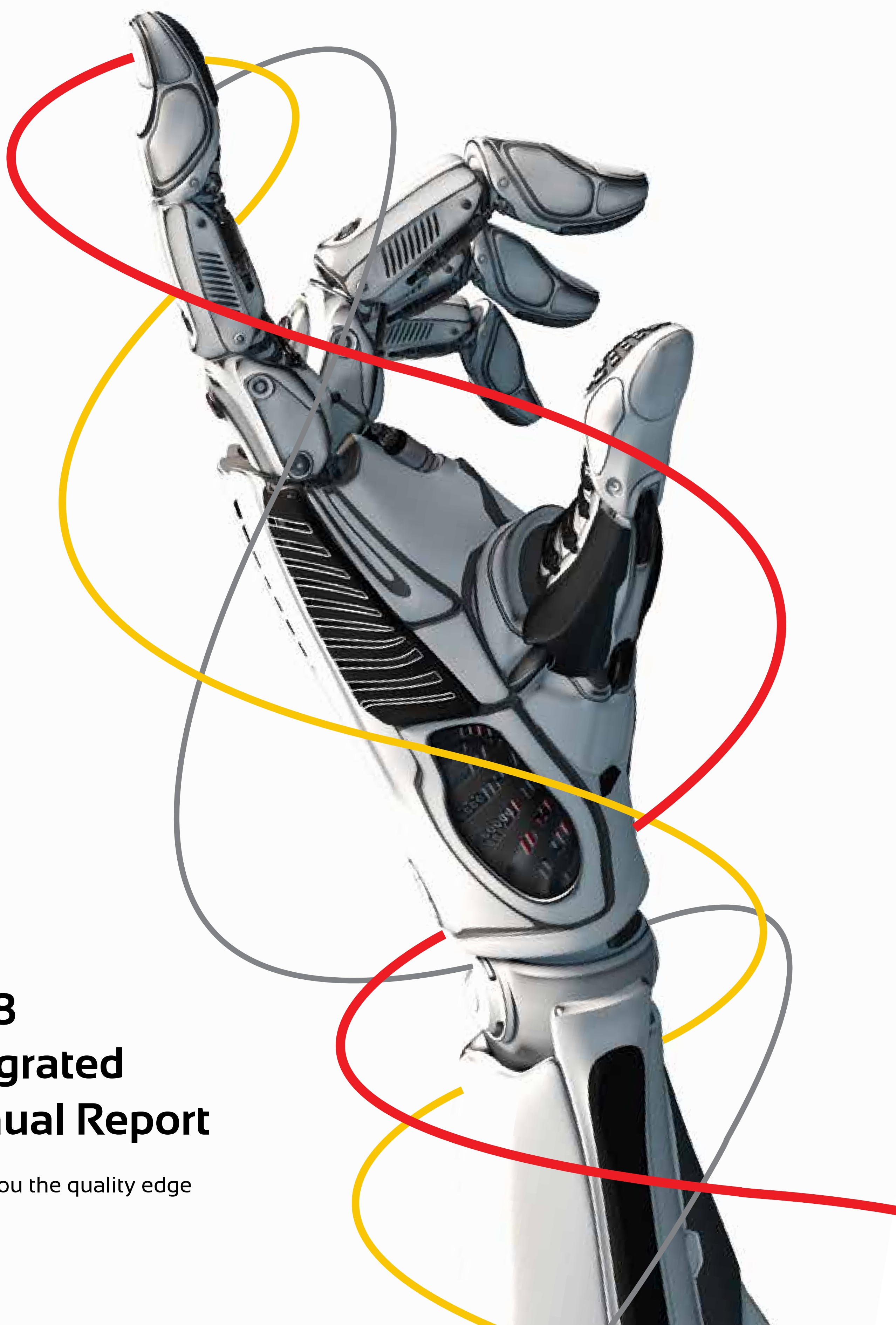
SABS

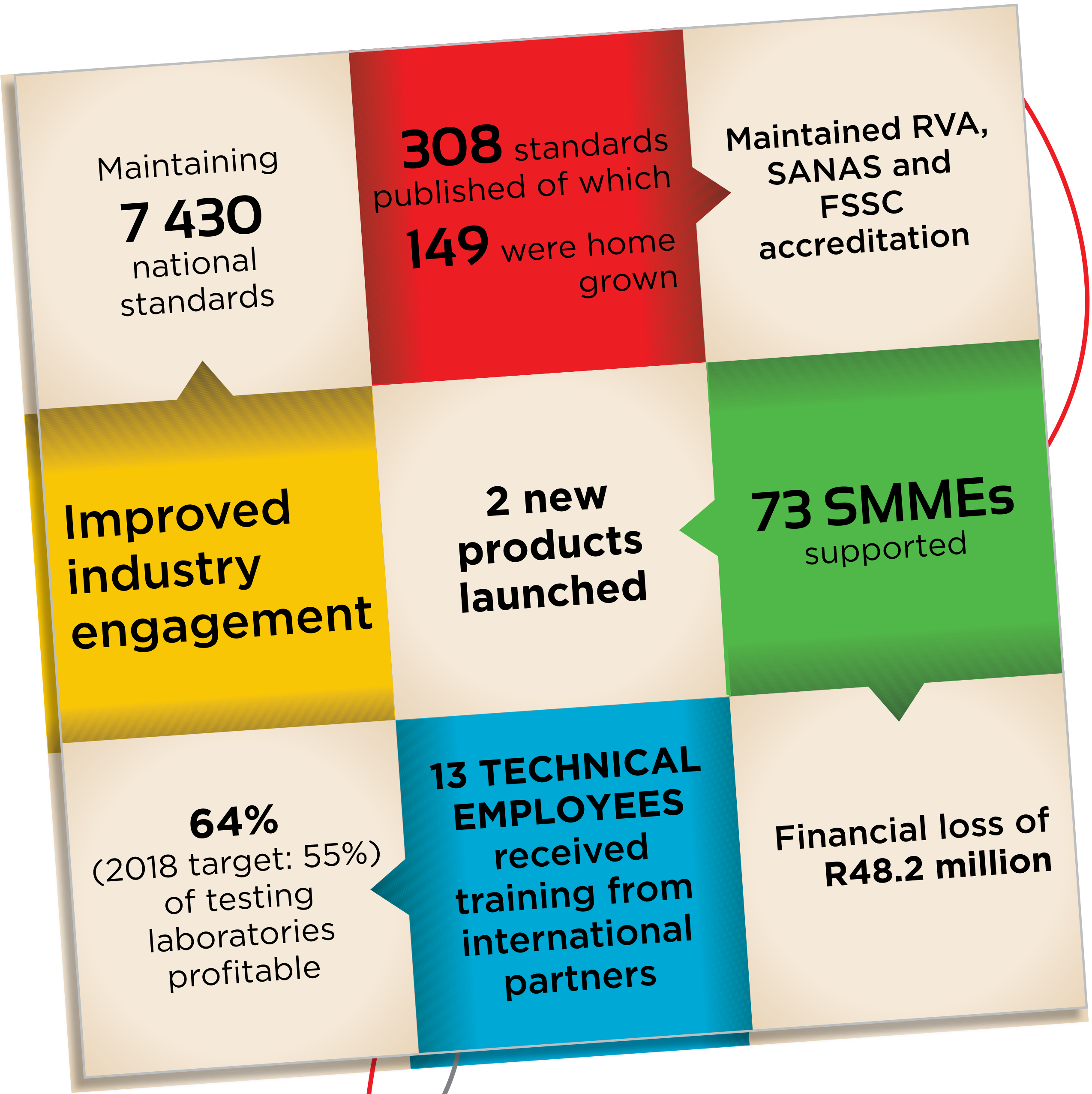


2018 Integrated Annual Report

Giving you the quality edge

PERFORMANCE SUMMARY

The SABS continues to play a meaningful role in the support of government's industrial efforts through standards development, promotion and provision of conformity assessment services.



CONTENTS

Icon legend

The following icons, relating to our capitals, strategic focus areas, stakeholders and material risks, are used throughout this report to aid navigation.

	CAPITALS
	Financial capital
	Human
	Intellectual
	Manufactured
	Natural
	Social and relationship
	STRATEGIC THEMES
	Growth
	Customer centricity
	Productivity
	Empowered and competent employees
	Attract, develop and retain skills

	STAKEHOLDERS
	Shareholder representative (**the dti**)
	Employees and trade unions
	Clients and industry associations
	International and regional standards bodies
	Government and regulators
	Society

Indicates a **page or note reference** of information which can be found elsewhere in the report.

THE SABS APPROACH TO INTEGRATED REPORTING

The SABS is committed to the principles of integrated reporting, which is in alignment with the SABS mandate to long-term value creation as a leading standards development, testing, certification and training organisation. This report aims to provide the SABS stakeholders with a concise, material, transparent and understandable assessment of the SABS governance, strategy, performance and prospects.

SCOPE AND BOUNDARY OF REPORTING

Reporting period

The SABS is pleased to present its 2017/18 Integrated Annual Report. It is the principal communication platform to stakeholders and is published once a year. This report covers the period 1 April 2017 to 31 March 2018 and reflects the activities of the SABS and SABS Commercial SOC Limited. The financial information for the previous financial year was restated to correct the misclassification of a reversal of impairment previously accounted for through *other comprehensive income* instead of through *profit and loss*. Refer to note 36 of the Annual Financial Statements for more information. Any material events after this date and up to approval by the Accounting Authority on 24 October 2018 have also been included. The report also contains the outlook, targets and objectives over the short-, medium- and long-term of the SABS.

Financial and non-financial reporting

The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with key stakeholders that have a significant influence on the ability to create value.

Targeted readers

The report is the primary report to the Shareholder and provider of financial capital, being the government of the Republic of South Africa and **the dti** in particular. Information relevant to other key stakeholders, including staff, clients, regulators and communities is also provided.

Regulatory reporting requirements

The content of this report is aligned with the requirements of the International Integrated Reporting Framework (<IR> Framework) and, where appropriate, the King Code of Governance Principles for SA (King IV). As a Schedule 3B state-owned entity, the report also aligned to the requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The Annual Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as well as the requirements of the PFMA.

THIS YEAR'S ENHANCEMENTS

SABS continues to improve the quality of the information presented, giving stakeholders a balanced and transparent account of its business. In the section "Our value-creating business model", which starts on page 12, SABS has improved its disclosure around the six capital models as well as refined the disclosure on governance which now includes examples of how governance is implemented and monitored across the organisation. See the "Governance" section which starts on page 68. The SABS has further focussed on improving the conciseness and connectivity of information in the report.

SABS is committed to the improvement of this report further and appreciates constructive feedback. Comments can be directed to the General Manager: Strategy and Reporting, Mr Nils Flaatten at info@sabs.co.za, or submitted at 1 Dr Lategan Road, Groenkloof, Pretoria, 0001.

MATERIAL MATTERS

This report provides information that SABS believes is material to creating value for the South African government and other stakeholders with respect to issues, opportunities and challenges that impact materially on SABS and its ability to be a sustainable state owned company.

In the design of the SABS business model (page 12), governance structures (page 68) and strategy (page 24), SABS takes the operating context (page 16), key risks (page 28) and the interest of material stakeholders (page 21) into account.

HOW TO READ OUR REPORT

The report has a clear narrative structure to assist the reader to assess the SABS:

- It provides a strategic and operational overview in the Minister, Accounting Authority, CEO, financial and operational performance reports
- It introduces the SABS and explains how value is created, outlining where SABS operates, what SABS does, how it generates revenue and reflects on the key business activities
- Identifies the material matters that impact on value creation in terms of the SABS operating environment, the interests of key stakeholders and the identified priority risks facing the company
- Reviews performance against its strategy, across operations and key financial indicators
- Reflects on the institutional and governance policies and frameworks

COMBINED ASSURANCE

The SABS uses a combined assurance model to provide assurance obtained from management and from internal and external assurance service providers. The Auditor-General of South Africa audited the consolidated Annual Financial Statements for the 2017/18 financial year. The Audit Committee provides internal assurance to the Accounting Authority on an annual basis on the execution of the combined assurance plan.

The SABS' financial, operating, compliance and risk management controls are assessed by the company management team and overseen by the Audit and Risk Committees during the year.

FORWARD-LOOKING INFORMATION

This report contains certain forward-looking statements with respect to SABS' financial conditions, results, operations and businesses. These statements and forecasts involve risks and uncertainty as they relate to events and depend on circumstances that may occur in the future. Various factors could cause actual results or developments to differ materially from those expressed or implied by these forward-looking projections.

RESPONSIBILITY OF THE ACCOUNTING AUTHORITY

The Accounting Authority, supported by the Audit Committee, has taken overall responsibility and accountability for this report. Executive management, assisted by a dedicated reporting team, was responsible for the preparation and consolidation of this report. The Accounting Authority has collectively reviewed this report and confirms the integrity of the content therein. The Accounting Authority believes that this report is a balanced and appropriate presentation of the profile and performance of SABS. On recommendation from the Audit Committee, the Accounting Authority approved this report on 24 October 2018. For and on behalf of the Accounting Authority.

Jodi Scholtz
Co-administrator

Garth Strachan
Co-administrator and
Acting Chief Executive Officer

MINISTER'S FOREWORD

The National Development Plan (NDP) recognises that the main driver for eradicating inequality and poverty in our society is the creation of employment through increased production and value addition especially in the industrial sectors of the economy. This policy priority is given expression in Outcome 4 (Decent employment through inclusive growth), Outcome 7 (Comprehensive rural development and land reform) and Outcome 11 (Create a better South Africa, a better Africa and a better world), which are set out in the Medium-Term Strategic Framework 2014-2019.

In addition to these mandates, the National Industrial Policy Action Plan (IPAP) 2018/19 – 2020/2021 aims to promote industrialisation, raise competeiveness, increase exports and investment and secure the transformation of the economy, with a special emphasis on labour-intensive manufacturing sectors. The SABS has an important role to play in the execution of this policy. The national standards and conformity assessment services that it provides must support industrialisation and the economic development as set out in successive iterations of the IPAP.

The development and adoption of national standards rests on the voluntary cooperation of industry bodies, consumers, public authorities and other interested parties. National standards are a tool to drive conformity testing which results in safer production systems and quality products for the national and export markets. Thus, the Department of Trade and Industry (**the dti**) supports the efforts of SABS to disseminate system and product standards, and deliver conformity testing and certification services to industry.

However, recent institutional failures in governance, finances, policy and operations at the SABS, the significant loss of capacity and capabilities in testing and a lack of investment in testing infrastructure and equipment, amongst other considerations, led to the decision to place the SABS under administration. I have appointed three Co-administrators to undertake a diagnostic analysis of the problems at SABS and develop a turnaround strategy for the institution. This will include a detailed operational plan to return the institution to financial sustainability and to secure optimal governance, policy and operations arrangements in order that SABS is returned to its place as the apex institution for South African standards and conformity assessment.

Dr Rob Davies, MP
Minister of Trade and Industry

MESSAGE FROM THE ACCOUNTING AUTHORITY

The SABS constitutes one of the four pillars in the technical infrastructure landscape, otherwise known as the Standards, Quality Assurance and Metrology institutional eco-system. The SABS has a legislative mandate to develop and promote national standards, provide conformity assessment and local content verification services to both the public and private sector as well as to support the national industrial effort, enable economic development and the transformation of our domestic economy.

The SABS undertakes complex technical tasks and provides services in an increasingly complex, dynamic and technology intensive global and domestic economy. The forces of globalisation, the need for climate change mitigation and for environmental sustainability, the rise of disruptive technological changes and increasing uncertainty in the global trading environment, make the delivery of these services even more complex and onerous.

In these circumstances the SABS must retain and build its capability to analyse the changing context, adapt its service delivery to these changes and maintain a close alignment with government policy priorities. Under these conditions the SABS has in some respects fallen short of the enormous demands placed at its door. Consequently, institutional failures in governance, finances and operations led to a decision by the Minister of Trade and Industry to place the institution under administration and to appoint three Co-administrators as the Accounting Authority.

This Integrated Annual Report therefore straddles a difficult period for SABS, which culminated in the Minister's decision. The Co-administrators have been mandated to undertake a diagnostic analysis of the institution and work closely with the executives to develop and execute a turnaround strategy and return the institution to financial sustainability with optimal levels of governance and operational excellence.

The SABS must deliver on its legal mandate by delivering a suite of services funded both by an annual fiscal transfer from **the dti** and from revenue generated from its own services delivered to the public and private sector in a highly competitive commercial market.

Regrettably, SABS Group recorded a net loss of R48.2 million for the financial year, attributable to a loss of R74 million in the SABS subsidiary – SABS Commercial SOC Limited. Clearly an annual loss of this magnitude is unsustainable. A decline in operational performance lies at the heart of the current state of affairs at the SABS. The Auditor-General of South Africa (AGSA) has issued a disclaimer audit opinion on the SABS' consolidated Annual Financial Statements for the financial year under review. This disclaimer opinion pertained to the going concern and revenue recognition principles as well as the manner in which the impairment of trade receivables was performed, all within the SABS subsidiary. The AGSA has furthermore issued a qualified opinion on the separate financial statements of the SABS relating to the impairment of the carrying value of the investment into the SABS subsidiary.

These are significant and serious findings which of necessity need to be addressed in the turnaround strategy and the process which will return the SABS to financial sustainability and improved governance and operational excellence. Notwithstanding these findings and the financial, governance and operational challenges which led to the institution being placed under administration, the SABS retains significant capacity and capabilities that can and will be used as a bedrock to return the institution to its rightful place as South Africa's pre-eminent standards and conformity assessment institution. This process will require careful strategic planning and carefully sequenced interventions and programmes, including: client retention and revenue generation, optimised policy frameworks and systems improvements. The integration and productivity improvements from new digital ICT platforms; sequenced and carefully calibrated capital investment in testing infrastructure and capital equipment; higher levels of competitiveness and productivity which are enabled by best practice governance and management models; stronger client focus and stakeholder engagement underpinned by a committed and collaborative staff effort, will yield positive results.

As the existing Accounting Authority for the SABS, we wish to express our appreciation to the staff and management as well as all the numerous external stakeholders for the goodwill and support that we have received to date. We assure all concerned that no effort will be spared in the difficult tasks that lie before the Co-administrators and the management and staff of the institution.

Jodi Scholtz
Co-administrator

Dr Tshenge Demana
Co-administrator

Garth Strachan
Co-administrator and
Acting Chief Executive Officer

ABOUT SABS

BUSINESS OVERVIEW

THE MANDATE OF THE SABS

The SABS is the apex national standardisation institution in South Africa, established by the Standards Act, 1945 (Act No. 24 of 1945). SABS continues to exist under the Standards Act, 2008 (Act No. 8 of 2008). The objectives of the SABS are as follows:

- Develop, promote and maintain South African National Standards (SANS)
- Promote quality in connection with commodities, products and services
- Render conformity assessment services and matters connected therewith

The SABS is a Schedule 3B public entity under the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

VISION

To be the trusted standardisation and quality assurance service provider of choice

MISSION

The SABS provides standards and conformity assessment services to contribute towards the efficient functioning of the economy.

MEMBERSHIPS

ACCREDITATION OF SABS

VALUES

Impartiality	• Be impartial with respect to provision of services • Base decisions on objective criteria, rather than on the basis of bias, prejudice or preferring the benefit of one person over another for improper reasons • Applying unquestionable ethics and fair service provision
Innovation	• Enhancing, supporting and maintaining innovation in the economy • Continuously searching for innovation in the execution of the SABS mandate
Accountability	• Supporting transparency, fairness, accountability, oversight and good governance
Integrity	• Demonstrating respect, honesty, trustworthiness, professionalism and the highest ethical and moral principles in the delivery of quality services
Quality	• To ensure that all the activities and behaviour of management and staff support the SABS as a quality institution and the SABS Mark as a brand of quality • To ensure that the policies and procedures of the SABS conform to the highest standards
Customer centricity	• Providing proactive, responsive feedback to employees and customers, ensuring that the value of the SABS is articulated to customers • Acknowledging the needs of customers and putting customers first • Having the ability to constantly meet and exceed customers' expectations

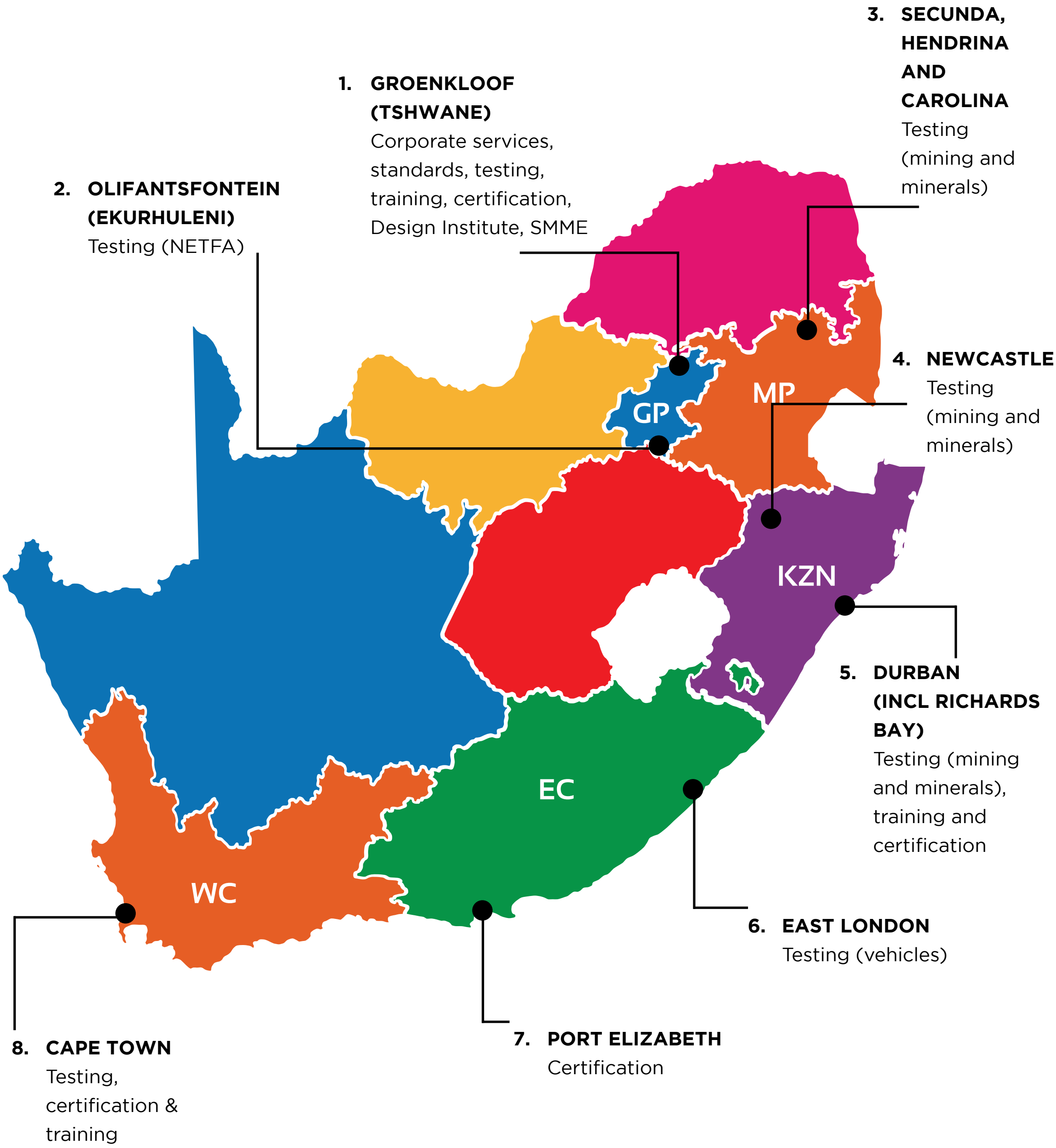
SABS' VALUE OFFERING TO BROADER SOCIETY, INDUSTRY AND SOUTH AFRICA

WHAT WE DO	BENEFIT TO SOCIETY	BENEFIT TO LOCAL INDUSTRY	BENEFIT TO SOUTH AFRICA
Development of national standards for processes, systems, services and products	Support inclusive growth	Fair and transparent process to determine standards and conformance	• Linkages to internal markets through standards and conformity assessments • Support for socio-economic development policies • Fair competition
Test, inspect, verify and certify processes, products and services against requirements in the standards	• Quality assurance for consumers • Fairness in the market	Enable producers and suppliers to compete fairly	• Protect local employment • Enable local production • Fair competition • Safety to consumers
Promote the use of standards, design and innovation as a catalyst to socio-economic development	Facilitation of new and better processes, products and services by improving access to SMMEs	Provide platform for support to access services by SMMEs	• Increase production of intellectual capital • Improve speed to market • Facilitate new entrants to the market
Provide training on standards and conformity related assessment services	Correct implementation and use of standards	Ensure compliance to standards proficiency in quality management	Fair trade environment where standards are consistently applied in the procurement of products and services

INCLUSIVE ECONOMIC GROWTH IN A FAIR AND COMPETITIVE ENVIRONMENT

NATIONAL FOOTPRINT

The SABS head office and the main certification, testing and training facility is located in Groenkloof, City of Tshwane. In addition, the organisation has seven regional offices across the country.



VALUE-CREATING BUSINESS MODEL

OUR CAPITALS ---------- INPUTS

HUMAN CAPITAL

Employees play a critical role in the attainment of SABS' vision, delivering the strategy and living the core values. A vital part of this journey is to focus on aligning individual and organisational priorities by developing passionate, enabled and engaged people.

Total number of employees: 922
Investment in training and staff welfare: R2.5 million

INTELLECTUAL CAPITAL

Access to strong technical knowledge, capabilities and technology is imperative to fulfil the SABS mandate. Through accreditation to various international and national accreditation bodies, the SABS received its "licence to operate".

40 Standards development specialists
126 Conformity assessment auditors
135 Test officers
Accredited to international bodies (RvA, VDA and FSSC) and one national body (SANAS)

MANUFACTURED CAPITAL

Standards development, certification, testing and training occur across South Africa. The SABS continues to invest in upgrading of premises and equipment.

Head office in Pretoria
Seven regional offices across the country
30 test laboratories spread across 10 locations
Net book value of property plant and equipment: R692.8 million

NATURAL CAPITAL

SABS requires energy, water, air and fuels to perform its daily activities.

Electricity consumed: 26 MWh
Water consumption: 217 593 kilolitres
Fuel consumed: 33 561 litres

FINANCIAL CAPITAL

Comprises grant funding received from the South African government to fund certain activities as well as funds generated from commercial activities. These funds are used to run the business and to finance both expansion and replacement of plant and equipment.

R243.2 million annual grant received from the RSA government
Capital and reserves: R837.7 million
Cash and cash equivalents: R126.0 million

SOCIAL AND RELATIONSHIP CAPITAL

Trusted relationships and a positive reputation with the shareholder, clients, regulators, suppliers, labour and communities is core to our ability to realise our vision.

Dedicated Design Institute, SMME and HSE units established

BUSINESS ACTIVITIES AND KEY OUTPUTS

SABS has a dual standards development and conformity assessment mandate funded from a mix of public funds and revenue generation

STANDARDS DEVELOPMENT MANDATE

Develop, promote and maintain South African National Standards

Mainly grant funded

The SABS effort rests on assets acquired over many years through investment of public funds

Funding model

Funded from fees charged for services offered in a competitive market

Read more about our Governance
Refer to page 68

Read more about our Operating context
Refer to page 16

KEY SECTORS SUPPORTED

- Accessibility
- Acoustics
- Adhesive and packaging
- Agrochemicals
- Automotive
- Building and construction
- Chemicals
- Chromatography
- Civil engineering
- Clothing and protective wear
- Electro-technical
- Electronic appliances
- Energy efficiency
- Engineering
- Environment (EMS)
- Explosion prevention
- Fibre and polymers
- Food and beverages

UNDERSTANDING THE TRADE-OFFS IN CAPITAL

HUMAN CAPITAL

The SABS has managed its workforce by filling only critical vacancies important for the execution of the strategy, as well as by extracting more efficiencies in the internal process. This has had negative implications for human capital as well as social and relationship capital. Financial capital, however, was positively impacted, as it enabled the SABS to maintain an overall growth rate in employee-related expenses at or below inflation over the past few years.

INTELLECTUAL CAPITAL

Investing in new intellectual knowledge and technology (intellectual capital) reduces financial capital in the short-term. However, in the longer-term, financial, natural, human, social and relationship capital are likely to be boosted by improved operational efficiencies and environmental practices.

MANUFACTURED CAPITAL

Growing the business requires continual investment in property, plant and equipment. Investment in systems and equipment may impact the nature of human capital requirements. The commitment to invest in plant and equipment will benefit natural, intellectual, human, social and relationship, and financial capital over the long-term.

At the heart of the SABS' value-creation business model is support for transformation, black economic empowerment, support for women empowerment and inclusive growth in a fair and competitive environment

CONFORMITY ASSESSEMENT MANDATE

Certification

- SABS Mark scheme - Product certification
- System certification
- Conduct local content verification
- Consignment inspections

Testing

- Testing of products in line with ISO/IEC international protocols for laboratories
- Calibration
- Proficiency schemes

Training

- Training on Standards
- Technical support to companies, SMMEs and entrepreneurs on standardisation services

Read more about our Strategy
Refer to page 24

Read more about our Risks
Refer to page 28

KEY SECTORS SUPPORTED

ICT	Pharmaceutical
Industrial chemistry	Radiation protection
Lighting technology	Rotating machinery
Mechanical and fluids	Rubber and plastics
Medical and health	Safety and security
Metrology	Solar water heating
Mining and minerals	Textiles and leather
Paints and sealants	Timber
Petrochemical	Transportation

CREATING VALUE FOR OUR STAKEHOLDERS

---------- **OUTCOMES**

SHAREHOLDER (THE DTI)

- 7 of 9 standardisation projects completed as part of IPAP
- Net loss of R48.2 million (2016/17: R44.4 million loss)
- R49.1 million cash generated from operating activities

EMPLOYEES AND TRADE UNIONS

- R551.6 million paid in salaries and benefits
- 281 staff attended external training
- 237 staff members attended training through the SABS Training Academy
- 13 employees completed specialist training with leading partners
- R1.0 million study bursaries awarded
- 83% employee representation from historically disadvantaged groups
- 44% of staff complement are female

CLIENTS AND INDUSTRY ASSOCIATIONS

- 308 standards published of which 149 were home grown
- Reduced average turnaround time on standards developed to 421 days from 423 days
- Invested R19.4 million in building and laboratory equipment
- 3 employees appointed with PhDs and Master's degrees

INTERNATIONAL AND REGIONAL STANDARDS BODIES

- Adopted 90 new international standards
- Participation at various international and African standards forums
- IEC Council Board member
- ISO CASCO chairman

GOVERNMENT AND REGULATORS

- Compliance with all regulatory requirements
- Provision of conformity assessment services in support of regulatory objectives

SOCIETY

- 73 SMMEs benefiting from design and conformity assessment support
- Disposed of 7 tons of hazardous waste
- Recycled 31 tons of non-hazardous material

NATURAL CAPITAL

The SABS' operations have unavoidable negative environmental impact (natural capital) but are important components in creating value for all the other capitals. The environmental consequences of the waste generated affects mainly the communities around the landfill sites and thermal desorption equipment with the potential to negatively influence social and relationship capital.

FINANCIAL CAPITAL

Financial capital allows the SABS to sustain and grow the business, with positive impacts on manufactured, human, intellectual, and social and relationship capital.

SOCIAL AND RELATIONSHIP CAPITAL

Investment in social and relationship capital enables long-term growth in financial capital as well as improved reputation as a responsible corporate citizenship. Financial capital may be reduced over the short-term.

