

We deliver,
whatever it takes



Post Office 
Annual Report 2007

Vision

To be recognised among the

top 10 providers

of postal and related services in the world

Mission

SAPO 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

Values

- Be passionate about customer excellence
- Contribute positively to communities and the environment
- Treat others with respect, dignity, honesty and integrity
- Recognise the contributions of individuals
- Embrace diversity in doing business

Contents

Philosophy, vision and profile	IFC	Review of operations	16	Cash flow statements	43
Financial highlights	3	Corporate governance report	26	Notes to the annual financial statements	44
Achievements	4	Employment equity report	33	Schedule 1 – Unlisted investments	96
Chairperson’s review	8	Independent auditors’ report	34	Group three-year review	98
Historical highlights	10	Directors’ report	36	High-level performance overview	99
Board members	12	Balance sheets	40		
Executive Committee	13	Income statements	41		
Acting CEO’s review	14	Statements of changes in equity	42		

Our services

MAIL DISTRIBUTION, LOGISTICS
AND INTERNATIONAL MAIL

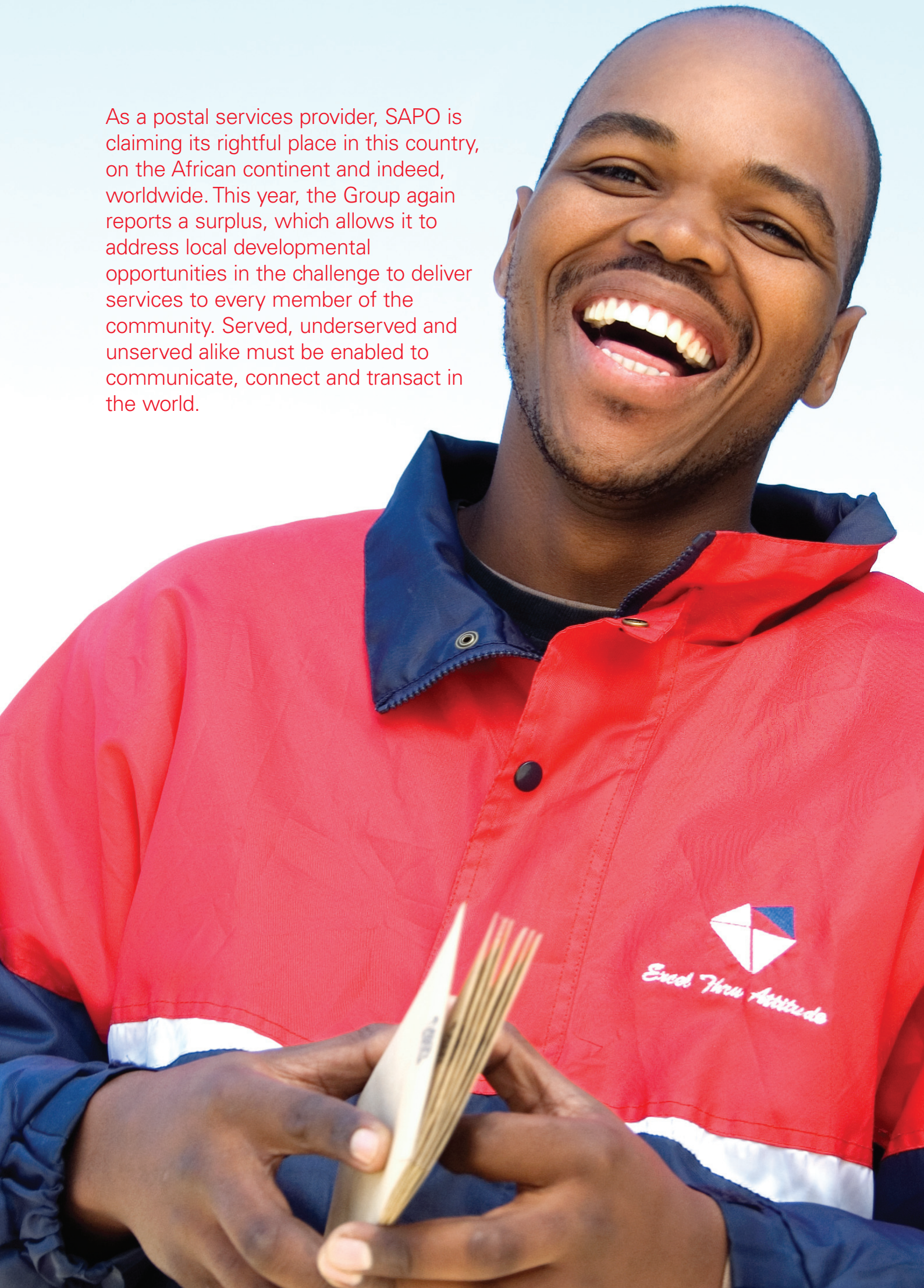
POSTBANK



RETAIL

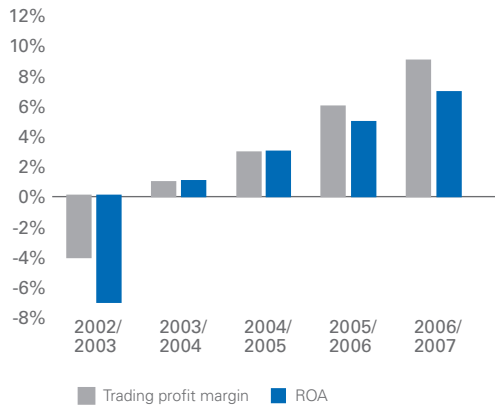
COURIER AND FREIGHT
GROUP (CFG)

As a postal services provider, SAPO is claiming its rightful place in this country, on the African continent and indeed, worldwide. This year, the Group again reports a surplus, which allows it to address local developmental opportunities in the challenge to deliver services to every member of the community. Served, underserved and unserved alike must be enabled to communicate, connect and transact in the world.

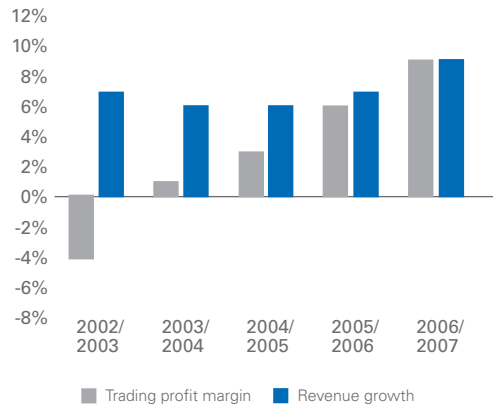


Financial highlights

Trading profit margin/ROA



Trading profit margin/revenue growth



Cash flow **up 218%** to R792 million

Operating profit* **up 44%** to R431 million

Profit before tax* **up 56%** to R507 million

Revenue **up 8%** to R4,885 million

NAV **up 41%** to R1,233 million

Postbank deposits **up 13%** to R2,603 million

Cash equivalents **up 39%** to R4,580 million

ROA* **up 19%** to 6%

Profit margin* **up 33%** to 9%

* (Adjusted for pension fund asset)

Achievements

As SAPO's tale unfolds, it becomes clear that there are five strategic themes which drive activities. These are:

1. Drive operational excellence to achieve top quality at benchmark cost.

Achievements in this area during the 2006/7 financial year are:

- About 1,9 million new postal addresses were rolled out by March 2007, resulting in 10 million postal addresses countrywide. The Post Office uses an ingenious geographic information system to give addresses to those who never had one, contributing towards the incorporation of previously disadvantaged communities into the mainstream of an active economy.

- 70 new Post Offices were opened and a total of 46 outlets were relocated. This further improves the Post Office's footprint and its ability to deliver service to the people – no matter where they live.

- 10 new mail sorting machines were installed and in the 18 months since commissioning these, 877 million mail items have been processed through these machines and transported and delivered countrywide. The value of the improved process efficiency is R34,4 million.

