.

### Minimum lease payments due - Vehicles

<b>- within one year</b>	<b>5 253</b>	<b>3 338</b>	<b>5 253</b>	<b>3 338</b>
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The lease period ranges from two to five years at an interest rate of prime less 2,00% to prime plus 2,25% (2017: prime less

2,00% to prime plus 2,25%). The vehicles are being utilised for the delivery of parcels and mail.

### Operating leases – as lessor (income)

<b>Minimum lease payments due - Buildings</b>				
- within one year	14 385	12 004	12 315	11 542
- in second to fifth year inclusive	31 497	33 767	27 956	35 728
- later than five years	6 146	6 009	6 146	14 812
<b>Total minimum lease payments due</b>	<b>52 028</b>	<b>51 780</b>	<b>46 417</b>	<b>62 082</b>

Rental income has been based on a rate per square meter relating to the prevalent market rate at inception of each contract. Escalation clauses vary from contract to contract with an average of 8% (2017: 8%). 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.



# Notes to the Consolidated Financial Statements

## 41. Contingencies

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
<b>Contingent Liabilities</b>				
The following contingent liabilities were identified:				
Bank guarantees	8 605	8 605	6 528	6 528
Guarantees in respect of employee housing loans	1 158	1 225	1 158	1 225
Civil and Service providers	287 832	131 116	287 832	131 116
Labour cases	28 691	26 247	28 691	26 247
<b>Total contingencies</b>	<b>326 286</b>	<b>167 193</b>	<b>324 209</b>	<b>165 116</b>

### 1. Bank Guarantees

The Group has contingent liabilities in respect of guarantees given to third parties that amount to R8,6 million (2017: R8,6 million). These guarantees are not individually material.

### 2. Guarantees in respect of employee housing loans

The Post Office group has provided a guarantee over employees housing loans. The guarantee for each employee is only for the portion of the bond. For the employees who have left the employment of Post Office while their guarantees are still active, Post Office withhold the remaining portion relating to the guarantee from their pension fund. These guarantees are not individually material.

### 3. Civil and Service providers

Various proceedings were instituted against the Post Office Group during the 2018 and the previous financial years. The amounts being claimed from the Group total approximately R287,8 million (2017: R131,1 million). The Group's legal advisors believe that the Group has reasonable defences against the claims and that the probability of loss will be minimal. Accordingly, no provision has been made in the consolidated annual financial statements with regard to these cases. Included above are the following individually material claims:

3.1. A R140,2 million being an alleged breach of contract by the Post Office resulting in damages incurred by the claimant. This case alone constitutes approximately 50% of the total amount claimed under civil matters for the year under review

3.2. The Group also incurred various minor claims totalling approximately R147,6 million. The nature of these cases include amongst others the claims against Post Office relating to lost parcels, motor vehicle accident claims by third parties and damages suffered by service providers for late payment by the Post Office of invoices for services rendered or good delivered.

The Post Office is insured for motor vehicle accidents and thus these possible liabilities will be reimbursed by the insurance company.

### 4. Labour cases

The Group has contingent liabilities in respect of labour claims due alleged unfair dismissals and unfair labour practices amounting to R28,6 million (2017: R26,2 million). Included in these labour cases are cases which the CCMA has already ruled in favour of the Post Office however the former employee applied for the review of the award. The claims included are not individually material.





# Notes to the Consolidated Financial Statements

## 41. Contingencies (continued)

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
<b>Contingent Assets</b>				
The following contingent assets were identified:				
<b>Civil claims</b>	<b>12 908</b>	<b>8 379</b>	<b>12 904</b>	<b>8 379</b>

The contingent assets include various cases where Post Office is a plaintiff. The nature of the cases include amongst others the motor vehicle accident claims, em-

ployee's fraud etc. These matters remain contingent as the probabilities of successfully defending the cases remains uncertain.

## 42. Related parties

### Relationships

Ultimate holding entity

Holding company

Subsidiaries

Members of key management

Shareholder with significant influence

Post employment benefit plan for employees

Other relationships

The South African Government

The South African Post Office (SOC) Limited

Refer to note 7

Refer to note 43

The Department of Telecommunications and Postal Services

National Treasury

Post Office Retirement Fund

SA Government Entities

### Inter group transactions and balances

Balances and transactions between the Company and its subsidiaries, which are related parties of Post Office, have been eliminated on consolidation. Details of transactions between the Group and other related parties are disclosed below.

Terms loans: Unsecured, interest free and no repayment date.

Terms receivables: Unsecured, interest at prime and no repayment date. Inter governmental transactions and balances

### Inter governmental transactions and balances

Inter governmental transactions and balances refers to transactions and balances between Post Office and other government entities.

Only individually significant transactions and balances are disclosed. According to the materiality framework of Post Office, the significant threshold is R100 million. Transactions and balances that are not at arm's length are considered to be significant even if they are below the R100 million threshold.

All inter governmental transactions have been made at arm's length.



# Notes to the Consolidated Financial Statements

## 42. Related parties (continued)

### Related party balances

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
<b>Intercompany loans and long term receivables</b>				
Sapos Properties (Bloemfontein) (Pty) Ltd	-	-	56	-
Sapos Properties (Erf 145018 Cape Town) (Pty) Ltd	-	-	212	-
Sapos Properties (East Rand) (Pty) Ltd	-	-	93	-
Sapos Properties (PE) (Pty) Ltd	-	-	401	-
Sapos Properties (Rossburgh) (Pty) Ltd	-	-	1 188	-
The Courier and Freight Group (Pty) Ltd	-	-	693 762	689 421
The Document Exchange (Pty) Ltd	-	-	2 345	-
Postbank SOC Limited *	-	-	2 172	-
<b>Amounts included in trade payables</b>				
Other public entities	72 052	107 766	72 052	107 766
<b>Amounts included in trade receivables</b>				
Other public entities	19 351	525	19 351	525