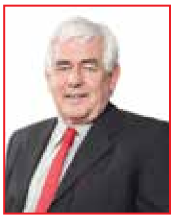
BOARD MEMBERS AT 31 MARCH 2018

MEMBER

JEFF MOLOBELA (62)
Independent non-executive chairman (until 28 June 2018)
Date appointed to Board: 25 August 2014
Number of terms served: 1
Qualification: BSc (Hons)(Eng), MBA, LLB
Skills, expertise and experience: Engineering, finance, legal, research, strategy development
Number of other board memberships: 4

MEMBER

DR MICHAEL ELLMAN (70)
Independent non-executive director (until 28 June 2018)
Date appointed to Board: 26 August 2009
Number of terms served: 2
Qualification: PhD (Chemical Engineering), MBA
Skills, expertise and experience: Industry (mining, petroleum and gas), standards development, research.
Number of other board memberships: 8



MEMBER

GUY HARRIS (65)
Independent non-executive director (resigned 14 April 2018)
Date appointed to Board: 26 August 2009
Number of terms served: 2
Qualification: CA(SA)
Skills, expertise and experience: Industry (manufacturing), finance, SMME growth
Number of other board memberships: 4

MEMBER

WEBSTER MASVIKWA (63)
Independent non-executive director (resigned 21 June 2018)
Date appointed to Board: 26 August 2009
Number of terms served: 2
Qualification: CA(SA) MBL, AMCT (UK)
Skills, expertise and experience: Finance, risk management
Number of other board memberships: 3

Legend

BOARD SUB-COMMITTEE	
Audit Committee	Risk Committee
HR and Remuneration Committee	Finance and Investment Committee
Social and Ethics Committee	Nominations Committee

Notes:
- A detailed list of other directorships is available from the Company Secretary
- Anne-Marie Lötter resigned from the Board on 30 September 2017
- Subsequent to year-end, the Minister appointed three Co-administrators as the Accounting Authority of the SABS

MEMBER

ELEKANYANI NDLOVU (35)

Independent non-executive director (until 28 June 2018)

Date appointed to Board: 25 August 2014

Number of terms served: 1

Qualification: BSc (Electrical Engineering)

Skills, expertise and experience: Electrical engineering, governance, risk management, strategy development

Number of other board memberships: 4

MEMBER

NIVASHNEE NARAINDATH (47)

Independent non-executive director (resigned 21 June 2018)

Date appointed to Board: 25 August 2014

Number of terms served: 1

Qualification: BA, LLB, LLM (admitted attorney)

Skills, expertise and experience: Legal, governance, risk management

Number of other board memberships: None

MEMBER

ZANELE MONNAKGOTLA (47)

Independent non-executive director (until 28 June 2018)

Date appointed to Board: 1 April 2017

Number of terms served: 1

Qualification: BCom, LLB, LLM (admitted attorney), Management advanced programme, Master's in finance

Skills, expertise and experience: Legal, investment (including project finance, private equity)

Number of other board memberships: 1

GARTH STRACHAN (66)

Non-executive director (shareholder representative, resigned 21 June 2018)

Date appointed to Board: 1 October 2017

Number of terms served: 1

Qualification: Master's

Skills, expertise and experience: Public policy

Number of other board memberships: None

MEMBER

DR BONAKELE MEHLOMAKULU (45)

Chief Executive Officer and Executive director (Board member until 28 June 2018. Resigned as CEO on 31 July 2018)

Date appointed to Board: 7 September 2009

Number of terms served: 2

Qualification: PhD (Chemical Engineering)

Skills, expertise and experience: Engineering, policy and legislation analysis and strategy development

OPERATING CONTEXT

The environment in which the SABS operates impacts the delivery of the strategy as well as the ability to create value in the short-, medium- and long-term across the various business segments. The information below sets out the key external business drivers and demonstrates the level to which each segment is impacted. There is a close correlation between the material risks (page 28) and the key external business drivers. The impact is addressed in our strategy (page 24) and ultimately reflected in performance (financial or otherwise). Key external factors impacting the SABS' business include:

1. Global and domestic economic growth trends
2. Increased competition in the conformity assessment sphere
3. Scarce skills
4. Innovation and disruptive technologies
5. Evolving legislation, regulatory and social responsibility requirements

GLOBAL AND DOMESTIC ECONOMIC GROWTH TRENDS

Macro trends

South African economic conditions remained challenging during the year. Although real GDP growth accelerated to 1.3% for 2017, it remained well below the growth levels required to support extensive social and economic advancement in the country. Real manufacturing output contracted by 0.2% in 2017 compared to a moderate expansion of 0.9% in 2016. The loss of momentum stemmed largely from a contraction in the production volumes of petroleum, chemical products, rubber and plastic products, wood and wood products, paper, publishing and printing. By contrast, the manufacturing of food and beverages, basic iron and steel, and, to a lesser extent, furniture, contributed positively to annual growth.

Domestic consumer price inflation decelerated throughout 2017 to below the mid-point of the inflation target range by the end of the financial year. The moderation in consumer price inflation resulted largely from a reduction in supply side cost pressures amid relatively subdued domestic demand.

The South African rand appreciated significantly from around mid-November 2017 to the end of February 2018 after an international credit rating agency downgraded South Africa's local currency debt and another rating agency put the country's credit rating on review instead of an immediate downgrade. The outcome of the African National Congress' (ANC) elective conference in December 2017 and the subsequent positively perceived domestic political developments contributed to these developments. In step with the marked appreciation in the exchange value of the rand, domestic money market rates and South African government bond yields declined notably over the period, reflecting improved investor sentiment and lower domestic inflation expectations.

Against the backdrop of a deteriorating fiscal position, the 2018 Budget Review proposed a number of measures to rebuild confidence and return public finances to a sustainable path. These included various tax increases and a marginal reduction in the expenditure ceiling. The consolidated government budget deficit is expected to widen significantly to 4.3% of GDP in 2017/18 before narrowing to 3.5% in 2020/21, partly due to an improved economic growth outlook.

GLOBAL AND DOMESTIC ECONOMIC GROWTH TRENDS (CONTINUED)

According to the International Monetary Fund (IMF)[1], world growth strengthened in 2017 to 3.8%, with a notable rebound in global trade. It was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporter countries. South Africa in fact has lagged behind growth of its peer, resource-intensive middle income countries. Global growth is expected to tick up to 3.9% in the 2018 year, however, extreme turbulence in the global trade regime and geo-political uncertainty may impact growth. Prospects remain favourable in emerging Asia and Europe, but are challenging in Latin America, the Middle East and sub-Saharan Africa, where, despite some recovery, the medium-term outlook for commodity exporters remains generally subdued, with a need for further economic diversification and adjustment to lower commodity prices.

Impact on the SABS value creation	Strategic response
Low economic growth contributed to a reduction in the levels of investment and expenditure patterns in both the public and private sectors. As a consequence, demand for conformity assessment services, including the awarding of contracts, sales levels, capacity utilisation and margins, also reduced.	Growth Customer centricity Productivity

	Impact of factor on business	Risk		Opportunity	
		Short-term	Medium- to long-term	Short-term	Medium- to long-term
SABS	Low	▶	▶	▶	▶
SABS Commercial	High	▶	▼	▶	▲

Legend

▼ Risk/opportunity has decreased

▶ Risk/opportunity has remained fairly constant

▲ Risk/opportunity has increased

[1] World Economic Outlook Report, April 2018

INCREASED COMPETITION IN THE CONFORMITY ASSESSMENT SPHERE	
Macro trends The industry is made up of a few big players, including multinationals, who provide a broad range of conformity assessment services. Many of these entered the South African market through offerings that required minimal capital outlays and have built more agile operations that have the potential to out-manoeuvre the SABS' established operations. Many have also started to offer their own mark schemes against the SANS, in direct competition with the SABS Mark Scheme. There are also various small players who specialise in niche markets, offering specialised testing services. These smaller players are often laboratories started by former SABS employees, who utilise their knowledge of the SABS operations to lure customers away from the SABS.	
Impact on the SABS value creation Increased competition reduces revenue opportunities and margins earned. Operationally, the SABS is required to continually invest in new equipment, systems and processes to maintain its relevance in the market.	**Strategic response** Productivity Growth

	Impact of factor on business	Risk		Opportunity	
		Short-term	Medium- to long-term	Short-term	Medium- to long-term
SABS	Low	▶	▶	▶	▶
SABS Commercial	High	▲	▶	▼	▶

SCARCE SKILLS	
Macro trends Skills shortages in South Africa pose a significant risk to the long-term growth of South Africa and the SABS. Furthermore, the fourth industrial revolution has the potential to disrupt the nature and availability of skills in future. The transformation imperatives of the country and continued progress to a more equitable representation of the workforce in South Africa remain top of the agenda for all stakeholders.	
Impact on the SABS value creation The services of the SABS require a series of highly technical decisions to be made by employees in different parts of the delivery process and service of clients. SABS needs to attract, retain and develop the necessary technical skills to execute on its mandate and commercial objectives.	**Strategic response** Empowered and competent employees

	Impact of factor on business	Risk		Opportunity	
		Short-term	Medium- to long-term	Short-term	Medium- to long-term
SABS	High	▲	▲	▶	▶
SABS Commercial	High	▲	▲	▶	▶

FOURTH INDUSTRIAL REVOLUTION - INNOVATION AND DISRUPTIVE TECHNOLOGY

Macro trends

Quantum leaps in advances in the fields of technology, production, systems of production, development of services, communication and social relations over the past 20 years is disrupting almost every industry in every country and signals the transformation of entire systems of production, management and governance. The possibilities of billions of people connected via mobile devices, with unprecedented processing power, storage capacity, and access to knowledge, are unlimited. These possibilities will be multiplied by emerging technology breakthroughs in fields such as artificial intelligence, robotics, the internet-of-things (IoT), autonomous vehicles, 3D printing, nanotechnology, biotechnology, materials science, energy storage, quantum computing and so forth.

The fourth industrial revolution has the potential to raise global income levels and improve the quality of life for populations across the world. However, the revolution could also yield greater inequality and job loses, particularly given its potential to disrupt labour markets.

From a business perspective, the introduction of new technologies is creating entirely new ways of serving existing needs, causing significant disruption to existing industry value chains. Disruption is also flowing from agile, innovative competitors who, through access to global digital platforms for research, development, marketing, sales, and distribution, can displace well-established incumbents faster than ever by improving the quality, speed, or price at which value is delivered.

Major shifts on the demand side are also occurring, as growing transparency, consumer engagement, and new patterns of consumer behaviour (built increasingly on access to mobile networks and data) force companies to adapt the way they design, market, and deliver products and services.

Impact on the SABS value creation

Companies are routinely rolling out new products and services and regularly overhauling all aspects of them in response to technology and digital advancements. Standards must be reviewed timeously or appropriately developed in anticipation of these developments taking into account the socio-economic objectives of the country. As the economy evolves, the SABS must continue to attract the appropriate skills to facilitate the development of new standards.

Internally, the SABS must also adapt, develop or gain access to new and improved technologies, systems and processes to respond to customer expectations, digitisation, technology convergence, disruptive technologies and system life cycles and risks, all of which impact on volume and margins earned for conformity assessment services.

Strategic response

Productivity

Attract, develop and retain skills

Customer centricity

	Impact of factor on business	Risk		Opportunity	
		Short-term	Medium- to long-term	Short-term	Medium- to long-term
SABS	High	▲	▲	▶	▲
SABS Commercial	High	▲	▲	▶	▲

EVOLVING LEGISLATION, REGULATORY AND SOCIAL RESPONSIBILITY REQUIREMENTS

Macro trend

Globally, companies are increasingly required to monitor and mitigate how their activities and outputs affect their status as responsible corporate citizens, including:

- Workplace (including employment equity, fair remuneration, and the safety, health, dignity and development of employees)
- Economy (including economic transformation, gender equalities, prevention, detection and response to fraud and corruption as well as a responsible and transparent tax policy)
- Society (including public health and safety, consumer protection, community development and the protection of human rights)
- Environment (including responsibilities in respect of pollution and waste disposal as well as the protection of biodiversity)

In South Africa, regulations relating to occupational health and safety, data security, broad-based black empowerment and preferential procurement practices continue to evolve, contributing to increased obligations for all enterprises. The rise of e-commerce will also pose significant challenges to the regulatory environment.

Impact on the SABS value creation

More onerous regulations require businesses to engage conformity assessment services providers such as the SABS to ensure that their products and operations meet the required health, safety and environmental standards. Furthermore, in an environment of increased competition, many entities adopt best practice through the implementation of standards to remain competitive.

SABS as a business entity is also required to meet its obligations with regard to social and economic development, good corporate citizenship, environment, health and public safety matters, consumer relationships, and labour and employment matters. Non-adherence could result in fines, loss in business opportunities and a decline in reputation standing.

Strategic response

Growth

Productivity

	Impact of factor on business	Risk		Opportunity	
		Short-term	Medium- to long-term	Short-term	Medium- to long-term
SABS	Medium	▶	▶	▶	▶
SABS Commercial	High	▶	▶	▶	▲

ENGAGING WITH OUR STAKEHOLDERS

SABS is committed to accountability and transparency in line with its duty to all material stakeholders. It therefore engages regularly with stakeholders to understand their perceptions, needs and concerns to determine future trends, possible risks, identify material issues and support the organisation's strategy development

As the SABS fulfils a dual role of developing and maintaining national standards as well as providing conformity assessment services, engaging stakeholders is critical to the design and implementation of SABS' strategy.

In prioritising the material stakeholders, SABS applies the following criteria:

- The degree to which it depends on the stakeholders' support in achieving the strategic goals
- The extent to which these stakeholders can impact on organisational performance
- The relative importance of the stakeholder for the SABS as a whole, rather than for specific business functional areas
- The risk exposure for the SABS should its engagement with stakeholders be incomplete

The table below provides an overview of the material stakeholders, why they are important, their interest in the business and how the SABS engages with each group.

Stakeholder group	Why they are important	Their interest in our business	How we engage	Link to strategic theme(s)
Shareholder representative (**the dti**)	• Alignment of organisational activities to national priorities • Approval of the annual corporate plan • Assessment of resources necessary to deliver on the mandate and expected socio-economic impact • Source of grant funding to support various development activities	• Execution of the SABS' standards development role including IPAP and the standards action plan • Long-term sustainability and financial performance • Effective application of grant money • Promotion of standards in the region and regional industrial development • Reputation	• Regular meetings with the Minister of Trade and Industry and **the dti** • Quarterly reporting on strategic and operational matters	Growth Customer centricity Productivity

Stakeholder group	Why they are important	Their interest in our business	How we engage	Link to strategic theme(s)
Employees and trade unions	Engaged and motivated employees provide the skills and expertise to deliver on the SABS objectives	• Security of employment • Reward and recognition • Career progression • Education and training • Transformation • Corporate reputation	Staff engagement at numerous levels, such as performance reviews, training and development needs analysis	Attract, develop and retain skills Growth
Clients and industry associations	• Users of SABS products and services. Source of revenue and cash flow to support financial sustainability • Key participant in technical committees and SABS forums as part of the standard setting process • Involved in various ministerial and **dti** forums • Influences perception of the SABS	• Supply of quality and timely solutions to meet client needs • Good corporate citizenship • Reputation	• Contract and service agreements • Meetings • Industry conferences • Satisfaction surveys • Standards setting forums	Customer centricity Productivity Growth

Stakeholder group	Why they are important	Their interest in our business	How we engage	Link to strategic theme(s)
International and regional standards bodies	• Participation in the development of international standards • Promotion and application of standards in the region - contributes to the development of the Southern African economy	• Application of international standards locally • SABS seen as a key partner in the development of standards in Africa	• Membership to ISO, IEC, ARSO and SADCSTAN • Meetings • Standards forums	Customer centricity
Government and regulators	Develop legislation and policies that directly impact the SABS business. Provides the enabling regulatory framework in which the SABS operates	• Job creation • Legislative and regulatory compliance • Socio-economic impact • Environmental compliance • Transformation • Effective application of grant money	Regular communication, meetings with and reports to: • Standing Committee on Finance • Select Committee on Finance • National Treasury • Department of Labour	Growth Customer centricity Productivity Attract, develop and retain skills
Society	• End-user or beneficiary of many of the products tested for quality sold by the SABS' clients • Holds the SABS accountable to be a responsible corporate citizen in terms of social, environmental and governance matters	• Reputation of the SABS Mark Scheme • Effective application of grant money • CSI and socio-economic development projects • Opportunities for employment and business • Transformation	• Project specific engagements	Productivity Attract, develop and retain skills

STRATEGY AND STRATEGIC PERFORMANCE

The Department of Trade and Industry relies on specialised agencies and institutions, such as the SABS, to support its vision of a dynamic industrial, globally competitive South African economy, characterised by inclusive growth and development, decent employment and equity objectives, and built on the full potential of all citizens.

SABS provides services that directly impact on the performance of companies, industries and the economy by lowering the risk of product and service failures while breaking the information asymmetry on market requirements. The SABS supports economic growth through quality assurance. The organisation's legislative mandate is designed to increase the output of relevant standards and conformity assessment services to meet the needs of the South African economy and earn revenue to finance its expansion:

- Develop, promote and maintain South African National Standards (SANS) that facilitate development and regulation of national and regional economic activity as well as support the National Industrial Policy Framework (NIPF) and Industrial Policy Action Plan (IPAP).

  The SABS develops national standards through a consensus of participants in the development process. The quality of national standards depends on the extent to which they reflect the interests of society. The SABS aims to increase its geographic and social accessibility by using a combination of technology, new venues in other regional centres, and a customer oriented operating model to increase its market footprint in the South African economy.

  The national standards (SANS) are developed through national technical committees, guided by the SABS. The development of standards is fully funded by grant funding from government. While in other countries, companies pay to have representation on the technical committees, participation in South Africa is free. The SABS therefore can independently develop standards that support local manufacturers in domestic and export markets and enable trade. Some revenue is generated through the sale of standards. This is used to help fund some of the operational expenditure in the Standards division.

Standards specify requirements for entry into a market and are often used to make purchasing decisions. The SABS endeavours to ensure that the technical barriers to entry stemming from the national standards are appropriate for the developmental needs of the country. To do so, an economic impact unit in the Standards division evaluates the impact of standards and conformity assessment services to the South African economy.

The development of the manufacturing sector in South Africa through engineering and product design as well as growth in the SMME market is critical to stimulate socio-economic development in the country. Through its Design Institute, the SABS supports entrepreneurs and enterprises to embed design and innovation principles as key strategic capabilities as well as support product readiness from concept.

Through the SMME Support Services business, the SABS supports emerging businesses (SMMEs) to acquire system and product certification for their business. The main objective of system certification is to elevate the maturity of the management systems of these businesses to enable them to improve the quality of the products or services they offer. In order to ensure appropriate separation of consulting and actual certification, the SMME Support Services unit does not get involved in certification, but only advises on the pre-certification to assist enterprises prepare for certification.

SABS strategy

VISION

To be the trusted standardisation and quality assurance provider of choice

Strategic pillar 1 Growth	**Strategic pillar 2 Customer centricity**	**Strategic pillar 3 Productivity**	**Strategic pillar 4 Empowered and competent employees**
Increase the use of standardisation services by broadening the geographical footprint as well as the scope of services offered	Put the customer at the forefront of everything we do	Improve the operational performance of the SABS to enable delivery of quality outputs for customers and the South African economy	Develop and retain a competent human resource that is aligned with the mandate of the organisation

- Provide conformity assessment services on a commercial basis

  The SABS provides most of the conformity assessment services on market terms, by leveraging the long standing association of its brand with quality in South Africa. The SABS Mark Scheme provides the basis for the organisation's competitive advantage. The Scheme was built during the years of economic sanctions when the SABS had a monopoly over this market, as well as the capacity to supply the scope and depth of most conformity assessment needs of the country and its neighbours. The advent of democracy has brought changes and challenges to the SABS' dominance of the market and requires it to meet increasingly aggressive competition. Nevertheless, the SABS' services cannot simply be substituted by those of its competitors, as the latter often pursue narrow profit objectives. The SABS, on the other hand, is part of the state's economic development infrastructure and therefore carries a broader mandate for South African brand integrity.

  To deepen and expand its services, the SABS must grow its external commercial revenue base to fund its mandate and ever advancing technological change. The SABS has the opportunity to use the strength of its brand and relationships to build market share while also proactively launching new schemes to gain first-mover advantages. Consequently the SABS has implemented a revenue and profitability growth strategy, as growth is necessary to support a sustainable flow of standards development and conformity assessment services to the country in the long-term.

Performance against strategic objectives and three-year targets

Strategic pillars	Strategic objectives	Desired output	Performance indicator
Growth	Increase the use of standardisation services by broadening the geographical footprint as well as the scope of services offered	Increase in revenue	Total revenue
		Financial sustainability of the SABS	Operating profit %
		Increase in products / services offered	Products / services diversification with government and socio-economic priortities
Customer centricity	Put the customer at the forefront of everything we do	SMME and entrepreneurship development	Number of SMMEs for which design and standardisation interventions are implemented
		Improvement in stakeholder relations	Number of sector-specific publications produced
			% of standards development projects completed as per the IPAP Plan
Productivity	Improve the operational performance of the SABS to enable delivery of quality outputs for customers and the South African economy	Execution of strategies to improve the sustainability of the organisation	% of laboratories that are profitable
		Increase in operational effectiveness and efficiency in standards development	Progress against the implementation of the standards action plan directly aligned to national imperatives
			Number of service lines whose business processes are automated
		Optimisation of the property assets of the SABS	Progress against the implementation of the SABS property strategy
Empowered and competent employees	Develop and retain competent human resources that are aligned with the mandate of the organisation	Development of technical expertise	Number of technical employees that have completed specialist training with leading partners
			Number of doctoral and masters' graduates recruited into the knowledge hub sectors in support of testing and standards development

Annual target met or exceeded

Annual target not met

For more on operational and financial performance refer to the CEOs, financial and operational reports. Refer to page 95 for explanations on targets not met

2017/18 Target	2017/18 Actual	Status	2018/19 Target	2019/20 Target	2020/21 Target
R563.3 million	R516.4 million	●	R560.4 million	R601.8 million	R657.6 million
0%	2.0%	●	Not a measure	Not a measure	Not a measure
2	2	●	2	4	5
70	73	●	75	80	80
4	4	●	4	6	8
>80%	78%	●	>80%	>80%	>80%
>55%	64%	●	>70%	>80%	99%
65%	75%	●	Not a measure	Not a measure	Not a measure
3 by 2017/18	3 by 2017/18	●	Not a measure	Not a measure	Not a measure
Complete Groenkloof property development plan	Property development plan completed. Appointment of partner deferred	●	R5 million property income allocated to fund testing infrastructure	R10 million property income allocated to fund testing infrastructure	R15 million property income allocated to fund testing infrastructure
8	13	●	10	12	18
2	3	●	2	6	8

MANAGING RISKS

Enterprise risk management is an integral part of the SABS' effort towards opportunity maximisation. The Board thus actively managed risk in pursuit of organisational goals and objectives. The Board also recognised that the realisation of its mandate depends on the leadership team being able to take calculated risks without compromising the SABS' legislative mandate and delivery of quality service to all stakeholders.

Risk management

SABS adheres to the risk policies and processes aligned to the King code of corporate governance. The Risk Committee of the Board provided responsibility for risk management oversight. The organisation has adopted an enterprise-wide risk management (ERM) approach to the management of risks impacting the strategic and operational objectives of the organisation. The risk and compliance department headed by the Chief Risk Officer is responsible for the ERM portfolio and is tasked to implement effective and efficient systems of risk, ethics and compliance management in the SABS in line with the PFMA and relevant prescripts. The risk management portfolio includes:

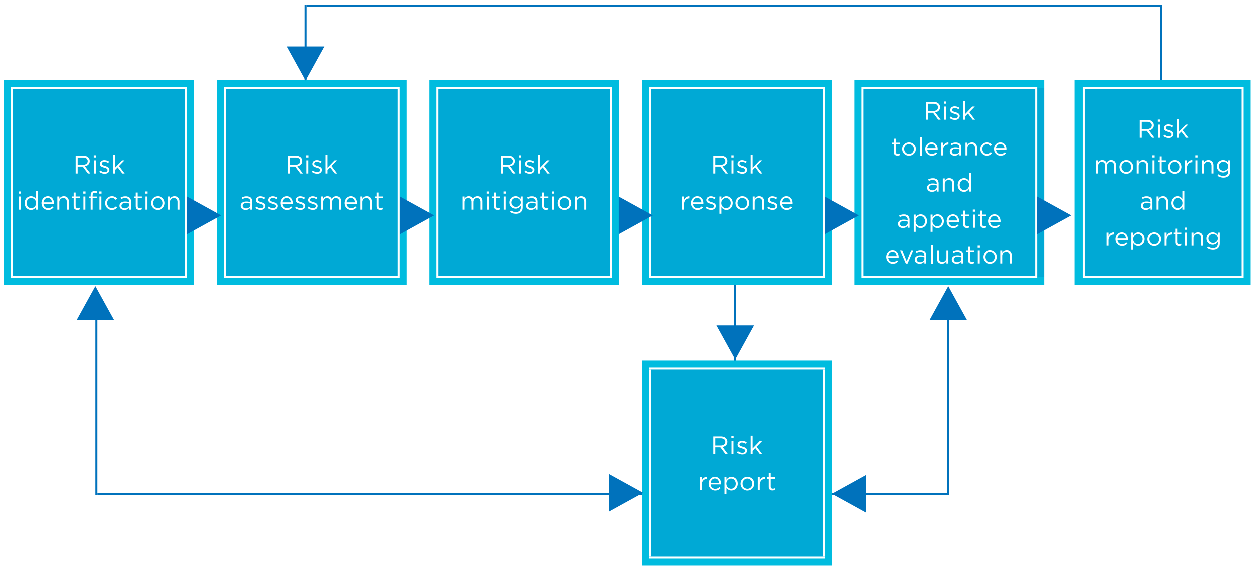
- Risk management
- Strategic risk management
- Operational risk management
- Project risk management
- Anti-corruption, fraud prevention and awareness
- Business continuity management
- Compliance management
- Ethics management

Combined assurance - Five lines of defence framework

SABS has adopted a "five lines of defence" model to manage risk. The model defines the roles and responsibilities for the management of risk and emphasises the fundamental concept that risk ownership and management is everyone's responsibility, from Board level and throughout the business. The model is summarised below.

Line of defence	Role	Responsibility
First	Management and business	Owns and processes risk management policies and procedures
Second	Specialist functions	Provides specialist support to management in the management of risk. Includes areas such as risk and compliance, accreditation as well as HSE units
Third	Internal assurance providers	Supplies independent assurance on the effectiveness of risk management by internal auditors
Fourth	External assurance providers	Gives independent assurance on the effectiveness of risk management by SABS' external auditors
Fifth	Board	Oversees the activities of SABS and accountable to the shareholder for strategy and performance

SABS' risk management framework



Material risks and mitigation strategies

During the year, the former Board considered various reports from management on the key strategic risks facing the SABS. Two new emerging risks were identified: aging infrastructure and standards development. The risk related to the temporary loss of SANAS accreditation in 2015 has reduced from the previous financial year. The remaining risks remained unchanged. The key risks for the year were:

A – Financial sustainability
B – Loss in stakeholder confidence and customer satisfaction
C – Aging infrastructure
D – Loss in accreditation
E – Compliance and governance, including fraud and corruption
F – Inadequate management of talent and performance
G – Health, safety and security
H – Inadequate modernisation, integration of systems and ICT security
I – Standards development

Further detail, together with their potential impacts and mitigation actions are presented on pages 30 and 31.

Risk	Movement in risk from FY2017	Key mitigation actions in place or being planned	Strategic response
A - Financial sustainability	Risk unchanged	• Develop and execute on the new business pipeline to convert leads to sales as well as cost management programme • Upgrading of aging infrastructure to improve productivity and operational efficiency	Growth Productivity Customer centricity
B - Loss in shareholder, stakeholder and customer confidence	Risk unchanged	• Implement the Industrial Policy Action Plan (IPAP) in line with the corporate plan which includes standards development and regional integration deliverables • Monitor customer satisfaction indices and customer care line • Implement an enhanced stakeholder engagement and customer interface protocol • Develop new digital channels to improve the customer experience and improve service/product request and customer engagement, turnaround times and provide better visibility of customer and stakeholder engagements	Customer centricity Productivity
C - Ageing laboratory infrastructure	Emerging risk	Develop and implement an infrastructure upgrade or maintenance plan	Productivity
D - Loss of accreditation	Risk decreased	Implemented an annual plan for the maintenance of accreditation status in the certification, testing and training businesses	Productivity
E - Compliance and governance, including fraud and corruption	Risk unchanged	• Conducted register of applicable legislation maintained and compliance audits. Conducted detailed compliance and legislative gap analysis and implemented plans to close the gaps • Fraud prevention plan as well as a fraud hotline is in place. Develop and implement an ethics management strategy	Productivity

Risk	Movement in risk from FY2017	Key mitigation actions in place or being planned	Strategic response
F - Inadequate management of talent and performance	Risk unchanged	• Implement a performance management compliance framework to reinforce governance, compliance and improved compliance culture • Implemented a talent management strategy	Empowered and competent employees
G - Health, safety and security	Risk unchanged	Strengthening processes related to health, safety, environment (HSE) and security management across all areas, including: • Increasing awareness through health and safety training and induction • Appointment of health and safety representatives • HSE risk assessments and medical surveillance • Designing a security system based on physical security risk assessments and gaps identified	Productivity Empowered and competent employees
H - Inadequate modernisation, integration of systems and ICT security	Risk unchanged	• ICT strategy and oversight by an ICT steering committee • Implementation of an ICT digitisation strategy to support business transformation over the next three years. Project commenced during 2017/18 and includes upgrading of key hardware and software	Productivity
I - Standards development	Emerging risk	• Capacitate the standards/review function (fill the vacant positions) • Develop and implement the standards development project management plan • Implement standards stakeholder engagement plan for improved relations	Productivity

PERFORMANCE AND OUTLOOK

ACTING CHIEF EXECUTIVE OFFICER'S REPORT

In a complex and dynamic global economy the policy instruments available to the SABS can be powerful tools to support local manufacturing and the industrialisation effort. The vision of the SABS is to be the trusted and apex standards and conformity assessment institution in South Africa.

The operating environment

The SABS has performed its functions under difficult economic conditions during the year under review. The lacklustre national economic growth, with low levels of business confidence, policy uncertainty, and institutional failures in both public and private sector institutions and companies, characterised the year. These and many other factors, contributed to a decline in expenditure patterns and resulted in increased pricing pressure, which in turn, has had an adverse impact on the SABS. South Africa's real GDP growth grew to 1.3% in 2017 (from an upwardly revised 0, 6% in 2016) but was well below the growth levels required to address the deep structural economic problems, especially high levels of poverty, inequality and unemployment. On the other hand, consumer price inflation did decelerate in 2017 to below the mid-point of the inflation target range by the end of the financial year.

Delivering on the SABS strategy

The SABS provides a range of national standards development and conformity assessment services to support both government and the private sector. The SABS receives a fiscal transfer from **the dti** and generates revenues from its conformity assessment services in an increasingly competitive market.

Subsequent to year-end, the Minister of Trade and Industry placed the SABS under administration and appointed three Co-administrators to act as the Accounting Authority of the institution. The Co-administrators were tasked with developing a diagnostic report and turnaround strategy for the institution. Since this process was only implemented after the end of the financial year, neither the diagnostic report nor the turnaround strategy is captured in the Integrated Annual Report. Suffice to state that a number of significant problems have been identified which include the following:

- The existence of a significant gap between the policies of national government and the sole shareholder, which in this case is contained in successive annual iterations of IPAP, and the policies and practices of the SABS
- Serious problems in relation to the financial sustainability of the institution, which is captured in part in the findings of the Auditor-General's report as included in this Integrated Annual Report
- Institutional weaknesses in the level of governance, policies and operations of the SABS

Nevertheless, the SABS is a critical technical infrastructure institution which is at the heart of the standards, quality assurance and metrology (SQAM) institutions in South Africa. The SABS has retained significant capacities and capabilities and will be returned to its pre-eminent place as a provider of professional and quality services to government and its agencies as well as the private sector.

Standards development and promotion

The development of South African National Standards (SANS) by the SABS is a key service which is provided to South African society. Standards and conformity assessment services, which are linked to standards, play a very important role in ensuring that South African manufactured products and imported products, which bear a SABS Mark, conform to the highest standards which support industrial, economic and export growth. In a fast changing market place characterised by quantum leaps of technology and disruptive changes to production systems and products, national standards play a critical role in enabling and supporting the development of technology and innovation. National standards also play a vital role to ensure that products, components and services are compatible and interoperable in the national economy.

7 430 national standards are currently maintained by the SABS. An emphasis is placed on developing standards that are aligned to the national industrial priorities as set out in the IPAP. Notwithstanding the need to continuously improve operational efficiencies, the main focus in the year was an attempt to ensure that standards produced are timely, relevant and serve as important policy instruments to protect local, regional and international consumers from poor quality and unsafe products. In the year, 308 standards were published of which 149 were 'home grown'. 107 new standards were published, covering amongst others, the telecommunications, manufacturing, engineering, services and health care sectors.