2. Achieve customer intimacy and use this to grow SAPO's communication, logistics and financial services.

Achievements in this area during the 2006/7 financial year are:

- SAPO supports consumer payments for 106 municipalities countrywide and earned R24,9 million from this. It is safe to say that the SAPO plays a vital role in enabling service delivery for these municipalities.

- Postbank strengthened its position as the leading provider of Mzansi accounts, with a market share exceeding 40%. It introduced debit-card functionality on these accounts, transforming more than 1,2 million South Africans to members of a safer, cashless society.

- Postbank does not operate as a lending institution, but handles loans on behalf of other institutions, with the total amount on the loan book being R61,5 million. Postbank aims to continue providing financial services on behalf of third parties.

- Phuthuma Nathi was the public offer of shares in the television company MultiChoice. The demand for these shares was so great that the offer was extended by one week, and ended up being three times oversubscribed. In total, investors applied for shares worth R1,3 billion. When the Phuthuma Nathi share offer finally closed on 3 November 2006, Post Office tellers had completed almost 125 000 of these transactions. SAPO enabled almost a quarter of a million South Africans to apply for ordinary shares in Phuthuma Nathi and therefore also participated in growing the wealth of our country. SAPO's wide service network and efficient distribution made it possible for people in the most remote areas to participate on par with those in well developed urban areas.

3. Be government's preferred partner for economic enablement within product and service offerings and in the delivery of government services.

Achievements in this area during the 2006/7 financial year are:

- SAPO made history when it hosted the Congress of Commonwealth Postal Administrations (CCPA) in July 2006. It was the first CCPA congress ever on African soil. This opportunity was exploited to the full to showcase South Africa as a leading spirit in Nepal and a frontrunner the African renaissance.

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- A total of 560 000 social grants were paid out per month by the Post Office up to March 2007.

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- A world-class platform was developed for the online payment of traffic fines. Launched in July 2006, three local authorities are already using the system, including the Ekurhuleni Municipality. Many national routes traverse Ekurhuleni. Motorists can pay an outstanding traffic fine at any online Post Office. They can also establish whether they have unpaid fines using their car registration or identity number.

-
- The Post Office is a vital channel for delivering government services to the people. In the spirit of this partnership, motorists can now renew their vehicle licences at selected Post Offices in the Free State, KwaZulu-Natal and the Eastern Cape. Many of these offices have extended business hours, making it that much easier and more convenient for the public to renew their licences.

Achievements (continued)

4. Build a high-performance culture and develop skills throughout the organisation.

Achievements in this area during the 2006/7 financial year are:

- The level 6 accreditation of the Post Office Group and subsidiaries by the external BEE accreditation agency, Empower logic, was completed.

- To improve the governance of supply chain management, a major focus was placed on continually improved controls to ensure process integrity and to minimise potential abuse. The existing policy was reviewed and revised and processes and procedures were aligned. Compliance was enhanced with the aid of IT systems that regularly track the key risks that procurement is exposed to.

- Employee satisfaction in SAPO improved by 1,4% over the past two years. The 2006/7 average level of satisfaction was 61,1%.

- In May 2006, the Post Office introduced IT qualified but unemployed members of the community as 'e-cadre' volunteers at its outlets with internet terminals. These volunteers were trained in skills that would be useful to the public and taught basic customer-service skills. E-cadres are currently deployed within their own communities, introducing people to the world of IT and in the process, gaining valuable work experience.

5. Strengthen the public perception of the SAPO as a trusted brand.

Achievements in this area during the 2006/7 financial year are:

- The 2006 external customer satisfaction survey indicated that the average customer satisfaction for the total Company improved by 7,9% to 82,6%.

- With the centenary of the Bhambatha rebellion in June 2006, the Post Office issued a stamp to preserve the event for posterity. Stamps are important custodians of culture which may otherwise be lost to later generations.

- During the campaign of Sixteen Days of Activism against Violence on Women and Children, the Post Office engaged in a partnership with the founder members, sponsoring postcards that citizens could sign to document their opposition to violence and to pledge their support. The Post Office is proud to have partnered in such a worthwhile cause and plans to assist in the 2007 campaign 365 Days against Violence.

- On World Post Day 2006 (9 October), the South African Minister of Communication, Dr Ivy Matsepe-Casaburri met her counterpart from Swaziland to mark the opening of a portable Post Office in the border-town of Oshoek. Apart from the regular postal services, this Post Office offers vital business services such as internet, faxing and copying – the only facility in the town to do so. Celebrations were marked by the participation of the local community, from public speakers to entertainment by traditional dancers and schools.
-

- The final round of the annual Post Office Choral Eisteddfod took place in Johannesburg in August 2006. This year, roughly 16 600 choristers countrywide had the opportunity to showcase their talent. This corporate social responsibility project provides young people with a constructive and uplifting means of spending their free time, building their culture and securing an enviable position among their peers.
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- The Post Office's annual letter-writing competition ties in with the Universal Postal Union's competition and fosters literacy and writing skills among young South Africans.
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Chairperson's review

We deliver, whatever it takes.



The story I tell here, I tell with a great deal of pride. It is the story of the 2006/7 SAPO annual report and a tale that speaks of financial results: revenue reported at R4,9 billion (an 8,1% improvement on the previous financial year) and an operating profit that has grown to R431 million.

As a parastatal organisation, SAPO caters to the mandate of its shareholder, the state. This positions SAPO as an essential delivery channel for government services, contributing to the Department of Communications' strategic thrust of becoming a **"Global Leader in harnessing Information and Communication Technology for socio- economic development"**.

As a player in the global postal industry SAPO has to keep abreast of market dynamics in terms of competition, changes in technology and customer needs. This presents great opportunities and challenges. The greatest challenge lies in balancing the delivery to local imperatives whilst pushing for global competitiveness. The immense opportunities build on the main foundation that continues to be the engine of growth and development, SAPO's footprint, its people and key stakeholders. It is also this foundation that makes our Postbank to be the leading bank of Mzansi accounts with a market share of 41%. It thus makes it possible for SAPO to work towards the goal of acting in the best interest of the South African people in terms of delivering the social imperatives of affordability and accessibility.

As we release the 2006/7 results we remind ourselves that our responsibility begins with those who work for the organisation and ends with the customer whom we serve. The results mark an evolutionary turnaround that commenced with the introduction of a business and customer-centric model at the turn of the new millennium. We salute all those individuals (current and former) who contributed to the growth we now experience.

However, the winds of change have not been without turbulence and ours continue to be a work in progress. The incoming SAPO leadership has had the challenge of managing a sensitive and potentially disruptive phase involving the former leadership of SAPO during a cross-over period when a new Board chairperson and members were appointed. As expected this attracted public attention. The decisive and servant leadership of the new Board with the support of the shareholder, leadership of the communication workers union and the Parliamentary Portfolio Committee on Communications, made it possible to stabilise the organisation to continue on its path of transformation, growing revenue and raising service levels.

The Board's focus on corporate governance commenced with the restructuring of Board committees to drive and monitor implementation of corrective measures as guided by ongoing reviews and audits. The hard work and commitment shown by the executives and staff in general under the leadership of the Acting CEO during this period is praiseworthy. We come out of this period stronger and ready to tackle the opportunities and face challenges of transforming and growing the company together.

Traditionally, SAPO has been about ordinary people and today, nothing has changed. It is still about ordinary people – and SAPO is aggressive in its bid to deliver government services to all South Africans. Our refined strategy is demonstrating that part of the business opportunity lies within this development imperative. As we roll-out addresses to underserved rural and urban squatter areas, we create new revenue streams that can also grow these disadvantaged communities. In line with the shareholder mandate, SAPO can then play a role as both a catalyst and enabler of growth in the economy and as a 'development trampoline to leverage our People out of Poverty'. This contributes to the ideal of building a developmental state.

