ANNUAL REPORT *2010*

- Financial Services and Postbank
- Logistics
- Mail Business
- Digital Solutions

Post Office

Annual Report 2010

Our vision

To be recognised among the leading providers of postal and related services in the world.

Our mission

We will enable the nation to efficiently connect with the world by distributing information, goods, financial and government services; leveraging our broad reach and embracing change, technology and innovation.

About this report

This annual report presents South African Post Office's operating and financial performance for the year 1 April 2009 to 31 March 2010. It integrates sustainability outcomes of interest to South African Post Office stakeholders. This report is printed on Sappi Triple Green (recycled) paper.

Website: www.postoffice.co.za

Post democracy historical overview

1994/95

This was the year of the first democratic elections in South Africa, and the South African Post Office issued a set of stamps with peace as a theme. South Africa is readmitted to the Universal Postal Union due to the end of apartheid.

In March 1994, “Track and Trace” was introduced. Each mail article and parcel gets a unique bar-coded label which is scanned at each point where the article is handled. Customers can now trace where their mail items are in the postal chain.

The first Postpoint, a post office within a host business, opened in the Moreleta Park Pharmacy in Pretoria on 1 August 1994.

1995/96

The first retail postal agency (RPA) was opened in Bloemfontein in August 1995. Retail postal agencies are third party businesses that are appointed to offer a postal service when postal activities are too low to justify a fully fledged post office branch. The business owner is paid for each transaction he or she does on behalf of the South African Post Office.

By the end of 1995 the Witwatersrand mail sorting activities were moved into the Witspos mail centre in Ormonde, Johannesburg. The largest mail centre in the Southern hemisphere, it made possible the elimination of many processes, since mail processing is now done on one level.

1996/97

The post office administrations of the former ‘independent homelands’ (Transkei, Bophuthatswana, Venda and Ciskei) were incorporated into the South African Post Office.

2002/03

A world first for the South African 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 South African Post Office authentication service. The Act defines the South African Post Office as the “preferred authentication service provider” of identification procedures necessary for the issuing of advanced electronic signatures.

2003/04

The South African Post Office launches its “Paymaster to the Nation” project. In terms of this project, recipients of social grants can open a Postbank account. The bank card contains a chip with the beneficiary’s photo, digital signature and fingerprints encoded on it. His or her social grant is now paid into the Postbank account, eliminating the need to queue on payout days. This gives grant recipients the freedom to withdraw their grants when it suits them – at any post office branch, without any transaction charges, or at the ATM of any Saswitch-linked bank. Every social pensioner can now enjoy the status and confidence that a bank account brings.

2004/05

The South African Post Office posts the first operating profit in its history. This was achieved without any negative effect on its universal service obligations. During this year, the South African Post Office also won an international award for its “Paymaster to the Nation” project. It also won the World Mail Award in the security category for its campaign to promote ethical conduct among its employees.

2005/06

Postbank, the South African Post Office’s banking division, takes the lead with Mzansi accounts. Postbank currently has more Mzansi account holders than any other bank, including the Big Four. This is attributed to Postbank’s unrivalled coverage – every post office branch is a Postbank, and there are more than 1,400 post office branches all over South Africa. Mzansi accounts are designed specially for the unbanked.

2006/07

Postbank improves its lead with Mzansi accounts to 40% of the total market. The South African Post Office issues a miniature sheet of stamps to commemorate the handover of the Soccer World Cup from Germany to South Africa, where the next Soccer World Cup will be hosted in 2010. The design features a wild dog, Africa’s most endangered predator, and was designed by a final-year graphic art student. The annual Congress of Commonwealth Postal Administrators is held in South Africa for the first time in history.

2007/08

Phutuma Nathi, MultiChoice’s share offer, is done using the South African Post Office as an outlet for application. This share offer was so popular that it was three times oversubscribed and more than 125,000 citizens participated in the scheme. By offering outlets in practically every village, town and city, the South African Post Office allowed rural South Africans to participate in this scheme on an equal footing with urbanites. CTF (Certifying Top Performers) in conjunction with Accenture names the South African Post Office as one of the top 25 best employers in South Africa.

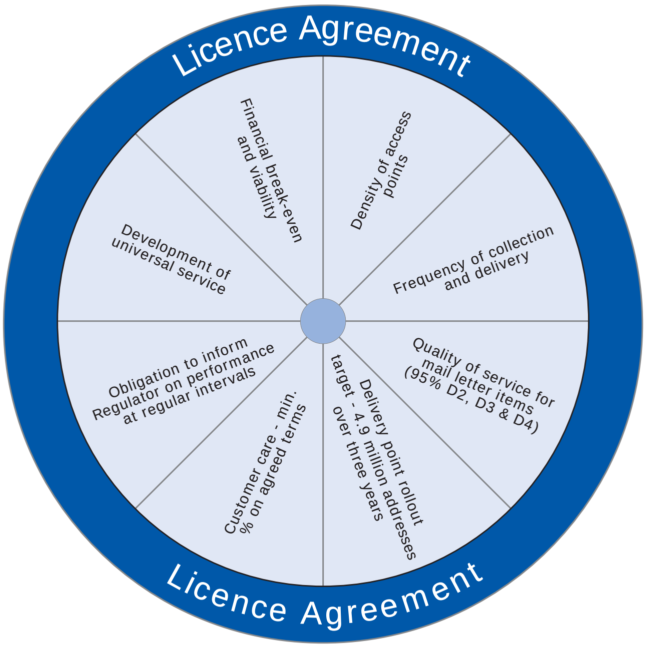
2008/09

The South African Post Office joins the rest of the world in July 2008 in celebrating the 90th birthday of former President Nelson Mandela by issuing two miniature sheets of stamps. The photo on the postage stamp for domestic postage was taken by Halden Krog while the stamp for international small letters used a painting by Cyril Coetzee. With denominations for both domestic and small international letters available, it was possible to send South African birthday wishes for Madiba throughout the world. These items immediately turned into collectors’ items. Sasol and Vodacom chose the South African Post Office as a vehicle for their Broad-based Black Economic Empowerment (BBBEE) transactions.

2009/10

Building on its strategic theme of becoming government’s preferred partner for the delivery of services, the South African Post Office introduced its facility for the renewal of motor vehicle licences to the Gauteng province. This service was so successful that it was expanded to more post offices within seven months of the launch. 2009 also saw the South African Post Office deploy a strategy to reduce the impact of its business activities on the environment. The company planted a total of 857 trees at schools in the year ended 31 March 2010 to offset carbon emissions and introduced various energy saving measures. Postbank became a partner in the Climate Change Leadership Awards. The awards recognise individuals, communities and businesses that are taking a leading role in the fight against climate pollution.

South African Post Office mandate and licence



The Licence Agreement sets rules for a user-orientated, high quality, country-wide Universal Postal Service at affordable cost. To this end, it establishes rules for access to Universal Postal Services and on quality of service.

Services at postal outlets

In terms of its licence, the South African Post Office has to provide a number of services at all postal outlets, including those of its agents. All facilities should be able to receive and dispatch basic letters; sell postage stamps; accept and deliver cash-on-delivery (COD) items, insured parcels, ordinary parcels, registered letters and sign-on delivery items; and issue and payment of money orders.

Code of practice

The South African Post Office prepared a code of practice, in consultation with the Regulator. It has published the code in all its post office branches.

Compliance with international commitments of the Republic

The South African Post Office must comply with all international commitments to which the Government of South Africa has bound itself or may bind itself in the future, regarding postal services. It must also exercise its rights and powers and perform its duties and obligations under the licence, in a manner that is consistent with any other international commitment to which South Africa is a party or becomes party to.

The South African Post Office co-operates with the Government to exchange necessary expertise and commercial and technical information required in respect of any councils of the Universal Postal Union or the Pan African Postal Union or the South African Development Community, on which it or South Africa is represented or to which it wishes to make representations.

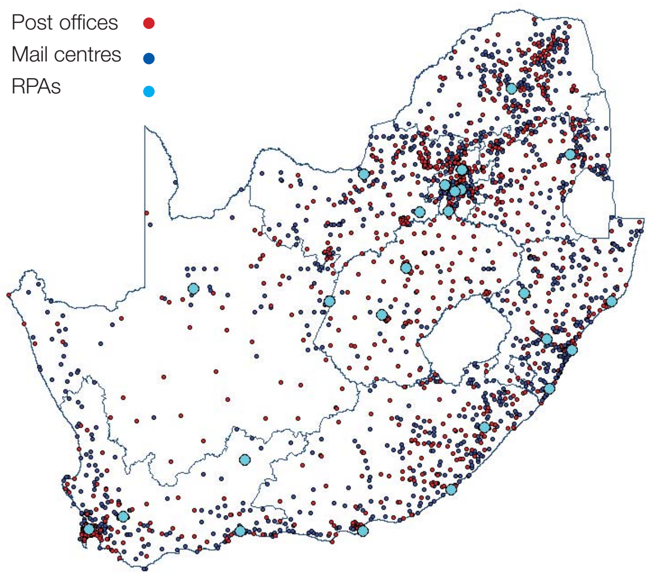
The South African Post Office is required to provide mail services to and from other postal administrations in accordance with the rules and regulations agreed upon by the Universal Postal Union regarding the operation of international postal services.

Delivering commitment

Licence performance targets are agreed with the Department of Communications (DoC) as the Shareholder and the Independent Communications Authority of South Africa (ICASA). Compliance to these targets is the highest priority of the South African Post Office and is part of the key performance indicators of the organisation.

Operational reach

The South African Post Office delivers to an area of more than 1.2 million square kilometres, with more than 2,400 outlets and 5,500 service points. It is the largest business undertaking in the country.



Strategic intent

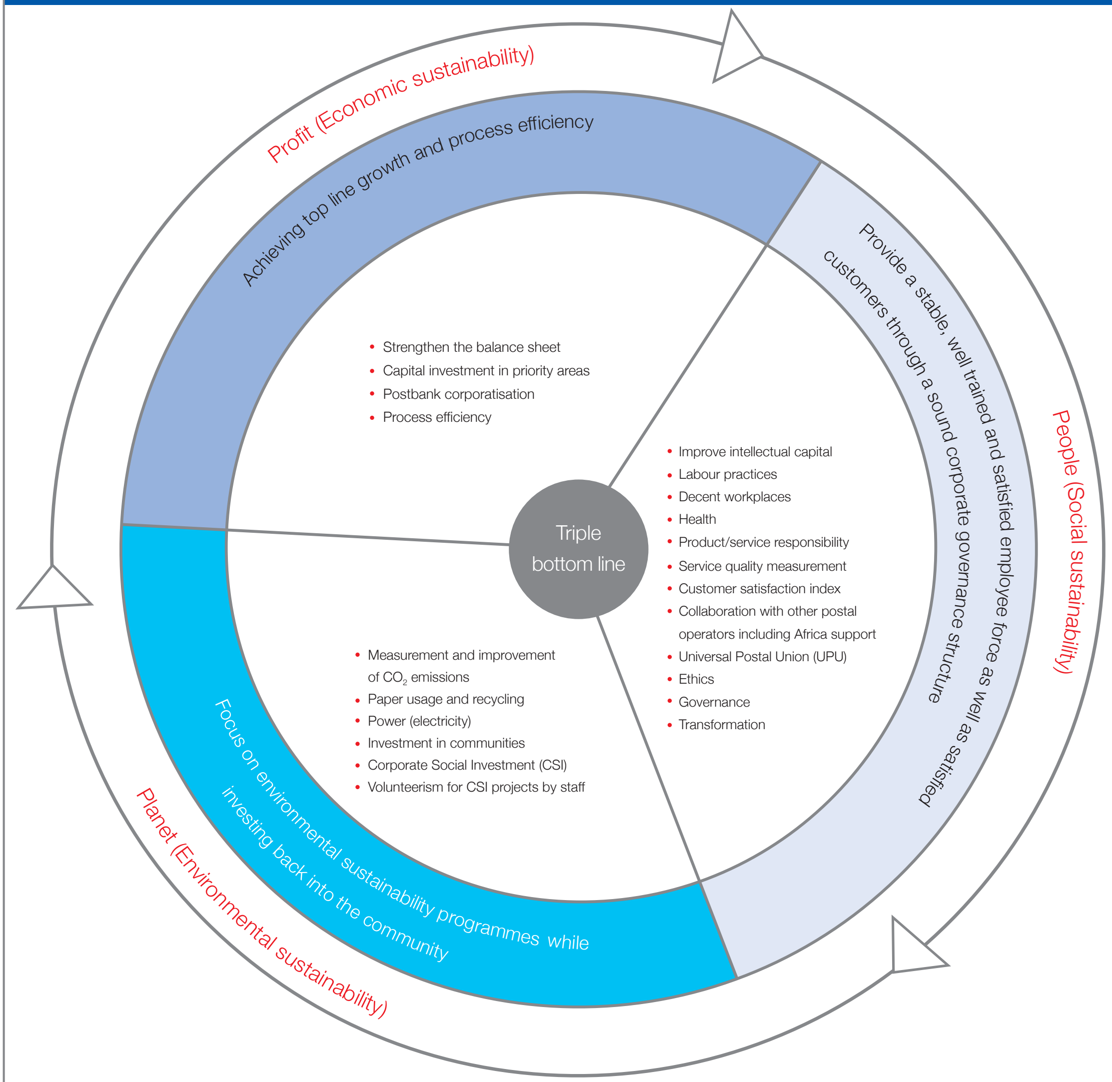
South African Post Office mandate

Shareholder expectation

The South African Post Office is committed to enabling the nation to effectively connect with the world by distributing information, goods, financial and government services and leveraging its broad reach and operations in a cost effective manner, within acceptable benchmark standards. The commitment is consistent with the South African Post Office's Shareholder expectation as set out between the South African Post Office and the Government of the Republic of South Africa.

The South African Post Office continues to give meaning to its strategic intent through the implementation of the initiatives as per the approved strategic business plan.

Strategy



Delivery on our commitments

Our offering

South African Post Office Group

South African Post Office
We deliver, whatever it takes.

Consumer Services

Mail
The focus areas in Mail Business will be new addresses and better postal code systems, increased automation and more effective mailroom operations.

Logistics
Logistics is consolidating its services to provide one seamless service with increased international presence. The transport services will be integrated to form a separate support unit.

Brands

XPS WE DELIVER

PX

DOCEX the document exchange

cfg The Courier & Freight Group

SPEED SERVICES COURIERS

Financial Services
Postbank is expected to become a separate company within the South African Post Office group in the next three years. All the financial functions and payment products will be aligned under this division to provide more financial services to all South Africans.

Brands

Postbank
A member of the Post Office group

ICT
Computer based communication is growing and for the South African Post Office to grow, investment in a new division focused on providing communication products is vital.

ePostal products form part of this offering.

Properties
The South African Post Office has already made many investments into properties around the country. To maximise the usage of properties, manage the maintenance thereof and to guide new property investment, it makes commercial sense to put this under one division.

Transport Services

Corporate Services

Business Support

Brand repositioning

The South African Post Office continues to look at ways of enhancing its brand in the competitive arena in which it operates. This is in line with the brand health study that was completed in the 2008/2009 financial year.

A more streamlined strategy will be put in place in the foreseeable future to reposition the brand to refocus on its full range of product and service offerings together with the promised delivery of improved service and customer efficiencies.

The organisation has adopted a five phased approach to implement the new brand structure.

- Phase 1: Brand health research was successfully completed, paving the way for strategic conceptualisation of the future of the brand.
- Phase 2: Following the brand health study, the South African Post Office completed the brand architecture designs.
- Phase 3: The development and design of a new branch look and feel has been finalised.
- Phase 4: An internal brand engagement with the staff to encourage “buy in” and “taking ownership” of the brand will be launched.
- Phase 5: Will see the launch of the marketing and communication strategy to bring the brand to life.

The South African Post Office will use its greatest strength – its reach – to develop and maintain a strong brand both internally and externally. In the long term, staff, customers, businesses and government will understand what the organisation has on offer.

Group financial overview

Performance highlights

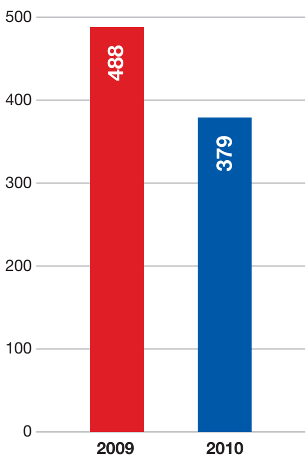
Total assets	up	8.3%	to R9,4 billion
NAV	up	14.9%	to R2,26 billion
Postbank deposits	up	10.8%	to R3,65 billion
Cash and investments	up	10.0%	to R6,66 billion
Return on assets	down	1.6%	to 4.02%
Cash flow from operating activities	down	93.7%	to R41,0 million

Financial performance for 2009/10

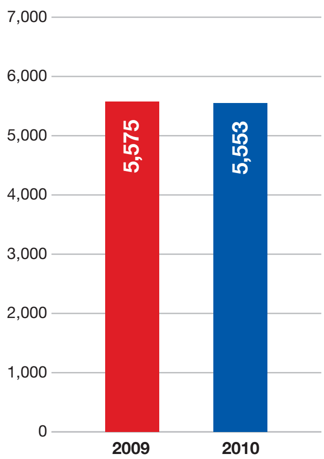
			Change R'000	**2009/10 R'000**	2008/09 R'000
Revenue*	down	(0.4%)	(22,073)	**5,552,757**	5,574,830
Expenses	down	(2.1%)	(113,095)	**5,347,569**	5,460,664
Net finance revenue	down	(22.4%)	(117,893)	**407,417**	525,310
Profit before tax	down	(22.4%)	(109,543)	**378,698**	488,241
Taxation	down	(34.5%)	(43,231)	**(82,107)**	(125,338)
Net profit	down	(18.3%)	(66,312)	**296,591**	362,903
Total assets	up	8.3%	725,056	**9,416,285**	8,691,229
NAV	up	14.9%	293,130	**2,255,954**	1,962,824
Cash and investments	up	10.0%	605,836	**6,661,219**	6,055,383
Depositors book	up	10.8%	356,120	**3,651,987**	3,295,867
Employment benefits obligations	up	10.3%	115,407	**1,236,850**	1,121,443
Cash flow from operating activities	down	(93.7%)	(608,723)	**41,094**	649,817
Profit margin (PBT)**	down	(23.2%)	(2.2%)	**7.2%**	9.3%
Net profit margin**	down	(19.1%)	(1.3%)	**5.6%**	6.9%
ROA (PBT)	down	(28.4%)	(1.6%)	**4.0%**	5.6%
ROA (NP)	down	(24.6%)	(1.0%)	**3.1%**	4.2%

*Revenue excludes finance income R219,503 (2009: R324,084) and other operating income R180,982 (2009: R139,336)
**These calculations are based on revenue excluding Postbank interest income R274,985 (2009: R350,099)

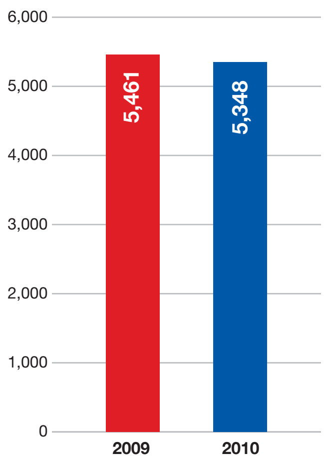
Profit before tax
R million



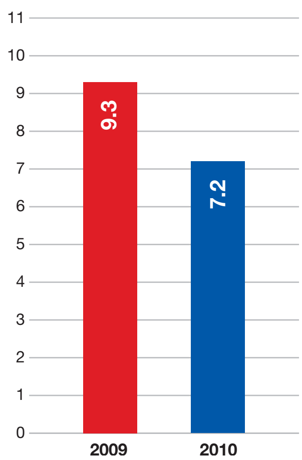
Revenue*
R million



Expenses
R million



Profit margin
%



Value added statement

Continued operations	2010 R'000	2009 R'000
Revenue	**5,552,757**	5,574,830
Cost of materials	**(2,158,100)**	(2,251,273)
Net operating expenses	**(5,316,807)**	(5,195,672)
Excluding: Post-retirement benefit obligation costs	**196,831**	44,951
Personnel costs	**2,961,876**	2,899,448
Value added by operations	**3,394,657**	3,323,557
Other income	**400,485**	453,420
Finance income	**219 503**	324,084
Net profit/(loss) on disposal of property, plant and equipment	**–**	16
Dividend income	**3,000**	4,943
Insurance premium revenue	**41,702**	42,143
Rental income	**16,166**	14,096
Other sundry income	**120 114**	68,138
Value added/created	**3,795,142**	3,776,977
Applied as follows:		
Employees	**3,158,707**	2,944,399
Personnel costs	**2,961,876**	2,899,448
Post-retirement benefit obligation costs	**196,831**	44,951
Providers of capital	**87,071**	148,872
Finance costs	**87,071**	148,872
Government	**149,010**	106,055
South African taxation	**149,010**	106,055
Re-invested to maintain and expand operations	**400,354**	577,651
Depreciation, amortisation and impairment	**170,666**	195,466
Deferred taxation	**(66,903)**	19,282
Profit	**296,591**	362,903
Value apportioned	**3,795,142**	3,776,977

Industry recognition

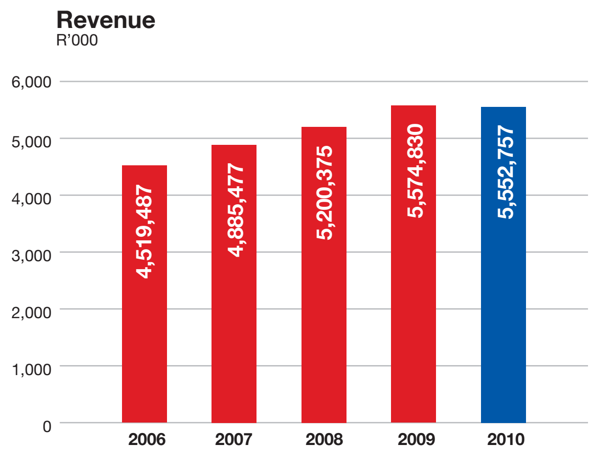
Awards for the South African Post Office: 2009/10 financial year

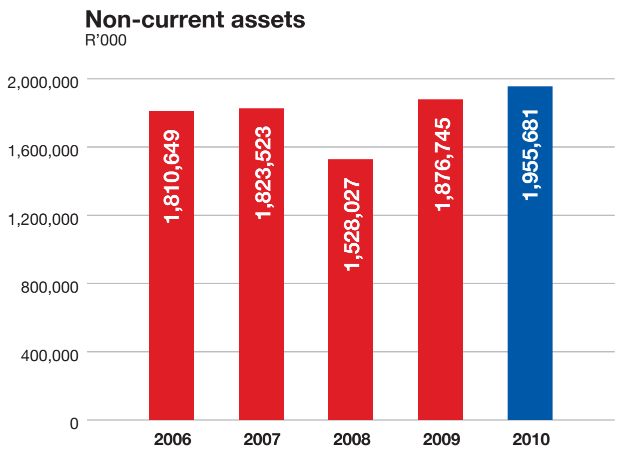
- **The South African Post Office was named "The Most Progressive Company" at the Black Management Forum's achievement awards in October 2009.**
- **The South African Post Office's annual report was the 2009 winner in the category 'State owned and non-listed entities' in the JSE Awards for Company Reporting. The award was handed over in November 2009.**
- **In August 2009, the South African Post Office received the Oracle Award for Financial Systems.**
- **In November 2009, the South African Post Office was the only African company to be recognised in the 'Future Strategies 2009 Global Awards for Excellence in Business Process Management and Workflow', walking away with a Silver medal.**

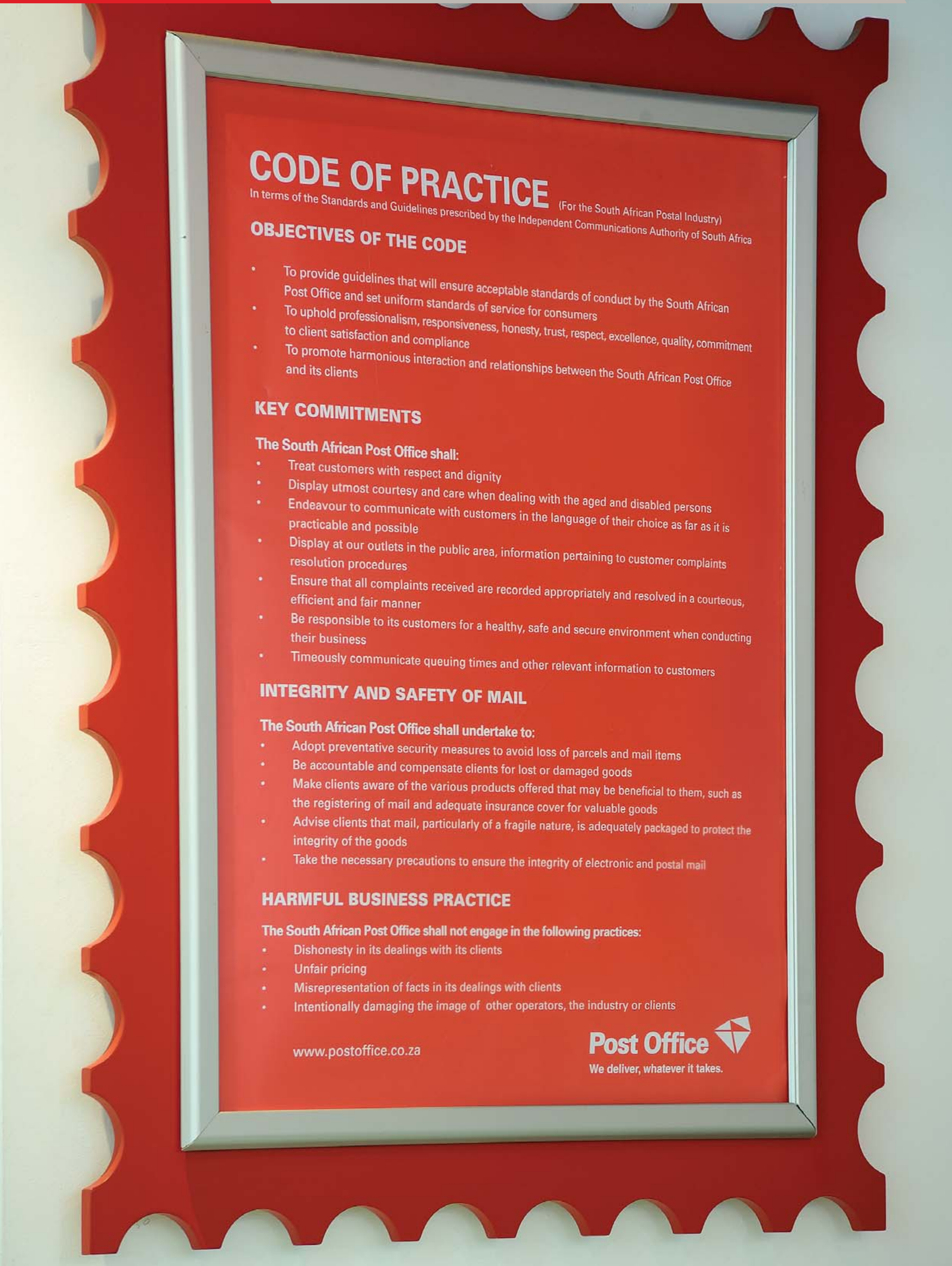
Five year review for the period ended 31 March 2010

South African Post Office’s turn-around has created a sound platform for future successes

	2010	2009	2008	2007	2006
Income statement (R’000)					
Revenue	**5,552,757**	5,574,830	5,200,375	4,885,477	4,519,487
Profit before tax	**378,698**	488,241	565,028	506,566	714,860
Finance income	**219,503**	324,084	263,920	169,999	102,355
Finance costs	**(87,071)**	(148,872)	(102,514)	(94,188)	(75,494)
Performance statement (R’000)					
Funds supplied by:					
Capital and reserves	**2,255,954**	1,962,824	1,596,747	1,233,119	873,943
Non-current liabilities	**1,167,986**	1,129,958	724,923	853,084	865,236
Current liabilities	**5,992,345**	5,598,447	5,369,111	4,910,016	4,052,735
Funds required by:					
Non-current assets	**1,955,681**	1,876,745	1,528,027	1,823,523	1,810,649
Current assets	**7,460,604**	6,814,484	6,162,754	5,172,696	3,981,265
Cash flow (R’000)					
Net cash flow from operating activities	**41,094**	649,817	305,217	792,178	248,830
Net increase in operating funds	**356,120**	404,167	288,309	306,609	272,326
Net cash outflow from investing activities	**(854,859)**	(1,302,054)	(854,749)	(189,930)	(126,493)
Net cash inflow from financing activities	**383,085**	369,978	361,046	351,799	292,275
Solvency and liquidity					
Debt-equity ratio	**3.17:1**	3.43:1	3.82:1	4.67:1	5.63:1
Current ratio	**1.25:1**	1.22:1	1.15:1	1.05:1	0.98:1
Acid test ratio	**1.24:1**	1.21:1	1.14:1	1.04:1	0.96:1






CODE OF PRACTICE
(For the South African Postal Industry)
In terms of the Standards and Guidelines prescribed by the Independent Communications Authority of South Africa
OBJECTIVES OF THE CODE
To provide guidelines that will ensure acceptable standards of conduct by the South African Post Office and set uniform standards of service for consumers
To uphold professionalism, responsiveness, honesty, trust, respect, excellence, quality, commitment to client satisfaction and compliance
To promote harmonious interaction and relationships between the South African Post Office and its clients
KEY COMMITMENTS
The South African Post Office shall:
Treat customers with respect and dignity
Display utmost courtesy and care when dealing with the aged and disabled persons
Endeavour to communicate with customers in the language of their choice as far as it is practicable and possible
Display at our outlets in the public area, information pertaining to customer complaints resolution procedures
Ensure that all complaints received are recorded appropriately and resolved in a courteous, efficient and fair manner
Be responsible to its customers for a healthy, safe and secure environment when conducting their business
Timeously communicate queuing times and other relevant information to customers
INTEGRITY AND SAFETY OF MAIL
The South African Post Office shall undertake to:
Adopt preventative security measures to avoid loss of parcels and mail items
Be accountable and compensate clients for lost or damaged goods
Make clients aware of the various products offered that may be beneficial to them, such as the registering of mail and adequate insurance cover for valuable goods
Advise clients that mail, particularly of a fragile nature, is adequately packaged to protect the integrity of the goods
Take the necessary precautions to ensure the integrity of electronic and postal mail
HARMFUL BUSINESS PRACTICE
The South African Post Office shall not engage in the following practices:
Dishonesty in its dealings with its clients
Unfair pricing
Misrepresentation of facts in its dealings with clients
Intentionally damaging the image of other operators, the industry or clients
www.postoffice.co.za
Post Office
We deliver, whatever it takes.

Group key performance indicators (KPIs)

The South African Post Office continues to give meaning to its strategic intent through the implementation of the initiatives as per the approved strategic business plan

Economic sustainability KPIs

KPI → **2009/10 Target** → **2009/10 Actual received** → **Objectives**

Measurement of economic sustainability

Indicator	2009/10 Target	2009/10 Achievement
Improve income statement and strengthen balance sheet	Increase operating profit for: • South Africa Post Office Group – R454.5 million • South African Post Office – R296.7 million • Logistics – R145.7 million • Docex – R12.1 million Grow Postbank depositors book by R400 million	• South African Post Office Group – R386.2 million • South African Post Office – R370.7 million • Logistics – R8 million • Docex – R6.3 million Postbank depositors book increased by R356 million
Increase cost efficiency management	Staff cost at 47% of revenue Operational cost at 93% of revenue	47% 93%
Improve financial ratios	Traditional revenue to contribute 64% ROA: 3.9% Liquidity ratio: 1.05	68% 3.1% 1.09
Improve capital investment for future growth	Planned investment of R500 million	Spent R551 million
Increase equity	Grow NAV by R245.7 million	NAV grew by R293 million
Improve processes	Business restructuring: Postbank Corporatisation & Transport integration	Process is underway and good progress was made
Decrease crime and fraud and increase reporting	20% reduction in incidents	There was a 25% reduction in incidents compared to last year
Reposition South African Post Office brand	Finalise brand development	Brand architecture and designs for South African Post Office were developed and approved whilst the subsidiaries' designs are near completion

Non-financial performance

KPI → **2009/10 Target** → **2009/10 Actual received** → **Objectives**

Measurement of social sustainability

Indicator	2009/10 Target	2009/10 Achievement
Increase employee relations	Train employees up to 2% of payroll budget Employment Equity targets • Gender equality: 42% • Black females: 29% • Race equality: 79% • Disability equality: 4% • Performance management 100% • Wellness programme 40%	Target was achieved. Additional training was possible due to SETA funding 43% achieved 32% achieved 82% achieved 4% achieved 98% of total cost-to-company employees have signed performance contracts 81% of employees know their HIV status 62% of employees had their baseline assessment done

Measurement of environmental sustainability

Indicator	2009/10 Target	2009/10 Achievement
Measure against sustainability framework	Determine CO_2 measurement criteria and improvement targets	Achieved average 3.4kt per month against target of 3.68kt per month
	Develop a carbon offset programme: planting of 857 trees	1,000 trees planted as at 31 March 2010 offsetting 2,600 tons of carbon emissions
	Determine targets for electricity consumption and identify initiatives to reduce electricity consumption	4 pilot studies are being conducted to set a baseline
	Determine targets for water consumption and identify initiatives to reduce water consumption	Baseline water consumption targets are being analysed for adoption
	Identify an effective water recycling programme	Research commenced to determine a programme to be followed
	Determine targets for fossil fuel usage and identify initiatives to reduce fuel consumption	Baselines have been set: Petrol – 3,597,424 Lts Diesel – 6,214,688 Lts
	Introduce an effective programme for paper recycling	National service agreement was signed with Nampak and 22% (137 tons) of paper used was recycled. The total paper used in the Group was reduced by 40%
	Participate in the debate around sustainable development	The voluntary energy efficient revised accord will be signed by the South African Post Office The South African Post Office was profiled in the Carbon Disclosure Project 2009 as a case study and was acknowledged for being one of three state enterprises to participate
Contribute positively to social investment	Implement CSI initiatives as per focus areas	The South African Post Office engaged in the following formal CSI programmes: • Humana People to People – Tubatse sustainable development • The e-rural Access programme Partnership for Information Technology training and support of local government
	Increase employee volunteerism	The volunteerism initiatives commenced in 2009. More than 1,000 staff members are already involved in various projects across the country

Board of Directors

Ms Vuyokazi Felicity Mahlati (45)

Chairperson (Non-executive)
BSc, MSc (Social Policy & Planning)
Appointed: 1 March 2006
Chairperson of the Remuneration Committee
✓%

Executive directors

Ms Motshoanetsi Mmakotlolo Lefoka (46)

Group Chief Executive Officer
Diploma in Statistics, BA Statistics, MSc Industrial Engineering, Certificate in Public Finance Management, Senior Executive Programme
Appointed: 1 August 2004

Mr Nicholas John Douglas Buick (51)

Chief Financial Officer
BCom, CTA, CA(SA)
Appointed: 15 November 2001

Mr John Peter Wentzel (43)

Chief Operating Officer
BSc, BSc(Hons), MSc, MBA
Appointed: 15 January 2009

Ms Totsie B J Memela-Khambule (51)

Managing Director: Postbank
BA (Social Science), MA (Public Admin), Diploma in Banking, EDP, SEP
Appointed: 16 January 2006

✓ Members of the Chairperson's Committee
\# Members of the Audit Committee
✻ Members of the Human Resources and Transformation Committee
$ Members of the Postbank Committee
% Members of the Remuneration and Performance Committee
& Members of the Risk Management Committee
@ Members of the CFG Board
\+ Members of the Docex Board
▲ A subsidiary of the South African Post Office Group

Non-executive directors

Mr Stephen Eric Otto Dietrich (60)
Non-executive
CA(SA), Senior Executive Programme (LBS)
Appointed: 1 August 2007
Chairperson of the Audit Committee
✓#&

Ms Pamela Edith Pokane (55)
BA Social Sc, Management Development Programme
Appointed: 1 March 2006
✓$@

Mr Moghammad Shu'ayb Patel (46)
National Diploma Telecommunications,
National Higher Diploma Electrical Engineering
Appointed: 1 August 2007
Chairperson of the Courier and Freight Group Board
✓#✻@ ▲

Adv Vasta Mhlongo (45)
LLB, Certificate in Risk Analysis & Investment Appraisal,
Diploma in Legislative Drafting
Appointed: 1 March 2006
Chairperson of the Risk Management Committee
✓#&

Dr Mohau Pheko (50)
BA & Bachelor of Nursing Science
Masters in Public Health & International Health
Doctorate in International Affairs
Appointed: 1 October 2009

Mr Sekhopi Molisaotsile Andrew Malebo (50)
Post Graduate Diploma in Programme Management,
Advanced Diploma in Project Management
Appointed: 1 March 2006
Chairperson of the Docex Board
✓&+▲

Ms Mpho Letlape (50)
BSc Computer Science & Psychology
Appointed: 1 October 2009

Adv Limakatso Portia Nobanda (43)
BA, LLB
Appointed: 1 October 2009

Mr Nkosinathi Bebeza (50)
BTech, Business Administration
Appointed: 1 October 2009

Ms Bessie Bulunga (37)
Company Secretary
B Proc, LLB, Certificate in Management Development
Appointed: 16 November 2009

Chairperson's report

Vuyo Mahlati
Chairperson

Quick facts

- Postal tariff increase was kept below the inflation rate
- The strengthened balance sheet allowed the South African Post Office Group to invest in profitable business, expand its infrastructure and fulfil its mandate as the delivery arm of government
- The South African Post Office delivered roughly half a billion mail items, 96% of them on time
- Postbank's corporatisation during 2010 coincides with its centenary
- The South African Post Office Group has had clean audits for seven years in a row
- To deepen compliance with the King III Code of Good Governance, Board members were trained on King III implications and the new Companies Act

I am pleased to announce that, in the tough economic times of this year, we remained focused on ensuring that the organisation balances the need for expanding postal and banking services to the nation with growth and cost containment measures that do not adversely affect our commitment to customer service excellence.

Reducing costs in line with declining revenue and diversification has assisted us in achieving the sixth year of profitability in a tough economic environment. We kept the postal tariff increase to lower than inflation and continued to plough our resources into IT and physical infrastructure as expected in our extended mandate of providing information and communication technology infrastructure and in support of the Department of Communication's vision of making South Africa a leader in the development and use of ICTs for socio-economic development.

The strengthened balance sheet, underpinned by zero debt and growth in total assets, is an engine of growth and sustainable profits that provides capacity for the business to reduce the impact of the planned subsidy elimination. It also allows us to invest in profitable business, to continue with the infrastructure expansion programme and to fulfil our social mandate as a delivery arm of government.

Highlights of our contribution to the economy of South Africa this year include the payment of over half a million grants; serving just under 74 million customers; handling R18 billion in cash and cheques; partnering with government, the private sector and NGOs to positively impact approximately 60,000 people; handling approximately half a billion mail items and delivering 96% of these early or on time, with the rest delivered over a longer period; providing 1.6 million new households with postal addresses; growing the Postbank deposit book by 10.8% to R3.6 billion; renewing just over a million motor vehicle licences; opening sixty four (64) new post office branches and winning four awards including recognition for good governance reporting, transformation and operational efficiency.

This year saw the tabling in Parliament of two bills governing the operation of the South African Post Office, namely the South African Postbank bill and the South African Post Office bill. The South African Postbank bill is aimed at creating a stand alone entity under the South African Post Office, which will be the bank of first choice for underserviced communities. The South African Post Office bill is aimed at enhancing corporate governance provisions provided by the Postal Services Act of 1998 which governs the South African Post Office.

Highlights of our contribution to the South African economy include the payment of more than half a million grants, serving just under 74 million customers and growing the Postbank deposit book by 10.8%

The finalisation of the corporatisation of Postbank in 2010 will coincide with its centenary. Our efforts are still aimed at ensuring that a new trajectory is unveiled leading to the provision of more affordable, simple and relevant financial products and services to more people.

The Board of Directors is pleased with the seventh year of clean audits the Company has achieved and the JSE award for governance reporting it has won in the category of state owned enterprises this year. The reduction in crime and fraud incidents by 25% this year is testimony to the investment we are making in this area.

Last year we undertook to deepen our compliance with the King III code of good corporate governance and the new Companies Act. To this end, the Board members were orientated on the King III implications and a training session was held on the new Companies Act and on its impact on compliance.

We have improved our reporting to the Shareholder and increased the number of bilateral meetings for policy reviews. The latter also fulfils last year's undertaking to align our strategies and efforts with government priorities whist remaining focused on building a competitive and sustainable company. The Shareholder Compact has been revised to align delivery targets with the mandate. The level of materiality which sets the amounts the Board approves for expenditure has been revised upwards to speed up service delivery and to improve customer focus. Various business process improvements have reduced risk exposure including litigation risk.

Three of the Board members retired this year. On behalf of the Board and of the whole South African Post Office family, I sincerely thank Messrs Andrew Hendricks and Solly Mokoetle and Ms Ntombi Msimang for their valuable contribution during their tenure as Board members. We welcome Mr Nkosinathi Bebeza and Ms Mpho Letlape, Advocate Makie Nobanda and Dr Mohau Pheko as new Board members.

Our priorities for this financial year have not changed from those of last year. They are:

Business and Systems Consolidation: Continuing with our investment in an IT platform that is a foundation to the growth of our various business operations and integrating logistics divisions under one umbrella for reduced costs and maximum efficiency. The IT platform has also enabled the implementation of the post-related electronic services initiatives.

Corporatisation: Corporatisation of Postbank to provide a wider range of accessible, relevant and affordable financial services products to unbanked and underserviced citizens.

Corporate Citizenship: Universal postal access, customer service, strategic focus of social investments, good governance, ensuring ethical conduct by all members of staff, ensuring that we operate in a secure business environment free from fraud and corruption.

In the next couple of years we will concentrate on innovation, strengthening and leveraging our multi-channel capability, with new business development to close the gap in our financial position. This is anticipated to be a result of the creation of the South African Post Bank as a stand alone legal entity. The reduction and ultimate removal of the subsidy by Treasury is expected to also add a burden to the mandate of extending postal and financial services to underserviced communities.

The Board is taking its cue from the Department of Communications' objective of enhancing the capacity of, and exercising oversight over the South African Post Office as a delivery arm of government and ensuring that the Minister meets the commitments he has made in his performance contract with the President. To this end, business performance will be monitored tightly with higher frequency.

We cannot meet our objectives without our suppliers, customers and society at large. For their unwavering support and for their constructive engagement, we are grateful. We thank the Group CEO, Exco and all employees for their focus and dedication during these tough economic times.

We look forward to welcoming into South Africa philatelists and stamp enthusiasts from around the world to the 2010 International Stamp Exhibition. We also pledge our support to contributing to a successful 2010 FIFA World Cup South Africa experience. Ke Nako.

Ms Vuyo Felicity Mahlati
Chairperson

Executive Committee

Ms Motshoanetsi Lefoka
Chief Executive Officer

Mr Nick Buick
Chief Financial Officer

Mr Janras Kotsi
Group Executive: Mail Business

Ms Marietjie Lancaster
Group Executive: Strategy

Mr Molefe Mathibe
Managing Director: Courier and Freight Group

Mr John Wentzel
Chief Operating Officer

Executing and managing the operatisation of the strategic objectives, licence targets and social mandate in a transparent and ethical way

Mr Lungile Lose
Group Executive: Corporate Affairs

Ms Totsie Memela-Khambule
Managing Director: Postbank

Mr Ndala Minsi
Group Executive: Consumer Services

Ms Bessie Bulunga
Company Secretary

Mr Maphutha Diaz
Group Executive: Human Resources

Mr Mpho Mphelo
Acting Company Secretary

Ms Louise van der Bank
Chief Information Officer

Mr Malesela Sekhasimbe
Group Executive: Supply Chain Management

Ms Motshoanetsi Lefoka
Group Chief Executive Officer

Group Chief Executive Officer's report

The South African Post Office's diversification and cost containment initiatives have helped the Company achieve a profit in spite of harsh economic conditions and another reduction in mail volumes. The Group net profit for the 2009/10 financial year amounts to R296.5 million against a target of R367 million. This is an 18.3% drop on the net profit declared for the previous year.

The slow economic activity has led to our business experiencing a decrease in mail volumes for the second year in a row and an overall decline on last year's revenue of 0.4% to R5.553 million.

A highlight of the Company's economic contribution is that, in the year under review, we handled almost 18 billion rand in cash and cheques.

This is the third year of the implementation of a new business model aimed at extracting maximum value from our assets and at positioning us to take maximum advantage of business opportunities. In the three years to 2010 we saw a more focused approach to business sustainability, innovative utilisation of our infrastructure, diversification of business, a triple bottom line business approach and more focus on customer service. During this three-year period revenue remained stable; total assets grew from eight to nine billion rand; Postbank deposits grew from two to three billion rand; cash and investments grew from five to six billion rand; we provided addresses to five million first time household address owners in the three years to 2010; and our efforts to transform the organisation were recognised with twenty (20) awards covering good governance, operational efficiency, innovative use of Information Technology (IT) and for sustainable business growth.

We are now in the sixth consecutive year of showing profits, with no debt or loans except for a government capital expenditure subsidy which goes directly to IT and infrastructure developments as part of our mandate to roll out infrastructure into rural and peri-urban areas.

Our investment in people, technology and processes is paying off as evidenced by the 25% decrease in crime incidents. The reduction is due to staff engagement, upgrading security and surveillance of fleet and mail handling operations.

We made progress with our investment in reducing the impact of our business activities on the environment. We achieved a 15% reduction in the quantities of paper we use, recycled 137 tons of paper and reduced carbon dioxide emissions of our fleets by 2.23%.

The Quarterly Labour Force Survey estimates that 171,000 jobs were lost in the first quarter of 2010. Despite these economic conditions, the South African Post Office has been able to weather this storm without retrenchments.