In the course of the financial year, the SABS committed to support nine IPAP standardisation projects. By year-end, seven projects had been successfully completed, which represents a completion rate of 77.8% against a target of 80%. The two remaining deliverables will be completed in the next financial year. See the side bar for more on the projects completed as part of SABS' commitment to IPAP.

The Standards Act of 2008 advocates for a consultative standardisation process and makes provision for the establishment of a government consultative advisory forum. Whilst the establishment of such a forum is a work-in-progress, three external stakeholder consultative workshops were held during the year. At these workshops draft 'roadmaps' for energy, agro-processing and construction were developed with interested and affected parties.

The SABS continued to participate in and play and influential role in international and regional standardisation organisations through our

KEY PROJECTS COMPLETED AS PART OF 2017/18 IPAP PROGRAMME

1

PROJECT
New standards on communication networks and systems for power utility automation

IPAP PRIORITY AREA
Electro-technical and ICT

RATIONALE FOR INCLUSION IN IPAP
The standards developed support the Department of Energy's strategy on smart grids. Smart grids are a class of technology used to bring utility electricity delivery systems into the 21st century, using computer-based remote control and automation. The SABS is also developing standards to support the electrical and electronics manufacturing sector by providing safety requirements of products.

2

PROJECT
Revision of standards for fuel cells

IPAP PRIORITY AREA
Advancing beneficiation

RATIONALE FOR INCLUSION IN IPAP
The standard will contribute towards development of the fuel cell industry which is critical to overcoming the country's electricity supply constraints. Key industry stakeholders and government are making significant progress in accelerating local manufacturing under the fuel cell technology programme.

3

PROJECT
New standard for servicing valves for domestic terminal water fittings or appliances

IPAP PRIORITY AREA
Water and sanitation standards support programme

RATIONALE FOR INCLUSION IN IPAP
The minimisation of water losses is critical to preserving water resources which are under threat by prevailing drought conditions. The standards on servicing valves for domestic water fittings, and on alternative water saving solutions such as greywater reuse systems, will benefit the sector.

presence on the councils, technical boards and management committees of ISO, IEC, ARSO and other institutions. A key highlight was the selection of SABS as host of the 24th ARSO General Assembly held in Durban from the 18 – 22nd of June 2018. ARSO seeks to enable intra-African trade through the provision of harmonised standards.

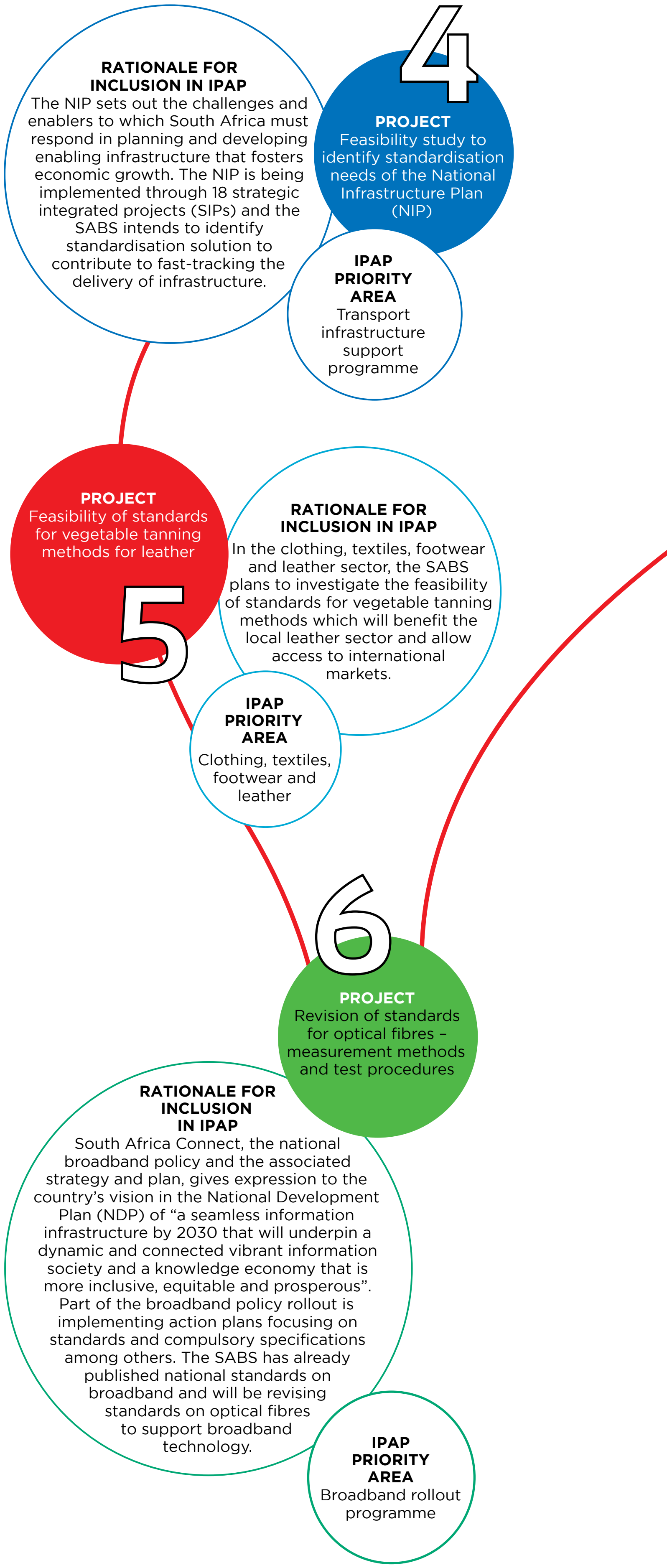
Promoting design and innovation in the domestic economy remains an element of the SABS service offering. There is widespread agreement that countries that support design and innovation, in addition to creating an enabling environment for technology absorption and diffusion, have developed important and sometimes unique capabilities, which improves their global competiveness and has driven progress with respect to their development goals. The SABS also subsidises and supports SMMEs, particularly with respect to their preparation for certification in accordance with SANS. The SABS' focus is on assisting emerging companies to enter the market. During the year 73 SMME's were supported.

Conformity assessment services

The SABS offers conformity certification, testing and training services to a wide range of economic sectors. These services are aligned with national and international standards and specifications. The market for conformity assessment services is characterised by strong competition which impacts upon the demand for services and has placed downward pressure on prices and profit margins as well as the requirement of high quality and efficient service provision.

SABS revenue from conformity assessment services increased to R516 million, up by 3.1% from the R500.9 million generated in 2016/17 but was 8.3% below the target of R563.3 million. The previous suspension of the SABS accreditation by SANAS and serious operational problems in the issuing of permits contributed to this state of affairs.

Furthermore, the state of the SABS laboratory infrastructure and testing equipment constitutes a significant problem. Testing is a capital and



technology intensive business. The failure to ensure adequate and consistent investment in the recent years has led to sub-optimal performance in the laboratory division. A core element of the turnaround strategy, which is being put in place by the Co-administrators, will be to secure funding for capital investment from both fiscal transfers as well as revenue generation. Sufficient levels of funding are critical to support an infrastructure maintenance and renewal programme for the laboratories which will allow the SABS to play its rightful and important role in the support of industrial and economic development efforts. It is envisaged that a sum of R450 million will required over the next three years to achieve this purpose.

Significant operational problems persist with regard to business development, marketing, sales, client and customer services as well as effective stakeholder engagement and management. Initial steps have begun to effect the necessary improvements to operating systems that support these activities and a detailed plan is being developed in this regard.

Productivity

The SABS will increasingly pay special attention to productivity issues and performance challenges. In order to drive productivity and competitiveness at the SABS, a number of business platforms are in the process of being digitised, integrated and optimised. Business intelligence dashboards and reports have been built and are used in real time to track key business processes. In the year, three human capital and legal service processes were automated.

A further focus for the year was the creation of an ICT architecture blueprint in preparation for the transformation programme which will stabilise the ICT environment, transform the Certification and Accreditation business processes with online digitised tools and to upgrade the bandwidth to all business premises to cater for existing and future business needs. An ICT strategy has also been developed and approved. The strategy leverages on work carried out over the previous year which aims to enable the effective and efficient deployment of people, processes and technologies. Going forward, specific focus will be to adopt a digital business model to strategically and effectively optimise key business processes that drive efficiencies, whilst maintaining data integrity and facilitating good governance. Key initiatives include:

- Online customer channels to facilitate all sales and e-commerce
- An online customer portal to enable customer authentication to perform advanced engagements with the SABS
- Customer collaboration to share knowledge through digital means and enable third part engagements
- Digital certification
- Digitised business processes for all core business activities
- Real time reporting of all customer engagements and business activities
- Enterprise digital content management to enable a paperless business

SABS finances

Total income for the year was R815.6 million (2016/17: R736.8 million), including a grant received of R243.2 million (2016/17: R183.2 million) as part of the annual fiscal transfer. Certain SABS operations and infrastructure investments are annually funded by the fiscus. Operational expenditure reflected a year-on-year increase of 7.6% to R872.5 million. The net loss of R48.2 million was 8.5% higher than the R44.4 million loss in the 2016/17 financial year. Whilst the overall financial position of the SABS reflects net assets of R837 million and cash and cash equivalent resources of R126 million, the SABS finds itself in a constrained financial situation and the turnaround strategy will seek to ensure that financial sustainability is placed at the centre of all future planning.

Competent and empowered employees

The staff of the SABS constitute its most valuable resource. The SABS is committed to attracting, developing, retaining and rewarding committed and competent employees.

The services provided by the SABS requires highly technical decisions and processes by our employees involved in the delivery process. Competent employees are therefore central to the achievement of high productivity and optimal service delivery. Accordingly, 237 employees received training at the SABS Training Academy in the fields of quality and environmental management, food and general. 13 technical employees received specialist training from SABS technical partners abroad. Efforts to increase the number of doctoral and masters graduates in the organisation in support of testing and standards require much stronger attention.

Looking ahead

The SABS has been placed under administration. The development of a diagnostic and a turnaround strategy is underway by the Co-administrators. Notwithstanding numerous problems and challenges, set out in part herein, the SABS still has immense inherent potential which will be enabled and institutionalised. This includes the need for a far greater alignment with the policy framework of the shareholder, **the dti**. In this regard the following steps have been initiated for the immediate future:

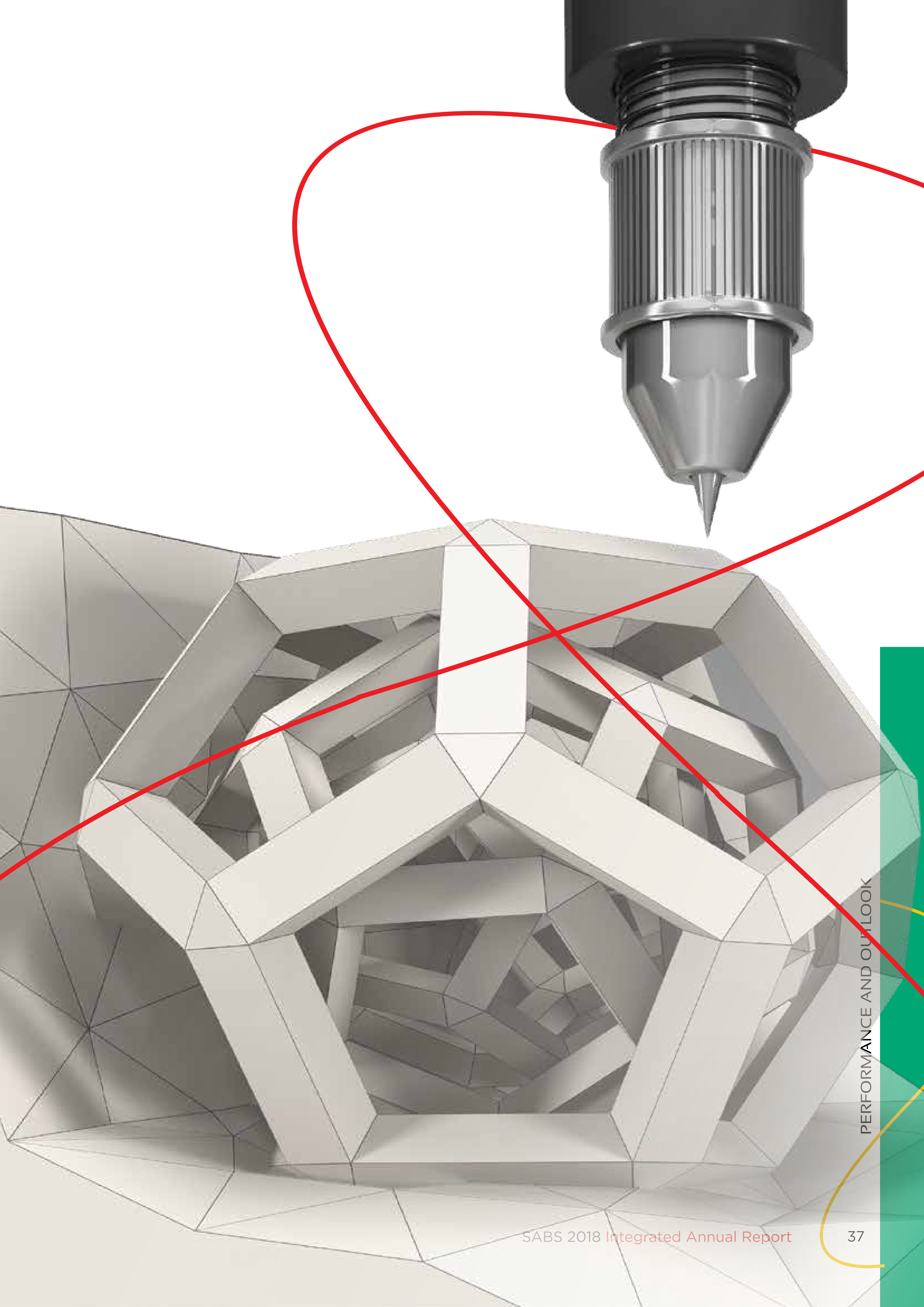
- The SABS will reintroduce customer specific requirement testing (also known as partial testing) subject to legal compliance and will be carefully sequenced
- Significantly scale up the ICT programme to ensure an integrated and efficient customer experience, service and product requests, improve customer engagement and turnaround times and a better visibility of customer and stakeholder engagements
- Leverage the SABS digitisation strategy to automate and integrate all critical business processes
- Upgrade the aging testing infrastructure to better serve industry and improve productivity and financial sustainability
- Put in place a programme to enhance strategic relationships with other regulatory bodies, industry and the public and private sector entities to secure a functioning eco-system of standards, conformity assessment services, innovation and build technical support measures to support the economic and development effort of South Africa

This work will be detailed in the strategic turnaround and operational plans of the institution under the oversight of the Accounting Authority and in close alignment with the shareholder.

Appreciation

In my capacity as the Acting CEO, I wish to express my appreciation to the management and staff of the SABS, the personnel from **the dti** with whom the SABS work closely, SABS clients and a wide variety of stakeholders. Notwithstanding the problems and challenges which have been encountered during the year, I am confident that these challenges can be overcome with the shared and collaborative efforts of all concerned.

Garth Strachan
Co-administrator and
Acting Chief Executive Officer



SABS LEADERSHIP AS AT 31 MARCH 2018

DR BONAKELE MEHLOMAKULU (45)

Chief Executive Officer (Resigned with effect from 31 July 2018)

Date appointed as executive: 7 September 2009
Date appointed to SABS: 7 September 2009
Qualification: PhD (Chemical Engineering)

BOITUMELO MOSAKO (39)
Chief Financial Officer (Resigned with effect from 1 April 2018)

Date appointed as executive: 11 August 2015
Date appointed to SABS: 11 August 2015
Qualification: CA(SA)

IAN PLAATJES (52)
Executive: Corporate Services

Date appointed as executive: 8 July 2015
Date appointed to SABS: 8 July 2015
Qualification: MBA, Diploma: Electronics, BA (Psychology), Higher Diploma: Management

JOHAN LOUW (43)
Executive: Laboratory Services

Date appointed as executive: 1 February 2018
Date appointed to SABS: 1 February 2018
Qualification: B. Engineering (Chemical)

SADHVIR BISSOON (45)
Executive: Training, Risk and Assurance

Date appointed as executive: 1 August 2011
Date appointed to SABS: 1 August 2003
Qualification: D-Tech (Biotechnology)

ZINGISA MOTLOBA (45)
Executive: Standards

Date appointed as executive: 1 September 2017
Date appointed to SABS: 1 September 2017
Qualification: BA, LLB, MAP, MBA, Admitted Attorney

AMANDA GCABASHE (42)[2]
Executive: Certification

Date appointed as executive: 1 September 2016
Date appointed to SABS: 1 June 2011
Qualification: B.Com

2 Appointed Executive: Certification from 1 April 2018. Prior to appointment, acted as Executive: Laboratory Services

STANDARDS DEVELOPMENT AND PROMOTION

Companies are facing fundamental changes in the way they do business. Strategies and business practices are continually being evaluated to determine how to maintain and increase market share, reduce costs, increase productivity and safety, and achieve and maintain a competitive edge.

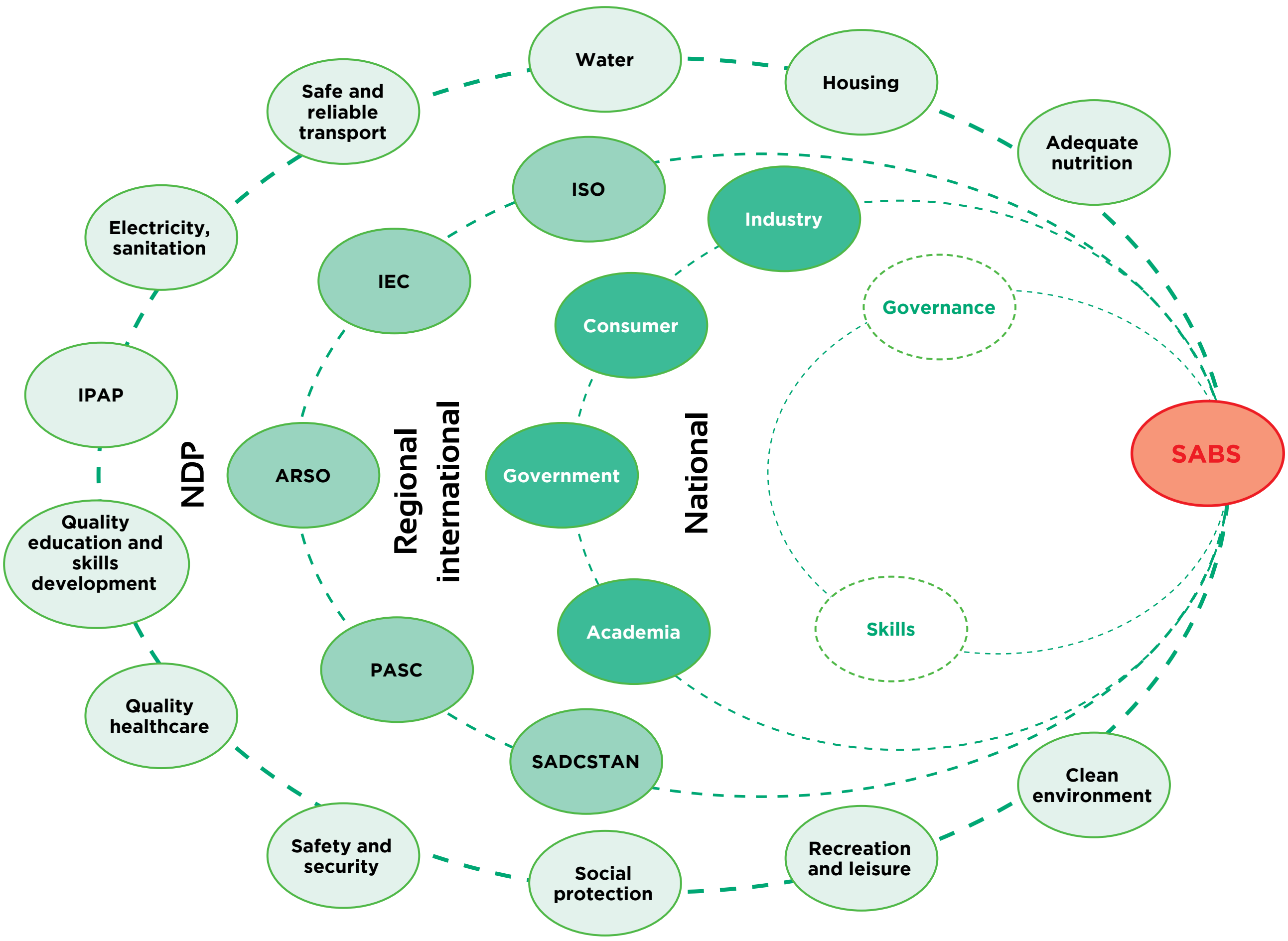
While government needs national standards to catalyse economic activity to achieve societal benefits and to facilitate interoperability of products in support of local manufacturers to compete in the domestic and overseas markets, industry needs standards to support innovation within a context of interoperability, for protection against poor quality products, to comply with societal expectations, and to lower the cost of inputs. Developing, maintaining and promoting South African National Standards (SANS) is the primary function of the Standards division of the SABS. Crucial to this process are the more than 300 technical committees and subcommittees administered by SABS Standards to support the consensus building process at the centre of the production of national standards. These technical groups set minimum quality requirements for products and services in the interests of economic growth. The impact of this work is far reaching and multi-faceted, ranging from increasing the quality of production, to enhancing safety standards, protecting the environment, and aligning with international best practice. At present, 7 430 published standards are regularly maintained to ensure their technical and national relevance.

National standards development action plan

The National Standards Development Framework (NSDF), approved by the SABS Board, provides a three-year work plan that guides investment into the development of national standards and adoption of international standards in the socio-economic policy environment. The current NSDF covers the years from 2015/16 to 2017/18. A key priority of the framework is balancing health, safety and environmental concerns with the rewards of trade, innovation and economic competitiveness of all stakeholders, as well as ensure alignment to national priorities. For 2017/18, in addition to its normal standards development and review activities, the key focus areas were on:

- Development of industry sector standardisation roadmaps in conjunction with affected and interested stakeholders
- Implementing initiatives with government on standards development agenda in support of national priorities
- Driving initiatives aimed at facilitating balanced and increased stakeholder participation in development of national standards

National standards development framework

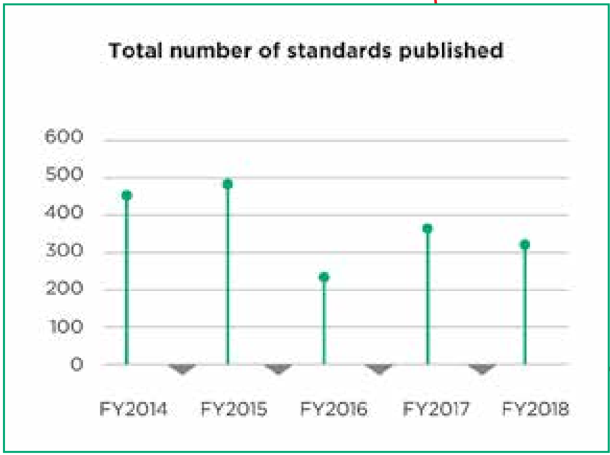


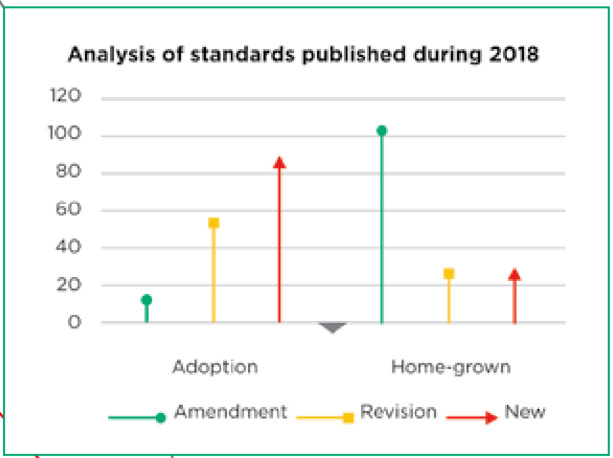
Operational performance

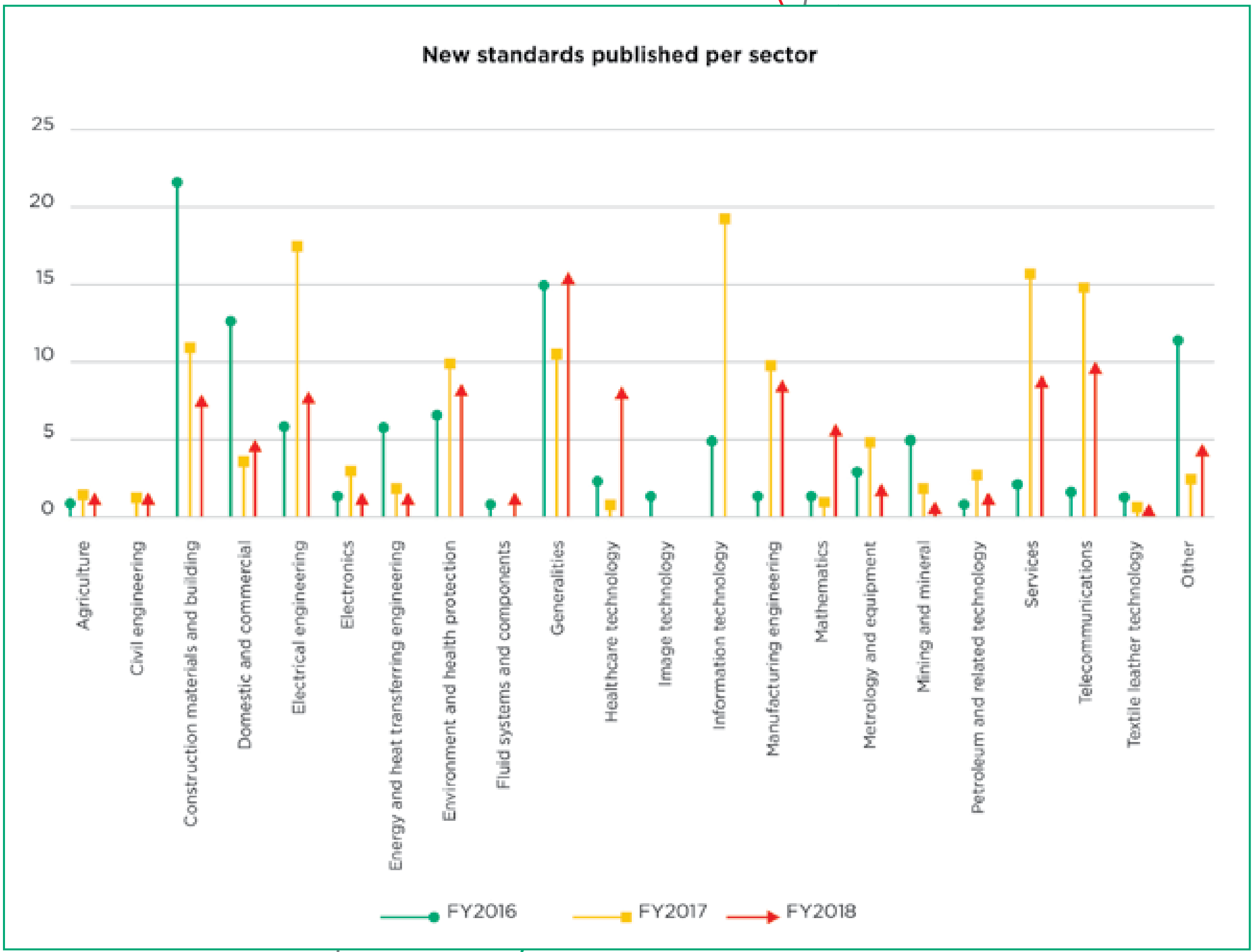
Standards development

During the year, 308 national standards were published, of which 149 were home grown. 109 of the 308 standards were newly developed publications. 890 published standards were reaffirmed for use after a periodic review. Since 2014, 1 870 national standards have been published. Even with a notable reduction in capacity, the average days to publication achieved to publish a national standard improved marginally to 421 days for the year compared to 423 days in the previous year.

At the end of the year, the programme of work (POW) included 660 standards projects in various stages of development. 174 out of 194 proposals for the development of standards that were submitted for approval to the Standards Approval Committee during the year were approved as new work-item-proposals (NWIPs). These cover sectors such as agriculture, engineering, construction material, environment and health protection, healthcare technologies and telecommunications.







PERFORMANCE AND OUTLOOK

EXAMPLES OF NEW STANDARDS OR APPROVED RECOMMENDED PRACTICES (ARP) PUBLISHED

1

SANS 909: *Pet food – Nutritional and manufacturing requirements*. Specifies nutritional requirements for commercially prepared pet food, complementary and complete, for dogs and cats

2

SANS 1286: *Local goods, services and works – Measurement and verification of local content.* Specifies the basic requirements and procedures to define, measure, declare and verify the local content of goods, services and works when required for procurement and other purposes

3

SANS 1688: *Conformity assessment for African traditional medical products (medical plants).* Provides general technical guidance in the assessment of quality and safety of African traditional medicinal products for human application, with regard to both major and common contaminants and residues

4

SANS 1756: *Packaging, paper potato bags.* Covers paper bags that are intended for use primarily for the packaging of potatoes that are over five kilograms

Economic impact and industrial policy

The Economic Impact and Industrial Policy department of the SABS has a critical function as the guardian of delivering a net benefit to society. It is responsible for evaluating project proposals for development of standards through the approved process set out in the Standards Development Norm (SANS 1-1), guided, where applicable, by stakeholder approved standards development agreements. Economic Impact and Industrial Policy also assesses the impact of such standards after they have been published.

During the year, the SABS conducted a standards and competition law indaba aimed at sensitising stakeholders about competition issues that can negatively affect standards development, as well as three external stakeholder consultation workshops where draft roadmaps for energy, agro-processing and construction were presented. Input and comments were sourced from the key stakeholders to compile sector development agreements (SDA) for these sectors. This brought the progress on the action plan to 75% against a target of 60%. The document has been finalised for circulation to workshop stakeholders for confirmation prior to publication and incorporation into the standards development programme of work.

5

SANS 1866: *Medical devices, Medical face masks and medical respirators.* Covers the minimum performance requirements for materials used in the construction of medical face masks as well as the materials, classifications and performance requirements for medical respirators, intended to limit the transmission of infective agents in the healthcare environment

The SABS is the appointed World Trade Organisation's (WTO) "Technical Barriers to Trade" (TBT) enquiry point in South Africa. The WTO TBT enquiry point is responsible for the functions of an enquiry point as decided by the TBT committee and serves as the focal point for disseminating information to concerned regulatory departments and authorities on South Africa's obligations under the TBT agreement.

The WTO/TBT enquiry point strategy focuses on disseminating relevant information on time as well as serving as a support system to stakeholders (i.e. industry players and government institutions) that participate in the international trade environment. One of the key objectives is to increase subscription numbers to the WTO early warning system to ensure that information is widely disseminated to stakeholders. 33 new subscriptions were concluded during the year, bringing the total number of subscriptions to 307. The top five industries in terms of subscriptions are generalities (terminology, vocabulary, quantities, graphical symbols, technical drawing, and standardisation), agriculture, electrical engineering, metallurgy, and food technology.

Strategic partnerships, international and regional relations

International and regional standardisation plays an important role in connecting countries and communities in the standardisation ecosystem. This has long been recognised in the developed world, particularly in Europe and the Asia-Pacific region. The SABS enjoys a position of regional and international influence from which it advances South Africa's international collaborative aspirations, as well as learning from and contributing to international best practice, with regard to the content and pace of changes in the international trade technical infrastructure. By focusing on the development of stakeholder engagement strategies and the reconciliation of interests for different stakeholder groupings, as well as responding to feedback, the SABS has engaged in meeting the needs of the key stakeholders.

The Standards division facilitates and oversees South Africa's participation in development of international and regional standards. This is not only to ensure that our participation is relevant to national priorities, but also to ensure that South African experts contribute to and learn from their counterparts in industry innovation and collaboration.

6

ARP 037: *Safety of playgrounds – Playground supervision.* Provides practical guidelines for persons who are directly responsible for overseeing children during their time in playgrounds and play areas

7

ARP 1690: *Guide for the implementation of reasonable tourism*. Establishes clear definitions for the 41 criteria of SANS 1162 for ease of implementation of SANS 1162

For the reporting period, South Africa continued to contribute meaningfully to the strategic direction of the main international and regional standards bodies by participating in the highest decision making levels of these bodies as Chairman of SADC Cooperation in Standardisation (SADCSTAN), Executive Secretariat of the African Electro-technical Standardisation Commission (AFSEC), Member of Council of the African Organisation for Standardisation (ARSO), Council Board Member of the IEC, and Chairman of ISO CASCO. The country's term in the highest decision-making levels of ISO, ISO Council and Technical Management Board (TMB) ended in September 2017 after several years of contributing to the strategic direction of ISO. The organisation also participated in the Pacific Area Standards Conference (PASC) and Pan American Standards Commission (COPANT).