South Africa's hosting of the 2010 Soccer World Cup is another opportunity area for the Post Office. Already initiatives have been implemented that will support and promote this event, including special stamp launches over the next three years as well as the upgrading of various mail and courier services in light of this prestigious event. All these will build on the gains of innovation. These include the fact that in 2006 the South African Post Office was awarded a prestigious service innovation award in the category Innovative use of Information Technology for effective service delivery at the Centre for Public Service Innovation award ceremony in Pretoria. This innovation will be aligned with government's roll out of broadband infrastructure in the country. This includes wireless broadband access especially to rural and remote areas as part of advancing universal services. Special attention will be

paid to advance SAPO's contribution to scarce and critical skills development building on the e-cadre learnership programme as part of Accelerated Shared Growth Initiative for South Africa (Asgisa).

The South African Post Office has topped the parastatals and remains one of the top three companies in South Africa to consistently maintain more than 25% female representation in executive roles since the start of the Business Women's Association's audit on South African women in corporate leadership. The Company remains committed to the development of the African continent and as such will continue to participate in regional and continental postal industry development initiatives. Of priority is to support Kenya as the host of the Universal Postal Union (UPU) conference in 2008. This also includes sector-specific initiatives of New Partnership for Africa's Development (Nepad).

The impressive financial results released are a step towards the vision of being recognised as one of the top ten providers of postal and related services in the world. They build on SAPO's current international ranking of 14th in the world by the UPU in terms of financial performance. This convinces us that, as an organisation, the South African Post Office is making strides and setting the international stage alight. However, this requires visionary leadership premised on strong corporate governance principles and practices, as well as operational excellence, something the leaders are fully committed to.

And so SAPO is embracing all that is ahead – the people, the partnerships and the plans for a better future. It is with courage – and charisma – that we go about building a nation of which we can all be proud.



Ms Vuyo Mahlati
Chairperson



SAPO was ranked 14th in the world by the Universal Postal Union for financial performance. This proves that we are making strides and setting the international stage alight.

Historical highlights

The South African Post Office (SAPO) has delivered an uninterrupted service to its clients for decades. The story of Post Office operations began in a little office in Cape Town in 1792. Today, the organisation has evolved into the principle mover of mail in the country. Not an easy task, considering that operations are scattered across an area of more than 1,2 million square kilometres!

1995

In August this year, SAPO launched its first retail postal agency in Bloemfontein. To reduce the initial internal workload, it contracted a local shop owner to conduct business on its behalf. Towards the end of this year, Witwatersrand mail sorting activities were moved to Witspos mail centre in Ormonde, south of Johannesburg. To this day, this mail centre remains the largest in the southern hemisphere.

1996

This year saw the incorporation of the postal administrations in the then independent 'homelands', Ciskei and Transkei (Eastern Cape), Bophuthatswana (North West), and Venda (Limpopo) into SAPO. It meant the extension of the capacity and service offering of the organisation.

1997

In these days of turmoil, SAPO introduced a security division to combat postal crime. Within a short space of time, the organisation had achieved its goal of combating offences such as mail violation and armed robberies.

1998-2001

This significant season in SAPO's history marked the strategic refocus of the Group,

turning the organisation towards a business-orientated, customer centric model.

2002

The State President, Mr Thabo Mbeki electronically signed the first Electronic Communication and Transaction Act. SAPO has since been the preferred supplier for verification of advanced electronic signatures.

2003

To make life easier for the recipients of social grants, SAPO launched the Postbank Account in this year. The bank card contains a chip with the beneficiary's digital signature and fingerprints encoded on it. The facility enables customers to withdraw cash at any Post Office or Saswitch affiliated ATM – and eliminates the need to queue on pay-out days.

2004

In this year, SAPO set a benchmark when it announced the first operating profit. The organisation also scooped a number of different awards in this year. It was nominated for four World Mail Awards: a 'Technology' award, an 'E-Commerce' finalist award (EBPP postbox solution), an 'Innovation' finalist award (eBDN solution) and an award for 'Security' for the Post



Office Code of Ethical Conduct campaign. It scooped the World Mail Award for 'Security' and two X-Per awards: 'Sponsor of the Year' and 'Project Manager of the Year', three awards from the Centre for Public Service Innovation (CPSI) for 'Innovative use of IT' and two first runner-up awards for 'Innovative Enhancements on Internal Systems within Government' and last, but not least the 'Public Sector Innovator of the Year' accolade.

2005

At this time, Postbank made history yet again when it took the lead in driving Mzansi accounts. To the surprise of many, it soon boasted more Mzansi account holders than the four major banks: Absa, Nedbank, Standard Bank and First National Bank. This can be attributed to Postbank's unrivalled accessibility: every Post Office also doubles as a Postbank. In 2005 there were already more than 2 000 Post Offices countrywide!

2006

Postbank improved its lead even further in 2006, with Mzansi accounts capturing 40% of the total market. At the announcement of the 2010 Soccer World Cup to be held in South Africa, a first for our country, the Post Office issued a miniature commemorative stamp sheet. SAPO also made history when it hosted the annual

Congress of Commonwealth Postal Administrators (CCPA). This was the year that SAPO proved that it was still in the driving seat when it received two awards from CPSI for 'Innovative use of IT'.

2007

The Post Office shifts focus from cost cutting to revenue growth and launched a number of strategic offerings on the strength of SAPO brand. In the arena of technology, the organisation is now properly positioned as an innovative, dynamic and critical national asset. Excellent results in this financial year enhanced its offering as preferred service-provider to its stakeholder, the South African government.

Board members



- | | | |
|----|---------------------|--|
| 1 | V Mahlati | Chairperson of the Board |
| 2 | MM Lefoka* | Chief Operating Officer and Acting Chief Executive Officer |
| 3 | NJD Buick* | Chief Financial Officer |
| 4 | MM Mphelo | Acting Company Secretary |
| 5 | P Canca | Non-executive Director |
| 6 | AJ Hendricks | Non-executive Director |
| 7 | SMA Malebo | Non-executive Director |
| 8 | S Mokoetle | Non-executive Director |
| 9 | V Mhlongo | Non-executive Director |
| 10 | T Mokgosi-Mwantembe | Non-executive Director |
| 11 | FN Msimang | Non-executive Director |
| 12 | PE Pokane | Non-executive Director |
- * *Executive Directors*

Executive Committee



- | | | |
|----|---------------------|--|
| 1 | MM Lefoka | Chief Operating Officer and Acting Chief Executive Officer |
| 2 | NJD Buick | Chief Financial Officer |
| 3 | H Choonara | Group Executive: Human Resources |
| 4 | JS Kotsi | Senior General Manager: Mail Business |
| 5 | ME Lancaster | Acting Group Executive: Strategy |
| 6 | M Mathibe | Managing Director: Courier Freight Group |
| 7 | TBJ Memela-Khambule | Managing Director: Postbank |
| 8 | R Mkhize | Group Executive: Customer Relationship Management |
| 9 | NA Mnisi | Acting Senior General Manager: Retail |
| 10 | MM Mphelo | Acting Company Secretary |
| 11 | L van der Bank | Chief Information Officer |
| 12 | TE Xiphu | Group Executive: Corporate Services |

Improving the country's competitive economic performance



The history of SAPO is a chapter in a story. And the story is an account of Africa – of South Africa; of its people, of the courage and conviction of these people and the intriguing role that the postal service has played to these people.

And since stories are about talking, it makes sense that SAPO's services reflect a dialogue with the community. SAPO's focus is at the local community level, where its customers rise to the challenges of daily life – of communicating, connecting and transacting in a world at once local and global.

Addressing issues at community level translates into many things. Take an address, for example. What's in an address, you may ask? Whether it is death row or millionaire's mile, an address tells a story – a tale about people, about their pasts and their futures. And about where they are located – physically and psychologically. So, what is an address worth? Well, to the woman who is traced and receives mail for the very first time – its value is priceless. Who can measure the value of a father receiving a letter from a son? An address represents the right to interact in a bigger world and March 2007 saw SAPO enable that right, with

approximately 1,9 million new postal addresses being rolled out, growing the total numbers of postal addresses in our country to 10 million. Via a GPS (global positioning system) offering, households in the most rural of areas – houses with no numbers in streets with no names – now enjoy postal delivery and, along with that, vital services such as the delivery of identity documents.