# Notes to the Consolidated Financial Statements

## 42. Related parties (continued)

	Group		Company	
	2018	(Restated) 2017	2018	(Restated) 2017
	R '000	R '000	R '000	R '000
<b>Convertible loans from shareholder</b>				
Department of Telecommunications and Postal Services	-	824 000	-	824 000
<b>Grant subsidy balance</b>				
Department of Telecommunications and Postal Services	422 357	266 126	422 357	266 126
<b>Investments</b>				
Land & Agricultural Bank	591 927	663 299	591 927	663 299
<b>Related party transactions</b>				
<b>Grant subsidy transactions</b>				
Department of Telecommunications and Postal Services - Grant subsidy	240 000	290 240	240 000	290 240
Department of Telecommunications and Postal Services - Re-capitalisation funds	3 700 000	-	3 700 000	-
<b>Purchases from related parties</b>				
Telkom SA Limited	54 909	170 618	54 909	170 618
Other public entities	92 412	69 805	92 412	69 805
<b>Sales to related parties</b>				
Universal Service and Access Agency of South Africa	216 716	95 967	216 716	95 967
Other public entities	153 316	94 318	153 316	94 318
<b>Transactions with authorities &amp; regulators</b>				
South African Revenue Services (Employee Tax & other taxes)	645 325	733 663	645 325	733 663
South African Revenue Services (VAT)	659 794	1 036 337	659 794	1 036 337
Unemployment Insurance Fund	118 980	112 829	118 980	112 829
Other public entities	64 109	95 805	64 109	95 805
<b>Funds collected on behalf of the related parties</b>				
South African Broadcasting Corporation Limited	320 614	322 560	320 614	322 560
Post Office Retirement Fund	449 648	490 378	449 648	490 378
Eskom	529 620	714 667	529 620	714 667





# Notes to the Consolidated Financial Statements

## 42. Related parties (continued)

The remuneration of directors and other members of key management amounted to R26,488 million (2017: R23,121 million). Refer to Note 43 to details on directors' and prescribed officers' emoluments.

The assets and liabilities of the post retirement fund and the post-retirement medical aid are valued through an independent valuation. Refer to Note 11 for the detailed disclosure.

\* Postbank has been accounted for as a division of Post Office in this set of financial statements. However as part of supporting the application for the banking license, a separate entity Postbank SOC Limited has been registered with its own board of directors. The amount disclosed in this note relates to the remuneration of Postbank SOC Limited's board members.

## 43. Directors' and prescribed officers' emoluments

The following emoluments were paid to the directors or any individuals holding a prescribed office during the year:

### Executive

#### 2018

		Emolu- ments	Other benefits (1)	Total
		R'000	R'000	R'000
Mr M Barnes	2	4 240	-	4 240
Ms NJ Dewar	3	2 423	28	2 451
Ms LO Kwele	4	2 587	19	2 606
<b>Total executive emoluments</b>		<b>9 250</b>	<b>47</b>	<b>9 297</b>

1. Other benefits include mainly telephone and various travel related reimbursements.
2. Appointed as Group CEO 15 January 2016. Also a director of The Courier and Freight Group, Postbank and Document Exchange.
3. Appointed as GCFO on 12 December 2016. Also a director of The Courier and Freight Group and Document Exchange.
4. Appointed as GCOO on 5 June 2017.

#### 2017

		Emolu- ments	Other benefits	Total
		R'000	R'000	R'000
Mr M Barnes	2	4 240	-	4 240
Mr NJ Dewar	3	2 260	9	2 269
<b>Total executive emoluments</b>		<b>6 500</b>	<b>9</b>	<b>6 509</b>

1. Other benefits include mainly telephone and various travel related reimbursements.
2. Appointed as Group CEO 15 January 2016. Also a director of the Courier and Freight Group and Document Exchange.
3. CFO: Postbank. Also acting Group CFO from 15 July 2015. Appointed as GCFO on 12 December 2016. Also a director of The Courier and Freight Group and Document Exchange.



# Notes to the Consolidated Financial Statements

## 43. Directors' and prescribed officers' emoluments (continued)

### Nonexecutive directors

2018

		<b>Directors' Emoluments</b>	<b>Total</b>
		<b>R'000</b>	<b>R'000</b>
Ms LD Marole	2	354	354
Dr LM Molefi	3	372	372
Mr ZC Ngidi	4	848	848
Mr PE Rabohale	5	285	285
Ms NV Simamane	6	270	270
Mr ME Zakwe	7	495	495
Mr K Matthews	8	377	377
<b>Total nonexecutive emoluments</b>		<b>3 001</b>	<b>3 001</b>

1. Emoluments include both directors' fees for meetings and annual / quarterly retainer fees. Travel and accommodation expenses for members outside the Gauteng province.

2. Appointed 15 August 2015.

3. Appointed 15 August 2015. Also the Chairperson of Document Exchange.

4. Appointed 15 August 2015. Chairperson of the Board from 13 March 2018 and director of Document Exchange.

5. Appointed 15 August 2015. Also the Chairperson of the Courier and Freight Group.

6. Appointed 15 August 2015.

7. Appointed 15 August 2015. Also director of the Courier and Freight Group.

8. Appointed 1 October 2016.



# Notes to the Consolidated Financial Statements

## 43. Directors' and prescribed officers' emoluments (continued)

2017

		Directors' Emoluments	Total
		R'000	R'000
Dr DSS Lushaba	3	206	206
Ms LD Marole	4	84	84
Dr LM Molefi	5	293	293
Mr ZC Ngidi	6	333	333
Mr RD Nkuna	7	180	180
Mr PE Rabohale	8	309	309
Ms NV Simamane	9	282	282
Mr ME Zakwe	10	480	480
Ms BP Soci	11	84	84
Mr K Matthews	12	113	113
<b>Total nonexecutive emoluments</b>		<b>2 364</b>	<b>2 364</b>