Financial performance

The standards development and promotion activities of the SABS are broadly funded by an annual grant allocation from the South African government. During the year, a government grant of R140.5 million (2016/17: R105.4 million) was allocated to the division. Revenue from the sale of standards was R27.6 million against R29.5 million in the prior year. Operational expenditure, excluding corporate charges, was R74.5 million, compared to R73.5 million in the previous year.

Outlook

The SABS' future thrust is to activate and strengthen the effectiveness of the various stakeholder engagement platforms to achieve better alignment with national policy and the developmental imperatives. This will include rigorous consultation and collaboration across the standards value chain, training and development, the promotion of standards and the strengthening of local, regional and international relationships as well as a review of the Standards Development Framework. In addition, the SABS will review the standards pricing policy, cost methodology project, market share analysis and the implementation of standards IP and copyright policy to enable affordability and easy access to South African National Standards. Ultimately, these efforts should significantly and tangibly contribute to the economic growth and regional trade ambitions of South Africa, while also increasing SABS' footprint in southern Africa and in the rest of Africa.

In the next three years, the SABS' focus will be on:

- Revision of the standards action plan to maintain alignment of standards with the Industrial Policy Action Plan
- Determining the impact of standards on the South African economy and delivering topical and relevant publications
- Engaging with government structures, the private sector and relevant forums to strengthen collaborations and uptake of standards
- Participating and informing the strategic agenda of key regional and international standardisation bodies
- Strengthening the standards development and governance processes to ensure broader representation and improved mechanisms to guard against anti-competitive conduct, thereby creating more credible outputs and optimal conditions for catalysing market growth
- Identifying and exploiting strategic thought leadership platforms to facilitate the improved use of standards and speed up the use of standards in the product innovation space
- Promoting standardisation through a select number of relevant publications and colloquia to increase awareness of standards and their centrality in supporting inclusive growth, opening up of markets, etc.
- Improving the skills and competencies of employees for alignment with the development needs of the country
- Implementing better education about the standardisation programme

CONFORMITY ASSESSEMENT SERVICES

The SABS, through its wholly-owned subsidiary SABS Commercial SOC Limited (SABS Commercial), offers certification, testing, inspection, verification and training services to a wide range of economic sectors, both locally and abroad. Its services are set against national and international standards and specifications.

SABS Commercial is the custodian of the SABS Mark Scheme, the principal seal of quality in South Africa. With its proud tradition in the South African economy, the SABS Mark is the promise of acceptable quality levels. It provides the assurance that products have been tested and inspected to ensure that they meet all minimum safety and quality requirements, and manufacturing processes meet predetermined requirements.

CERTIFICATION

SABS Certification, a division of the SABS, provides independent third-party certification services. The main services are quality management system and product certification (SABS Mark Scheme), consignment inspection and local content verification. The clients are in various sectors such as the food and health, chemical, environmental, health and safety, timber and fibre, electrical, mechanical, civil, transportation, services and automotive sectors. Through this division, the SABS provides the assurance that products, systems and services comply with predefined standards.

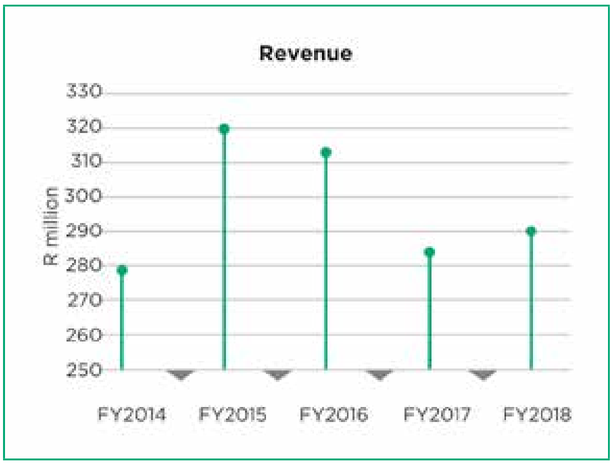
In terms of the accreditation requirements, the SABS has an impartiality committee to safeguard against practices that may compromise the impartiality of its certification activities. This committee includes representatives of SABS clients, academia, and non-governmental organisations, among which are consumer and small business interests.

Performance overview

Highlights	Lowlights
• General customer service levels have improved through greater efficiencies • Maintained RVA, SANAS and FSSC accreditation • Cleared backlog in expired permits	• Revenue continued to be impacted by loss of accreditation in 2015 due to SANAS suspension • New entrants to the market increased competition

Statistics		
	FY2018	**FY2017**
Staff	**189**	183
Revenue (including intergroup)	**R291.3 million**	R285.9 million

The Certification division achieved revenue of R291.3 million, marginally up from the R285.9 million achieved in 2016/17. Increased competition from local and international certification bodies as well as the lingering impact of the temporary loss of accreditation in 2015 continued to impact the ability of the SABS to retain clients. Profit, before corporate charges, improved significantly by 14.8% to R54.4 million (2016/17: R47.4 million) on the back of various cost savings initiatives implemented.



PERFORMANCE AND OUTLOOK

The SABS certification operations are periodically assessed against internationally recognised standards by various accreditation bodies such as SANAS (product and systems certification), RvA (systems certification), VDA and FSSC (food safety systems certification), to confirm that the organisation operates to the highest levels of quality and service. Accreditation provides customers and consumers with the assurance that the SABS has the required competencies and performance capabilities as well as that the certificates issued are credible and impartial. The SABS was re-assessed in May 2018 by RvA and the organisation maintained its accreditation. The consignment inspections service provided by the division was assessed by SANAS in June 2018 against ISO 17020 (conformity assessment - requirements for the operation of various types of bodies performing inspection) with a positive outcome, resulting in retention of SANAS accreditation. At the time of going to print, SANAS had completed an annual assessment of the division's product certification services to ISO 17065 *(conformity assessment – requirement for bodies certifying products, processes and services)* and systems certification services to ISO 17021 *(conformity assessment – requirements for bodies providing audit and certification of management systems).*

Procurement of locally manufactured products is one of the key levers identified by government to support industrial development in South Africa. The local content verification work forms part of the government's compliance monitoring of the IPAP intervention to leverage state procurement for industrialisation. The IPAP's objective is for local manufacturers to benefit from a substantial share of government business, since sustainable order books will contribute to the development of local industries and creation of jobs. During the year the SABS conducted local content verification on ten companies covering electric cables, solar water heater components and set top boxes. The roll out of the service has been constrained as a result of a gap in the local content regulations on the entity responsible for payment. In an effort to bridge this gap and support the programme, the SABS received R17.0 million at year-end from **the dti** to support local content verifications activities.

Outlook

To respond to the increasing competitive environment, the Certification division will continue to focus its efforts on enhancing customer value by leveraging the brand value of the Mark Scheme. Core to this strategy is to:

- Maintain and (where warranted) increase scopes of accreditation. Accreditation is the licence that the division needs to conduct its business as a third party conformity assessment service provider
- Successfully support clients in the transition to the 2015 version of ISO 9001 and ISO 14001 as well as the conversion of OHSAS 18001 to ISO 45001
- Reposition the SABS Mark Scheme. The SABS Mark is a premium mark of quality. The differentiation of the level of assurance that consumers get from a product bearing the SABS Mark needs to be made as over the years less stringent quality marks have entered the South African market. As a Type 5 Mark Scheme, it is imperative that this competitive advantage inherent in the SABS Mark is acknowledged and accepted by consumers globally
- Undertake targeted industry engagements. In order to develop the full business potential of the SABS' conformity assessment services, ongoing engagement with the extended industry in South Africa is paramount. A number of initiatives are being planned for the new financial year to engage industry representatives on their concerns and challenges. The first engagement is planned for August 2018 with the electro-technical industry. The event is to formalise collaboration models with industry especially in relation to improving access to testing facilities in support of the Mark Scheme. World renowned expert in the electro-technical field, Dr Andrew Erikkson, will provide the keynote address at the event.
- Unlock the opportunities of operational excellence through digitisation and digital transformation of the business, which will continue over the next three years. Targeted outcomes include improved customer engagement and service, digital certification and real-time reporting.

- Embark on a talent management and development project to ensure that the necessary resources and skills are available to ensure the long-term success of the division by attracting and retaining skilled auditors.

LABORATORY SERVICES

SABS' laboratory (or testing) activities provide an extensive array of testing, calibration, inspection and evaluation capabilities across a diverse range of technologies. Our testing capability is the most extensive and comprehensive service of its kind in southern Africa.

High priority is given to the accreditation of test and calibration laboratories. The most widely implemented accreditation is by SANAS in terms of SABS/ISO/IEC 17025 *(General requirements for the competence of testing and calibration laboratories)*. Where relevant, activities are also recognised for good laboratory practice (OECD-GLP) compliance. In many cases, specific activities are approved testing and/or inspection authorities for the Department of Labour, Department of Health, Medicines Control Council and the National Nuclear Regulator.

Operations are split across five business lines: electro-technical, automotive and mechanical, mining and minerals, food and health, and chemicals and material. Primary products and services include:

- Sampling, testing and analysis
- Calibration of laboratory and testing equipment
- Environmental monitoring (at client's premises)
- Proficiency testing
- Reference materials

Performance overview

Highlights	Lowlights
• Launch of new service to test refrigeration trucks as well as certification of compliance for communication appliances regarding requirements for electromagnetic compatibility or interference • 64% laboratory profitability, up from 58% in the prior year • New opportunity identified to support emission testing in the automotive sector	• Increased competition, impacting pricing and ability to retain key staff • Closure of the Middleburg testing facility due to loss of large contract as well as part of the metrology business due to a lack of demand • Turnaround time remains in excess of parameters

Statistics		
	FY2018	**FY2017**
Test laboratories	**30**	32
Number of locations during the year	**11**	11
Staff	**341**	381
Revenue (including intergroup)	**R252.3 million**	R229.4 million

PERFORMANCE AND OUTLOOK

HOW WE TEST

In South Africa, SANS and technical regulations from regulators are legally prescribed standards against which product quality is to be assured. SABS testing for products destined for the South African market are conducted exclusively against SANS or the applicable technical regulations. In providing our testing services to stakeholders, we embody SABS' values of impartiality, independence and integrity by aligning our processes to applicable regulatory prescripts. The table below summarises the different users of SABS test reports and the reference specification applicable for each of the users.

1

Users of SABS test reports
SABS Mark Scheme

SABS role in testing
3rd party

Reference specification
As per founding SABS Mark Scheme rules

2

Users of SABS test reports
Regulators (ascribed regulatory status by legislation)

SABS role in testing
2nd party (if requested from regulator)
3rd party (if requested from manufacturer/importer for submission to regulator)

Reference specification
Specification compliance as per the regulator – not necessarily aligned to SANS/ISO

3

Users of SABS test reports
Government procurement quality assurance

SABS role in testing
2nd party

Reference specification
Long-term contract with government departments and state entities for inbound products surveillance – select clauses as determined by the procuring entity at own risk

4

Users of SABS test reports
Private companies supply chain quality assurance

SABS role in testing
2nd party

Reference specification
Long-term contract with company for inbound products surveillance – select clauses in SANS as determined by the procuring entity at own risk

5

Users of SABS test reports
Products destined for South African consumers

SABS role in testing
3rd party

Reference specification
Consumer Protection Act, 2008

6

Users of SABS test reports
Products destined for export

SABS role in testing
3rd party

Reference specification
Export destination's applicable standards or regulations per supply contract

7

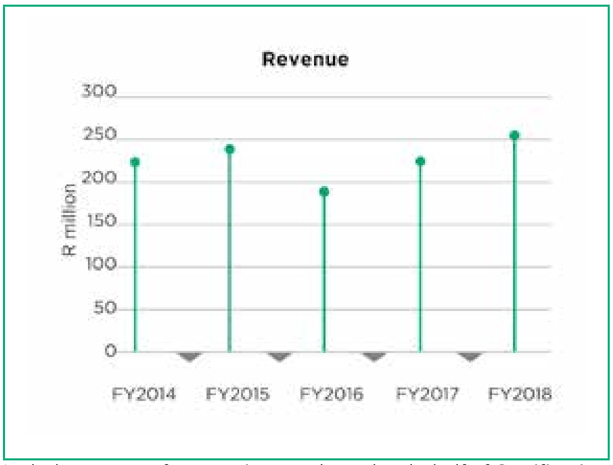
Users of SABS test reports
Development testing (publicly financed research and development)

SABS role in testing
1st party

Reference specification
R&D contract as determined by the Intellectual Property Rights from Publicly Financed Research and Development Act, 2008

The SABS' laboratory services have in recent years been challenged with the impact of aging infrastructure and difficult economic conditions. Furthermore, ever increasing competition in the commercial testing space, challenges to retain skills and all this, at a time of reduced investment in the laboratory infrastructure, have left many laboratories at a point of marginal capability to operate, eventually rendering several operating at a loss.

Revenue for the year from external customers was R176.5 million, up 8.9% from the R162.1 million recorded in the previous financial year. In addition, R75.8 million (2016/17: R67 million) was recognised from work completed in support of the SABS Mark Scheme. Growth in revenue was achieved in all clusters, with the highest revenue growth in the automotive and mechanical (17.1% to R51.4 million) and chemicals and materials (14.5% to R49.5 million) clusters. Of the 33 laboratories, 64% were profitable against a target of 55%. Although the collective profitability for all the laboratories is trending to break-even, the few pockets of excellence are carrying a great burden from the other loss making laboratories. Total operating expenditure increased by 4.0% to R265.2 million. Overall the net loss, before corporate charges, for the year reduced by 59.2% to R9.5 million (2016/17: R23.2 million loss).



Includes revenue from testing conducted on behalf of Certification division

Outlook

Testing is a highly competitive, capital intensive and technology dependent business. Adequate and consistent investments into the testing infrastructure is crucial to support the continued industrialisation aspirations of the country as well as support the long-term sustainability of the testing business of the SABS. For the next three years, the priority of the division is to match the infrastructure to revenue and maximise returns where possible. An infrastructure renewal programme to the value of R450 million, targeting testing areas of high socio-economic impact will be implemented pending fulfilment of relevant governance requirements. Industry engagements have been arranged to ensure an approach inclusive of all stakeholders, including:

- Concrete evidence of the commitment of the relevant industry to the utilisation of the facility through testing volumes commitment
- Confirmed regulatory instruments including policies and funding, if the infrastructure is meant to support regulators
- Operating costs (including maintenance) recovery where infrastructure is donated to the SABS

In addition to the infrastructure renewal programme, the SABS will focus on:

- Initiatives to serve immediate partial testing market needs along with early engagements on longer-term initiatives such as Industry 4.0 automation, enhanced mineral beneficiation technologies, fuel cell technology, smart grids and devices, and additive manufacturing (3D printing), being just some of many future concepts arriving in the South African industrial and consumer space, with urgent needs for standards and testing
- Increasing revenue through improved marketing and sales efforts, focusing on new and existing customers
- Ensuring that more than 70% of all testing laboratories are profitable

- Improving overall customer engagement and operational efficiencies through business digitisation and workflow optimisation
- Obtaining accreditation in the fields of food and water chemistry, industrial chemicals as well as rubber and plastics.

TRAINING

The SABS Training Academy is a critical part of the value chain of SABS services that seeks to enhance the skills of industry and government professionals in understanding and implementing SANS. The academy offers a diverse portfolio of training courses aligned to ISO management system standards which includes ISO 9001: *Quality Management System*, ISO 14001: *Environmental Management System*, OHSAS 18001, *Occupational Health and Safety Management* and ISO 22001: *Food Safety Management System* standards, among others. SABS training courses are aligned to SABS certification offerings and are presented at training facilities in Gauteng, KwaZulu-Natal and Western Cape.

Performance overview

The Training unit achieved revenue of R13.9 million, up 12.1% from the R12.4 million achieved in the prior year. The growth in the number of learners from 1 760 to 2 088 for the year was pleasing, with training in quality and environmental management systems the most attended.

The operating environment for training services continued to be challenging. Investment in training interventions were impacted negatively by the slow economic growth in the country, causing many clients to reassess and postpone planned projects. Furthermore, the competitive landscape continues to evolve with the entrance of new training service providers, on the back of low barriers to entry. This contributes to increased pricing pressures.

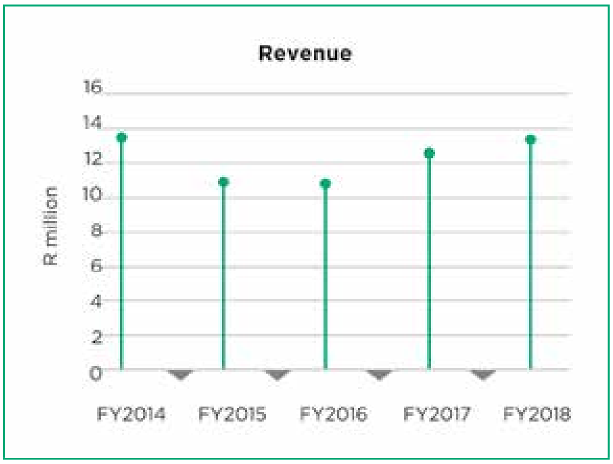
To support better customer experience, significant work was done to improve the SABS response rate once a potential customer has requested a quote. The current online system was enhanced to provide quotes and facilitate bookings separately while an automated mail reminder system was implemented to track and close outstanding quotations. Feedback to date has been very positive. The issuing of digital training certificates has eliminated the historical manual certification process and continues to contribute to the value proposition of the SABS training services.

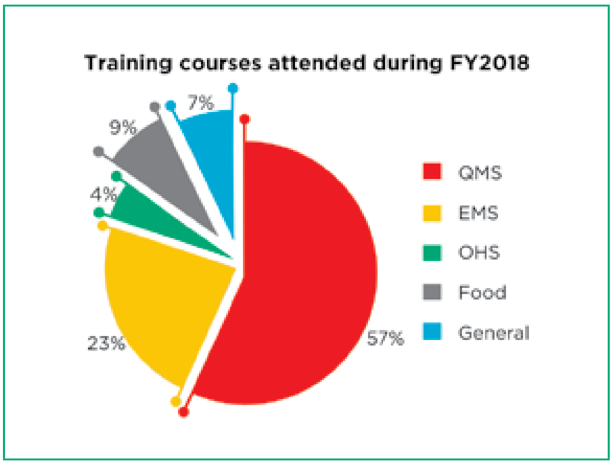
Highlights	Lowlights
• Expansion of services to the SADC sub-region • Successful collaboration to provide training services to tertiary institutions as part of recognised qualifications • Successful transition and upgrades to the online training application platform • Maintained accreditation of training services • Implementation of tailored training services for government programmes (DAFF MOU)	• Proliferation of non-accredited training providers in the market negatively impacting competitive dynamics

Statistics

	FY2018	FY2017
Learners trained	**2 088**	1 760
Staff	**12**	14
Revenue (including intergroup)	**R13.9 million**	R12.4 million

An exciting development during the year was the collaboration with the Durban University of Technology to initiate a pilot initiative to offer learners training as part of a recognised qualification. The success of this initiative could offer similar institutions an opportunity to create awareness of the benefits of standards early in the career of these learners.





Outlook

The academy has a promising future with the potential to significantly expand its product offerings and diversify its client base. Growth will be achieved through, among other initiatives, the digital transformation of the training business in the new financial year that will revolutionise the training system at the SABS. The impact of this will result in appreciable enhancement of operational efficiencies, introduction of digital marketing, and diversifying the delivery of training through blended and e-learning modes of learning.

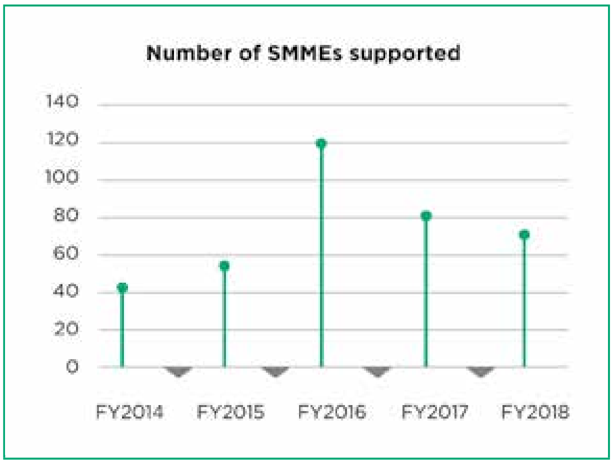
The strategic focus on partnership with government entities in support of the need to develop management and technical skills of public sector employees will be boosted. The local government market is anticipated to provide good opportunities. Furthermore, in alignment with the industrialisation aspirations of the NDP and IPAP, priority sectors with a focus on SMMEs will receive particular attention. Africa offers a significant market for the development of technical, leadership and soft skills of its people. The academy will broaden its footprint into the continent through innovative marketing and sales strategies, with tailored value propositions that meet the unique needs of clients.

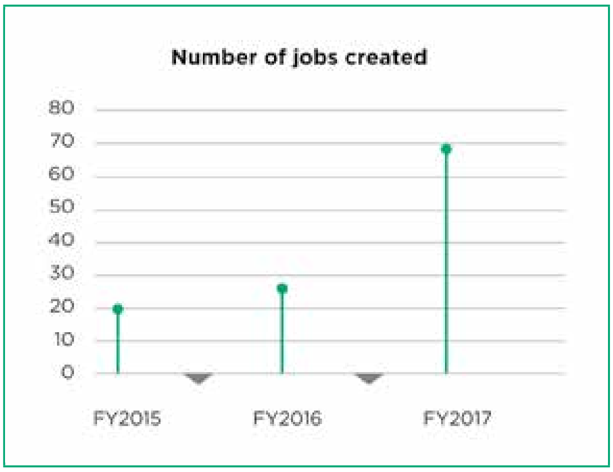
DESIGN INSTITUTE AND SMME SUPPORT

Innovation and SMMEs support play a vital role in the economic growth and transformation of any country. Enterprise and supplier development is a strategic key to unlocking opportunities for small enterprises through the contribution to their operational and financial stability and growth.

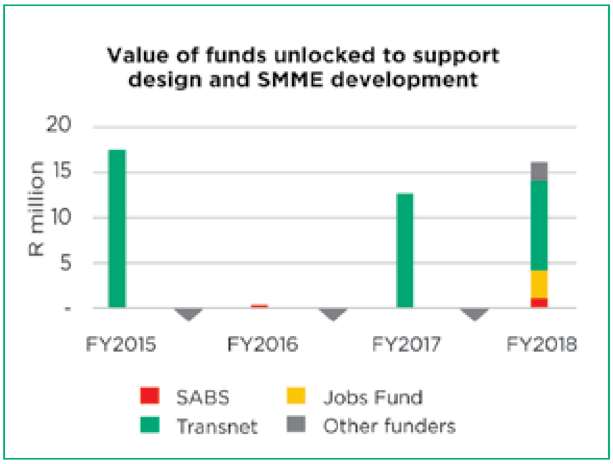
The SABS, through its Design Institute, is geared towards unlocking the economic value and direct socio-economic contribution that design can bring to the economy. Unlocking economic value is crucial to improving the lives of all South Africa's people, especially young people who should be making a difference to their future through participating in the formal and informal economies. In pursuit of an appropriate strategic path, the Design Institute has become a custodian for knowledge and delivery of design; helping to improve South Africa's competitiveness through design, managing the design process for the national good and connecting design talent with design users. The SABS believes that design should be embedded in the process of nurturing entrepreneurship to address youth unemployment, one of the national priorities. This will enable South Africa to compete on competitive advantage through unique products and processes, instead of on comparative advantages such as low-cost labour or natural resources.

The SABS also subsidises and guides SMMEs to prepare for certification in accordance with SANS. The focus is to assist them to compete for business, ensure sustainability, and create jobs.





Jobs created based on the numbers provided by the candidates post the intervention



During the year, 73 SMMEs were supported (2017/18 target: 70). The SABS also supported idea generation for 45 innovators to assist them from entrepreneurship to establishing SMMEs. Key highlights for the year include:

- *Next Generation Youth Design and Innovation Academy:* 300 learners from Grade 6 to 12, mainly from rural areas, went through a process of ideation to unlock whole-brain thinking in solving problems or becoming innovators.
- *"Go-to-hub":* Nine candidates attended a free one day business value proposition assessment with experts.
- *Next generation talent incubator:* Targets previously disadvantaged industrial design, graphic design, and business analytics etc. youth to provide them with employability skills. The SABS will take on board ten unemployed qualified youth sponsored by the Jobs Fund.
- *Moving ideas:* Transnet/SABS programme for innovators. Ten entrepreneurs participated in the programme during the year.
- The SABS launched a pilot with Investec to assist youth to conceptualise new business ideas and develop prototypes, business cases, and feasibility studies. Nine youth were selected to participate in the initiative.
- Officially opened the Jobs Fund/SABS Design and Innovation Entrepreneurship Hub on campus. The hub operates as a hot desk system when candidates meet with potential investors. A professional environment was one of the key challenges identified by SMMEs and innovators. The first leg of the Jobs Funds' 18-month programme was completed for all tiers (start-ups (innovators), creative exchange (arts and crafts including furniture), and SMMEs. R2.5 million, benefitting 25 SMMEs, was unlocked.
- An MOU with North West Economic Development to support Module 1 Design Clinics: 43 SMMEs will gain market entry.
- Revenue from services through the Design Institute increased from R7.2 million in 2017 to R7.3 million.

HUMAN CAPITAL REPORT

SABS is a team of committed individuals. Built on the foundation of strong values and a commitment to the SABS code of ethics, SABS strives to provide a safe, challenging and rewarding environment for each of its employees.

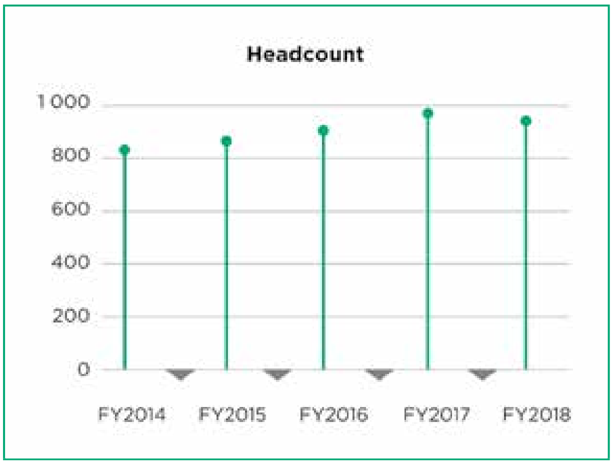
Creating an environment in which employees can thrive

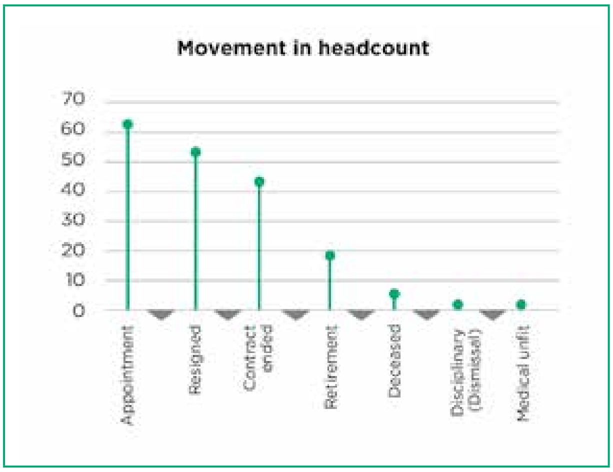
Skilled, accountable and passionate employees is a critical success factor for the organisation. SABS seeks to attract, develop and retain appropriately qualified and experienced individuals who present the right mix of technical and behavioural competencies that address targeted business requirements.

As the SABS continues to deliver on its mandate, the HR function is evolving with the business to provide more integrated and relevant solutions. Particular focus during the year was on:

- Implementing programmes to support the growth of technical and functional expertise in core operational business areas
- Review of the performance management system as a key driver for building a high performance culture. By year-end, an automated performance management system was in a piloting phase with full implementation anticipated by the end of quarter two
- Strengthening the working relationship between employees to support constructive dialogue and meaningful partnerships

SABS strives to build and maintain a committed workforce and measures employee engagement on a periodic basis to introduce initiatives to improve this level of engagement. At year-end, SABS employed 922 (2016/17: 973) people, including 82 payroll contractors but excluding five contractors who are rewarded on a services-rendered basis. Employee movement is robust and dynamic. 64 employees were recruited to support business requirements and fill various vacancies. During the year, 18 employees retired, and 58 resigned, while 43 employee's contracts ended. No occupational fatalities occurred during the year but the SABS regrets to report the non-work-related deaths of five (2016/17: two) employees. SABS acknowledges the value that these individuals have added to the organisation during their association with it.





The SABS' employee turnover ratio is monitored continually and potential employee retention risks are identified. The HR department facilitates quarterly meetings with the various divisions to discuss matters pertaining to employee turnover, engagement and development. The SABS' employee turnover rate for the year was 11.2% (2016/17: 5.5%) and was mainly as a result of resignations and terms of contract ended during the year. High turnover rates experienced in certain divisions are investigated and focused plans implemented to address employee engagement and retention, where appropriate.

Building talent to drive performance excellence into the next growth horizon

SABS' operating environment requires employees to be adaptable, results-driven, self-motivated, decisive and responsive team players. All employees are provided with equal opportunities for development, advancement and promotion on merit and without prejudice. The Board's HR and Remuneration Committee monitors the adequacy of succession plans for the SABS' executive director and senior executives.

A structured performance management process is in place across the SABS, with performance reviews based on functional and business unit strategic objectives. Short-term performance incentives as well as annual salary increments for assessed staff are determined with reference to the completed appraisals. Development and training needs are also identified during this process. Business unit managers are responsible for the implementation of effective training programmes to address identified skills development needs with the support of the HR department.

Training interventions across the SABS have included short training courses, attendance at seminars and workshops, management and leadership development programmes as well as executive coaching programmes.

During the year, 281 employees were exposed to external training courses, while 237 employees received training through the SABS Training Academy in the fields of quality and environmental management as well as food and general. The SABS' total investment in employee training-related increased by 63.8% to R2.5 million (2016/17: R1.6 million).

Skills development programmes

Financial assistance towards studies was awarded to employees to the value R1.0 million (2016/17: R0.7 million) in the form of bursaries. In an effort to create and maintain the supply of relevant qualified and skilled individuals in the future, an amount of R0.2 million has been invested in providing bursaries, targeting students from historically disadvantaged communities.

Respecting employee rights

The SABS is committed to upholding good labour principles and a working environment that is free of prejudice, bias, harassment and/or violation. The SABS' code of ethics entrenches the right of all employees to be treated with fairness, equality and respect. Unfair discrimination of employees on the basis of gender, race, physical health, sexual orientation, individual belief systems and/or any other prejudicial grounds is prohibited. HR, industrial relations and legal compliance frameworks are in place to uphold employee rights and ensure compliance with labour legislation.

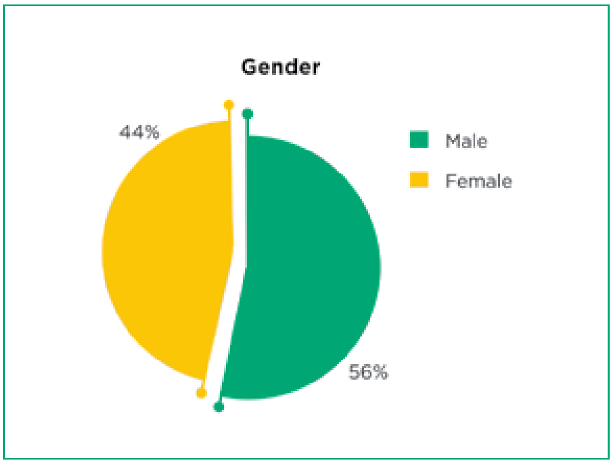
Formal grievance procedures are in place and communicated to employees in each business unit. During the year, a case of unfair labour practice dispute relating to the provision of benefits were collectively lodged by the managers. At year-end, the matter had not been resolved.