But SAPO's mandate is also to tell the story of their partnership with government in addressing the myriad of social and economic issues that face our nation. A Mzansi bank account is not just a bank account; it is part of a bigger plan to enable a marginalised person to complete financial transactions in a modern world. A Phuthuma Nathi shareholder is not just a shareholder, but a person who tastes empowerment – and a real sense of hope for the future.

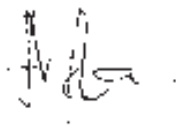
SAPO embraces a number of government initiatives. These include reducing the cost

of doing business in South Africa and contributing to a more competitive economy. This we do through our investments in Information, Communication and Technology (ICT) infrastructure, broadening the ICT skills base, implementing new technologies and ICT skills-transfer programmes like the 'e-cadre' programme. Annually, we broaden our retail infrastructure to reach more communities and to intensify outreach; improve delivery by upgrading our mail centres and focusing on continuous address expansion. As an organisation, we broaden participation in the economy by facilitating access to financial services and play a key role in improving access to government-funded projects.

In this past financial year, SAPO entered into arbitration with Vision Design House (VDH), the company responsible for the upgrading of Post Office retail outlets. VDH wanted to recover payments for work done amounting to R4,251 million. SAPO wanted to recover money for over charges amounting to R31,528 million. The arbitrators granted absolution on both the VDH claim and our counterclaim, meaning that neither party successfully proved its case. SAPO is not entitled to a refund or VDH to further payments. It was ordered that each party was to pay its own legal costs. This matter has now been finalised.

In the 2006/7 financial year SAPO has driven operational excellence to achieve top quality service at benchmark cost. This focus has found its way into the bottom-line; and a good looking bottom-line it is! Top of mind has also been the business of building a strong performance culture and developing skills throughout the organisation. The incredible turnaround of the South African Post Office in recent years has nothing less than 'success story' stamped on it – one of the best to come from corporate South Africa yet.

The successes have not only been financial. In almost every arena, SAPO has enjoyed significantly improved performance and the organisation is on track to transform itself into a commercially driven enterprise – one that will use its commercial surplus to reinvest in the economy, enabling it to fulfil and sustain its universal service obligation, proving that the name of the South African Post Office is one of which we can be proud.



Ms Motshoanetsi Lefoka
Acting CEO



Via a GPS (global positioning system) offering, households in the most rural of areas – houses with no numbers in streets with no names – can now enjoy postal delivery and, along with that, vital services such as the delivery of identity documents.

Review of operations

SAPO's commitment to delivering on the shareholder's mandate is driven by the ethos of good service delivery and is firmly rooted in principles of good corporate governance.

For some time, the postal sector has grappled with how it needs to address the challenges of the future. Globalisation and continued technological leaps inevitably lead to more competition in postal services. The needs and expectations of customers are increasingly changing as the digital economy asserts itself.

SAPO's performance during the year under review is testimony to the Company rising up to meet these new challenges.

The story of SAPO's successful performance involves many factors, the biggest of which is cost containment, followed by innovation thanks to the embracing of technology. Not least was the implementation of a strategic partnership with government in service delivery.

Socio-economic relevance of SAPO

SAPO is an integral cog in the state's service delivery machinery. The mandate is simple: provide universal and affordable access to postal services. At the heart of this mandate is the need to promote economic development and community upliftment, as enshrined in the government's aims of growing the

economy, creating jobs, addressing the challenges of the second economy, and diminishing poverty.

Accessibility, affordability and delivery standards

At the core of postal services provision are accessibility and affordability. Underlying these is the requirement to development recipient addresses and adherence to the delivery standard of 96% set by the regulator.

The target of providing 4,6 million addresses over three years, set in 2005, has been exceeded by 800 000. On delivery standards, this year has seen an improvement of 1% from the previous year – current delivery is at 93% compared with 92% previously, thanks to an upgrade of the postcode system and the improvement of operational processes.

SAPO delivers six million items per day. Bucking international trends, SAPO has experienced an increase in delivery of 7%, an encouraging sign of capacity for growth in the South African economy.

Through its 438 delivery depots around the country, SAPO has assisted the Department

of Home Affairs in reducing its backlog of uncollected identity documents – and it did so at a reduced cost of R5,75 as compared to R15. More than 1,3 million identity documents have been delivered nationally.

SAPO has won a national tender from Telkom Directory Services for the delivery of about seven million telephone directories. SAPO also delivers non-local directories that are ordered through the South African Post Office Call Centre.

Underlying SAPO's account for the past year are two key facts:

- Since the postal monopoly limit has been reduced from 2 kg to 1 kg, SAPO has suffered a market share reduction of 4% (98% to 94%); and
- There was a reduction of 69% in internal postal crime.

But the narrative on delivery does not stop there. From identity books to death certificates, SAPO's infrastructure enables it to literally go the extra mile in the delivery of essential services to South Africans nationwide. Unparalleled reach has allowed the Courier and Freight Group (CFG) to make inroads into the Eastern Cape, which, with its high proportion of under-serviced areas, has provided an excellent platform for the distribution of teacher payslips: the delays of two to three months have been turned around to just one week. In turn, CFG through proof of delivery assists the provincial government in determining the number of teachers employed at each school, thus eliminating payments to "ghost" teachers. SAPO also helps the provincial government with the delivery of first-aid and refill kits for the HIV section of the Department of Education, and the distribution of medication on behalf of the Department of Health and Social Welfare.

In KwaZulu-Natal, the extensive reach of SAPO's services has ensured book delivery to the most rural of schools.

One critical factor in the tale of improved delivery is SAPO's investment in new high-speed sorting machines, introduced at major mail-centres in Cape Town, Johannesburg and Durban. Since the deployment of these machines in October 2005, 877 million mail items have been processed; an average of 46,8 million per month. This brings SAPO closer towards achieving the shareholder's delivery targets.

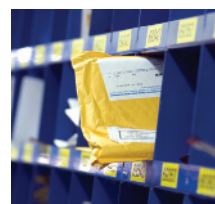
SAPO's contribution to black economic empowerment (BEE) through procurement resulted in the purchase of products and services worth about R900 million from this sector.

Banking on the Post Office

SAPO has come a long way in assisting the government to meet its objective of extending banking services to all citizens who need them. It does so through Postbank, whose expansive branch network also provides cost-effective payment of social grants and value-added services such as funeral and loan schemes. Postbank has 4,6 million accounts, an increase of 772 330 new accounts year on year.

While not operating as a lending institution, Postbank handles loans on behalf of other institutions, such as Bayport. A total of 5 603 loans with a book value of R61,6 million are currently reflected in Postbank's books.

In order to draw on international expertise and best practice, Postbank has acquired membership to the World Savings Bank Institute (WSBI), and is actively involved in the Postal Financial Service Group (PFSG)



Approximately 1,9 million new postal addresses were rolled out by March 2007, resulting in 10 million postal addresses in total.

Review of operations (continued)

of the Universal Postal Union (UPU) in the establishment of electronic postal payment systems.

Making it with Mzansi

Postbank is the leading South African bank in terms of Mzansi accounts, with a 41% market share. Mzansi is a banking facility provided by all banking institutions for the previously unbanked. It is a requirement of the Financial Sector Charter which seeks to make banking more accessible to the wider South African community. Postbank's success story is due to its unrivalled national coverage through 2 600 postal outlets. In addition, Postbank introduced debit-card functionality on 1,2 million of these accounts.

As part of its aim of promoting a culture of savings in South Africa, SAPO sells Government Retail Bonds to the public on behalf of the National Treasury. During the past year, sales amounted to R135 million, representing 70,6% of the total Government Retail Bonds business.

Cashing in on cards

A milestone in the provision of electronic banking services was the May 2006 launch of the Visa-branded Postbank debit card, enabling customers to purchase directly from merchants nationally and internationally without having to carry cash. At the end of the period under review, a total of 1 078 159 Visa-branded debit cards had been issued to customers to replace their ordinary ATM cards.