Quick facts

- The South African Post Office is in the sixth consecutive year of profits, with no debt or loans
- The South African Post Office Group's diversification and cost containment measures enabled it to achieve a net profit of R296.5 million despite harsh economic conditions
- The South African Post Office Group has weathered the financial storm without any retrenchments
- Crime incidents decreased by 25% compared to a 23% increase the previous year
- Paper use decreased by 40%, 137 tons of paper were recycled and CO_2 emissions were decreased by 2.23% against a target of 2.5%

For each of the past four years, the South African Post Office has launched a stamp to celebrate the 2010 FIFA World Cup, including a joint issue with other member countries of the Southern African Postal Operators Association

The South African Post Office is proud of the contribution to the spirit of the 2010 FIFA Soccer World Cup. For each of the past four years, the South African Post Office has launched a stamp to celebrate the 2010 FIFA Soccer World Cup, including a joint issue with other member countries of the Southern African Postal Operators Association (SAPOA). We are proud that South Africa hosted the first ever FIFA Soccer World Cup tournament on African soil.

The South African Post Office continues to avail its infrastructure and systems to assist the government and private sector in service delivery and in support of broad based economic participation. In the year under review, the South African Post Office facilitated the public participation in the South African Breweries' (SAB) Zenzele share offer through post office branches nationwide.

The South African Post Office also offers payment channels for social grants, collecting revenue on behalf of 100 municipalities and enabling them to continue with service delivery. Provincial transport departments in Gauteng, KwaZulu-Natal, Limpopo, the Free State and the Eastern Cape also use post office branches as renewal points for motor vehicle licences. In the year under review, just under 1.4 million people renewed their motor vehicle licences at post offices in the five provinces mentioned above.

This year the South African Post Office partnered with the government and NGOs in digital inclusion, HIV/Aids management, poverty alleviation, sustainable rural development and environmental protection to positively change the lives of approximately 60,000 people and to provide economic opportunity to approximately two million rural and peri-urban people by providing them with postal addresses. I remain indebted to more than a thousand employee volunteers who used their time, effort and money towards improving the lives of people in communities within which we serve.

This year marks a hundred years since Postbank was established; a hundred years of providing simple, relevant and affordable saving products to the citizens of South Africa. The corporatisation of Postbank this year is therefore a major step into a new era for Postbank, providing a wider range of simple, relevant and affordable products to those underserved by financial institutions.

Challenges

Our key challenges continue to be maintaining relevance in a market that is moving to electronic communication, reducing the impact of our activities on the environment, balancing the requirements of our developmental mandate with business sustainability, acquisition of scarce skills and improving customer service.

The planned removal of the government subsidy will put some strain into the extension of our services to underserved areas; however, I'm certain we will be equal to the task of continuing with the provision of service to the citizens of this country.

Excellent customer service remains a challenge at our point-of-sale areas. We, however, continue to assess and to put measures in place to tackle this challenge, including amongst others recognising and rewarding employees who go to great lengths to offer good service to our customers.

Another area of concern for us is that of enterprise development. We have put in place a supplier development programme through which we identify potential BBBEE suppliers and provide them with coaching and assistance. We do believe, however, that more can be done in this area, especially in terms of assisting the youth.

Looking forward

Business demand for credit and the tight access to credit is expected to slow down economic recovery making good customer service, cost containment and value-adding customer products and services key priorities for us in the coming financial year.

The Reserve Bank reported that there was a moderate improvement in the economy in the first quarter of 2010 (the last quarter of our financial year) with inflation being contained within the target range. We will position our products and services to take advantage of the recovery in the economy.

South Africa will host the first internationally recognised stamp exhibition in October this year. A record forty-four (44) countries have already confirmed attendance.

We remain committed to serve the nation by providing South Africans with world class affordable, accessible and relevant communication, postal, logistics and financial services.

Gratitude

I am grateful and indebted to the Shareholder, ICASA, the Board of Directors, the Parliamentary Portfolio Committee on Communication, to organised labour, the Executive Committee and all South African Post Office employees for our success and I am especially grateful to our customers who use our products and services and are continuously challenging us to do more.

Ms Motshoanetsi Mmakotlolo Lefoka
Group Chief Executive Officer

Mr Nick Buick
Chief Financial Officer

Chief Financial Officer's report

Introduction

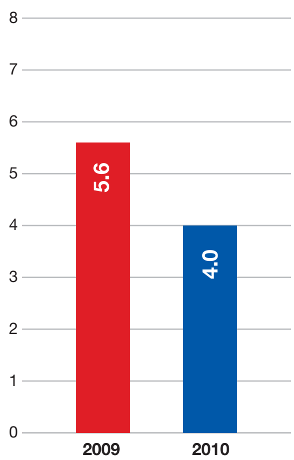
The South African Post Office has completed a sixth year of profitability and improved revenue growth. This performance is largely due to a continued focus on reducing costs by streamlining operating processes to ensure improved efficiencies while at the same time diversifying revenue streams.

Over the past six years, profit before tax has been impacted by once off adjustments not of a trading nature. A sustainable underlying trend in the Group's operational performance is however evidenced by its trading profits which have increased from R254 million in the 2005/06 financial year to R366 million in the 2009/10 financial year, an increase of 44%. The past two years have seen lower than anticipated revenues mainly as a result of the prevailing economic environment. Trading profit has declined by 10.3% for the year to R366 million.

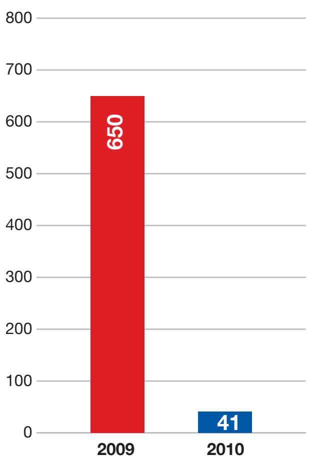
This trend has been further aggravated in the year under review with declining interest rates having a significant negative impact on Postbank revenue. Strong cost controls, however, and the continued improvement of process efficiencies have minimised the impact of the trading environment on trading profit. This demonstrates the sustainability of the Company's operating performance over a prolonged period.

As a result revenue for the year, excluding interest, has declined by 0.4% to R5,552 million from the previous year while costs have gone down by 1.7% to R5,095 million.

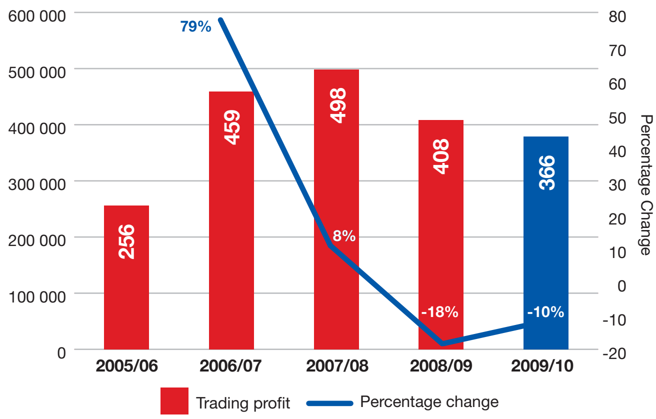
Return on assets
%



Cash flow from operating activities
R million



Trading profits
R million



The South African Post Office has shown profitability and improved revenue growth for the sixth consecutive year

Cash flow was also negatively affected by the depressed trading environment with the cash flow from operating activities down by 93.7% on the same period the previous year to R41 million. Trade receivables for the Group decreased by 4.7% to R409 million. Further initiatives have been introduced to improve the efficiency of cash management and deposit processes throughout the branch network.

Strengthening the balance sheet

Continued focus remains on a strong balance sheet to serve as the engine for future growth and sustainability. Total assets for the year increased to R9.4 billion, an increase of 8.3% on the previous year. This was mainly due to the increase in cash and investments of 10% to R6.6 billion reflecting the increase in Postbank depositor's funds of 10.8% to R3.65 billion.

The salient points of the balance sheet are illustrated below:

	2009	Change	2010
Total assets	R8.7 bn	▲ 8.3%	R9.4 bn
Cash & equivalents	R3.6 bn	▼ 2.1%	R3.5 bn
Investments	R2.4 bn	▲ 27.8%	R3.1 bn
Depositor's funds	R3.3 bn	▲ 10.8%	R3.65 bn

The ring-fencing of depositor's funds has ensured that the investments underpinning those funds have grown in excess of the liabilities to depositors. The structural changes made in the balance sheet over time including the capping of the post-retirement medical aid liability and the conversion of the pension fund from a defined benefit to a defined contribution fund continue to bear fruit and have resulted in a significant reduction in potential future liabilities. On the downside, however, the post-retirement medical aid liability for the remaining pensioners has increased by 9.7% to R1.033 billion due mainly to the increase in the cost of member's contributions to Medipos, the in-house medical aid scheme. This has to some extent been offset by the growth in the assets ring-fenced to offset this liability by 19% to R546 million.

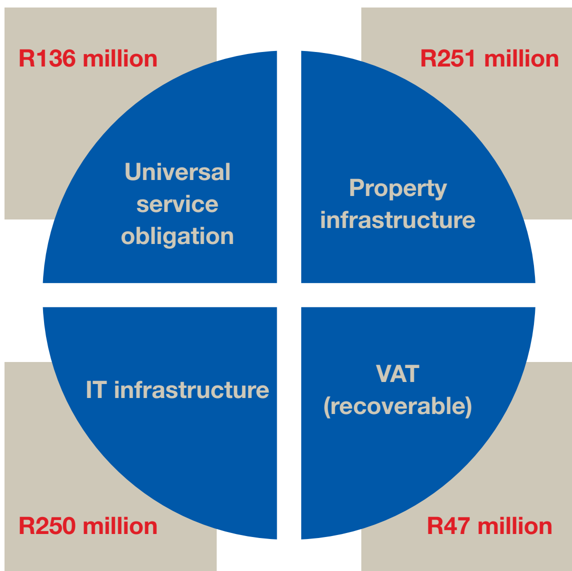
The Group remains debt free and the build-up of reserves from the sustained period of profitability has allowed a growing proportion of capital expenditure to be funded from internally generated cash flows. Surplus funds have been re-invested at prevailing interest rates, thereby further growing the asset base.

To summarise, during the year under review and the preceding five years, a secure foundation has been laid for sustainable profits into the future while at the same time reducing severe actual and potential liabilities which formerly burdened the South African Post Office's balance sheet. As forecast in last year's annual report, the trading environment for the entire period under review has remained extremely challenging and has negatively impacted the Group's financial performance. Despite this, the Group has weathered the storm well and is well placed to benefit from the forecast upturn in the economy in the new financial year.

Subsidy

The South African Post Office was allocated a subsidy of R383.1 million for the 2009/10 financial year and the amount carried forward from the 2008/09 financial year amounted to R301 million. Hence the total subsidy available for the 2009/10 financial year was R684 million.

The allocation of the subsidy was planned for the following projects:



An amount of R435 million of this subsidy has been either utilised or committed, leaving an amount of R249 million or 36% of the total subsidy available for future utilisation. In the recent medium-term expenditure framework future subsidies from government have been reduced to R306 million in 2010/11; R180.4 million in 2011/12; R52 million in 2012/13 to zero thereafter.

Chief Financial Officer's report *continued*

The focus was on reducing costs by streamlining operating processes and on diversifying revenue streams

Operations

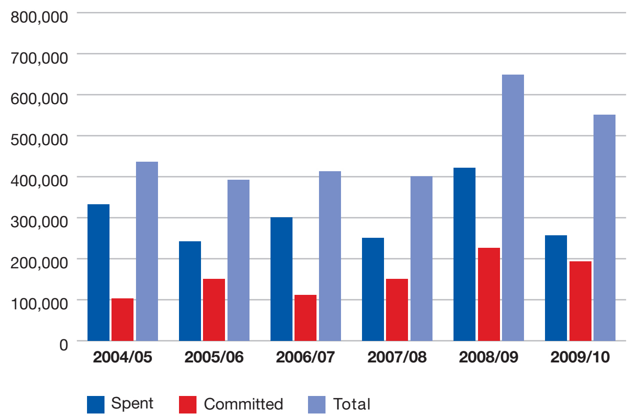
The South African Post Office earned profits before tax of R379 million from its operations in the year to March 2010, a reduction of 22.4% on 2008/09. This reduction is due mainly to the increase in the provision for the funding of the Group's obligations with respect to the subsidising of medical aid contributions of certain of its pensioners. The increase in this provision during the current year totalled to R196.4 million, up from R44.9 million in 2008/09, an increase of 337.4%.

To offset the reduced revenue, the cost saving initiatives embarked upon in the previous financial year in order to offset reduced revenue bore fruit and resulted in an overall reduction in overheads of 1.66% on the prior year. The two major contributors were employee costs which increased by only 2.2% and transport costs which declined by 12.3%.

The Bank and the Mail business continued to generate positive cash flows, with most of the operating cash flow coming from these sources.

Capital expenditure

The South African Post Office has invested R355 million in infrastructure with a further R193 million committed. During the past five years R1.6 billion has been invested in capital expenditure, mainly in the areas of branch roll-outs (in terms of the licence commitments from government) and IT. The Company continues to make major investments in its network and bandwidth to support the new systems which include a new point of sale system as well as further improvements to its banking IT environment.

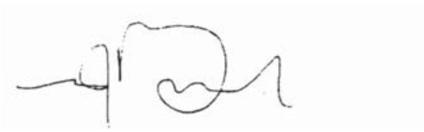


The capital expenditure programme will be prudent going forward in the current economic environment. Future capex requirements have been re-prioritised and will focus on areas that will drive revenue or improve efficiency.

Prospects

The continued profitable performance demonstrates that there is a sustainable business model in place and that the strategy of diversifying revenue streams is bearing fruit. The contribution of the financial services business to overall revenue has grown proportionally and has enabled us to perform well compared to our peers internationally, many of whom have been severely impacted by the economic downturn, especially where they have failed to diversify.

Despite the tough economic environment and the continued pressure on mail volumes the Group managed to limit the decline in trading profits during the year under review and is well positioned to take advantage of the predicted economic upturn.



Nick Buick
Chief Financial Officer

Dinosaur stamps

Dinosaur stamps were issued in 3D, depicting skeletons and images of what scientists believe dinosaurs looked like.

Mr John Wentzel
Chief Operating Officer

Chief Operating Officer's report

As predicted in the operating overview in the previous annual report, the 2009/10 year turned out to be a difficult year for the businesses of the South African Post Office. We felt the full effect of the recession in the reporting period as three of the four reporting quarters in our year recorded negative GDP growth. The Company also experienced the first industrial action since 2001 and this had a negative impact on operations as well as significantly inconveniencing our customers. Notwithstanding the difficult times faced, the businesses of the South African Post Office Group showed resilience in these difficult times.

Highlights

- The delivery standard attained was 96%, exceeding the target of 95% and improving over the prior year
- Over 1.6 million new addresses were rolled out in the year, exceeding our own target for the year
- Despite a fall in mail volumes, costs were well controlled and the operating margin was maintained

Mail

The core business of the South African Post Office, mail, showed a volume decline for the second consecutive year. A combination of factors such as the impact of the recession, the effect of the strike and customers choosing other communication means lay behind this decline. Despite this decline, the South African Post Office continued to deliver on its mandate. Over 1.6 million new addresses were rolled out in the year, exceeding our own target for the year. Pleasingly the overwhelming majority of these new addresses are in rural and underserved areas. Our delivery standard attained was 96%, exceeding our target of 95% and showed an improvement over the prior year (94.2%). Efforts to combat crime showed results with mail crime declining. Despite the fall in mail volumes, costs were well controlled and the mail business operating margin was maintained.

Last year we stated our intention to combine all our ICT and electronic related offerings into a single unit, and we have successfully concluded the merging of these. The merged unit will focus on exploiting opportunities in the ICT, hybrid mail, mobile, Internet and self-service channels as we continue to focus on developing new revenue streams to offset the decline in traditional mail. These channels were the fastest growing of all our businesses in 2009/10 and we expect that with the right investment and focus, these growth rates will be maintained into the future.

Financial Services

Despite the effect of the recession on the financial services sector in the country, Postbank continued to perform well under the circumstances. The Postbank scored highly in a recent Markinor survey, being recognised as the 5th strongest brand among banks in the financial services sector. The deposit book grew by 10.8%, above the average for the industry according to Reserve Bank figures. While net fee income grew, the effect of a sharply lower interest rate environment saw interest earned drop.

During the course of the year several new products and services were successfully brought to market. Services such as motor vehicle licence renewals, facilitation of share schemes and the payment of social grants

All ICT and electronic related offerings were merged into a single unit focusing on exploiting opportunities in the ICT, hybrid mail, mobile, Internet and self-service channels

are highlights. During 2009/10 over 500,000 social grant recipients were paid through the South African Post Office's financial services. Despite these successes, system outages again negatively impacted service levels and these problems continue to receive focus and they are high on our investment priorities. Good progress was made on the corporatisation of Postbank as we strive toward our goal of bringing financial access to poor, unserved and underserved citizens of our country. Once Postbank has been corporatised, we will be in a position to offer the previously unbanked a broader range of banking products and services.

Logistics

The logistics business had a particularly tough year as the entire logistics sector shrank. Volumes declined and margins came under severe pressure, and a number of players in the industry closed down or needed recapitalisation in order to continue trading. Logistics revenue fell by 12% compared to prior year but costs were well managed resulting in an overall performance in line with the prior year. The Group took the decision to streamline its operations by exiting business which was producing negative margins, and this decision contributed to a decline in revenue but helped maintain operating margins.

The delay in completing the acquisition of Speed Services by the Courier and Freight Group (CFG) has hampered our ability to extract operational efficiencies and synergies across the units and negatively affected staff morale. Notwithstanding this, work continued in optimising the Group transport and extracting further efficiency gains through sharing of infrastructure between CFG and the South African Post Office Group. The Group remains committed to building a logistics business offering counter to counter, courier, freight and contract logistics services to our customers.

Consumer Services

In the previous reporting period we indicated that a concerted effort was being made to improve customer service within our retail channel, and I am pleased to report that good progress was made in the 2009/10 year. Our most recent customer survey result shows that service quality is starting to improve compared to the last survey conducted three years ago. We owe this improvement to the focus on five key areas:

- hiring of 300 branch managers to address vacancies in the channel;
- the deployment of a new branch classification system that should result in more appropriate staffing in some branches;
- the establishment of a new quality oversight unit;
- the introduction of new operating procedures which will ensure quality service; and
- the continued investment in rolling out new branches, upgrading existing branches and improving service quality across the network.

An additional 134 branches were rolled out this year, 64 of these were new buildings while 70 were refurbished, upgraded or relocated.

During the 2010/11 financial year we will be finalising the new multi-channel strategy that will look at bringing services to our customers utilising additional channels while reducing the costs of service provision.

Looking forward

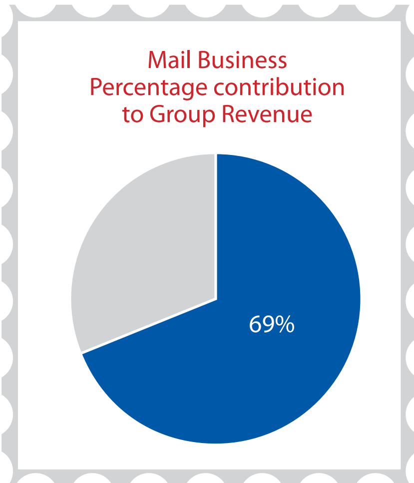
As South Africa emerges from the recession, we expect that the business of the Group will improve and that 2010/11 should be a stronger year than 2009/10. Our focus remains on cost control and revenue diversification, and on delivering on our mandate of providing a universal service to all the citizens of our country and to continue to deliver, whatever it takes.

John Wentzel
Chief Operating Officer

Operational Overview:
Mail Business

Seabirds

Stamps featuring seabirds drew attention to the plight of these birds, which are threatened by pollution and a lack of food through over-fishing and habitat encroachment.



South Africa is now one of only sixteen countries to be compliant with the Universal Postal Union's S42 standard for postal addressing

Highlights

- Contributed 69% of the South African Post Office's revenue
- Mail business revenue up by 3% thanks to new revenue streams
- 1.6 million new postal addresses were issued to first time address owners
- A commemorative stamp issued for two presidents in the same year – President Kgalema Motlanthe and President Jacob Zuma

The Mail Business unit continues to be the key revenue generator for the South African Post Office. Revenue contribution increased to 69% from last year's 61%. Despite a decline of around 6% in mail volumes, revenue grew by about 3%. The revenue growth was brought about by new mail-centred revenue streams that were undertaken in the past few years, such as safemail items.

Tight cost control also played a major role in ensuring the increase in the Mail Business unit's operating profit. Costs decreased by 2% compared to the previous year.

Cost was managed down mostly from the two biggest cost-drivers in mail, which are staff expenditure and transport. Mail Business continued to reduce transport costs through decreasing fuel costs, route optimisation and a reduction in full maintenance lease.

Further to this, the unit embarked on an Activity Based Costing (ABC) model to identify cost per activity and implement measures to bring down costs. The exercise is still in its infancy but Mail Business foresees major improvements in as far as managing cost is concerned.

Mail Business continues to focus on cost reduction measures with the objective of further bringing down cost.

Operations

In the financial year ended 31 March 2010, Mail Business rolled out just over 1.6 million new addresses to first time address owners, bringing to just over nine million the number of households that the South African Post Office has provided addresses within the past five years. Approximately 74% of these addresses are in rural and peri-urban areas. Growth in mail volumes is dependent on the South African Post Office providing these communities with the means to communicate with the outside world and bridge the communication divide. To achieve this, Mail Business plans to meet the target to roll out 5.3 million addresses between 2010 and 2013. The format for these addresses complies with national standards set by the South African Bureau of Standards (SANS 1883) and the international standards set by the Universal Postal Union (S42).

Mail Business is also enhancing the addressing system by coupling it to an advanced postcode system that will identify the origin of a letter, the route it will take and its delivery point.

The Securemail business is continuing to show growth in the delivery of study materials to students for learning institutions.

Commemorative stamps

In keeping with recording the country's history, Philatelic Services made history this year when, for the first time, it issued commemorative stamps for two presidents who were inaugurated in the same year. The stamp for President Kgalema Motlanthe was launched on 19 March 2009 and the stamp for President Jacob Zuma was launched on 10 November 2009.

On 6 November 2009, a stamp was launched in honour of Solomon Mahlangu, a struggle hero.

Stamps celebrating the artwork in the Constitutional Court were issued on 2 June 2009.

On 15 July 2009, stamps celebrating the 91st birthday anniversary of former President Nelson Mandela were issued.

On 2 November 2009, the first 3D stamps commemorating Africa's dinosaurs were issued.

Stamps for the 75th anniversary of the South African Airways, on which the uniform and captain's cap insignia are gold foiled and embossed to

Operational Overview:

Mail Business *continued*

create the impression of the original metal insignia worn on uniforms, were issued on 26 March 2009.

Stamps to commemorate South Africa's gemstones were issued on 10 July 2009. A different colour of foil reflecting the shades of the stone was printed on each stamp.

Recognition

The South African Heritage Resources Agency (SAHRA) recognised the South African Post Office's maintenance of the Post Office Museum by declaring all items in the museum part of the national heritage.

Postal automation and postal addressing

The Mail Business team presented at the 17th International Conference on Postal Automation (ICPA) and the focus of the first paper was on *Machine Utilisation and Performance Measurement using Simple, Robust and Universal Key Performance Indicators.* The second paper titled *eLAND Postal Addressing and Postcode system* presented a new system for Southern African countries. Both of these topics are unique and are amongst the most advanced and cutting-edge innovations in the world.

In line with the South African Post Office's vision of being recognised among the leading providers of postal and related services in the world, South Africa is now one of only sixteen countries to be compliant with the UPU S42 standard for postal addressing. This is to be the standardised addressing format for the new postcode system. This recognition has been achieved ahead of a number of postal organisations considered to be amongst the best in the world.

Assuring sound accountability and governance

ICASA, the Postal Regulator, regulates Mail Business to ensure a high quality of service to customers, adequate roll-out of infrastructure to provide all citizens with access to postal services and satisfactory and speedy resolution of customer complaints. To this end Mail Business has implemented measures to ensure delivery of the above mandate. The following systems are in place to monitor the quality of service to customers:

- Mailtest system: The system measures mail transportation timelines between sorting centres;
- Testpost: This system measures the delivery times between the originating sorting centre and the delivery office;
- Tracepost: This system measures the delivery time of a parcel/ registered item from the originating sorting centre and the delivery office;

A total of 26 domestic and three international mail-sorting centres handle roughly six million mail items daily and 50 tons of parcels per year

- Gaugemail: This system measures the delivery time of highly security-sensitive mail items from the originating sorting centre to the delivery office; and
- Radio Frequency Identifier (RFID): This system measures the delivery of mail items from the originating hub and records their movement between centres up to the delivery point.

Over and above these monitoring tools, there are also measures put in place for the security of mail items by in-house security and investigation teams. ICASA has put in place guidelines and policies for measuring compliance to mail security.

Engaging stakeholders

The role of Mail Business is to distribute communication material from one customer to the other. With Government as its sole shareholder, the South African Post Office has a mandate to provide services to the entire population of the country on behalf of Government. Further to that, Mail Business is the biggest carrier of the Universal Service Obligation (USO). This means that mail has to be collected, processed, transported and delivered to all corners of the country.

ICASA monitors Mail Business to ensure that it complies with the government mandate.

Mail Business ensures it retains personnel qualified enough to deliver effective and efficient service to the population of this country.

Infrastructure

Mail Business boasts 26 mail-sorting centres for domestic mail and parcels and three international sorting centres for international mail and parcels. Between these centres, roughly six million mail items are handled daily and 50 tons of parcels are processed per annum.

Mail is transported to and from these sorting centres domestically to 7,188 delivery offices (delivery depot centres, lobby boxes and 2,400 postal outlets).

A workplace where people can excel

In line with its strategic objective of building a high performance culture, Mail Business developed 6,686 of its staff members in various skills such as the International Computer Driving Licence, Customer Services, Employee Relations and Performance Management. This number includes staff members who received qualifications as a result of Recognition of Prior Learning. Mail Business has also introduced training to create a democratised workplace where employees can suggest ways to retain continuous learning in order to achieve operational excellence.

Caring for communities

At least 9,100 Mail Business employees carried out community projects across the country, including:

- donating food to the needy and the aged;
- upgrading and renovating child-care facilities and centre for the aged; and
- planting fruit and indigenous trees at schools.

These projects benefited just over 1,000 members of the community.

Looking ahead

Mail volumes declined by about 6% annually over the past two years. This is largely attributed to the global economic decline. This was preceded by a seven-year period of volumes growing by about 7% annually.

Mail Business is optimistic that, with the economy starting to stabilise, mail volumes will again increase. Vast untapped markets remain in South Africa. This includes the ranks of the currently unemployed.

Mail Business plans to compensate for the decline in volumes by putting the following in place:

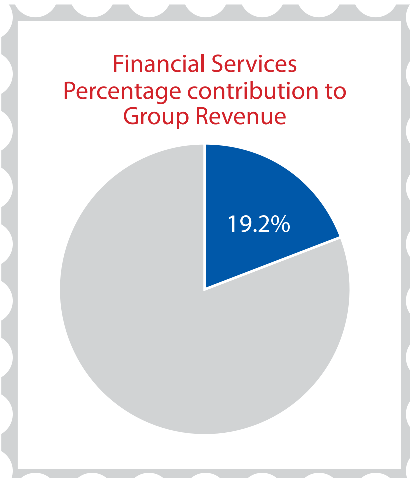
- focus on the rationalisation of infrastructure;
- interrogate current concept for delivery;
- derive synergies within existing networks;
- continuous focus on regulatory changes; and
- align volume and capacity, especially if mail volumes continue to decline.

Continuous cost control and the development of new *ePostal* services and activities are essential for continued viability of Mail Business in the South African Post Office.

Operational Overview:
Financial Services

Fisherfolk

Stamps celebrating the unique fishermen's villages dotted around South Africa's 3,000 kilometres of coastline were issued in March 2010.



The recession reduced consumers' disposable income, reducing savings and forcing consumers to either save less, not save at all or cash their pension contributions

Highlights

- Postbank deposits grew by 10.8%, net fee income increased by 14% and net interest income dropped by 21.46%
- Post office branches were used as distribution and collection points for South African Breweries' share empowerment scheme, SAB Zenzele
- Postbank's partnership with Footprint training and Wizzit Bank reached 10,628 learners in a financial literacy project to provide financial training to disadvantaged members of the community

The 2009/10 financial year was undoubtedly a very difficult trading year in just about all sectors of the economy. Whilst the sub-prime crisis had no direct negative impact on Postbank and other similar postal savings banks across the globe, the effect of the recession was nonetheless felt. In 2008, prime lending rate rose to 15.5%, the highest level since June 2003. Coupled with this, unemployment also surged to a high of 24.3%. Consequently, this reduced disposable income to consumers, reduced savings and forced the unemployed or debt trapped consumers to either save less, not save at all or cash their pension contributions. Notwithstanding this, Postbank remained resilient and continued to provide its services particularly to rural communities in terms of the Universal Service Obligation of which the South African Post Office is a signatory.

Financial overview

In the financial year ended 31 March 2010, Postbank deposits grew by 10.8% to R3.65 billion, while interest income dropped by 21.5% to R274 million.

Business development

Postbank customers remained loyal in the financial year under review as the total deposit book grew by 10.8% whilst the banking sector's total deposits increased by 2% in the same period. Interest income went down by 21.5% to R274 million due to the pressure of a 500 basis points drop in the prime lending rate. It is pleasing to report that net fee income levels were maintained during the period under review, in line with the continuous provisioning of social grants and other services through the South African Post Office's branch network, ATMs and points of sale devices.

The South African Post Office was commissioned by the South African Breweries to use post office branches as distribution and collection points for a share empowerment scheme, SAB Zenzele, that was offered to liquor and beverage retailers throughout the country. Tens of thousands of black retailers applied for shares through post office outlets, the only accredited distributor for the scheme.

Operational Overview:

Financial Services *continued*

Postbank was one of the 10 recipients of funds from the World Savings Banks Institute (WSBI) as part of a global effort to dramatically increase the number of savings accounts among disadvantaged communities in developing countries, supported by funding from the Bill & Melinda Gates Foundation. The aim is to double savings accounts holders with Postbank in the next five years.

Postbank also partnered with a consortium which included Footprint (a training NGO) and Wizzit in a financial literacy project to provide financial training to rural, peri-urban and urban poor people, most of whom are either unemployed or contract workers. The programme is funded by the UK Department of Foreign Aid through the Financial Education Fund.

To date, 10,628 learners have gone through the programme exceeding the target of 10,510. The objective of the programme is to monitor customer behaviour in terms of usage of their accounts and other banking products after having been exposed to financial literacy.

Postbank corporatisation

The Postbank Bill, which will eventually allow for the corporatisation of the bank, is currently being debated in Parliament. It is anticipated that the process will be completed in the later part of the 2010 calendar year. The corporatisation of Postbank will lead to the improvement and expansion of Postbank's services, which brings with it a major benefit of availing financial services to the people and regions of South Africa that have long had to do without them.

Once corporatised, Postbank will provide a wider range of relevant, simple and affordable banking products to the previously unbanked and underserviced.

Best place to work

The bank has identified key and critical skills required to govern and manage an entity registered in line with appropriate banking legislation. Both the South African Post Office and the bank are hoping to attract professionals who are committed to delivering on the mandate and helping South Africa to be a better place for groups and individuals that have over years not had access to financial services.

The current technology platform is being reviewed and investments are being made to ensure its appropriateness, robustness and above all its reliability for a registered bank.

Postbank and South African Post Office have partnered with the Services Seta and the Institute of Bankers to accelerate the development of employees' banking and customer service skills.

Looking forward

The coming financial year will see the celebration of 100 years in existence of Postbank. Postbank is looking forward to celebrating another centenary having ensured that the communities it serves are economically emancipated.

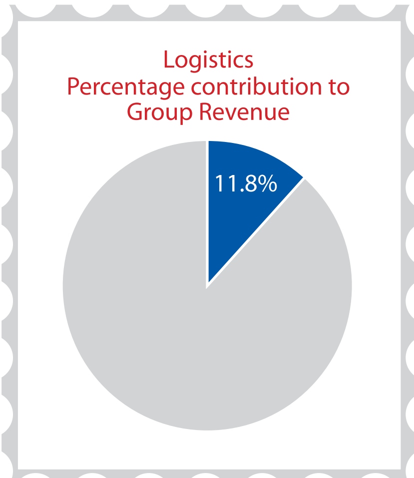
Postbank intends to use the results of a customer satisfaction survey to enable it to respond to issues raised by customers and improve overall customer satisfaction.

Postbank received funding from the World Savings Banks Institute as part of a global effort to increase the number of savings accounts among the poor

Operational Overview:
Logistics

Court artwork

Stamps featuring artworks in the South African Constitutional Court represent the common humanity of the nation.



In line with the strategic intent of being Government's preferred partner, Logistics revitalised the public sector team, especially account management

Highlights

- Logistics coped with the economic downturn by focusing on cost containment
- A 12% reduction in total expenses compared to the year before and expenditure 21% below budget
- A first-quarter public sector performance of minus 30% improved to only 6% below budget at the year-end

The long-term strategy for SAPO Logistics is to:

- be the supply chain solutions partner to Government and business;
- establish a comprehensive footprint across Africa; and
- be a global logistics player.

PERFORMANCE HIGHLIGHTS

Cost savings

Against a backdrop of declining volumes and premium product substitution by major customers due to the global economic downturn, Logistics shifted focus to cost containment initiatives with the aim of creating efficiencies and optimising the variable input cost elements in the unit.

This tactical approach resulted in a 12% reduction in total expenses compared to the year before and expenditure 21% below budget.

Government partnerships

In line with the Group's strategic intent of being Government's preferred partner, the Logistics unit revitalised the public sector team, especially account management, in order to increase business in this market segment. This focus reversed the slow first-quarter public sector performance which was minus 30% to an improved end of the year performance of only 6% below budget. This then shows a marked improvement despite a general decline in the market in the region of 16%.

Refocusing on profitability

The revenue and cost strategies implemented by Logistics have yielded gradual and steady operating profit growth from 2006/2007 onwards. These efforts were partially frustrated by the global economic downturn in the year under review.

The economic downturn effect on the operating profit clearly demonstrates the need for continued focus on improving profitability to the level where volume fluctuations will have less impact.

Strategic projects

The major focus for Logistics in 2010/11 is the immediate implementation of the following strategic projects:

Strategic theme	Strategic projects	Business transformation objective
Operational excellence	Transport model	Efficient transport service
	Robust IT platform	Enhanced customer understanding and interface
	Global logistics player	Significant player on the African continent
Customer intimacy	Market positioning and growth of market share	Customer acquisition and retention
People development	Talent development and retention	High performance team

A workplace where people can excel – forging ahead with skills development

Branch managers went on a Strategic Management in Transport course which is an NQF Level 5 certificate. The course offered by the University of Johannesburg (UJ) falls under the Department of Transport and Supply Chain Management is intent on equipping branch and operations managers with the dynamic developments within the transport industry.

One of the key outcomes was to give participants an understanding of the transport industry thereby equipping them with the skills and knowledge they need to perform their daily tasks. This will enable business to realise its objectives by performing effectively, efficiently and economically in this challenging environment.

Thirty two employees who attended the course were deemed competent and received certificates from the University of Johannesburg.

Operational Overview:

Logistics *continued*

Highlights of the course include:

- identifying and explaining the external environment 's influence on an organisation;
- applying the strategic decision making process in the transport industry;
- designing work structure and providing overall leadership to the business unit and respective departments; and
- developing operational plans to facilitate and coordinate strategic objectives.

The sales team also received advanced negotiation skills and some of them are enrolled in a management development programme.

Caring for communities

Logistics undertook a social investment initiative with Good Hope FM and ABSA, providing PX containers for the storage of donated blankets at nine drop off destinations for nine weeks. The Logistics unit also donated one full container of blankets.

Looking ahead

Despite the challenges of the 2009/10 financial year, the last quarter of the 2009/10 financial year showed a marked improvement in performance as a direct result of infrastructure optimisation, cost containment and initiatives to improve revenue.

The 2010/11 financial year will be the year where the Logistics unit's key thrust is to consolidate the gains of the last quarter of 2009/10 and grow overall profitability.

The effect of the economic downturn demonstrates the need to improve profitability to a level where volume fluctuations have less impact

Operational Overview:
Consumer Services

Taxi stamps

Taxi handsigns – a 'language' unique to South Africa for indicating a destination – was documented on these stamps, featuring raised printing so that blind people can read the signs.

Consumer Services unit is the face of the organisation and therefore excellence in customer service is top priority

Highlights

- Consumer Services served 73.5 million customers at office branches countrywide
- 64 new branches opened
- 70 existing branches upgraded during the year
- Motor vehicle licence renewal service introduced in 75 branches in Gauteng
- 1,380,223 motor vehicle licence renewals performed during the year under review

The Consumer Services unit is the face of the organisation and therefore customer service excellence is of top priority. Consumer Services aims to meet the needs and expectations of customers and clients by providing a high quality service and convenient and cost-effective access to postal and financial services.

With its front-line staff, the Consumer Services unit provides customers with all the services the South African Post Office has to offer including logistics in the form of counter-to-counter service, financial services in the form of Postbank transactions and general mail service.

The unit is also a point of delivery for government services.

Our reach

During the year ended 31 March 2010, Consumer Services served 73.5 million customers at 1,539 post office branches and 927 postal agencies throughout the country. In all, 96.4 million transactions were carried out during this period, an increase on the 90.3 million transactions performed in the previous year.

We continue to extend the reach of our services to new areas and to improve efficiency and safety in existing outlets in line with our commitment to the public and our mandate from Government. Sixty four (64) new branches were opened and seventy (70) existing branches were upgraded during the 2009/10 financial year. This is 19 more new branches than we added in the previous financial year.

In the year under review, over 500,000 social grants recipients received their grants at post office counters and 455,754 Postbank accounts were opened for grant recipients, providing them with a convenient and safe way to receive and manage their funds; a more than 200% increase from the 186,755 accounts opened in the five months to 31 March 2009.

Motor vehicle licence (MVL) renewal service was introduced in 75 branches in Gauteng in June 2009. This brought to five the number of provinces where this convenient and efficient approach to renewing motor vehicle licences is available. The other provinces are Limpopo, KwaZulu-Natal, Eastern Cape and the Free State. Overall, 235 branches offer the MVL service in these provinces. In the year ended 31 March 2010, just over a million motor vehicle licence renewals were performed, an increase of more than 50% on last year.

Workplace where people can excel

The South African Post Office is committed to creating an environment where employees can excel. In line with this, the Consumer Services unit has focused on providing frontline staff with effective tools of the trade.

In the year under review, we introduced a web-based point-of-sale system that has ensured an increase in transaction speed and efficiency. This system will be rolled out to all post office branches over the next two years.

Consumer Services have also deployed a new branch classification system that should result in more appropriate staffing in branches.

Caring for communities

In the year under review, over 100 community projects were undertaken, where just under 2,000 children benefited from the activities initiated by staff.

Looking ahead

Consumer Services will continue to focus on improving customer services with the filling of vacancies, the training and skilling of frontline staff and the continued updating of operational procedures that will ensure quality service.

Consumer Services will continue to audit post office branches to ensure that they have sufficient resources to enable them to provide excellent customer service.

Consumer Services will also continue to motivate its frontline staff by recognising and rewarding branches offering the best customer service.

More branches will be added where South African motorists can access the convenient motor vehicle licence renewal service.

Corporate governance

Mapungubwe
Five stamps issued in September 2009 celebrated cultural artefacts discovered on Mapungubwe Hill, one of South Africa's World Heritage Sites.

Risk Management Report

Introduction

The South African Post Office is duly committed to a risk management process that is enterprise-wide and aligned to principles of good corporate governance, and is in accordance with the provisions of the Public Finance Management Act (PFMA) of 1999, and other related codes on corporate governance.

The Board of Directors recognises risk management as an integral part of responsible management and has therefore adopted a comprehensive entity-wide approach to the management of risk within the South African Post Office Group. This process is fully outlined in our Risk Management Strategy as well as the Policy which also embodies the risk framework and approach followed.

The Board is ultimately accountable for the total risk management as well as ensuring that adequate and effective internal control measures are deployed as part of risk mitigation strategies, and therefore has to have an understanding of the significant and strategic risks faced by the entity. A Board Risk Management Committee (Board Sub-Committee) has been established to evaluate, monitor and report to the Board on an on-going basis regarding the effective management of identified strategic risks within the entity.

Furthermore, the Board also requires the Executive Management Committee and Line Management to provide reasonable assurances that the risks associated with the Group's strategy and objectives are understood, and that management has adequately discharged their responsibilities of designing appropriate infrastructure and systems, as well as effective control measures to continuously mitigate these risks.

Control Disclosure Statement

The Board's policy on risk management is aligned to ensure that significant business risks, including operational risks that could give rise to adverse material or reputational considerations, have been adequately considered.

The Executive Committee, within its powers as mandated by the Board, has established a Group-wide system of internal control as well as risk management processes to manage significant group risks which *inter alia* include:

- formal operating and strategic planning processes for all businesses within the entity;
- annual budgeting and periodic reporting systems for all businesses which enable the monitoring of progress against financial and operational performance targets and evaluation of trends;
- guidelines and limits for approval of capital expenditures and investments;
- policies and procedures for the management of operational risk, financial risk and treasury operations; and a
- Code of Ethical Conduct which is applicable to all levels of employees.

The Board is satisfied that the risk management systems and processes that have been deployed, adequately support the Board in discharging its responsibility for ensuring that the risks associated with the entity's diverse operations are effectively managed.

Risk management framework

The Group's risk management framework is aimed at effectively identifying, evaluating and managing risk exposures within acceptable or prudent levels.

The Group's risk management policy and framework has been formalised and aligned to Par.14 of the National Treasury Practice Note 4 of 2009/10 issued in terms of Section 52 of the Public Finance Management Act (PFMA) which defines the organisational risk governance structures and further outlines the authority and responsibilities of all stakeholders responsible for the management of risks.

The risk management framework which also includes the methodology has been established with the objective of deploying a common and systematic risk management operating standard in accordance with international best practices across all operational activities within the South African Post Office Group.

During the reporting period, the Group continued to reinforce the building blocks that have been established in the previous years which among others, includes:

- strengthening the risk maturity within the entity at all levels by harnessing our risk management culture;
- deployment of risk management strategies to the rest of the organisation in the form of operational strategies, measurable action plans and projects;
- rigorous monitoring of the implementation of defined risk management strategies. This process will also be incorporated and managed via the performance management process in the coming years; and
- continuation of the phased roll out of the Risk Management automated software across business units. This system, once fully operational, will serve to reduce risk exposures and increase day to day accountability within the entity.

Risk Management Report continued

Risk governance structures

The Board has established the Group's risk management governance structures, roles and responsibilities which have been detailed in the Group's risk management policy and framework.

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

(1) Risk Management Committee

In accordance with its Charter and as mandated by the Board, the Risk Management Committee is *inter alia* responsible for overseeing and monitoring the entity's approved policies and procedures in relation to the management and control of the following:

- the review and assessment of the effectiveness of the risk management systems to ensure that risk policies and strategies are appropriately managed;
- the review of the adequacy of insurance coverage;
- quarterly review of the Group Operational Risk Reports covering losses, near misses, abnormal gains/profits, reputation risks and regulatory matters including PFMA and King Codes;
- review of quarterly reports from Security & Investigations covering such matters as fraud losses, fraud prevention and recoveries, anti money laundering and physical security (this report is also to be tabled at Board Audit Committee for information purposes);
- review half yearly reports on the Group's Risk Profile, including the Top 10 Inherent Risks, the Top 10 Residual Risk after Controls, and the associated management actions resulting from the review;
- the periodic review of risk assessments to determine material risks to the Group and evaluating the strategy for managing those and the appropriateness of management's responses to those risks;
- advising the Board on risk aspects (including its commentary on risk in the annual report);
- monitor the entity's compliance with legal obligations to which its businesses are subject except for those obligations relating to the preparation of accounts and integrity of financial systems which are monitored by the Board's Audit Committee; and
- the monitoring of external developments relating to corporate accountability, including emerging and prospective risks; etc.

(2) Executive Committee

The Executive Committee ensures that the responsibility for risk management is entrenched at all levels of management, and that it is not only limited to the Accounting Officer. High level responsibilities of the Group CEO *inter alia* include:

- setting the tone at the top by supporting the risk management approach and allocating resources towards the implementation thereof;
- establishing the necessary structures and reporting lines within the entity to support risk management;
- influencing an institutional "risk awareness" culture;
- placing the key risks at the forefront of the management agenda and devoting personal attention to overseeing their effective management;
- holding management accountable for designing, implementing, monitoring and integrating risk management principles into their day-to-day activities;
- ensuring that a conducive control environment exists to ensure that identified risks are proactively managed;
- providing all relevant stakeholders with the necessary assurance that key risks are properly identified, assessed, mitigated and monitored; and
- providing appropriate leadership and guidance to senior management and structures responsible for various aspects of risk management, etc.

All Group executives, business unit heads and management at all levels have been duly mandated and are required to develop, implement and maintain a risk management plan for their respective areas of responsibility and accountability.

(3) Group Risk Management

The effective management of risk is central to the achievement of the strategic objectives of the South African Post Office. In the context of applying the Group's Risk Management Policy and Strategy, Group Risk Management is primarily tasked with the responsibility of facilitating the deployment and embedding of risk management principles across the Group, including all business unit activities. Group Risk Management assists in the execution of the risk management process; accountability for the implementation of risk management ultimately remains with management and employees across the entity.

(4) Group Internal Audit

The Group's Internal Audit function is charged with the responsibility of providing an independent and objective assurance to the Board through the Audit Committee on the adequacy and effectiveness of the risk management, governance and internal control processes. The primary scope of Internal Audit with regard to assurance includes:

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

- monitoring and evaluating governance processes; and
- monitoring and evaluating the effectiveness of the Group's risk management processes.