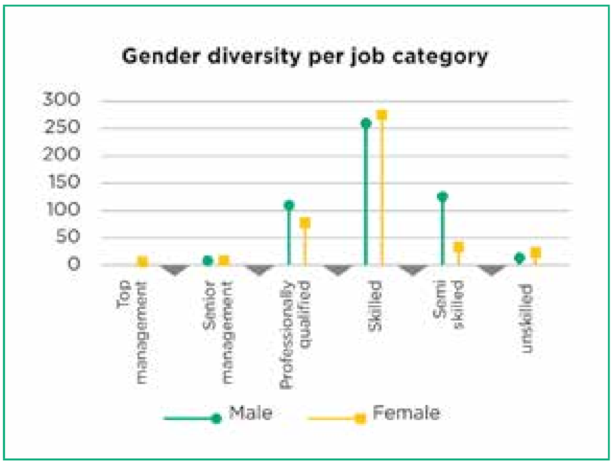
Employee wage rates across the SABS comply with legislated wage rates. Where applicable, employees are paid in accordance with rates agreed on with trade unions and/or collective bargaining councils. Salaries are benchmarked against industry standards to ensure that employees are offered competitive remuneration packages that promote retention objectives. Employees are free to exercise their rights to belong to trade unions and collective bargaining councils. Relationships with trade union representatives, considered to be key stakeholders, are managed in a proactive and responsible manner by HR managers. Formal processes are in place to foster a culture of transparency and constructive engagement with trade union representatives in each territory. Material operational changes are communicated to the employee trade unions, as necessary, within legislated timeframes and these vary across the territories.

During the year, approximately 64% of the SABS' employees belonged to a trade union (2016/17: 62%) and 79.5% are represented by a collective bargaining forum (2016/17: 80.7%). The SABS continued to maintain good relationships with the unions.

Respecting employee diversity and promoting equality in the workplace

In accordance with the SABS' code of ethics and employment equity agenda, all employees are treated with fairness, equality and respect. The attraction, retention and development of female employees is a priority for the SABS. Female employees currently comprise 44.0% (2016/17: 42.7%) of the total permanent workforce.



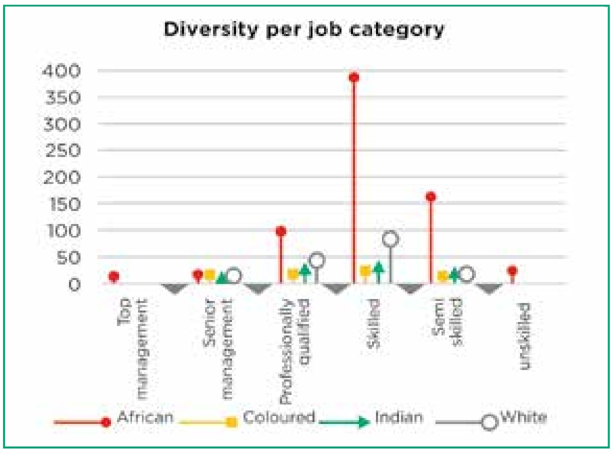


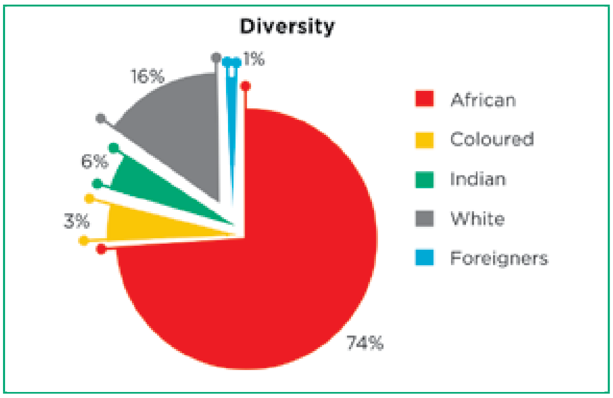
Empowering historically disadvantaged individuals

SABS' employee management policies in South Africa are developed in accordance with the Employment Equity Act and the BBBEE Codes to promote the advancement of historically disadvantaged individuals. Transformation indicators are monitored quarterly by the Social and Ethics Committee. 83.4% (2016/17: 83.3%) of employees represent historically disadvantaged individuals of which 37.2% (2016/17: 37.8%) are female employees. Employees living with disabilities increased to 2.2% (2016/17: 1.9%).

Progress against the employment equity targets were:

	Target	Actual	Status
Black (African, Coloured and Indians)	78%	83.4%	●
Women (all races)	45%	44.4%	●
Persons with disabilities (all races)	2.2%	2.2%	●





Supporting the well-being of our employees

Employee health, wellness and fitness for work are fundamental contributors to an employee's ability to effectively execute his or her designated responsibilities and to implement innovative and value-adding initiatives for the business. To this end, employee benefit arrangements include tailored healthcare insurance plans for employees and their direct dependants where this is practicable and appropriate. On-site clinics, employee assistance programmes and wellness support programmes are also available.

Providing a safe working environment

SABS' commitment to safety and security management

All employees are entitled to a safe and healthy work environment, SABS is committed to ensuring the safety and security of employees and third parties visiting our facilities.

The prevention of work-related injuries, permanent disabling injuries and occupational diseases is a key focus area for SABS, particularly at areas, for example laboratories, where the inherent risks of health and safety incidents are high. Due to the nature of SABS operations, compliance control measures are a high priority across the organisation to address the safe and compliant handling and transport of all materials and products associated with routine processes. Health, safety and environment (HSE) awareness and competency training programmes are conducted to promote the effective implementation and maintenance of SABS policies and procedures.

HSE compliance is monitored and managed on an ongoing basis. The SABS' HSE department promotes SABS' HSE standards and monitors compliance and effectiveness against the SABS' HSE management system across the organisation. Independent HSE legal compliance audits are conducted. The HSE department reviews the audit findings to establish trends and focus areas and tracks the status of corrective action plans. SABS' social and ethics committee monitors the effectiveness and compliance of HSE management systems across the SABS on a quarterly basis.

An annual external independent HSE compliance audit was performed at the SABS Groenkloof site. All audit findings were reviewed and corrective actions were identified and are in the process of being implemented. The implementation of all corrective actions is managed by each facility and the progress made in closing out the findings is monitored by the HSE function.

The measures of lost time frequency rate (LTIFR) and minor injury frequency rate (MIFR) are the SABS' significant safety KPIs and represent the percentage of employees who suffered injuries in the 12 months ended 31 March 2018. The measures are monitored on a monthly basis and reflect the rate of successes of controlling and ultimately eliminating injuries on duty. Lost time injuries are where an employee could not complete his/her work shift. Minor injury may require medical treatment, but the employee can continue with his/her work shift. For the year a LTFIR rate of 0.45 (2016/17: 0.32) and a MIFR rate of 0.56 (2016/17: 0.55) was achieved.

Ensuring employee security

Access controls and security systems are in place across all sites to prevent unauthorised entry in the interests of employees and asset security.

RESPONSIBLE CORPORATE CITIZENSHIP

Responsible corporate citizenship is more than a compliance requirement; it is fundamental to the SABS' objectives. The SABS recognises that there are inseparable linkages between its sustainable growth, its relationships with key stakeholders and its contribution to society in the broader context.

Conducting business in a responsible manner

SABS' code of ethics encapsulates the organisation's inherent approach of conducting business ethically, with integrity and with a commercial wisdom which strives to enhance the economic and social well-being of its employees, customers and business partners.

Engaging stakeholders

SABS is committed to adopting a stakeholder-inclusive governance approach and sustaining strong relationships with its stakeholders through transparency and effective communication. The approach to stakeholder engagement is set out on pages 21 to 23 of this report.

Corporate governance

SABS operates on an established foundation of strong corporate governance. The King report on governance is implemented throughout the SABS and more can be read about this in the corporate governance report set out on pages 68 to 84 of this report.

Ethics management, anti-bribery and corruption

SABS has a zero-tolerance approach to unethical behaviour. SABS is committed to the fight against bribery and corruption. The SABS anti-corruption and fraud prevention policy governs the conduct of employees throughout the organisation.

The acceptance of gifts and benefits is covered in the SABS' fraud prevention plan in terms of which employees, including Board members, are prohibited from accepting or giving gifts or hospitality that are not of a nominal value or participating in events sponsored by current or prospective customers or suppliers.

Managing conflict of interest

Conflict of interest of employees in performance of services of the SABS

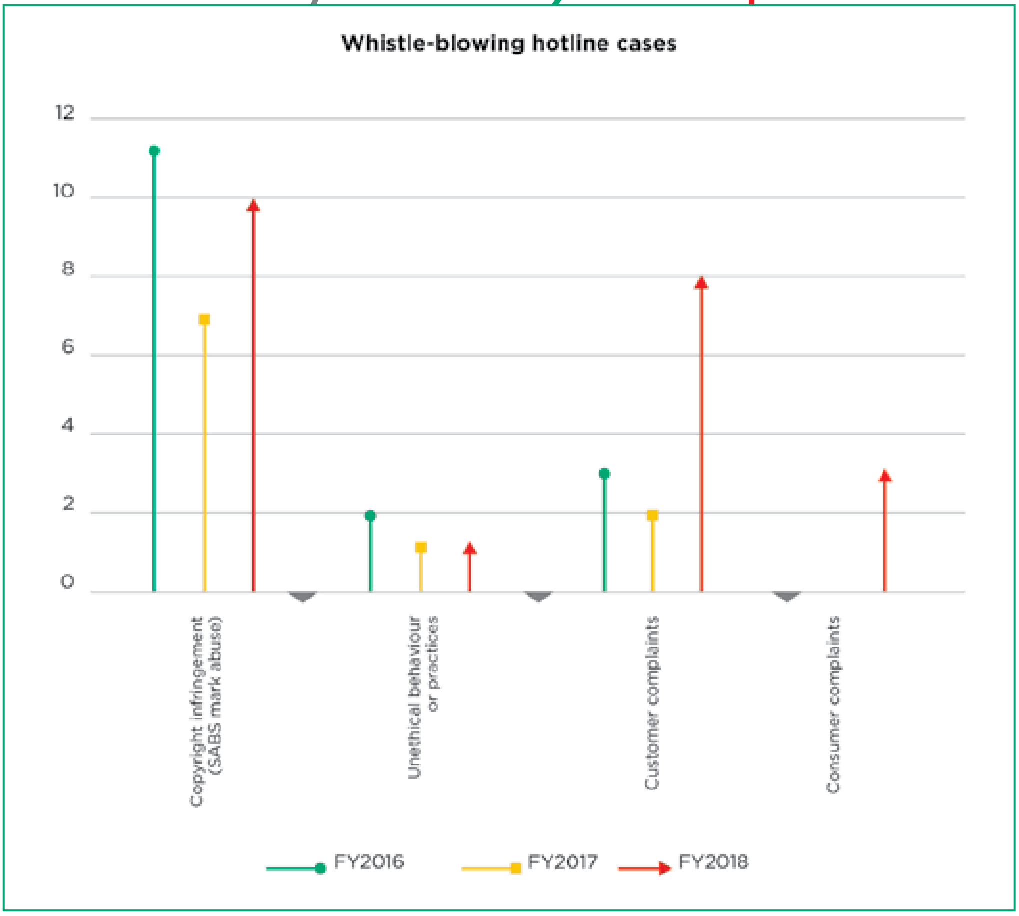
By signing the conditions of employment when they join the company, all employees commit to avoiding conflicts of interest. They are also required to submit an annual declaration of conflict of interest form.

Additionally, the services of the organisation are delivered through processes that allow complaints by external and internal stakeholders and appeals to higher authority in the organisation. The following key services have reinforced SABS' protocols to minimise employees' conflicts of interest:

- Internal audit services
- Zero tolerance to fraud and corruption
- Encouraging whistle blowing with the implementation of a no-charge fraud line available at 0800 00 7112. In addition a fax line, email and website options are also available to report fraud and corruption.

Internal audit services

The internal audit services department is an independent and objective assurance provider. It provides reasonable assurance over the effectiveness of the internal controls, risk management, compliance management and governance. The internal audit services delivers on its mandate, with a risk-based approach forming the basis of its methodology. All audit activities are performed in conformance with the international standards for the professional practice of internal auditing as provided by the Institute of Internal Auditors.



The internal audit services operates in accordance with its charter, approved by the Audit and Risk Committee. The internal audit services is sufficiently skilled and supported by those charged with governance to deliver on its mandate. To remain an objective and independent assurance provider, the head of internal audit services reports administratively to the CEO and functionally to the Audit Committee.

An effective quality assurance programme is in place to ensure that the internal audit services provides its service in accordance with the IIA standards and the internal audit code of ethics. The programme includes both internal and external evaluations, which assess the effectiveness and efficiency of the internal audit activity, and identifies opportunities for improvement, which are implemented and monitored by the head of internal audit services. The internal auditors in the internal audit services department maintain their membership with the IIA of South Africa, which is affiliated to the international body.

During 2017/18, the internal audit services successfully conducted its internal audit assignments outlined in the approved internal audit plan and the *ad hoc* audit assignments as requested by those charge with governance.

The success of the internal audit services is evident by a notable improvement in the effectiveness of internal controls and culture change within the SABS as well as the control environment in addressing governance and compliance issues by the SABS Group and its subsidiaries.

The risk-based internal audit plan focused on the following focal points, which are fundamental to the SABS as required by Treasury regulation 27.2:

- Information technology system environment
- Reliability and integrity of financial and operational performance information
- Effectiveness of operations and performance of the SABS

- Adequacy of safeguarding of the SABS assets compliance with relevant laws and regulations

The internal audit services' effective stakeholder management ensured efficiencies in the internal audit activities. Some of the assurance gaps and duplications by the SABS assurance providers were circumvented through integrated assurance (combined assurance) activities by the internal audit services and external auditors. For more about the combined assurance model, refer to page 28.

Zero tolerance to fraud and corruption

The SABS is committed to zero tolerance of any fraudulent and unethical behaviour. Its fraud policy, fraud prevention plan and code of ethics policy are effectively implemented. For the reporting period the anti-corruption and fraud prevention policy was reviewed and the following initiatives established:

- Ethics management framework
- A minimum anti-corruption capability assessment
- Fraud and corruption risk assessments
- The anti-corruption and fraud prevention plan
- Status reports on anti-corruption and fraud management initiatives which were presented to the audit and risk committee and the Social and Ethics Committee

To promote a culture of whistle-blowing, an independent external service provider independently manages the SABS whistle-blowing hotline. Logged calls are managed by internal audit services to guarantee anonymity of whistle-blowers.

All reasonable suspicions of fraud, corruption, maladministration and unethical behaviour are verified and investigated, and appropriate action is taken, including but not limited to:

- Consequence management procedures
- Referrals to relevant agencies
- Institution of criminal proceedings
- Civil litigation
- Recovery of losses

The whistle-blowing hotline recorded 22 (2016/17: ten) calls during the year:

- Ten (2016/17: seven) calls related to the infringement of the SABS Mark Scheme or copyright infringement. Monitoring the infringement of the SABS Mark Scheme has been a focal point of the SABS to ensure credibility of its copyright. In one case, internal audit services requested clarity and sufficient evidence from the complainant in order for the SABS to investigate the case. However, the complainant did not respond to the request by the internal audit services.
- Eight cases were consumer complaints. The complainants were advised to contact the consumer commission. These cases were not related to any services offered by SABS.
- One case was classified as 'unethical behaviour or practices' against SABS employees as alleged employee misconduct. Disciplinary action was taken against two employees. One of the employees resigned on commencement of the hearing. The financial loss to the SABS in the form of leave days lost has been recovered. The decision of the hearing is pending.
- Three cases related to SABS customer complaints calls, in which SABS' customers opted to use the whistle-blowing hotline rather than the customer complaints platform. The customer complaints received through the whistle-blowing hotline are addressed in line with SABS' customer complaints process and procedures.

Respecting human rights

The SABS is committed to upholding the principles of respecting and protecting internationally proclaimed human rights, as well as ensuring that the SABS is not complicit in human rights abuses. The SABS code of ethics details the organisation's commitment to fundamental human rights and the Social and Ethics Committee monitors the effectiveness of ethics management in the SABS.

No businesses in the SABS are deemed to be at risk of violating human rights which protect child labour, forced or compulsory labour. During the year, no incidents of discrimination, forced labour or compulsory labour were reported in the SABS (2016/17: Nil).

Legal compliance

Lawful compliance and respect for the rule of law underpins an ordered and effective society. SABS and its employees are committed to complying with the applicable legal and regulatory requirements wherever it does business. The legal and compliance officers are responsible for the implementation of an effective legislative compliance framework and provide the Board with assurance that the SABS is compliant with applicable laws and regulations. No material incidents of legislative infringements were recorded over the current year reflecting effective compliance management and governance processes that were adhered to across the SABS.

Promoting equality

Transformation in South Africa

As a South African-based group, the SABS supports the country's transformation objectives aimed at empowering historically disadvantaged groups in South Africa and subscribes to the notion that, through the legislated economic empowerment initiatives, the country will benefit from the social reparation of past injustices and the added economic contribution of inclusive and unrestricted participation by all citizens.

As a result of the changes to the BBBEE codes, which came into effect on 1 May 2015, revised transformation objectives and programmes have been formulated. The SABS' employee management policies in South Africa are aligned with the Employment Equity Act and the BBBEE codes to promote the advancement of historically disadvantaged individuals and women. The Social and Ethics Committee monitors progress of the SABS' transformational objectives on a regular basis.

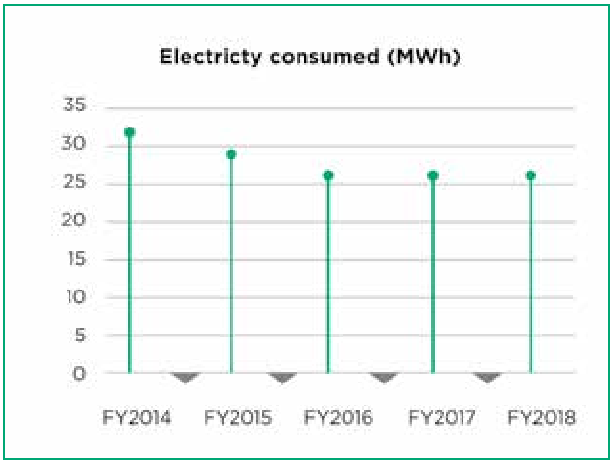
Post year-end, the SABS achieved a non-compliant BBBEE status (2016/17: Level 8). Management have initiated a plan to improve the BBBEE level.

Environment

Our principle exposure to natural capital is through our head office operations in Pretoria as well as the testing facilities across the country. Environmental considerations are founded in the SABS environmental policy.

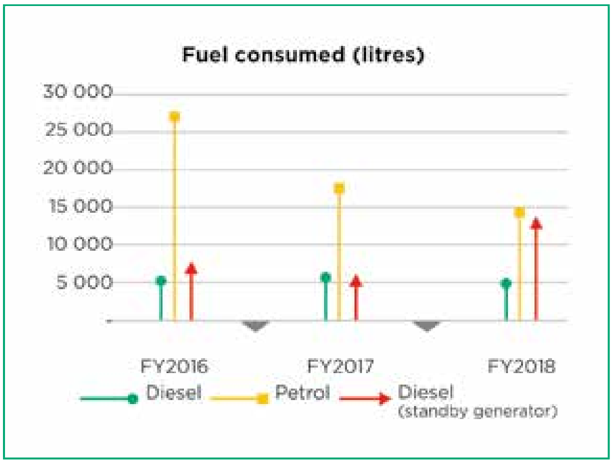
Energy

The organisation focuses on reducing its consumption of energy, mainly in the form of electricity. We have implemented a range of initiatives to reduce consumption, including installing timers on light switches, and on circuits to control air conditioning. During 2017/18, energy consumption in the SABS remained flat compared to 2016/17.



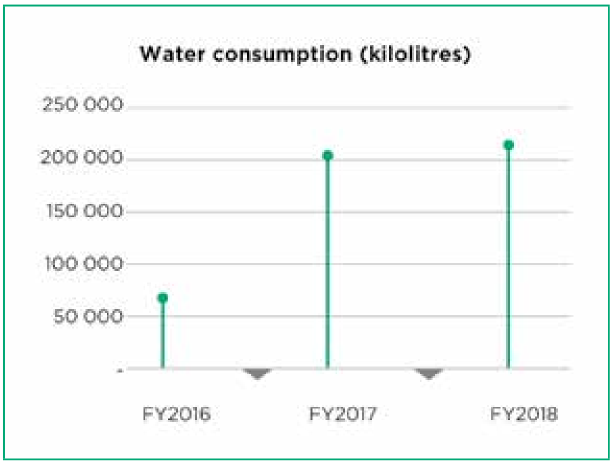
Fuel

During the period under review 5 112 litres (2016/17: 6 149 litres) of diesel and 14 530 litres (2016/17: 17 195 litres) of petrol was consumed. The decline was attributable to the reduction in the number of vehicles used by the SABS. Diesel used in the generators increased significantly from 6 646 litres in 2016/17 to 13 919 in 2017/18 due to an increase in power outages at the Groenkloof premises.



Water

The SABS is committed to being a responsible custodian of water by measuring, monitoring, managing and reporting its water use as standard business practice and, where possible, proactively implementing initiatives to conserve water. SABS recognises that water is an increasingly scarce and critical global resource. It also supports various projects that enhance the capacity of the population to adapt to water scarcity, as well as water management solutions. During 2017/18, water consumption increased marginally from 204 138 kilolitres to 217 593 kilolitres. The increase between 2015/16 and 2016/17 was due to incorrect meter readings by the city council. This was corrected during 2017.



Waste management

With the variety of SABS processes and activities, the organisation generates substantial amounts of hazardous and non-hazardous waste. To mitigate the risk to the environment and society, the SABS has implemented a waste management programme. Waste is collected, separated, stored, transported, recycled and/or disposed of using environmentally responsible and legally complaint methods.

During the year, the following quantities of hazardous waste were disposed of:

- 150 kilograms of medical waste via incineration
- 6 850 kilograms (2016/17: 3 099 tons) of hazardous waste via landfill
- 31 tons of non-hazardous waste was recycled in the various categories of waste, including paper, plastics, steel, tin, glass and printer cartridges

GROUP FINANCE OVERVIEW

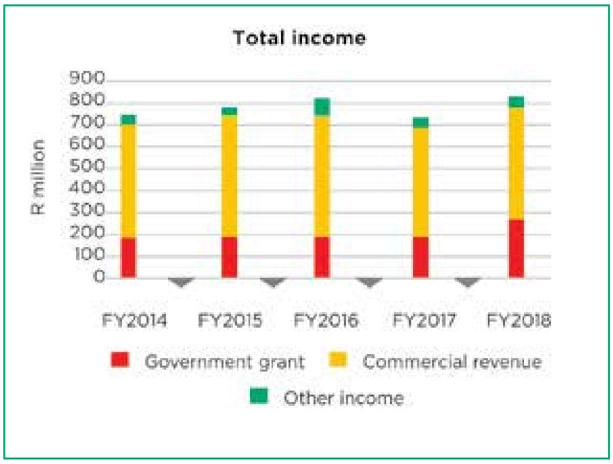
During the year the SABS continued to deliver on its mandate to provide relevant standardisation solutions that increase market access to industries and enhance their competitiveness. The SABS is the selected agency to conduct local content verification on behalf of the South African government, which is championing and playing a more visible role in localisation.

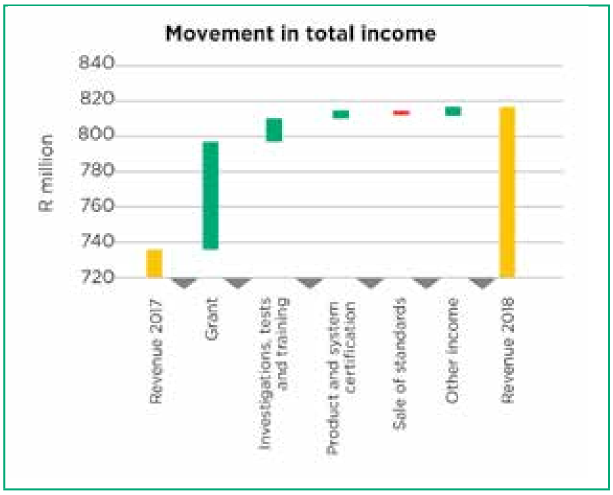
Government policies and programmes such as the National Development Plan (NDP), the Industrial Policy Action Plan (IPAP) and the infrastructure build programme are expected to act as catalysts for socio-economic growth in the country. National technical infrastructure institutions have been identified to play a crucial role in supporting growth objectives. The SABS represents the core of the technical support required with the development of relevant South African National Standards (SANS) coupled with an efficient national conformity assessment infrastructure. This makes the organisation a strategic asset that supports government in enabling policy implementation and achieving regulatory objectives in the economy. The SABS has enjoyed continued support from its shareholder, represented by **the dti**, evidenced by an increase in the government grant funding from last year.

This review is intended to provide our stakeholders with further insight into the financial performance and position of the Group.

Financial and operational performance

Total income for the year was R815.6 million (2016/17: R736.8 million). This is 10.7% more than the previous year.



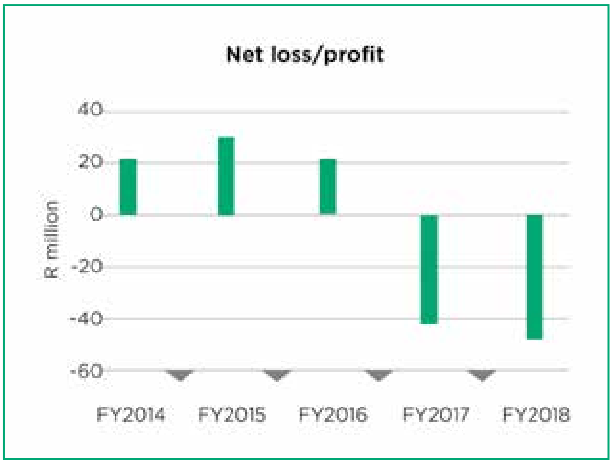


The base line government grant funding allocation of R243.2 million increased by R60 million from the previous year's allocation of R183.2 million. This represents an increase of 32.7%. Revenue from conformity assessment services of R516.4 million (2016/17: R500.9 million) increased by 3.1% from 2017.

For more on the operational performance for each of the commercial units refer to pages 45 to 52

Total expenditure (including depreciation and amortisation) grew by 7.6% to R872.5 million (2016/17: R811.3 million).

The SABS Group's net loss increased to R48.2 million for the year ending 31 March 2018 compared to a loss of R44.4 million in the prior year.



Financial position

Total assets grew 1.0% to R1.44 billion (2016/17: R1.42 billion). Non-current assets were marginally down by 1.0% to R1.14 billion from R1.18 billion in 2017.

Movement in property, plant and equipment as well as intangible assets

Capital expenditure, including intangible assets, for the year were R24.9 million (2016/17: R42.7 million). Investments into new laboratory equipment and ICT equipment were in line with the renewal strategy of the Group.

Depreciation on property, plant and equipment totalled R38.3 million (2016/17: R34.8 million) and amortisation was R3.9 million (2016/17: R3.4 million).

Available-for-sale investments

During the period under review the available-for-sale investments were increased by R3.2 million to R430.5 million. These investments are held in various diversified portfolios and are intended to create a base plan asset to cover post-employment medical benefits and capital expansion. The investment strategy consists of multi asset class portfolios managed by at least two different asset managers. The overriding focus of the investment strategy is capital preservation.

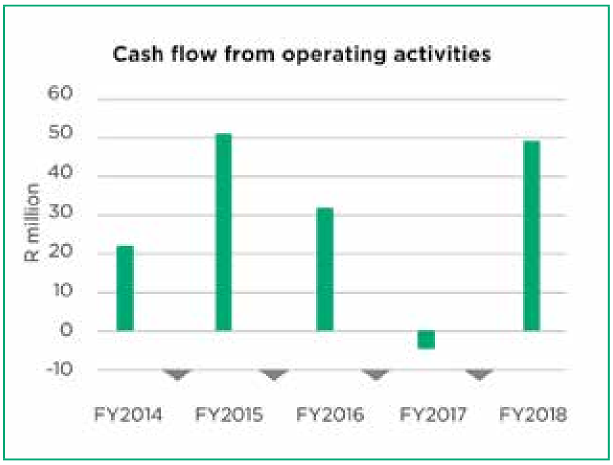
Working capital

Current assets increased to R294.2 million from R240.8 million in 2016/17, mainly as a result of increase in trade receivables (up R18.4 million) and cash and equivalent (up R34.1 million).

Current liabilities increased by 40.7% to R241 million, mainly as a result of an increase in trade and other payables, deferred income and provisions.

Cash and cash equivalents

Cash flow from operating activities increased by R56 million to R49.1 million (2016/17: R6.9 million utilised). The improvement was mainly attributable to improved working capital management. At year-end the SABS' cash and cash equivalents totalled R126.0 million (2016/17: R91.9 million)



Post-employment healthcare benefits

The Group provides post-employment medical aid contribution subsidies to qualifying retirees. Employees who meet set criteria (detailed in note 23 of the Annual Financial Statements) are also entitled to this benefit when they retire. Actuaries have determined the expected liability. The post-employment healthcare benefit obligation was R82.7 million at 31 March 2018 (2016/17: R85.5 million).

The funding of the liability is being managed through the available-for-sale investment portfolio.

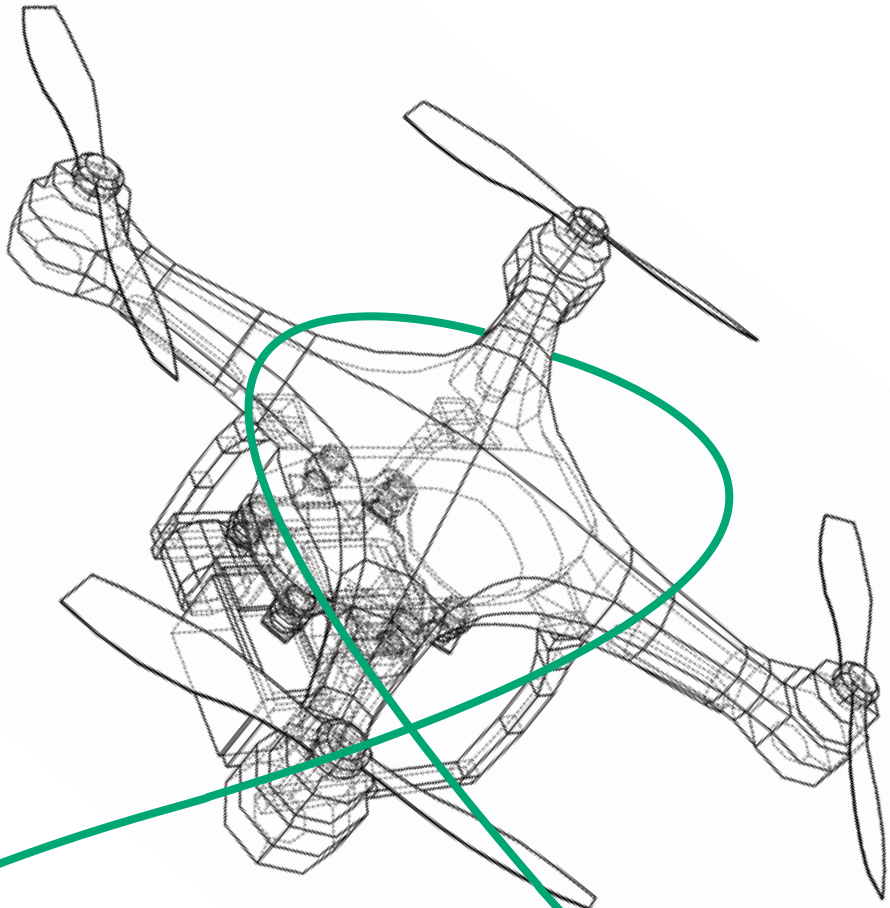
Borrowings

The SABS has no outstanding borrowings.

Prior-year adjustment

The SABS previously provided a shareholder loan to its subsidiary, SABS Commercial. This was impaired by SABS in terms of IAS 39 with the write off recognised in profit or loss, while SABS Commercial continued recognising the loan. During 2016/17, the SABS reversed the impairment. However, it was reversed incorrectly through *other comprehensive income*. As a consequence, profit for the year was understated. There was no impact on the net equity of SABS.

Refer to note 36 of the Annual Financial Statements



Value added statement

SABS is part of a greater socio-economic ecosystem and recognises that it is dependent on robust relationships with all other stakeholders. SABS creates value through its activities to the benefit of our main stakeholder groups – shareholders, employees, debt providers, suppliers and government.