Pensioners benefited from the move to a card-based system as grants are paid via a Pension Flexi-card. At the beginning of 2007, 330 000 pension beneficiaries were registered at Postbank. Postbank's objective is for 80% of pensioners to be banked in five years' time.

Postbank has also converted about 200 000 grant recipients in the North West

province from a traditional cash payment system to the special Postbank Pension Flexi-card product. This card entitles pensioners to a service free of monthly service fees and one free cash withdrawal at either a post office counter or ATM. During the next financial year this product will be replaced with a Visa Electron debit card.

Modernising money

International growth in electronic communications has set the tone for the way in which postal services around the world are conducted, dramatically affecting post office service delivery. Globally, this has resulted in postal services embracing electronic communications to extend existing services to more customers and to add new services.

The Post Office distribution network and infrastructure base is ideally suited to the processing of many types of transactions. Opportunities for new Postbank business constantly arise; it has developed its own internet banking capability, launching this as an internal service to its employees in August 2006. The product will be available to external customers later in 2007.

Retailing right

A story not often fully told is that of SAPO as a provider of a cost-effective network throughout South Africa, supplying a variety of payment options, collections, payouts, banking services, address services, hybrid mail and direct marketing services as well as various physical and electronic products.

SAPO aims to ensure that it has one outlet for every 10 000 people nationwide. The past year has seen an improvement in the average number of citizens per post office branch, with 14 107 citizens above the age of 10 per branch versus the 2005/6 figure of 14 458.

The number of SAPO outlets, which includes both branches and agencies, grew from 2 574 in 2005/6 to the current 2 664, translating into nearly 6 000 counter points. This was enabled by the addition of 70 new branches – both permanent and transportable – to the Post Office stable, with 52 of the 70 established in previously under-serviced areas. Altogether 46 branches were relocated and renovated. The number of customers served grew by 7% – from 72,7 million to 78 million and the improvement in the number of transactions stands at 4% – from R103 million in 2005/6 to R107 million in 2006/7. Plans are under way for the further expansion and upgrading of SAPO's retail network to 3 015 outlets by 2010.

Thus was SAPO's footprint and its ability to deliver service to the people improved, regardless of where they live. Even the field office of the South African National Defence Force in the Democratic Republic of the Congo is represented in the offering.

An increased number of SAPO branches now offer extended trading hours. These 852 outlets, previously open from 08:30 to 16:30, now offer services from 08:00 to 17:30 daily. A total of 124 branches in shopping malls offer service on Saturday afternoons and Sundays.

Critical to the SAPO account is the need to eliminate postal crime and corruption in all its forms to restore public confidence in the integrity of mail and to enhance the image of the Post Office as a trusted service provider. Improved cash management and practices have reduced losses due to robberies and burglaries.

Motoring ahead

SAPO's partnership with government in the motor licence renewals arena grew at an impressive rate during the past financial year. The motor vehicle licence (MVL) service bounded ahead; with income increasing from R6 million to R24,9 million

thanks to improved marketing, increased awareness as well as improved customer service.

MVL renewal is now offered at 18 branches in the Free State, 26 branches in KwaZulu-Natal and 31 branches in the Eastern Cape. SAPO continues to negotiate with other provincial governments with the aim of expanding the motor vehicle licence and motor vehicle registration services.

Paying up and paying out

The Pay-a-Bill service continues to grow in popularity with government as well as the private sector. During the past year, 12 additional agreements were signed with municipalities and private businesses for consumer payments of their accounts at Post Office branches. SAPO supports 106 municipalities with payments and earned R24,9 million from these transactions.

The traffic fines service was successfully rolled out to three municipalities. Using only their car registration or identity number at any online post office, customers can establish whether they have unpaid fines in that municipality. This system, a first for South Africa, offers a real-time solution to customers, who can validate a fine at the point of sale. Since implementation in June 2006, 13 817 traffic fines have been paid with a turnover of R2,4 million generated from these transactions. Income earned for the Post Office on these transactions was R95 000.

Sharing shares

SAPO was integral to Phuthuma Nathi, the public offer of shares in the television company, MultiChoice. Available to all black citizens – as individuals or groups – the Phuthuma Nathi share was priced at R10,00. Via its extensive service network, SAPO made it possible for those in even the most remote areas to participate on par with those in well developed urban



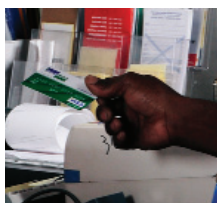
New sorting machines at Durmail, Capemail and Witspos were installed in October 2005. Since then, these machines process 48,8 million mail items every month.

Review of operations (continued)

areas. The organisation handled nearly 125 000 of the Phuthuma Nathi transactions, thereby enabling almost a quarter of a million South Africans to apply for shares and participate in the growing wealth of the nation, with the total turnover of the transaction at R1 109 billion. The share offer was three times oversubscribed.

Putting a stamp on it

Philately enjoyed a successful year, with the number of active customers buying direct from Philatelic Services increasing from 5 143 in February 2005 to 7 984 in March 2007.



Postbank's debit-card functionality transformed more than 1,2 million South Africans from people who kept their money under the mattress to members of the cashless society.

The Philately publication, *Setempe*, has 25 000 subscribers from 70 countries worldwide on its database, with its print run having increased from 15 000 in 2002 to 30 000 in 2007.

Interest in stamp collecting continues to grow and the division has designed and printed – for the first time – a booklet targeted at the general public in its endeavour to actively promote the educational value of stamps among the youth and grow national interest in stamps and stamp-collecting. In the past year, this division took part in 12 exhibitions both locally and abroad, including one in Belgium and another in Tanzania. For the first time ever, this division organised the Junior National Stamp Show in Pretoria. New business includes products aimed at the tourist market, a possible exhibition in August 2007 in Uganda and continuing with plans to host an international stamp exhibition in November 2010 along with the SA Philatelic Foundation.

Humanly resourceful

SAPO employs 14 424 people. SAPO continues to create jobs in line with government's goal, particularly the increased number of outlets each year averaging three employees per new outlet.

For its investment in upgrading of facilities

as well as the building of new outlets, SAPO uses skills from the Expanded Public Works Programme database in various communities, participating in an active SMME development programme which is creating and supporting small businesses and entrepreneurs across the country.

May 2006 saw the successful introduction of the 'e-cadre' programme, when SAPO introduced unemployed, IT-qualified members of the community as 'e-cadre' volunteers to its outlets with internet terminals. These 100 volunteers, play a role in educating the public, and where necessary, Post Office staff, on the use of new Post Office technology and were trained in customer and government-service skills, introducing customers to the world of ICT (Information and Communications Technology) and in the process, gaining valuable work experience. This programme, which deployed individuals in their own communities, served to strengthen the public perception of SAPO as a trusted brand – both as creator of employment and as provider of a global ICT offering to the customer.

For SAPO the story of developing people is all-important, in line with a national mandate that incorporates developing the human resources capacity within the organisation as well as the creation of continuous learning opportunities for those employed by the Post Office – this in the spirit of achieving operational excellence that is customer-centric and founded on delivery of the highest standards.

SAPO has continued to streamline human resource processes to achieve operational excellence. In recruitment, system enhancements have reduced the time for processing job applications from 100 to 35 days. Improved data management has enabled more efficient payment of pensions, with retirees enjoying a reduction in delays from nine to three months. The

organisation has improved the time taken to attend to employee grievances. Absenteeism against an international benchmark of 2,5% is at 1,5%. Employee satisfaction has improved over the past two years by 1,4%, with the 2007 average level of satisfaction at 61,1%.

The Human Resource Department prides itself on the development of an integrated talent management programme, which aims to align succession management, employment equity, competency and skills development, performance management and personal development or career management with SAPO's strategy as well as national and international benchmarks. As a result, SAPO has developed a "leadership pipeline" that differentiates the roles and responsibilities of managers according to the various levels within the organisation. This is in a drive to build a high-performance culture through skilled and motivated staff.