(5) ALCO

The Assets and Liabilities Management Committee (ALCO) further strengthens the risk management structure and is tasked with the management of treasury risk. ALCO is responsible for recommending to the Board of Directors prudent asset/liability management policies and procedures that enable SAPO to achieve its main objectives while operating in full compliance with the organisation's risk tolerance, the PFMA and Treasury Regulations. The Committee's key responsibilities include the management of financial risks including interest rate risk, liquidity risk, credit and foreign exchange risk.

(6) Group Compliance

The effect of non-compliance has been assessed and quantified to have an adverse impact on the organisation's reputation, as well as unwarranted penalty fees. The Board is therefore committed to complying in all material respects with the relevant codes, legislative and regulatory requirements. The South African Post Office Group fully subscribes to, and is fully committed to complying with all the applicable and relevant Acts, Regulations, the King Codes, as well as Codes of Corporate Practice. In addition, the entity performs an annual review of the compliance universe, which is not only limited to applicable laws, but also extends to non-binding rules, policies and codes.

The Group, to the best of its knowledge, information and belief complied with and continues to comply with applicable legislation, including policies, procedures and codes of governance for the period under review.

Major risks

The following is a summary of key strategic risks faced by the organisation for the period under review:

Information Technology

The Post Office's IT infrastructure which is not optimal and not aligned to the strategic needs of the business model remains a significant source of risk. Current technology platforms cannot handle the existing or future capacity, of even existing business. In order for the South African Post Office to both maintain and grow its service delivery, significant investment in network/bandwidth capacity expansion, skills and staff will be required.

Business continuity management

The Group remains at risk with regard to not being able to sustain operations, provide essential products and services in the event of major disasters and the breakdown in services. The main threats on business continuity within the South African Post Office are emanating from the areas of IT and HR. From a risk perspective, it is essential that IT disaster recovery plans are developed, implemented, tested and aligned to Business Unit requirements.

Crime and fraud

This area remains a risk within our environment, particularly relating to fraud in Postbank and external crime such as armed robberies, housebreaking and cash-in-transit robberies.

Impact of economic contraction on costs and revenue

The downward global economy had a considerable impact on the South African Post Office in relation to increased operating costs on the one hand and on the other impacting on revenue generation which was largely attributed to declining mail volumes.

Litigation

Potential legal liabilities arising from litigation remained a high risk for the entity. Much effort has been placed on strengthening processes in the procurement area, specifically contract management.

Legal and regulatory compliance

Failure to comply and/or report instances of non-compliance may result in the South African Post Office being exposed to unnecessary risks and/or financial losses such as penalties or fines. In this regard, compliance is continuously monitored and reported to appropriate levels of management and the Board Risk Committee to mitigate non-compliance through the deployment of appropriate remedial actions.

Corporate governance report

Introduction

The Group is required to comply with the Protocol on Corporate Governance in the Public Sector, the Public Finance Management Act No 1 of 1999 (as amended), the Companies Act No 61 of 1973 (as amended) and the Postal Services Act No. 124 of 1998.

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

Ownership

In accordance with the Postal Services Act No. 124 of 1998, ownership of the Group is vested in the State as the sole shareholder. The relationship of the Group and the Shareholder is defined and set out in the Shareholder's Compact.

The role and composition of the Board

The management of the Group is vested in a single Board of Directors (the Board). The Board reports to the Minister of Communications. Details of the members of the Board are disclosed in the Directors' report. The Board is comprised of 17 members, including the Chief Executive Officer, the Chief Operations Officer, the Chief Financial Officer and the Postbank Managing Director. The Board meets at pre-arranged meeting dates at least four times in a year and at such other times as deemed necessary by the Chairperson. An annual Board workshop is held at least once a year to review business strategy and the Shareholder's Compact.

The role of the Board is explicitly supported by the statutory framework within which the Group operates amongst which, the Postal Services Act No 124 of 1998, the Companies Act No 61 of 1973 and the Public Finance Management Act No. 1 of 1999 as amended. The Group further endeavours to comply with the recommendations of best practice codes on corporate governance like the King III report.

The Board is responsible for overall guidance on the strategy, business plans and related affairs of the Group. It is responsible for overseeing the South African Post Office on behalf of the Shareholder. In carrying out its mandate, it is the Board that holds management accountable for business performance as well as achievement of the South African Post Office's objectives. The roles and responsibilities of the Board are defined in the Company's Articles of Association, the Board Charter and the Shareholder's Compact.

In order to provide strong oversight for such a large, complex and diverse company, the Board must bring strong business judgement, valuable experience and insight in various professional fields to the stewardship of the Company. Furthermore, various governance structures exist in order to further enhance oversight.

Independence of the Board

Board members are appointed by the Shareholder/Minister of Communications. The Audit Committee regularly meets individually with the external and internal auditors. Furthermore, the Board, its committees and individual directors may engage independent counsel and advisors upon request and at the discretion of the Board.

Executive Committee

The Articles of Association provide for certain powers of the Board to be delegated, consequently its powers pertaining to the day-to-day operations of the Group have been delegated to the Group Chief Executive Officer.

The Executive Committee assists the Group Chief Executive Officer in executing these duties. The other three executive directors, namely the Chief Financial Officer, the Chief Operating Officer and the Managing Director: Postbank, are also members of the Executive Committee. The Executive Committee meets formally bi-weekly and additional meetings (formal and informal) are scheduled on an ad hoc basis. The Chief Financial Officer and the Chief Operating Officer report to the Board through the Group Chief Executive Officer. Decisions are taken in accordance with the Group's Delegation of Authority.

Risk management

A Board Risk Management Committee was established to report to the Board on the risk management processes within the Group. The Board is ultimately responsible for the total risk management process as well as internal controls within the Group, and therefore has to have an understanding of the significant risks faced by the Group. The Board also ensures that management has adequately discharged their responsibility of designing the appropriate infrastructure and systems, as well as controls throughout the organisation for the integration of risk management into day-to-day activities.

The Risk Management Committee advises the Board on the management of the main risks within the Group. Risk Management strategies and policies have been formulated in response to the risks identified and assessed. The process of integrating risk management into business processes and activities at all levels is continuous and also forms part of the ongoing risk management focus within the Group's activities. As part of the risk management process, risk identification and assessment workshops are facilitated at Board and Executive Committee as well as Business and Support Unit level.

Management strategies and action plans are implemented to address these risks. The risk management governance structure is further reinforced by the formation of specialist subcommittees which report into the Risk Committee, including an Assets and Liabilities Committee (ALCO) for the management of treasury risks.

Attendance at Board meetings for the year 1 April 2009 to 31 March 2010

Name	28/05/09	30/07/09	26/11/09	18/02/10	Total
Ms VF Mahlati *(Chairperson)*	•	•	•	•	4
Ms MM Lefoka	•	•	•	•	4
Mr NJD Buick	•	•	•	•	4
Mr JP Wentzel	•	•	•	•	4
Ms TBJ Memela-Khambula	•	•	•	•	4
Mr NCS Bebeza[1]	–	–	•	•	2
Mr SEO Dietrich	•	•	•	•	4
Mr AJ Hendricks[2]	X	X	–	–	0
Ms ME Letlape[1]	–	–	•	•	2
Mr SMA Malebo	•	•	•	•	4
Adv V Mhlongo	•	•	X	•	3
Mr SQM Mokoetle[3]	X	•	X	X	1
Ms FN Msimang	•	•	•	•	4
Adv LP Nobanda[1]	–	–	•	•	2
Mr MS Patel	•	•	•	•	4
Dr MN Pheko[1]	–	–	•	•	2
Ms PE Pokane	•	•	•	•	4

Legend:
• = Present
X = Absent with apology
1 = Appointed 1 October 2009
2 = Retired 17 August 2009
3 = Retired 28 February 2010

Committees of the Board

The various subcommittees, directly tasked to ensure that the Group complies with all the relevant acts and Codes of Good Corporate Governance and to assist the Board in fulfilling its oversight responsibilities, are detailed below:

Audit Committee

The committee acts in accordance with the Public Finance Management Act and reports to the Board. It evaluates financial statements which will be provided to Parliament and other stakeholders, the systems of internal control which management and the Board have established, the audit processes, the risk management framework and assesses the Group's financial performance against its Corporate Plan. Representatives of external and internal audit have direct access to the Chairperson of the committee.

The Audit Committee meets at least four times a year.

Chairperson (Non-Executive)

Mr SEO Dietrich

Members

Mr SMA Malebo
Adv V Mhlongo
Mr MS Patel

Attendance at Audit Committee meetings for the year 1 April 2009 to 31 March 2010

Name	14/07/09	23/09/09	25/11/09	23/03/10	Total
Mr SEO Dietrich	•	•	•	•	4
Mr SMA Malebo	•	•	•	•	4
Adv V Mhlongo	•	X	•	•	3
Mr MS Patel	•	•	•	•	4

Legend:
• = Present
X = Absent with apology

Risk Management Committee

The committee monitors, evaluates and advises the Board on the adequacy of risk management processes and strategies within the Group. It further recommends the approval of risk policies to the Board. Representatives of Group Risk Management, Internal Audit, the Security and Investigations division and all core Business Units attend all meetings. The committee meets four times a year.

Chairperson (Non-Executive)

Adv V Mhlongo

Members

Mr SEO Dietrich
Mr SMA Malebo
Mr SQM Mokoetle
Adv LP Nobanda

Attendance at Risk Management Committee meetings for the year 1 April 2009 to 31 March 2010

Name	05/05/09	01/07/09	23/09/09	25/11/09	04/02/10	Total
Adv V Mhlongo	•	•	•	•	•	5
Mr SEO Dietrich	X	•	•	•	•	4
Mr SMA Malebo	•	•	•	•	•	5
Mr SQM Mokoetle[1]	•	X	X	X	–	1
Adv LP Nobanda[2]	–	–	–	–	•	1

Legend:
• = Present
X = Absent with apology
1 = Retired 28 February 2010
2 = Appointed 1 October 2009

Remuneration and Performance Management Committee

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

Corporate governance report continued

Chairperson (Non-Executive)
Ms VF Mahlati

Members
Mr AJ Hendricks
Ms ME Letlape
Mr SQM Mokoetle
Ms PE Pokane

Attendance at Remuneration and Performance Management Committee meetings for the year 1 April 2009 to 31 March 2010

Name	02/04/09	30/07/09	10/09/09	19/11/09	10/03/10	Total
Ms VF Mahlati	•	•	•	•	•	5
Mr AJ Hendricks[1]	•	X	–	–	–	1
Ms ME Letape[2]	–	–	–	•	•	2
Mr SQM Mokoetle[3]	X	•	•	•	–	3
Ms PE Pokane	–	–	–	–	X	0

Legend:
• = Present
X = Absent with apology
1 = Retired 17 August 2009
2 = Appointed 1 October 2009
3 = Retired 28 February 2010

The Human Resources and Transformation Committee
The committee reviews all aspects relating to human resources. It also monitors compliance with relevant labour and employment legislative matters and recommends approval of significant human resources related policies to the Board. This committee's mandate includes transformation issues. The committee meets four times a year.

Chairperson (Non-Executive)
Mr AJ Hendricks[1]
Ms M Letlape[3]

Members
Mr NCS Bebeza
Mr SQM Mokoetle
Ms M Letlape
Mr MS Patel

Attendance at Human Resources and Transformation Committee meetings for the year 1 April 2009 to 31 March 2010

Name	15/07/09	14/10/09	20/01/10	10/03/10	Total
Mr NCS Bebeza[4]	–	–	•	•	2
Mr AJ Hendricks[1]	X	–	–	–	0
Ms M Letlape[3]	–	–	•	•	2
Mr SQM Mokoetle[2]	•	X	X	–	1
Mr MS Patel	•	•	•	•	4

Legend:
• = Present
X = Absent with apology
1 = Retired 17 August 2009
2 = Retired 28 February 2010, Chairperson from 14 October to 20 January 2009
3 = Appointed 1 October 2009, Chairperson from 10 March 2010
4 = Appointed 1 October 2009

Postbank Committee
The committee plays an oversight role in ensuring that Postbank operates within all the applicable legislation, monitors the performance of the investment portfolio of depositors' funds as well as ensuring that these funds are invested appropriately. It also recommends the approval of ledger fees and bank charges to the Board. The committee meets four times a year.

Chairperson (Non-Executive)
Ms FN Msimang

Members
Mr B Bothma
Adv LP Nobanda
Ms PE Pokane

Attendance at Postbank Committee meetings for the year 1 April 2009 to 31 March 2010

Name	07/05/09	16/07/09	19/11/09	16/02/10	Total
Ms FN Msimang	•	•	•	•	4
Mr B Bothma[2]	•	•	•	X	3
Adv LP Nobanda[1]	–	–	–	•	1
Ms PE Pokane	•	•	•	•	4

Legend:
• = Present
X = Absent with apology
1 = Appointed 1 October 2009
2 = Independent, advisory member of the Postbank committee

Chairpersons' Committee
The Board has established a Chairpersons' Committee in pursuit of enhancing good corporate governance within the Group and to deal with any other matters in between Board meetings. It is made up of chairpersons of all Board committees. The committee meets four times a year.

Chairperson (Non-Executive)
Ms VF Mahlati

Members
Mr SEO Dietrich
Mr AJ Hendricks
Mr SMA Malebo
Adv V Mhlongo
Mr SQM Mokoetle
Ms FN Msimang
Mr MS Patel
Ms PE Pokane

Attendance at Chairpersons' Committee meetings for the year 1 April 2009 to 31 March 2010

Name	13/05/09	22/07/09	01/10/09	05/11/09	09/02/10	Total
Ms VF Mahlati	•	•	•	•	•	5
Mr SEO Dietrich	X	•	X	•	•	3
Mr AJ Hendricks[1]	•	X	–	–	–	1
Mr SMA Malebo	•	•	•	•	•	5
Adv V Mhlongo	•	•	•	•	•	5
Mr SQM Mokoetle[2]	–	–	•	•	X	2
Ms FN Msimang	•	•	X	•	•	4
Mr MS Patel	•	•	•	•	•	5
Ms PE Pokane	X	•	•	•	X	3

Legend:
• = Present
X = Absent with apology
1 = Retired 17 August 2009
2 = Retired 28 February 2010

Internal control
Internal control is a process designed to provide reasonable assurance regarding the achievement of organisational objectives. The system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's strategic objectives will be achieved. The Board has the overall responsibility for internal control. The Executive Committee, as mandated by the Board, has established an organisation-wide system of internal control to manage significant risks. Ongoing monitoring and reporting processes by Business Unit heads provide for high level assessments on the status of internal controls. The Board also receives assurances from the Audit Committee, which derives some of the information from regular internal and external audit reports.

Internal Audit
Group Internal Audit provides an independent and objective assurance to the Board through the Audit Committee and Executive Committee with regard to the adequacy and effectiveness of risk management, governance and internal control process. The assurance mandate is informed by the Annual Audit Plan which is approved by the Board Audit Committee and is aligned to the Risk Management Plan.

Fraud and error
The South African Post Office Group operates through the Consumer Services network which processes numerous banking and non-banking financial transactions on a daily basis, therefore presenting potential opportunities for fraud. To mitigate this risk of fraud, numerous systems of internal controls have been designed and implemented. Furthermore, the Group also operates according to the defined and approved Fraud Prevention Plan. The Audit Committee also assumes enhanced responsibility to consider fraud and error in financial statements.

Business conduct
The Group has a Code of Ethical Conduct, approved by the Board, which addresses amongst others, the following matters:
- personal conduct;
- crime prevention;
- conflict of interest; and
- acceptance of gifts;

Shareholder's Compact
The South African Post Office is a wholly owned agency of the South African Government under the guidance of the Department of Communications (DoC). The South African Post Office is mandated to provide postal services according to the Postal Services Act of 1985.

The mandate of the DoC is to create a favourable ICT environment that ensures that South Africa has capacity to advance its socio-economic development goals and support the renewal of Africa and build a better world.

In support of the Shareholder's drive to positively impact on poverty alleviation and the social wellbeing of all our people, the South African Post Office engages in a range of support activities, such as serving as a conduit for BEE share schemes, acting as a vehicle for the payment of government pension and social grants as well as undertaking an extensive rural address expansion programme. Through Postbank, the South African Post Office also provides accessible and affordable banking through the Mzansi account offering.

Delegation of authority
Although the Board's ultimate accountability is to lead and manage the Group, some of the responsibilities are delegated to the Executive Committee. In this regard, to manage the business affairs of the South African Post Office Group as well as the authority to delegate, the delegated responsibilities are managed through established governance structures at Board and Executive Committee level.

Materiality framework
The framework of acceptable levels of materiality and significance, applied during 2009/10, for the purpose of the interpretation of and compliance with the Public Finance Management Act No 1 of 1999 (as amended) is the following:

Qualifying transactions are considered to be of an operational nature where they are concluded as part of the normal business of the South African Post Office, and are concluded within the framework of the South African Post Office Act, its mandate and delegations of authority, as well as the agreements with the Shareholder contained in the Shareholder's Compact and Corporate Plan.

Qualifying transactions are considered to be of a strategic nature where they are not part of the normal business of the South African Post Office, when they are concluded outside the framework detailed above or when they link to national priorities.

Materiality framework

	Materiality framework	Resulting figures for 2009/10	Underlying principles
Material for Section 55 – Disclosure in the 2009/10 annual report. • **Losses due to criminal conduct** The following should be disclosed irrespective of the amounts involved • Irregular expenditure • Fruitless and wasteful expenditure	*Quantitative* Capital expenditure: 10% of the capital expenditure budget line item Other expenditure: 10% of the related operating expenditure budget line item, except for the following key cost drivers: **1% of staff expenses** **5% of transport costs**	Depends on the related expenditure budget line item	• Section 55, as identified, will evaluate each loss due to criminal conduct, in the context of the expense category to which it relates to determine whether it qualifies for disclosure in the annual report as required. • The value of any identified fruitless or wasteful expenditure will also be reported. • In line with good business practice, as well as the requirements of the Act, the South African Post Office is committed to the prevention, detection of and taking appropriate action on all irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of the South African Post Office. To this end the South African Post Office's systems and processes are designed and continually reviewed to ensure the prevention and detection of all such expenditure, irrespective the size thereof.
Significant for Section 54 – Information and approval by the Minister of "qualifying transactions" i.e. • Establishment or participation in the establishment of a company; • Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement; • Acquisition or disposal of a significant shareholding in a company; • Acquisition or disposal of a significant asset; • Commencement or cessation of a significant business activity; and • A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement	*Quantitative* Qualifying transactions of an operational nature: • 2.5% of total asset category Qualifying transactions of a strategic nature: • 5% of asset category *Qualitative:* A qualifying transaction may also be considered significant based on considerations other than financial when, in the opinion of the Board, it is considered to be significant for the application of Section 54. The decision on which non-financial issues may be considered at any time requires careful judgement at a strategic level, and should therefore rest with the Board as representative body of the Shareholder. As an example, the Board of Directors may consider a qualifying transaction as significant when it could impact significantly on a decision or action by the Minister such as a large retrenchment of less than R100 million.	Minimum **R50 million** **R50 million**	• The PFMA is not intended to affect the autonomy of the organisation, but its stated objectives are to ensure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the institutions to which the Act applies. Therefore, the legislature could not have intended for the public entities to report and seek approval on matters of a daily basis. • The business of the South African Post Office is conducted within the framework of the mandate, objects and powers contained in the South African Post Office Act, as well as the business and financial direction set out in the corporate plan. • The South African Post Office also has defined accountability and approval structures from the Board, as the shareholder representative, to the Group CEO and management. • The responsibility for the day-to-day management of the South African Post Office vests in line management through a clearly defined organisational structure and through formally delegated authorities.

Sustainability report

Values

The South African Post Office's value system provides the platform from which the organisation has grown to meet challenges. The Group's values, listed below, embrace a number of critical issues that are fundamental to the South African Post Office's brand and ethics.

- We have a passion for our customers and will meet their specific needs through excellent service.
- We 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 do business.

Managing our environment

The South African Post Office acknowledges the critical aspect of sustainable development and the impact that climate change will have on South Africa and the environment within which it operates. The South African Post Office further recognises the contribution it makes and the role it can play in meeting the challenges outlined by the government. In accordance with our vision to be recognised among the leading providers of postal and related services in the world, the vision of the environmental strategy draws its inspiration.

The South African Post Office seeks to be recognised as one of the leading South African companies and the leading state owned enterprise in environmental management and sustainable development.

The South African Post Office has and continues to respond to this national imperative. The importance of the environment within the Group has been demonstrated by the introduction of the triple bottom line reporting framework for our financial results in 2008. This framework, which recognises the importance of social, economic and environmental facets in the running of the Group, has been further incorporated into the Group business balanced scorecard. All Business Unit scorecards now have a significant portion allocated to the environment, and the introduction of monthly reporting of key environmental metrics will further entrench the importance of the environment in the management practices of the Group.

Our environmental policy

EN26 The South African Post Office management is committed to combating global warming and climate change by being an environmentally responsible company and contributing to the environmental wellbeing of South Africa.

This commitment was strengthened in 2008 when the Board of Directors approved the South African Post Office Group's Environmental Policy which has six pillars:

- Protecting and enhancing the environment
- Avoiding adverse effects
- Using and managing resources efficiently
- Considering environmental issues early
- Contributing to sustainable outcomes by partnering with others
- Continuous improvement of environmental performance

Our environmental strategy

EN26 In 2009 the Executive Committee of the South African Post Office approved the environmental strategy which was guided by the approved environmental policy.

Our strategy has five pillars which are:

- Protecting the environment
- Minimising our impact on the environment and offsetting our carbon emissions
- Utilising our non-renewable resources in a sustainable way
- Pursuing sustainable management practices
- Participating in the national debate surrounding sustainable development

Implementation status of our plans

Goal	Action	Implementation status
Measure our carbon emissions	Carbon dioxide emissions from our fleet are tracked on a monthly basis	A carbon tracking model has been developed and a dashboard to track monthly carbon emissions
Identify methods to reduce our carbon emissions	A pilot study to be undertaken from April 2010 to test the applicability of electric scooters	The pilot will take place when Emax scooters are delivered
Develop a carbon off-set programme	857 trees were planted in the 2009/10 financial year to offset 5% of our baseline fleet emissions	2.25 tons of carbon dioxide was off-set by planting 857 trees
Baseline our electricity consumption	Smart meters installed at four pilot sites to measure the consumption of energy	Business case underway to roll out smart meters initially to mail centres and later to all buildings owned by the South African Post Office
Identify initiatives to reduce electricity consumption	A pilot study at Tshwane Mail Centre to provide an energy efficiency solution is to be undertaken in the early months of the new financial year	The process is at pre-tender phase
Baseline our fossil fuel consumption	Fossil fuel consumption tracked on monthly basis	A dashboard has been developed to track fossil fuel usage
Introduce an effective recycling programme for paper	A national service agreement has been signed with Nampak for collection and recycling of office waste paper	The Standard Operating Procedure (SOP) has been forwarded to regions and subsidiaries and will be monitored closely from statistics provided by Nampak
Sign the voluntary energy efficiency accord	The accord has been signed	
Participate in the Carbon Disclosure Project (CDP)	The South African Post Office was commended during the launch of CDP 2009 as one of the leading state-owned enterprises in issues of climate change	The South African Post Office will participate fully in the CDP of 2010

Global Reporting Initiative (GRI) performance indicators: environmental awareness

EN1-EN2 Materials

The South African Post Office uses a large quantity of paper for its services and office operations. Our printing facilities at Hybrid Mail Centres process considerable quantities of paper for external clients.

In 2008, 725 tons of paper was used. In 2009, this dropped to 614 tons which is a 15% reduction in paper usage. In 2008, 291 tons of paper was recycled and 137 tons in 2009. The amount of paper recycled for 2008 includes prospectus documents that remained in retail outlets after the Vodacom and Sasol Inzalo share schemes which were sold to the public through the South African Post Office. For the period under review, income from sale of waste paper came to R123,000, R156,000 less than the amount generated in the previous financial year.

EN3-EN4-EN5 Energy

The Group has no measured total energy consumption for 2009/10. However, the pilot study at four of our sites which represent the profile of our various facilities have accurate readings from smart meters installed in the buildings. The pilot sites are:

- typical mail centre (Tshwane Mail);
- typical retail outlet (Sunnyside Post Office);
- typical head office/regional office (National Post Centre); and
- typical distribution centre/logistics centre (Supply Chain Complex).

EN7 Initiatives to reduce indirect energy consumption and reductions achieved

The pilot study to optimise energy profile at the Tshwane Mail Centre is at pre-tender phase. The optimisation should be implemented in the early months of our new financial year. The optimisation will focus on:

- reducing the maximum demand;
- retrofitting the existing 400w lamps with energy-efficient alternatives that meet the OSHA prescribed lux level;
- optimisation of the air-conditioning system; and
- power factor correction.

EN8-EN9 Water consumption

The South African Post Office used portable water for social purposes and as a result the water requirements did not significantly affect water resources.

There are new technologies with regard to water metering and they will be followed up in the new financial year with the view of piloting such devices.

EN16-EN18 Air pollution

Carbon dioxide is the most critical greenhouse gas (GHG) which constitutes 80% of all the greenhouse gases. The carbon dioxide we measure is mainly from the combustion of fuel (diesel and petrol) from our fleet operations.

During the 2009/10 financial year, the South African Post Office emitted 43.47kt CO_2e (kilotons carbon dioxide equivalent) compared to 42.49 kt CO_2e for 2009/10 financial year, a reduction of 2.23% in fleet emissions.

EN21-EN23 Discharge of water into soil, groundwater and municipal waste stream

The majority of waste water originating from our operations is of communal nature. Waste water is produced by the canteen, showers, sewer and basins. This stream goes directly to the relevant municipal waste water treatment plants for treatment.

EN29 Transport

Transport is a major environmental factor for operations at the South African Post Office; mail is forwarded mainly by road.

The South African Post Office has implemented a number of initiatives to reduce its impact on the environment. These are:

- replacing all leaded petrol vehicles with unleaded petrol vehicles, eliminating lead emissions;
- replacing all 85 two-stroke motorcycles with modern four-stroke units which are more energy efficient;
- fitment of “Safe Stop” for heavy commercial vehicles to prevent over-speeding, over-revving of engine and unnecessary idling of the vehicles;
- regular tyre inspection on heavy commercial vehicles; and
- adherence to strict servicing interval of vehicles to keep the fleet technically competent to operate.

The South African Post Office will conduct a pilot run of five electric scooters during the 2010/2011 financial year.

EN30 Environmental protection expenditure and investments

The South African Post Office invested in the following activities during the 2009/10 financial year:

- R79,000 to install smart meters at the four pilot sites. The cost includes training and web-based monitoring of consumption and customised reporting;
- R60,000 to plant 857 trees as a carbon offset measure; and
- R350,000 for the Climate Change Leadership Awards; 1,000 trees will be planted to offset carbon from the event.

The South African Post Office will invest in the following activities in the new financial year:

- rolling out the automated metering to all mail centres;
- implementation of an energy-efficiency solution at the Tshwane mail centre; and
- progressive and gradual implementation of an energy-efficiency solution at all mail centres.

Sustainability report *continued*

Environmental Indicators

Transport

Indicator	Unit	2008/09	2009/10	Change year on year
Number of vehicles	Number	1,475	1,475	0
Number of petrol driven vehicles	Number	1,249	1,249	0
Number of diesel driven vehicles	Number	226	226	0
Number of National Linehaul Vehicles (diesel)	Number	62	62	0
Number of electric vehicles	Number	0	0	0
Total road transport	Km	68,849,239	68,944,504	95,265
Fuel consumption – petrol	L	6,421,352	6,483,468	162,116
Fuel consumption – diesel	L	10,309,120	9,978,463	330,657
Fuel consumption National Linehaul – diesel	L	6,000,000	6,000,000	0
Total fuel consumption	L	16,730,472	16,461,931	268,541
Average fuel consumption – scooters	l/100km	4.43	4.24	0.19
Average fuel consumption – passenger	l/100km	10.12	9.19	0.93
Average fuel consumption – commercial diesel	l/100km	13.90	13.60	0.30
Average fuel consumption – commercial petrol	l/100km	13.82	13.15	0.67
Average fuel consumption NLH – diesel	l/100km	45.45	45.45	0

The key environmental initiatives are summarised in the table below.

Initiative	2009/10	2010/11	2011/12
Reduce our carbon footprint	Measure our carbon emissions		
	Identify methods to reduce our carbon emissions	Reduce our carbon emissions by 2.5%	Reduce our carbon emissions by 2.5%
	Develop a carbon offset programme	Implement a carbon offset programme, and offset 2.5% of our total emissions	Offset 5% of our total carbon emissions
Reduce our electricity consumption	Baseline our electricity consumption		
	Identify initiatives to reduce electricity consumption	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year
Reduce our water consumption	Baseline our water consumption		
	Identify an effective water recycling programme	Implement an effective water recycling programme	Recycle 5% of grey water
	Identify initiatives to reduce water consumption	Reduce our total water consumption by 3% over prior year	Reduce our total water consumption by 3% over prior year
		Reduce our total water consumption per employee by 3% over prior year	Reduce our total water consumption per employee by 3% over prior year
Reduce our fossil fuel usage	Baseline our fuel consumption for 2009/10		
	Identify initiatives to reduce fuel consumption and improve fleet fuel efficiency	Implement initiatives to reduce fuel consumption and improve fleet fuel efficiency	
		Reduce total fuel consumed by 2.5% over prior year	Reduce total fuel consumed by 2.5% over prior year
		Improve overall fuel efficiency of fleet by 2.5% over prior year	Improve overall fuel efficiency of fleet by 2.5% over prior year
Improve our sustainability through recycling	Introduce an effective recycling programme for paper recycling		
	Reduce the total amount of paper used in the Group by 2.5% over prior year	Reduce the total amount of paper used in the Group by 2.5% over prior year	Reduce the total amount of paper used in the Group by 2.5% over prior year
	Increase amount of paper recycled to 35% of total paper used	Increase amount of paper recycled to 40% of total paper used	Increase amount of paper recycled to 45% of total paper used
Partake in the debate surrounding sustainable development	Sign the voluntary energy efficiency accord		
	Participate in the carbon disclosure project	Participate in the carbon disclosure project	Participate in the carbon disclosure project

Sustainability reporting guidelines

The 2007/2008 Annual Report was the first to contain a Sustainability Report for the Group. The South African Post Office is committed to comply with all corporate governance practices and will continue to strive for improvement in its practices in order to build on the organisation's long-term sustainability. A full GRI content index and compliance level is detailed below to assist stakeholders to easily access information directly. The boundaries have been defined as per table below. This is in line with the King III report on good governance.

√ Full compliance x No compliance △ Partial compliance

GRI Element		
Reporting disclosure		**Report section or sub-section (explanatory comment)**
Strategy and analysis		
1.1 Statement from most senior executive	√	Chairperson's report (page 14-15)
	√	Group CEO's report (page 18-19)
	√	CFO's report (page 20-23)
	√	COO's report (page 24-25)
1.2 Key risks and opportunities	√	Risk management report (page 41-43)
Organisational profile		
2.1 Name of organisation	√	Directors' report (page 85-88)
2.2 Primary brands	√	Post Office brand (page 5)
2.3 Operational structure	√	Business model (page 5)
	√	Operational reach (page 3)
2.4 Location of headquarters	√	Directors' report (page 85-88)
	√	Back cover
2.5 Number of countries where organisation operates	√	Logistics operational report (page 34-37)
2.6 Nature of ownership and legal form	√	Corporate governance (page 40-47)
2.7 Market and sectors served	√	Sustainability report (page 49-76)
2.8 Scale of organisation	√	Directors' report (page 85-88)
2.9 Significant changes during reporting period	√	Business model (page 5)
2.10 Awards received	√	Industry recognition (page 7)
Report parameters		
Report profile		
3.1 Reporting period	√	Auditor's report (page 80-81)
	√	About this report (page 1)
3.2 Date of most recent previous report	√	Directors' report (page 85-88)
3.3 Reporting cycle	√	About this report (page 1), Directors' report (page 85-88)
3.4 Contact point for questions regarding report or content	√	Back cover of report
Report scope and boundary		
3.5 Materiality framework and identification of stakeholders	√	Sustainability report (page 49-76), Materiality framework (page 48)
3.6 Boundaries of report	√	Sustainability report (page 49-76)
3.8 Basis for reporting on joint ventures, subsidiaries, leased and outsourced operations	√	Notes to financial statements (page 105-169)
3.10 Re-statement of information provided in earlier reports	√	Financial statements (page 85-169)
3.11 Significant changes from previous reporting	√	Sustainability report (page 49-76), Financial statements (page 85-169)
GRI Content Index		
3.12 Table identifying the location of disclosures	√	Sustainability framework (page 48-76)
Assurance		
3.13 External assurance	△	

GRI Element		
Reporting disclosure		**Report section or sub-section (explanatory comment)**
Governance, commitments and engagements structures		
Governance		
4.1 Governance structures	√	Corporate governance report (page 40-47)
4.2 Position of Chair	√	Corporate governance report (page 40-47)
4.3 Members of governance bodies	√	Corporate governance report (page 40-47)
4.4 Mechanisms to provide recommendations to governance bodies	√	Corporate governance report (page 40-47)
4.5 Linkage between governance bodies compensation and organisation's performance	√	Financial statements (page 89-92)
4.6 Avoidance of conflict of interest	√	Corporate governance report (page 40-47)
4.7 Qualifications and expertise	√	Board of Directors (page 12-13)
4.8 Vision, mission, values and code of conduct statements	√	Table of contents, Sustainability report (page 49-76)
4.9 Governance bodies overseeing practices regarding performance, opportunities, compliance, code of conduct and principles	√	Corporate governance report (page 40-47)
4.10 Evaluating own performance at highest governance level	√	Highlights (page 6)
	√	Group key performance indicators (page 10-11)
	√	Auditor's report (page 80-81)
Commitment to external initiatives		
4.11 Economic, environmental and social charters or policies	√	Risk management (page 41-43)
	√	Sustainability report (page 49-76)
4.12 Membership of associations and/or national/international advocacy organisations	√	Values and ethics (page 49)
Stakeholder engagement		
4.13 List of stakeholders	√	Sustainability report (page 49-76)
4.14 Identification and selection of stakeholders	√	Sustainability report (page 49-76)
4.15 Approach to stakeholder engagement	√	Sustainability report (page 49-76)
4.16 Key topics and concerns	√	Sustainability report (page 49-76)
Management approach and performance indicators		
Economic performance indicators		
Economic performance		
EC1 Economic value generated and distributed	√	Sustainability report (page 49-76)
EC2 Financial implications, risk and opportunities	△	Risk management report (page 41-43)
EC3 Defined benefit plan	√	CFO report (page 20-23), Financial statements (page 79-169)
EC4 Significant financial assistance received from government	√	Directors' report (page 85-88)
Market presence		
EC5 Standard entry-level wage compared to local minimum wage	√	Value added statement (page 7)
EC6 Locally based suppliers	√	Sustainability report (page 49-76)
EC7 Procedures for local hiring	√	Sustainability report (page 49-76)
Indirect economic impacts		
EC8 Development and impact of infrastructure investment and services for public benefit	√	Sustainability report (page 49-76)
EC9 Understanding and describing significant indirect economic impact and extent of impacts	√	Operational reports (page 26-39)
Environmental performance indicators		
Materials		
EN2 Percentage of material used that is recycled	√	Sustainability report (page 49-76)
Energy		
EN3 Direct energy consumption by primary energy source	√	Sustainability report (page 49-76)
EN6&7 Initiatives to provide or reduce energy consumption	√	Sustainability report (page 49-76)
Water		
EN8 Total water withdrawal by source	√	Sustainability report (page 49-76)
Compliance		
EN28 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	√	Sustainability report (page 49-76)

Sustainability report *continued*

GRI Element		
Transport		
EN29 Significant environmental impact of transporting goods used in the organisation's operations	√	Sustainability report (page 49-76)
Reporting disclosure		**Report section or sub-section (explanatory comment)**
Social performance indicators		
Employment		
LA1 Total workforce by employment type and region	√	Sustainability report (page 49-76)
LA2 Total number and rate of employee turnover by age group, gender and region	√	Sustainability report (page 49-76)
LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees	√	Sustainability report (page 49-76)
Labour/management relations		
LA4 Percentage of employees covered by collective bargaining agreements	√	Sustainability report (page 49-76)
LA5 Minimum notice period as specified in collective agreements	√	Sustainability report (page 49-76)
Occupational health and safety		
LA6 Percentage of total workforce represented in formal joint management/worker health and safety committees		
LA7 Rates of injuries, lost days and absenteeism	√	Sustainability report (page 49-76)
LA8 Educational, training, counselling, prevention and risk-control programmes in place to assist employees		
LA9 Health and safety topics covered in formal agreements with labour unions	x	
Education and training		
LA10 Average hours of training per year, per employee	x	
LA11 Programmes for skills management and lifelong learning	√	Sustainability report (page 49-76)
LA12 Employees receiving regular performance and career development reviews	√	Sustainability report (page 49-76)
Diversity and equal opportunity		
LA13 Employee equity	√	Sustainability report (page 49-76)
LA14 Ratio of basic salary of men to women by category	√	Sustainability report (page 49-76)
Human rights performance indicators		
Investment and procurement practices		
HR1 Percentage and total number of significant investment agreements that include Human Rights clauses	x	
HR2 Percentage of significant suppliers and contractors that have undergone screening on Human Rights	x	
HR3 Total hours of employee training on policies and procedures concerning aspects of Human Rights	x	
Non-discrimination		
HR4 Total number of incidents of discrimination and actions taken	√	Sustainability report (page 49-76)
Freedom of association and collective bargaining		
HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk and actions taken to support these rights	√	Sustainability report (page 49-76)
Child labour		
HR6 Policies and measures taken to eliminate child labour	√	Sustainability report (page 49-76)
Forced and compulsory labour		
HR7 Policies and measures taken to eliminate forced or compulsory labour	√	Sustainability report (page 49-76)
Labour		
Security practices		
HR8 Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of Human Rights	x	
Indigenous rights		
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken	√	Sustainability report (page 49-76)

GRI Element		
Society performance indicators		
Community		
SO1 Nature, scope of programmes	√	Sustainability report (page 49-76)
Corruption		
SO2 Percentage and total number of business units analysed for risks related to corruption	△	Risk management report (page 41-43)
SO3 Percentage of employees trained in the Group's anticorruption policies	△	Risk management report (page 41-43)
SO4 Actions taken in response to incidents of corruption	√	Crime and related activities (page 76)
Public policy		
SO5 Public policy positions and participation in public policy development and lobbying	√	Values and ethics (page 49)
SO6 Total value of financial and in-kind contributions to political parties, politicians and related institutions	√	Values and ethics (page 49)
Anti-competitive behaviour		
SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, monopoly practices and their outcomes compliance	√	Sustainability report (page 49-76)
SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	√	Sustainability report (page 49-76)
Product responsibility performance indicators		
Customer health and safety		
PR2 Total number of incidents of non-compliance with regulations	x	
Products and service labelling		
PR4 Total number of incidents of non-compliance with regulations	√	Sustainability report (page 49-76)
PR5 Practices related to customer satisfaction including results of surveys measuring customer satisfaction	√	Sustainability report (page 49-76)
Marketing communications		
PR6 Adherence to laws, standards and voluntary codes relating to marketing communications including advertising, promotions and sponsorships	√	Sustainability report (page 49-76)
PR7 Total number of incidents of non-compliance with laws, standards and voluntary codes of practice	√	Sustainability report (page 49-76)
Customer privacy		
PR8 Total number of substantiated complaints regarding breaches of customer privacy	√	Sustainability report (page 49-76)
PR9 Monetary value of significant fines for non-compliance	√	Sustainability report (page 49-76)

Towards maturity of sustainability reporting

The South African Post Office's sustainability performance is inextricably linked to its corporate governance practices. We continue in our second year of sustainability reporting with the principle of GR (3) sustainability reporting as a global trade benchmark, while also taking into account the unique South African landscape. Therefore, no re-statements regarding sustainability were or are required.

To deliver on this commitment, the South African Post Office is embedding a culture of sustainability by integrating sustainability management into its strategies, accounting, performance management and reporting processes.

Measurement framework

Sound accountability and governance

As part of the South African Post Office's strategic objectives to improve corporate governance, the Board of Directors adopted a holistic focus on accountability and governance.

Board governance

Executing the fiduciary duties of the Board of Directors in directing the South African Post Office in the pursuit of its strategic objectives and mandates.

Executive management

Executing and managing the operatisation of the strategic objectives, licence targets and social mandate in a proper and lawful way.

Ethical culture

Sharing in the values and ethics by which the South African Post Office operates by disclosing our actions to manage the risks to which the South African Post Office is exposed.

Enterprise risk management

Disclosing and regularly updating the South African Post Office's risk management framework which informs the risk management process and execution.

Compliance management

Acknowledging the laws, rules, licence targets and standards governing the South African Post Office actions and disclosing the South African Post Office's compliance to these to the Shareholder and Regulator.

Legal management

Managing the legal exposure and mitigating legal risk to ensure sound legal governance processes.

Assurance management

Giving assurance through the disclosure of the South African Post Office's internal and external environment.

Business intelligence

Sharing information on the South African Post Office's business processes in a credible and consistent way to assist in collecting and analysing business information.

Sustainability platform

Developing a sustainability framework and reporting progress on the South African Post Office's approach in a way that integrates sustainability issues into the manner in which the South African Post Office operates.

Communication and reporting

Communicating the South African Post Office's performance in a clear and transparent way on a monthly, quarterly and annual basis.

Stakeholder engagement

Acknowledging the South African Post Office stakeholders and disclosing the Group's actions to seek mutual, beneficial relationships.

Transformation

Highlighting the actions required to transform the Group into focused business units.

Engaging stakeholders for mutual benefit

The South African Post Office continuously seeks to engage in collaborative working relationships with its stakeholders. The Group Chief Executive Officer, through the Executive Committee, is responsible for coordinating engagements with key stakeholders.

We identify stakeholders as any group that has a vested interest in the way the South African Post Office conducts its business or related activities. Some parties, like our employees and the communities in which we operate, are directly and personally affected by our actions on a daily basis. Their economic stability, livelihood, health, safety and future depend to a large extent on the success of the South African Post Office. There are other stakeholders who may not be so directly, personally or immediately impacted, but whose stake in the South African Post Office is no less significant. These include our suppliers, customers and the Shareholder.