1. Emoluments include both administrator fees, directors' fees for meetings and annual / quarterly retainer fees.
2. The group reimburses travel and accommodation expenses for members outside the Gauteng province.
3. Retired 31 December 2016.
4. Appointed 15 August 2015.
5. Appointed 15 August 2015. Also the Chairperson of Document Exchange.
6. Appointed 15 August 2015. Also appointed as acting Chairperson of the Board from January 2017 and a director of Document Exchange.
7. Retired 31 November 2016.
8. Appointed 15 August 2015. Also the chairperson of the Courier and Freight Group.
9. Appointed 15 August 2015. Also a director of the Courier and Freight Group.
10. Appointed 15 August 2015. Also the chairperson of the Courier and Freight Group.
11. Retired 31 October 2016.
12. Appointed 1 October 2016.

(Retired implies resigned or retired.)





# Notes to the Consolidated Financial Statements

## 43. Directors' and prescribed officers' emoluments (continued)

### Prescribed officers

2018

		Emoluments	Other benefits (1)	Compensation for loss of office (Leave pay)	Total
		R'000	R'000	R'000	R'000
Mr CA Phillips	2	1 562	23	-	1 585
Ms AR Seafeld	3	1 543	23	-	1 566
Mr DMM Mncwabe	4	2 138	23	-	2 161
Mr NST Ndhrazi	5	1 591	21	-	1 612
Mr M Salojee	6	1 885	23	-	1 908
Mr NI Tolom	7	1 659	23	-	1 682
Mr S Adam	8	2 504	21	-	2 525
Mr JD Niewoudt	9	381	-	42	423
Mr D Dada	10	712	16	-	728
<b>Total prescribed officers emoluments</b>		<b>13 975</b>	<b>173</b>	<b>42</b>	<b>14 190</b>

1. Other benefits include mainly telephone and various travel related reimbursements.

2. Chief Audit Executive.

3. GE: Human Capital Management.

4. Group CIO.

5. GE: Strategy and Sustainability. Also a director of Document Exchange.

6. GE: Governance and Regulation. Also a director of Document Exchange.

7. GE: Commercial. Appointed 1 November 2015.

8. Acting MD: Postbank.

9. Acting Group Company Secretary from 1 August 2016. Retired 31 May 2017. Appointed on Contract 1 June 2017.  
End of contract 31 August 2017

10. Appointed Group Company Secretary from 1 August 2017

Retired implies resigned, retired or dismissed.



# Notes to the Consolidated Financial Statements

## 43. Directors' and prescribed officers' emoluments (continued)

2017

		Emoluments	Other benefits (1)	Total
		R'000	R'000	R'000
Mr CA Phillips	2	1 650	23	1 673
Ms AR Seafeld	3	1 563	23	1 586
Mr DMM Mncwebe	4	2 255	23	2 278
Mr NST Ndhrazi	5	1 602	9	1 611
Mr M Salojee	6	1 884	23	1 907
Mr NI Tolom	7	1 659	23	1 682
Mr AK Yabo	8	157	1	158
Mr S Adam	9	2 648	9	2 657
Mr JD Niewoudt	10	696	-	696
<b>Total prescribed officers emoluments</b>		<b>14 114</b>	<b>134</b>	<b>14 248</b>

1. Other benefits include mainly telephone and various travel related reimbursements.
2. Chief Audit Executive.
3. GE: Human Capital Management.
4. Group CIO.
5. GE: Strategy and Sustainability. Also acting as Group CEO from 1 November 2015 to 14 January 2016.
6. GE: Governance and Regulation.
7. GE: Commercial. Appointed 1 November 2015.
8. Acting Group Company Secretary from 8 December 2015. Retired 31 May 2016.
9. Acting MD: Postbank.
10. Acting Group Company Secretary from 1 August 2016.

(Retired implies resigned or retired.)



# Notes to the Consolidated Financial Statements

## 44. 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 disclosed in notes 8, 22 & 24, cash and cash equivalents disclosed in note 16, 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 noncurrent borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

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 be financed; 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. The Group has complied with all 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 2018 and 2017 respectively were as follows:

		Group		Company	
		2018	2017	2018	2017
		R '000	R '000	R '000	R '000
<b>Total borrowings</b>					
Other financial liabilities	22	400 305	3 700 980	400 305	3 700 980
Bank Overdraft	16	-	-	-	-
Deposits from Public	24	5 101 285	5 031 724	5 101 285	5 031 724
		<b>5 501 590</b>	<b>8 732 704</b>	<b>5 501 590</b>	<b>8 732 704</b>
<b>Less: Cash and cash equivalents</b>	<b>16</b>	<b>4 242 831</b>	<b>4 055 510</b>	<b>4 231 385</b>	<b>3 199 723</b>
Net debt		1 258 759	4 677 194	1 270 205	5 532 981
<b>Total equity</b>		<b>3 522 786</b>	<b>901 410</b>	<b>3 529 178</b>	<b>913 310</b>
<b>Total capital</b>		<b>4 781 545</b>	<b>5 578 604</b>	<b>4 799 383</b>	<b>6 446 291</b>

Gearing ratio	26 %	84 %	26 %	86 %
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# Notes to the Consolidated Financial Statements

## 44. 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 Asset and Liability Management ("ALM") function that is responsible for the day to day monitoring, evaluation and reporting of all market risks; and
- The board's Audit and 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; and

### 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 Post Office's credit exposure in the investment portfolio is diversified across a range of acceptable counter parties and the maximum investment with a particular counter party will be limited to 25% of the total investments. Where the amount to be invested per counter party is less than or equal to R50 million, the minimum investment with any one counter party 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 Financial Statements

## 44. Risk management (continued)

The fair value of the Post Office's stake in Ithuba was determined by management to be zero. The discounted cash flow model was used in the determination of the fair value of the Post Office's share holding in Ithuba.