Aiding the fight against Aids

SAPO has joined the struggle against HIV/Aids. The Corporate Social Investment Department is focusing on providing sponsorship and management support in the fight against the affliction. Unparalleled reach has allowed the Post Office's Courier and Freight Group, for example, to partner with the Department of Health in the distribution of antiretroviral medication to hospitals and clinics throughout the country.

Improvements to the working environment have been introduced through the adoption of employee wellness programmes, which includes voluntary confidential counselling and treatment. In the past year, 48% of full-time and part-time employees underwent testing, with post-test counselling. Support groups were set up to enhance the lives of those living with HIV/Aids. General health risk assessment opportunities were also offered, with surveillance programmes

encouraging employees to improve their wellness status and assessing areas in the environment where improvement was needed.

Financially flying

SAPO's financial results tell a tale of increased profitability and an impressive bottom line. The past five years in particular reflect an upward move in commercial surplus on the back of the organisation's move towards commercialisation. Revenue growth for the 2006/7 financial year is at 8%, with operating profit at R431 million, a 44% increase on last year*. The organisation's profit margin stands at 9% – up from last year's 7%. Profit before tax, as a percentage of total assets, is up from 5% to 6%. Moreover, SAPO is on track to meet its targeted net operating profit rate of 15% within five years.

Key to the 2006/7 financial year's surplus is the combined effect of revenue growth at 8% and the maintenance of cost increases at 6%. This combination of cost cutting as well as improvements on the business front is serving SAPO well.

Non-traditional businesses have also shown strong growth, particularly financial and retail services. Improved efficiency in the human resource arena – despite an increase in mail volumes – have also aided in painting a rosy financial picture. The SAPO delivery fleet continued with the rationalisation of costs and the exploitation of synergies between the mail and courier arenas.

The restructuring of the balance sheet is almost complete, with equity and reserves of R1,2 billion and total assets of R6,8 billion including cash and cash equivalents of R4,6 billion.

The biggest contributor to revenue growth lies in the traditional mail business arena,

(Adjusted for pension fund assets)*

Review of operations (continued)

where volume increases continue to significantly impact on the bottom line. This is on the back of a buoyant economy as well as the successful roll-out of postal addresses across the country as reported above. The division reflected an operational contribution of R1,2 billion. The largest contributor to mail business revenue was in the form of bulk mail; letters posted in large numbers for business-to-business and business-to-consumer purposes.

Postbank continued to perform exceptionally well, with a generated contribution of R110 million – up from R98 million in 2005/6.

The main contributors here are the 13% growth in deposits and improvements on service fees, generated from higher transaction volumes. Postbank's deposit book for the year grew by 13%, to R2,6 billion. Postbank now has 4,6 million accounts, showing an increase of 784 000 accounts, a 20,5% improvement on last year's figures.

On the Courier and Freight Group (CFG) side, a subsidiary integral to the SAPO offering, the 2006/7 financial year saw a reduction in losses from R84 million in 2005 and R61 million in 2006 to R7 million in 2007. CFG is well poised to move into profitability in the next financial year. The turning of the tide is attributable to improved cost management and the rationalisation of infrastructure. Operating costs were reduced by 17% for the 2006/7 financial year, with the key areas of savings a 22% lower staff cost, a 25% reduction in transport costs and another 25% reduction in communication costs. Revised pricing systems introduced to address inefficiencies have also positively impacted the bottom line. On the transport front, on-time delivery has continued to improve, with service levels up by 7% on last year's April figure of 88% to March 2007's 95%.

Areas under review to improve profitability include splitting the Group's courier and freight service offering, clearly differentiated minimum weight and pricing considerations, developing a high-level costing model to identify unprofitable accounts and an assessment of the facility for consignment billing for courier products.

SAPO is striving for top-line growth through the diversification of non-traditional revenue and creative use of electronic offerings. The drive to grow revenue has started to yield results, with new business opportunities such as the growth in cell phones and related products, motor vehicle licence renewals, pay-a-bill services, hybrid mail and government grant payouts coming into play. Improvement in delivery standards are key to the customer offering. Further revenue diversification in respect of courier and financial services is being considered.

SAPO has a social mandate, for which cash needs to be generated. Cash generated from operating activities is at R792 million, a staggering improvement of 219% on the prior year, enabling significant infrastructural investments – both in buildings and IT – totalling R400 million.

The Post Office completed the level 6 accreditation of the Post Office Group and subsidiaries by the external BEE accreditation agency, Empowerlogic. The percentage of black staff at management level is 70, which is an improvement of 1,05 percentage points on last year. Over 30% of management is female – a 3,64 percentage point improvement on 2005/6 figures. The Post Office is among the first public entities to receive a BEE accreditation level 6 (50%) from an independent rating agency.

Whatever it takes

From the specifics of rolling out new post offices to the bigger picture of extending

its African footprint, the story of SAPO is about expansion. Broadening postal services to the community and rolling out communication systems through its extensive infrastructure demands a robust Information Technology (IT) network. SAPO's IT capability is key to the success of the organisation and spans the spectrum of infrastructure, application development and product support. This forms part of a bigger picture – that of promoting investment and innovation in the Information Communication and Technology (ICT) sector.

Also imperative is the protection of SAPO's market share from the threat of electronic substitution.

SAPO works with other key players to bring essential services to customers as well as to establish the organisation as a technology-driven entity. In under-served communities with no infrastructure, SAPO makes use of VSAT (very small aperture terminal), an earthbound station used in the satellite communication of data, voice and video signals to service portable post offices.

That SAPO business is flourishing can be attributed, among other things, to a robust IT infrastructure, residing at the very heart of the organisation. From the paying of pensions and social grants to the establishment of its 825 PiTs (public internet terminals), offering the under-served segments of society access to government services and websites as well as internet engines and e-boxes, the appropriate infrastructure enables a customer to do anything from print out a birth certificate application form to apply for a job. From facilitating SMS services offering the accessing of postal codes and electronic box renewal to the growing demands in financial services, this vital support function is the mechanism by which efficiencies are delivered – directly to the customer.

Successful pilots such as the 'e-cadre' initiative mentioned earlier translated into the employment of 21 people in permanent positions. Experiential training/learnership programmes have also been set up, with IT jobs being created for individuals across the organisation. The year 2006 saw the training of more than 30 people in networking, MySAP and software development and management streams. MySAP, an enterprise resource planning system that integrates most aspects of a business, will streamline procurement, the internal ordering of goods, accounting and human resources and is set to go live in September 2007.

A new financial switch has been in place since 2005. A more user-friendly offering than its predecessor, the system has speeded up transaction time, and is able to integrate with the SAP system used for financial management and financial information. This in turn leads to faster, more accurate management information, which makes informed management decisions possible. Plans are also under way, in a strategic partnership with government, for the establishment of a trust centre, an authentication service provider that allows transactions in a secure environment. This investment is of critical importance for the support of pension pay-outs.

Towards supply chain excellence

Offering efficient systems that work is part of SAPO's promise to the customer. The organisation provides one of the most extensive supply chain networks in Southern Africa.

Steps have been taken towards creating more cost-effective and efficient management of the supply chain environment. In an agreement with SAPO's top 300 suppliers, a price reduction of 10% and a quality improvement of 10% were negotiated. This benefit extends to both



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Review of operations (continued)

SAPO's bottom line and the productivity of the suppliers.

The procurement spend directly with BEE enterprises has once more surpassed the target of 50%, with the achievement of 59% of the discretionary procurement spend.

Socially significant

Being socially relevant is played out in a number of practical ways at SAPO, such as activities in support of combating HIV/Aids, cancer and illiteracy such as sponsoring the Winning Teams Financial Literacy Programme at high schools in Gauteng.

During the Sixteen Days of Activism for No Violence against Women and Children Campaign, SAPO engaged in a partnership with government, sponsoring postcards that citizens could sign, thereby documenting and pledging their opposition to violence. More than 130 000 signed postcards were received.