Sustainability principle aimed at creating shareholder value	The principal issues identified as material concerns to stakeholders	Key stakeholders						
		Shareholder and Portfolio Committee	Regulator	Suppliers	Labour unions and employees	Communities	Customers	Media and public
Economic sustainability Achieving returns greater than the cost of capital	Financial management Marketplace and customer management Operations management Supply management and BBBEE	The Shareholder seeks an appropriate return on investment. Key performance indicators (KPIs) have been agreed upon with the Shareholder and are contained in the Shareholder's Compact Targets are set for each KPI and are contained in the annual Corporate Strategic Plans	In the Group's everyday financial, marketplace, operational and supply management, the South African Post Office complies with amongst others, the Postal Act; International Financial Reporting Standards; Broad-Based Black Economic Empowerment Act; the Competition Act; the Auditing Profession Act and various other Acts and regulations	Through improving its operational efficiency, the South African Post Office seeks to provide its customers with a reliable service and to establish values creating growth opportunities for its suppliers The Group's suppliers expect procurement processes that are ethical, efficient and transparent At the South African Post Office, preferential procurement is a business imperative The South African Post Office further intends to implement sound strategic sourcing partnerships with key suppliers	Solid financial performance, a stable marketplace and operational efficiency create the foundation for a workplace where the Group balances performance and reward	Broad Based Black Economic Empowerment purchasing is done from local suppliers	The South African Post Office's brand value is greatly determined by public perception The key to its success therefore lies firmly in its ability to achieve sound financial returns, secure its market share, enhance operational efficiency improvement and strengthen its supply chain management	Mutually beneficial co-existence depends on the Group's business sustainability The South African Post Office will engage in enterprise development initiatives as a part of its adoption of the BBBEE Codes of Good Practice

Sustainability principle aimed at creating shareholder value	The principal issues identified as material concerns to stakeholders	Key stakeholders						
		Shareholder and Portfolio Committee	Regulator	Suppliers	Labour unions and employees	Communities	Customers	Media and public
Social sustainability Creating a workplace where people can excel	People management Change Transformation and culture Employment equity Skills development Talent management Performance and reward Productivity and efficiency Employee relations Employee wellness and HIV/Aids Employee safety	In line with the country's policies, the South African Post Office seeks to create an organisation that is reflective of the diversity of the South African society and which contributes to maximising the human resources potential of its people The South African Post Office continues to participate in the country's developmental initiatives such as the Joint Initiative on Priority Skills Acquisition (Jipsa) and the Accelerated and Shared Growth Initiative for South Africa (Asgisa) The South African Post Office regards acquisition and the retention of critical skills as central to the success of its strategy execution	The South African Post Office's human capital management is governed by compliance with amongst others, the Occupational Health and Safety Act; the Compensation for Occupational Injuries and Diseases Act; the Basic Conditions of Employment Act; the Employment Equity Act; the Labour Relations Act; and the Promotion of Equality and Prevention of Unfair Discrimination Act	The South African Post Office's customers are constantly taking note of the Group's ability to secure a stable marketplace enabled by a suitably skilled, motivated and productive workforce Healthy relations between the South African Post Office's staff and suppliers form the backbone of efficient service delivery	The South African Post Office is dedicated to the training and developing of its human capital, thus providing its people with a sustainable business and achieving an "employer of choice" status The Group constantly seeks to establish opportunities for career advancement, and provides bursaries and other skills development programmes to its employees The safety of the South African Post Office's employees is of paramount importance and the compliance with Occupational Health and Safety Act (OHSA) management is central to the Enterprise Risk Management (ERM) framework and capital investment programmes	With its vast infrastructure and footprint, the South African Post Office is able to employ people from the local communities	The South African Post Office values the importance of the investment in a sound working relationship with its employees and labour unions Organised labour is an integral component of a well-managed organisation and the Group is dedicated to building its working relationship based on mutual dignity, trust and respect	The extended families of the South African Post Office's employees are dependent not only on the livelihood provided by job security, but also on extended roll-out of its employee wellness and HIV/Aids programmes
Caring for our stakeholders	Developing accessible infrastructure Repositioning the South African Post Office brand Establishing good customer relationships Corporate Social Investment International and Africa support	Infrastructure development is a major investment area to address accessibility to government services	In infrastructure development, the South African Post Office strives to comply with agreed Regulator requirements	The investment in infrastructure provides the vehicle to grow BBBEE participation	Creates new job opportunities and skills development through which the South African Post Office can deliver operational excellence	Planning the infrastructure includes the engagement of the community and provides accessibility to financial, mail and logistical services as well as access to government services	Through planning infrastructure the South African Post Office seeks to involve customers to ensure they are aware of a new development and are able to identify this as a new service point	The South African Post Office communicates infrastructure development regularly to the Parliamentary Portfolio Committee to ensure public support. The opening of new offices is also communicated

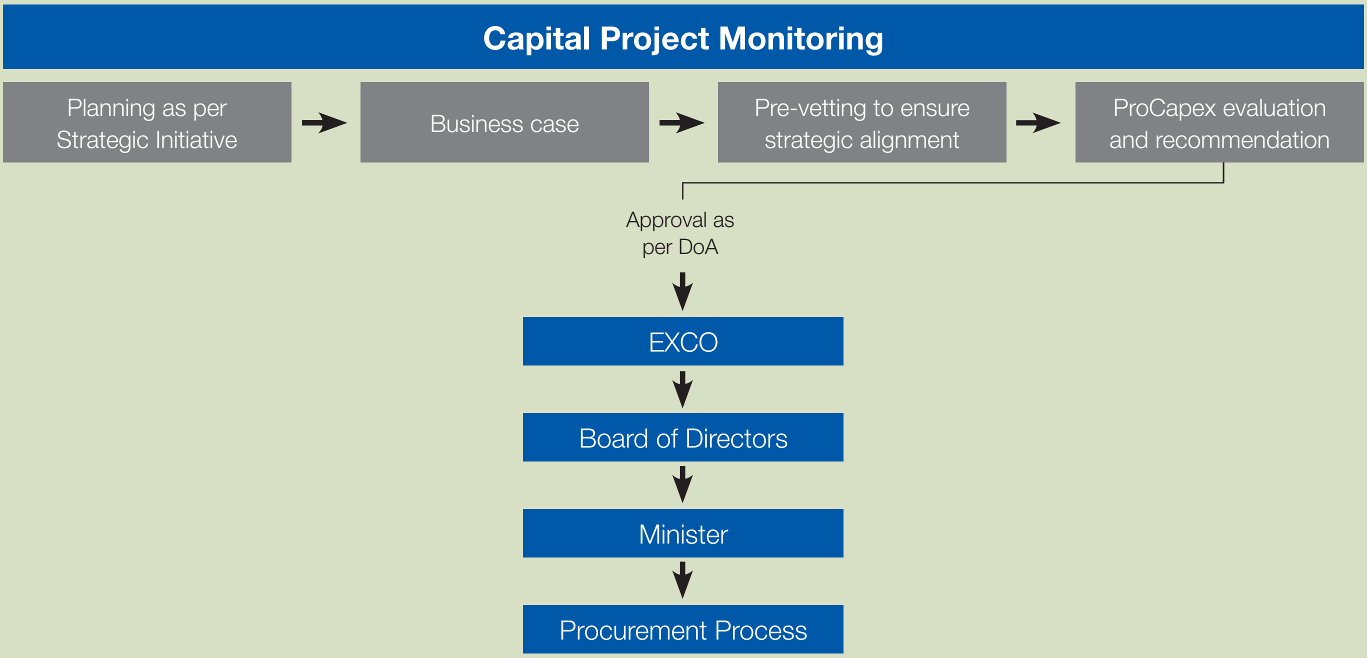
Engaging stakeholders for mutual benefit *continued*

Sustainability principle aimed at creating shareholder value	The principal issues identified as material concerns to stakeholders	Key stakeholders						
		Shareholder and Portfolio Committee	Regulator	Suppliers	Labour unions and employees	Communities	Customers	Media and public
CSI **Caring for the communities where we operate**	Corporate social investment Community impact and public health and safety	The South African Post Office has adopted a corporate social investment (CSI) policy and will focus on social developmental initiatives It will further promote employee volunteerism projects amongst its employees. These will be monitored and reported as part of its commitment to triple bottom line performance reporting	In its interactions with society the South African Post Office seeks compliance with relevant laws including the BBBEE Act	Prospective and current customers Seek best practice in social conduct when entering into a business relationship The economic development of the South African Post Office's suppliers as well as the safety management ability are key focus areas of the Group's supply chain management	South African Post Office employees are dependent on job security, fair remuneration and career advancement opportunities to fulfil their responsibilities to society	To support the communities impacted by South African Post Office operations, the Group is improving the integration of CSI initiatives, as well as rolling out a pro-active volunteerism campaign	The South African public's perception of the South African Post Office, as a good corporate citizen, is largely influenced by its response to social and universal service obligation issues	The South African public's perception of the South African Post Office as a good corporate citizen is largely influenced by its response to social and universal service obligation issues
Assuring accountability and governance	Board governance Executive management Strategy and transformation Ethical culture Enterprise risk management Compliance management Business intelligence Sustainability Communication reporting	The South African Post Office's Shareholder, the Government of the Republic of South Africa, as represented by the Minister of Communications, requires the Board and management of the Group to carry out their duties and responsibilities in a manner that is consistent with principles of sound corporate governance and vigilant risk management focus	Compliance with all applicable laws, rules and standards and adherence to the requirements of ICASA are central to the South African Post Office's broader corporate governance and enterprise risk management The South African Post Office seeks to maintain a constructive and transparent working relationship with its Regulator and other government departments	Continued growth of the Group's market is inextricably linked to the needs and expectations of its customers To suppliers, BBBEE compliance, proper governance, ethical conduct and contract management are key concerns	Value-adding communication tools used in the Group's daily interaction with its people: -Business Performance Review Forum (BPRF) meetings; -Weekly National business monitoring meetings (NCC) -Take Notes via email system-Internet/intranet; -Newsletters; and -Letters from the Group CEO	The business has an impact on the communities where it operates. The South African Post Office strives to demonstrate to communities that the Group values principles of sustainability and has adopted triple bottom line reporting	Engaging customers to better understand their unique needs takes various forms, which include meetings with the Group	The South African Post Office interacts with these stakeholders through: -Press conferences; -Media breakfasts; -Press releases and all other recognised methods The South African public credit rating agencies and the media are particularly focused on the Group's ability to deliver on its commitments as set out in its strategic plan.

Sustainability principle aimed at creating shareholder value	The principal issues identified as material concerns to stakeholders	Key stakeholders						
		Shareholder and Portfolio Committee	Regulator	Suppliers	Labour unions and employees	Communities	Customers	Media and public
Assuring accountability and governance (continued)		The Group provides to the Shareholder, prior to the commencement of each financial year, an enterprise risk management plan, fraud prevention plan, Shareholder's compact and materiality framework Through the Shareholder's Compact the Group and the Shareholder Minister agree performance targets. In addition there are quarterly, interim and annual reports on the Group's performance	To enhance interaction with the Regulator, a Governance Unit has been established in the Office of the Group Chief Executive Officer		The South African Post Office's employees and organised labour need to be assured of the proper governance and ethical management of the business	The South African Post Office seeks engagement with such communities through, amongst others: - Awareness campaigns. - Employee volunteerism initiatives	Customer satisfaction feedback/ reports; Engagement meetings; and Fact sheets, pamphlets and newsletters. The South African Post Office interacts with these stakeholders through: - One-on-one interviews and roadshows;	
Caring for our environment	Develop a South African Post Office environmental policy and measurement criteria	Compliance with all legislation relating to the environmental impact of the Group's operations forms part of the governance focus	The Group strives to ensure compliance with all environmental legislation which impacts on its operations eg: National Environmental Management Act	Best practice in environmental management builds trust in the Group's business relationships In its relationship with its suppliers the South African Post Office can play a crucial empowerment role in environmental awareness and conduct	Being an employer of choice also implies instilling a culture of accountability for the environment on which the Group impacts through its operations	An environmental focus will install a culture of accountability for the environment on which the Company impacts through its operations	The perception of the South African Post Office as a good corporate citizen is influenced by its responsible management of environmental issues	The South African Post Office shares the communities' responsibility for the environment which its operations affect

Developing infrastructure

Capital investment programmes are aligned to the South African Post Office strategy and procurement in line with broader policies, procedures and the materiality framework.



Capital programmes

The South African Post Office continues to invest in infrastructure for efficient service delivery, operational excellence and customer satisfaction. The government subsidy is supplemented with profits made and used for investment in infrastructure.

The table below shows actual and committed infrastructure expenditure.

	2009/10	2008/09
Freehold land and buildings	R319,941,632	R340,705,075
	Funds were used to upgrade South African Post Office buildings in line with OHSA requirements and to expand the number of post office branches nationally as outlined in South African Post Office's mandate with government.	
Machinery and equipment	R73,631,059	R27,198,060
	Funds were used primarily for purchasing mail and parcel handling equipment.	
Information technology	R154,863,275	R275,551,702
	Funds were used for software and for upgrading the IT infrastructure.	

Creating a workplace where our people can excel

Human capital management

The South African Post Office will continue to nurture talent through appropriate training and development and will systematically improve the working environment so that everyone experiences it as the best place to work. While the South African Post Office's business strategy provides the direction for its varied efforts, it is the people in the Company who will seal the success of the organisation. Recent successes are the result of the outstanding commitment and focus of employees at the different levels of the organisation.

Employment equity

The South African Post Office as a group voluntarily complies with the requirements and stipulations of the Employment Equity Act 55 of 1998. For the South African Post Office, compliance to the Employment Equity Act is driven by the quest to ensure equity in its entirety as well as commitment to the broader objectives of creating a workplace that epitomises fair labour practices, is free from discrimination and values the diversity of the broader South African society, thus contributing significantly to the advancement of socio-economic growth and development of the country.

It is for these reasons that the South African Post Office aims to have a workforce that represents the demographics of the economically active population of the South African society. Thus the representation of designated groups (as provided for by the Employment Equity Act) is monitored.

The following indicates the status of the representation of designated groups within the Group. The table below reflects the overall summary of the representation of designated groups as a percentage against target, as at 31 March 2010.

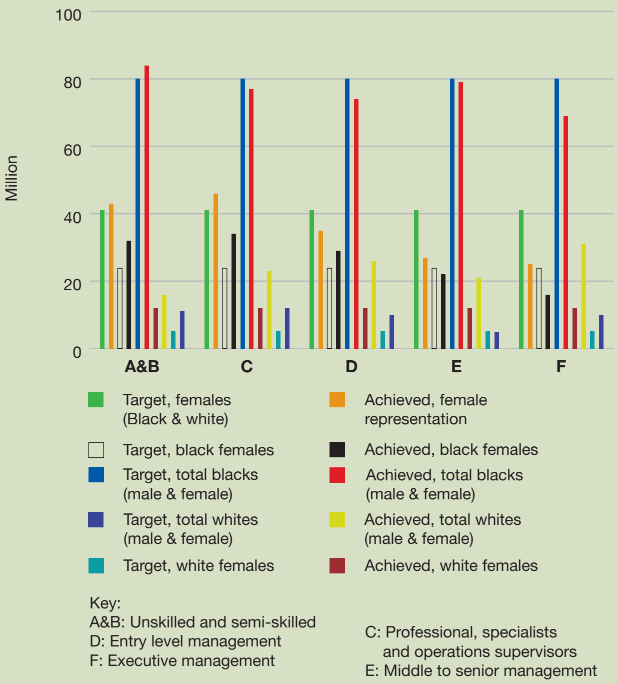
Overall representation of designated groups as a % against target

Race and gender	Targets	Status as at 31 March 2009	Status as at 31 March 2010
Female representation	41.05%	43%	43%
Representation of black females	23.88%	32%	32.33%
Representation of blacks	80%	81%	82%
Disability	4%	4.25%	4%

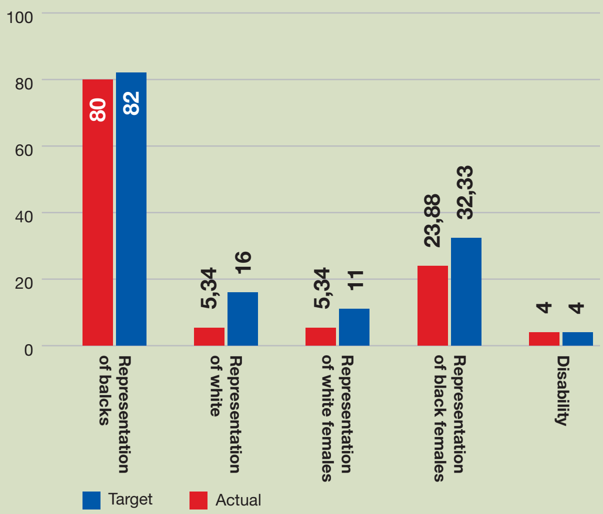
The above is a reflection of the South African Post Office workforce against the 80/20 principle. Black employees constitute 82% of the total workforce, 39% of whom are females. White employees constitute 18% of the total workforce and of this, 61% are females. Females constitute 43% of the total workforce.

Black employees, as indicated above encompass all designated racial groups as per the Employment Equity Act, including Indian, Coloured and Chinese employees. The table below reflects the specific targets and status:

Group workforce profile of designated groups: Representation per occupational levels against targets as at 31 March 2010



The table below is a reflection of further representation of the total workforce profile according to race, gender and occupational levels as at 31 March 2010.



Creating a workplace where our people can excel *continued*

Human capital development

This function in the South African Post Office consists of Learning and Development, Organisational Culture Transformation and Talent and Succession Management.

Learning and development

Learning and development in the South African Post Office focuses on skills development through many different initiatives. The South African Post Office embraces the spirit of the training legislation within the country by being an active participant within the structures such as the Sector Education Training Authority (SETA) that monitors and regulates skills development as well as education, training and development practices. The South African Post Office's Learning Institute is accredited by the Services SETA as a provider of learning interventions; four postal qualifications are registered with the South African Qualifications Authority on NQF level 3 and 4. The Learning Institute also received accreditation from the Association of Accounting Technicians in the United Kingdom as a partner in the provision of the Association of Accounting Technicians (AAT) qualification as well as from the South African Institute of Chartered Accountants (SAICA) as an accredited training provider.

The organisation has without fail ensured compliance with the Skills Development Act and Skills Development Levies Act through the payment of skills levies as well as the Workplace Skills Plan and Annual Training Report since inception. The 2009/10 financial year was no exception; 23,324 interventions were planned for the financial year; an actual 26,939 interventions were achieved, exceeding the target by 3,615.

Skills development

The organisation recognises that people are the key drivers of its strategic objectives and the success envisaged. People development is therefore a strategic imperative and at the epicentre of issues of strategic and operational importance for the South African Post Office. Learning is continuously driven at individual, team and organisational levels. This is facilitated through the implementation of formal and informal interventions. The learning interventions are aimed at professional, vocational, as well as personal development of individual employees in alignment with the strategy of the organisation with the key focus being the transformation of the organisation into a high-performing organisation.

These interventions are informed by organisational and individual needs and cover both structured learning programmes such as learnerships, functional skills and on-the-job training.

Through this commitment to the skills development regulatory processes, the South African Post Office maximised the benefits from the skills levies. This is evident through the total of approximately R7 million paid by the SETA as mandatory skills paid to the organisation, excluding discretionary grants.

The learning programmes implemented are delivered through blended learning methodology combining aspects of distance learning with computer-based learning, instructor-led components as well as e-learning channels. Through the blended learning approach the different learning styles and preferences of our diverse workforce are catered for and adequately accommodated.

Learning interventions implemented through the skills development drive within the organisation include but are not limited to the following:

- general vocational programmes to support business initiatives;
- Adult Basic Education and Training (ABET);
- bursaries for formal studies;
- management and leadership development programmes at various levels;
- learnerships;
- recognition of prior learning programmes;
- graduate programmes: and
- experiential learning/internships for graduates without work experience.

The following is an outline of the above interventions indicating focus areas for the financial year 2009/10.

General vocational programmes to support business initiatives

In supporting the achievement of organisational objectives and to ensure efficiency within the business units, the following learning interventions were implemented within the business:

- ISO Matrix – an information management system to support the implementation of ISO;
- Administrative Adjudication of Road Traffic Offences Act (AARTO) compliance;
- Product and services training targeted at the roll-out of specific business processes; and
- Financial Intelligence Centre Act training for employees within the customer-workforce interface segments.

Adult Basic Education and Training (ABET)

The South African Post Office recognises the role of literacy as a basic life-skill and seeks to address the legacy of illiteracy. In the commitment to eliminating illiteracy within the organisation, ABET as a basic form of formal education was offered to employees. This intervention is implemented throughout the organisation as a formal learning intervention, and affords unskilled and semi-skilled individual employees, who would otherwise have not had the opportunity, to acquire basic education, training and life-skills. ABET programmes are implemented from level NQF 1 to 3, thereafter employees are offered support through bursaries and learnerships to pursue NQF level 4 qualifications.

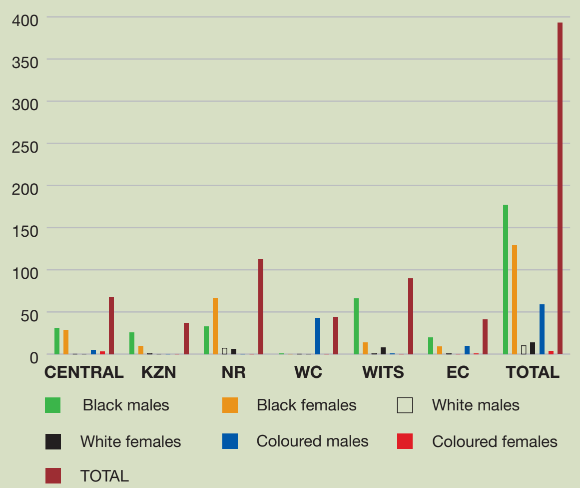
The past year saw ABET being taken to a higher level with the introduction of computer-based training as a delivery methodology. Learners were provided with basic computer literacy programs to enable them to optimise their learning opportunity. This form of delivery methodology ensures that while formal learning is taking place, learners are also afforded the opportunity to improve their computer literacy levels. These are employees who, due to their job designations, would not have had opportunities to develop computer literacy skills.

The ABET learning programme has empowered employees with the following achievements in the financial year 2009/10:

- Some of the employees who completed all learning areas of ABET NQF level 4 are then granted bursaries to pursue grade 12;
- Five employees successfully completed grade 12; and
- Having started at basic levels of ABET, some employees have continued to register for short course certificates, as well as undergraduate qualifications.

The following is a graphical representation of the ABET programmes implemented and the number of employees who participated in these programmes for the 2009/10 financial year.

ABET numbers 2009/10



Learnerships and Recognition of Prior Learning (RPL) initiatives

Learnerships are formal and structured vocational learning programmes that afford learners exposure to practical experience as well as formal theoretical knowledge, leading to a recognised qualification according to the standards and criteria of the particular qualification in question. RPL, on the other hand, is a formal process of assessing the knowledge, skills and attributes that employees have acquired through their work experience in relation to the qualification for which they wish to be assessed and recognised.

The year 2009/10 marked the achievement of a milestone in the organisation's skills development journey with employees being certificated for qualifications obtained through RPL for the first time in the organisation, since inception of the Skills Development Act. These employees were part of a total of 814 employees who graduated and were certificated, having successfully completed various formal programmes from ABET level to postgraduate management development level. These employees were therefore awarded qualifications in the programmes they had successfully completed. In order to celebrate and acknowledge learner achievements, regional graduation ceremonies were held in partnership with the Services SETA.

In addition, a total of 461 employees engaged in vocational programmes, with 118 being in learnerships and 343 in RPL programmes. These are programmes that were implemented in the financial year 2009/10, some of which are still active as they have not yet been completed. This effort was rewarded when the Services SETA honoured the South African Post Office's Learning Institute with the award for Best Internal Focus. This award acknowledges the promotion of learning and development from within.

Due to its accreditation as a training service provider, the South African Post Office's Learning Institute embarked on the delivery of two external learnerships:

- the South African Defence Force – 10 learners who will be based in different field offices in Africa. Their final contact session will conclude on 1 April 2010; and
- the South African Reserve Bank – 21 learners began this programme on 15 February 2010.

Bursaries

Bursary scheme for employees

The South African Post Office's investment in skills development expands beyond functional and/or occupationally directed training to formal education and training. Employees are afforded opportunities to further their studies and thus acquire formal qualifications within the higher education and training field, within fields where skills are scarce and critical to the organisation and in line with the employees' current and/or future roles within the organisation.

Bursary programme for the youth

The South African Post Office bursary scheme is for beneficiaries to acquire formal qualifications that are aligned to the organisation's skills requirements and business imperatives and to contribute to the drive to empower the youth of South Africa and contribute to economic growth and sustainability.

The South African Post Office aims to empower deserving youths through supporting their endeavours to acquire qualifications and skills that will help improve their future on a sustainable basis. Upon successful completion of their formal studies, these learners are afforded opportunities like the graduate programme to acquire practical workplace learning within the organisation and permanent placement where such opportunities exist.

Learners are selected in line with the employment equity numerical targets within the various fields, and the core and critically scarce skills within the organisation.

Creating a workplace where our people can excel *continued*

Bursary scheme for successful Grade 12 learners

Successful Grade 12 learners were awarded bursaries to pursue their studies with academic institutions of higher learning for qualifications in the learning fields of Finance, Information Technology, Logistics and Industrial Engineering.

Graduate programme

The graduate programme, through experiential learning processes, gives opportunities to people from designated groups, with qualifications yet lacking experience, to acquire the relevant experience required at intake. Participants follow a structured learning programme to afford them the opportunity to acquire practical experience required for entry in the particular field of expertise.

Programme focused on unemployed youth

A total of 62 graduates participated in the graduate programme for unemployed youths. The programme grants experiential exposure or internship opportunities to unemployed graduates to complement the formal or theoretical knowledge already acquired. Intake is informed by business unit requirements as well as employment equity, race and gender targets. Experienced employees serve as coaches for the graduates in a drive to achieve the level of competence required per area of work.

Digital literacy

Bridging the digital divide is one of the challenges that companies are facing. Digital literacy is, amongst other things, the knowledge and ability to use computers and associated applications efficiently. To ensure that this is achieved within the South African Post Office, it is imperative that employees acquire the necessary knowledge to perform effectively in their roles. The Group implemented initiatives to enable employees to participate in the information society.

The South African Post Office has delivered 2,994 interventions to familiarise and develop employees with e-skills and enable them to utilise technology more efficiently during the past financial year. The South African Post Office also embarked on a journey to develop SMEs working with the organisation.

Talent management

Talent and succession management is receiving renewed attention with a new strategic focus on performance management and individual development planning. Development and retention of talent are being integrated to weave together a high-performing workforce. A talent management process has been introduced where development boards are working together to attract, appoint, develop and retain talent in and for the South African Post Office.

The Group has embarked on an organisational culture transformation journey and initiatives have been put in place with special focus on leadership and management development, entrenching the South African Post Office values and exposing employees to the discovery of personal mastery.

To support the development of talent in a more formal manner, learning and development interventions are not focused solely on developing current managers, but they are also used as capacity building programmes to drive accelerated development of employees identified as potential successors. The following is an indication of the offerings available that make up these programmes:

Formal management and leadership development programmes

The South African Post Office acknowledges that transformation is a primary role of leaders who play an integral part in ensuring that the Group strategy is achieved. The development of leaders and managers ensures that a pool of competent people is available and able to perform in their current roles as well as being prepared for future envisaged roles. The organisation places a high premium on managers as leaders and catalysts of change, responsible for the transformation of the business. Such talent brings about the successful competitive behaviour required to ensure the successful execution of the Group strategy.

Through partnerships with various business schools, institutes of higher learning and private providers, the Group has a suite of management and leadership development programmes; from the management of self, management of others, to management of managers, right through to executive level. This formal development of leaders is implemented in alignment to the overall leadership journey that is a vehicle through which culture transformation is driven.

It is for this purpose that a suite of formal management and leadership development programmes are offered in partnerships with various institutions of higher learning. These programmes address the role and function of managers as leaders at different levels of the Group. The total intake for the period under review was 209, of whom 55% were female employees. 183 have successfully completed and graduated. The remaining 26 will complete and graduate during 2010 due to the duration of the programme.

Remuneration, performance and reward

The South African Post Office remunerates its employees according to market-related rates and entry levels are appointed on the South African Post Office's minimum salary scales. There is no gender differentiation.

- Mechanisms are in place to measure performance at levels up to Business Unit level and right up to Group level. Each staff member has two performance evaluations every year to identify areas of improvement and gaps in skills development and training. Because the South African Post Office runs on a business model that is performance dependent, evaluations and recognition of good performance are key to the success of the organisation.
- Employees are also recognised for their extraordinary work via the Performance Stars programme. In the year under review, 96 employees were nominated and 21 received awards at a gala function.

In addition to this, a mechanism has been put in place which allows for identification of opportunities to assist business units that are underperforming and to provide them with the tools they require to meet their targets on a month-to-month basis.

Benefits to full-time employees within the bargaining unit include:
- Leave (sick, study, annual and family responsibility);
- Pension fund;
- Medical aid;
- Housing subsidy;
- Funeral cover; and
- Bursaries.

Benefits to permanent part time temporary employees (PPTEs) within the bargaining unit include:
- Leave;
- Pension fund;
- Medical aid; and
- Bursaries.

Employee relations

The South African Post Office has an existing relationship agreement with the Communication Workers' Union (CWU), which is the majority union. Various forums exist and through these, both the Company and the CWU are able to engage each other continuously on matters ranging from conditions of service to substantive issues.

Nearly 80% of employees are in the bargaining unit and are part of a collective agreement with labour.

Employee recruitment

All vacant positions are advertised internally first, however, in some cases, especially with scarce skills, the organisation simply does not have the expertise that it requires in-house and is then forced to advertise externally. For external recruitment, we use our website, newspapers and agencies to attract prospective employees with the competencies required. The South African Post Office's policy is that all employees or potential employees must be able to submit proof of South African citizenship.

Employee headcount

Total headcount	Permanent	Temporary
2009/10	**16,542**	**575**
2008/9	17,964	906
2007/8	16,267	871

Total headcount by region	Financial year	
Location	**2009/10**	2008/09
Head Office	**2,193**	2,421
Witwatersrand	**4,015**	4,371
Northern Region	**3,139**	3,500
Eastern Region	**1,506**	1,649
Western Region	**2,409**	2,668
Central Region	**1,800**	1,993
KwaZulu-Natal	**2,055**	2,268

Sustainability report *continued*

Headcount turnover by age group, gender, region and company

Company code	Gender	Age range / Personnel area	< 20 Number of leavers	20 – 29 Number of leavers	30 – 39 Number of leavers	40 – 49 Number of leavers	50 – 59 Number of leavers	60 – 69 Number of leavers	Overall result Number of leavers
South African Post Office	Male	Northern Region		13	16	25	12	8	74
		Head Office		25	24	5	3	3	60
		KwaZulu-Natal		2	16	27	16	7	68
		Eastern Cape		2	4	14	18	7	45
		Western Cape		5	15	28	13	5	66
		Central		6	12	12	7	6	43
		Gauteng		13	31	46	18	19	127
		Result	**0**	**66**	**118**	**157**	**87**	**55**	**483**
	Female	Northern Region		7	23	18	6	13	67
		Head Office		25	31	7	4	0	67
		KwaZulu-Natal		1	7	5	6	6	25
		Eastern Cape		3	8	11	11	4	37
		Western Cape		4	8	11	4	7	34
		Central		4	8	14	5	8	39
		Gauteng		11	20	31	15	12	89
		Result	**0**	**55**	**105**	**97**	**51**	**50**	**358**
		Net result	**0**	**121**	**223**	**254**	**138**	**105**	**841**
COURIER FREIGHT GROUP	Male	Gauteng		1	2				3
		KwaZulu-Natal		2	3		2		7
		Western Cape					1		1
		Northern Region		1					1
		Head Office	0	6	6	18	7	16	53
		Result	0	10	11	18	10	16	65
	Female	Head Office	0	1	2	1		1	5
		Gauteng			1	1			2
		Result	**0**	**1**	**3**	**2**	**0**	**1**	**7**
		Net result	**0**	**11**	**14**	**20**	**10**	**17**	**72**
Total Group net result			**0**	**132**	**237**	**274**	**148**	**122**	**913**

Headcount by employee type, region and company code

	Employee group	Permanent	Non-permanent	Overall result
Company code	**Personnel area**	**Number of employees**	**Number of employees**	**Number of employees**
Group CEO	Head Office	1		1
CFO	Head Office	1		1
COO	Head Office	1		1
South African Post Office	Northern Region	2,887	238	3,125
	Head Office	1,093	175	1,268
	KwaZulu-Natal	2,013	2	2,015
	Eastern Cape	1,503	1	1,504
	Western Cape	2,383	2	2,385
	Central	1,786	9	1,795
	Gauteng	3,962	19	3,981
	Result	**15,630**	**446**	**16,076**
COURIER FREIGHT GROUP	Northern Region	9	5	14
	Gauteng	6	28	34
	KwaZulu-Natal	3	37	40
	Eastern Cape	1	1	2
	Western Cape	11	13	24
	Central		5	5
	Head Office	882	40	922
	Result	**912**	**129**	**1,041**
Total Group net result		**16,542**	**575**	**17,117**

Employee health and wellness programme

The South African Post Office recognises that a healthy workforce is key to the success of the organisation. It is therefore critical that the Company ensures that its employees are healthy and productive. This is because employees' personal and work-related problems can affect their well-being and job performance, resulting in strained working relationships, absenteeism, poor performance, lowered productivity and poor service delivery. The organisation introduced a comprehensive health and wellness programme in 2007.

1. Occupational health medical surveillance

   Occupational health was introduced in 2008. 65% of our employees had their baseline assessment. The health and wellness programme has gone beyond just assessing employees but has developed interlinks with our in-house medical aid scheme, MediPos, to assist our employees to better manage their chronic medical conditions through disease management programmes.

2. Special focus on HIV/AIDS

   Since the launch of voluntary confidential counselling and testing (VCCT) in June 2006, 81% of our employees know their HIV status. The HIV prevalence of 6% is lower than the national average.

   - In 2007, HIV and AIDS Ngatana Support Group was launched. Every region has its own support group and the groups are fully managed by employees living with HIV.
   - An HIV and AIDS booklet was launched in 2008. The book provides information on HIV and AIDS and how or where the affected or infected individuals can get help.

Employee safety

Occupational Health and Safety (OHS) Services

The South African Post Office is committed to ensuring that the work environment is healthy, safe, secure, and comfortable for all employees and meets the requirements of the Occupational Health and Safety Act (OHS Act 85/1993).

Group performance

- As a group, OHS Services managed to perform a total of 1,404 measurable OHS related activities during the period under review.

Occupational Health and Safety Advisory Services

- A total of 401 OHS-related meetings, forums, Business Unit workshops etc. were attended in an advisory capacity.

Creating a workplace where our people can excel *continued*

Candlelight Memorial

- During aforementioned sessions OHS-related awareness was raised, legal requirements explained, concerns addressed and general advice provided.

Occupational Health and Safety Training Services

- A total of 508 trainees (Responsible Persons and OHS Representatives) successfully completed the OHS Training Course.

Building plans/layout drawings

- A total number of 20 plans/layout drawings were evaluated by OHS Services, all of which were approved.

Occupational Health and Safety Auditing Services

- A total of **79** workplaces were audited by OHS Services.
- **88** OHS Contravention Notices were issued by OHS Services.
- A total of **6** workplaces were issued with Occupation Certificates.
- Due to various contraventions, issues and concerns **62** of the newly acquired, erected and/or upgraded workplaces, which were audited, could not be issued with the required Occupation Certificates.
- The identified contraventions, issues and concerns are currently being addressed by the South African Post Office's Properties (et al).

Occupational Health and Safety Flash Reports issued

- **240** OHS Flash Reports were issued in order to highlight Occupational Health and Safety related issues, concerns and contraventions, which have been unresolved for an unreasonably and unacceptably long period.

Occupational Health and Safety Compliance Summation

South African Post Office Group: Overall National OHS Compliance Summation (Group Dashboard Overview)

Administrative and/or "soft" issue OHS compliance	53%
Physical, electrical, mechanical and personal related OHS compliance	84%
Overall summation: South African Post Office Group	**69%**

Colour	Compliance percentage	Description
	0% – 74%	Not compliant/ Unsatisfactory/Totally unacceptable
	75% – 99%	Partially compliant/Room for improvement
	100%	Compliant/Satisfactory

The overall compliance with the organisation is currently rated as 69%. Steps are currently being implemented to ensure the company is fully compliant.

Injury on duty cases

There was a reduction in workplace accidents (411 less than the previous financial year) of nearly 50% for the year, as shown in the table below.

	2009/10	2008/9	2007/8
Incidents	**505**	916	1,012
Days absent from work	**4,493**	2,284	4,485
Incidents per 1 000 employees	**40**	57	67

The numbers above exclude temporary employees

Corporate Citizenship

Caring for communities

The South African Post Office seeks to make a positive contribution to the people and the environment in which it operates. The corporate value of contributing positively to communities and to the environment guides the organisation's Corporate Social Investment (CSI) strategy and our employees' response to socio-economic and environmental challenges faced by disadvantaged South Africans.

The Corporate Social Investment initiatives are aimed at benefiting economically disadvantaged people especially women, youth and the disabled, with a bias towards rural and peri-urban areas. In ensuring that beneficiaries receive the maximum benefit from our investment, we work in partnership with communities, not for profit organisations and like-minded organisations to offer integrated sustainable solutions. The primary focus of our corporate social investment initiatives is to empower people to ensure sustainable and lasting development. Our areas of investment include; poverty alleviation, digital inclusion, environmental sustainability and HIV and AIDS. Our employee volunteerism programme serves to enhance the reach and impact of our investment.

Environmental sustainability

The South African Post Office shares the communities' responsibility for the environment affected by its operations. It is for this reason that we have partnered with Food and Trees for Africa, a registered non-governmental organisation that focuses on contributing to a healthy and sustainable quality of life through greening, environmental awareness and education.

The elements of the partnership are:

(1) Commitment to off-setting 5% of our carbon emissions for the next three years by planting 857 trees per year until 2012. These tree planting activities have also formed part of our employee volunteerism activities which not only raised awareness amongst our staff about environmental issues but also gave them the opportunity to contribute to environmental sustainability by planting fruit or indigenous trees in disadvantaged schools in their regions. This year the Trees for Schools project benefited 25,000 pupils across the country.

(2) Co-sponsoring with Food and Trees for Africa, Carbon Protocol and Primedia the inaugural Climate Change Leadership Awards. The awards recognise South African businesses and community-based organisations taking positive voluntary action to combat global warming. These awards will promote awareness and action towards a low carbon economy. With the proceeds of the Climate Change Leadership Awards, Food and Trees for Africa are planting 1.000 trees. Together with the 857 trees planted at schools, the South African Post Office has offset 4,900 tons of the 45,000 baseline emissions of the year under review.

The South African Post Office also partnered with Indalo Yethu, in launching the National Cleaning and Greening campaign. This campaign is an initiative of the Department of Environmental Affairs and the focus is on environmental awareness, community empowerment and job creation. This campaign formed an increasing part of our volunteerism activity in the Eastern Cape.

Sixteen Days of Activism against the abuse of women and children

During the year under review, the South African Post Office partnered with People Opposing Women's Abuse (POWA), a leading women's rights organisation in, participating in the 16 Days of Activism campaign. With a staff complement of almost 17,000 people, nearly half of whom are women, the South African Post Office is playing a leading role by not committing or condoning any forms of violence against women, be it in the workplace or in communities where employees live. There were two aspects to the campaign:

(1) The South African Post Office mounted an exhibition at the National Post Centre in Pretoria and this exhibition was used to raise awareness and educate staff members about the many forms of violence against women. This exhibition covered acts of violence such as rape, domestic violence and sexual harassment. Women employees were encouraged to write letters anonymously about their experiences and these were posted as part of the exhibition. The objective was not only to raise awareness but also to give other women the courage to speak out.

(2) The second aspect of the campaign was national volunteering. Throughout the 16 days, South African Post Office staff contributed their time and resources to volunteering at various shelters and safe houses for women and children across the country. The objective was not only to give back to the community but also to raise awareness among staff members about the horrors of abuse.

Employee volunteerism

Volunteerism is an inspiring way to include all employees in getting involved and expanding the reach of our corporate citizenship objectives. Staff are encouraged to use two working days per year to take an active part in volunteering activities that help those in need. These include participating in national initiatives such as the sixteen days campaign of no violence against women and children and the Trees for Schools project, but the staff also donate their time and resources to activities such as feeding schemes in schools and hospices, visiting old-age homes and reading to the elderly and cleaning and refurbishing shelters. In 2009 more than 1,000 employees volunteered at various organisations throughout the country.

Letter writing competition

Every year the South African Post Office runs an international letter writing competition in conjunction with the Universal Postal Union (UPU). The topic or theme of the letter is jointly chosen by the Universal Postal Union and the United Nations Children's Fund. This year the topic was to "write a letter talking about AIDS and why it is important for young people to protect themselves". The purpose of the letter writing competition is to use the medium of writing to contribute to the literacy goals of the country but also to enable young people to participate in important national and international social debates.

Sustainability report *continued*

Corporate Citizenship *continued*

Corporate Social Investment

This year, the South African Post Office has collaborated with several organisations and companies in three projects and partnerships that will make an economic and sustainable change to the lives of people.

(1) **Humana People to People** is a registered NGO, established in 1995. It works with disadvantaged communities with a focus on improving their economic situation, education and social wellbeing. Its model is self-reliant and empowering. The overall objective of this project is poverty alleviation in the Greater Tubatse Municipality in Limpopo. The project seeks to undertake a range of poverty alleviating activities, aimed at benefiting approximately 23,500 people in the Tubatse municipality. These activities include teaching the community members sewing and gardening skills as well as computer and business skills. The South African Post Office contributed R593,000 to this project.

(2) **The e-Rural Access Programme** is a programme initiated by the Department of Rural Development and Land Reform to provide ICT centres in poor, marginalised and remote communities. It seeks to create knowledge based communities that can use information to cope with and rise above the challenges presented by poverty. The identified communities are Sending and Vredesvallei in Riemvasmaak in the Northern Cape and Muyexe in Giyani in the Limpopo province. The objective of the programme is to accelerate the socio-economic development in rural South Africa through the innovative use of ICTs by providing online resources, information and services to the identified communities aimed at benefiting 12,000 people. The South African Post Office is contributing R2,396,843 to these activities.

(3) **Skills development in Local Government** The Partnership for Information Technology Training in Support of Local Government project is an initiative by Microsoft in partnership with the South African Local Government Association (SALGA), the Development Bank of Southern Africa (DBSA), the Local Government Sector Education and Training Authority (LG Seta) and the South African Post Office. It is also endorsed by the Department of Cooperative Governance and Traditional Affairs. The objective of the project is to have a skilled and informed workforce that will enable high quality service delivery at local government level by providing municipality staff across the country with the relevant ICT training and with appropriately skilled students to ensure more efficient and effective service delivery. The South African Post Office is contributing R1.1 million to the Student to Government pillar of the programme which covers the training of the students.

Enterprise Development

The South African Post Office supports the continued development of our smaller local suppliers and this is done through the Supplier Development Programme. Some of the activities in this programme include:

- identification of potential BBBEE suppliers;
- providing coaching and assistance to these suppliers;
- developing the current BBBEE supplier base;
- procuring specific services and products solely from these suppliers;
- development of black owned companies to be players in the core areas of the South African Post Office business; and.
- identifying non-BEE compliant traditional suppliers so as to introduce transformation of this supplier base.

During the year under review, the South African Post Office spent 56% of its procurement budget on Enterprise Development, with just under 50% of that amount allocated to the development of smaller alternative suppliers.

Looking ahead

The South African Post Office has committed to a range of training and development initiatives with the Chartered Institute of Purchasing and Supply (CPIS) Group. These initiatives will result in strong procurement people and processes at the South African Post Office. The first group of 60 people will attend the CPIS Specification Writing programme in 2010, and in the near future, training will be provided for Contract Management and other purchasing and supply processes.

Information Technology (IT)

Technology

The stabilisation focus in 2008/09 was aimed at two main areas, namely the technology environment and the technology resources. This focus was maintained in 2009/10. Salary benchmarking was completed to overcome the obstacles of recruiting the critical technology resources required to render critical services to all stakeholders, and recruitment was done accordingly. The focused recruitment drive continues to be a high priority.

The major projects during 2009/10 as prioritised by the Group included strategic projects such as the network upgrade, the enterprise architecture and disaster recovery (DR). These strategic projects were aligned to the business strategy and form part of the following IT drivers:

- Business value add: IT delivering value throughout the business value model;
- Strategic alignment (IT and Business); The linkage of IT strategy and business strategy to ensure that business derives value from IT;
- Audit and risk management: Improved risk and audit findings;
- Operational efficiency: Achieving optimal return on IT investments and efficient utilisation of IT resources (people and IT infrastructure) and cost effective use of IT for growth;
- Cost reduction: Cost optimisation through cost performance measurements, cost reporting and cost visibility. Cost effective use of IT resources;
- Compliance: Provide compliance, audit, risk framework and administration services in alignment with the South African Post Office frameworks; and
- Business continuity: Ensure continuity of service even in the event of a disaster.

Strategic IT projects

The South African Post Office's 10-year Information Technology strategy outlines a road-map of stabilisation followed by service orientation and service automation. These strategic goals are not sequential but are layered in implementation to achieve the required outcome. The stabilisation projects that were prioritised for focus and delivery during 2009/10 include:

- Infrastructure renewal
  - o Financial services infrastructure refresh

    A project was initiated to upgrade the current infrastructure for Financial Services to ensure high availability and allow for future growth, and for failover and redundancy at the Financial Services secondary site. The project is in execution phase, and implementation is planned to be completed during Q3 2010/11.

  - o Network, bandwidth upgrade and high availability

    The first phase of the network upgrade, focusing on replacing outdated equipment at the data centre and at branch level, has been completed. This has assisted in closing many gaps relating to delivery of service and security.

    A business case for the second and third phase of the network upgrade, focusing on replacing outdated equipment at area and regional level as well as optimisation and full utilisation of the technologies (deployment of a Voice over IP solution), was approved and procurement initiated. Full implementation is planned to be completed towards the end of 2011.

    The purpose of the bandwidth upgrade is to replace the data lines between the major centres. This will allow for optimised network performance and capacity. The business case was approved and procurement initiated. Implementation is planned to be completed by Q3 2010.

- Governance
  - o Enterprise Architecture

    Work on delivering an IT Enterprise Architecture was initiated with the view of delivering the following key objectives:
    - Align information technology (IT) initiatives to corporate goals;
    - Improve the integration of business applications;
    - Enable IT and business agility;
    - Reduce cost of IT spend;
    - Improve IT security; and
    - Reduce technical risks of IT to business.

    The first phase of this project, which addressed the high level strategy and direction of enterprise architecture, was delivered in 2009/10. Work on this phase included assessment of the existing architectures, development of a new conceptual enterprise architecture, identifying the gaps between the two and putting in place a road-map to close the gaps and move to the proposed architecture. The business case, to implement the full architecture solution, has been approved. Implementation is planned to start in Q2 2010/11.

  - o Standardising IT policies and procedures

    A project was kicked off to standardise IT policies and procedures, and IT equipment. This will continue to be a high priority during 2010/11.

- Continuity
  - o IT disaster recovery

    The South African Post Office IT has embarked on a process to put in place an IT disaster recovery site, complying with both local and international standards. The following areas were addressed:
    - Review of the existing DR solution;
    - A BIRA (Business Impact Risk Assessment) was conducted to inform and update the DR Strategy;
    - DR implementation road-map.

    A business case, for the full implementation, was approved by the Board, and procurement has been initiated.

- IT security

  Major progress has been made to address identified security exposures. An information security framework has been developed, and the related governance, policies and procedures approved. Implementation of this is in progress. An exercise to create security awareness and educate users on the approved security policies and procedures has commenced.

  A business case, to address holistic security requirements, has also been approved, and full implementation is planned to be completed by Q3 2010/11.

Security & Investigation Services Division

Performance overview

The year ended 31 March 2010 saw the realisation of the benefits of the crime prevention interventions that were implemented in the 18 months before the year under review. Measured by the number of reported incidents, crime in all businesses of the South African Post Office was reduced by 25%.

During the previous financial year, the South African Post Office experienced increases in the level of violent, postal and financial crime, prompting the organisation to prioritise interventions in these categories. The implementation of physical and procedural security measures led to the reduction of violent crime, which is a collective of vehicle hijacking (43% decrease), armed robbery (26% decrease), cash-in-transit (25% decrease) and housebreaking (10% decrease).

Compared to a year-on-year increase of 18% in postal crime in the previous financial year, postal crime went down by 34% in the year under review with a total of 1,535 incidents reported.

These reductions were as a result of investments in physical security measures in high crime incidence areas.

Investments

The security of 215 high-risk and new post office outlets was reinforced at a cost of R32 million, while R30 million was invested to install the electronic security systems, i.e. access control and CCTV. The latter was rolled-out at the six biggest mail processing centres to automate security oversight while playing an effective deterrent effect.

The spin-off of these security measures was also noticed in other areas. Theft dropped by a significant 44%, while fraud went down by 18%, following a 19% reduction the previous year.

Investigations

Investigation into 3,453 cases was completed, the majority of which were mail related. The investigations led to the improvement of several operational business processes, most significant of which was the discontinuation of the issuing of money orders by off-line outlets.

There were 348 disciplinary enquiries relating to crime and fraud this year. One hundred and twenty two (122) cases were handed over to the South African Police Services (SAPS) resulting in the arrest of 122 people for various crimes, sixty seven (67) of whom were employees. The cases are now in the criminal justice system. Also in the courts are members of a crime syndicate who were arrested last year in connection with 54 armed robbery incidents.

Investigation into financial-related crime also led to the recovery of immovable and liquid assets totalling an amount of R8 million.