### 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 analyses 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 R250 million and maintaining overdraft credit facilities with 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 R1,085 billion (2017: R1,271 billion) and R270 million (2017: R270 million) in overdraft / credit facilities with major banks. R0 overdraft facility was utilised at year-end (2017: R0 million).

The tables below detail the Group's remaining contractual maturity for its financial liabilities and financial assets. The figures have been compiled based on the undiscounted cash flows of financial liabilities and financial assets based on the earliest date on which the Group can be required to recognise financial assets and settle financial liabilities. Contractual maturity analysis for financial liabilities and financial assets.

The liquidity risk table below shows the contractual maturity gap at period end.



# Notes to the Consolidated Financial Statements

## 44. Risk management (continued)

### Group

2018	Overnight	Less than 3 months	Between 3 and 12 months	Greater than 1 year	Equity	Total
Cash and bank balances	3 047 077	1 195 754	-	-	-	4 242 831
Investments	-	-	4 739 856	-	-	4 739 856
Other financial assets (Prma & Centriq)	1 178 485	-	-	-	-	1 178 485
Trade and other receivables	-	479 970	-	-	-	479 970
Deposits from the public	(4 973 259)	(44 679)	(74 236)	(9 111)	-	(5 101 285)
Funds collected on behalf of third parties	(284 387)	-	-	-	-	(284 387)
Trade and other payables	-	-	(1 431 265)	-	-	(1 431 265)
Other financial liabilities	-	-	(400 305)	-	-	(400 305)
Retirement benefit obligation	-	(38 807)	(116 422)	(1 272 143)	-	(1 427 372)
	<b>(1 032 084)</b>	<b>1 592 238</b>	<b>2 717 628</b>	<b>(1 281 254)</b>	<b>-</b>	<b>1 996 528</b>

2017	Overnight	Less than 3 months	Between 3 and 12 months	Greater than 1 year	Equity	Total
Cash and bank balances	3 071 830	983 680	-	-	-	4 055 510
Investments	-	-	4 810 160	-	-	4 810 160
Other financial assets	1 100 952	-	-	-	-	1 100 952
Trade and other receivables	-	408 655	-	-	-	408 655
Deposits from the public	(5 031 988)	-	-	-	-	(5 031 988)
Funds collected on behalf of third parties	(89 095)	-	-	-	-	(89 095)
Trade and other payables	-	(860 552)	-	-	-	(860 552)
Other financial liabilities	-	-	-	(3 700 980)	-	(3 700 980)
Retirement benefit obligation	-	(34 074)	(102 221)	(1 202 166)	-	(1 338 461)
	<b>(948 301)</b>	<b>497 709</b>	<b>4 707 939</b>	<b>(4 903 146)</b>	<b>-</b>	<b>(645 799)</b>





# Notes to the Consolidated Financial Statements

## 44. Risk management (continued)

### Company

2018	Overnight	Less than 3 months	Between 3 and 12 months	Greater than 1 year	Equity	Total
Cash and bank balances	3 035 630	1 195 754	-	-	-	4 231 384
Investments	-	-	4 730 056	-	-	4 730 056
Other financial assets	1 178 485	-	-	-	-	1 178 485
Trade and other receivables	-	464 128	-	-	-	464 128
Deposits from the public	(4 973 259)	(44 679)	(74 236)	(9 111)	-	(5 101 285)
Funds collected on behalf of third parties	(284 387)	-	-	-	-	(284 387)
Trade and other payables	-	(1 357 961)	-	-	-	(1 357 961)
Other financial liabilities	-	-	(400 305)	-	-	(400 305)
Retirement benefits obligation	-	(38 807)	(116 422)	(1 272 143)	-	(1 427 372)
	<b>(1 043 531)</b>	<b>218 435</b>	<b>4 139 093</b>	<b>(1 281 254)</b>	<b>-</b>	<b>2 032 743</b>

2017	Overnight	Less than 3 months	Between 3 and 12 month	Greater than 1 year	Equity	Total
Cash and cash equivalents	3 050 162	983 680	-	-	-	4 033 842
Investments	-	-	4 810 160	-	-	4 810 160
Other financial assets	1 100 952	-	-	-	-	1 100 952
Trade and other receivables	-	389 064	-	-	-	389 064
Deposits from the public	(5 031 988)	-	-	-	-	(5 031 988)
Funds collected on behalf of third parties	(89 095)	-	-	-	-	(89 095)
Trade and other payables	-	(772 787)	-	-	-	(772 787)
Other financial liabilities	-	-	-	(3 700 980)	-	(3 700 980)
Retirement benefits obligation	-	(34 074)	(102 221)	1 202 166)	-	(1 338 461)
	<b>(969 969)</b>	<b>565 883</b>	<b>4 707 939</b>	<b>(4 903 146)</b>	<b>-</b>	<b>(599 293)</b>



# Notes to the Consolidated Financial Statements

## 44. Risk management (continued)

### 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 asset and liability committee view of the interest rates;
- Repricing 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 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 analyses 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 8% 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 R1 million and a 1% point adverse move in the exchange rate result in a projected loss of R0,5 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.

### 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 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:



# Notes to the Consolidated Financial Statements

## 44. Risk management (continued)

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>Increase (decrease)</b>				
1% increase in interest rates	40 336	40 710	40 336	40 710
1% decrease in interest rates	(40 480)	(41 256)	(40 480)	(41 256)
<b>Fair value interest rate risk</b>				
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:				
<b>Increase (decrease)</b>				
1% increase in interest rates	(9 447)	(10 028)	(9 447)	(10 028)
1% decrease in interest rates	9 550	10 142	9 550	10 142

### Credit risk

Credit risk refers to the risk that a counter party 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. Financial instruments that give rise to credit risk include cash and cash equivalents, Held to Maturity investments; trade receivables, and certain debt instruments classified as "Available for sale". 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 counter parties.