With the centenary of the Bhambatha rebellion in June 2006, SAPO issued a stamp to preserve the event for posterity. SAPO sees its stamps as important custodians of culture which may otherwise be lost to later generations. Stamps, having value as collectors' items, are likely to be preserved for many years to come.

Sponsorship of the annual Post Office Choral Eisteddfod continues with more than 10 000 choristers countrywide taking part in the last year. This activity provides young people with a constructive and uplifting means of spending their free time, building their culture and broadening their world.

The Post Office continues to hold an annual letter-writing competition, which ties in with the Universal Postal Union's

competition, fostering literacy and writing skills among young South Africans.

Corporately connected

In its universal service obligation to deliver essential services to the people of South Africa, SAPO must maintain a healthy working relationship with its stakeholder, the South African government. To this end, the organisation needs to keep abreast of government developments. The Post Office, regarded as a main interface on the ICT front, strives to maintain its role as preferred partner to government and is continually strengthening its relationship with the Portfolio Committee on Communications as well as the Department of Communications and Parliament as a whole. Relationships at all levels – with government decision-makers and local communities alike – are essential to the organisation, translating into business opportunities for the entity.

Self-sufficiency is SAPO's goal. In any event, surplus funds are re-invested in postal infrastructure in the ultimate national aim to make services accessible at the one-post-office-per-10 000-people level. Compared with Africa, which stands at one facility per 50 000 people, SAPO is a flagship organisation, leading the way to better days for the nation of South Africa.

Internationally acclaimed

SAPO has a vision to be recognised among the top 10 providers of postal and related services in the world – a fairy-tale that moves closer to reality each year. According to Universal Postal Union (UPU) statistics, SAPO moved from a ranking of 101 out of 114 postal administrations in 2003 and 81 out of 110 in 2004 to 14th position out of 119 postal administrations in 2005.

International recognition has grown to include the making of history – this when



The South African Post Office delivers six million mail items per day and enjoys an increase in mail volumes of seven percent year-on-year. This figure is ahead of universal postal standards and contrasts with trends worldwide, reflecting the inherent capacity for growth that the developing economy of South Africa has.

SAPO hosted the Conference of Commonwealth Postal Administrations (CCPA) at Sun City in July 2006. This was the first CCPA congress ever held in Africa and an opportunity for SAPO to showcase South Africa's role as key player within the context of the New Partnership for Africa's Development (Nepad) and driver of the African renaissance.

SAPO continues to enjoy excellent international relationships and is a member of the Universal Postal Union (UPU), the Pan African Postal Union (PAPU), the Conference of Commonwealth Postal Administrations (CCPA) and the Southern African Postal Operators' Association (SAPOA), representing SADC countries and where relevant, becoming involved in operational support and skills transfer to other African postal administrations.

Corporate governance report

Introduction

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

The Group is committed to Corporate Governance. A Risk Management Committee was established as a committee of the Board to report on the risk management processes within the Company. The Board is ultimately responsible for the total risk management process as well as internal controls within the Company, and therefore has to have an understanding of the significant risks faced by the Company. 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 identification and management of the main risks within the Company. Risk strategies and policies have been formulated and will be implemented during the coming year. The risk culture within the organisation has improved in the past year due to the aggressive awareness campaigns that were rolled out throughout the organisation to ensure a common risk language. Ongoing education and monitoring will be embarked on to ensure that risk awareness is inculcated into the Company's organisational culture. The process of integrating risk management into business processes and activities at all levels will continue in the coming year and will also form part of the ongoing risk management focus within the Company's activities. As part of the risk management process, risk identification and assessment workshops are facilitated at Board and Executive Committee level. The risks identified at that level are further unpacked by second tier

assessments at business unit level. Significant risks that could influence the attainment of the Company's strategic intent are identified, sized and prioritised. Management strategies and action plans are implemented to address these risks. These are then assessed, managed and monitored on a regular basis. The Risk Management governance structure is further reinforced by the formation of several specialist subcommittees which report into the Risk Committee, including an Asset and Liability Management Committee (ALCO) for the management of treasury risks. The various subcommittees, directly tasked to ensure that the Company complies with all the relevant acts, are detailed on pages 27 to 28.

Ownership

In accordance with the Postal Services Act No 124 of 1998, ownership of the Company is vested in the state as the sole shareholder. The parameters of the relationship between the Company and the shareholder have been redefined and are set out in a Shareholder's Compact (performance agreement).

Governing bodies

Governance structures exist in accordance with the Postal Services Act, No 124 of 1998.

Board of Directors

The management of the Company is vested in a single Board of Directors (the Board). Details of members of the Board are disclosed in the directors' report. The Board meets at least seven times in a year – one meeting every second month and one meeting to approve the annual financial statements. An annual Board workshop is held at least once a year to review business strategy and the Shareholder's Compact. Ms PRE Tsukudu was appointed Chairperson of the Board effective 1 March 2006. Her term of office was extended for a period of one

month until the end of March 2007 by the shareholder. Ms VF Mahlati was appointed as Chairperson of the Board on 1 April 2007. Directors are appointed by the shareholder. The roles and responsibilities of the Board are defined in the Company's Articles of Association, the Board Charter and in the Shareholder's Compact. The Board reports to the Minister of Communications.

Chairperson's Committee

Although not mandated by the Articles of Association, this committee was constituted in pursuit of enhancing corporate governance within the Group.

It is made up of chairpersons of all Board committees.

Chairperson

Ms VF Mahlati

Members

Ms PE Pokane

Ms N Msimang

Mr P Canca

Mr SMA Malebo

Mr AJ Hendricks

Executive Committee

The Articles of Association provide for certain powers of the Board to be delegated and the Board has consequently delegated its powers pertaining to the day-to-day operations of the Company to the Chief Executive Officer. The Executive Committee assists the Chief Executive Officer in executing these duties. The other two executive directors, namely the Chief Financial Officer and the Chief Operating Officer, are also members of the Executive Committee. The Executive Committee meets formally 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

Chief Executive Officer. Decisions are taken in accordance with the Company's delegation of authority.

Risk Management Committee

The committee:

- advises the Board on the risk management processes;
- develops risk strategies and policies; and
- meets four times a year.

Representatives from finance, internal audit as well as other business units attend meetings by invitation.

Chairperson

Mr P Canca

Members

Mr SMA Malebo

Adv V Mhlongo

Mr S Mokoetle

Audit Committee

The committee:

- acts in accordance with the requirements set out in the Public Finance Management Act;
- reports to the Board and has the authority to make recommendations; and
- meets four times a year.

Representatives of the external and internal auditors have direct access to the Chairperson of the Audit Committee.

Representatives from management, external audit and internal audit attend meetings by invitation.

Chairperson

Ms N Msimang (Acting)

Members

Ms PE Pokane

Mr P Canca

Ms Mokgosi-Mwantembe

Corporate governance report (continued)

Remuneration and Performance Management Committee

The committee:

- makes recommendations to the Board concerning appointments and salary related issues of executives in accordance with the Articles of Association;
- ratifies the appointment and salary issues of executives at general manager level on benchmark salaries within the approved salary range, and approves appointments and salary related issues on benchmark salaries above the approved salary range;
- makes recommendations to the Board regarding benchmark salaries for executive levels;
- meets at least twice a year and on an ad hoc basis; and
- the Group Chief Executive Officer attends the meetings by invitation.

Chairperson

Ms VF Mahlati

Members

Ms N Msimang
Mr AJ Hendricks

Postbank Committee

The committee:

- reviews performance; and
- meets, on average, four times a year the Managing Director: Postbank and representatives from management attend meetings by invitation.

Chairperson

Ms N Msimang

Members

Ms P Pokane
Mr B Bothma

Human Resources and Transformation Committee

The committee:

- reviews all aspects relating to human resources;
- monitors compliance with the relevant employment and labour legislation; and
- meets four times a year.

The Head of Human Resources and her direct reports also attend the meetings by invitation.