R'000	FY2018	%	FY2017	%
Revenue	**516 358**		500 892	
Government grant	**243 153**		183 211	
	759 511		684 703	
Cost of generating revenue	**(278 338)**		(247 284)	
Value added by operations	**481 173**	**85**	436 819	**84**
Other income	**56 059**	**10**	52 660	**10**
Finance income	**29 216**	**5**	30 187	**6**
Total value created	**566 448**	**100**	519 666	**100**
Value distributed	**571 988**	**101**	525 457	**101**
Employees' salaries, wages and benefits	**551 554**		525 414	
Corporate taxation	**20 327**		-	
Finance cost	**107**		43	
Value reinvested	**(5 540)**	**(1)**	(5 791)	**(1)**
Retained loss	**(48 170)**		(44 388)	
Depreciation and amortisation	**42 630**		38 597	
	566 448	**100**	519 666	**100**
Employee statistics				
Number of employees at year-end	**922**		973	
Revenue per employee (R'000)	**560**		515	
Value added per employee (R'000)	**522**		449	
Total value created per employee (R'000)	**614**		534	
Average cost per employee (R'000)	**302**		254	

SEVEN-YEAR PERFORMANCE OVERVIEW

	FY2018 R'm	FY2017 R'm	FY2016 R'm	FY2015 R'm	FY2014 R'm	FY2013 R'm	FY2012 R'm
Income statement							
Commercial revenue	**516.4**	500.9	544.7	557.3	516.8	485.8	401.5
Parliamentary grant recognised as income	**243.2**	183.2	189.7	193.1	179.8	163.1	156.9
Expenditure	**(892.8)**	(811.3)	(818.8)	(775.5)	(741.2)	(675.7)	(577.1)
Net loss on discontinued operations	**-**	-	-	-	-	(0.1)	(1.5)
Net investment income	**29.1**	30.1	25.4	22.7	23.2	24.5	17.1
(Loss)/profit for the year	**(48.2)**	(44.4)	22.4	32.2	21.7	27.0	34.1
Operating (loss)/profit *	**(45.3)**	(63.6)	9.6	22.2	8.5	18.7	22.3
Statement of financial position							
Property, plant and equipment	**692.8**	715.3	709.8	365.0	345.5	331.9	305.2
Investment properties	**7.9**	8.4	8.8	9.2	9.6	10.0	10.5
Intangibles	**11.4**	10.5	13.6	11.7	14.8	14.7	3.3
Total available-for-sale investments	**430.5**	427.3	407.2	395.9	305.1	336.1	284.3
Deferred taxation	**-**	19.8	20.3	20.4	20.9	20.5	22.7
Non-current assets/disposal group held for sale	**-**	-	-	-	-	1.2	0.1
Current assets excluding cash	**168.2**	148.8	140.9	139.2	119.6	97.6	61.4
Net cash and cash equivalents	**126.0**	91.9	162.8	200.1	283.5	274.3	262.3
Total assets	**1 436.9**	1 422.1	1 463.4	1 141.4	1 098.9	1 086.2	949.8
Capital and reserves	**837.7**	875.2	940.6	615.6	560.9	520.0	479.5
Other non-current liabilities	**358.2**	375.6	365.3	377.1	386.3	406.1	333.2
Current and other liabilities	**241.0**	171.3	157.5	148.6	151.8	160.1	137.1
Total equity and liabilities	**1 436.9**	1 422.1	1 463.4	1 141.4	1 098.9	1 086.2	949.8

* Operating profit refers to profit before interest and tax (PBIT) (including discontinued operations) and is stated before the effect of adopting IAS 19, post-retirement medical aid and long service leave awards and the impairment of debtors and assets.

	FY2018 R'm	FY2017 R'm	FY2016 R'm	FY2015 R'm	FY2014 R'm	FY2013 R'm	FY2012 R'm
Cash flows							
Net cash flow from operating activities	**49.1**	(6.9)	33.0	51.4	21.4	55.7	67.1
Net cash flow from investing activities	**(15.1)**	(64.0)	(70.4)	(137.5)	(12.3)	(109.1)	(62.1)
Net cash flow from financing activities	**-**	-	-	2.8	-	65.5	66.8
Cash and cash equivalents at beginning of year	**91.9**	162.8	200.1	283.5	274.3	262.3	190.4
Cash and cash equivalents at end of year	**126.0**	91.9	162.8	200.1	283.5	274.3	262.3
Ratio analysis							
Profitability and asset management							
Asset turnover	**0.4**	0.4	0.4	0.6	0.5	0.5	0.5
Return on net assets	**(4.2%)**	(5.5%)	0.8%	2.8%	1.3%	2.9%	4.1%
Return on equity	**(5.4%)**	(7.3%)	1.0%	3.6%	1.5%	3.6%	4.7%
Current ratio	**0.7**	0.9	0.9	0.9	0.8	0.6	0.4
Operating margin %	**(8.8%)**	(12.7%)	1.8%	4.0%	1.6%	3.8%	5.6%
Revenue % to total income	**68.0%**	73.2%	74.2%	74.3%	74.2%	74.9%	67.6%
Performance							
Number of employees at year-end	**922**	973	918	875	828	770	726
Commercial revenue per employee	**560**	515	593	637	624	631	553
Cost per employee	**946**	834	892	886	895	878	795
Operating profit per employee	**(49.1)**	(65.3)	10.5	25.4	10.3	24.2	30.7
Remuneration as a % of total expenditure	**63.2%**	64.8%	61.1%	60.8%	58.6%	57.7%	58.2%

Ratio definitions

Asset turnover	Revenue divided by assets less current liabilities
Return on net assets	Operating profit as a percentage of net assets excluding cash resources
Current ratio	Current assets (excluding cash resources) to current liabilities
Operating margin %	Operating profit as a percentage of revenue

PERFORMANCE AND OUTLOOK

GOVERNANCE

GOVERNANCE REPORT

Good corporate governance is paramount to the success of the SABS, and to protect and advance the interests of the country and its citizens.

The Board serve as the custodian of corporate governance in the SABS and are committed to compliance with the principles embodied in the King Code of good corporate governance. Governance structures and processes are reviewed regularly, and adapted to accommodate internal developments and reflect national best practice.

An overview of how the SABS has implemented good corporate governance into the day-to-day activities are presented below.

LEADERSHIP, ETHICS AND GOOD CORPORATE CITIZENSHIP

Leadership, ethics and good corporate citizenship in action
Key governance policies and procedures in place • Board Charter • Code of Ethics policy • Ethics Management Framework • Shareholders Compact • Anti-Corruption and Fraud Prevention Policy • Safety, Health and Environmental Policy • Outside Interest Policy

Board Charter

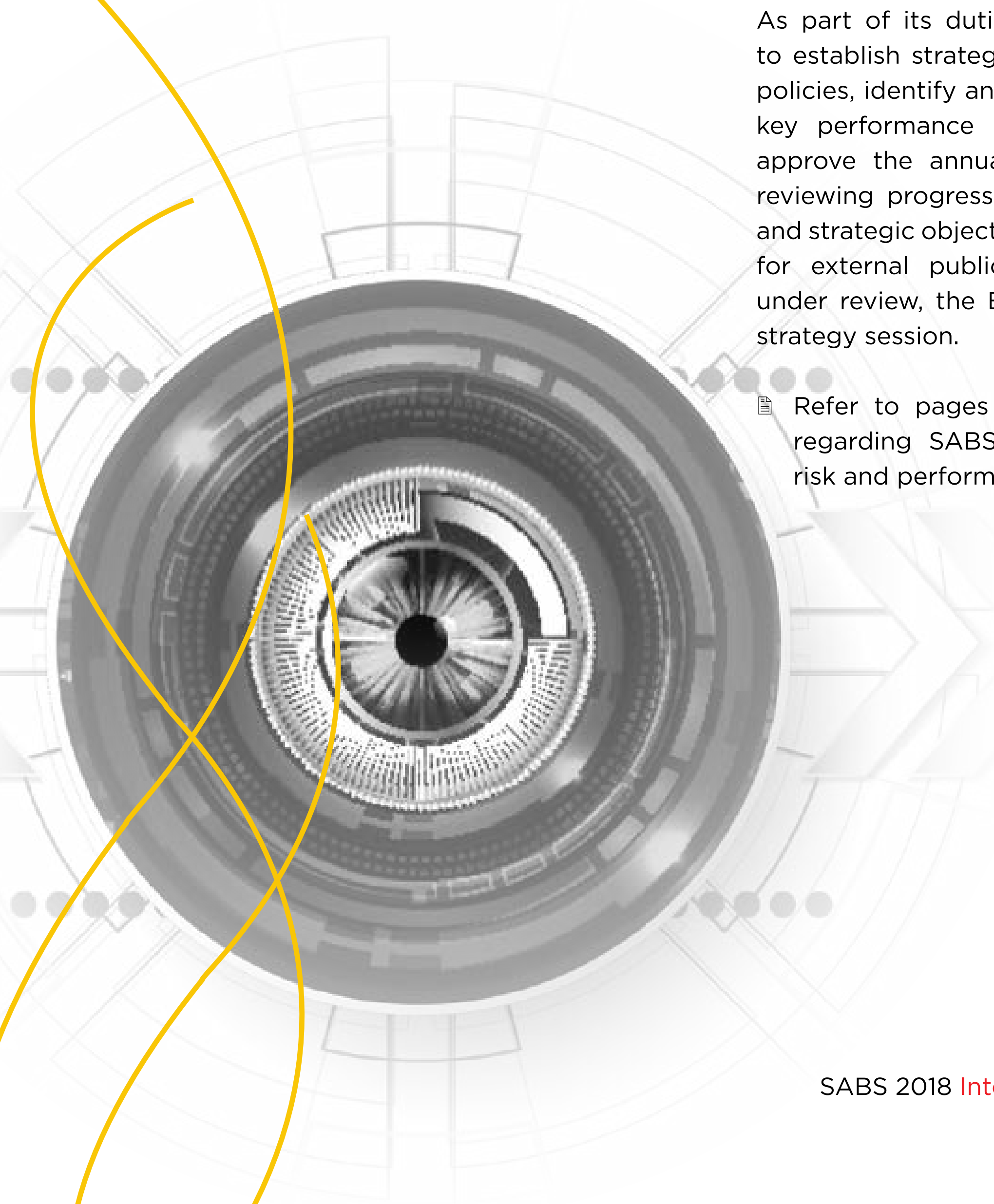
The primary objective of the Board Charter is to set out the role and responsibilities of the Board, as well as the requirements for its composition and meetings. The Board Charter is subject to the provisions of the Standards Act, the Public Finance Management Act and any other applicable law or regulatory provision. The role and responsibilities of the Board as set out in the Charter are to:

- Act as the focal point for, and custodian of, corporate governance by managing its relationship with management, the shareholder and other stakeholders along sound corporate governance principles
- Appreciate that strategy, risk, performance and sustainability are inseparable and to give effect to this by:
  - o Contributing to and approving the strategy
  - o Satisfying itself that the strategy and corporate plan do not give rise to risks that have not been thoroughly assessed by management
  - o Identifying key performance and risk areas
  - o Ensuring that the strategy will result in sustainable outcomes
  - o Considering sustainability as a business opportunity that guides strategy formulation
- Provide effective leadership on an ethical foundation
- Ensure that the organisation, and is seen to be, a responsible corporate citizen by having regard to not only the financial aspects of the business, but also the impact that business operations have on the environment and the society within which it operates
- Ensure that the organisation's ethics are managed effectively
- Ensure that the organisation has an effective and independent audit committee
- Be responsible for the governance of risk
- Be responsible for information technology governance
- Ensure that the organisation complies with applicable laws and considers adherence to non-binding rules and standards
- Ensure that there is an effective risk-based internal audit
- Appreciate that stakeholder's perceptions affect the organisation's reputation
- Ensure the integrity of the organisation's integrated annual report
- Act in the best interests of the organisation
- Evaluate the performance of the CEO and Executive Management

Ethical corporate citizenship

The Board serves as the ultimate custodian of good and ethical behaviour across the SABS. An important outcome is to continuously reinforce a culture of ethical corporate citizenship. This involves many aspects including appropriate labour practices, responding to income inequalities, diversity and skills development and training, community development and elimination of all forms of anti-competitive behaviour and corruption. The Board is supported by the Social and Ethics Committee in executing its responsibilities in this regard.

Refer to page 80 for the report from the Social and Ethics Committee



STRATEGY, PERFORMANCE AND REPORTING

Strategy, performance and reporting in action

Key governance policies and procedures in place

- Shareholders Compact
- SABS Corporate Plan
- Organisational performance scorecard
- Quarterly performance reporting to **the dti**

The Board takes overall responsibility and accountability for the success and sustainability of the SABS. Its role is focused primarily on exercising sound leadership and independent judgement when considering the SABS' strategic direction and overall performance, while always considering the best interests of all stakeholders.

Refer to page 70 for attendance to Board meetings

As part of its duties the Board is responsible to establish strategic objectives, goals and key policies, identify and monitor key risk areas and key performance indicators of the business, approve the annual corporate plan, regularly reviewing progress against the corporate plan and strategic objectives as well as review reports for external publications. During the period under review, the Board also held a three day strategy session.

Refer to pages 12 to 27 for further detail regarding SABS' business model, strategy, risk and performance against objectives

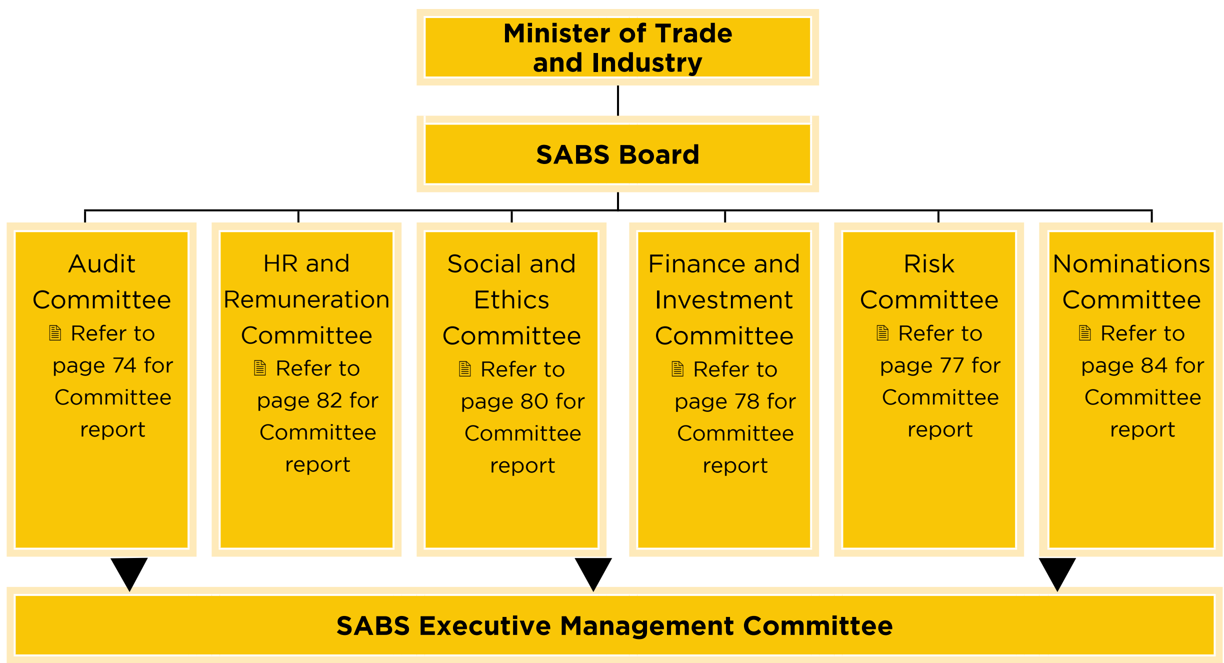
Board attendance record

Six scheduled and six special board meetings were held during the 2017/18 financial-year. The table below shows each member's attendance.

Members	Meeting dates												
	31 May 2017	15 June 2017	18 July 2017	15 August 2017	29 September 2017	24 October 2017	30 November 2017	8 December 2017	9 January 2018	25 January 2018	8 March 2018	15 March 2018	Number of meetings: 12
NON-EXECUTIVE MEMBERS													
Jeff Molobela (Chair)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12/12
Michael Ellman	A	TC	TC	✓	✓	✓	✓	A	✓	A	✓	✓	9/12
Guy Harris	✓	TC	TC	✓	✓	✓	✓	✓	✓	✓	x	x	10/12
Webster Masvikwa	✓	TC	TC	A	✓	A	✓	TC	✓	✓	✓	✓	10/12
Anna-Marie Lötter[3]	✓	A	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5/6
Nivashnee Naraindath	✓	A	TC	✓	✓	✓	✓	TC	A	✓	A	A	8/12
Elenkanyani Ndlovu	✓	TC	TC	✓	✓	✓	✓	A	✓	TC	✓	✓	11/12
Zanele Monnakgotla	✓	✓	A	✓	✓	✓	✓	✓	✓	A	✓	✓	10/12
Garth Strachan[4]	N/A	N/A	N/A	N/A	N/A	✓	✓	A	✓	A	✓	A	4/7
EXECUTIVE MEMBER													
Bonakele Mehlomakulu	✓	✓	✓	✓	✓	✓	✓	A	✓	✓	✓	✓	11/12

✓ - Attended; X - Absent; A - Absent with apology; TC - Participated via teleconference; N/A - Not a Board member

SABS' governance framework



[3] Resigned with effect from 30 September 2017
[4] Shareholder representative, appointed with effect from 1 October 2017

GOVERNING STRUCTURES AND DELEGATION

Governance structures and delegation in action
Key governance policies and plans in place • Shareholders Compact • Corporate Plan • Board Charter • Board Committee's terms of reference • Delegation of Authority policies

Shareholder linkage

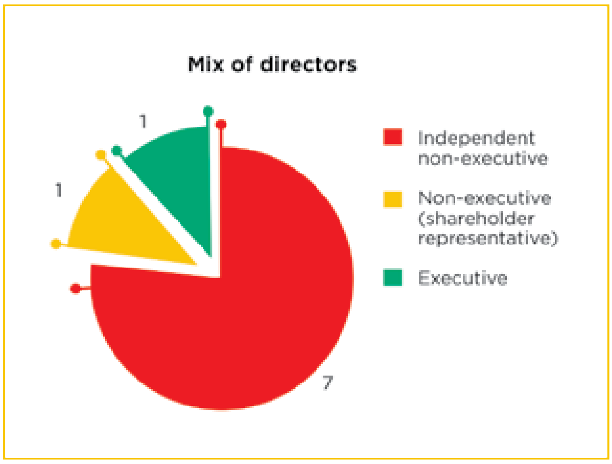
The SABS is regulated in terms of the Standards Act 2008, the PFMA and its accompanying Treasury Regulations. It is classified as a Schedule 3B public entity under the PFMA. The Minister of Trade and Industry, as the Executive Authority holds the Board accountable for managing the SABS to deliver on its mandate.

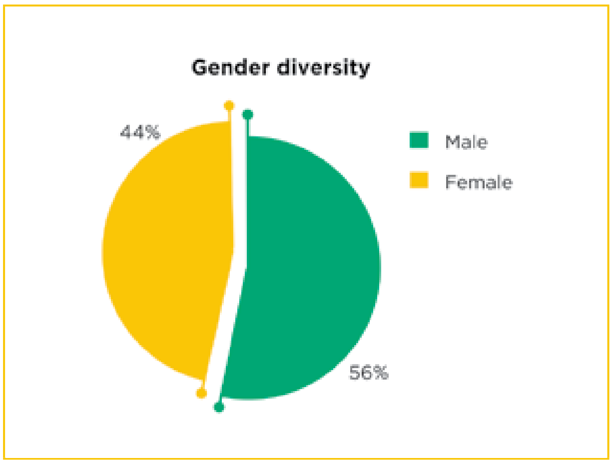
In line with section 52 of the PFMA, the SABS annually submits a Shareholder Compact and Corporate Plan to the Department of Trade and Industry. This serves as an agreement between the SABS and the Shareholder, and documents the key performance measures and targets against which organisational performance is assessed. The Corporate Plan is also submitted to National Treasury. The Board reports on performance and related matters to the Shareholder by way of quarterly and annual reports.

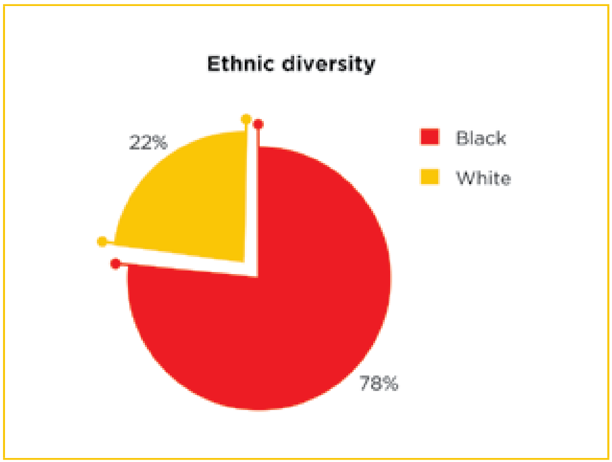
SABS Board

The SABS has a unitary board structure, comprising a majority of non-executive members, independent of management. The size of the Board is prescribed by the Standards Act, which requires a minimum of seven and a maximum of nine members. Members may not serve more than two terms of five years each. At year-end, the Board comprised of seven independent non-executive members, one non-executive member (shareholder representative) and one executive member (ex officio).

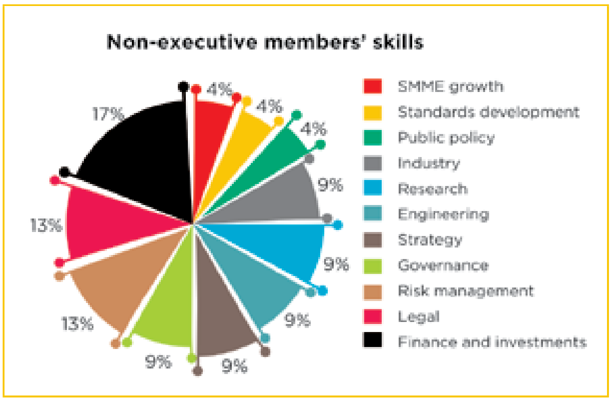
Brief biographies of all the members outlining their qualifications and skills, number of terms served are included on pages 14 to 15.







GOVERNANCE



Non-executive Board members are appointed by the Minister. The Board, in concurrence with the Minister, appoints the Chief Executive Officer.

The Nominations Committee has in place a formal process of identifying and recommending to the Executive Authority the skills, experience and qualifications required to fill vacancies on the Board. The Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence to execute its roles and responsibilities.

Changes to the Board

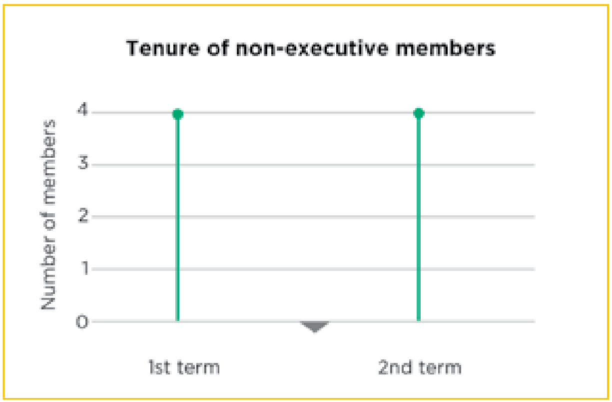
In the financial year the following changes to the Board occurred:

- Anna-Marie Lötter, resigned from the Board, Finance and Investment Committee as well as the Social and Ethics Committee
- Appointed Zanele Monnakgotla as a new independent non-executive board member and as chair of the Finance and Investment Committee
- Appointed Garth Strachan as the shareholder representative to the Board. Garth is the Deputy Director General: Industrial Development: Policy Development Division at **the dti**

Subsequent to year-end, the Minister dissolved the Board and appointed three Co-administrators as the Accounting Authority for the period 2 July 2018 to 31 January 2019. The Co-administrators are charged with producing a diagnostics report and turnaround action plan.

Member independence and conflicts

Members are required to declare all their direct and indirect material and financial interest that may exist as a result of their association with any other company annually. As soon as an individual becomes aware of any conflict of interest, he or she is required to disclose such conflict and to recuse themselves from the discussions and is precluded from voting on conflicted matters. The Company Secretary maintains a register of members' interests, which is tabled at each Board meeting. The Board has adopted a conflict of interest policy.



Members of the Board are encouraged to seek independent professional advice, if and when required, in accordance with the Board policy during the execution of their fiduciary duties and responsibilities. Members also have direct access to SABS' internal and external auditors, the Company Secretary, and all members of the executive management team at all times.

Responsibilities of the Chairman and CEO

The responsibilities of the Chairman and CEO are clearly defined and separated. The Board has delegated a wide range of matters to the CEO, including financial, strategic, operational, governance, risk and functional issues. The CEO is responsible for the execution of the strategy and reports to the Board.

The CEO chairs the Executive Management Committee (EXCO) that oversees and manages the day-to-day running of the organisation. EXCO, amongst others, ensures that the relevant legislation and regulations are adhered to and that adequate internal financial control systems are in place to provide reasonable certainty in respect of the completeness and accuracy of the accounting records, integrity and the reliability of financial statements and the safeguarding of assets.

Board and Committee performance evaluations

The performance of the Board and its Committees are annually assessed in line with the approved Board Charter. During the reporting period, the evaluation was facilitated by the Company Secretary under the leadership of the Board Chairman. The outcome of the assessment was considered by the Nominations Committee and presented to the Board. Measures were put in place to deal with the identified areas of concern. The final Board Performance Evaluation Report was submitted to the Minister of Trade and Industry who approves the adjustment of fees based on the outcome of the Board performance assessment.

GOVERNANCE FUNCTIONAL AREAS

Governance functional areas in action
Governance policies and procedures in place • Board Committee Terms of Reference • Enterprise Risk Management Framework • Risk Appetite and Tolerance Framework • Various Human Capital policies and frameworks • Investment policy

The Board delegates to its Committees certain functions to assist the Board in properly discharging its duties. Each Board committee acts within agreed, written terms of reference that are reviewed and updated annually. The chairman of each Committee reports back to the Board on the deliberations of the committee meeting, and minutes of Board committee meetings are provided to the Board for noting.

🗎 Refer to pages 74 to 84 of the report from each of the Board Committees and page 85 for the SABS' Remuneration report.

An overview of the SABS' risks and risk management practices are reflected on pages 28 to 31

STAKEHOLDER RELATIONSHIPS

Stakeholder relationships in action
Governance policies and procedures in place • Stakeholder Management Framework • Customer Strategy

In the execution of its governance role and responsibilities, the Board has adopted a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

🗎 Refer to pages 21 to 23 of the report for the various material stakeholder groups identified, how they impact value creation, key issues raised and how these were addressed

OTHER GOVERNANCE MATTERS

Company secretary

Wilma de Wit was the Company Secretary of the SABS at year-end. The Company Secretary's primary role is to ensure that the Board is cognisant and aware of its fiduciary duties and responsibilities as well as keep them aware of relevant changes in legislation and governance best practice. Other key performance areas of the Company Secretary include overseeing the induction of new members as well as the ongoing education of members and secretary to the Board committees. The Board has unfettered access to the services of the Company Secretary.

The Board confirms that the Company Secretary:

- Maintained an arm's length relationship with the Board, noting that the Company Secretary is not a member of the Board and is not related to any of the Board members
- Is independent from management and does not have executive duties and responsibilities, aside from the core responsibilities of a company secretary

AUDIT COMMITTEE REPORT

The Audit Committee's primary purpose is to oversee the internal control and financial assurance oversight on behalf of the Accounting Authority in compliance with the statutory duties and responsibilities in terms of the PFMA, the Companies Act and King IV

Legislative requirements

The Interim Audit Committee herewith presents its report for the financial year ended 31 March 2018, as required by section 77 of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended by Act No. 29 of 1999) (PFMA) read with treasury regulation 27.1.10.

Audit Committee members and attendance

Subsequent to the fiscal year-end, the Minister of Trade and Industry dissolved the SABS Board and appointed three Co-Administrators. The Interim Audit Committee was established on 25 July 2018 in accordance with sections 51(1)(a)(ii) and 77 of the PFMA and comprising of five members namely: Mr S Kajee (chairman and independent non-executive), Ms R Van Wyk (independent non-executive), Mr O Mokgoantle (independent non-executive), Mr S Khan (non-executive) and Ms J Scholtz (co-administrator).

At year-end, the previous Audit Committee comprised five independent non-executive members. The Committee as a whole had the requisite qualifications and experience to fulfil its duties. In terms of section 77(b) of the PFMA, an audit committee must meet at least twice a year. During the financial year ended 31 March 2018, the Committee met on seven occasions. The table below shows the attendance at these meetings:

🗎 Refer to pages 14 to 15 for detailed qualifications and experience of Committee members

Members	18 May 2017	24 May 2017	31 July 2017	3 August 2017	13 October 2017	16 November 2017	1 March 2018	Number of meetings: 7
	Audit and Risk Committee				Audit Committee			
Michael Ellman[5]	✓	A	✓	✓	✓	✓	✓	6/7
Guy Harris[6]	✓	✓	TC	✓	A	✓	x	5/7
Webster Masvikwa	✓	✓	✓	A	✓	✓	✓	6/7
Nivashnee Naraindath	N/A	N/A	N/A	N/A	✓	A	✓	2/3
Shabeer Khan (*ex officio*)	✓	✓	✓	A	A	A	✓	4/7
Lucky Phalamohlaka (alternate to Shabeer Khan)	A	A	A	✓	✓	✓	A	3/7

✓ - Attended; X - Absent; A - Apology; TC - Teleconference; N/A - Not a Committee member

During the period under review, the members of the Committee held meetings with the Accounting Authority, senior management of the SABS, internal audit management and the external auditors, collectively and individually, on matters related to governance, internal control and risk.

Both the internal and external auditors have unrestricted access to the Committee, its Chairman and the Chairman of the Board, ensuring that auditors were able to maintain their independence.

[5] Chairman Audit Committee - 15 August 2017 to 31 March 2018
[6] Chairman Audit and Risk Committee - 1 April to 14 August 2017

Audit Committee's responsibility

The Audit Committee is amongst others responsible for overseeing the:

- Effectiveness of the internal control systems
- Adequacy, reliability and accuracy of financial information publicly available to users of such information
- Any accounting and auditing concerns identified as a result of internal and external audits
- The management of financial and other risks that affects the integrity of external reports issued by the organisation
- The review of the Corporate Plan including the budget making recommendations for approval by the Board

The Interim Audit Committee confirms that it has reviewed the Annual Financial Statements for the year ended 31 March 2018 and considered reports from the external auditors and management's response thereto. The Interim Audit Committee has complied with its responsibilities arising from section 51(1)(a)(ii) of the PFMA read with treasury regulation 27.1.8, and reports that it operated in terms of its approved Terms of Reference. No assurances can be provided on the matters assessed during the financial year by the previous Audit Committee.

Effectiveness of internal control

The Interim Audit Committee acknowledges management's efforts to strengthen internal controls in the SABS and has reviewed the reports of the external auditors, in respect of the year-end audit conducted on the internal control environment. Various matters were brought to the Committee's attention which were not prevented or detected by the SABS' systems of internal controls.

The Interim Audit Committee took note of the matters raised and considered the appropriateness of the responses from management. Remedial action, where appropriate, will be monitored. Except for the matters identified, no other matters were brought to the attention of the Interim Audit Committee to indicate a material breakdown in internal financial controls.

IT Governance

The Audit Committee provides oversight over the IT systems and automated controls and mechanisms within SABS' operating environment. To this end, the Interim Audit Committee has noted the need to strengthen various IT general controls and IT governance. This will be addressed in the new financial-year and is expected to be a multi-year project to modernise and upgrade information systems.

Quarterly reports submitted in terms of the PFMA

The Interim Audit Committee confirms, based on discussions with management and internal audit, that quarterly reports were submitted in accordance with the PFMA. The Committee noted remedial actions noted by management to remedy shortcomings identified as part of the year-end external audit, especially relating to the definition and related evidence of small, medium and macro enterprises supported as included in the performance against predetermined objectives.

Internal audit and risk management functions

The Accounting Authority is obliged, in terms of the PFMA, to ensure that the entity has a system of internal audit under the control and direction of the Audit Committee. During the period under review, the Audit Committee, in conjunction with the Risk Committee, was responsible for the oversight of the risk management function.