The minimum credit ratings for investment counter parties are Fitch National Long Term Rating 'A' and Fitch National Short Term Rating 'F1'. The credit quality of counter parties is monitored by the group ALM function. The group's credit exposure is diversified across a range of acceptable counter parties and the maximum investment with any counter party is limited to 25% of total investments. All counter party 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 counter party credit limits and any breach is reported to the monthly

ALCO meeting.

The carrying amounts of financial assets recorded in the annual 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 R0 million, (2017: R1,225 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 counter party 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 counter parties 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 counter parties is considered to be sound, well managed and commensurate with the risk appetite of the board.

No collateral is held for available for financial assets held by Post Office.

The table below reflect net interest income sensitivity for a given 1% up and downward shift in interest rates at year end.





# Notes to the Consolidated Financial Statements

## 44. Risk management (continued)

### Loan interest rate risk

1% increase in interest rates	(4 000)	(36 000)	(4 000)	(36 000)
1% decrease in interest rates	4 000	36 000	4 000	36 000
	-	-	-	-

### 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 Universal Postal Union (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 R0,5 million currency loss.
- Forward cover is taken where the exposure in respect of a specific foreign currency commitment is more than

R1 million and 1% adverse move in the exchange rate results in the group experiencing a loss of more than R0,5 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.

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	13	-	13	-
Euro	1	5	1	5
British Pound	-	9	-	9
Special Drawing Rights	12 794	9 316	12 794	9 316
United States Dollar	90	111	90	111

#### Financial liabilities

Euro	1 121	668	1 121	-
Special Drawing Rights	11 031	10 688	11 031	10 688
New Zealand Dollar	20	70	20	70
Swiss Franc	3	3	3	3
United States Dollar	962	1 775	962	1 775



# Notes to the Consolidated Financial Statements

## 44. Risk management (continued)

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 R0,40 million foreign currency gain for the group (2017: R0,563 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	(7 733)	(7 499)	(7 733)	(7 499)
1% decrease in interest rates	8 686	8 123	8 686	8 123

Method and assumptions: Sensitivity analyses 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 discounted cash flow model was used 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 Financial Statements

## 45. Going concern

Post Office, as a state company, plays a strategic role in the provision of essential goods and services. The activities of Post Office impact on the quality, accessibility and affordability of services provided to the community, especially the poor and vulnerable

In determining the appropriate basis of preparation of the financial statement, management are required to consider whether the group will continue in operational in the foreseeable future. The conditions noted below resulted in material uncertainty that might cast significant doubt on the Post Office's ability to continue as a going concern.

- Lack of available liquid funds and inability to access to credit due to weak balance sheet and operating losses (for the year ended 31 March 2018 the Group reported net loss of R908 million (2017: R987 million), this poses risks on the R400 million loan settlement due in December 2018.
- Existence of contingent liabilities, provisions, tax liabilities disclosed in the annual financial statements, the group have contingent liability to the value of R326 million as at year end
- Negative financial trends such as recurring operating losses, working capital deficiencies, negative cash flows from operating activities and adverse key financial ratio.
- Financial difficulties such as defaults on suppliers' agreements, denials of trade credit from suppliers, a need to restructure debt to avoid default and a need to seek new sources or methods of financing and revenue enhancement initiatives.
- Lack of funding to fund for new capital projects and revenue initiatives, old and aging infrastructure backlog and outdated operating assets making competing in the market space almost impossible.
- Outdated IT solutions making competing in the market space almost impossible and an inappropriate and inefficient business model that has resulted

in the Group not generating sufficient revenue to finance its high cost base.

- Continuous decrease in mail volumes and revenue due to emergence of a highly successful competitor - there has been a number of competitors that have captured the courier market and the migration to digital communication has resulted in a significant decline in mail business over the past years.
- Loss of a major market, revenue from mail services has been on a declining trend and a number of key customers are migrating to digital platforms and a significant decline has been noted for the courier business

Based on the above events Post Office is without doubt currently experiencing substantial doubt on going concern, notwithstanding the substantial doubt based on the above events and conditions, management has adequate plans in place to mitigate this risk as detailed below:

Post Office signed a contract with SASSA for the payment of social grants to 5,7 million beneficiaries that use the National Payment System (NPS). Subsequently the Minister of Social Development cancelled the cash tender, Post Office was further required by the Inter-Ministerial Committee (IMC) to provide a solution to the cash grant payments using its current infrastructure. Post Office is expecting to pay up to 7,9 million through the NPS and 789 000 through contracted CIT services. The SASSA contract has been changed from a 5 year BOT (build on transfer) period to continue in perpetuity, which also has a significant positive impact on the sustainability of Post Office in the long term net revenue expected from this project is R2,7 billion over the next five year. This also means that the investment which will be acquired through SASSA projects will yield maximum benefits for Post Office because these assets will forever remain the assets of the Post Office





# Notes to the Consolidated Financial Statements

## 45. Going concern (continued)

thereby continuously earning returns for the company.

The Department of Telecommunications and Postal Services allocated R3,7 billion in the 2018 financial year for the capitalisation of Post Office. Post Office has been tasked with managing the distribution of set-top boxes and antennae for the broadcasting digital migration project, and was allocated R240 million in the 2017 financial year, with a further allocation of R240 million in the 2018 financial year

Post Office resides within a commercially irreplaceable infrastructure which is a government asset. There are areas within our strategy of revenue diversification that will be best served by partnerships rather than organic growth primarily because of funding constraints, expertise, experience and the time it will take to get into the market.