The anonymous crime reporting hotline continued to play a pivotal role in crime prevention during the financial year under review. The active participation of employees and customers in reporting potential and actual criminal incidents was notable, notwithstanding the year-on-year 2% decrease in cases reported.

Scope for improvement

As in many organisations, the South African Post Office is becoming increasingly vigilant in tackling the challenge presented by cyber-crime related incidents. The IT infrastructure is continually being improved and complemented by various security-related IT protocols to counter the effects of cyber-crime.

The next financial year will see the reinforcement of efforts that proved successful in the year under review. The project to reinforce the security of outlets will continue with an additional capital budget of R20 million being planned.

These and other efforts are expected to ensure that the achievements of the financial year ended 31 March 2010 would be sustained. A further 10% crime reduction target is set for the next financial year.

The South African Post Office will continue to implement measures that will ensure a crime-free working and business environment for employees, assets and customers.

Notes

Fisherfolk

Stamps celebrating the unique fishermen's villages dotted around South Africa's 3,000 kilometres of coastline were issued in March 2010.

South African Post Office Limited

Company Registration Number: 1991/005477/06

Annual Financial Statements

Independent Auditors’ Report

To the Parliament of South Africa

Report on the consolidated financial statements

We have audited the Group annual financial statements and annual financial statements of the South African Post Office Limited, which comprise the directors’ report, the consolidated and separate statements of financial position as at 31 March 2010, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 85 to 169.

Accounting authority’s responsibility for the financial statements

The Accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act 61 of 1973 of South Africa (Companies Act) and the Public Finance Management Act, 1 of 1999 (PFMA) and the Public Audit Act, 25 of 2004. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying the appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The audit was also planned and performed to obtain reasonable assurance that in all material respects, the relevant requirements of the Public Finance Management Act have been complied with.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of the South African Post Office Limited as at 31 March 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

Other matters

We draw attention to the matters below. Our opinion is not modified in respect of these matters.

Report on other legal and regulatory requirements

Reporting on performance information

In accordance with our responsibilities in terms of subsections 55(2)(a) of the Public Finance Management Act, 1 of 1999 (PFMA), we report on the performance information of South African Post Office Limited for the year ended 31 March 2010 as set out on pages 85 to 169. The Accounting authority is responsible for the preparation and presentation of this performance information.

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

Based on our review, nothing has come to our attention that causes us to believe that the performance information, in all material respects, is not fairly stated.

Independent Auditors' Report *continued*

Internal control

We considered internal control relevant to our audit of the financial statements and the report on predetermined objectives and compliance with PFMA. Our responsibility does not include expressing an opinion on the effectiveness of internal control.

Financial and performance management

We refer to the directors' report on internal control matters.

Other reports

The following agreed-upon procedures engagements have been performed:

- Agreed-upon procedures on the licence fee payable by the South African Post Office to Independent Communications Authority of South Africa (ICASA);
- Agreed-upon procedures on the National Treasury Public Entities template for South African Post Office Limited; and
- Agreed-upon Procedures on Government Grants.

Deloitte & Touche

Deloitte & Touche
Registered Auditors

Per E Lehapa
Partner

30 July 2010

Gobodo Incorporated
Registered Auditors

Per D Simpson
Partner

30 July 2010

Deloitte & Touche
Registered Auditors
Audit – Pretoria
PO Box 11007
Hatfield 0029
South Africa
Tel: +27 (0)12 482 0000
Fax: +27 (0)12 460 3633/4231
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National Executive: CG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit
DL Kennedy Tax & Legal and Risk Advisory L Geeringh Consulting L Bam Corporate Finance CR Beukman Finance
TJ Brown Clients & Markets NT Mtoba Chairman of the Board
Regional Leader: X Botha

A full list of partners and directors is available on request

Gobodo Incorporated
Reg no. 1999/001402/21
Registered Auditors
PO Box 14844
Hatfield 0028
South Africa
Tel: +27 (0)12 361 4406
Fax: +27 (0)12 361 9112
www.gobodo.co.za

Directors: N Gobodo (CEO) V Chauke M Dama
D Govender D Hansjee H Leach D Naicker
N Moodley I Nagy C Patel R Rhode D Simpson
M Sindane M Terheyden
Associate Directors: B Cinnamond M Ferreira
S Nel V Visser

Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa, 1973, to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the Group annual financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards and Public Finance Management Act No 1 of 1999 (PFMA), as amended.

The Group annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

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

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

The directors have reviewed the Group's cash flow forecast for the year to 31 March 2011 and, in the light of this review and the current financial position, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

The Group annual financial statements set out on pages 89 to 169, which have been prepared on the going concern basis, were approved by the Board on 30 July 2010 and were signed on its behalf by:

VF Mahlati
Chairperson

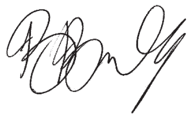
30 July 2010

MM Lefoka
Group Chief Executive Officer

30 July 2010

Secretary Statement

I, Bessie Sindile Bulunga, in my capacity as the Group Company Secretary, hereby certify that, to the best of my knowledge and belief, the Group has lodged with the Registrar of Companies all such returns as are required in terms of section 268 G (d) of the Companies Act, No 61 of 1973, as amended, and that all such returns are true, correct and up to date.



Ms BS Bulunga
Group Company Secretary

30 July 2010

Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities, arising from Section 38(1) (a) of the Public Finance Management Act and Treasury Regulation 3.1.13. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein. All weaknesses in internal controls reported by the internal and external auditors to the Audit Committee have been considered for their significance and potential for financial losses and, based on these reports, the Audit Committee is of the opinion that whilst there are some control issues that have been reported and are receiving attention, generally the effectiveness of the internal controls of the Group is adequate.

Evaluation of financial statements

The Audit Committee has:

- reviewed and discussed with the external auditors and executive management the audited annual financial statements to be included in the annual report;
- reviewed the external audit management letter and management response;
- reviewed changes in accounting policies and practices;
- reviewed significant adjustments resulting from the audit; and
- assessed the independence of external auditors.

The Audit Committee concurs with and accepts the conclusions of the executive management on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the executive management.

SEO Dietrich
Chairperson: Audit Committee

30 July 2010

Directors' Report

The directors present their 18th annual report, which is for the year 1 April 2009 to 31 March 2010. This report and the audited financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards (IFRS), Public Finance Management Act No 1 of 1999 as amended, and the Companies Act No 61 of 1973, as amended.

1. Review of activities

Main business and operations

The business of the Company is to operate a postal service, Postbank as defined by the Post Office Act No 44 of 1958, as amended, and the Postal Services Act No 124 of 1998, and also to provide courier and agency services.

2. Vision

To be recognised among the leading providers of postal and related services in the world.

3. Mission

We will enable the nation to efficiently connect with the world by distributing information, goods, financial and government services; leveraging our broad reach and embracing change, technology and innovation.

4. General overview

The business of the Group is conducted through its operating divisions: Mail, Consumer Services, Postbank as well as its subsidiaries within logistics – The Courier and Freight Group (Proprietary) Limited (i.e. CFG) and The Document Exchange (Proprietary) Limited, (i.e 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 Human Resources, Information Technology, Property Management, Finance, Risk and Compliance, Security and Investigation Services, Sales and Customer Services, Corporate Services, Marketing, Supply Chain Management, Internal Audit and Strategic Planning. An overview of the Group's performance against its predetermined objectives is set out in pages 10 to 11 of the annual report.

5. Financial results

The financial results of the Group are fully disclosed on pages 89 to 169. Revenue increased by 1.02% (2009: 7.20% increase). The Group realised an operating profit before post-retirement medical aid liability of R386.1 million (2009: R243.50 million).

The cost of post-retirement medical benefits increased to R196.8 million (2009: R44.9 million) mainly as a result of an increase in the cost of medical aid contributions which are subsidised by the Company for a portion of its pensioners. The Directors are exploring ways of minimising the impact of increases in the future. This contributed significantly to the reduced net profit for the year of R296.6 million in the year under review (2009: R362.9 million).

Lower mail and courier volumes resulting from prevailing economic conditions as well as lower interest income derived from lower average interest rates during the year under review also contributed to the reduction in net profit.

The lower revenues were to some extent offset by stringent continued cost control across the Group. Total overheads of R5.09 billion (2009: R5.19 billion) declined by 1.7%.

The Group received specific funding of R383.1 million (2009: R371.6 million) for the year ended 31 March 2010. This was used to fund initiatives that are aimed at improving profitability and long-term results of the Group so that it can meet its universal service obligation. The initiatives are approved by the Shareholder before funding is received. Strict reporting guidelines have been implemented to ensure that the funding is only used for these initiatives.

The Shareholder has committed itself to providing the Group with R306.1 million funding for the 2011 financial year. However, this is reduced to R180.4 million for the 2012 financial year and R52 million for the 2013 financial year to be used for future projects to be agreed with the Shareholder. No full-time funding will be provided after 2013 financial year.

The Post Office, through its Retail branches, is a vital channel for delivering government services. This partnership has seen continued growth in the Pay-a-Bill service, traffic fine payments and pension and social grants. Improving customer service is still the major focus and has shown positive results. The aim is to have one outlet per every 10,000 people nationwide and an aggressive roll-out programme is underway.

5. Financial results *continued*

Government has provided the Group with R3.2 billion (2009: R2.8 billion) funding since the 2002 financial year. To date, R2.95 billion subsidy received has been utilised (2009: R2.6 billion) for the specific projects. Project plans for most of the remaining funds have been approved and specific projects have commenced or will commence shortly. The South African Post Office has agreed with the Shareholder on the exact purpose for which these funds may be used and reports on the utilisation.

Capital expenditure for the period amounted to R355 million (2009: R422 million). Net cash generated from operating activities was R41.1 million (2009: R649.8 million) being a 93.7% decline.

6. Directors

The composition of the Board of Directors is as follows:

Chairperson
Ms VF Mahlati

Executive
Ms MM Lefoka (Group Chief Executive Officer)
Mr JP Wentzel (Group Chief Operating Officer)
Mr NJD Buick (Group Chief Financial Officer)
Ms TBJ Memela-Khambule (Managing Director: Postbank)

Non-executive
Mr NCS Bebeza
Mr AJ Hendricks
Mr SEO Dietrich
Ms M Letlape
Adv LP Nobanda
Mr SMA Malebo
Adv V Mhlongo
Mr SQM Mokoetle
Ms FN Msimang
Mr MS Patel
Ms PE Pokane
Dr MN Pheko

The directors do not hold any shares in the Company or any of its subsidiaries, neither in a beneficial nor in a non-beneficial capacity.

Emoluments paid to each director and executive reporting directly to the Chief Executive Officer during the year are disclosed under note 37.7.

Details of all the directors' service contracts are as follows:

Name	Position	Contract period	
Ms VF Mahlati	Chairperson	1 March 2009	28 February 2012
Ms MM Lefoka	Group Chief Executive Officer	1 December 2007	30 November 2012
Mr NJD Buick	Group Chief Financial Officer	15 November 2007	14 November 2010
Mr JP Wentzel	Group Chief Operating Officer	29 January 2009	28 January 2014
Ms TBJ Memela-Khambule	Managing Director: Postbank	16 January 2006	15 January 2011
Mr NCS Bebeza	Non-Executive	1 October 2009	30 September 2012
Mr AJ Hendricks	Non-Executive	1 March 2009	17 August 2009 (Retired)
Mr SEO Dietrich	Non-Executive	1 August 2007	31 July 2010
Ms M Letlape	Non-Executive	1 October 2009	30 September 2012
Adv LP Nobanda	Non-Executive	1 October 2009	30 September 2012
Mr SMA Malebo	Non-Executive	1 March 2009	28 February 2012
Adv V Mhlongo	Non-Executive	1 March 2009	28 February 2012
Mr SQM Mokoetle	Non-Executive	1 April 2007	31 March 2010 (Retired)
Ms FN Msimang	Non-Executive	1 April 2007	31 March 2010 (Contract expired)
Mr MS Patel	Non-Executive	1 August 2007	31 July 2010
Ms PE Pokane	Non-Executive	1 March 2009	28 February 2012
Dr MN Pheko	NonExecutive	1 October 2009	30 September 2012

Directors' Report *continued*

7. Internal controls

Control deficiencies were identified in the Postbank Information Technology systems in the areas of access control and information security as well as transactional process during the peak periods, which could potentially have led to misstatement of balances in the banking system during the year under review.

Additional work was performed and it was concluded that there was no significant misstatement of balances while management has implemented improvements to the access control system and is in the process of making the necessary investments to improve the capacity of the banking system to meet the increasing transaction volumes.

8. Special resolutions

No special resolution was passed during the year under review.

9. Share capital

The authorised share capital of the Company is R1 billion, divided into one billion ordinary par value shares of R1 each, of which 200,939,821 have been issued to the Shareholder.

10. Company Secretary

The Group Company Secretary is Ms BS Bulunga. Adv M Mphelo was the acting Company Secretary until 15 November 2009.

Business address	Postal address
497 Schubart Street	PO Box 10000
Pretoria	Pretoria
0002	0001

11. Previous report

Annual financial statements were produced for the previous financial year 1 April 2008 to 31 March 2009.

12. Subsidiaries

Details of the Group's subsidiaries are set out in note 39. The holding company's interest in profit earned and losses after tax incurred by subsidiaries for the year is as follows:

	March 2010 Profit/(loss) R'000	March 2009 Profit/(loss) R'000
The Document Exchange (Pty) Limited	**5,625**	8,157
The Courier and Freight Group (Pty) Limited	**5,475**	(37,735)
Sapos Properties (PE) (Pty) Limited	**110**	155
Sapos Properties (Rossburgh) (Pty) Limited	**43**	(23)
Sapos Properties (Erf 145018 Cape Town) (Pty) Limited	**(213)**	(103)
Sapos Properties (East Rand) (Pty) Limited	**(255)**	489
Sapos Properties (Bloemfontein) (Pty) Limited	**(55)**	(13)
Centriq Insurance Innovation	**7,532**	7,196

The Courier and Freight Group (Pty) Limited (CFG) has the South African Post Office Board approval for continued Shareholder's support for the year under review until 31 March 2011. This is due to CFG's company liabilities exceeding its assets.

13. Events subsequent to balance sheet date

Notification has been received from the Minister of Trade and Industry confirming the allocation to the South African Post Office Limited of a 10% shareholding in Gidani (Pty) Limited, the South African lottery operator. Apart from this the directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the financial statements, that will have a significant effect on the results of the Group, the results of the operations or the financial position of the Group.

14. Domicile

The Company is a widely held public company registered in the Republic of South Africa and its registered address is:

Post Office Head Office
497 Schubart Street
Pretoria Central
0002

15. Auditors

Deloitte & Touche and Gobodo Incorporated will continue in office in accordance with section 270(2) of the Companies Act as amended.

Statement of Financial Position

at 31 March 2010

Figures in Rand Thousand	Note(s)	Group 2010	Group 2009	Company 2010	Company 2009
Assets					
Non-current assets					
Property, plant and equipment	2	**1,071,033**	1,142,419	**1,036,401**	1,097,617
Non-current assets held for sale	3	**–**	105	**–**	105
Investment property	4	**19,482**	18,523	**19,482**	18,523
Intangible assets	5	**62,213**	55,104	**61,111**	54,149
Other financial assets	6	**439,395**	371,427	**439,395**	371,427
Investments in subsidiaries	7	**–**	–	**42,603**	42,603
Deferred tax	9	**363,558**	289,167	**357,095**	283,701
		1,955,681	1,876,745	**1,956,087**	1,868,125
Current assets					
Inventories	10	**48,326**	59,190	**48,082**	58,957
Other financial assets	6	**181,665**	190,625	**114,022**	99,099
Investments	8	**3,132,638**	2,452,242	**3,117,638**	2,452,242
Trade and other receivables	11	**569,394**	509,286	**524,311**	451,943
Cash and cash equivalents	12	**3,528,581**	3,603,141	**3,497,130**	3,554,006
		7,460,604	6,814,484	**7,301,183**	6,616,247
Total assets		**9,416,285**	8,691,229	**9,257,270**	8,484,372
Equity and liabilities					
Equity					
Share capital	13	**200,940**	200,940	**200,940**	200,940
Available-for-sale reserve		**3,435**	6,896	**3,435**	6,896
Funds received from Shareholder	14	**750,000**	750,000	**750,000**	750,000
Retained income		**1,301,579**	1,004,988	**1,258,737**	980,690
		2,255,954	1,962,824	**2,213,112**	1,938,526
Liabilities					
Non-current liabilities					
Deferred lease liability	16	**25,205**	70,962	**24,427**	47,676
Employment benefit obligations	17	**1,018,405**	942,854	**1,013,639**	937,434
Provisions	18	**11,259**	10,513	**6,571**	6,033
Deferred tax	9	**113,117**	105,629	**112,177**	105,152
		1,167,986	1,129,958	**1,156,814**	1,096,295
Current liabilities					
Trade and other payables	19	**1,051,785**	1,089,669	**968,340**	953,556
Funds collected on behalf of third parties	22	**236,125**	272,853	**236,125**	272,853
Amount owing to Shareholder	20	**206,395**	185,130	**206,395**	185,130
Outstanding insurance claims	21	**4,383**	3,664	**–**	–
Deferred lease liability	16	**5,667**	9,756	**5,632**	9,723
Unearned revenue	24	**320,848**	253,658	**309,859**	249,158
Deposits from the public	23	**3,651,987**	3,295,867	**3,651,987**	3,295,867
Employment benefit obligations	17	**218,445**	178,589	**212,296**	173,762
Interest bearing borrowings	15	**–**	7	**–**	7
Taxation	25	**47,670**	8,021	**47,670**	8,262
Subsidy unutilised	37.2	**249,040**	301,233	**249,040**	301,233
		5,992,345	5,598,447	**5,887,344**	5,449,551
Total liabilities		**7,160,331**	6,728,405	**7,044,158**	6,545,846
Total equity and liabilities		**9,416,285**	8,691,229	**9,257,270**	8,484,372

Statement of Comprehensive Income

for the year ended 31 March 2010

Figures in Rand Thousand	Note(s)	Group 2010	Group 2009	Company 2010	Company 2009
Revenue	26	**5,277,772**	5,224,731	**4,881,289**	4,752,528
Postbank interest income	30	**274,985**	350,099	**274,985**	350,099
Add: Other operating income	27	**180,982**	129,336	**214,918**	158,808
		5,733,739	5,704,166	**5,371,192**	5,261,435
Less: Consumables and inventory utilised		**(252,334)**	(274,930)	**(252,334)**	(274,930)
Gross profit		**5,481,405**	5,429,236	**5,118,858**	4,986,505
Less: Employee benefit expenditure		**(2,961,876)**	(2,899,448)	**(2,854,438)**	(2,796,512)
Transport expenditure		**(526,576)**	(600,305)	**(377,134)**	(414,886)
Property operating leases		**(200,213)**	(191,665)	**(207,942)**	(172,042)
Vehicle operating leases		**(65,146)**	(64,397)	**(65,146)**	(64,397)
Other expenses		**(1,284,497)**	(1,315,441)	**(1,186,529)**	(1,164,991)
Postbank interest paid to customers	31	**(56,927)**	(114,478)	**(56,927)**	(114 478)
Operating profit before employee costs		**386,170**	243,502	**370,742**	259,199
Less: Post-retirement medical benefits		**(196,831)**	(44,951)	**(197,737)**	(44,951)
Operating profit before finance costs	28	**189,339**	198,551	**173,005**	214,248
Finance income	30	**219,503**	324,084	**209,951**	307,609
Finance costs	31	**(30,144)**	(34,394)	**(28,979)**	(34,115)
Profit before taxation		**378,698**	488,241	**353,977**	487,742
Taxation expense	32	**(82,107)**	(125,338)	**(75,930)**	(120,902)
Profit for the year		**296,591**	362,903	**278,047**	366,840
Other comprehensive income:					
Available-for-sale financial assets adjustments	41	**(3,461)**	3,175	**(3,461)**	3,175
Total comprehensive income for the year		**293,130**	366,078	**274,586**	370,015

Statements of Changes in Equity

for the year ended 31 March 2010

Figures in Rand Thousand	Share capital	Available-for-sale reserve	Funds received from shareholder	Total reserves	Retained income	Total equity
Group						
Balance at 01 April 2008	**200,940**	**3,721**	**750,000**	**753,721**	**642,085**	**1,596,746**
Changes in equity						
Total comprehensive income for the year	–	3,175	–	3,175	362,903	366,078
	–	3,175	–	3,175	362,903	366,078
Balance at 01 April 2009	**200,940**	**6,896**	**750,000**	**756,896**	**1,004,988**	**1,962,824**
Changes in equity						
Total comprehensive income for the year	–	(3,461)	–	(3,461)	296,591	293,130
	–	(3,461)	–	(3,461)	296,591	293,130
Balance at 31 March 2010	**200,940**	**3,435**	**750,000**	**753,435**	**1,301,579**	**2,255,954**
Note(s)	13		14			
Company						
Balance at 01 April 2008	**200,940**	**3,721**	**750,000**	**753,721**	**613,850**	**1,568,511**
Changes in equity						
Total comprehensive income for the year	–	3,175	–	3,175	366,840	370,015
Total changes	–	3,175	–	3,175	366,840	370,015
Balance at 01 April 2009	**200,940**	**6,896**	**750,000**	**756,896**	**980,690**	**1,938,526**
Changes in equity						
Total comprehensive income for the year	–	(3,461)	–	(3,461)	278,047	274,586
	–	(3,461)	–	(3,461)	278,047	274,586
Balance at 31 March 2010	**200,940**	**3,435**	**750,000**	**753,435**	**1,258,737**	**2,213,112**
Note(s)	13		14			

Statement of Cash Flows

for the year ended 31 March 2010

Figures in Rand Thousand	Note(s)	Group 2010	Group 2009	Company 2010	Company 2009
Cash flows from operating activities					
Cash receipts from customers		**5,475,951**	5,664,643	**5,071,932**	5,201,518
Cash paid to suppliers and employees		**(5,113,114)**	(4,769,248)	**(4,676,615)**	(4,312,184)
Cash generated from operations	33	**362,837**	895,395	**395,317**	889,334
Interest income	30	**216,503**	324,084	**206,951**	307,609
Dividends received	30	**3,000**	4,943	**3,000**	–
Finance costs		**(2,487)**	(2,216)	**(1,504)**	(1,937)
Tax paid	25	**(102,650)**	(155,166)	**(102,891)**	(150,335)
Employee obligations paid	17	**(181,291)**	(166,069)	**(176,464)**	(161,223)
Expenditure offset against project specific subsidy		**(254,818)**	(251,154)	**(254,818)**	(251,154)
Net cash from operating activities		**41,094**	649,817	**69,591**	632,294
Net increase in deposits from the public	23	**356,120**	404,167	**356,120**	404,167
Cash flows from investing activities					
Purchase of property, plant and equipment		**(99,650)**	(264,200)	**(99,018)**	(244,533)
Sale of property, plant and equipment		**6,160**	6,055	**3,265**	225
Sale of investment property		**512**	–	**512**	–
Purchase of other intangible assets		**(22,477)**	(20,189)	**(22,144)**	(21,396)
Increase in non-current investment and financial assets		**(67,968)**	(342,048)	**(67,968)**	(342,050)
Increase in current investments and financial assets		**(671,436)**	(681,672)	**(680,319)**	(665,080)
Net cash from investing activities		**(854,859)**	(1,302,054)	**(865,672)**	(1,272,834)
Cash flows from financing activities					
Decrease in interest bearing borrowings		**(7)**	(1,622)	**(7)**	(1,622)
Subsidy received		**383,092**	371,600	**383,092**	371,600
Net cash from financing activities		**383,085**	369,978	**383,085**	369,978
(Decrease)/increase in cash and cash equivalents		**(74,560)**	121,908	**(56,876)**	133,605
Cash at beginning of the year		**3,603,141**	3,481,233	**3,554,006**	3,420,401
Cash and cash equivalents at end of the year	12	**3,528,581**	3,603,141	**3,497,130**	3,554,006

Accounting Policies

1. Presentation of financial statements

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. The accounting policies have been applied consistently to all periods presented in the annual financial statements.

1.1 Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and Interpretations.

The consolidated financial statements are prepared under the historical cost basis except that the following assets and liabilities are carried at their fair value: available-for-sale financial assets, and financial assets and liabilities (including derivative instruments) measured at fair value through profit and loss.

The preparation of the annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in note 1.20.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

1.2 Basis of consolidation

Subsidiaries

Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and consolidation ceases from the date of disposal or the date on which control ceases. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group entities have been eliminated. Accounting policies have been applied consistently by Group entities.

1.3 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in South African Rand (R), which is the functional currency of the parent company.

Accounting Policies *continued*

1. Presentation of financial statements *continued*

1.3 Foreign currencies *continued*

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date (spot rate). At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at that date. Foreign exchange gains and losses are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Group entities

The results and financial position of all Group entities (whose functional currency is not the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the Group presentation currency as follows:

- assets and liabilities are translated at the rates of exchange ruling at the reporting date;
- income and expenses are translated at exchange rates approximating to the foreign exchange rates ruling at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity (foreign currency translation reserve).

The results and financial position of all Group entities (whose functional currency is the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- all amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) are translated at the rates of exchange ruling at the reporting date; and
- comparative amounts are not restated if they have been translated into the Group's presentation currency in previous financial years.

On consolidation, exchange differences arising from the translation of borrowings that are deemed to be part of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity in the Group financial statements and translated at the exchange rate at reporting date.

1.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group share of the net identifiable assets acquired at the date of acquisition of subsidiaries, associate and joint ventures.

Goodwill is initially recognised at cost and is subsequently carried at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units, and is tested annually for impairment or more frequently when there is an indication that the unit may be impaired. Impairment losses on goodwill are not reversed.

Negative goodwill arising on acquisition is recognised directly as a capital item in the statement of comprehensive income.

1.5 Property, plant and equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes all costs that are incurred in order to bring the asset into a location and condition necessary to enable it to operate as intended by management and includes the cost of materials, direct labour, and the initial estimate, where applicable, of the costs of dismantling and removing the item and restoring the site on which it is located.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and are depreciated separately.

1. Presentation of financial statements *continued*

1.5 Property, plant and equipment *continued*

Subsequent expenditure relating to an item or part of an item of property, plant and equipment is capitalised when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the part that is replaced is derecognised in accordance with the principles set out below. Costs of repairs and maintenance are recognised as an expense in the year in which they are incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from when it is available to operate as intended by management. The estimated useful lives are as follows:

Item	**Years**
Buildings	30 – 100
Leasehold improvements	3 – 10
Plant, machinery and equipment	3 – 20
Furniture and fittings	3 – 12
Motor vehicles	3 – 20
Data processing equipment	3 – 8

Land is not depreciated. Leasehold improvements on premises occupied under operating leases are written off over the expected useful lives or, where shorter, the term of the lease.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The estimated useful lives, residual values and amortisation methods are reviewed at each year-end with the effect of any changes in estimate accounted for on a prospective basis.

The carrying amount of an item or part of an item of property, plant and equipment shall be derecognised at the earlier of the date of disposal or the date when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition of items of property, plant and equipment are included in the statement of comprehensive income. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

1.6 Investment properties

Investment properties are properties held for the purpose of earning rental income or for capital appreciation or both, and are initially recorded at cost or deemed cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, and are accounted for in line with the policy on property, plant and equipment (refer accounting policy note 1.5).

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of investment property from when it is available to operate as intended by management.

1.7 Leases

The Group is the lessee

Leases of property, plant and equipment, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. All other leases are classified as operating leases.

Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful life of the asset on the same basis as owned assets or, where shorter, the term of the relevant lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Accounting Policies *continued*

1. Presentation of financial statements *continued*

1.7 Leases *continued*

The Group is the lessee *continued*

Where leases contain both land and building components, each component is considered separately for classification purposes. At inception of the lease, the minimum lease payments are allocated to the components in proportion to the relative fair values of the leasehold interests in the land and buildings element of the lease. If this cannot be measured reliably, then the lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Rental expense under operating leases is recognised in the statement of comprehensive income on a straight-line basis over the period of the lease.

Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

The Group is the lessor

Rental income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives granted are recognised as an integral part of the total rental income.

1.8 Intangible assets

Intangible assets are initially measured at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

The useful lives of intangible assets are assessed to be either definite or indefinite. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of the asset. Intangible assets with an indefinite useful life are tested for impairment at each reporting date. Such intangible assets are not amortised.

The estimated useful lives, residual values and amortisation methods are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis.

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the useful lives of the asset as follows:

Item	**Useful life**
Patents and trademarks	10 years
Licences	1 – 3 years
Software – mainframe	2 – 8 years
Software – personal computer	2 – 8 years

1.9 Financial instruments

Financial assets

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

Financial assets have been classified by the Group into the following specified categories: Financial assets at Fair Value Through Profit and Loss (FVTPL), held to maturity financial assets, available for sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1. Presentation of financial statements *continued*

1.9 Financial instruments *continued*

Effective interest method

The effective interest method is a method of calculating the amortised cost of the financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts, including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts through the expected life of the financial asset or where appropriate a shorter period. Income is recognised on the effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at fair value through profit or loss

A financial asset is classified as at FVTPL where the financial asset is either held for trading or designated as such upon initial recognition. Financial assets at FVTPL are stated at fair value with any resulting gains or losses recognised in profit and loss. The net gain or loss incorporates any dividend or interest earned on the financial assets.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument, i.e. hedge accounting is not being applied.

The Group may designate any financial assets at FVTPL in line with the Group's investment strategy and Asset & Liability Committee (ALCO) policy and this would first be approved at the Group's ALCO meeting as per the Group's treasury policy requirements. The Group did re-state the post-retirement medical asset (PRMA) from available for sale (AFS) to fair value through profit or loss (FVTPL) during the reporting period.

The effect of the re-statement would reduce the accounting mismatch as both the fair value gains on the post-retirement medical assets and the actuarial valuation on the post-retirement medical liabilities will be recognised in the statement of comprehensive income.

The Group uses foreign exchange forward contracts to manage its exposure to foreign exchange risk. Foreign exchange contracts have been classified as held for trading. Foreign exchange forward contracts are initially recognised at fair value at the date a contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss.

A foreign exchange forward contract is presented as non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Foreign exchange forward contracts are presented as current assets or current liabilities if the remaining maturity of the instrument is less than 12 months and it is expected to be realised or settled within 12 months.

Held to maturity financial assets

Held to maturity financial assets 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 instruments are measured at amortised cost, using the effective interest method, less any impairment, with revenue recognised on an effective yield basis. The Group's cash on hand and cash in the bank and short-term deposits (i.e. fixed and callable deposits) are included in the held to maturity category.

Loans and receivables

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 measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate except for short-term receivables where the recognition of interest would be immaterial.

Accounting Policies *continued*

1. Presentation of financial statements *continued*

1.9 Financial instruments *continued*

Available for sale financial assets

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 classifications. Available for sale financial assets are measured at fair value, with fair value gains and losses recognised directly in equity in 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. Bonds held in the Postbank portfolio, Notional Certificates of Deposit (NCD) and equity investments held by the Group are classified under available for sale financial assets.

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

Impairment of financial asset

Financial assets, other than those at FVTPL, are assessed for indications of impairment at each statement of financial position date. 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 unlisted shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days as well as observable changes in the national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the financial asset's original effective interest rate.

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 uncollectible, 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 the profit or loss. The Group's policy on the impairment of trade and other receivables is outlined in note 11.

With the exception of available for sale equity instruments, if, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available for sale equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

1. Presentation of financial statements *continued*

1.9 Financial instruments *continued*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of the asset to another entity. 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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities issued by the Group

Financial liabilities are initially measured at fair value, net of transaction costs are subsequently measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when and only when the Group obligations are discharged, cancelled or they expire.

Offset

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

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Other trade receivables are subsequently designated as fair value through profit and loss (FVTPL) with any resulting gains and losses recognised in profit and loss. 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 the statement of comprehensive income within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of comprehensive income.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Other trade payables are subsequently designated as fair value through profit and loss (FVTPL) 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 recorded at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Accounting Policies *continued*

1. Presentation of financial statements *continued*

1.9 Financial instruments *continued*

Bank overdraft and borrowings

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

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

1.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted-average method. The cost of inventory includes all expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest paid. Net realisable value is the estimate of the selling price in the ordinary course of business, less the estimated selling expenses.

1.11 Impairment of non-financial assets

The carrying values of the Group's assets other than inventory and deferred taxation assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying value of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount if related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying value that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the statement of comprehensive income. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying value, less any residual value, on a systematic basis over its remaining useful life. Impairment losses in respect of goodwill are not reversed.

1.12 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits are recognised during the period in which the employee renders the related service. The provisions for employee entitlements to salaries, performance bonuses and annual leave represent the amounts which the Group has a present obligation to pay as a result of the employees' service provided. 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.

Pension obligations

Group companies operate various pension schemes. The Group has both defined benefit and defined contribution plans.

Defined benefit plans

Defined benefit schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations.

1. Presentation of financial statements *continued*

1.12 Employee benefits *continued*

Defined benefit plans *continued*

The liability recognised in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. An actuarial valuation is performed every three years using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities which have terms of maturity approximating the terms of the related liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of:

- 10% of the value of plan assets; or
- 10% of the defined benefit obligations

are recognised in income over the employees' expected average remaining working lives.

Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested, past service costs are recognised immediately.

Defined contribution plans

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.

Other post-employment benefit obligations

- Healthcare benefits

The entitlement to post-retirement healthcare benefits is based on the employee remaining in service up to retirement age for employees retiring up to June 2005. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to the statement of comprehensive income over the expected average remaining working lives of the relevant employees to the extent that they exceed the 10% corridor. These obligations are valued at least every three years by independent qualified actuaries.

The expected cost of these benefits for past service is recognised immediately.

- Leave accrual

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to reporting date. The Post Office leave liability is accounted for as a long-term benefit as a significant portion that has vested will most probably not be utilised or encashed within twelve months of year-end. The annual leave obligations are valued at least every three years by independent qualified actuaries. Any unrecognised actuarial gains/losses and past service costs are recognised immediately. For other Group companies the leave liability is accounted for as a short-term benefit and is not actuarially valued.

- Other long-term benefits

The Group has other long-term benefits that accrue to employees and certain pensioners. These consist of telephone and long service awards. The group's net obligation in this regard is the amount of future benefit that employees or pensioners have earned in return for their service in the prior periods. The obligation is valued at least every three years by independent qualified actuaries. Any unrecognised actuarial gains/losses and past service costs are recognised immediately.

1.13 Provisions

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the financial reporting date, taking into account the risks and uncertainties surrounding the obligation. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Accounting Policies *continued*

1. Presentation of financial statements *continued*

1.13 Provisions *continued*

Where the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

1.14 Decommissioning

The provision relates to the decommission costs that are expected to be incurred upon termination or conclusion of lease agreements.

1.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the statement of comprehensive income when the service has been rendered.

Revenue earned from the provision of services over a fixed period, such as post box rental, are earned in the statement of comprehensive income on a straight-line basis over the period of the service.

Interest is recognised on a time proportion basis, taking account of the principal amount outstanding and the effective rate over the period to maturity.

When a receivable is recognised, the Group reduces the carrying amount to its present value for significant receivables or receivables with extended payment terms. The present value represents the estimated future cash flows discounted at original effective interest rates. The unwinding of the discount is recognised as interest income over the period.

Dividend income is recognised when the shareholder's right to receive payment is established.

1.16 Taxation

Current tax assets and liabilities

Income tax on the profit or loss for the year comprises current and deferred tax. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxation comprises tax payable calculated on the basis of the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments of the tax payable for the previous year.

Deferred tax assets and liabilities

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

1. Presentation of financial statements *continued*

1.16 Taxation *continued*

Deferred tax assets and liabilities *continued*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all covenants. 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 to the related costs on a systematic basis. Government grants relating to assets are recognised as a reduction of the cost of the asset acquired.

Government grants received as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised as income in the period in which they become receivable.

1.18 Non-current assets held for sale and discontinued operations

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

Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying value and fair value less costs to sell.

1.19 Insurance contracts

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

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability which is included under other payables.

Claims and loss adjustment expenses are charged to the statement of comprehensive income as incurred based on the estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated based on past experience.

Accounting Policies *continued*

1. Presentation of financial statements *continued*

1.20 Judgements and estimates

The following are the critical judgements and estimates that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Unearned revenue – note 24
- Useful lives of property, plant and equipment – note 1.5
- Useful lives of intangible assets – note 1.8
- Useful lives of investment properties – note 4
- Provision for decommissioning – note 18
- Employment benefit obligations – note 17
- Deferred tax assets – Deferred taxation assets are recognised to the extent that it is probable that the taxable income will be available in the future against which these can be utilised. The raising of deferred tax assets is a process that is based on certain assumptions about the ability of the entity to generate future profits in order to utilise the future tax benefits.

Contingent liabilities

Management applies its judgement 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 judgement application is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability.

Onerous contracts

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.

Impairment of trade and other receivables

The impairment of trade and other receivables was based on a combination of specifically identified doubtful debtors and providing for older debtors.

1.21 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Group Financial Statements

for the year ended 31 March 2010

2. Property, plant and equipment

Figures in Rand Thousand	2010 Cost	2010 Accumulated depreciation	2010 Carrying value	2009 Cost	2009 Accumulated depreciation	2009 Carrying value
Group						
Owned						
Freehold land and buildings	**915,882**	**(114,585)**	**801,297**	855,476	(85,368)	770,108
Plant and machinery	**497,955**	**(394,732)**	**103,223**	520,539	(395,427)	125,112
Furniture and fittings	**50,271**	**(33,861)**	**16,410**	50,920	(33,721)	17,199
Motor vehicles	**45,143**	**(36,768)**	**8,375**	47,906	(34,979)	12,927
Data processing equipment	**386,185**	**(313,895)**	**72,290**	589,757	(469,976)	119,781
Leasehold improvements	**301,047**	**(231,609)**	**69,438**	290,587	(203,838)	86,749
Assets under construction	**–**	**–**	**–**	10,537	–	10,537
Leased						
Data processing equipment	**–**	**–**	**–**	18,850	(18,844)	6
Total	**2,196,483**	**(1,125,450)**	**1,071,033**	2,384,572	(1,242,153)	1,142,419

Figures in Rand Thousand	2010 Cost	2010 Accumulated depreciation	2010 Carrying value	2009 Cost	2009 Accumulated depreciation	2009 Carrying value
Company						
Owned						
Freehold land and building	**905,466**	**(113,117)**	**792,349**	846,299	(85,333)	760,966
Machinery and equipment	**462,907**	**(373,998)**	**88,909**	477,903	(371,032)	106,871
Furniture and fittings	**46,548**	**(30,443)**	**16,105**	45,554	(28,821)	16,733
Motor vehicles	**2,989**	**(2,524)**	**465**	3,537	(2,739)	798
Data processing equipment	**362,364**	**(293,211)**	**69,153**	534,034	(417,806)	116,228
Leasehold improvements	**300,620**	**(231,200)**	**69,420**	280,313	(194,835)	85,478
Assets under construction	**–**	**–**	**–**	10,537	–	10,537
Leased						
Data processing equipment	**–**	**–**	**–**	18,850	(18,844)	6
Total	**2,080,894**	**(1,044,493)**	**1,036,401**	2,217,027	(1,119,410)	1,097,617

Reconciliation of property, plant and equipment – Group – 2010

Figures in Rand Thousand	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Owned						
Freehold land and buildings	**770,108**	**54,876**	**(1,126)**	**5,552**	**(28,113)**	**801,297**
Plant and machinery	**125,112**	**12,623**	**(2,353)**	**91**	**(32,250)**	**103,223**
Furniture and fittings	**17,199**	**4,313**	**(313)**	**–**	**(4,789)**	**16,410**
Motor vehicles	**12,927**	**–**	**(621)**	**–**	**(3,931)**	**8,375**
Data processing equipment	**119,781**	**286**	**(670)**	**(10,075)**	**(37,032)**	**72,290**
Leasehold improvements	**86,749**	**27,552**	**(1,077)**	**(5,588)**	**(38,198)**	**69,438**
Assets under construction	**10,537**	**–**	**–**	**(10,537)**	**–**	**–**
Leased						
Data processing equipment	**6**	**–**	**–**	**–**	**(6)**	**–**
	1,142,419	**99,650**	**(6,160)**	**(20,557)**	**(144,319)**	**1,071,033**

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

2. Property, plant and equipment *continued*

Reconciliation of property, plant and equipment – Group – 2009

Figures in Rand Thousand	Opening balance	Additions	Disposals	Depreciation	Total
Owned					
Freehold land and buildings	727,144	66,702	(68)	(23,670)	770,108
Plant and machinery	113,822	50,593	(5,580)	(33,723)	125,112
Furniture and fixtures	14,362	6,881	(29)	(4,015)	17,199
Motor vehicles	5,568	13,476	(13)	(6,104)	12,927
Data processing equipment	111,936	67,434	(333)	(59,256)	119,781
Leasehold improvements	68,592	56,594	(16)	(38,421)	86,749
Assets under construction	8,017	2,520	–	–	10,537
Leased					
Data processing equipment	1,498	–	–	(1,492)	6
	1,050,939	264,200	(6,039)	(166,681)	1,142,419

Reconciliation of property, plant and equipment – Company – 2010

Figures in Rand Thousand	**Opening balance**	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Total**
Owned						
Freehold land and building	**760,966**	**54,876**	**(1,126)**	**5,552**	**(27,919)**	**792,349**
Machinery and equipment	**106,871**	**12,277**	**(1,175)**	**92**	**(29,156)**	**88,909**
Furniture and fittings	**16,733**	**4,313**	**(300)**	**–**	**(4,641)**	**16,105**
Motor vehicles	**798**	**–**	**(32)**	**–**	**(301)**	**465**
Data processing equipment	**116,228**	**–**	**(614)**	**(10,075)**	**(36,386)**	**69,153**
Leasehold improvements	**85,478**	**27,552**	**(18)**	**(5,588)**	**(38,004)**	**69,420**
Assets under construction	**10,537**	**–**	**–**	**(10,537)**	**–**	**–**
Leased						
Data processing equipment	**6**	**–**	**–**	**–**	**(6)**	**–**
	1,097,617	**99,018**	**(3,265)**	**(20,556)**	**(136,413)**	**1,036,401**

Reconciliation of property, plant and equipment – Company – 2009

Figures in Rand Thousand	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Owned						
Freehold land and building	705,850	78,853	(68)	–	(23,669)	760,966
Machinery and equipment	102,471	34,227	(953)	–	(28,874)	106,871
Furniture and fittings	13,631	7,208	(29)	–	(4,077)	16,733
Motor vehicles	790	309	(13)	–	(288)	798
Data processing equipment	108,333	66,093	(333)	–	(57,865)	116,228
Leasehold improvements	67,112	56,539	(16)	–	(38,157)	85,478
Assets under construction	8,017	1,304	–	1,216	–	10,537
Leased						
Data processing equipment	1,498	–	–	–	(1,492)	6
	1,007,702	244,533	(1,412)	1,216	(154,422)	1,097,617

A register of land and buildings is available for inspection at the registered offices of each company in the Group.

No fixed assets in the Group were impaired during this period.

Details of the finance lease obligations, related security and assets that have been encumbered, if any, are disclosed in note 15.

The policies adopted for property, plant and equipment are consistent with the prior year. Land is not depreciated as it is deemed to have an indefinite life.

The directors' valuation of freehold land and buildings of R1 billion has not changed from prior year. Mail centres and hubs have been valued at depreciated replacement cost and all other fixed property at open market value. The market value determination has been arrived at by applying the investment approach (income method). According to the South African Post Office policy, the valuations are done at three (3) year intervals. The 2009 figures were updated with the latest figures obtained from Bothongo and Associates, the independent valuer.

2. Property, plant and equipment *continued*

Freehold land and buildings as well as significant components to the buildings are stated at the cost thereof. The useful life of each building, except for any reclassification thereof to non-current assets held for sale, is deemed to equate its economic useful life, as management has taken a decision not to sell these buildings.

Assets that are financed through project specific funding are not recorded in the asset register and included therein at R1 in accordance with the accounting policy for government grants. If these assets had been recorded at cost and depreciated over their useful lives, their book value would be as follows:

	2010			2009		
Figures in Rand Thousand	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Group and Company						
Freehold land and building	**79,288**	**(6,044)**	**73,244**	32,899	(3,243)	29,656
Machinery and equipment	**44,703**	**(20,315)**	**24,388**	44,280	(15,844)	28,436
Furniture and fittings	**628**	**(577)**	**51**	628	(499)	129
Motor vehicles	**490**	**(490)**	**–**	490	(490)	–
Data processing equipment	**404,747**	**(244,760)**	**159,987**	336,606	(194,489)	142,117
Leasehold improvements	**273,158**	**(181,464)**	**91,694**	183,820	(120,211)	63,609
Total	**803,014**	**(453,650)**	**349,364**	598,723	(334,776)	263,947

3. Non-current assets held for sale

	2010			2009		
Figures in Rand Thousand	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Group						
Freehold land and buildings	**–**	**–**	**–**	110	(5)	105
Company						
Freehold land and buildings	**–**	**–**	**–**	110	(5)	105

Reconciliation of non-current assets held for sale – Group – 2010

Figures in Rand Thousand	Opening balance	Transfers	Total
Freehold land and buildings	**105**	**(105)**	**–**

Reconciliation of non-current assets held for sale – Group – 2009

Figures in Rand Thousand	Opening balance	Disposals	Depreciation	Total
Freehold land and buildings	118	(8)	(5)	105

Reconciliation of non-current assets held for sale – Company – 2010

Figures in Rand Thousand	Opening balance	Transfers	Total
Freehold land and buildings	**105**	**(105)**	**–**

Reconciliation of non-current assets held for sale – Company – 2009

Figures in Rand Thousand	Opening balance	Depreciation	Total
Freehold land and buildings	118	(13)	105

A decision was taken by management to sell land and buildings in Noordwyk in 2008 but the transaction was reversed in the current year due to the South African Post Office being unable to trace the purchaser.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

4. Investment property

Figures in Rand Thousand	**2010** Cost	**2010** Accumulated depreciation	**2010** Carrying value	2009 Cost	2009 Accumulated depreciation	2009 Carrying value
Group						
Freehold land and buildings	**21,611**	**(2,129)**	**19,482**	20,301	(1,778)	18,523
Company						
Freehold land and buildings	**21,611**	**(2,129)**	**19,482**	20,301	(1,778)	18,523

Reconciliation of investment property – Group – 2010

Figures in Rand Thousand	**Opening balance**	**Additions**	**Disposals**	**Transfers**	**Amorti-sation**	**Total**
Freehold land and buildings	**18,523**	**1,867**	**(512)**	**49**	**(445)**	**19,482**

Reconciliation of investment properties – Group – 2009

Figures in Rand Thousand	Opening balance	Additions	Amortisation	Total
Freehold land and buildings	15,877	3,050	(404)	18,523

The fair value of the investment properties is R32.4 million (31 March 2009: R32.4 million). The valuation is the same as no valuations were performed in 2010.