The Interim Audit Committee has not had an opportunity to assess the work conducted by the internal audit and risk management functions, therefore the Committee is unable to satisfy itself that these functions have properly discharged its functions and responsibilities during the year under review.

Performance management

Part of the responsibilities of the Audit Committee includes the review of performance management. The Interim Audit Committee has performed the following functions:

- Reviewed the year-end performance report against predetermined objectives
- Considered the management report form the external auditors

The Interim Audit Committee is satisfied that the performance report has been prepared in terms of the PFMA, the Treasury Regulations and any other related regulatory requirements for reporting performance. The Committee noted the remedial action proposed to rectify shortcomings in the performance against predetermined objectives.

Evaluation of the Integrated Annual Report and Annual Financial Statements

The Interim Audit Committee has reviewed:

- Integrated Annual Report
- Significant financial reporting judgements and estimates contained in the annual financial statements
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context
- Quality and acceptability of, and any changes in, accounting policies and practices
- Compliance with accounting standards and legal requirements
- Significant adjustments and/or unadjusted differences resulting from the audit
- Reflection of unusual circumstances or events and management's explanation for the accounting treatment adopted
- Reasons for major year-on-year fluctuations
- Asset valuations and revaluations
- Calculation and levels of general and specific provisions
- Write-offs and reserve transfers
- The basis for the going concern assumption, including any financial sustainability risks and issues

The Interim Audit Committee has evaluated the Integrated Annual Report and Annual Financial Statements for the year ended 31 March 2018 and considers that it complies, in all material respects, with the requirements of the IFRS and the requirements of the PFMA and the Standards Act and that the adoption of the going concern basis in preparing the Group Annual Financial Statements is appropriate.

External auditor's report

The Interim Audit Committee acknowledges the conclusion and disclaimer audit opinion of the external auditors on the Group Annual Financial Statements and is of the view that the audited Group Annual Financial Statements be accepted and read together with the report of the external auditors.

The Interim Audit Committee concurs with the material findings on the reported performance information and compliance with legislation.

The external audit function, performed by the Auditor-General of South Africa, is independent of the entity. The Interim Audit Committee has met with the external auditors to ensure that there are no unresolved issues, and acknowledges the diligence and cooperation of the external audit team.

Sikkie Kajee
Chairman of the Interim Audit Committee

RISK COMMITTEE REPORT

The Risk Committee's purpose is to ensure that the SABS has implemented an effective policy and plan for risk, that management enhances the SABS' ability to achieve its strategic objectives; and the disclosure regarding risk is comprehensive, timely, and relevant.

The Committee has adopted appropriate formal terms of reference, has regulated its affairs in compliance thereof and has discharged its responsibilities as per the terms of reference during the year. These were confirmed by the Board on 30 November 2017.

Membership and attendance

The membership of and attendance at Committee meetings are reflected below. The Chairman is an independent non-executive member. The majority are independent non-executive members, the Chief Executive Officer being the only executive member. All members have the requisite skills for the position.

Refer to pages 14 to 15 for qualifications and experience of Committee members

Members	Meeting dates		
	16 November 2017	1 March 2018	Total number of meetings: 2
Guy Harris (Chairman)	✓	x	1/2
Webster Masvikwa	✓	✓	2/2
Zanele Monnakgotla	✓	✓	2/2
Garth Strachan	A	A	0/2
Bonakele Mehlomakulu	A	✓	1/2

✓ - Attended; A - Apology; X - Absent

Risk Committee responsibilities

The Committee is responsible to:

- Oversee the development and annual review of the risk management strategy/plan and recommend for approval by the Board
- Monitor implementation of the risk management policy
- Make recommendations to the Board concerning the levels of tolerance and appetite and monitoring that risks are managed within the levels of tolerance and appetite, as approved by the Board
- Oversee the wide dissemination of the risk management policy through the SABS and integrate into daily activities of the organisation
- Ensure that risk management assessments are performed on a continuous basis
- Ensure that frameworks and methodologies are implemented to anticipate unforeseen risks
- Ensure that management considers and implements appropriate risk responses
- Liaise closely with other Board Committees to exchange information relevant to risks
- Express the Committee's formal opinion to the Board on the effectiveness of the system and processes of risk and compliance management
- Review reporting concerning risk management is to be included in the integrated annual report for it to be timely, comprehensive and relevant.

The Risk Committee, in conjunction with the Audit Committee, reports that it has complied with its responsibilities arising from section 51 of the PFMA and Treasury Regulations 27.1.7

An overview of the SABS' risk management practices, key risks impact and mitigation are reflected on page 28

Key focus areas

Key focus areas in FY2018
• Monitoring of the risk register and enterprise risk management report • Approval of the SABS risk appetite and tolerance framework

Performance assessment

As the Committee was recently established, no performance assessment was conducted.

FINANCE AND INVESTMENT COMMITTEE REPORT

The Finance and Investment Committee's primary purpose is to ensure that the investment strategy of the SABS conforms to the Investment Policy Statement and is always optimally structured and implemented to achieve the agreed objectives.

The Committee has adopted appropriate formal terms of reference, has regulated its affairs in compliance thereof and are satisfied that the Committee has discharged its responsibilities as contained in the terms of reference during the year. The terms of reference were confirmed by the Board on 30 November 2017.

Membership and attendance

The membership and attendance to Committee meetings are reflected below. The Chairman is an independent non-executive member. The majority are independent non-executive members, with the Chief Executive Officer being the only executive member. All members have the requisite business, financial and leadership skills for the position.

🗎 Refer to pages 14 to 15 for detailed qualifications and experience of Committee members

	Meeting dates				
Members	**18 May 2017**	**3 August 2017**	**15 November 2017**	**28 February 2018**	**Total number of meetings: 4**
Webster Masvikwa	✓[7]	A	N/A	N/A	1/2
Zanele Monnakgotla (Chair)	N/A	N/A	✓	✓	2/2
Michael Ellman	N/A	N/A	✓	✓	2/2
Elekanyani Ndlovu	✓	✓	✓	✓	4/4
Guy Harris	✓	✓[8]	N/A	N/A	2/2
Anna-Marie Lötter	✓	✓	N/A	N/A	2/2
Bonakele Mehlomakulu	N/A	N/A	A	✓	1/2
Garth Strachan	N/A	N/A	A	✓	1/2

✓ - Attended; A - Apology; N/A - Not a Committee member

Finance and Investment Committee responsibilities

The Committee is responsible for:

- Setting investment objectives and determining the quantum of assets associated with each of the objectives
- Developing the investment strategy to target the objectives
- Selecting and appointing asset managers including approval of pooled mandates or negotiation of segregated mandates as required
- Monitoring the performance of the investment strategy and the asset managers on an ongoing basis
- Termination of asset managers (if required)
- Development, drafting and adoption of the Investment Policy Statement
- Adherence to the Investment Policy Statement
- Review of the investment objectives, the assets allocated to each objective and the investment strategy on at least an annual basis

[7] Elected to chair May meeting
[8] Elected to chair August meeting

- Review of the Investment Policy Statement and any other associated documents on at least an annual basis
- Reporting on the progress of the investment strategy to the Board
- Consider all material capital investments relating to property and information technology

Key focus areas

Key focus areas in FY2018
• Reviewed the quarterly performance of long-term investment fund managers • Reviewed the progress against the ICT transformation journey • Reviewed the Committee's terms of reference and confirmed the annual work plan

Performance assessment

During the period under review, a performance assessment was conducted. The performance of the Committee was rated as satisfactory.

SOCIAL AND ETHICS COMMITTEE REPORT

The Social and Ethics Committee, assists the Board in monitoring the SABS' ethics and corporate citizenship activities, sustainability trends, consumer and stakeholder relationships, as well as safety, health and environmental matters.

The Committee has adopted appropriate formal terms of reference, has regulated its affairs in compliance thereof and are satisfied that the Committee has discharged its responsibilities as contained in the terms of reference during the year. The terms of reference were confirmed by the Board on 30 November 2017.

Membership and attendance

The membership and attendance to Committee meetings are reflected below. The Chairman is an independent non-executive member. The majority of the members are non-executive with the Chief Executive Officer as the only executive member.

🗎 Refer to pages 14 to 15 for detailed qualifications and experience of Committee members

	Meeting dates				
Members	**17 May 2017**	**2 August 2017**	**16 November 2017**	**1 March 2018**	**Number of meetings: 4**
Elekanyani Ndlovu (Chair)	✓	✓	✓	✓	4/4
Michael Ellman	✓	✓	N/A	N/A	2/2
Nivashnee Naraindath	✓	✓	N/A	N/A	2/2
Anna-Marie Lötter	✓	A	N/A	N/A	1/2
Guy Harris	N/A	N/A	✓	X	1/2
Bonakele Mehlomakulu	N/A	N/A	A	✓	1/2

✓- Attended; A - Apology; X - Absent; N/A - Not a Committee member

Social and Ethics Committee responsibilities

The Committee is responsible for overseeing activities relating to:

- Good corporate citizenship specifically in relation to promotion of equality; prevention of unfair discrimination and reduction of corruption, as well as the SABS' record of sponsorship, donations and charitable giving
- Labour and employment matters specifically in relation to the organisations' standing on the International Labour Organisation's protocol on decent work and working conditions, as well as the employment relations and contribution to the educational development of its employees
- Safety, health and environmental specifically in relation to the impact of activities on its products and services
- Social and economic development of defined communities specifically in relation to the 10 principles set out in the United Nations Global Compact, the OECD recommendations regarding corruption, the Employment Equity Act and the Broad Based Black Economic Empowerment Act
- Consumer relations specifically in relation to advertising, public relations and compliance with consumer protection laws
- Recommend the Ethics Management Framework and Ethics Strategy for approval by the Board and monitor the implementation thereof

- Provide guidance and advice on sustainability trends and issues relevant to the SABS. The Committee will be informed on the sustainability risks as recorded in the Risk Register and provide related input to the Audit Committee and the Risk Committees as appropriate
- Oversee and monitor the Safety, Health and Environmental systems and processes and ensure that they are widely disseminated and integrated in the day-to-day activities of the organisation and review safety, health and environmental incident reports
- Monitor customer and stakeholder relationships and treat all stakeholders in an equitable and fair manner
- Oversee the implementation of the King IV
- Monitor the Board's Parliamentary engagements with the various Standing, Portfolio and Select Committees.

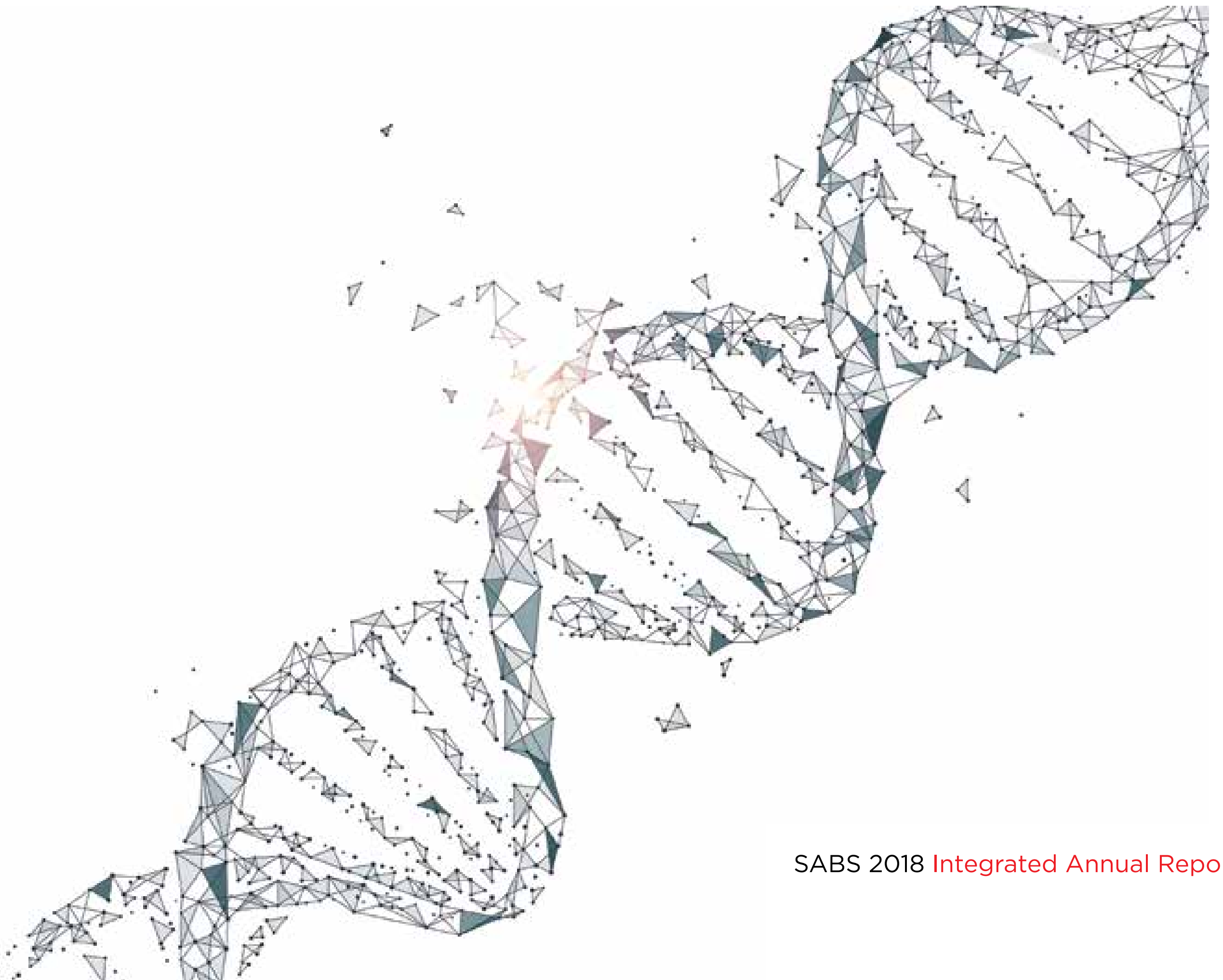
Refer to pages 57 to 61 for more on the SABS' corporate citizenship

Key focus areas

Key focus areas in FY2018
• Approved and monitored the progress against the implementation of the customer services strategy • Monitored progress against the stakeholder engagement plan • Considered the sustainability performance reporting as reflected in the 2016/17 Annual Integrated Report • Considered the ethics management framework and implementation plan • Reviewed the results of the customer satisfaction survey and the plans to enhance participation rates and performance • Considered the status and plans implemented to address health, safety, security and environmental management matters

Performance assessment

During the period under review, a performance assessment was conducted. The performance of the Committee was rated as satisfactory.



HR AND REMUNERATION COMMITTEE REPORT

The HR and Remuneration Committee's primary purpose is to support the Board in monitoring human resources, remuneration and performance management related matters

The Committee has adopted appropriate formal terms of reference, has regulated its affairs in compliance thereof and are satisfied that the Committee has discharged its responsibilities as contained in the terms of reference during the year. The terms of reference were confirmed by the Board on 30 November 2017.

Membership and attendance

The membership and attendance to committee meetings are reflected below. The Chairperson and all Committee members are independent non-executive members and all have the requisite business, financial and leadership skills for the position.

Refer to pages 14 to 15 for detailed qualifications and experience of Committee members

Members	Meeting dates							
	17 May 2017	4 September 2017	13 October 2017	15 November 2017	29 November 2017	28 February 2018	7 March 2018	Number of meetings: 7
Nivashnee Naraindath[9]	✓	✓	✓	✓	TC	✓	✓	7/7
Michael Ellman[10]	✓	✓	✓	✓	TC	✓	✓	7/7
Guy Harris	✓	N/A	N/A	N/A	N/A	N/A	N/A	1/1
Webster Masvikwa	N/A	✓	✓	✓	A	✓	✓	5/6
Elekanyani Ndlovu	N/A	A	✓	A	TC	✓	✓	4/6

✓- Attended; TC - Via Teleconference; A - Apology; N/A - Not a Committee member

HR and Remuneration Committee responsibility

The Committee is responsible to support the Board to ensure, amongst others, that:

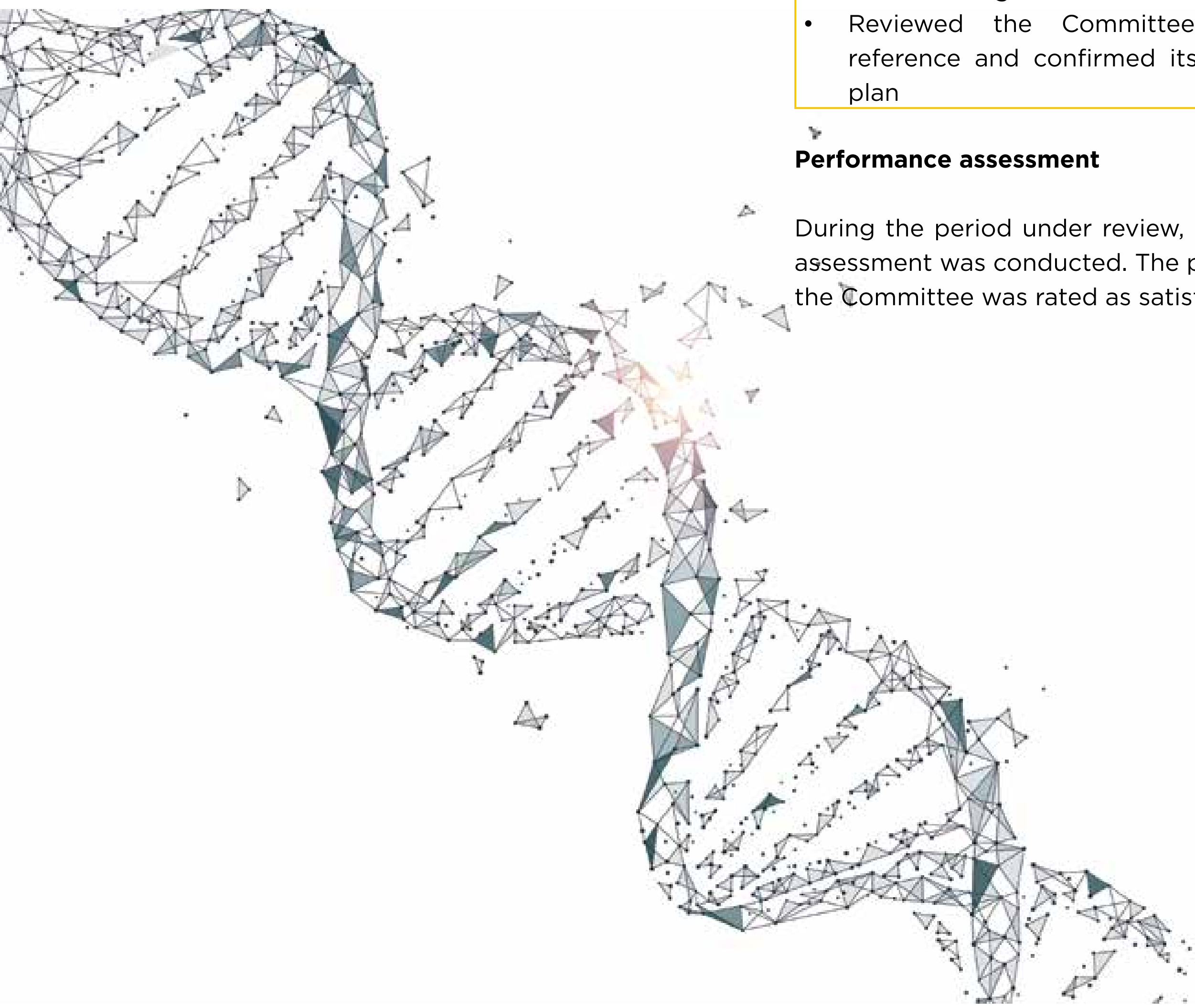
- Oversight of the implementation of the human resources strategy and employment equity policy
- Monitor performance against the overall human resources strategy/plan
- Recommend relevant HR policies for approval by the Board
- Review all aspects of human resource practices and human capital management
- Ensure that formal succession plans for senior management and critical positions are developed and implemented
- Monitor the implementation of recruitment strategies
- Monitor compliance with relevant legislation
- Oversee the establishment and implementation of remuneration philosophy and strategy
- Recommend for approval by the Board the payment of bonuses
- Review and evaluate the effectiveness of remuneration policies
- Determine and review the performance against the agreed organisational performance indicators

9 Chair with effect from 15 August 2017
10 Chair until 14 August 2017

Remuneration policy

The Committee has overarching responsibility to ensure that the principles of accountability, transparency, sustainability and good governance are performed in all remuneration-related matters. The Committee is satisfied that the implemented remuneration policy achieved its stated objectives for the 2018 financial year. The Committee will continue to review the policy, considering the environment and business requirements.

Refer to pages 85 and 86 for SABS' 2018 Remuneration Report



Key focus areas

Key focus areas in FY2018

- Considered and recommended for approval by the Board the wage negotiations mandate
- Reviewed salary increases for all employees
- Reviewed performance targets applicable to the short-term incentives for 2019
- Considered the quarterly performance against the organisational scorecard targets
- Considered key HR focus areas and progress made against strategic indicators
- Considered the human capital transformation strategy
- Recommended the culture change framework and talent management strategy for approval by the Board
- Considered and recommended for approval by the Board the payment of performance bonuses for executives and senior management
- Reviewed the Committee's terms of reference and confirmed its annual work plan

Performance assessment

During the period under review, a performance assessment was conducted. The performance of the Committee was rated as satisfactory.

NOMINATIONS COMMITTEE REPORT

The Nominations Committee's primary purpose is to assist the Board in related matters, including Board Committees composition, training and development as well as succession planning

The Committee has adopted appropriate formal terms of reference, has regulated its affairs in compliance thereof and are satisfied that the Committee has discharged its responsibilities as contained in the terms of reference during the year. The terms of reference were confirmed by the Board on 31 May 2017.

Membership and attendance

The membership and attendance to committee meetings are reflected below. All committee members are non-executive members. The Chairman of the Board is the Chairman of the Committee.

🗎 Refer to pages 14 to 15 for detailed qualifications and experience of Committee members

Members	Meeting dates			
	24 May 2017	3 August 2017	24 October 2017	Total number of meetings: 3
Jeff Molobela (Chair)	TC	✓	✓	3/3
Nivashnee Naraindath	✓	✓	✓	3/3
Guy Harris	✓	✓	N/A	2/2
Zanele Monnakgotla	N/A	N/A	✓	1/1

✓- Attended; A - Apology; N/A - Not a Committee member

Nominations Committee responsibility

The Committee is responsible to support the Board to:

- Ensure that a formal process is established for appointing members, including identifying suitable members of the Board
- Oversee the development of a formal induction programme for new members of the Board
- Ensure that a mentorship programme is offered to members when deemed necessary
- Oversee the development and implementation of continuous professional development programmes for members
- Consider the performance of members on an ongoing basis and at the end of their first term and suggest to the Executive Authority if reappointment is recommended
- Develop an a rigorous process to find and recommend to the Board for onward recommendation to the Executive Authority a replacement for the Chief Executive Officer when it becomes necessary
- Ensure that formal succession plans for the Board, Chief Executive Officer and executive management are developed and implemented

🗎 Refer to pages 68 to 73 for SABS' Governance Report

Key focus areas

Key focus areas in FY2018
• Review and recommend for approval by the Board the membership composition of Board Committees in line with King IV • Review of the Board training schedule • Evaluate Board and committee performance evaluations

Performance assessment

During the period under review, a performance assessment was conducted. The performance of the Committee was rated as satisfactory.

REMUNERATION REPORT

The SABS acknowledges that its ultimate source of value to its productivity and profitability are its employees who contribute to achieving the business objectives. Through its remuneration policy, the SABS seeks to:

- Reward employees equitably for their contracted work outputs
- Make remuneration an integral part of the overall human capital strategy, geared to support business objectives
- Design, motivate and reward performance
- Encourage the development of skills and competencies required to meet future needs
- Retain and attract high quality individuals with the optimum mix of skills, competencies and values
- Secure commitment to SABS' goals and purposes through the optimum mix of rewards.

Employee remuneration

The SABS is committed to attracting, motivating, managing and retaining employees of the highest calibre through fair, appropriately structured and competitive remuneration. The SABS recognises a mix of competencies and performance in its remuneration structure.

The remuneration packages are divided into fixed and variable components, including short-term performance incentives and additional benefits for bargaining unit employees.

🗎 Remuneration of Chief Executive Officer and executive management team and fees of non-executive members are detailed in note 30.6 of the Annual Financial Statements.

Remuneration element	Description
Guaranteed pay	Inclusive of benefits (for eligible participants) such as pension fund savings, group life and disability cover, and contributions to company approved medical schemes.
Variable pay	Eligible permanent employees in the bargaining unit are paid a 13th cheque, in accordance with the prevailing wage negotiation agreement concluded during 2016/17. Performance bonuses are designed to encourage, recognise and reward performance and are therefore linked to company and individual performance objective outcomes. Performance bonuses are paid in arrears, i.e. performance bonuses paid in 2017/18 were for the financial year 2016/17. *Performance bonus policy* The employee level along with two or three performance milestones determine performance bonus outcomes. Performance milestones include the SABS Group performance target, divisional objective measures, and individual performance scores. A minimum performance score of 3 out of 5 must be realised for an employee to be eligible for a pay-out. The maximum performance bonus payable on guaranteed annual salary are: • CEO (P1): 45% • Executives (P2-3): 35% • Group/general managers (P4): 25% • Management and specialists levels (P5–7): 10% • Employees (P8 to 15): Eligible for a 4% bonus as per the wage agreement for the 2017/18 financial year 🗎 Refer to page 95 for performance against predetermined objectives
Additional benefits to bargaining unit employees	Bargaining unit employees refer to employees occupying grade levels P8-18. In accordance with the wage agreement, these categories of employees (where eligible) received additional benefits, including a medical aid subsidy and housing allowance.

The Remuneration Committee reviews the Chief Executive Officer's remuneration and makes recommendations to the Board and the Minister of Trade and Industry for consideration.

Board remuneration

The SABS compensates and remunerates non-executive Board members in a manner which enables it to attract and retain high-calibre and professional Board members to ensure that the Board has, at all times, the necessary skills required to execute on its mandate.

Non-executive members are remunerated according to their scope of responsibility and contribution to the SABS' operating and financial performance, taking into account industry norms, including the State-Owned Enterprise Remuneration Guidelines as well as the external market and benchmarks. Non-executive members receive fees according to their attendance at meetings. Non-executive members are not entitled to receive short-term incentives. Board members are compensated for expenses incurred in pursuance of the SABS' business.

The Remuneration Committee reviews the non-executive members' fees and makes recommendations to the Board and the Minister of Trade and Industry for consideration and approval.

No related party transactions with Board members occurred during the financial year, except for payments in respect of attendance at Board and Board committee meetings.

ANNUAL FINANCIAL STATEMENTS

CONFIRMATION OF ACCURACY AND FAIR PRESENTATION

INTEGRATED ANNUAL REPORT AND ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

We hereby acknowledge that the Integrated Annual Report and the Annual Financial Statement of the South African Bureau of Standards (SABS) has been submitted to the Auditor-General for auditing in terms section 55(1)(c) of the PFMA.

We acknowledge our responsibility for the accuracy of the accounting records and the fair presentation of the Annual Financial Statements and confirm, to the best of my knowledge, the following:

Annual Financial Statements

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), Public Finance Management Act and the Standards Act. All amounts and information in the Integrated Annual Report and Annual Financial Statements are consistent with the Annual Financial Statements submitted to the auditors for audit purposes.

Performance information

The performance information fairly reflects the operations, and actual output against planned targets for performance indicators as per the corporate plan of the SABS and approved amendments for the financial year ended 31 March 2018. The performance information has been reported on in accordance with the requirements of the guidelines on annual reports as issued by National Treasury. A system of internal control has been designed to provide reasonable assurance as to the integrity and reliability of performance information.

Human resource management

The human resource information contained in the respective tables in the Integrated Annual Report fairly reflects the information of the SABS for the financial year ended 31 March 2018.

In respect of material issues

The Integrated Annual Report is complete, accurate and free from any omissions.

Jodi Scholtz
Co-administrator

Garth Strachan
Co-administrator and Acting Chief Executive Officer

STATEMENT OF RESPONSIBILITY OF THE ACCOUNTING AUTHORITY
For the year ended 31 March 2018

To the best of our knowledge and belief, we confirm the following:

All information and amounts disclosed in this Integrated Annual Report are consistent with the Annual Financial Statements audited by the Auditor-General. The report is complete, accurate and free of omissions.

The Integrated Annual Report has been prepared in accordance with the guidelines as issued by National Treasury and the Annual Financial Statements, from pages 99 to 168 were prepared in accordance with the PFMA and IFRS.

The going concern basis has been adopted in preparing the Annual Financial Statements. The Accounting Authority has a reasonable expectation that the organisation will have adequate resources to continue its operations as a going concern for the foreseeable future.

The Chief Executive Officer, as the Accounting Officer, is responsible for the preparation of the Annual Financial Statements and for the judgments made in this information. The Accounting Authority is responsible and accountable for the integrity of the Annual Financial Statements of the organisation and the objectivity of other information presented in the Integrated Annual Report.

Management and employees operate within a framework requiring compliance with all applicable laws and maintenance of the highest integrity in the conduct of all meetings of the Accounting Authority.

The Auditor-General is engaged to express an independent opinion on the Annual Financial Statements. Their report is presented on page 89.

In our opinion, the Integrated Annual Report fairly reflects the operations, performance information, human capital information and financial affairs of the SABS for the financial year ended 31 March 2018.

Jodi Scholtz
Co-administrator

Garth Strachan
Co-administrator and Acting Chief Executive Officer

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE SABS

Report on the audit of the consolidated and separate financial statements

Disclaimer of opinion on going concern, revenue, impairment of trade receivables and qualified opinion on investment of subsidiary

1. I was engaged to audit the consolidated and separate financial statements of the South African Bureau of Standards (SABS) and its subsidiaries (the group) set out on pages 99 to 168, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of profit and loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the consolidated financial statements of the group. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.
3. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the separate financial statements present fairly, in all material respects, the separate financial position of the SABS as at 31 March 2018, and the separate financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Standards Act of South Africa, 2008 (Act No. 8 of 2008) (Standards Act).

Basis for disclaimer of opinion on the consolidated financial statements

Going concern

4. As indicated in note 37 to the consolidated financial statements the group has multiple uncertainties related to management's plans and the subsequent capitalisation of the loan accounts that are significant in my judgement. I have not obtained sufficient appropriate audit evidence regarding each of the individual material uncertainties related to these plans; it is not possible to form an opinion on the consolidated financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements.

Revenue

5. A subsidiary of the group recognised items in revenue that did not meet the definition of revenue in accordance with the International Accounting Standard (IAS) 18: *Revenue*. This resulted in the revenue and trade receivables amount being overstated by an undetermined amount. In addition, I was unable to obtain sufficient appropriate audit evidence that management has identified all the items previously incorrectly recognised in revenue and trade receivables and adjusted accordingly. I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the revenue amount stated at R516 358 000 and trade receivables amount stated at R165 520 000. I therefore could not determine the impact on the loss for the year as well as accumulated losses.

Impairment of trade receivables

6. A subsidiary of the group in recognising the impairment loss estimate for trade receivables, did not take into account all relevant information available about conditions existing at the end of the period as required by IAS 39: *Financial instruments: recognition and measurement*. I was unable to obtain sufficient appropriate audit evidence for the impairment amount of R53 425 000, disclosed in note 19, by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the amount disclosed as impairment for trade receivables. I could not determine the impact on the loss for the year as well as accumulated losses.

Basis for qualified opinion on the separate financial statements

Investment in subsidiaries

7. The controlling entity's investment in a subsidiary is carried in the separate statement of financial position at R100 000 000. In assessing the impairment of the carrying amount of the investment in the subsidiary, the entity did not comply with the requirements of IAS 36, *Impairment of assets*. Consequently, I was unable to determine the adjustments necessary to the carrying amount of the investment in the subsidiary stated at R100 000 000 in the separate financial statements.

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements section of this auditor's report.
9. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimer opinion on the group and the qualified opinion on the controlling entity.

Emphasis of matter

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

Restatement of corresponding figures

12. As disclosed in note 36 to the consolidated financial statements, the corresponding figures for 31 March 2017 were restated as a result of a prior period error in the separate financial statements of the entity at, and for the year ended, 31 March 2018.