Chairperson

Mr AJ Hendricks

Members

Ms Mokgosi-Mwantembe
Mr S Mokoetle

Corporate Secretariat

Mr HP van Staden retired as the Company Secretary on 30 April 2007. Mr MM Mphelo is acting as Company Secretary. The Company employs a Company Secretary who in addition to performing statutory functions as stipulated in the Companies Act and the Public Finance Management Act, also supports the Executives and Directors alike ensuring the effective functioning of the Board and its committees.

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. Executive Management, 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 assurance from the Audit Committee, which derives some of the information from regular internal and external audit reports.

Internal Audit

The Group Internal Audit provides independent and objective assurance to the Board, through the Audit Committee to whom it is functionally accountable. This assurance is provided through an evaluation and appraisal of the organisation's risk management processes, internal controls and governance processes.

During the course of the financial year a new Chief Internal Auditor was appointed to address and rectify the matters raised in the Quality Assurance Review performed on the Internal Audit function. A restructuring and realignment of the internal audit function has been performed with a new appropriate risk-based methodology being implemented.

Business conduct

The Group has a Code of Ethical Conduct, approved by the Board, which addresses the following matters:

- Personal conduct
- Security and trust
- Crime prevention
- Political interests
- Conflict of interest
- Gifts
- Hospitality and entertainment
- Corporate clothing
- Corporate governance

- Service to clients
- Service to the community
- Caring about the environment
- Suppliers and clients

Materiality framework

The Department of Communications reviewed the draft framework for acceptable levels of materiality and significance and requested certain changes to be made. The Board has endorsed the revised framework on 25 May 2007.

The framework of acceptable levels of materiality and significance applied during 2006/7 for the purpose of the interpretation of and compliance with the Public Finance Management Act, No 1 of 1999 is the following:

Corporate governance report (continued)

	Framework	Resulting figures for 2006/7	Underlying principles
<p>Material for section 55</p> <p>– Disclosure, in the annual report, of:</p> <ul style="list-style-type: none"> • losses due to criminal conduct; • irregular expenditure; and • fruitless and wasteful expenditure 	<p><i>Quantitative</i></p> <p>Capital expenditure: 10% of the capital expenditure budget line item</p> <p>Other expenditure: 10% of the related operating expenditure budget line item</p>	<p>Depends on the related expenditure budget line item</p>	<ul style="list-style-type: none"> • Section 54, as identified, will evaluate each loss due to criminal conduct, irregular expenditure or fruitless and wasteful expenditure, in context of the expense category to which it relates to determine whether it qualifies for disclosure in the annual report as required. • The total value of any identified fruitless or wasteful expenditure will also be reported as well as cases due to criminal conduct. • 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 (section 51(1)(b)(ii)). 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 of the size thereof.

	Framework	Resulting figures for 2006/7	Underlying principles
<p>Significant for section 54 – Information and approval by the Minister of “qualifying transactions”; ie:</p> <ul style="list-style-type: none"> • 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. 	<p><i>Quantitative</i></p> <p>Qualifying transactions of an operational nature:</p> <ul style="list-style-type: none"> • 5% of asset category <p>Qualifying transactions of a strategic nature:</p> <ul style="list-style-type: none"> • 5% of asset category <p><i>Qualitative</i></p> <p>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 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.</p>	<p><i>Minimum</i></p> <p>R50 million</p> <p>R50 million</p>	<ul style="list-style-type: none"> • 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 Africa 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 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.

Qualifying transactions are considered to be of an operational nature where it is concluded as part of the normal business of the South African Post Office, and is 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 it is not part of the normal business of the South African Post Office, is concluded outside the framework detailed above or when it links to national priorities.

Corporate governance report (continued)

Annual financial statements

The Board of Directors is responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The external auditors are responsible for reporting on the fair presentation of the annual financial statements. The annual financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, as amended. The directors are also responsible for the Group's system of internal financial control. These controls are designed to provide reasonable but not absolute assurance of the reliability of the financial statements and to adequately safeguard, verify and maintain accountability of assets and to prevent and detect misstatement and loss. The financial statements have been prepared on the going-concern basis.

Approval of annual financial statements

The Board of Directors is of the opinion that the annual financial statements for the year ended 31 March 2007 and the information as recorded on pages 36 to 98 fairly present the state of the affairs of the Group. These annual financial statements were approved by the Board on 26 July 2007 and signed on its behalf by:



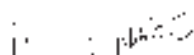
MM Lefoka
*Acting Group Chief
Executive Officer*



VF Mahlali
Chairperson

Secretary statement

In terms of section 268 G (d) of the Companies Act, No 61 of 1973, as amended, I certify that the Company has lodged with the Registrar all such returns as required by the Companies Act and that all such returns are true, correct and up to date.



MM Mphelo
Acting Company Secretary

Audit Committee's 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 control reported by the internal and external auditors to the Audit Committee were 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; and
- reviewed significant adjustments resulting from the audit.

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.



N Msimang
Acting Chairperson Audit Committee

Employment equity report

SA Post Office – Personnel strength 31 May 2007

	Personnel complement								Total
	White		Black		Coloured		Asian		
	Male	Female	Male	Female	Male	Female	Male	Female	
National EAP target (%)	6,78	5,34	39,12	35,77	5,38	4,70	1,79	1,12	
Executive management	8	2	15	7	1	0	1	0	34
Percentage (%)	23,53	5,88	44,12	20,59	2,94	0,00	2,94	0,00	
Under/over-representation (%)	(16,75)	(0,54)	(5,00)	15,18	2,44	4,70	(1,15)	1,12	
Number	(6)	(0)	(2)	5	1	2	(0)	0	
Management (senior manager)	22	8	38	22	10	1	9	2	112
Percentage (%)	19,64	7,14	33,93	19,64	8,93	0,89	8,04	1,79	
Under/over-representation (%)	(12,86)	(1,80)	5,19	16,13	(3,55)	3,81	(6,25)	(0,67)	
Number	(14)	(2)	6	18	(4)	4	(7)	(1)	
Management (D-Band)	58	35	118	52	22	5	29	5	324
Percentage (%)	17,90	10,80	36,42	16,05	6,79	1,54	8,95	1,54	
Under/over-representation (%)	(11,12)	(5,46)	2,70	19,72	(1,41)	3,16	(7,16)	(0,42)	
Number	(36)	(18)	9	64	(5)	10	(23)	(1)	
C-Band	440	485	1 158	861	282	170	156	62	3 614
Percentage (%)	12,17	13,42	32,04	23,82	7,80	4,70	4,32	1,72	
Under/over-representation (%)	(5,39)	(8,08)	7,08	11,95	(2,42)	(0,00)	(2,53)	(0,60)	
Number	(195)	(292)	256	432	(88)	(0)	(91)	(22)	
B-Band	666	1 393	3 476	1 684	1 080	323	472	78	9 172
Percentage (%)	7,26	15,19	37,90	18,36	11,77	3,52	5,15	0,85	
Under/over-representation (%)	(0,48)	(9,85)	1,22	17,41	(6,39)	1,18	(3,36)	0,27	
Number	(44)	(903)	112	1 597	(587)	108	(308)	25	
A-Band	6	8	484	542	75	51	2	0	1 168
Percentage (%)	0,51	0,68	41,44	46,40	6,42	4,37	0,17	0,00	
Under/over-representation (%)	6,27	4,66	(2,32)	(10,63)	(1,04)	0,33	1,62	1,12	
Number	73	54	(27)	(124)	(12)	4	19	13	
Total number of employees	1 200	1 931	5 289	3 168	1 470	550	669	147	14 424
Percentage (%)	8,32	13,39	36,67	21,96	10,19	3,81	4,64	1,02	
Under/over-representation (%)	(1,54)	(8,05)	2,45	13,81	(4,81)	0,89	(2,85)	0,10	
Number	(222)	(1 161)	354	1 991	(694)	128	(411)	15	

Data source

The EAP targets as reflected in the 2001 Household Survey conducted by the CSS, was used as basis. The EAP targets used is the national targets as a company must reflect the national target in its head office irrespective of where it is situated.