No investment properties in the Group have been impaired during this period: (2009: none).

Reconciliation of investment property – Company – 2010

Figures in Rand Thousand	**Opening balance**	**Additions**	**Disposals**	**Transfers**	**Amorti-sation**	**Total**
Freehold land and buildings	**18,523**	**1,867**	**(512)**	**49**	**(445)**	**19,482**

Reconciliation of investment property – Company – 2009

Figures in Rand Thousand	Opening balance	Additions	Amortisation	Total
Freehold land and buildings	15,877	3,050	(404)	18,523

A register containing the information required by paragraph 22(3) of Schedule 4 of the Companies Act is available for inspection at the registered office of the Company.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of investment property from when it is available to operate as intended by management.

The estimated useful lives are as follows: Investment properties, 30 – 100 years.

The above assumptions are consistent with the prior year.

Investment properties and significant components thereof are stated at the costs thereof.

The fair values disclosed for 2009 are based on the municipal values and the market values of those buildings that were valued by an independent valuator at the end of 2009 financial year. The market value determination has been arrived at by applying the investment approach (income method).

The following key assumptions were used by the valuators in the determination of the fair value of the investment properties:

- Property is not capable of being divided into portions that can be separately sold or leased separately under a finance lease.
- The useful life of investment property has been estimated by the valuer.
- The useful life of each investment building save for any reclassification thereof to non-current assets held for sale is deemed to equate its economic useful life, as management has taken a decision not to sell these investment properties.
- Property is treated as investment property where the external lessees and vacant space amounts to at least 80% of the specific property.

5. Intangible assets

Figures in Rand Thousand	**2010** Cost	**2010** Accumulated amortisation	**2010** Carrying value	2009 Cost	2009 Accumulated amortisation	2009 Carrying value
Group						
Patents, trademarks and other rights	**10,800**	**(10,800)**	**–**	10,800	(10,800)	–
Computer software	**280,961**	**(218,748)**	**62,213**	268,928	(213,824)	55,104
Total	**291,761**	**(229,548)**	**62,213**	279,728	(224,624)	55,104
Company						
Computer software	**277,777**	**(216,666)**	**61,111**	262,886	(208,737)	54,149

Reconciliation of intangible assets – Group – 2010

Figures in Rand Thousand	**Opening balance**	**Additions**	**Transfers**	**Amortisation**	**Total**
Computer software	**55,104**	**22,477**	**10 534**	**(25,902)**	**62,213**

Reconciliation of intangible assets – Group – 2009

Figures in Rand Thousand	Opening balance	Additions	Amortisation	Total
Patents, trademarks and other rights	1,080	–	(1,080)	–
Computer software	62,218	20,187	(27,301)	55,104
	63,298	20,187	(28,381)	55,104

Reconciliation of intangible assets – Company – 2010

Figures in Rand Thousand	**Opening balance**	**Additions**	**Transfers**	**Amortisation**	**Total**
Computer software	**54,149**	**22,144**	**10,534**	**(25,716)**	**61,111**

Reconciliation of intangible assets (excluding goodwill) – Company – 2009

Figures in Rand Thousand	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	60,902	21,396	(1,215)	(26,934)	54,149

Other information

No intangible assets in the Group have been impaired during this period (2009: none). Included in intangible assets is computer software that is not considered integral to computer equipment.

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

Figures in Rand Thousand	**2010** Cost	**2010** Accumulated amortisation	**2010** Carrying value	2009 Cost	2009 Accumulated amortisation	2009 Carrying value
Group and Company						
Computer software	**257,687**	**(152,720)**	**104,967**	233,048	(114,028)	119,020

The above assumptions are consistent with the prior year.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
6. Other financial assets				
Non-current assets				
Available for sale				
Balance as at 31 March	**3,597**	371,427	**3,597**	371,427
Government bonds and equity	**3,597**	10,809	**3,597**	10,809
Foreign investments	**–**	27,857	**–**	27,857
Local investments	**–**	332,761	**–**	332,761
Restatement to fair value through profit or loss	**–**	(360,618)	**–**	(360,618)
Total available for sale	**3,597**	10,809	**3,597**	10,809
Fair value through profit or loss				
Balance as at 31 March	**435,798**	–	**435,798**	–
Foreign investments	**29,652**	–	**29,652**	–
Local investments	**406,146**	–	**406,146**	–
Restatement from available for sale	**–**	360,618	**–**	360,618
Total fair value through profit or loss (FTVPL) financial assets	**435,798**	360,618	**435,798**	360,618
Total other financial assets (Non-current)	**439,395**	371,427	**439,395**	371,427
Current assets				
Available for sale				
Balance as at 31 March	**71,055**	190,625	**3,412**	99,099
Foreign investments	**–**	31,047	**–**	31,047
Local investments	**–**	65,134	**–**	65,134
Cell captive money market instruments and corporate bonds	**71,055**	94,444	**3,412**	2,918
Restatement to fair value through profit or loss	**–**	(96 181)	**–**	(96,181)
Total available for sale	**71,055**	94,444	**3,412**	2,918
Fair value through profit or loss				
Balance as at 31 March	**110,610**	–	**110,610**	–
Foreign investments	**6,512**	–	**6,512**	–
Local investments	**104,098**	–	**104,098**	–
Restatement from available for sale	**–**	96,181	**–**	96,181
Total fair value through profit or loss (FTVPL) financial assets	**110,610**	96,181	**110,610**	96,181
Total other financial assets (current)	**181,665**	190,625	**114,022**	99,099

Other financial assets are classified by the Group as available for sale when the intention with regard to the instrument and its origination and designation does not fall within the ambit of other financial assets classification. Available for sale instruments are typically assets that are held for a longer period and in respect of which short-term fluctuations in value do not affect the Group's hold or sell decision.

Restatement of financial assets originally designated as available for sale (AFS)
At origination it was the Group's intention that post-retirement medical assets portfolio be accounted for in a manner so as to minimise the potential accounting mismatch between the measurements of the post-retirement medical assets (PRMA) and post-retirement medical liability (PRML).

Hence it was the management's intention at inception to designate the post-retirement medical assets (PRMA) at fair value through profit or loss (FVTPL). In the current financial year the PRMA assets were erroneously designated as available for sale (AFS) financial assets. The correction of this error led to the restatement of the "other financial assets". The effect of the restatement would reduce the accounting mismatch as both fair value valuation gains on the post-retirement medical assets and actuarial valuation on the post-retirement medical liabilities will be recognised through the profit or loss. Post-retirement liability is disclosed in note 17.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
6. Other financial assets *continued*				
Post-retirement medical aid asset				
Local cash and bonds	**287,073**	216,695	**287,073**	216,695
Local equity	**223,171**	53,177	**223,171**	53,177
Foreign cash and bonds	**28,039**	181,200	**28,039**	181,200
Foreign equity	**8,125**	5,727	**8,125**	5,727
	546,408	456,799	**546,408**	456,799

Uthingo Management (Proprietary) Limited

The value of the Group's shareholding in Uthingo was determined to be R nil million (2009: R 2.250 million) by Uthingo liquidators and this was subsequently estimated by Post Office management to be the fair value for the Group.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
7. Investments in subsidiaries				
Various unlisted investments (refer to note 39)	**–**	–	**42,603**	42,603

Loans to subsidiaries amounting to R227.8 million (2009: R226.4 million) are subordinated in favour of creditors and investments amounting to R 4.74 million (2009: R4.68 million) were impaired.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
8. Investments				
Term deposits between 90 days and a year in maturity				
Fixed deposits	**726,000**	623,000	**711,000**	623,000
Negotiable certificates of deposit	**1,907,638**	1,784,242	**1,907,638**	1,784,242
Jibar linked notes	**499,000**	45,000	**499,000**	45,000
	3,132,638	2,452,242	**3,117,638**	2,452,242

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. 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 term deposits in note 12. The negotiable certificates of deposit (NCD) are classified as available for sale financial assets, which are measured at fair value, with fair value gains and losses recognised directly in the available for sale equity revaluation reserve.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
9. Deferred tax				
Deferred tax				
Deferred tax asset	**363,558**	289,167	**357,095**	283,701
Deferred tax liability	**(113,117)**	(105,629)	**(112,177)**	(105,152)
	250,441	183,538	**244,918**	178,549
Recognised deferred tax assets and liabilities				
Asset				
Leases	**7,303**	14,868	**7,703**	15,250
Employee benefits	**358,142**	339,574	**358,200**	339,711
Trade and other receivables	**4,438**	2,190	**1,916**	129
Provisions	**27,049**	26,715	**25,633**	25,299
Tax loss	**66**	20	**–**	–
Other	**2**	2	**–**	–
Liability				
Property, plant and equipment	**(98,717)**	(101,836)	**(90,735)**	(94,354)
Trade and other payables	**(1,808)**	(3,014)	**(1,808)**	(3,014)
Intangible assets	**487**	(227)	**(6,819)**	(7,537)
Financial instruments	**(12,571)**	(17)	**(12,798)**	(244)
Revenue	**(33,950)**	(94,737)	**(36,374)**	(96,691)
	250,441	183,538	**244,918**	178,549
Deferred tax at the beginning of the year	**183,538**	202,820	**178,548**	199,616
Movement for the year	**66,903**	(19,282)	**66,370**	(21,067)
Deferred tax at the end of the year	**250,441**	183,538	**244,918**	178,549

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

9. Deferred tax *continued*

Figures in Rand Thousand	Opening balance	Recognised in profit/(loss)	Change in tax rate	Closing balance
Movement in temporary differences				
Group – 2010				
Property, plant and equipment	**(101,836)**	**3,119**	**–**	**(98,717)**
Leases	**14,868**	**(7,565)**	**–**	**7,303**
Trade and other payables	**(3,014)**	**1,206**	**–**	**(1,808)**
Employee benefits	**339,574**	**18,568**	**–**	**358,142**
Trade and other receivables	**2,190**	**2,248**	**–**	**4,438**
Provisions	**26,715**	**334**	**–**	**27,049**
Revenue	**(94,737)**	**60,787**	**–**	**(33,950)**
Financial instruments	**(17)**	**(12,554)**	**–**	**(12,571)**
Tax loss	**20**	**46**	**–**	**66**
Intangibles	**(227)**	**714**	**–**	**487**
Other	**2**	**–**		**2**
Tax asset	**183,538**	**66,903**	**–**	**250,441**
Movement in temporary differences				
Group – 2009				
Property, plant and equipment	(110,179)	8,344	–	(101,836)
Leases	12,690	2,178	–	14,868
Trade and other payables	(2,484)	(530)	–	(3,014)
Employee benefits	228,984	110,590	–	339,574
Trade and other receivables	6,351	(4,161)	–	2,190
Provisions	16,241	10,474	–	26,715
Revenue	51,443	(146,180)	–	(94,737)
Tax loss	–	20	–	20
Financial instruments	–	(17)	–	(17)
Intangibles	(227)	–	–	(227)
Other	2	–	–	2
Tax asset	202,821	(19,282)	–	183,538
Movement in temporary differences				
Company – 2010				
Property, plant and equipment	**(94,356)**	**3,621**	**–**	**(90,736)**
Leases	**15,250**	**(7,547)**	**–**	**7,703**
Trade and other payables	**(3,014)**	**1,206**	**–**	**(1,808)**
Employee benefits	**339,711**	**18,489**	**–**	**358,200**
Trade and other receivables	**129**	**1,787**	**–**	**1,916**
Provisions	**25,299**	**334**	**–**	**25,633**
Revenue	**(96,691)**	**60,317**	**–**	**(36,374)**
Financial instruments	**(244)**	**(12,554)**	**–**	**(12,798)**
Intangible assets	**(7,536)**	**717**	**–**	**(6,819)**
Tax asset	**178,547**	**66,370**	**–**	**244,917**

9. Deferred tax *continued*

Figures in Rand Thousand	Opening balance	Recognised in profit/(loss)	Change in tax rate	Closing balance
Movement in temporary differences				
Company – 2009				
Property, plant and equipment	(99,860)	5,503	–	(94,357)
Leases	12,900	2,350	–	15,250
Trade and other payables	(2,484)	(530)	–	(3,014)
Employee benefits	228,947	110,764	–	339,711
Trade and other receivables	6,372	(6,243)	–	129
Provisions	14,824	10,475	–	25,299
Revenue	49,486	(146,177)	–	(96,691)
Financial instruments	(227)	(17)	–	(244)
Intangibles	(10,341)	2,805	–	(7,536)
Tax asset	199,617	(21,070)	–	178,547

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Unrecognised deferred tax assets and liabilities				
Assets	**72,551**	86,786	**–**	–
Leases	**257**	7,014	**–**	–
Employee benefits	**3,284**	3,427	**–**	–
Trade and other receivables	**2,966**	4,115	**–**	–
Provisions	**2,119**	2,093	**–**	–
Revenue	**1,523**	1,261	**–**	–
Tax loss	**62,402**	68,876	**–**	–
Liabilities	**(5,749)**	(6,251)	**–**	–
Property, plant and equipment	**(5,465)**	(6,103)	**–**	–
Trade and other payables	**(54)**	(54)	**–**	–
Intangible assets	**(230)**	(94)	**–**	–
	66,802	80,535	–	–

	Opening balance	**Recognised in profit/(loss)**	**Change in tax rate**	**Closing balance**
Movement in temporary differences				
Group – 2010				
Property, plant and equipment	**(6,103)**	**638**	**–**	**(5,465)**
Leases	**7,014**	**(6,757)**	**–**	**257**
Trade and other payables	**(54)**	**–**	**–**	**(54)**
Employee benefits	**3,427**	**(143)**	**–**	**3,284**
Trade and other receivables	**4,115**	**(1,149)**	**–**	**2,966**
Provisions	**2,093**	**26**	**–**	**2,119**
Revenue	**1,261**	**262**	**–**	**1,523**
Financial instruments	**–**	**–**	**–**	**–**
Intangible assets	**(94)**	**(136)**	**–**	**(230)**
Tax loss	**68,876**	**(6,474)**	**–**	**62,402**
Tax asset	**80,535**	**(13,733)**	**–**	**66,802**

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

9. Deferred tax *continued*

Figures in Rand Thousand	Opening balance	Recognised in profit/(loss)	Change in tax rate	Closing balance
Movement in temporary differences				
Group – 2009				
Property, plant and equipment	(7,552)	1,449	–	(6,103)
Leases	6,922	92	–	7,014
Trade and other payables	(54)	–	–	(54)
Employee benefits	3,723	(296)	–	3,427
Trade and other receivables	8,012	(3,897)	–	4,115
Provisions	2,110	(17)	–	2,093
Revenue	1,188	73	–	1,261
Intangibles	(37)	(57)	–	(94)
Tax loss	58,880	9,996	–	68,876
Tax asset	73,192	7,343	–	80,535

The tax losses expire within 12 months of the respective company not trading. The deductible temporary differences do not expire under current legislation. Corporate tax rate is 28%.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
10. Inventories				
Merchandise	**29,013**	35,931	**29,013**	35,931
Consumable stores	**19,313**	23,259	**19,069**	23,026
	48,326	59,190	**48,082**	58,957
11. Trade and other receivables				
Trade receivables	**408,856**	428,572	**339,116**	313,280
Domestic	**281,279**	308,522	**211,539**	193,230
Agency services	**6,925**	7,887	**6,925**	7,887
Money transfer	**17,851**	14,524	**17,851**	14,524
Bulkmail	**124,335**	121,695	**124,335**	121,695
Speed services	**21,742**	23,970	**21,742**	23,970
Retail stamps	**796**	908	**796**	908
Services	**1,497**	3,212	**1,497**	3,212
Other	**39,636**	18,556	**38,393**	21,034
CFG (Courier)	**49,878**	62,841	**–**	–
NOVA Cell captive	**2,459**	39,908	**–**	–
Docex	**16,160**	15,021	**–**	–
International	**127,577**	120,050	**127,577**	120,050
Other receivables	**160,538**	80,713	**185,195**	138,663
Group receivables	**–**	–	**81,703**	102,205
Sundry receivables	**182,464**	102,739	**182,343**	102,383
Prepayments	**8,024**	12,065	**8,024**	12,065
Staff receivables	**4,011**	2,389	**4,002**	2,389
Impairment of trade and other receivables (excluding Group receivables)	**(33,961)**	(36,480)	**(14,127)**	(13,027)
Impairment of Group receivables	**–**	–	**(76,750)**	(67,352)
	569,394	509,286	**524,311**	451,943

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
11. Trade and other receivables *continued*				
Impairment of trade and other receivables				
Impairment of allowances per significant trade receivable account category:				
Trade receivables: Domestic	**(23,582)**	(28,490)	**(3,748)**	(5,038)
Philately collectors	**179**	(35)	**179**	(35)
Bulkmail	**(3)**	(101)	**(3)**	(101)
Speed services	**(3,924)**	(4,902)	**(3,924)**	(4,902)
CFG Courier	**(14,042)**	(19,856)	**–**	–
Docex	**(5,792)**	(3,596)	**–**	–
Trade receivables: International	**–**	–	**–**	–
Total receivables Domestic and International	**(23,582)**	(28,490)	**(3,748)**	(5,038)
Impairment allowances per significant sundry receivable account category				
Rent	**(6,097)**	(6,592)	**(6,097)**	(6,592)
Salary overpayment	**(4,282)**	(1,398)	**(4,282)**	(1,398)
Sundry receivables	**(10,379)**	(7,990)	**(10,379)**	(7,990)
Ageing of past due but not impaired				
The ageing of amounts past due but not impaired is as follows:				
Domestic				
31 – 60 days	**16,394**	14,758	**5,178**	7,642
90 – 120 days	**4,393**	50,675	**2,425**	4,174
	20,787	65,433	**7,603**	11,816
International				
Past due (older than 18 months)	**866**	808	**866**	808
Sundry receivables				
31 – 90 days	**–**	654	**–**	654
91 – 120 days	**200**	15,857	**200**	15,857
	200	16,511	**200**	16,511

Fair value of trade and other receivables

Reconciliation of provision for impairment of trade and other receivables

Affected trade receivables are discounted at effective rate of 10% (2009: 13%).

The Group and Company operates different credit terms. Bulkmail is seven days from date of statement, and the rest of the business operates on 30 days from date of statement. The Group trade receivables Domestic are R281 million (2009: R308 million) of which R20.8 million (2009: R65 million) is older than 30 days. Group sundry receivables are R182.5 million (2009: R102 million) of which R0.2 million (2009: R16.5 million) is older than 30 days.

At each statement of financial position date, the Group assesses whether there is any objective evidence that trade and other receivables are impaired. Individually significant financial assets are tested for impairment on an individual basis. Group impairment losses for trade and other receivables are raised in the statement of comprehensive income, when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms agreed upon. The impairment allowances are considered to be adequate for the Group.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

11. Trade and other receivables *continued*

Included in the trade debtors are International debtors. Debts in this category are held with individual countries and trade is governed by rules set up by the Universal Postal Union (UPU) currently situated in Switzerland. Services are divided into various categories and each has a unique payment term ranging from three months to one (1) year. The nature of the business allows countries to operate trade debtors and creditors accounts. Average payment terms per country is about 18 months. The impairment allowances are considered to be adequate for international debtors. International trade receivables is R128 million (2009: R120 million) of which R0.87 million (2009: R0.8 million) is older than 18 months.

The South African Post Office and its subsidiary companies fall outside of the definition of a Credit Provider for purposes of registration with the National Credit Regulator. The South African Post Office and its subsidiary companies nevertheless have to comply with the National Credit Act where accounts are opened for juristic persons such as sole proprietors and trusts where less than three trustees are appointed.

Trade receivables comprise a large number of customers, dispersed across different industries and geographical areas. The Group uses an internal/external credit scoring system to assess all potential customers' creditworthiness. Customers are manually credit assessed, using information derived from credit bureaus, financial accounting records, bank records, after which they are put through an internal grading system. Where appropriate, the necessary credit guarantees or deposits may be required. Accounts may only be granted to clients who are creditworthy and who accept the terms and conditions prescribed by the South African Post Office and its subsidiaries. A customer account is opened for all successful applicants and assigned a credit limit. The account number, the terms as well as the credit limit are confirmed in writing to the customer. Assessments of accounts are done on a regular basis as outlined in the Group procedure document. The frequency is determined by the nature of each business within the Group.

Security or sureties are requested to support accounts which do not meet up with about 20% of the assessment criteria. However in the case of Bulkmail, which comprises 80% of the Company's revenue, a bank guarantee or cash deposit equal to 6 weeks mailing is required as security to operate an account. A condition of the credit application is that no interest is payable to clients who have lodged a cash deposit. The Group holds R24 million (2009: R14 million) in deposits and R182 million (2009: R166 million) in bank guarantees as security on debtors accounts.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less impairment losses. Other trade receivables are subsequently designated as fair value through profit and loss (FVTPL) with any resulting gains and losses recognised in the profit and loss. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. IFRS requires that where payment for an asset is deferred, the asset should be recognised at the cash price equivalent. The difference between the cash price equivalent and the total payment should be recognised as interest over the period of the credit.

No adjustment was made for the South African Post Office domestic receivables as the impact of discounting was deemed to be insignificant. International receivables were however discounted at South African prime interest rate for all items over 12 months and at CFG for items (net of impairment) exceeding 30 days, as the amount was deemed to be significant in the books of the subsidiary. Discounting allowances for the Group is R3.4 million (2009: R5.6 million).

The terms of trade receivables have not been re-negotiated.

12. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and actual bank balances and investments in money market instruments. Cash and cash equivalents comprise the following:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Current and call accounts and cash on hand	**1,649,066**	1,258,311	**1,617,615**	1,209,176
Term deposits less than 90 days in time to maturity	**1,879,515**	2,344,830	**1,879,515**	2,344,830
	3,528,581	3,603,141	**3,497,130**	3,554,006

The effective interest rate of money market instruments is 7.58% (2009: 10.03%).

Included in the cash and cash equivalents is an amount of R236.13 million (2009: R272.85 million) that relates to funds collected on behalf of third parties as per note 22.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
13. Share capital				
Authorised				
1,000,000,000 (2009: 1,000,000,000) ordinary shares of R1 (2009: R1) each	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Issued				
200,939,821 (2009: 200,939,821) ordinary shares of R1 (2009: R1) each	**200,940**	200,940	**200,940**	200,940

14. Funds received from Shareholder

An amount of R750 million was received from National Treasury in March 2005 in order to recapitalise the South African Post Office. There is no intention to repay these funds which are viewed as being equity in nature.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Funds received from Shareholder	**750,000**	750,000	**750,000**	750,000

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
15. Interest bearing borrowings				
Minimum lease payments due				
– within one year	**–**	7	**–**	7
– in second to fifth year inclusive	**–**	–	**–**	–
	–	7	**–**	7
Less: Future finance charges	**–**	–	**–**	–
Present value of minimum lease payments	**–**	7	**–**	7
Non-current liabilities	**–**	–	**–**	–
Current liabilities	**–**	7	**–**	7
	–	7	**–**	7

There were no photocopy machines leased from Nashua in 2010 (2009: 1,267). The contract came to an end in the first quarter of the 2009/10 financial year-end. They were repayable in monthly discounted instalments of R0 (2009: R265,798) of which 56% of the copy charge was the capital portion and remained fixed for the duration of the lease.

The balance being the service portion had been escalating annually by 15%. Interest had been charged at prime plus 2%. No amounts had been secured against this lease agreement.

None of the contracts listed contain contingent rentals.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
16. Deferred lease liability				
Non-current liabilities	**(25,205)**	(70,962)	**(24,427)**	(47,676)
Current liabilities	**(5,667)**	(9,756)	**(5,632)**	(9,723)
	(30,872)	(80,718)	**(30,059)**	(57,399)

The Group has entered into operating leases for buildings. It straight-lined its operating leases where it is the lessee over the period of the lease contract. Refer to note 34 for the future minimum payments under non-cancellable operating leases.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

17. Employment benefit obligations

Assumptions

In determining the value to be placed on these various employment and post-employment benefits we have made various assumptions in respect of various economic and demographic factors. In order to have consistency between the various benefits we have applied the same assumptions for all benefits, 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 benefit is the most important element of the basis.

IAS 19 (AC 116): Employee Benefits (IAS 19) requires that realistic assumption 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 not sufficiently deep and liquid reference should be made to the yields on government stock. For the purpose of this valuation we have taken account 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 salary inflation assumption has been set at 0.5% above general inflation. Medical aid contribution inflation has been set at 1.25% above general inflation to reflect the general expectation that medical aid contribution inflation exceeds general inflation.

In this valuation we have assumed a discount rate of 8.75% (2009: 8.5%) p.a., a general inflation rate of 5.50% (2009: 5.25%) p.a., a salary inflation rate of 6.00% (2009: 5.75%) p.a. and a medical aid contribution inflation of 6.75% (2009: 6.5%) p.a.

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 we have shown the impact on the liabilities of a number of different assumptions.

Actuarial valuations are done on an annual basis for the Group.

Figures in Rand Thousand	Opening balance	Provisions made	Benefits paid	Closing balance	Current portion	Total non-current
Group – 2010						
Post-retirement medical aid contributions	941,466	196,401	(105,272)	1,032,595	124,644	907,951
Leave obligation	112,392	90,378	(64,749)	138,021	82,031	55,990
Long service cash awards	50,747	8,206	(9,211)	49,742	9,764	39,978
Long service leave awards	8,486	1,944	(1,355)	9,075	1,355	7,720
Post-retirement telephone obligation	8,352	(231)	(704)	7,417	651	6,766
	1,121,443	296,698	(181,291)	1,236,850	218,445	1,018,405

17. Employment benefit obligations *continued*

Figures in Rand Thousand	Opening balance	Provisions made	Benefits paid	Closing balance	Current portion	Total non-current
Group – 2009						
Post-retirement medical aid contributions	532,289	501,237	(92,060)	941,466	102,570	838,896
Leave obligation	109,925	65,156	(62,689)	112,392	64,749	47,643
Long service cash awards	49,643	10,325	(9,221)	50,747	9,211	41,536
Long service leave awards	8,103	1,811	(1,428)	8,486	1,355	7,131
Post-retirement telephone obligation	8,228	795	(671)	8,352	704	7,648
	708,188	579,324	(166,069)	1,121,443	178,589	942,854
Company – 2010						
Post-retirement medical aid contributions	**939,326**	**197,737**	**(105,225)**	**1,031,838**	**124,596**	**907,242**
Leave obligation	**104,795**	**84,763**	**(60,060)**	**129,498**	**76,785**	**52,713**
Long service cash awards	**50,237**	**8,119**	**(9,120)**	**49,236**	**9,560**	**39,676**
Long service leave awards	**8,486**	**815**	**(1,355)**	**7,946**	**1,355**	**6,591**
Post-retirement telephone obligation	**8,352**	**(231)**	**(704)**	**7,417**	**–**	**7,417**
	1,111,196	**291,203**	**(176,464)**	**1,225,935**	**212,296**	**1,013,639**
Company – 2009						
Post-retirement medical aid contributions	529,613	501,684	(91,971)	939,326	102,523	836,803
Leave obligation	101,368	61,398	(57,971)	104,795	60,060	44,735
Long service cash awards	49,221	10,198	(9,182)	50,237	9,120	41,117
Long service leave awards	8,103	1,811	(1,428)	8,486	1,355	7,131
Post-retirement telephone obligation	8,228	795	(671)	8,352	704	7,648
	696,533	575,886	(161,223)	1,111,196	173,762	937,434

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Non-current liabilities	**(1,018,405)**	(942,854)	**(1,013,639)**	(937,434)
Current liabilities	**(218,445)**	(178,589)	**(212,296)**	(173,762)
	(1,236,850)	(1,121,443)	**(1,225,935)**	(1,111,196)

Post-retirement medical aid contributions

During 2008/09 financial year R456.8 million worth of assets were transferred to the South African Post Office as a result of Registrar for Medical Schemes decision on 12 November 2008. The relevant assets will be specifically and exclusively utilised for the future funding of the South African Post Office's PRMA liability and have consequently been ring-fenced and invested according to a specific unique investment mandate.

The Company has negotiated with its employees that no employees retiring after 30 June 2005 will receive post-retirement medical aid benefits. This curtailment of benefits was accounted for during the 2005 year.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

17. Employment benefit obligations *continued*

The amount recognised in the statement of comprehensive income is determined as follows:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Interest charge	**94,201**	94,338	**94,141**	94,202
Expected return on plan assets	**–**	(49,317)	**–**	(49,317)
Recognition of loss on asset realisation	**102,630**	(1,013)	**103,596**	–
	196,831	44,008	**197,737**	44,885

Figures in Rand Thousand	**Liability**	**Plan assets**	**Net assets/ (liability)**
The movement in the past service liability for the Group is as follows:			
2010			
Past service liability at the beginning of the year	**(1,159,478)**	**–**	**(1,159,478)**
Interest charge on plan assets	**(94,201)**	**–**	**(94,201)**
Contributions paid	**105,272**	**–**	**105,272**
Actuarial gain	**(216,887)**	**–**	**(216,887)**
Subtotal	**(1,365,294)**	**–**	**(1,365,294)**
The movement in the past service liability for the Company is as follows:			
2010			
Past service liability at the beginning of the year	**(1,158,802)**	**–**	**(1,158,802)**
Interest charge on plan assets	**(94,141)**	**–**	**(94,141)**
Contributions paid	**105,225**	**–**	**105,225**
Actuarial gain	**(216,936)**	**–**	**(216,936)**
	(1,364,654)	**–**	**(1,364,654)**
The movement in the past service liability for the Group is as follows:			
2009			
Past service liability at the beginning of the year	(1,065,896)	–	(1,065,896)
Interest charge on plan assets	(94,338)	–	(94,338)
Contributions paid	92,060	–	92,060
Actuarial gain	(91,304)	–	(91,304)
Subtotal	(1,159,478)	–	(1,159,478)
The movement in the past service liability for the Company is as follows:			
2009			
Past service liability at the beginning of the year	(1,064,384)	–	(1,064,384)
Value of plan assets at beginning of the year	–	533,158	533,158
Interest charge on plan assets	(94,202)	(76,359)	(170,561)
Contributions paid	91,971	–	91,971
Actuarial gain	(92,187)	–	(92,187)
Receipt of plan asset by employer	–	(456,799)	(456,799)
	(1,158,802)	–	(1,158,802)
Provision at end of year		1,031,838	939,326
Add: Unrecognised portion of actuarial losses		332,816	219,476
		1,364,654	1,158,802

17. Employment benefit obligations *continued*

Sensitivity analysis

Figures in Rand Thousand	2010 Liability	2010 Change in liability %	2009 Liability	2009 Change in liability %
Changes to medical inflation				
+ 1%	**1,494,974**	**11.30**	1,272,326	9.80
Central	**1,364,654**	**–**	1,158,802	–
– 1%	**1,251,836**	**(6.80)**	1,060,829	(8.45)

Leave obligation

Employees are entitled to 22 days' leave per annum. Provided that a staff member has taken at least 15 days in a year the remaining leave may be carried over into future years. Any leave balance remaining when an employee leaves the service of SAPO 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 South African 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 South African Post Office.

Given these rules the South African 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 we have 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" leave and the balance in the "capped" leave will be paid out in cash when the employee leaves the service of the South African Post Office by death, resignation or retirement. In the case of the "normal " 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.

Leave encashment

Funded status

The funded status of the leave obligation at 31 March 2010 was as follows:

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Present value of funded obligations	**138,021**	112,392	**129,498**	104,795
Net liability in statement of financial position	**138,021**	112,392	**129,498**	104,795
The amount recognised in the statement of comprehensive income is determined as follows:				
Interest costs	**4,328**	4,592	**4,062**	4,295
Actuarial losses recognised:	**86,050**	61,400	**80,701**	57,103
Actuarial loss recognised in the year	**90,378**	65,992	**84,763**	61,398

Sensitivity analysis

Figures in Rand Thousand	2010 Liability	2010 Change in liability %	2009 Liability	2009 Change in liability %
Changes to medical inflation				
+ 1%	**3,555**	**(4.60)**	7,745	(4.80)
Central	**3,753**	**–**	8,135	–
– 1%	**3,912**	**5.00**	8,563	5.30

Long service awards

The South African Post Office's permanent employees receive long service cash awards on every fifth (5th) anniversary of their employment and additional leave on every tenth anniversary of their employment. The amount of the cash benefit payable has been provided. The cash benefit amount forms a part of the salary and benefit negotiations and a three year agreement was reached covering the period from 1 July 2006 to 30 June 2009. The figures that apply from 1 July 2008 onward were used. As advised by the South African Post Office, we have not assumed any increases in the benefit into the future. In the event that future benefits are increased in a new round of negotiations this assumption may need to be revisited.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

17. Employment benefit obligations *continued*

Long service cash awards

Funded status

The funded status of the long service award obligation at 31 March 2010 was as follows:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Present value of funded obligations	**49,742**	50,747	**49,236**	50,237
Net liability in statement of financial position	**49,742**	50,747	**49,236**	50,237
The amount recognised in the statement of comprehensive income is determined as follows:				
Current service costs	**3,191**	3,055	**3,146**	2,999
Interest charge	**3,922**	4,165	**3,883**	4,128
Actuarial losses recognised in the year	**1,093**	3,105	**1,090**	3,071
	8,206	10,325	**8,119**	10,198

Sensitivity analysis

	2010		2009	
Figures in Rand Thousand	**Liability**	**Change in liability %**	Liability	Change in liability %
Changes to discount				
+ 1%	**46,924**	**(4.00)**	48,167	(4.10)
Central	**49,236**	**–**	50,237	–
– 1%	**50,978**	**4.30**	52,492	4.50

Long service leave award

Funded status

The Group has a policy of increasing leave days due to employees reaching ten years within the South African Post Office employment. The increase in leave days is from 22 to 24 days in the employee's tenth year. The benefit, although in place for some time, has not been valued in the past. The Group has valued this benefit in the current year, and shall be valuing the benefit annually. Any unrecognised actuarial gains/losses and past service costs are recognised immediately. The funded status of the long service leave award obligation at 31 March 2010 was as follows:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Present value of funded obligations	**7,946**	8,486	**7,946**	8,486
Net liability in statement of financial position	**7,946**	8,486	**7,946**	8,486
The amount recognised in the statement of comprehensive income is determined as follows:				
Current service cost	**505**	480	**505**	480
Interest costs	**664**	684	**664**	684
Actuarial (gains)/loss recognised	**(354)**	647	**(354)**	647
	815	1,811	**815**	1,811

17. Employment benefit obligations *continued*

Sensitivity analysis

Figures in Rand Thousand	2010 Liability	2010 Change in liability %	2009 Liability	2009 Change in liability %
Changes to discount				
+ 1%	**8,159**	**(5.00)**	8,064	(5.00)
Central	**7,946**	**–**	8,486	–
– 1%	**9,052**	**5.50**	8,050	(5.10)

Post-retirement telephone obligation

The Group has undertaken to pay telephone accounts for certain retired employees until either the time of their death, that of their spouse or they change their address. The Group's net obligation in this regard is the amount of future benefit that employees have earned in return for their service in the prior periods. The obligation is valued at least every three years by independent qualified actuaries. A valuation was obtained during the current year. Any unrecognised actuarial gains/losses and past service costs are recognised immediately. There are no plan assets for this liability and the employer funds this as it needs to be settled.

Funded status

The funded status of the post-retirement telephone obligation at 31 March 2010 was as follows:

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Present value of funded obligations	**7,417**	8,352	**7,417**	8,352
Net liability in statement of financial position	**7,417**	8,352	**7,417**	8,352
The amount recognised in the income statement is determined as follows:				
Interest charge	**680**	730	**680**	730
Actuarial (gain)/loss recognised in the year	**(911)**	65	**(911)**	65
	(231)	795	**(231)**	795

Sensitivity analysis

Figures in Rand Thousand	2010 Liability	2010 Change in liability %	2009 Liability	2009 Change in liability %
Changes to discount				
+ 1%	**6,853**	**(7.60)**	9,091	8.80
Central	**7,417**	**–**	8,352	–
– 1%	**8,061**	**8.70**	7,697	7.80

The actuarial value of the vested obligation is based on the past history. The principal actuarial assumptions used to determine the present value of the post-retirement telephone benefits are:

Year	Inflation rate %	Discount rate %
2010	**5.50**	**8.75**
2009	5.25	8.50

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

18. Provisions

Reconciliation of provisions – Group – 2010

Figures in Rand Thousand	Opening balance	Additions	Total
Decommissioning	**10,513**	**746**	**11,259**

Reconciliation of provisions – Group – 2009

Decommissioning	9,560	953	10,513

Reconciliation of provisions – Company – 2010

Decommissioning	**6,033**	**538**	**6,571**

Reconciliation of provisions – Company – 2009

	Opening balance	Additions	Utilised during the year	Total
Decommissioning	8,148	6,034	(8,149)	6,033

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 South African Post Office to expand its presence in South Africa (SA), especially in rural SA. This means that the South African 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 Connection Point (MCP) would probably not require restoration should they ever wish to relocate. The South African 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 South African 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 2010 financial year, the South African Post Office relocated from 70 (2009: 63) leasehold premises of which only 4 (2009: 29) lessors required restoration, thus further supporting the expectation that relocation and thus restoration would not occur in most instances.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
19. Trade and other payables				
Trade payables	**753,805**	778,567	**674,032**	748,409
Other payables	**297,980**	311,102	**294,308**	205,147
	1,051,785	1,089,669	**968,340**	953,556

Trade and other payables are initially measured at fair value, net of transaction cost and are subsequently measured at amortised cost using the effective interest method with interest expense recognised on an effective yield basis. Other trade payables are subsequently designated as fair value through profit and loss (FVTPL) with any resulting gains and losses recognised in the profit and loss.

The average credit period on all purchases is 60 days. The Group has a policy in place with its payables not to pay interest on late payments. All invoices were paid within the 60 days time frame in the year 2010. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009

20. Amount owing to Shareholder

Amount owing to Shareholder	**206,395**	185,130	**206,395**	185,130

The amount owing to the Shareholder is the liability that arose as a result of the incorporation of former TVBC states i.e. Transkei, Bophuthatswana, Venda and Ciskei post offices. The incorporation was done in accordance with the Post and Telecommunications Reorganisation Act which provided for the integration of the departments of post and telecommunications of the TVBC states with Telkom and the South African Post Office. The liability is classified as financial liability at cost and bears interest at the rate of 10% per annum (2009: 13%) in terms of the Public Finance Management Act.

21. Outstanding insurance claims

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Outstanding insurance claims	**4,383**	3,664	**–**	–

Insurance for the Group's assets is arranged through a cell captive insurance company with a layer for catastrophic cover above that. Provisions for insurance claims payable from cell captive are calculated at the 75th percentile based on the actuarial valuation of claims record. Insurance accounting is done in accordance with short-term insurance legislation and regulated by the Financial Services Board (FSB) to comply with IFRS 4.

22. Funds collected on behalf of third parties

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Agency services and collections	**171,409**	200,725	**171,409**	200,725
Money and postal orders	**64,716**	72,128	**64,716**	72,128
	236,125	272,853	**236,125**	272,853

Funds collected from the customers of the Group third party clients are paid into their bank accounts after 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 period before the money collected is paid into the client's respective accounts. Money and postal orders refer to unclaimed orders that are payable on demand.

23. Deposits from the public

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Current and savings accounts	**3,415,350**	3,042,762	**3,415,350**	3,042,762
Term deposits	**236,637**	253,105	**236,637**	253,105
	3,651,987	3,295,867	**3,651,987**	3,295,867

Deposit products include current accounts, savings accounts and term deposits. Current accounts and savings accounts are all overnight deposits which are all payable on demand. Term deposits vary from one (1) month to five (5) years. All amounts owed to the depositors are classified as financial liabilities at cost. Interest payable on term deposits is capitalised monthly. All account holders are individuals within the Republic of South Africa.

Interest paid on overnight deposit accounts is fixed and varies from zero (0) to 3.1% per annum (2009: 0% to 5%), depending on the account balance. Term deposits attract interest which varies from 3.9% to 6.4% per annum (2009: 4% to 11.5% per annum) and all rates are linked to prime rate.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
24. Unearned revenue				
Current liabilities	**320,848**	253,658	**309,859**	249,158

Bulk mail, parcels and registered letters revenue

The Post Office has contracted the services of the Independent Standard Quality Monitor (ISQM) to measure the mail delivery standard. The results generated are based on the actual mail delivery statistics. The deferred revenue calculation is based on this mail delivery performance statistics. Assumptions were used that 25% of all mail posted was delivered within the same region and 75% delivery between regions.

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 mail delivery standard and the holding time of customers after purchase.

Box revenue

The renewal cycle for the rental of the boxes is a calendar 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 renewal cycle is earned for that financial year and the remaining nine months of the renewal cycle is regarded as deferred revenue.

Stamp and envelope revenue

The deferred revenue calculation is based on the assumption that ten working days' revenue is unearned. This period is formulated on a combination of the mail delivery standards and the holding time of customers after purchase.

International revenue

As revenue has to be recognised when services are rendered and in terms of terminal dues, it will be recognised when items are delivered to their destinations. The company uses ISQM reports in terms of mail delivery standard and the calculation of the deferred revenue was based on performance statistics. The ISQM reports are applied for the different categories on a weighted average basis. The last seven days' sales were extracted and the statistics from ISQM reports were used to obtain the revenue to be deferred for those days.

Courier (Logistical) services

Domestic items

The assumption is that all items accepted on 31 March will only be delivered the next day and therefore this revenue is deferred.

International items

The assumption is that 80% of the revenue generated on 31 March is deferred to the new financial year.

Key deposit fees

According to the current delivery policy, key deposits are payable in all cases when a client applies for a postbox service. The collected deposit fees for all box keys are not recognised as revenue.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
25. Taxation				
Opening balance	**8,021**	57,132	**8,262**	58,768
Current tax for the year in the statement of comprehensive income	**166,387**	131,391	**166,387**	125,165
Prior year over-provision	**(24,088)**	(25,336)	**(24,088)**	(25,336)
Tax paid	**(102,650)**	(155,166)	**(102,891)**	(150,335)
	47,670	8,021	**47,670**	8,262

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

26. Revenue

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 agent of certain government departments, other authorities and businesses.

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Analysis of revenue by main business activity:				
Postal services	**3,777,011**	3,671,618	**3,761,625**	3,652,069
Courier services	**692,590**	771,808	**311,493**	319,154
Agency and money transfer services	**395,092**	341,209	**395,092**	341,209
Retail products	**158,706**	176,302	**158,706**	176,302
Postbank	**254,373**	263,794	**254,373**	263,794
	5,277,772	5,224,731	**4,881,289**	4,752,528

27. Other operating income

	Group 2010	Group 2009	Company 2010	Company 2009
Includes:				
Administration fees received	**–**	–	**1,248**	1,200
Dividends received	**–**	4,943	**–**	–
Rental income	**15,781**	13,357	**15,781**	13,357
Insurance premium revenue	**41,702**	42,143	**–**	–
Rental income from investment property	**385**	739	**385**	739
Sundry income	**13,693**	21,730	**50,357**	62,180
Rental facilities income	**25,856**	24,866	**25,856**	24,866
Net profit on disposal of property, plant and equipment	**–**	16	**–**	16
PRMA assets fair value adjustment	**89,609**	–	**89,609**	–

28. Operating profit before finance costs

	Group 2010	Group 2009	Company 2010	Company 2009
Operating profit for the year is stated after accounting for the following:				
Audit fees				
Audit fees – current year	**12,662**	10,542	**13,186**	5,982
Prior year fees	**–**	1,014	**–**	700
Staff expenditure	**2,961,876**	2,899,448	**2,854,438**	2,796,512
Salaries and other staff expenditure	**2,532,001**	2,508,622	**2,437,776**	2,417,958
Pension fund contributions	**222,151**	208,117	**212,641**	198,500
Medical aid contributions	**207,724**	182,709	**204,021**	180,054
Depreciation on property, plant and equipment (note 2, 3, 4 and 5)	**170,666**	195,724	**162,574**	182,018
– Freehold land and building	**28,113**	23,670	**27,919**	23,669
– Leasehold improvements	**38,198**	38,421	**38,004**	38,157
– Machinery and equipment	**32,250**	33,723	**29,156**	28,874
– Data processing equipment – owned assets	**37,032**	59,256	**36,386**	57,865
– Data processing equipment – leased assets	**6**	1,492	**6**	1,492
– Motor vehicles – owned assets	**3,931**	6,104	**301**	288
– Furniture and fittings	**4,789**	4,015	**4,641**	4,077
Depreciation on investment property	**445**	404	**445**	404
Amortisation on intangible assets	**25,902**	28,381	**25,716**	26,934
Inventory write down	**–**	258	**–**	258

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

28. Operating profit before finance costs *continued*

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Net effect of project specific subsidy acknowledged as income				
Subsidy received	**383,092**	361,155	**383,092**	361,155
Less: Expenditure acknowledged	**(383,092)**	(361,155)	**(383,092)**	(361,155)
Infrastructure	**124,489**	69,300	**124,489**	69,300
Universal service obligation	**122,470**	110,000	**122,470**	110,000
System improvements	**141,280**	181,855	**141,280**	181,855

There are no unfulfilled conditions or contingencies.