- E-commerce: There are a number of fully developed e-commerce solutions globally, which could partner with Post Office locally, both in terms of capital and technology.
- Postbank: Granting of banking licence to Postbank. A deal to aggregate balance sheet strength (with other small banks unlikely to compete at their size) and attract credit expertise would be a far more time and cost effective approach to getting into the lending space, than organic growth.

Group restructuring and costs containment a phased approach will be adopted to address the challenge of low productivity due to high staff numbers as detailed below:

- Reduction of labour related costs such as overtime and extended hours resulting in estimated savings of R80 million per annum.
- Business reorganization of non-core business support services
- Reduction in human resources cost to achieve a cost to income ratio of 40:60

Section 189 application to Post Office has already been raised in our engagement with labour and expected to be completed within the next twelve (12) months

Public Service Mandate, the funding of the public service mandate remains one of the key strategic option to ensure future sustainability of Post Office, included in the MTEF submission is the detailed submission on the funding proposal for the mandate, we are looking to an annual average of R800 million over the MTEF

Labour unrest, Post Office concluded wage agreement with the unions for the next twelve (12) months effective from 1st April 2018, we therefore expect no labour unrest over the medium term

The Post Office experienced cash flow constraints during the financial year and requires additional financial resources (with shareholder support) to continue in operation for the foreseeable future. There is risks that the company may not be able to discharge its obligation to the creditors but there are sufficient mitigation initiatives to provide assurance that the entity will be able to meet its obligations during the normal course of business over the medium to long term.

The Shareholder and National Treasury have approved the guarantee application and therefore the Directors believe that the company will have adequate financial resources to continue in operation for the foreseeable future, and accordingly, the annual financial statements have been prepared on a going concern basis.

The directors believe that, with the requested shareholder support in the form of a government guarantee and other initiatives as detailed above, the company will have adequate financial resources to continue in operation for the foreseeable future, and accordingly, the annual financial statements have been prepared on a going concern basis.



# Notes to the Consolidated Financial Statements

## 46. Fruitless and wasteful expenditure

	2018	Group 2017	2018	Company 2017
	R '000	R '000	R '000	R '000
Opening balance under investigation	295 794	98 148	280 008	90 445
Add: Fruitless and wasteful expenditure - current year	15 288	28 121	13 485	22 113
Add: Fruitless and wasteful expenditure- prior year	-	176 599	-	174 524
Less: Amounts condoned - current year	-	(7 050)	-	(7 050)
Less: Amounts condoned - prior year	-	(24)	-	(24)
Less: Amounts recovered (not condoned)	-	-	-	-
Less: Amounts recoverable (not condoned)	-	-	-	-
<b>Total fruitless and wasteful expenditure awaiting condonation</b>	<b>311 082</b>	<b>295 794</b>	<b>293 493</b>	<b>280 008</b>
<b>Analysis of awaiting condonation per age classification</b>				
Current year	15 288	28 121	13 485	22 113
Prior year	295 794	267 673	280 008	257 895
<b>Total current fruitless and wasteful expenditure - current year</b>	<b>311 082</b>	<b>295 794</b>	<b>293 493</b>	<b>280 008</b>

Fruitless & wasteful expenditure to the amount of R6,835 million relates to interest, fines and legal fees due to creditors not being paid as a result of the Post Office's financial constraints during the financial year.

Expenditure to the amount of R175,47 million for the previous financial year relates mainly to the items identified from investigations and management reviews for completeness.



# Notes to the Consolidated Financial Statements

## 47. Material losses due to criminal conduct

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Fraud and theft	11 037	14 579	11 037	14 579

The Post Office considers losses of R32 million and above to be material. Although not material in amount the above losses relate to criminal conduct.

## 48. Irregular expenditure

Opening balance under investigation	940 948	479 717	891 724	413 343
Add: Current period irregular expenditure	109 499	308 136	108 567	291 869
Add: Prior year irregular expenditure	-	419 848	-	421 577
Less: Amounts condoned - current year	(933)	(96 619)	-	(81 761)
Less: Amounts condoned - prior year	-	(75 056)	-	(67 493)
Less: Amounts condoned - prior year	-	(95 077)	-	(85 811)
Less: Amounts recoverable (not condoned)	-	-	-	-
Less: Amounts not recoverable (not condoned)	-	-	-	-
<b>Irregular expenditure awaiting condonation</b>	<b>1 049 514</b>	<b>940 949</b>	<b>1 000 291</b>	<b>891 724</b>

### Analysis of awaiting condonation per age classification

Current period	109 499	308 136	108 567	291 869
Prior years	940 015	632 812	891 724	599 855
<b>Total irregular expenditure awaiting condonation</b>	<b>1 049 514</b>	<b>940 948</b>	<b>1 000 291</b>	<b>891 724</b>

### Irregular expenditure

All irregular expenditure incurred in the 2017/18 financial year was legitimate business expenditure required in terms of commodities or services procured.

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 Act; 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:

- Irregular 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;





# Notes to the Consolidated Financial Statements

## 48. Irregular expenditure (continued)

- Irregular 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
- Irregular 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 Post Office started reporting on irregular expenditure in the 2011 financial year in accordance with the PFMA requirement and continued accordingly. The 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. Also, the expenditure was incurred or paid to address institutional requirements.

Post Office has an established Financial Misconduct Committee (FMC) to review and to ensure that all "Financial

Misconducts" within the Post Office group of companies are managed in accordance with the requirements of the Public Finance Management Act (PFMA) and related regulations.

An amount of R311,477 million (2017: R273,369 million) concerns a particular contract where an investigation was concluded and the transaction was set aside by the High Court in November 2017.

The amount of R1,049,514 million for the 2018 financial year relates to "irregular expenditure awaiting condonation" for Post Office Group).

Included in the group is an amount of R108,567 (2017: R291,869 million) relates to "irregular expenditure awaiting condonation" for Post Office.

The amount of R0 (2017: R15,179 million) for the 2018 financial year relates to "irregular expenditure awaiting condonation" for CFG.