Certain projects such as the SAP Upgrade, Track and Trace and the Point of Sale have not been completed during the year under review. An amount of R249.0 million (2009: R336.4 million) has been rolled over to the 2011 financial year for these projects.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Consultancy fees				
Technology	**16,855**	37,761	**16,855**	37,761
Communication	**1,919**	6,627	**1,919**	6,627
Forensic audit	**3,483**	5,090	**3,483**	5,090
Business restructuring	**693**	8,803	**693**	8,803
Properties	**328**	647	**328**	647
Revenue protection	**562**	367	**562**	362
Insurance	**1,888**	471	**1,878**	156
Occupational health and safety	**1,061**	843	**1,061**	843
Delivery standard measurement	**1,248**	800	**1,248**	800
Other	**890**	5,908	**890**	5,508
	28,927	67,317	**28,917**	66,597
Licence fees	**18,782**	18,414	**18,782**	18,414
Net foreign currency losses	**14,541**	49,508	**14,541**	49,508

Delivery standard measurement
The universal service aims to ensure that basic postal services and financial transactions which are essential to social and economical inclusion are available to everybody in an appropriate way at an affordable cost. This is intended to ensure that people living in rural areas obtain the advantage of postal and financial services, irrespective whether the income generated is less than the cost of providing the service.

Licence agreement
In terms of Section 16(3) of the Postal Services Act, 1998 (Act No 124 of 1998) the Minister of Communications granted and issued a licence to the Post Office with a period of validity of 25 years, effective 1 April 2000.

In terms of the licence conditions the South African Post Office must pay the National Reserve Fund (or SA Government) an annual licence fee equal to 0,55% of the South African Post Office's annual regulated turnover.

Insurance activities
The Post Office Group offers insurance contracts to its customers by providing protection against specified risks associated with the transport of their mail, parcels and freight. These insurance contracts are offered through a cell captive facility maintained with Centriq Insurance Company Limited, a South African registered short-term insurance company.

The cell captive facility is further used to underwrite the first party risk of the South African Post Office Group to provide cover against a variety of insurable risks including assets own risk, commercial crime, money etc. Inter-company transactions are eliminated on consolidation of the cell captive.

In terms of the shareholders' agreement, the Group carries all the risks and rewards related to the business underwritten in the cell captive facility. The risks are closely monitored by the Group through the ongoing review of the performance of the underlying insurance products. Premium rate adjustments are used to mitigate the associated insurance risks. Provided below is a summarised underwriting account giving details of the R8.0 million (2009: R3.6 million) underwriting profit included in profit from operations:

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

28. Operating profit before finance costs *continued*

Figures in Rand Thousand	Company 2010	Company 2009
Net earned premiums	**41,702**	62,893
Gross claims incurred	**(29,108)**	(54,187)
Net operating expenses	**(4,573)**	(5,081)
Underwriting profit	**8,021**	3,625

29. Fruitless and wasteful expenditure

Other expenditures in the statement of comprehensive income includes fruitless and wasteful expenditures that were incurred during the year under review. These expenditures are made up of fines and penalties for late payment of taxes or late rendition of tax returns in prior years.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Reconciliation of fruitless and wasteful expenditure				
Opening balance	**–**	–	**–**	–
Fruitless and wasteful expenditure – current year	**146**	–	**–**	–
Closing balance	**146**	–	**–**	–
Analysis of current fruitless and wasteful expenditure				
Sapos Properties (Bloemfontein) (Pty) Limited	**39**	–	**–**	–
Sapos Properties (Erf 145018 Cape Town) (Pty) Limited	**89**	–	**–**	–
Sapos Properties (East Rand) (Pty) Limited	**5**	–	**–**	–
Sapos Properties (PE) (Pty) Limited	**13**	–	**–**	–
	146	–	**–**	–

30. Finance income

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Banking division income				
Postbank interest income	**274,985**	350,099	**274,985**	350,099
Interest income				
Investments and current accounts	**216,503**	324,084	**206,951**	307,609
Dividend income	**3,000**	–	**3,000**	–
	219,503	324,084	**209,951**	307,609
Total finance income	**494,488**	674,183	**484,936**	657,708

31. Finance costs

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Banking division finance costs				
Postbank interest paid to customers	**56,927**	114,478	**56,927**	114,478
	56,927	114,478	**56,927**	114,478
Finance costs				
Trade and other payables	**6,379**	6,408	**6,195**	6,408
Leases	**–**	332	**–**	71
Former TVBC states loan	**21,278**	25,770	**21,278**	25,770
Overdraft and banking facilities	**1,476**	1,221	**1,476**	1,221
Interest paid	**1,011**	663	**30**	645
	30,144	34,394	**28,979**	34,115
	87,071	34,394	**28,979**	34,115

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
32. Taxation expense				
Major components of the tax expense				
Current tax				
Normal South African income tax @ 28%	**173,098**	131,391	**166,388**	125,165
Prior year over-provision of taxation	**(24,088)**	(25,336)	**(24,088)**	(25,330)
	149,010	106,055	**142,300**	99,835
Deferred tax				
Deferred tax asset relating to the origination and reversal of temporary differences	**(66,903)**	19,283	**(66,370)**	21,070
Other	**–**	–	**–**	(3)
	(66,903)	19,283	**(66,370)**	21,067
	82,107	125,338	**75,930**	120,902
Calculated tax loss	**228,332**	252,191	**–**	–
Reconciliation of the tax expense				
Reconciliation between applicable tax rate and average effective tax rate	**%**	%	**%**	%
Effective tax rate	**21.68**	25.67	**21.58**	24.70
Non-taxable income	**0.22**	0.28	**0.85**	–
Disallowed expenditure	**(3.89)**	(1.60)	**(4.02)**	(1.90)
Current tax – prior year	**6.36**	5.19	**6.80**	5.20
Opening deferred tax balance	**–**	–	**2.79**	–
Net deferred tax asset not raised	**3.63**	(1.54)	**–**	–
Standard tax rate	**28.00**	28.00	**28.00**	28.00

33. Cash generated from operations

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Operating profit before finance costs	**189,339**	198,481	**173,005**	214,178
Adjustments for:				
Depreciation on property, plant and equipment	**144,319**	166,681	**136,413**	154,422
Depreciation on assets held for sale	**–**	13	**–**	13
Impairment and depreciation on investment properties	**445**	404	**445**	404
Amortisation of intangible assets	**25,902**	28,381	**25,716**	26,934
(Decrease)/Increase in impairment of trade and other receivables	**(2,519)**	(36,229)	**1,100**	(17,892)
Increase in impairment of Company receivables	**–**	–	**9,398**	4,175
Increase/(decrease) in provisions	**746**	953	**538**	(2,115)
Profit on disposal of property, plant and equipment	**–**	(16)	**–**	(16)
Decrease in impairment of loans	**–**	–	**–**	(29)
Increase in provision for employment benefit obligations	**296,698**	489,598	**291,203**	446,356
Increase/(decrease) in unearned revenue	**67,190**	(15,485)	**60,701**	7,807
(Decrease)/increase in deferred lease liability	**(49,846)**	12,732	**(27,340)**	13,290
(Decrease)/increase in available for sale reserve adjustment	**(3,461)**	3,174	**(3,461)**	3,174
Increase in outstanding insurance claims	**719**	2,912	**–**	–
Dividends received	**–**	(4,943)	**–**	–
Decrease in pension fund asset	**–**	52,705	**–**	52,705
Decrease in funds collected on behalf of third parties	**(36,728)**	(73,555)	**(36,728)**	(73,555)
Fair value of financial assets	**(89,609)**	–	**(89,609)**	–
Notional interest on CPD	**(80,186)**	–	**(80,186)**	–
Interest discounting	**(15,563)**	–	**(8,671)**	–
Changes in working capital:				
Decrease/(increase) in inventory	**10,864**	(4,719)	**10,875**	(4,786)
(Increase)/decrease in trade and other receivables	**(61,630)**	120,101	**(86,908)**	175,819
Decrease/(increase) in prepayments	**4,041**	(2,667)	**4,041**	(2,726)
(Decrease)/increase in trade and other payables	**(37,884)**	(43,196)	**14,785**	(108,894)
Cash generated from operations	**362,837**	895,325	**395,317**	889,264
Proceeds on disposal of property, plant and equipment				
Carrying value of disposals	**6,160**	6,039	**3,265**	209
Profit/(loss) on disposal	**–**	16	**–**	16
	6,160	6,055	**3,265**	225

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

34. Commitments

Capital commitments

Capital expenditure authorised by the Board of Directors at the reporting date but not recognised in the financial statements is as follows:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Contracted for and authorised by directors	**193,409**	226,849	**193,328**	226,582
Not yet contracted for and authorised by directors	**304,224**	272,177	**292,150**	269,936
	497,633	499,026	**485,478**	496,518

The capital expenditure will be financed from funds generated by own operations and from external sources.

Operating lease commitments – lessee

The future minimum payments payable under non-cancellable operating leases are as follows:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Buildings				
Not later than one year	**165,774**	109,200	**155,237**	100,427
Later than 1 year and not later than 5 years	**366,003**	238,714	**358,680**	217,425
Later than 5 years	**7,453**	83,617	**7,122**	31,497
	539,230	431,531	**521,039**	349,349

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 metre relating to the prevalent market rate at the inception of the contract. Escalation clauses vary from contract to contract averaging at 8% (2009: 8%). Contract renewal options are assumed not to be exercised by the Company, unless decided otherwise by management.

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Vehicles				
Not later than one year	**53,712**	46,928	**50,767**	45,584
Later than 1 year and not later than 5 years	**31,565**	31,752	**29,470**	31,264
	85,277	78,680	**80,237**	76,848

The Group leases vehicles from Avis Fleet Services and Fleet Africa under FML agreements. The lease period ranges from two to five years at interest rates of prime less 2 – 2.25%, (2009: interest rates of prime less 2 – 2.25%). The vehicles are being utilised for the delivery of parcels and mail.

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Total	**624,507**	510,211	**601,276**	426,197

Operating lease receivables – lessor

The future minimum payments receivable under non–cancellable operating leases are as follows:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Buildings				
Not later than one year	**17,249**	14,615	**17,305**	16,943
Later than 1 year and not later than 5 years	**24,129**	37,587	**24,152**	48,747
Later than 5 years	**249**	427	**249**	427
	41,627	52,629	**41,706**	66,117

Rental income has been based on a rate per square metre relating to the prevalent market rate at the inception of each contract. Escalation clauses vary from contract to contract with an average of 7% (2009: 7%). Lease agreements are entered into for a minimum of two years up to a maximum of three years. Contract renewal option periods are limited to a maximum of three years or less. None of the lease agreements contain any contingent rent clauses.

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
35. Contingencies				
Contingent liabilities				
Guarantees in respect of employee housing loans	**2,112**	1,930	**2,112**	1,930
Bank guarantees	**6,272**	6,365	**6,272**	6,365
Service providers	**71,352**	155,067	**70,060**	153,805
The service providers are suing the Post Office due to contracts and oral agreements being terminated earlier.				
Employees	**18,720**	19,420	**18,720**	19,420
Unsuccessful tenderers	**257**	257	**–**	–
On 13 May 2009, South African Post Office was successful in its appeal at the Supreme Court of Appeal against the claim made for non-award of the Biometric payment system tender and the cross appeal was also dismissed.				
	98,713	183,039	**97,164**	181,520

A litigation claim for R74 million that had been lodged by African Legend Technologies against the South African Post Office was withdrawn subsequent to the financial year-end. The claim is in the process of being reviewed.

The South African Post Office is in receipt of a summons in which NASASA Cellular (Pty) Limited has claimed R1.3 billion in damages arising out of an alleged breach of an agreement, purportedly concluded between the parties during 2004. The South African Post Office (SAPO) is defending the damages action.

36. Risk management

Financial risk management overview

A comprehensive treasury policy has been compiled and approved by the Board to ensure that all the market risks to which the Group is exposed are understood and managed. The treasury policy covers all the 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;
- the Group's Asset and Liability Committee (ALCO) which is responsible for ensuring that the impact of market risks is being effectively managed and reported throughout the Post Office Group and that all policies, risk limits and relevant market risk issues are reported to the Group's Risk Committee;
- the board's Group Risk Committee which is responsible for ensuring that from a strategic perspective, risk is handled as an area of competitive advantage and a key source of innovation; and
- the Group ALCO reports on a quarterly basis to the Board's Group Risk Committee.

Financial risk management objectives

The Group's ALM function monitors and manages market 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;
- credit risk is controlled by entering into money market transactions with high quality counterparty financial institutions and money market investments in any counterparty financial institution are limited to 25% of total portfolio; and
- instrument limits are set to avoid excess concentration in any given financial investment instrument.

Overall the Group's main financial risk management objective is to ensure enhanced return within the risk profiles or parameters approved by the Board.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

36. Risk management *continued*

Financial risk management overview *continued*

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; and
- 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.

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.

Valuation of unlisted shares in Uthingo Management (Proprietary) Limited

The Group is exposed to equity risk through its investment of 1,125 ordinary shares in Uthingo Management (Pty) Limited, which represents 15% of the Uthingo shares. At prior year-end, the directors of Uthingo Management (Pty) Limited had informed the South African Post Office management that Uthingo's licence to conduct its business had been terminated and the company was being liquidated.

The value of the Group's shareholding in Uthingo was determined by the liquidator to be Rnil million (2009: R2.25 million) and was subsequently estimated to be the fair value for the Group.

Restatement of financial assets: Post-retirement medical assets (PRMA). Refer to note 6.

Impairment losses on financial assets

Refer to note 1.9 for the Group's accounting policy in assessing impairment losses on financial assets.

Refer to note 11 for trade and other receivables impairment allowances.

Refer to note 38 schedule 1: Unlisted investments for impairment losses on investment in subsidiaries.

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Finance income recognised in profit or loss				
Income earned analysed by class of financial asset:				
Cash and cash equivalents	**54,403**	170,271	**52,731**	159,637
Non-current investments	**–**	1,285	**–**	1,231
Current investments	**62,519**	132,865	**61,257**	127,256
Other financial assets	**99,162**	9,566	**92,609**	9,407
Trade and other receivables discounted	**3,419**	10,098	**3,354**	10,079
Total recognised in profit or loss	**219,503**	324,085	**209,951**	307,610
Recognised directly in equity				
Revaluation of available for sale financial assets:				
Current investments	**(605)**	4,925	**(605)**	4,925
Other financial assets	**(2,856)**	(1,750)	**(2,856)**	(1,750)
Total revaluation profit/(loss) recognised in equity	**(3,461)**	3,175	**(3,461)**	3,175
Finance costs recognised in profit or loss				
Expense incurred on financial liabilities, analysed by class of financial liability:				
Trade and other payables discounted	**(6,379)**	(6,408)	**(6,195)**	(6,408)
Interest on amount owing to the Shareholder	**(22,754)**	(26,991)	**(22,754)**	(26,991)
Interest bearing borrowings	**(1,011)**	(995)	**(30)**	(716)
Total finance costs recognised in profit or loss	**(30,144)**	(34,394)	**(28,979)**	(34,115)

36. Risk management *continued*

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.

(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. (Note that none of the loans and receivables are interest bearing.) 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) Foreign currency sensitivity

The Group calculates foreign currency risk sensitivity on both the hedged and uncovered foreign currency exposures. The sensitivity is calculated by using the quoted exchange rates against the local currency i.e. Rand. The foreign exchange rate sensitivity is calculated for one day holding period on uncovered foreign exposures. The exchange rate sensitivity is measured for a 1% shift in the rates.

(iv) Equity risk sensitivity

At year-end, the Group had unlisted shares in Uthingo Management (Pty) Limited. The directors considered equity risk to be nil, as the company was being liquidated and the fair value of liquidation proceeds was in the process of being determined. On listed shares, the equity price risk is measured for 1% shift in the share prices.

(v) 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 than or equal to 12 months as approximating their fair value. At year-end there were no financial assets and financial liabilities having a duration greater than 12 months that were carried at amortised cost.

(iv) Fair value measurements recognised in the statement of financial position

The following table provides 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.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. 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 date (unobservable inputs).

Figures in Rand Thousand	Level 1	Level 2	Level 3	Total
Group 2010				
Financial assets at FVTPL				
Equities and bonds	435,798	110,610	–	546,408
Available for sale financial assets				
Bonds	7,009	–	–	7,009
Notional certificates of deposit	–	1,832,388	–	1,832,388
Promissory notes	–	75,250	–	75,250
Cell captive assets	–	67,643	–	67,643
	442,807	2,085,891	–	2,528,698

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

36. Risk management *continued*

Figures in Rand Thousand	Level 1	Level 2	Level 3	Total
Company 2010				
Financial assets at FVTPL				
Equities and bonds	**435,798**	**110,610**	**–**	**546,408**
Available for sale financial assets				
Bonds	**7,009**	**–**	**–**	**7,009**
Notional certificates of deposits	**–**	**1,832,388**	**–**	**1,832,388**
Promissory notes	**–**	**75,250**	**–**	**75,250**
	442,807	**2,018,248**	**–**	**2,461,055**
Group 2009				
Financial assets at FVTPL				
Equities and bonds	288,927	167,872	–	456,799
Available for sale financial assets				
Bonds	11,477	–	–	11,477
Notional certificates of deposit	–	1,462,430	–	1,462,430
Promissory notes	–	321,803	–	321,803
Cell captive assets	–	91,526	–	91,526
Unlisted shares in Uthingo	–	–	2,250	2,250
	300,404	2,043,631	2,250	2,346,285
Company 2009				
Financial assets at FVTPL				
Equities and bonds	288,927	167,872	–	456,799
Available for sale financial assets				
Bonds	11,477	–	–	11,477
Notional certificates of deposit	–	1,462,439	–	1,462,439
Promissory notes	–	321,803	–	321,803
Unlisted shares in Uthingo	–	–	2,250	2,250
	300,404	1,952,114	2,250	2,254,768

There were no transfers between level 1 and 2 in the period

Fair value of derivative financial instrument

For year-end 2010 (2009: nil), there were no outstanding foreign exchange contracts taken by the Group.

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 Group ALCO's 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 arising from the Group's surplus cash flow. The 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 import of capital goods sourced offshore; and
- System risk is the risk that events either globally or locally threaten the ongoing financial soundness of financial instruments.

The Group manages the market risk it is exposed to in its banking division's money market portfolio by restricting the money market re-pricing mismatch or gap between interest rate sensitive financial assets and financial liabilities to a percentage gap or difference agreed at Group ALCO meetings and documented in the Group treasury policy.

The Group manages the foreign exchange risk by hedging exposures that are above a certain limit as per the requirements of the Group treasury policy.

36. Risk management *continued*

Market risk *continued*

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 10% points reduction 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 where the foreign exposure is greater than R1 million and a one percentage point adverse move in the exchange rate result in a loss of R500,000 over a period of 1 month.

It is the responsibility of the Group ALM function to monitor compliance with risk limits and all breaches are discussed at monthly Group ALCO meeting.

All measures actioned in managing market risk at Group ALCO meetings are reported to the Group Risk Committee of the Board on a quarterly basis.

Fair value interest sensitivity

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:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
1% increase in interest rates	**(3,420)**	(5,362)	**(3,420)**	(5,362)
1% decrease in interest rates	**3,420**	5,315	**3,420**	5,315

The R36.3 million (2009: R10.9 million) reduction in the Group's net interest income for a 1% fall in the interest rates represents a 9.21% (2009: 3.33%) decline in net interest income for the year. On the available for sale revaluation reserve, the R7.2 million (2009: R5.3 million) increase in the equity reserve represents 0.37% of the market value of the available for sale portfolio at year-end.

Foreign currency sensitivity

The table below reflects the impact on net income for a given 1% up and downward shift in exchange rates at year-end.

1% increase in exchange rates	**11**	2,213	**11**	2,213
1% decrease in exchange rates	**(11)**	(2,439)	**(11)**	(2,439)

At year-end, the Group had total market risk both to net income and equity of R23 million (2009: R8 million) for a 1% decline in the rates.

Cash flow interest sensitivity

The table below reflects the impact on the held to maturity portfolio for a given 1% up and down shift in interest rates at year-end:

1% increase in interest rates	**31,770**	19,596	**31,339**	19,158
1% decrease in interest rates	**(36,388)**	(10,900)	**(36,069)**	(10,548)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's exposure to credit risk arises primarily from credit sales to its clients and money market investment activities. Credit risk is managed in terms of the Board approved Group treasury risk policy, which in turn encompasses comprehensive credit procedures, limits and governance structure. Formal credit ratings are utilised in the credit evaluation process of the counterparties.

The minimum credit ratings for counterparties are Fitch National Long-term Rating 'A' and Fitch National Short-term Rating 'F1'. The credit quality of counterparties is monitored by Group ALM function. The Group credit exposure is diversified across a range of acceptable counterparties and the maximum investment with any counterparty is limited to 25% of total investments. All counterparty limits are reviewed in line with statement of financial position growth and at least on an annual basis.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

36. Risk management *continued*

Credit risk *continued*

It is the responsibility of the Group ALM function to monitor compliance with the approved counterparty credit limits and any breach is reported to the monthly Group ALCO meeting.

Activities in managing credit risk at Group ALCO meetings are reported to the Group Risk Committee of the Board on a quarterly basis.

Exposure to credit risk

The carrying amounts of financial assets recorded in the financial statements represent the Group's maximum exposure to credit risk. The Group is further exposed to 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 R2.1 million, (2009: R1.9 million).

All financial assets except for those that are measured at fair value through profit or loss are assessed to determine any evidence of impairment. Any deterioration in any counterparty credit rating is regarded as evidence of impairment. During the course of the year 2010, 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 counterparties are major banks with high credit ratings and other investments are in Government and liquid corporate paper. The credit risk profile and quality of the Group's counterparties is considered to be sound, well managed and commensurate with the risk appetite of the Board.

Capital risk

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 shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Capital is defined as 'equity and reserves', 'amount owing to shareholder' and 'subsidy received in advance' as shown on the statement of financial position.

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 out of which they are being financed; and
- Funds received from the Shareholder are specifically for certain identified projects.

The 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 were no changes to the Group's approach to capital management during the year.

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;
- Investment risk on the Group 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 financial liabilities which in turn is monitored and measured by the Group ALM function. Interest rate limit breaches are reported at the Group ALCO meetings.

Activities in managing interest rate risk at Group ALCO meetings are reported to the Group's Risk Committee of the Board on a quarterly basis.

Appropriate interest rate risk dashboard indicators have been compiled to provide Group ALCO members with the necessary interest rate risk information on a weekly basis, including a measure of compliance with approved limits and benchmarks.

36. Risk management *continued*

Interest rate risk *continued*

Cash flow interest sensitivity

The table below reflects net interest income sensitivity for a given 1% up and downward shift in interest rates at year-end:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
1% increase in interest rates	**31,770**	19,596	**31,339**	19,158
1% decrease in interest rates	**(36,388)**	(10,900)	**(36,069)**	(10,548)

Fair value interest sensitivity

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:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
1% increase in interest rates	**(3,420)**	(5,362)	**(3,420)**	(5,362)
1% decrease in interest rates	**3,420**	5,315	**3,420**	5,315

The R36.3 million (2009: R10.9 million) reduction in the Group's net interest income for a 1% fall in the interest rates represents a 9.21% (2009: 3.33%) decline in net interest income for the year. On the available for sale revaluation reserve, the R7.2 million (2009: R5.3 million) increase in the equity reserve represents 0.30% of the market value of the available for sale portfolio at year-end.

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, forward foreign exchange contract is taken to hedge the foreign exchange risk.

The Group 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 R500,000 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 R500,000. Actions taken in managing foreign exchange risk at Group ALCO meetings are reported to the Group Risk Committee of the Board on a quarterly basis

Uncovered foreign exchange exposure

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:

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

36. Risk management *continued*

Foreign exchange risk *continued*

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
Foreign currency exposure at balance sheet date				
Financial assets				
Great Britain Pounds	**28,064**	40	**28,064**	40
United States Dollar	**934**	513	**934**	513
Botswana Pula	**131,415**	161	**131,415**	161
Special Drawing Rights	**110,397**	–	**110,397**	–
Financial liabilities				
Great Britain Pounds	**1,128**	650	**1,128**	650
Botswana Pula	**1,313,830**	492	**1,313,830**	492
Special Drawing Rights	**77,428**	–	**77,428**	–
Zambia Kwacha	**46,867,478**	5,773	**46,867,478**	5,773
Kenyan Shilling	**1,233,705**	–	**1,233,705**	–
Canadian Dollar	**801**	1,044	**801**	1,044
Euro	**–**	1,608	–	1,608

Foreign currency sensitivity:

The table below reflects the impact on net income for a given 1% up and downward shift in exchange rates at year-end:

	Group		Company	
Figures in Rand Thousand	**2010**	2009	**2010**	2009
1% increase in interest rates	**11**	2,213	**11**	2,213
1% decrease in interest rates	**(11)**	(2,439)	**(11)**	(2,439)

At year-end, the Group's net income at risk from foreign exposure arose from the net liability currency position. A depreciation of 1% in the exchange rate would result in R0.011 million foreign currency loss for the Group (2009: R 0.25 million).

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 from third parties is 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 ALM function. The management of liquidity risk and particularly cash flows is strongly focused on the short to medium term to ensure that the Group ALM function and the Treasury is 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. Medium- and long-term liquidity strategies are approved by the Group ALCO and implemented by the Group Treasury.

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 all the major banks. The Group 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 R1,074 million (2009: R1,053 million) and R80 million (2009: R80 million) in overdraft credit facilities with the major banks. Of the R80 million overdraft facilities, no overdraft facility was utilised at year-end (2009: R0 million).

Actions in managing liquidity risk at Group ALCO meetings are reported to the Group Risk Committee of the Board on a quarterly basis.

36. Risk management *continued*

Liquidity risk *continued*

Liquidity risk tables

The tables below detail the Group's remaining contractual maturity for its financial liabilities. The figures have been compiled based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to settle the liabilities.

Contractual maturity analysis for financial liabilities and financial assets:

The liquidity risk tables below show the contractual maturity gap at year-end. The tables include both interest and principal cash flows.

Figures in Rand Thousand	Overnight	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Equity	Total
Group								
2010								
Cash and cash equivalents	**1,992,710**	**2,329,961**	**–**	**–**	**–**	**–**	**–**	**4,322,671**
Non-current investments	**–**	**949,199**	**1,089,787**	**1,065,974**	**–**	**–**	**–**	**3,104,960**
Other financial assets	**49,100**	**31,024**	**19,777**	**87,926**	**87,200**	**124,842**	**231,296**	**631,165**
Total financial assets	**2,041,810**	**3,310,184**	**1,109,564**	**1,153,900**	**87,200**	**124,842**	**231,296**	**8,058,796**
2009								
Cash and cash equivalents	1,298,562	2,280,648	–	–	–	–	–	3,579,210
Current investments	–	895,400	1,048,406	598,595	–	–	–	2,542,401
Other financial assets	96,180	353	76,693	94,896	124,585	42,250	186,927	621,884
Total financial assets	1,394,742	3,176,401	1,125,099	693,491	124,585	42,250	186,927	6,743,495
Company								
2010								
Cash and cash equivalents	**1,961,917**	**2,314,394**	**–**	**–**	**–**	**–**	**–**	**4,276,311**
Non-current investments	**–**	**949,199**	**1,089,787**	**1,065,974**	**–**	**–**	**–**	**3,104,960**
Other financial assets	**49,100**	**31,024**	**19,777**	**87,926**	**87,200**	**124,842**	**231,296**	**631,165**
Total financial assets	**2,011,017**	**3,294,617**	**1,109,564**	**1,153,900**	**87,200**	**124,842**	**231,296**	**8,012,436**

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

36. Risk management *continued*

Liquidity risk *continued*

Figures in Rand Thousand	Overnight	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Equity	Total
Company								
2009								
Cash and cash equivalents	1,252,476	2,280,648	–	–	–	–	–	3,533,124
Current investments	–	895,400	1,048,406	598,595	–	–	–	2,542,401
Other financial assets	96,180	353	76,693	94,896	124,585	42,250	186,927	621,884
Total financial assets	1,348,656	3,176,401	1,125,099	693,491	124,585	42,250	186,927	6,697,409
Group								
At 31 March 2010								
Trade payables	**(104,000)**	**(645,805)**	**–**	**–**	**–**	**–**	**–**	**(749,805)**
Other payables	**(42,034)**	**(253,723)**	**–**	**–**	**–**	**–**	**–**	**(295,757)**
Amounts owing to shareholders	**–**	**(211,541)**	**–**	**–**	**–**	**–**	**–**	**(211,541)**
Insurance claims	**–**	**(4,383)**	**–**	**–**	**–**	**–**	**–**	**(4,383)**
Funds collected on behalf of third parties	**(236,125)**	**–**	**–**	**–**	**–**	**–**	**–**	**(236,125)**
Deposits from the public	**(3,415,350)**	**(29,683)**	**(55,285)**	**(90,277)**	**(73,329)**	**–**	**–**	**(3,663,924)**
Total financial liabilities	**(3,797,509)**	**(1,145,135)**	**(55,285)**	**(90,277)**	**(73,329)**	**–**	**–**	**(5,161,535)**
At 31 March 2009								
Trade payables	(2,994)	(153,150)	(419,044)	(214,403)	–	–	–	(789,591)
Other payables	(763)	(38,681)	(105,200)	(54,151)	–	–	–	(198,795)
Amounts owing to shareholders	–	(191,147)	–	–	–	–	–	(191,147)
Outstanding insurance claims	–	(3,664)	–	–	–	–	–	(3,664)
Interest bearing borrowings	–	(7)	–	–	–	–	–	(7)
Funds collected on behalf of third parties	(213,933)	–	–	–	–	–	–	(213,933)
Deposits from the public	(3,147,525)	(99,508)	–	(98,444)	(63,868)	–	–	(3,409,345)
Total financial liabilities	(3,365,215)	(486,157)	(524,244)	(366,998)	(63,868)	–	–	(4,806,482)

36. Risk management *continued*

Liquidity risk *continued*

Figures in Rand Thousand	Overnight	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Equity	Total
Company At 31 March 2010								
Trade payables	**(86,546)**	**(583,486)**	**–**	**–**	**–**	**–**	**–**	**(670,032)**
Other payables	**(40,034)**	**(246,811)**	**–**	**–**	**–**	**–**	**–**	**(286,845)**
Amounts owing to shareholders	**–**	**(211,541)**	**–**	**–**	**–**	**–**	**–**	**(211,541)**
Funds collected on behalf of third parties	**(236,125)**	**–**	**–**	**–**	**–**	**–**	**–**	**(236,125)**
Deposits from the public	**(3,415,350)**	**(29,683)**	**(55,285)**	**(90,277)**	**(73,329)**	**–**	**–**	**(3,663,924)**
Total liabilities	**(3,778,055)**	**(1,071,521)**	**(55,285)**	**(90,277)**	**(73,329)**	**–**	**–**	**(5,068,467)**
At 31 March 2009								
Trade payables	(2,646)	(135,360)	(370,367)	(189,498)	–	–	–	(697,871)
Other payables	(719)	(36,462)	(99,167)	(51,045)	–	–	–	(187,393)
Amounts owing to shareholders	–	(191,147)	–	–	–	–	–	(191,147)
Interest bearing borrowings	–	(7)	–	–	–	–	–	(7)
Funds collected on behalf of third parties	(213,933)	–	–	–	–	–	–	(213,933)
Deposits from the public	(3,147,525)	(99,508)	–	(98,444)	(63,868)	–	–	(3,409,345)
Total financial liabilities	(3,364,823)	(462,484)	(469,534)	(338,987)	(63,868)	–	–	(4,586,482)

Financial assets by category

Figures in Rand Thousand	Loans and receivables	Instruments at FVTPL	Held to maturity	Available for sale	Total
Group – 2010					
Cash and cash equivalents	**–**	**–**	**3,528,581**	**–**	**3,528,581**
Non-current investments	**–**	**–**	**–**	**–**	**–**
Current investments	**–**	**–**	**1,225,000**	**1,907,638**	**3,132,638**
Other financial assets	**–**	**546,408**	**–**	**74,651**	**621,060**
Trade and other receivables	**569,394**	**–**	**–**	**–**	**569,394**
	569,394	**546,408**	**4,753,581**	**1,982,289**	**7,851,673**

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

36. Risk management *continued*

Financial assets by category *continued*

Figures in Rand Thousand	Loans and receivables	Fair value through profit or loss – held for trading	Held to maturity	Available for sale	Total
Group – 2009					
Cash and cash equivalents	–	–	3,603,141	–	3,603,141
Current investments	–	–	668,000	1,784,242	2,452,242
Other financial assets	–	–	91,526	470,526	562,052
Trade and other receivables	509,286	–	–	–	509,286
	509,286	–	4,362,667	2,254,768	7,126,721

Figures in Rand Thousand	**Loans and receivables**	**Instruments at FVTPL**	**Held to maturity**	**Available for sale**	**Total**
Company – 2010					
Cash and cash equivalents	**–**	**–**	**3,497,130**	**–**	**3,497,130**
Non-current investments	**–**	**–**	**–**	**–**	**–**
Current investments	**–**	**–**	**1,210,000**	**1,907,638**	**3,117,638**
Other financial assets	**–**	**546,408**	**–**	**7,009**	**553,417**
Trade and other receivables	**524,311**	**–**	**–**	**–**	**524,311**
Investment in subsidiaries	**42,603**	**–**	**–**	**–**	**42,603**
	566,914	**546,408**	**4,707,130**	**1,914,647**	**7,735,099**

Figures in Rand Thousand	Loans and receivables	Fair value through profit or loss – held for trading	Held to maturity	Available for sale	Total
Company – 2009					
Cash and cash equivalents	–	–	3,554,006	–	3,554,006
Current investments	–	–	668,000	1,784,242	2,452,242
Other financial assets	–	–	–	470,526	470,526
Trade and other receivables	451,943	–	–	–	451,943
Investment in subsidiaries	42,603	–	–	–	42,603
	494,546	–	4,222,006	2,254,768	6,971,320

36. Risk management *continued*

Financial assets by category ***continued***

Figures in Rand Thousand	Group Current	Group Non-current	Company Current	Company Non-current
2010				
Held to maturity financial assets carried at amortised cost				
Cash and cash equivalents	**3,528,581**	**–**	**3,497,130**	**–**
Current investments	**1,225,000**	**–**	**1,210,000**	**–**
Total held to maturity financial assets	**4,753,581**	**–**	**4,707,130**	**–**
Available for sale financial assets at fair value				
Current investments	**1,907,638**	**–**	**1,907,638**	**–**
Other financial assets	**71,055**	**3,597**	**3,412**	**3,597**
Total available for sale financial assets	**1,978,693**	**3,597**	**1,911,050**	**3,597**
Financial assets held for trading carried at fair value				
Other financial assets	**110,610**	**435,798**	**110,610**	**435,798**
Loans and receivables carried at amortised cost				
Trade and other receivables:				
Trade receivables	**387,203**	**21,653**	**330,647**	**8,469**
Group receivables	**–**	**–**	**4,952**	**–**
Sundry receivables	**193,716**	**200**	**193,523**	**200**
Staff receivables	**4,002**	**–**	**4,002**	**–**
Trade receivables discounting	**(3,419)**	**–**	**(3,354)**	**–**
Impairment of trade and other receivables	**(6,128)**	**(27,833)**	**(6,123)**	**(8,004)**
Total loans and receivables	**575,374**	**(5,980)**	**523,647**	**665**
2009				
Held to maturity financial assets carried at amortised cost				
Cash and cash equivalents	3,603,141	–	3,554,005	–
Current investments	668,000	–	668,000	–
Other financial assets	91,526	–	–	–
Total held to maturity financial assets	4,362,667	–	4,222,006	–
Available for sale financial assets at fair value				
Cash and cash equivalents	–	–	–	–
Current investments	1,784,242	–	1,784,242	–
Other financial assets	99,099	371,427	99,099	371,427
Total available for sale financial assets	1,883,341	371,427	1,883,341	371,427
Financial assets held for trading carried at fair value				
Other financial assets	96,181	360,618	96,181	360,618
Total financial assets held for trading	96,181	360,618	96,181	360,618
Loans and receivables carried at amortised cost				
Trade and other receivables:				
Trade receivables	344,275	89,977	297,205	13,843
Group receivables	–	–	9,662	97,943
Sundry receivables	102,739	–	102,383	–
Staff receivables	2,254	135	2,254	135
Trade receivables discounting	(5,814)	–	(5,400)	–
Impairment of trade and other receivables	–	(24,280)	–	(66,082)
Total loans and receivables	443,454	65,832	406,104	45,839

Financial assets held for trading

At year-end, there were no financial assets held for trading (2009: R0).

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

36. Risk management *continued*

Financial liabilities by category

Figures in Rand Thousand	Financial liabilities at amortised cost	Fair value through profit or loss – held for trading	Fair value through profit or loss – designated	Total
Group				
2010				
Trade payables	**(266,629)**	**–**	**(487,176)**	**(753,805)**
Other payables	**(30,777)**	**–**	**(267,203)**	**(297,980)**
Amounts owing to the Shareholder	**(206,295)**	**–**	**–**	**(206,295)**
Outstanding insurance claims	**(4,383)**	**–**	**–**	**(4,383)**
Funds collected on behalf of third parties	**(236,125)**	**–**	**–**	**(236,125)**
Deposit from the public	**(3,651,987)**	**–**	**–**	**(3,651,987)**
	(4,396,196)	**–**	**(754,379)**	**(5,150,575)**
Group				
2009				
Trade payables	(257,647)	–	(532,304)	(789,951)
Other payables	(40,506)	–	(259,212)	(299,718)
Amounts owing to the Shareholder	(185,130)	–	–	(185,130)
Outstanding insurance claims	(3,664)	–	–	(3,664)
Derivative financial instruments	–	–	–	–
Interest bearing borrowings	(7)	–	–	(7)
Funds collected on behalf of third parties	(213,933)	–	–	(213,933)
Deposits from the public	(3,295,867)	–	–	(3,295,867)
	(3,996,754)	–	(791,516)	(4,788,270)
Company				
2010				
Trade payables	**(211,320)**	**–**	**(462,712)**	**(674,032)**
Other payables	**(22,405)**	**–**	**(271,903)**	**(294,308)**
Amounts owing to the Shareholder	**(206,295)**	**–**	**–**	**(206,295)**
Funds collected on behalf of third parties	**(236,125)**	**–**	**–**	**(236,125)**
Deposits from the public	**(3,651,987)**	**–**	**–**	**(3,651,987)**
	(4,328,132)	**–**	**(729,915)**	**(5,062,747)**
Company				
2009				
Trade payables	(184,373)	–	(513,499)	(697,872)
Other payables	(40,506)	–	(215,178)	(255,684)
Amounts owing to the Shareholder	(185,130)	–	–	(185,130)
Interest bearing borrowings	(7)	–	–	(7)
Funds collected on behalf of third parties	(213,933)	–	–	(213,933)
Deposits from the public	(3,295,867)	–	–	(3,295,867)
	(3,919,816)	–	(728,677)	(4,648,493)

36. Risk management *continued*

Financial liabilities at amortised cost

Figures in Rand Thousand	Group		Company	
	Current	**Non-current**	**Current**	**Non-current**
2010				
Trade payables	**(753,805)**	**–**	**(674,032)**	**–**
Other payables	**(297,980)**	**–**	**(294,308)**	**–**
Amount owing to the Shareholder	**(206,295)**	**–**	**(206,295)**	**–**
Outstanding insurance claims	**(4,383)**	**–**	**–**	**–**
Funds collected on behalf of third parties	**(236,125)**	**–**	**(236,125)**	**–**
Deposits from the public	**(3,651,987)**	**–**	**(3,651,987)**	**–**
Total financial liabilities at amortised cost	**(5,150,575)**	**–**	**(5,062,747)**	**–**
Financial liabilities held for trading	**–**			

At year-end, there were no financial liabilities held for trading.

Figures in Rand Thousand	Group Current	Group Non-current	Company Current	Company Non-current
2009				
Trade payables	(789,591)	–	(697,872)	–
Other payables	(299,718)	–	(255,684)	–
Amount owing to the Shareholder	(185,130)	–	(185,130)	–
Outstanding insurance claims	(3,664)	–	–	–
Interest bearing borrowings	(7)	–	(7)	–
Funds collected on behalf of third parties	(213,933)	–	(213,933)	–
Deposits from the public	(3,295,867)	–	(3,295,867)	–
Total financial liabilities at amortised cost	(4,787,910)	–	(4,648,493)	–

37. Related parties

Related party transactions

Related party relationships exist between the Company and subsidiaries within the South African Post Office Group, as well as entities within the same sphere of government. These transactions are concluded at arm's length in the normal course of business.

	Figures in Rand Thousand	**2010**	2009
37.1	**Current payable**		
	Group and Company		
	Amount owing to the shareholder	**206,395**	185,130

This loan bears interest at 15.0% (2009: 15,0%) in terms of the Public Finance Management Act. The amount is unsecured and there are no fixed repayment terms.

	Figures in Rand Thousand	**2010**	2009
37.2	**Subsidy unutilised**		
	Group and Company		
	Subsidy balance – beginning of year	**301,233**	336,423
	Subsidy received	**383,093**	371,600
	Subsidy acknowledged	**(435,286)**	(406,790)
		249,040	301,233

The Government provided the Company with a subsidy to cover a portion of its operating expenditure and to fund specific projects. The balances and transactions are summarised as above.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

Figures in Rand Thousand	2010	2009
37.3 Public Information Terminals and Citizen Post Office subsidy		
Group and Company		
Subsidy balance – beginning of year	**11,644**	10,424
Interest accrued	**899**	1,220
	12,543	11,644

The Department of Communications provided the Company with a subsidy specifically for the Public Information Terminals and Citizen post offices during the past. However, no funding has been received for the last two years.