## 49. De registered Entities

The following dormant subsidiary entity which has never been consolidated was de registered in the prior financial year and the accumulated losses were as follows:

	2018	Group	2018	Company
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>Subsidiary company</b>				
<b>The Courier and Freight Group Botswana (Pty) Ltd</b>	-	-	-	-



# Notes to the Consolidated Financial Statements

## 50. Comparative figures and prior period errors

Certain comparative figures have been restated.

Property, plant and equipment was adjusted, this is due to calculation errors, the revaluation gains of items of property, plant and equipment were incorrectly stated in the prior period. The correction of which resulted in a decrease of R119 million for property, plant and equipment and other income in the statement of financial position and financial performance respectively.

Investment property was adjusted due to calculation errors, the fair value gains of Investment Properties were incorrectly stated in the prior period. The correction of which resulted in a decrease of R24,4 million for Investment properties and other income in the statement of financial position and financial performance respectively.

Other Income was adjusted due to calculation errors, the fair value gains of Investment Properties were incorrectly stated in the prior period. The correction of which resulted in a decrease of R24,4 million for Investment properties and other income in the statement of

Revenue: The revenue for international mail was erroneously recorded in the prior years. The error relates to the cut-off of revenue relating to terminal dues. The error was corrected for the 2017 comparative figures however it was impractical to reinstate figure for the years before 2017.

Gains and (losses) on valuation: This was due to correction made relating to property valuation in the prior year

Reserves: This is as a result of changes in revaluation surplus as a result of Property valuation corrections

Accumulated loss: Impact of change in Fair Value of Investment Property and the correction of revenue as a result of credit notes raised in incorrect period

Contingent liability and assets: This is due to correction of contingent liabilities and contingent assets erroneously understated in the prior year

Related Parties: This is due to correction of related parties erroneously understated in the prior year

The effects of the reclassifications and corrections are as follows:

### Statement of Financial Position

	<b>Group</b>		<b>Company</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>	<b>R '000</b>
Property, plant and equipment	(119 005)	-	(118 911)	-
Investment property	(24 426)	-	(24 426)	-
Trade and other receivables	(5 145)	24 251	(6 710)	22 974
Trade and other payables	26 999	(16 193)	27 904	(14 916)
Reserves	118 910	-	118 910	-
Accumulated profit/loss	8 639	-	(8 703)	-
Funds collected on behalf of third party	(5 734)	(8 559)	(5 734)	(8 559)
<b>Profit or Loss</b>				
Revenue	(24 904)	-	(24 502)	-
Other income	24 426	-	24 426	-
Transport costs	8 779	-	8 779	-
Gains and (losses) on valuation	118 910	-	118 910	-



# Notes to the Consolidated Financial Statements

## 51. Subsequent events and other significant events

1. During July 2018 Post Office employees embarked on a national wide strike and this strike lasted for two weeks. Finally a settlement was reached with labour representatives, this settlement entails:

- Post Office employees across the board will receive a salary increase of 6,5%, backdated to 1 April 2018.
- Furthermore, the contracted working hours for permanent part time employees, have been moved from 21,5 hours a week to 27,5 hours a week.
- Five hundred (500) of these positions are earmarked to be phased in as permanent full-time employees in due course, following an appropriate process.

This agreement will result in an increase of staff costs by R286 million per annum.

2. In July 2018, The Commissioner of South African Revenue Services has agreed to allow Post Office the full input tax deduction of R37 302 030,56, that was claimed by the Appellant (Post Office) and reduce the interest levied of R16 657 096,97 (calculated until 01/03/2017) and penalties imposed of R3 730 203,06 to nil in accordance with the reduction in capital, the total benefit to Post Office amount to R58 Million.

## 52. Fair value information (property, plant and equipment, and investment property) Fair value hierarchy

The table below analyses property, plant and equipment, and investment property carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the group can access

at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

		Group		Company	
		2018	2017	2018	2017
		R '000	R '000	R '000	R '000
Level 3: Unobservable inputs for the asset or liability.					
<b>Levels of fair value measurements</b>					
<b>Level 3</b>					
<b>Recurring fair value measurements</b>					
<b>Assets</b>	<b>Note(s)</b>				
<b>Investment property</b>	4				
Investment property		-	149 155	-	137 108
<b>Property, plant and equipment</b>	3				
Land		-	680 618	-	625 530
Buildings		-	1 621 287	-	1 600 273
<b>Total property, plant and equipment</b>		-	<b>2 301 905</b>	-	<b>2 225 803</b>
<b>Total</b>		-	<b>2 475 486</b>	-	<b>2 387 337</b>





# Notes to the Consolidated Financial Statements

## **Valuation techniques used to derive level 3 fair values**

The fair values for land and buildings were derived using different valuation techniques. For land, the valuation technique was based on selling prices. The valuation of buildings was determined using the income approach. Both techniques are considered to be the highest and best use for the land and buildings.

Due to change in accounting policy, revaluations on land and buildings were recognised in lever 3 for the

first time. Refer to note 3 and 4.

## **Valuation processes applied by the Group**

The fair value of all land and buildings of property plant and equipment and investment properties are determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The valuation is done every five years.

## **53. Changes in accounting policy**

In the prior year Post Office changed its accounting policy regarding the valuation of land and buildings, and investment property from cost model to fair value model in order to achieve a fairer presentation.

A fairer presentation will be achieved due to the fact that the carrying values will be shown at more recent and relevant values.

The change in accounting policy has been accounted for prospectively as it was impractical for management to account for the change retrospectively due to the fact that properties were only valued in the prior year and no reliable value could be obtained for periods before that.