Figures in Rand Thousand	2010 Purchases	2010 Balance outstanding	2009 Purchases	2009 Balance outstanding
37.4 Purchases from related parties*				
Group				
Constitutional Institutions				
The Independent Communications Authority of South Africa (ICASA)	**21,083**	**53**	31,806	132
Major Public Entities				
Airports Company South Africa Limited	**25,638**	**–**	21,321	23
Alexkor Limited	**35**	**–**	33	–
Bonaero Park (Pty) Limited	**–**	**33**	24	33
Eskom Holdings Limited	**907,971**	**3,718**	775,406	3,330
Arivia.kom (Pty) Limited	**5,705**	**984**	7,804	–
South African Broadcasting Corporation Limited	**577,415**	**4,401**	596,313	3,815
Telkom SA Limited	**72,312**	**10,533**	69,453	5,338
Telkom Directory Services (Pty) Limited	**–**	**–**	765	765
Vodacom Service Provider Company (Pty) Limited	**47,614**	**3,037**	60,111	2,844
Transnet Limited	**570**	**6**	2,642	134
HSA Management Systems (Pty) Limited	**–**	**–**	216	–
South African Airways (Pty) Limited	**75,042**	**4,391**	65,276	3,583
Other National Public Entities				
Northern Cape Chamber of Commerce	**6**	**–**	–	–
Robben Island Museum	**3**	**–**	–	–
Rustenburg Community Development	**107**	**–**	–	–
South African Revenue Service	**219,018**	**3,908**	432,818	5,434
Small Business Development Agency	**103**	**–**	146	–
Umgeni Water	**603**	**23**	968	2
The Community Academy	**20**	**20**	–	–
Sentech	**4,770**	**2,304**	4,423	899
National Departments				
Department of Communications	**–**	**–**	188	–
Department of Housing	**4,229**	**20**	4,489	34
Department of Labour	**10**	**66**	12	56
Department of Housing Land	**18**	**–**	–	–
Department of Public Works	**–**	**1**	22	1
Subsidiaries				
Centriq Limited	**102,191**	**2,010**	70,157	5,702
The Courier and Freight Group (Pty Limited	**457**	**–**	13,626	1,341
South African Post Office	**88,666**	**102,469**	–	–
	2,153,586	**137,977**	2,158,019	33,466

** These balances are included in trade and other payables.*

37. Related parties *continued*

37.4 Purchases from related parties *continued*

Figures in Rand Thousand	2010 Purchases	2010 Balance outstanding	2009 Purchases	2009 Balance outstanding
Company				
Constitutional Institutions				
The Independent Communications Authority of South Africa (ICASA)	**21,083**	**53**	31,806	130
Major Public Entities				
Airports Company South Africa Limited	**25,638**	**–**	21,321	23
Alexkor Limited	**35**	**–**	33	–
Bonaero Park (Pty) Limited	**–**	**33**	24	33
Eskom Holdings Limited	**907,911**	**3,708**	775,358	3,327
Arivia.kom (Pty) Limited	**5,705**	**984**	7,804	–
South African Broadcasting Corporation Limited	**577,415**	**4,401**	596,311	3,815
Telkom SA Limited	**66,773**	**9,731**	70,085	5,338
Vodacom Service Provider Company (Pty) Limited	**46,477**	**2,933**	58,434	2,732
Transnet Limited	**570**	**6**	7	13
South African Airways (Pty) Limited	**75,046**	**4,391**	65,260	3,578
Telkom Directory	**–**	**–**	765	765
Other National Public Entities				
Northern Cape Chamber of Commerce	**6**	**–**	–	–
The Community Academy	**20**	**20**	–	–
Robben Island Museum	**3**	**–**	–	–
Rustenburg Community Development	**107**	**–**	–	–
South African Revenue Service	**219,019**	**3,908**	419,540	5,433
Small Business Development Agency	**103**	**–**	146	–
Umgeni Water	**603**	**23**	968	2
Sentech	**4,770**	**2,304**	4,423	899
National Departments				
Department of Communications	**–**	**–**	188	–
Department of Housing	**4,229**	**20**	4,489	34
Department of Labour	**10**	**66**	12	56
Department of Housing Land	**18**	**–**	–	–
Department of Public Works	**–**	**1**	22	1
Subsidiaries				
Centriq Limited	**62,862**	**1,792**	64,639	4,195
The Courier and Freight Group (Pty) Limited	**–**	**–**	8	–
	2,018,403	**34,374**	2,121,643	30,374

** These balances are included in trade and other payables.*

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.5 Sales to related parties

	2010		2009	
Figures in Rand Thousand	**Sales**	**Balance outstanding**	Sales	Balance outstanding
Group				
Major Public Entities				
Airports Company South Africa Limited	**1**	**1,522**	19	1,523
Oil Pollution Control South Africa (Pty) Limited	**7**	**1**	6	–
Denel Limited	**–**	**1**	–	–
Development Bank of South Africa	**–**	**–**	–	10
Eskom Holdings Limited	**9,545**	**1,262**	6,997	581
Eskom Finance Company (Pty) Limited	**13**	**2**	7	1
Arivia.kom (Pty) Limited	**55**	**4**	61	2
Safcol	**–**	**–**	1	–
South African Broadcasting Corporation Limited	**26**	**(255)**	42	(252)
Komatiland Forests (Pty) Limited	**–**	**–**	2	–
Foskor (Pty) Limited	**7**	**1**	11	2
Telkom SA Limited	**74,238**	**1,307**	88,027	1,522
Vodacom Service Provider Company (Pty) Limited	**36,373**	**678**	52,905	1,369
Transnet Limited	**15,451**	**1,521**	26,586	2,205
South African Airways (Pty) Limited	**–**	**–**	14	14
Balance carried forward	**135,716**	**6,044**	174,678	6,977
Company				
Major Public Entities				
Airports Company South Africa Limited	**–**	**1,522**	–	1,522
Oil Pollution Control South Africa (Pty) Limited	**7**	**1**	6	–
Specialised Protein Products (Pty) Limited	**–**	**–**	–	–
Eskom Holdings Limited	**9,067**	**1,174**	5,758	453
Arivia.kom (Pty) Limited	**55**	**4**	61	2
Safcol	**–**	**–**	1	–
South African Broadcasting Corporation Limited	**26**	**(255)**	42	(252)
Foskor (Pty) Limited	**1**	**1**	2	–
Telkom SA Limited	**74,221**	**1,291**	88,004	1,499
Vodacom Service Provider Company (Pty) Limited	**36,373**	**678**	50,271	1,368
Transnet Limited	**135**	**12**	116	–
Balance carried forward	**119,885**	**4,428**	144,261	4,592

** These balances are included in trade and other receivables.*

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.5 Sales to related parties *continued*

Figures in Rand Thousand	2010 Sales	2010 Balance outstanding	2009 Sales	2009 Balance outstanding
Group				
Other National Public Entities				
Balance brought forward	**135,716**	**6,044**	174,678	6,977
Asset Forfeiture Unit	**90**	**37**	88	43
Clothing, Textiles, Footwear and Leather SETA	**–**	**–**	1	–
Commission for Conciliation, Mediation and Arbitration	**288**	**225**	238	199
Compensation Fund	**581**	**(36)**	31	38
Compensation Commission	**–**	**–**	5	–
Education, Training and Development Practices Seta	**–**	**–**	–	53
Estate Agency Affairs Board	**–**	**–**	1	–
Film and Publication Board	**147**	**29**	112	41
Financial Services Board	**–**	**–**	–	24
Freedom Park Trust	**(24)**	**–**	–	–
Human Science Research Council	**5**	**(2)**	4	(5)
Legal Aid Board	**301**	**110**	716	585
Balance carried forward	**137,104**	**6,407**	175,874	7,955
Company				
Other National Public Entities				
Balance brought forward	**119,885**	**4,428**	144,261	4,592
Commission for Conciliation, Mediation and Arbitration	**1**	**–**	1	–
Compensation Fund	**581**	**(36)**	4	4
Competition Commission	**–**	**–**	31	38
Competition Tribunal	**–**	**–**	5	–
Estate Agency Affairs Board	**–**	**–**	1	–
Film and Publication Board	**147**	**29**	112	41
Human Science Research Council	**5**	**(2)**	–	–
Independent Regulatory Board for Auditors	**–**	**–**	4	(5)
Legal Aid Board	**–**	**1**	–	1
Balance carried forward	**120,619**	**4,420**	144,419	4,671

** These balances are included in trade and other receivables.*

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.5 Sales to related parties *continued*

Figures in Rand Thousand	2010 Sales	2010 Balance outstanding	2009 Sales	2009 Balance outstanding
Group				
Other National Public Entities (continued)				
Balance brought forward	**137,104**	**6,412**	175,874	7,955
Manufacturing, Engineering and Related Services Seta	**–**	**–**	4	–
Akura Manufacturing Engineering	**5**	**–**	–	–
National Home Builders Registration Council	**44**	**4**	19	4
National Museum	**–**	**(1)**	–	–
National Research Foundation	**–**	**(1)**	–	(1)
Perishable Products Export Control Board	**1**	**–**	3	–
Road Accident Fund	**491**	**(2)**	495	26
Balance carried forward	**137,645**	**6,412**	176,395	7,984
Company				
Other National Public Entities (continued)				
Balance brought forward	**120,619**	**4,425**	144,419	4,671
Manufacturing, Engineering and Related Services Seta	**–**	**–**	4	–
Akura Manufacturing Engineering	**5**	**–**	–	–
National Home Builders Registration Council	**44**	**4**	19	4
National Museum	**–**	**(1)**	–	–
National Research Foundation	**–**	**(1)**	–	(1)
Perishable Products Export Control Board	**2**	**–**	3	–
Road Accident Fund	**134**	**(18)**	122	(20)
Balance carried forward	**120,804**	**4,409**	144,567	4,654

** These balances are included in trade and other receivables.*

37. Related parties *continued*

37.5 Sales to related parties *continued*

	2010		2009	
	Sales	**Balance outstanding**	Sales	Balance outstanding
Group				
Other National Public Entities (continued)				
Balance brought forward	**137,645**	**6,407**	176,395	7,984
South African Council for Educators	**71**	**9**	62	3
South African Maritime Safety Authority	**24**	**–**	22	–
South African National Biodiversity Institute	**5**	**1**	–	–
South African Reserve Bank	**589**	**47**	536	11
SA Mint Company (Pty) Limited	**3**	**–**	–	(3)
South African Weather Service	**1**	**(1)**	1	(1)
Transport Education and Training Authority	**–**	**–**	–	53
Unemployment Insurance Fund	**4,547**	**419**	4,853	353
Universal Service Agency	**–**	**–**	1	–
Balance carried forward	**142,885**	**6,882**	181,870	8,400
Company				
Other National Public Entities (continued)				
Balance brought forward	**120,804**	**4,409**	144,567	4,654
South African Council for Educators	**71**	**9**	62	3
South African Maritime Safety Authority	**24**	**–**	22	–
South African Reserve Bank	**–**	**–**	2	–
SA Mint Company (Pty) Limited	**3**	**–**	–	(4)
South African Weather Service	**1**	**(1)**	1	(1)
Transport Education and Training Authority	**–**	**–**	–	–
Unemployment Insurance Fund	**3,721**	**303**	2,053	137
Universal Service Agency	**–**	**–**	1	–
Balance carried forward	**124,624**	**4,720**	146,708	4,789

* *These balances are included in trade and other receivables.*

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.5 Sales to related parties *continued*

Figures in Rand Thousand	**2010** Sales	**2010** Balance outstanding	2009 Sales	2009 Balance outstanding
Group				
Other National Public Entities (continued)				
Balance brought forward	**142,885**	**6,882**	181,870	8,400
Lepelle Northern Water	**152**	**7**	158	30
Onderstepoort Biological Products	**777**	**83**	883	122
Sedibeng Water	**1**	**–**	2	–
Vivid Multimedia (Pty) Limited	**–**	**(3)**	–	(4)
South African Rail Commuter Corporation Limited	**3**	**–**	113	5
Umsobomvu Youth Fund	**19**	**–**	43	(1)
Constitutional Entities				
The Financial and Fiscal Commission	**–**	**–**	–	1
The Human Rights Commission	**51**	**1**	59	2
The Public Protector	**(16)**	**–**	–	16
Balance carried forward	**143,872**	**6,970**	183,128	8,571
Company				
Other National Public Entities (continued)				
Balance brought forward	**124,624**	**4,720**	146,708	4,789
Onderstepoort Biological Products	**777**	**83**	883	122
Sedibeng Water	**1**	**–**	2	–
Vivid Multimedia (Pty) Limited	**–**	**(3)**	–	(4)
Umsobomvu Youth Fund	**19**	**–**	43	(1)
Constitutional Entities				
The Financial and Fiscal Commission	**–**	**–**	–	1
The Public Protector	**–**	**–**	2	–
Balance carried forward	**125,421**	**4,800**	147,638	4,907

** These balances are included in trade and other receivables.*

37. Related parties *continued*

37.5 Sales to related parties *continued*

Figures in Rand Thousand	2010 Sales	2010 Balance outstanding	2009 Sales	2009 Balance outstanding
Group				
National Departments				
Balance brought forward	**143,872**	**6,970**	183,128	8,571
Department of Sporting Affairs	**3**	**1**	–	–
Department of Economic Development	**2**	**2**	–	–
Department of International Relations	**9,103**	**3,362**	–	–
Department of Correctional Services	**2,429**	**(32)**	2,354	174
Department of Defence	**50**	**11**	34	35
Department of Education	**2,143**	**195**	766	91
Departement Farmasiepraktyk	**–**	**(1)**	–	(1)
Department of Finance (Customs and Excise)	**–**	**–**	315	174
Department of Foreign Affairs	**409**	**126**	38	39
Department of Health	**561**	**280**	204	123
Department of Home Affairs	**435**	**145**	430	16
Department of Housing	**2**	**–**	2,068	(2,203)
Department of Justice and Constitutional Development	**16**	**10**	4	8
Department of Labour	**149**	**4**	1,654	40
Department of Land Affairs	**218**	**(1)**	525	36
Department of Public Enterprise	**(12)**	**–**	–	–
Department of Public Works	**929**	**(3)**	656	101
Department of Social Development	**19**	**29**	6	33
Department of Trade and Industry	**–**	**–**	642	–
Department of Transport	**94**	**11**	89	19
Balance carried forward	**160,422**	**11,109**	192,913	7,256
Company				
National Departments				
Balance brought forward	**125,421**	**4,800**	147,638	4,907
Department of Sporting Affairs	**3**	**1**	–	–
Department of Correctional Services	**55**	**(43)**	43	3
Department of Defence	**–**	**–**	–	35
Department of Education	**1,619**	**53**	766	(38)
Departement Farmasiepraktyk	**–**	**(1)**	–	(1)
Department of Health	**224**	**48**	194	4
Department of Home Affairs	**147**	**56**	14	46
Department of Housing	**–**	**–**	2,054	(2,206)
Department of Justice and Constitutional Development	**2**	**10**	4	8
Department of Labour	**88**	**1**	1,613	37
Department of Land Affairs	**244**	**(1)**	518	4
Department of Public Enterprise	**(12)**	**–**	4	12
Department of Public Works	**877**	**(15)**	655	100
Department of Social Development	**5**	**35**	6	33
Department of Transport	**94**	**11**	79	10
Balance carried forward	**128,767**	**4,955**	153,588	2,954

** These balances are included in trade and other receivables.*

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.5 Sales to related parties *continued*

Figures in Rand Thousand	**2010** Sales	**2010** Balance outstanding	2009 Sales	2009 Balance outstanding
Group				
National Departments (continued)				
Balance brought forward	**160,422**	**11,109**	192,913	7,256
Department of Water Affairs and Forestry	**1,486**	**471**	2,510	761
Government Communications and Information Systems	**(30)**	**–**	5	30
Independent Complaints Directorate	**(9)**	**–**	1	12
National Intelligence Agency	**45**	**4**	40	4
National Treasury	**(1)**	**(679)**	8	(666)
Public Service Commission	**2**	**–**	4	1
South African Police Service	**1,911**	**102**	1,390	113
South African Revenue Service	**3,198**	**(807)**	5,120	79
South African Social Security Agency	**83,925**	**11,715**	4,779	3,381
Public Servants Association of SA	**1,913**	**7**	–	–
Statistics South Africa	**2,258**	**252**	1,597	165
The Presidency	**38**	**108**	11	104
Provincial Public Entities				
SA Local Government Bargaining	**13**	**1**	–	–
Free State Youth Commission	**2**	**–**	9	1
Free State Gambling and Racing Board	**5**	**1**	5	–
South African Post Office International	**15**	**–**	–	–
Telkom Directory Services (Pty) Limited	**–**	**(21)**	–	–
KwaZulu-Natal Tourism Authority	**–**	**(4)**	–	(4)
Special Investigation Unit	**70**	**14**	–	–
Mpumalanga Parks Board	**–**	**4**	1	3
Limpopo Tourism and Parks Board	**9**	**3**	22	16
Northern Cape Youth Commission	**1**	**–**	21	–
North West Housing Corporation	**7**	**–**	19	13
Provincial Government Business Enterprises				
Ithala Development Finance Corporation	**668**	**45**	690	83
Subsidiaries				
The Courier and Freight Group (Pty) Limited	**119,825**	**102,451**	(12,329)	67,352
Centriq Limited	**(2,908)**	**–**	751	24
The Document Exchange (Pty) Limited	**5,183**	**461**	5,404	681
	378,048	**125,237**	202,971	79,409

** These balances are included in trade and other receivables.*

37. Related parties *continued*

37.5 Sales to related parties *continued*

Figures in Rand Thousand	2010 Sales	2010 Balance outstanding	2009 Sales	2009 Balance outstanding
Company				
National Departments (continued)				
Balance brought forward	**128,767**	**4,955**	153,588	2,954
Department of Water Affairs and Forestry	**1,463**	**458**	2,509	749
Government Communications and Information Systems	**(30)**	**–**	5	30
National Intelligence Agency	**45**	**4**	40	4
National Treasury	**–**	**(679)**	1	(680)
Public Service Commission	**2**	**–**	4	1
Public Servants Association of SA	**1,913**	**7**	–	–
South African Police Services	**1,911**	**102**	1,388	113
South African Revenue Service	**3,198**	**(807)**	3,369	(563)
South African Social Security Agency	**83,925**	**11,715**	4,779	3,381
Statistics South Africa	**1,315**	**164**	1,626	165
The Presidency	**–**	**93**	11	93
Provincial Public Entities				
Free State Youth Commission	**2**	**–**	9	1
Free State Gambling and Racing Board	**5**	**1**	5	–
South African Post Office	**15**	**–**	–	–
Telkom Directory Services	**–**	**(21)**	–	–
KwaZulu-Natal Tourism Authority	**–**	**4**	–	(4)
Mpumalanga Parks Board	**–**	**4**	1	3
Limpopo Tourism and Parks Board	**9**	**3**	22	16
Northern Cape Youth Commission	**1**	**–**	21	–
Provincial Government Business Enterprises				
Ithala Development Finance Corporation	**360**	**25**	361	24
Subsidiaries				
The Courier and Freight Group (Pty) Limited	**119,825**	**102,451**	(12,329)	67,352
Centriq Limited	**(4,058)**	**–**	(1,076)	–
The Document Exchange (Pty) Limited	**5,183**	**461**	5,259	681
	343,857	**118,940**	159,593	74,320

** These balances are included in trade and other receivables.*

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.6 Third Party Transactions – Group and Company

Figures in Rand Thousand	Funds received on behalf of third parties	Commission received	Balance owed to third parties	Balance owed by third parties
Group and Company 2010				
Major Public Entities				
Eskom Holdings Limited	912,490	5,979	3,708	24
South African Broadcasting Corporation Limited	329,458	22,645	4,401	184
Telkom SA Limited	4,628,869	56,969	19,281	2,060
Land and Agricultural Bank of South Africa	10	1	–	–
National Government Business Enterprises				
Umgeni Water	590	11	2	–
Constitutional Institutions				
The Independent Communications Authority of South Africa	10,754	145	53	2
National Departments				
Department of Environmental Affairs and Tourism	25,700	5,182	–	–
Department of Housing	4,747	159	20	1
Department of Water Affairs and Forestry	3,431	46	11	–
National Treasury	1,564,912	212	8,256	7
South African Revenue Service	64,598	610	4,984	–
Provincial Government Business Enterprises				
Eastern Cape Development Corporation	69	–	–	–
Other				
Gidani (Pty) Limited	(155,690)	17,257	(6,704)	810
	7,389,938	109,216	34,012	3,088
Pension payment – Group and Company				
National Departments				
Department of Social Development	1,493,455	49,524	6,403	–
National Treasury	124,998	2,460	1,756	–
	1,618,453	51,984	8,159	–

**These balances are included in funds collected on behalf of third parties.*

37. Related parties *continued*

37.6 Third party transactions – Group and Company *continued*

Figures in Rand Thousand	Funds received on behalf of third parties	Commission received	Balance owed to third parties	Balance owed by third parties
Group and Company 2009				
Major Public Entities				
Eskom Holdings Limited	779,503	6,115	3,327	37
South African Broadcasting Corporation Limited	343,860	14,640	2,236	102
Telkom SA Limited	4,834,975	52,224	28,513	20
Land and Agricultural Bank of South Africa	116	4	3	–
National Government Business Enterprises				
Umgeni Water	1,011	11	2	–
Constitutional Institutions				
The Independent Communications Authority of South Africa	16,060	194	130	1
National Departments				
Department of Environmental Affairs and Tourism	21,224	4,386	95	3
Department of Housing	4,686	175	34	–
Department of Water Affairs and Forestry	3,255	42	19	1
National Treasury	351,443	89	4,326	11
South African Revenue Service	49,560	2,597	5,433	194
Provincial Government Business Enterprises				
Eastern Cape Development Corporation	154	1	–	–
Other				
Uthingo Management (Pty) Limited	–	–	92	
Gidani (Pty) Limited	(103,240)	16,322	(7,162)	–
	6,302,607	96,800	37,048	369
Pension payment – Group and Company				
Major Public Entities				
Transnet Limited	–	–	–	–
National Departments				
Department of Social Development	1,730,946	53,878	7,550	–
National Treasury	124,707	2,249	3,590	–
	1,855,653	56,127	11,140	–

**These balances are included in funds collected on behalf of third parties.*

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.7 Board compensation

Figures in Rand Thousand	Position	Fees	Salary	Expense allowance	Bonus	Other benefits	Total 2010	Total 2009
2010								
Ms V Mahlati	Chairperson	197	300	5	–	–	502	425
Mr JP Wentzel	Executive Director	–	2,078	30	–	23	2,131	497
Ms TBJ Memela-Khambule	Executive Director	–	1,395	30	–	23	1,448	–
Mr NJD Buick	Executive Director	–	1,977	30	–	23	2,030	2,481
Ms MM Lefoka	Executive Director	–	2,582	30	–	–	2,612	3,094
Mr MP Canca	Non-executive Director	–	–	–	–	–	–	126[1]
Dr MN Pheko	Non-executive Director	62	–	1	–	–	63	–[3]
Adv LP Nobanda	Non-executive Director	68	–	2	–	–	70	–[3]
Mr SEO Dietrich	Non-executive Director	232	–	9	–	–	241	40
Mr NCS Bebeza	Non-executive Director	102	–	–	–	–	102	–[3]
Mr AJ Hendricks	Non-executive Director	65	–	–	–	–	65	121
Mr B Mabaso	Non-executive Director	–	–	–	–	–	–	149
Mr SMA Malebo	Non-executive Director	306	–	30	–	–	336	222
Adv V Mhlongo	Non-executive Director	255	–	5	–	–	260	169
Ms T Mokgosi-Mwantebe	Non-executive Director	–	–	–	–	–	–	76[1]
Mr SQM Mokoetle	Non-executive Director	164	–	5	–	–	169	121[2]
Ms N Msimang	Non-executive Director	210	–	5	–	–	215	175
Mr MS Patel	Non-executive Director	258	–	42	–	–	300	178
Ms PE Pokane	Non-executive Director	226	–	11	–	–	237	135
Ms ME Letlape	Non-executive Director	95	–	3	–	–	98	–[3]
2010		**2,240**	**8,332**	**238**	**–**	**69**	**10,879**	
2009		**1,549**	**5,073**	**155**	**1,195**	**37**	**–**	**8,009**

[1] – Retired 30 November 2008 *[2] – Retired 28 February 2010* *[3] – Appointed 1 October 2009*

37.8 Key management personnel compensation

Figures in Rand Thousand	Position	Fees	Salary	Expense allowance	Bonus	Other benefits	Total 2010	Total 2009
2010								
M Mathibe	MD: Courier and Freight Group	–	1,579	30	123	23	1,755	1,941
PA Papadopulo	Non-executive Director: Documents Exchange Group	–	15	–	–	–	15	18

Director of companies controlled by the South African Post Office.

(P Pokane, MM Lefoka, NJD Buick, JP Wentzel and S Patel are also directors of the Courier and Freight Group.)

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

37.8 Key management personnel compensation *continued*

Figures in Rand Thousand	Position	Salary	Expense	Bonus	Other compen-sation	Leave/ Notice pay	Total 2010	Total 2009
H Choonara	GE: Human Resources	–	–	–	–	–	–	44
TV Geldenhuys	Company Secretary	111	3	–	1	58	173	1,381[1]
JS Kotsi	Executive: Mail	1,317	30	102	23	–	1,472	1,648
M Lancaster	GE: Strategy	1,143	30	93	–	–	1,266	1,202[2]
JMS Sekhasimbe	GE: Supply Chain Management	1,177	30	–	18	–	1,225	815
NM Maelane	GE: Supply Chain Management	–	–	–	–	–	–	679
MA Mofokeng	GE: Human Resources	–	–	–	–	–	–	912
MM Mphahlele	Acting GE : Internal Audit	167	6	54	1	–	228	719[8]
TBJ Memela-Khambule	MD: Postbank	–	–	–	–	–	–	1,745
CA Phillips	GE: Internal Audit	818	–	–	18	–	836	–[9]
TRJ Mkhize	Customer Relationship Officer	349	8	–	6	1,363	1,726	1,842[3]
NA Mnisi	SGM: Consumer Services	1,143	30	80	23	–	1,276	1,278[4]
LH Lose	GE: Corporate Affairs	950	30	60	9	–	1,049	–[10]
MM Mphelo	Acting Company Secretary	385	15	59	4	–	463	–[5]
JA Naude	Acting Executive: Legal Services	–	–	–	–	–	–	632
P Ngomane	GM: Security & Investigation Services	777	30	61	9	–	877	986
DC Nyamazane	MD: Sapos Properties	964	30	74	–	–	1,068	1,177
MS Diaz	GE: Human Resources	1,027	23	–	20	–	1,070	–[6]
MN Mbekeni	Executive: Legal Services	1,030	30	44	9	–	1,113	504
L van der Bank	Chief Information Officer	1,305	30	104	23	–	1,462	1,633
BS Bulunga	Company Secretary	353	11	–	8	–	372	–[7]
C Verster	MD: EBPP	1,177	30	85	23	–	1,315	1,334
TE Xiphu	GE: Corporate Services	1,280	30	98	–	–	1,408	1,579
2010		**15,473**	**396**	**914**	**195**	**1,421**	**18,399**	
2009		**16,649**	**440**	**4,182**	**176**	**111**	**–**	20 110

The above emoluments were paid to executives reporting directly to the Chief Executive Officer and other key management personnel during the year:

[1] – Retired 30 April 2009.
[2] – Acting GE: Strategy till 31 May 2009 – Appointed as GE: Strategy 1 June 2009.
[3] – Retired 30 June 2009.
[4] – Acting Executive: Consumer Services till 30 June 2009 – Appointed Executive: Consumer Services 1 July 2009.
[5] – Acting Company Secretary 1 May 2009 till 15 November 2009.
[6] – Appointed GE: Human Resources 22 June 2009.
[7] – Appointed Company Secretary 16 November 2009.
[8] – Acting as GE: Internal Audit till 30 June 2009.
[9] – Appointed GE: Internal Audit 1 July 2009.
[10] – Acting Customer Relationship Office – Appointed GE: Corporate Affairs 1 March 2010.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

37. Related parties *continued*

36.8 Key management personnel compensation *continued*

Figures in Rand Thousand	Group 2010	Group 2009	Company 2010	Company 2009
Balances owing by key management personnel				
Travel and subsistence advances	–	117	–	117

38. New International Financial Reporting Standards accounting pronouncements

The following pronouncements are not yet effective at 31 March 2010 and have not been adopted for the current year.

IFRS 1: First-time Adoption of International Financial Reporting Standards

In May 2008 the IASB issued a revision to IFRS 1: First-time Adoption of International Financial Reporting Standards, effective for annual periods beginning on or after 1 July 2009. The revised standard:

- allows exemption of investments in subsidiaries, jointly controlled entities and associates from other IFRS standards;
- when issuing separate financial statements the entity can account for its investments in subsidiaries, jointly controlled entities and associates by using either the cost method or in accordance with IAS 39: Financial Instruments: Recognition and Measurement; and
- if such an investment is measured at cost, the investment shall be measured at either the cost determined in accordance with IAS 27 or deemed cost. The deemed cost of such an investment shall be its fair value (determined in accordance with IAS 39) at the entity's date of transition to IFRSs in its separate financial statements or previous GAAP carrying amount at that date.

In 28 January 2010, the IASB amended IFRS 1 to exempt first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The amendment gives first-time adopters the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers. The amendment is effective on 1 July 2010, with earlier application permitted.

On 23 July 2009 a further amendment to IFRS 1 was issued by IASB effective from 1 January 2010. This amendment states that entities using the full cost method may elect exemption from retrospective application of IFRSs for oil and gas assets. Entities electing this exemption will use the carrying amount under its old GAAP as the deemed cost of its oil and gas assets at the date of first-time adoption of IFRSs.

The amendment also states that if a first-time adopter with a leasing contract made the same type of determination of whether an arrangement contained a lease in accordance with previous GAAP, as that required by IFRIC 4: Determining whether an Arrangement Contains a Lease, but at a date other than that required by IFRIC 4, the amendments exempt the entity from having to apply IFRIC 4 when it adopts IFRSs.

IFRS 2: Share-based Payments

In April 2009 the International Accounting Standards Board (IASB) issued a revision to IFRS 2: Share-based Payments effective for annual periods beginning on or after 1 July 2009. In terms of this revision business combinations as defined in IFRS 3 are outside the scope of IFRS 2. This implies that business combinations amongst entities under common control and the contribution of a business upon the formation of a joint venture will not be accounted for under IFRS 2.

Another revision issued on 18 June 2009 was issued to clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, a subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay for those supplies. The amendments make clear that:

- an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash;
- In IFRS 2 a 'group' has the same meaning as in IAS 27: Consolidated and Separate Financial Statements, that is, it includes a parent and its subsidiaries.

IFRS 3: Business Combinations

In January 2008 the IASB issued a revision to IFRS 3: Business Combinations effective for business combinations in annual periods beginning on or after 1 July 2009, which consequentially amended IAS 27: Consolidated and Separate Financial Statements, IAS 28: Investment in Associates and IAS 31: Interest in Joint Ventures, IAS 21: The effects of Changes in Foreign Exchange Rates and IAS 38: Intangible Assets. The amendments are effective for annual periods beginning on or after 1 July 2009.
The amendments:

- require all acquisition costs to be expensed;
- require acquirers, with step acquisitions achieving control, to re-measure its previously held equity interest to fair value at the acquisition date and recognise any gain or loss in profit or loss;

38. New International Financial Reporting Standards accounting pronouncements *continued*

IFRS 3: Business Combinations *continued*

- require non-controlling interests to be measured at either fair value or at the non-controlling interest's proportionate share of net identifiable assets of the entity acquired;
- require considerations for acquisitions to be measured at fair value at the acquisition date including the fair value of any contingent consideration payable. Subsequent changes are only allowed as a result of additional information on facts and circumstances that existed at the acquisition date, all other changes are recognised in profit or loss;
- require goodwill to be measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred; the amount of any non-controlling interest acquired and in a business combination achieved in stages, the acquisition date fair value of the acquirers' previously held equity interest and the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed; and
- clarify that all contractual arrangements at the acquisition date must be classified and designated with the exception of leases and insurance contracts. Thus the acquirer applies its accounting policies as if it has acquired those contractual relationships outside of the business combination.

IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations

In May 2008 the IASB issued a revision to IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations for annual periods beginning on or after 1 July 2009. The revised standard requires an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all the assets and liabilities of that subsidiary as held for sale when it meets the classification criteria set out in IFRS 5, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

In April 2009 another amendment to the statement was made, effective from 1 January 2010, and it states that the required disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations are specified in that standard. The disclosure requirements of other IFRSs are applicable to those assets (or disposal groups) only if they specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations or they relate to items not within the measurement scope of IFRS 5.

IFRS 8: Operating Segments

In April 2009 the IASB issued a revision to IFRS 8: Operating Segments for annual periods beginning on or after 1 January 2010. The revised standard states that an entity shall report a measure of total assets for each reportable segment if such amounts are regularly provided to the chief operating decision maker.

IAS 1: Presentation of Financial Statements

In April 2009 the IASB issued a revision to IAS 1: Presentation of Financial Statements for annual periods beginning on or after 1 January 2010. The statement requires that: An entity shall classify a liability as current when:

(a) it expects to settle the liability in its normal operating cycle;
(b) it holds the liability primarily for the purpose of trading;
(c) the liability is due to be settled within twelve months after the reporting period; or
(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. An entity shall classify all other liabilities as non-current.

IAS 7: Statement of Cash Flows

In April 2009 the International Accounting Standards Board (IASB) issued a revision to IAS 7: Statement of Cash Flows for annual periods beginning on or after 1 January 2010 but earlier adoption of this statement is also permitted. The revised statement now explicitly states that only expenditures that result in the recognition of an asset in the statement of financial position are eligible for classification as investing activities.

IAS 10: Events after the Reporting Period

Refer to IFRIC 17: Distribution of Non-Cash Assets to Owners as the amendments made to that statement will have an impact on the IAS 10: Events after the Reporting Period.

IAS 17: Leases

In April 2009 and effective from 1 January 2010: When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with paragraphs 7 to 13. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

38. New International Financial Reporting Standards accounting pronouncements *continued*

IAS 24: Related Party Disclosures

In November 2009 the IASB issued a revision to IAS 24; Related Party Disclosure for annual periods beginning on or after 1 January 2011. The revised statement provides exemption from the disclosure requirements for government-related entities; however the statement did not change the approach to the disclosure requirements as it exists in the statement which requires the entity to disclose information about the related party relationship and transactions. It also clarifies the definition of a related party by removing inconsistencies with other statements.

IAS 32: Financial Instruments: Presentation

In October 2009, the IASB issued an amendment to IAS 32 for annual periods beginning on or after 1 February 2010. This revision focuses on the classification of rights issues and states that for rights issues offered for a fixed amount of foreign currency current practice requires such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all an entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated.

IAS 36: Impairment of Assets

In April 2009 the IASB issued a revision to IAS 36: Impairment of Assets for annual periods beginning on or after 1 January 2010. The revised statement states that the largest unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria of IFRS 8.

IAS 38: Intangible Assets

In April 2009, the IASB issued a revision to IAS 38: Intangible Assets for annual periods beginning on or after 1 July 2009. The revised statement clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination for which no active market exists.

IAS 39: Financial Instruments: Recognition and Measurement

In July 2008 the IASB published amendments to IAS 39 for periods beginning on or after 1 July 2009. The amended statement does not result in the deletion of the existing guidance but adds application guidance to clarify the existing principles and it dealt with two issues being:

- Qualifying hedged items – one-sided risk

Introduction of additional application guidance clarifying that the changes in cash flows or fair value associated with one-sided risk can be designated as a qualifying hedged item. In addition to designating the entire fair value of an option contract, an entity may choose to designate only intrinsic value as the hedging instrument. Designating only the changes in the intrinsic value of an option contract as a hedging instrument in the hedge of a one-sided risk of a forecast transaction can achieve perfect hedge effectiveness, however to achieve this result the forecast transaction and the hedging instrument must have the same principal terms.

- Designation of inflation as a hedge item

A hedged item may be hedged with respect to the risk associated with all or only a portion of the cash flows or fair value provided that effectiveness can be measured. Unless inflation is a contractually specified portion of the cash flows of a recognised inflation-linked bond and the other cash flows of the instrument are not affected by the inflation portion, it may not be designated as a risk or a portion of a financial instrument as it is not separately identifiable or reliably measured.

In March 2009 the IASB published another amendment to IAS 39 for annual periods beginning on or after 30 June 2009. The amendment allows entities to reclassify particular financial instruments out of the "fair value through profit or loss" category in specific circumstances. On reclassification all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements.

In April 2009 the IASB published amendments to IAS 39 for annual periods beginning on or after 1 January 2010. The amendments focused on the following three issues:

- Cash flow hedge accounting

Gains and losses on a hedged instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flow impacts profit or loss.

- Scope exemption for business combination contracts

The scope exemption is restricted to forward contracts between the acquirer and a selling shareholder to buy or sell an acquired interest that will result in a business combination at a future acquisition date. In addition the term of the forward contract should not be longer than the period normally necessary to finalise the transaction.

38. New International Financial Reporting Standards accounting pronouncements *continued*

IAS 39: Financial Instruments: Recognition and Measurement *continued*

- Treating loan prepayments penalties as closely related embedded derivatives

Additional guidance on determining whether loan prepayments penalties result in an embedded derivative that needs to be separated. If an exercise price of an embedded prepayment option reimburses the lender for an amount not exceeding the approximate present value of the lost interest for the remaining term of the host contract, then the economic characteristics and risk of the prepayment option embedded in a host debt or host insurance contract are closely related to the host contract and the embedded derivative is not separated from the host contract.

IFRIC 9: Reassessment of Embedded Derivatives

In January 2009 the IASB issued the amendments to IFRIC 9 for annual periods beginning on or after 1 July 2009. The amended interpretation clarifies that the scope of IFRIC 9 excludes contracts with embedded derivatives acquired in a business combination between entities under common control or in the formation of a joint venture.

IFRIC 16: Hedges of a Net Investment in a Foreign Operation

In April 2009 the IASB issued an amendment to IFRIC 16: Hedges of a Net Investment in a Foreign Operation and this amendment is effective for all annual periods beginning on or after 1 July 2009. The amended IFRIC 16 allows an entity to designate as a hedging instrument in a net investment in a foreign operation an instrument that is held by the foreign operation that is being hedged.

IFRIC 17: Distribution of Non-Cash Assets to Owners

IASB issued IFRIC 17 – The interpretation applies to the entity making the distribution, not to the recipient. It applies when non-cash assets are distributed to owners or when the owner is given a choice of taking cash in lieu of the non-cash assets. The interpretation is effective for all annual periods beginning on or after 1 July 2009.

IFRIC 17 clarifies that:

- a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- an entity should measure the dividend payable at the fair value of the net assets to be distributed;
- an entity should re-measure the liability at each reporting date and at settlement, with changes recognised directly in equity;
- an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, and should disclose it separately; and
- an entity should provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 17 applies to pro rata distributions of non-cash assets (all owners are treated equally) but does not apply to common control transactions.

IFRIC 18: Transfer of Assets from Customers

IASB issued IFRIC 18 – Transfers of Assets from Customers effective for transfer of assets from customers received on or after 1 July 2009. This interpretation provides guidance on the transfer of property, plant and equipment (or cash to acquire it) for entities that receive such contributions from their customers. The interpretation addresses the following issues:

- Whether the entity should record an item of property, plant and equipment if received from a customer;
- At what amount the asset should be recognised initially;
- If the asset is recognised at fair value on initial recognition, how the resulting credit should be accounted for; and
- How cash contribution should be accounted for.

The interpretation scopes out government grants as defined by IAS 20: Accounting for Government Grants and Disclosure of Government Assistance. As a result the interpretation does not have an impact on the operations of the Group.

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

38. New International Financial Reporting Standards accounting pronouncements *continued*

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

IASB issued IFRIC 19 – The interpretation addresses the accounting by the entity that issues equity statements in order to settle in full or in part, for all annual periods beginning on or after 1 April 2010. The interpretation addresses the following issues:

- equity instruments are considered paid in terms of IAS 39 when the debtor issues them to a creditor to extinguish all or part of a financial liability;
- the debtor should measure the equity instruments issued to a creditor at fair value unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished;
- if the liability is partly extinguished, the debtor must determine whether any part of the consideration paid relates to modification of the terms of the remaining liability; if it does the debtor must allocate the fair value of the consideration paid between the liability extinguished and the liability retained;
- the debtor recognises in profit or loss the difference between the carrying amount for the financial liability extinguished and the measurement of the equity instrument issued; and
- if only part of the liability is extinguished, the debtor must determine whether the terms of the remaining debt have been substantially modified. If yes, the debtor should account for an extinguishment of the old remaining liability and the recognition of a new liability

39. Schedule 1 – Unlisted investments at 31 March 2010

The following unlisted investments incorporated in South Africa are included in investments (refer to note 7):

Figures in Rand Thousand		Issued capital	Effective holding 2010	Effective holding 2009	Investment 2010	Investment 2009
Subsidiary companies						
Directly held						
The Document Exchange (Pty) Limited	Letter and parcel delivery	1	**100%**	100%	**–**	–
Pensecure (Pty) Limited	Pension payments	100	**100%**	100%	**–**	–
Sapos Properties (PE) (Pty) Limited	Property letting	100	**100%**	100%	**2,380**	2,120
Investment					**1,670**	1,670
Impairment of investment					**(237)**	(347)
Loan					**947**	797
Sapos Properties (Rossburgh) (Pty) Limited	Property letting	2	**100%**	100%	**4,631**	4,362
Investment					**3,800**	3,800
Impairment of investment					**(1,495)**	(1,537)
Loan					**2,326**	2,099
Sapos Properties (Erf 145018 Cape Town) (Pty) Limited	Property letting	100	**100%**	100%	**3,815**	3,732
Investment					**4,085**	4,085
Impairment of investment					**(1,205)**	(991)
Loan					**935**	638

39. Schedule 1 – Unlisted investments at 31 March 2010 *continued*

Figures in Rand Thousand		Issued capital	Effective holding 2010	Effective holding 2009	Investment 2010	Investment 2009
Sapos Properties (East Rand) (Pty) Limited	Property letting	200	**100%**	100%	**13,929**	13,547
Investment					**11,195**	11,195
Impairment of investment					**–**	–
Loan					**2,734**	2,352
Sapos Properties (Bloemfontein) (Pty) Limited	Property letting	100	**100%**	100%	**190**	105
Investment					**750**	750
Impairment of investment					**(750)**	(750)
Loan					**190**	105
Sapos Properties (Pty) Limited	Dormant	1	**100%**	100%	**–**	–
Truebill (Pty) Limited	Dormant	1	**100%**	100%	**–**	–
The Courier and Freight Group (Pty) Limited	Parcel delivery	200,000	**100%**	100 %	**–**	–
Investment					**1,053**	1,053
Impairment of investment					**(1,053)**	(1,053)
Loan					**–**	–
					24,945	23,866
Indirectly held						
ACE Express Group (Pty) Limited	Express freight	100	**100%**	100%	**–**	–
ACE Express Group (Pty) Limited	International freight	5,000	**100%**	100%	**–**	–
Fancon (Pty) Limited	Dormant	2,000	**100%**	100%	**–**	–
XPS Trucking (Pty) Limited	Dormant	4,000	**100%**	100%	**–**	–
SA Bunker Services (Pty) Limited	Dormant	1,100	**100%**	100%	**–**	–
The Courier and Freight Botswana (Pty) Limited	International freight	162	**100%**	100%	**–**	–
The Courier and Freight Namibia (Pty) Limited	International freight	4,000	**100%**	100%	**–**	–
The Courier and Freight Swaziland (Pty) Limited	International freight	2	**100%**	100%	**–**	–
CFG Zimbabwe (Private) Limited	International freight	3,012	**100%**	100%	**–**	–
Centriq Insurance Company limited		20,050		100%	**20,050**	20,050
					20,050	20,050

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

39. Schedule 1 – Unlisted investments at 31 March 2010 *continued*

Figures in Rand Thousand	Issued capital	Effective holding 2010	Effective holding 2009	Investment 2010	Investment 2009
Loan accounts – at cost less impairment					
The Courier and Freight Group (Pty) Limited	–	**100%**	100%	**–**	–
Loan				**219,322**	219,322
Impairment of loan				**(219,322)**	(219,322)
The Document Exchange (Pty) Limited	–	**100%**	100%	**–**	–
Impairment of loan				**–**	–
Pensecure (Pty) Limited	–	**100%**	100%	**–**	–
Loan				**1,356**	1,356
Impairment of loan				**(1,356)**	(1,356)
				–	–
Total investment and indebtedness				**44,995**	43,916
Directors' valuation of unlisted investments				**42,603**	42,603

40. Group – Three year review for the years ended 31 March 2010

Income Statement ('000)	**2010**	2009	2008
Profit before taxation	**378,698**	488,241	565,027
Finance income	**219,503**	324,084	263,920
Finance cost	**(30,144)**	(34,324)	(102,514)
Statement of financial position ('000)			
Capital and reserves	**2,255,954**	1,962,824	1,596,746
Non-current liabilities	**1,167,986**	1,129,958	724,923
Current liabilities	**5,992,345**	5,598,447	5,369,112
Funds supplied	**9,416,285**	8,691,229	7,690,781
Non-current assets	**1,955,681**	1,876,745	1,528,026
Current assets	**7,460,604**	6,814,484	6,162,755
Funds required	**9,416,285**	8,691,229	7,690,781
Cash flow ('000)			
Net cash from operating activities	**41,094**	649,817	305,217
Net cash from investing activities	**(854,859)**	(1,302,054)	(854,749)
Net cash from financing activities	**383,085**	369,978	361,046
Solvency and liquidity			
Debt-equity ratio	**3.17:1**	3.43:1	3,82:1
Current ratio	**1.25:1**	1.22:1	1.15:1
Acid test ratio	**1.24:1**	1.21:1	1.14:1

Notes to the Group Financial Statements *continued*

for the year ended 31 March 2010

41. Available for sale reserve

Components of other comprehensive income

	2010	2009	**2010**	2009
Revaluation loss on Uthingo shares	**(2,250)**	–	**(2,250)**	–
Revaluation gain on current investments	**3,421**	3,175	**3,421**	3,175
Revaluation gain on bonds	**343**	–	**343**	–
Reversal of revaluation gain on current investments	**(4,026)**	–	**(4,026)**	–
Reversal of revaluation gain on other financial assets	**(949)**	–	**(949)**	–
Unrealised gains on revaluation of PRMA	**89,609**	–	**89,609**	–
Reclassification of fair value gains from AFS to FVTPL	**(89,609)**	–	**(89,609)**	–
	(3,461)	3,175	**(3,461)**	3,175

Glossary

Abbreviation	Explanation
ABC	Activity Based Costing
ACL	Access control lists
AFS	Available for sale
ALCO	Asset and Liability committee
ALM	Asset and Liability Management
AML	Anti-money laundering
APM	Automated Postal Machine
ASGISA	Accelerated Shared Growth Initiative for South Africa
ATM	Automatic Teller Machine
BBBEE	Broad Based Black Economic Empowerment
BCM	Business Continuity Management
BU	Business Unit
Capex	Capital investment
CEO	Chief Executive Officer
CFG	Courier Freight Group
CFO	Chief Financial Officer
CFST	Cross functional sourcing team
CIO	Chief Information Officer
COD	Cash of Delivery
CPD	(Page 131)
CPIX	Consumer price index
CRM	Customer Relationship Management
CSI	Corporate Social Investment
CSS	Customer Satisfaction Survey
CWU	Communications Workers Union
DLA	Department of Land Affairs
DOA	Delegation of Authority
DOCEX	Document Exchange
DR	Disaster recovery
DRC	Democratic Republic of Congo
DRP	Disaster recovery plan
DTI	Department of Trade and Industry
ECT	Electronic Communications Act
EE	Employee Equity
ERM	Enterprise Resource Management
ERP	Enterprise Resource Plan
ESS	Employee Satisfaction Survey
EXCO	Executive Committee
FPL	Full party logistics
FPP	Fraud prevention plan
FRA	(Page 135)
FSB	Financial Service Board
FVTPL	Fair Value Through Profit or Loss
GAAP	Generally Accepted Accounting Practices
GE	Group Executive

Glossary *continued*

Abbreviation	Explanation
GIS	Geographical Information System
GM	General Manager
GRV	Goods received from vendors
HIV	Human Immunodeficiency Virus
HR	Human resources
IASB	International Accounting Standards Board
IBC	Internet business counters
ICASA	The Independent Communications Authority of South Africa
ICSS	Internal customer satisfaction survey
ICT	Information and Communications Technologies
IFRIC	(Page 125)
IFRS	International Financial Reporting Standards
IP	Internet Protocol
ISO	International Standard Organisation
ISQM	Independent Service Quality Measurement
ISQM	Independent Standard Quality Monitor
IT	Information Technology
IVR	Voice recognition
JIBAR	Johannesburg Inter Bank Acceptance Rate
JIMC	Johannesburg International mail centre
KZN	KwaZulu-Natal
MDG	Millennium Development Goals
MIS	Management Information System
NAV	Net asset value
NCD	Negotiable Certificate of Deposits
OHS/OHSA	Occupational Health and Safety Act
PE	Port Elizabeth
PFMA	Public Finance Management Act
PIT	Public Information Terminal
PMP	Project management portfolio
POS	Point of Sale
PR	Public relations
PRMA	Post Retirement Medical Assets
RFP	Request for Proposal
RFQ	Request for Quotation
ROA	Return on Assets
RPA	Retail Postal Agencies
RTA	Road Transport Act
RUBI	Risk universe business intelligence
SAAS	South African Auditing Standards
SAP	My SAP ERP financial system (System, applications and processes)
Sapo	South African Post Office
SAPS	South African Police Services
SARS	South African Revenue Services
SASSA	Social Security Agency
SCM	Supply Chain Management

Glossary *continued*

Abbreviation	Explanation
SLA	Service Level Agreement
SMME	Small, Medium and Micro Enterprises
SOE	State owned enterprise
SSC	Speed Service Couriers
TBL	Triple Bottom Line
TCTC	Total cost to company
TDS	Telkom Directory Service
TVBE	Transkei, Venda, Bophuthatswana and Ciskei
UPS	Universal Power Supply
UPU	Universal Postal Union
USO	Universal Service Obligation
VCT	Voluntary counselling and testing
VMS	Voucher management system
VOIP	Voice over IP
WASP	Wireless Application Service Provider
WRE	Web Riposte system

Notes

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