# Notes to the Consolidated Financial Statements

## 54. Government grants

	Group		Company	
	2018	2017	2018	2017
	R '000	R '000	R '000	R '000
<b>Current liabilities</b>				
Unutilised grants	422 357	266 126	422 357	266 126
<b>Subsidy received</b>				
Government grants unutilised in the prior year	266 126	-	266 126	-
Current period - Address roll-out	-	50 240	-	50 240
Current period - Digital terrestrial television	240 000	240 000	240 000	240 000
Interest received	26 413	11 530	26 413	11 530
<b>Government grant utilised</b>				
Utilised for DTT	(66 336)	-	(66 336)	-
Utilised for postal address roll-out	(14 373)	-	(14 373)	-
Value Added Tax (VAT)	(29 474)	(35 644)	(29 474)	(35 644)
	<b>422 356</b>	<b>266 126</b>	<b>422 356</b>	<b>266 126</b>

Post Office was allocated R240 million to fund distribution of the set-top boxes and antennas for the Broadcasting Digital Migration Project in the 2017/18 financial year and R240 million in the 2016/17 financial year.

R50,2 million was allocated to fund the roll-out of postal address in the 2016/17 financial year. Interest received on these funds is capitalised.



# Detailed Income Statement

	Note(s)	Group		Company	
		2018	2017	2018	2017
		R '000	R '000	R '000	R '000
<b>Revenue</b>					
Agency and money transfer services		524 017	489 105	524 017	489 105
Courier services		103 549	130 342	94 620	91 365
Postal		3 059 452	3 234 066	3 023 543	3 198 217
Postbank interest revenue		457 256	433 590	457 256	433 590
Postbank net fee and commission revenue		233 639	211 392	233 639	211 392
Retail products		10 838	16 670	10 838	16 670
Services Rendered - Rental Income		59 778	48 398	57 651	46 073
<b>Total revenue</b>	<b>28</b>	<b>4 448 529</b>	<b>4 563 563</b>	<b>4 401 564</b>	<b>4 486 412</b>
<b>Cost of sales</b>	-	-	-		
<b>Other income</b>					
Commissions received		3 042	1 842	3 042	1 842
Dividends received	32	4 521	1	4 250	-
Fees earned		3 995	6 188	3 995	6 188
Interest received	32	825 460	830 173	824 425	832 345
Other income		13 865	45 826	13 158	31 253
Profit on exchange differences		8 109	770	8 109	770
Recoveries		15 982	35 444	15 645	33 715
Fair value adjustments	33	70 784	77 849	70 784	77 849
Skills development levy refund		-	113 237	-	104 322
<b>Total other income</b>		<b>945 758</b>	<b>1 111 330</b>	<b>943 408</b>	<b>1 088 284</b>
<b>Expenses (Refer to page 118)</b>		(5 167 057)	(5 581 938)	(5 127 760)	(5 472 683)
<b>Loss before Interest and Taxation</b>	31	227 230	92 955	217 212	102 013
Finance expense	34	(1 135 338)	(1 060 079)	(1 130 924)	(1 057 879)
<b>Loss before taxation</b>		(908 108)	(967 124)	(913 712)	(955 866)
Taxation	35	(96)	(19 728)	-	-
<b>Loss for the year</b>		<b>(908 204)</b>	<b>(986 852)</b>	<b>(913 712)</b>	<b>(955 866)</b>

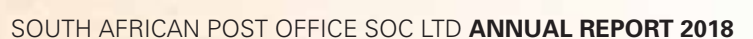




# Detailed Income Statement

		Group		Company	
		2018	(Restated) 2017	2018	(Restated) 2017
	Note(s)	R '000	R '000	R '000	R '000
<b>Expenses</b>					
Administration and management fees		1 759	1 724	-	-
Advertising		5 870	17 832	5 870	17 806
Assessment rates & municipal charges		208 753	210 604	207 397	208 473
Auditors remuneration	37	25 807	19 455	24 735	17 604
Bad debts		19 323	(9 477)	18 028	(6 145)
Bank charges		72 017	87 951	71 714	87 536
Cleaning		72	89	-	-
Commission paid		1 602	1 656	1 602	1 656
Consulting and professional fees		186 491	197 587	186 477	194 276
Consumables		44 416	45 921	44 355	45 802
Delivery expenses		65 076	68 569	61 845	65 728
Depreciation, amortisation and impairments		137 381	140 930	140 496	170 983
Ex gratia		365	179	365	171
Employee costs		3 315 244	3 687 427	3 296 634	3 628 112
Entertainment		2	15	1	14
Fines and penalties		(2 989)	(102 937)	(3 011)	(103 141)
General expenses		(9 513)	32 098	(10 623)	2 467
IT fees		143 913	131 684	143 900	131 672
Insurance		47 773	55 444	47 193	57 111
International terminal fees		54 947	100 648	54 947	100 648
Legal expenses		32 077	29 894	30 905	25 798
Lease expenses		376 013	425 518	372 327	416 049
Magazines, books and periodicals		-	157	-	157
Other staff related costs		26 147	22 737	26 127	22 732
Petrol and oil		57 607	56 353	57 607	54 748
Printing and stationery		14 768	17 065	14 732	16 798
Promotions		40	7	33	-
Repairs and maintenance		63 346	47 918	62 755	46 452
Research and development costs		-	(183)	-	(183)
Risk expenses		3 673	905	3 673	905
Royalties and license fees		14 446	15 862	14 445	15 862
Security		940	1 230	852	1 109
Staff welfare		33	65	-	28
Storage fees		2 058	2 173	2 058	2 173
Telephone and fax		119 402	124 889	120 381	120 379
Training		1 355	975	1 355	975
Transport and freight		112 546	129 330	104 372	109 223
Travel - local		20 300	13 403	20 222	12 523
Travel - overseas		3 997	6 241	3 991	6 182
<b>Total expenses</b>		<b>5 167 057</b>	<b>5 581 938</b>	<b>5 127 760</b>	<b>5 472 683</b>







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