Material losses/impairments – trade receivable

13. As disclosed in note 6 to the consolidated financial statements, material losses of R6 672 000 was incurred as a result of a write-off of irrecoverable trade debtors.

Uncertainty relating to the future outcome of exceptional litigation

14. With reference to note 31 to the consolidated financial statements, the entity is the defendant in legal cases. The entity is opposing the claims, as it believes that the claims are not valid. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Responsibilities of the Accounting Authority for the consolidated and separate financial statements

15. The Accounting Authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and the Standards Act, and for such internal control as the Accounting Authority determines is necessary to enable the preparation of consolidate and separate financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the consolidated and separate financial statements, the Accounting Authority is responsible for assessing the SABS' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Accounting Authority either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

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

17. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.
18. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
19. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the entity for the year ended 31 March 2018:

Strategic objectives	Pages in the annual performance report
Strategic objective 1 – growth	96 - 97
Strategic objective 2 – customer centricity	96 - 97
Strategic objective 3 – productivity	96 - 97

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected strategic objectives are as follows:

Strategic objective 2 – customer centricity

Number of SMMEs for which design and standardisation interventions are implemented

25. The achievement for the number of SMMEs for which design and standardisation interventions are reported implemented in the annual performance report was 73. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 50. Therefore, the reported achievement was not valid and accurate.
26. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following strategic objectives:
    - Strategic objective 1 – growth
    - Strategic objective 3 – productivity

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages 95 to 97 for information on the achievement of planned targets for the year and explanations provided for the under- or over-achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 25 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the growth and the customer centricity strategic objectives. As management subsequently corrected only some the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
31. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

32. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA.

33. Material misstatements in the cash flow statement, provisions, loans to group companies and revenue identified by the auditors in the separate financial statements were corrected, but the uncorrected material misstatement in investment in subsidiaries resulted in the separate financial statements receiving a qualified opinion.

34. Material misstatements in the cash flow statement, provision for bonus, share capital and loans to group companies identified by the auditors in the submitted financial statements were corrected, but the misstatements in revenue and impairment of trade receivables could not be quantified as well as the scope limitation on the going concern resulted in the financial statements receiving a disclaimer of opinion.

Asset management

35. Investment in the subsidiary company was significantly increased without approval by the Executive Authority, in contravention of section 54(2)(c) of the PFMA.

Other information

36. The Accounting Authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the Audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.

37. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

38. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

39. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. No material inconsistencies were identified.

Internal control deficiencies

40. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation, however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer opinion on the consolidated financial statement and the qualified opinion on the separate financial statement, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

41. Leadership did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with legislation as well as related internal controls.

Financial and performance management

42. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

43. Management did not implement adequate controls to review and monitor compliance with all applicable legislations.

Other reports

Audit-related services

44. And agreed upon proceedures engagement was performed on royalties payable to foreign suppliers for the period 1 January 2017 to 31 December 2017 to enable remittance of funds in terms of exchange control. The report was issued to the SABS management on 3 September 2018.

Auditor-General

Pretoria,

26 October 2018

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

Annexure: Auditor-General's responsibility for the audit

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

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
   - Identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
   - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the Accounting Authority
   - Conclude on the appropriateness of the use of the going concern basis of accounting by the Co-administrators, which constitutes the Accounting Authority, in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the SABS and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease continuing as a going concern
   - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

Communication with those charged with governance

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

ACCOUNTING AUTHORITY REPORT
For the year ended 31 March 2018

Introduction

SABS was established as a statutory body in terms of the Standards Act, 1945 (Act No. 24 of 1945), which was superseded by the Standards Act, 1993 (Act No. 29 of 1993) and subsequently superseded by the Standards Act, 2008 (Act No. 8 of 2008). In terms of the new Act, the objectives of SABS are to:

- Develop, promote and maintain South African National Standards that support the competitiveness of the South African industry
- Promote quality in connection with commodities, products and services
- Render conformity assessment services and matters connected therewith

This report is presented in accordance with the provisions of the prescribed legislation and addresses the performance of the SABS, as well as relevant statutory information requirements. The Co-administrators are the Accounting Authority as prescribed in the PFMA.

Governance environment

The SABS is listed as a Schedule 3B entity in terms of the Public Finance Management, 1999 (Act No. 1 of 1999) (PFMA) and the related Treasury regulations. The government of South Africa, through the Minister of Trade and Industry, is the sole shareholder.

In compliance with the requirements of the PFMA, SABS concludes an annual shareholder's compact with the shareholder representative. The shareholder's compact contains shareholder expectations in the form of predetermined objectives and key performance information, and ensures that the Accounting Authority and the shareholder representative are aligned in their understanding and acceptance of strategic objectives. Progress on performance is regularly reviewed by the Accounting Authority and reported to the shareholder representative quarterly.

The Accounting Authority is fully committed to conducting business in accordance with generally accepted corporate practices. Although the Accounting Authority is accountable to the Minister, and acts in the interests of the organisation, its inclusive decision-making approach accommodates the legitimate interests and expectations of its stakeholders.

The Accounting Authority supports the notion that good governance is essentially about effective leadership and that sustainability is a moral and economic imperative in running a business.

Financial results

The financial results of the SABS are fully disclosed from pages 99 to 168. The key financial indicators for the financial year were:

- Core-funding grant of R243.2 million (2016/17: R183.2 million) received to support the standard development and promotion activities of the organisation
- Increased revenue generated from commercial conformity assessment services by 3.1% to R516.4 million (2016/17: R500.9 million)
- Operational expenditure of R872.5 million, an increase of 7.6% from R811.3 million recorded in 2016/17

- Net loss increased by 8.5% to R48.2 million (2016/17: R44.4 million).
- At year-end, equity and reserves amounted to R837.7 million (2016/17: R875.2 million) and cash and cash equivalent to R126.0 million (2016/17: R91.9 million)

Summarised information on the financial performance of the SABS is included in the unaudited group financial overview section on pages 62 to 64 of the Integrated Annual Report.

Performance management

In order to achieve its vision and contribute to the achievement of the goals of national government and all its spheres, SABS is pursuing the following strategic objectives:

- Increase the use of standardisation services by broadening the scope of services offered
- Put the customer at the forefront of everything we do
- Improve the operational performance of the SABS to enable delivery of quality outputs for customers and the South African economy
- Develop and retain a competent human resource that is aligned with the organisation's mandate.

The balanced scorecard (BSC) methodology implements and monitors the strategy. To this end, the Board approved the corporate strategic objectives and targets. The table overleaf compares the planned and related actual performance on the high-level corporate strategic objectives for the 2017/18 financial year.

The SABS continued to achieve good results during the year, meeting most of its strategic objectives whilst the targets for the following key performance indicators were not met:

- Revenue from commercial services. The underperformance was largely due to the challenging economic environment, coupled with increased competition in the conformity assessment service market
- Percentage of standards development projects completed as per the IPAP. For the year, the SABS committed to support nine standardisation projects as part of the IPAP implementation plan. By year-end, seven were successfully completed. The two remaining deliverables took longer than expected and will be concluded in the new financial year

As reflected in the performance information, the SABS supported 73 SMMEs in the year with various design and standardisation interventions. The Auditor-General (AGSA) noted in their report on page 91 that the supporting evidence could only be found for 50 SMMEs. The evidence required for the key performance indicator, as per the SABS approved Corporate Plan, included:

1. Proof that the SABS supported the SMMEs, for example signed attendance register or certification certificate
2. Proof that the SMME was a registered enterprise
3. Proof that the SMME's turnover was less than R10 million and had a valid tax clearance certificate

The AGSA's finding related mainly to the inability of the SABS to provide the evidence for requirement 3. The SABS found it challenging to gather the required evidence from the SMME and SABS acknowledges the weakness in the design of the measure and gathering of the evidence.

The actual achieved for the year, as reflected on the performance report was however not restated as the SABS is of the opinion that the 73 SMMEs were indeed supported. Going forward, the SABS will review the measurement of the indicator.

Performance against strategic objectives

Strategic objectives	Outcome	Output
Growth Increase the use of standardisation services by broadening the geographical footprint as well as the scope of services offered	Growth in standardisation services offered in the South African economy	Increase in revenue Financial sustainability of the SABS Increase in products / services offered
Customer centricity Put the customer at the forefront of everything we do	An improvement in customer and stakeholder relationships due to focus on the delivery of standardisation solutions that are aligned to their needs	SMME and entrepreneurship development Improvement in stakeholder relations
Productivity Improve the operational performance of the SABS to enable delivery of quality outputs for customers and the South African economy	Improvement in operational efficiency and effectiveness across the SABS	Execution of strategies to improve the sustainability of the organisation Increase in operational effectiveness and efficiency in standards development Optimisation of the property assets of the SABS
Competent and empowered employees Develop and retain a competent human resource that is aligned with the mandate of the organisation	Competent and empowered employees to drive improved service delivery	Development of technical expertise

Performance indicator	2017/18 Target	2017/18 Actual	Achievement
Revenue from commercial services	R563.3 million	R516.4 million	Not achieved
Operating profit % *	0%	2.0%	Target exceeded
Products / services diversification with government and socio-economic priortities	2	2	Target achieved
Number of SMMEs for which design and standardisation interventions are implemented	70	73	Target exceeded
Number of sector-specific publications produced	4	4	Target achieved
% of standards development projects completed as per the IPAP	>80%	78%	Not achieved
% of laboratories that are profitable	>55%	64%	Target exceeded
Progress against the implementation of the Standards Action Plan directly aligned to national imperatives	65%	75%	Target exceeded
Number of service lines whose business processes are automated	3 by 2017/18	3 by 2017/18	Target achieved
Progress against the implementation of the SABS property strategy	Complete Groenkloof property development plan	Property development plan completed. Appointment of partner deferred	Target achieved
Number of technical employees that have completed specialist training with leading partners	8	13	Target exceeded
Number of doctoral and master's graduates recruited into the knowledge hub sectors in support of testing and standards development	2	3	Target exceeded

** Operating profit %: Profit/(loss) from operations as a % of total income. Calculation is based on SABS management accounts. Profit/(loss) from operations includes total income (comprising of revenue, core funding and government grant but excludes government grant in respect of assets and other income) less administration and operating expenditure. Administration and operating expenditure excludes depreciation and amortisation as well as other non-operating expenditures, taxation and net finance charges*

Subsidiaries

The activities of SABS subsidiaries, as set out in notes 14 and 30 to the Annual Financial Statements, are the provision of conformity assessment services which include certification and testing services.

Events subsequent to reporting date

The Accounting Authority is not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements that will have a significant impact on the operations of the Group, the results of the operations or the financial position of the Group.

Going concern

The Accounting Authority assessed the SABS as being a going concern in terms of financial, operational and other indicators. The financial statements of SABS Commercial SOC Limited and the Group have been prepared on a going concern basis. Refer to note 37 of the Annual Financial Statements for more detail.

Board and secretariat

The Board members of the SABS at year-end are reflected on page 14 and the name and registered office of the Company Secretary appears on the inside back cover of the Integrated Annual Report. Subsequent to year-end, the Minister dissolved the Board and appointed three Co-administrators as the Accounting Authority for the period 2 July 2018 to 31 January 2019. The Co-administrators are charged with producing a diagnostics report and turnaround action plan.

Related party transactions

Details of the SABS' related party transactions are set out in note 30 of the Annual Financial Statements.

Information presented in terms of section 55(2)(b) of the PFMA

i. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: Refer to note 32 and 33 of the Annual Financial Statements
ii. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: There were no instances where the SABS sustained material losses.
iii. Particulars of any losses recovered or written off: No material losses were recovered or written off other than in the ordinary course of business.
iv. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the SABS: During the year, the SABS received R243.2 million from the government. Refer to note 30.7 of the Annual Financial Statements

SABS BBBEE rating

Post year-end, the SABS achieved a non-compliant BBBEE status (2016/17: Level 8). Management have been requested to develop and implement a remedial plan. The Group's BBBEE certification was performed by Mazars, an independent economic empowerment rating agency.

ANNUAL FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
FOR THE YEAR ENDED 31 MARCH 2018

		GROUP		SABS	
		2018	2017	2018	2017 (restated)
	Notes	R'000	R'000	R'000	R'000
Revenue	3	**516 358**	500 892	**35 402**	39 018
Other income	4	**56 059**	52 660	**135 882**	145 233
Government grants	30.7	**243 153**	183 211	**243 152**	183 211
		815 570	736 763	**414 436**	367 462
Other operating expenditure		**(872 522)**	(811 295)	**(417 670)**	(313 849)
Employee benefit expenditure	5	**(551 554)**	(525 414)	**(250 835)**	(214 049)
Depreciation	11	**(38 259)**	(34 784)	**(8 951)**	(8 261)
Contract services		**(45 398)**	(43 143)	**(39 206)**	(36 723)
Travel expenditure		**(34 546)**	(34 253)	**(9 232)**	(7 527)
Advertising expenditure		**(7 243)**	(7 627)	**(5 887)**	(6 548)
Repairs and maintenance expenditure		**(10 084)**	(7 762)	**(5 939)**	(4 523)
Consulting and technical fees		**(24 883)**	(23 143)	**(11 353)**	(5 660)
Other expenditure	6	**(160 555)**	(135 169)	**(86 267)**	(30 558)
Operating (loss)/profit		**(56 952)**	(74 532)	**(3 234)**	53 613
Interest received	7	**29 216**	30 187	**29 212**	30 184
Interest paid	8	**(107)**	(43)	**(102)**	(35)
(Loss)/profit before taxation		**(27 843)**	(44 388)	**25 876**	83 762
Taxation	9	**(20 327)**	-	**-**	-
(Loss)/profit for the year		**(48 170)**	(44 388)	**25 876**	83 762

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

		GROUP		SABS	
		2018	**2017**	**2018**	**2017 (restated)**
	Notes	**R'000**	**R'000**	**R'000**	**R'000**
(Loss)/profit for the year		**(48 170)**	(44 388)	**25 876**	83 762
Other comprehensive income/(expenditure)		**18 240**	(1 435)	**18 905**	(2 768)
Items that will not be reclassified subsequently to profit and loss		**5 377**	(304)	**6 042**	(1 637)
Gains/(losses) on post-retirement medical aid	22	**5 119**	214	**6 042**	(1 637)
Income tax effect on items not reclassified	22	**258**	(518)	**-**	-
Items that will be reclassified subsequently to profit and loss		**12 863**	(1 131)	**12 863**	(1 131)
Profit/(losses) on available-for-sale financial assets	22	**12 863**	(1 131)	**12 863**	(1 131)
Income tax effect on items not reclassified		**-**	-	**-**	-
Total comprehensive (expenditure)/income for the year, net of tax		**(29 930)**	(45 823)	**44 781**	80 994

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2018

		GROUP		SABS	
		2018	2017 (restated)	2018	2017 (restated)
	Notes	R'000	R'000	R'000	R'000
ASSETS					
Non-current assets		**1 142 678**	1 181 312	**1 222 105**	1 212 419
Property, plant and equipment	11	**692 827**	715 297	**444 977**	442 677
Investment properties	12	**7 937**	8 370	**155 576**	162 597
Intangible assets	13	**11 389**	10 498	**7 949**	4 458
Investment in subsidiaries	14	**-**	-	**100 000**	65 662
Available-for-sale investments	15	**430 525**	427 338	**430 525**	427 338
Deferred taxation	16	**-**	19 809	**-**	-
Loans to Group companies	17	**-**	-	**83 078**	109 687
Current assets		**294 223**	240 750	**146 329**	113 506
Inventory	18	**2 708**	1 640	**2 708**	1 640
Trade and other receivables	19	**165 520**	147 167	**17 700**	15 692
Cash and cash equivalents	20	**125 995**	91 943	**125 921**	91 866
VAT receivable	27	**-**	-	**-**	4 308
Total assets		**1 436 901**	1 422 062	**1 368 434**	1 325 925
EQUITY AND LIABILITIES					
Equity and reserves		**837 702**	875 245	**979 040**	941 872
General reserve	21	**54 282**	54 282	**54 282**	54 282
Other components of equity	22	**12 556**	1 929	**8 842**	(2 450)
Accumulated profit		**770 958**	819 128	**915 916**	890 040
Reserves of disposal group	10	**(94)**	(94)	**-**	-
Non-current liabilities		**358 109**	375 486	**295 117**	306 092
Deferred taxation	16	**260**	-	**-**	-
Employment benefit obligations	23	**98 388**	101 576	**55 763**	61 005
Deferred income	24	**259 461**	273 910	**239 354**	245 087
Current liabilities		**240 996**	171 237	**94 277**	77 961
Employment benefit obligations	23	**10 129**	10 219	**6 822**	6 935
Deferred income	24	**30 965**	7 564	**5 733**	5 733
Trade and other payables	25	**121 385**	93 657	**44 051**	42 795
Provisions	26	**74 858**	56 113	**37 586**	22 498
VAT payable	27	**3 659**	3 684	**85**	-
Liabilities directly associated with disposal group	10	**94**	94	**-**	-
Total equity and liabilities		**1 436 901**	1 422 062	**1 368 434**	1 325 925

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	General reserve R'000	Other comprehensive income R'000	Discontinued operations R'000	Accumulated profit R'000	Total equity and reserves R'000
GROUP						
Balance at 31 March 2016		54 282	22 973	(94)	863 516	940 677
Other comprehensive income	22	-	(21 044)	-	-	(21 044)
Net profit for the year		-	-	-	(44 388)	(44 388)
Balance at 31 March 2017		54 282	1 929	(94)	819 128	875 245
Total comprehensive income		-	10 627	-	-	10 627
Other comprehensive income	22	-	18 240	-	-	18 240
Gains realised on sale of available-for-sale investments	22	-	(7 613)	-	-	(7 613)
Net loss for the year		-	-	-	(48 170)	(48 170)
Balance at 31 March 2018		**54 282**	**12 556**	**(94)**	**770 958**	**837 702**
SABS						
Balance at 31 March 2016		54 282	19 927	-	806 278	880 487
Other comprehensive income	22	-	(22 377)	-	-	(22 377)
Net profit for the year (as restated)		-	-	-	83 762	83 762
Balance at 31 March 2017 (as restated)		54 282	(2 450)	-	890 040	941 872
Total comprehensive income		-	11 292	-	-	11 292
Other comprehensive income	22	-	18 905	-	-	18 905
Gains realised on sale of available-for-sale investments	22	-	(7 613)	-	-	(7 613)
Net profit for the year		-	-	-	25 876	25 876
Balance at 31 March 2018		**54 282**	**8 842**	**-**	**915 916**	**979 040**

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	GROUP 2018 R'000	GROUP 2017 R'000	SABS 2018 R'000	SABS 2017 (restated) R'000
Cash inflow/(outflow) from operating activities		**49 146**	(6 879)	**43 253**	(26 713)
Cash received from customers		**531 165**	538 536	**178 633**	189 194
Cash received from government		**243 153**	183 211	**243 152**	183 211
Cash paid to suppliers and employees		**(754 281)**	(758 770)	**(407 642)**	(429 267)
Cash generated from/(utilised by) operations	28.1	**20 037**	(37 023)	**14 143**	(56 862)
Interest received	7	**29 216**	30 187	**29 212**	30 184
Interest paid	8	**(107)**	(43)	**(102)**	(35)
Cash outflow from investing activities		**(15 094)**	(63 953)	**(9 198)**	(44 119)
Purchase of property, plant and equipment	11	**(18 913)**	(42 459)	**(13 018)**	(22 820)
Purchase of intangible assets	13	**(5 973)**	(273)	**(5 973)**	(74)
Proceeds on disposal of property, plant and equipment	28.2	**116**	4	**117**	-
Purchase of available-for-sale investments	15	**(448 386)**	(124 225)	**(448 386)**	(124 225)
Disposal of available-for-sale investments	15	**458 062**	103 000	**458 062**	103 000
Increase/(decrease) in cash and cash equivalents		**34 052**	(70 832)	**34 055**	(70 832)
Cash and cash equivalents at beginning of year		**91 943**	162 775	**91 866**	162 698
Cash and cash equivalents at end of year	20	**125 995**	91 943	**125 921**	91 866

1. CORPORATE INFORMATION

The consolidated financial statements of South African Bureau of Standards and its subsidiaries (collectively, the Group) for the year ended 31 March 2018 were authorised for issue in accordance with a resolution of the Accounting Authorities on 24 October 2018. South African Bureau of Standards is a Schedule 3B state-owned enterprise incorporated and domiciled in South Africa. The registered office is located at 1 Dr Lategan Road, Groenkloof, Pretoria, South Africa.

The Group is principally engaged in the provision of standards and conformity assessment services to enable the efficient functioning of the economy. Information on other related party relationships of the Group is provided in note 30.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in South African Rand (ZAR) and all values are rounded to the nearest thousand (R'000), except when otherwise indicated.

The preparation of annual financial statements in conformity with IFRS requires management to make judgments, 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 other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas of estimation uncertainty include:

Useful economic lives of assets
Property, plant and equipment is depreciated on a straight line basis over its useful economic life. Intangible assets are amortised on a straight-line basis over the estimated useful life of the asset. Management reviews the appropriateness of useful economic life at least annually and any changes that could affect prospective depreciation/amortisation rates and asset carrying values. Estimates in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation charges and carrying values of tangible and intangible assets in the future.

Impairment of assets

Assets are tested for impairment annually or more frequently if there is an indicator of impairment. Tangible assets and finite life intangible assets are tested when there is an indicator of impairment. The calculation of the recoverable amount requires the use of estimates and assumptions concerning the future cash flows which are inherently uncertain and could change over time. In addition, changes in economic factors, such as discount rates, could also impact this calculation.

Retirement benefits

The expected costs of providing post-employment benefits under defined benefit arrangements relating to employee service during the period are determined based on financial actuarial assumptions. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of trade receivables

Trade and other receivables classified as loans and receivables are measured at amortised cost using the effective interest method less allowance for impairment. At each reporting date the Group assesses whether there is any objective evidence that trade and other receivables are impaired. Trade receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the trade receivable and/or as a result of any pertinent credit risk being identified pertaining to an individual trade receivable or group of trade receivables, the estimated future cash flows of the trade receivables may be impacted. For further disclosure refer to note 19.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2018.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (ie, existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

2.3.1 FAIR VALUE MEASUREMENT

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

Accounting policy disclosures	Note 2
Quantitative disclosures of fair value measurement hierarchy	Note 29
Financial instruments (including those carried at amortised cost)	Note 29

2.3.1 FAIR VALUE MEASUREMENT (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

External valuers are involved for valuation of significant assets, such as properties. For available-for-sale assets valuation reports are obtained monthly from fund managers. For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.3.2 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of standards is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group does not provide any extended warranties or maintenance contracts to its customers.

Rendering of services

Revenue from the investigations, tests and services and training is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome can not be reliably measured, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered. Product and system certification revenue is recognised on a straight-line basis over the period of the contract.

2.3.3 GOVERNMENT GRANTS

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as a government grant.

2.3.4 TAXES

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax (continued)

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences: the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is treated either as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or recognised in profit or loss.

Sales tax (Value added tax)

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.3.5 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

The Group classifies non-current assets and disposal groups as held-for-sale if their carrying amounts will be recovered principally through sale rather than through continuing use. Non-current assets and disposal groups are measured at the lower of their carrying amount and the fair value less costs to distribute. The criteria for held for sale classification is regarded met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to distribute will be withdrawn. Management must be committed to the sale expected within one year from the date of classification.

Assets and liabilities classified as held-for-sale are presented separately as current items in the statement of financial position. Property, plant and equipment and intangible assets once classified as held-for-sale to owners are not depreciated or amortised.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held-for-sale, and:

- Represents a separate major line of business or geographical area of operations,
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale.

2.3.5 NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS (continued)

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in note 10. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

2.3.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or deemed cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows

• Buildings	3 to 50 years
• Laboratory equipment	3 to 25 years
• Furniture and office equipment	3 to 25 years
• Vehicles	3 to 10 years
• Artwork	30 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted (where required) annually. Where significant parts (components) of an item of property, plant and equipment have different useful lives or depreciation methods to the item itself, these parts are accounted for as separate items of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts.

Capital work in progress is stated at cost net of accumulated impairment losses, if any. The Group capitalises all costs incurred in preparing the assets to be available for use as intended. During this time capital work in progress is not depreciated.

2.3.6 PROPERTY, PLANT AND EQUIPMENT (continued)

Once the assets' development has been completed and the assets are ready for use as intended by management, the Group transfers the capital work in progress at cost to the various classes of property plant and equipment items to which they relate. The normal provisions of property plant and equipment items to which they have been transferred to will then apply.

2.3.7 INVESTMENT PROPERTIES

Investment properties are measured initially at cost, including transaction costs. 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 to note 2.3.6).

Depreciation is charged to the statement of profit and loss on a straight-line basis over the estimated useful life of each part of an item of investment property from when it is available to operate as intended by management. The estimated useful life of investment properties is 5 to 50 years.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition. Transfers are made to (or from) investment property only when there is a change in use. Transfers between investment property and owner-occupied property do not change the carrying amount or cost of the property transferred. If owner-occupied property becomes an investment property, the Group accounts for it in accordance with the policy stated under property, plant and equipment up to the date of change.

2.3.8 INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful life of the asset. The estimated useful life of computer software is between three and fifteen years. Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

2.3.8 INTANGIBLE ASSETS (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

2.3.9 INVESTMENT IN SUBSIDIARIES

In SABS' separate Annual Financial Statements, investment in subsidiaries are carried at cost less any accumulated impairment. Where the carrying amount of the investment is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is transferred to profit or loss. On disposal of the investment, the difference between the net disposal proceeds and the carrying amount is charged to profit or loss.

An adjustment to the cost of a business combination contingent on the future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

2.3.10 LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

2.3.11 FINANCIAL INSTRUMENTS - INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables or available-for-sale (AFS) financial assets. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables
This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to note 19.

Available-for-sale (AFS) financial investments
AFS financial investments include equity and debt securities. Equity investments classified as available-for-sale are those neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in OCI and accumulated in the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, at which time, the cumulative loss is reclassified to the statement of profit or loss in finance costs and removed from the AFS reserve.

Available-for-sale (AFS) financial investments (continued)
The Group evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significant changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

Interest income
For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale through other comprehensive income, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

Dividends
Dividend income is recognised when the Group's right to receive the payment is established, which is when the investment portfolio pays out the dividend.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either

(a) the Group has transferred substantially all the risks and rewards of the asset, or
(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognised to the extent of its continuing involvement in it. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Disclosures relating to impairment of financial assets are summarised in the following notes:

• Accounting policy disclosures	Note 2
• Disclosures for significant assumptions	Note 2
• Trade receivables	Note 19

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets, other than those financial assets classified as fair value through the statement of profit and loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss for equity investments classified as available-for-sale are not subsequently reversed through the profit or loss. Impairment losses recognised in the profit or loss for debt instruments classified as available-for-sale are subsequently reversed through the profit or loss if the increase in fair value can objectively be related to an event occurring after recognition of the impairment loss.

Available-for-sale

A financial asset is derecognised when the contractual rights to cash flows expire or there is a transfer of the rights to receive contractual cash flows in a transaction in which substantially all the risks and rewards are transferred.

Trade and other receivables

Trade and other receivables classified as loans and receivables are subsequently measured at amortised cost using the original effective interest rate method less provision for impairment. At each reporting date, the Group assesses whether there is any objective evidence that trade and other receivables are impaired. A provision for impairment of trade and other receivables is raised in the statement of profit and loss, 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.

Trade and other receivables (continued)
The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the effective interest rate. The Group takes the impairment of trade receivables directly to the carrying value of the asset and recognises the impairment in profit and loss.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and on hand and call deposits. Cash on hand is initially recognised at fair value and subsequently measured at amortised cost. Deposits are carried at amortised cost. Due to the short-term nature the amortised cost normally approximates its fair value.

ii) *Financial liabilities*

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as follows:

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

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.3.12 INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell. 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.

2.3.13 IMPAIRMENT OF NON-FINANCIAL ASSETS

Disclosures relating to impairment of non-financial assets are summarised in the following notes:

- Accounting policy disclosures Note 2
- Property, plant and equipment Note 11
- Intangible assets Note 13
- Investment in subsidiaries Note 14

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows 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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

2.3.14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

2.3.15 PROVISIONS

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.3.16 PENSIONS AND OTHER EMPLOYEE BENEFITS

The Group operates a defined benefit pension plan, which requires contributions to be made to the administered fund. The Group has also agreed to provide certain additional post employment healthcare benefits to senior employees. These benefits are unfunded.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses and the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment and
- The date on which the Group recognises related restructuring costs

2.3.16 PENSIONS AND OTHER EMPLOYEE BENEFITS (continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee benefits in the consolidated statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Post-employment healthcare benefit obligation

The entitlement to post–employment healthcare benefits is based on employees having been appointed prior to 1 September 1998, with ten years membership to the designated medical aid schemes at retirement, who have remained in service up to retirement age and retired employees with the benefit.

The liability recognised in respect of post-employment healthcare benefit is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using the projected credit unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms of maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in profit and loss.

Long service leave obligation

The entitlement to leave benefits is based on employees who were employed before 1 March 2008 who will receive additional leave days based on their respective years of service with SABS. Specifically SABS employees with six to ten years' service are awarded an additional three days leave per annum for the rest of employment and SABS employees with ten completed years or more in service will receive another three days additional per annum leave for the rest of their employment (i.e. six days additional leave per annum). Employees will receive the long service award once they have reached the years of service. The obligation is valued annually by an independent qualified actuary. Any unrecognised actuarial gains and losses and past service costs are recognised immediately.

Short-term employee benefits

Short-term employee benefits are those that are due to be settled wholly within twelve months after the end of the period in which the services have been rendered. Remuneration of employees is charged to the statement of profit and loss. An accrual is made for accumulated leave, incentive bonuses and other short-term employee benefits.

2.3.17 FOREIGN CURRENCY TRANSACTIONS

Presentation currency

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. The financial statements are presented in Rands, which is the Group's functional and presentation currency.

The following are approximate values at reporting date for selected currencies:

	2018	2017
Euro	14.55	13.93
Pound Sterling	16.58	16.16
US Dollar	11.81	12.97
Swiss Franc	12.38	13.01

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analysed between transaction differences resulting from changes in the fair value cost of the security, and other changes in the carrying amount of the security. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in OCI except for impairment losses and foreign exchange gains and losses.

Monetary assets and liabilities denominated in foreign currency are translated at the functional currency spot rates of exchange at the reporting date.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses.

2.3.18 OTHER EXPENDITURE

Operating expenses are presented as a combination of function and nature and are recognised in profit and loss upon utilisation of the service or as incurred. Significant expenses relating to operating activities of the Group and intended for earning income are presented in separate lines by their nature in the statement of profit and loss.

2.3.19 FRUITLESS AND WASTEFUL AND IRREGULAR EXPENDITURE

Fruitless and wasteful expenditure is accounted for according to the nature of the expense and disclosed separately in the annual report. Measures are implemented to ensure that such expenditure does not re-occur and where possible the expenditure is recovered. Any cases of a criminal nature are reported to the responsible authorities.

When confirmed, irregular expenditure must be recorded in the notes to the financial statements. The amount to be recorded in the notes must be equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof.

Where such impracticality exists, the reasons therefore must be provided in the notes. Irregular expenditure must be removed from the notes when it is either:

(a) condoned by the National Treasury or the relevant authority.
(b) it is transferred to receivables for recovery or
(c) it is not condoned and is irrecoverable.

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

2.3.20 RELATED PARTY TRANSACTIONS

The Group, in the ordinary course of business, entered into various sale and purchase transactions on an arm's length basis at market rates with related parties. The SABS is presumed to be related to all other government entities within the national sphere by virtue of its classification as a national public entity. Only transactions carried out within the ambit of the Department of Trade and Industry and transactions not carried out on an arm's length basis are disclosed. Key personnel are limited to the Board and the Executives only.

2.3.21 EVENTS AFTER THE REPORTING DATE

Recognised amounts in the Annual Financial Statements are adjusted to reflect significant events arising after the reporting date, but before the Annual Financial Statements are authorised for issue, provided there is evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note if applicable.

2.3.22 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following is a list of accounting standards, and interpretations that have been published that are not mandatory for the 31 March 2018 reporting periods and have not been early adopted by the SABS. The SABS' assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 - Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 April 2018:

IFRS 9 - Financial Instruments (continued)

- Financial assets currently classified as fair value through other comprehensive income (FVOCI) will satisfy the condition for classification as FVOCI or fair value through profit and loss (FVPL), should the Group continue to hold these assets as FVOCI, gains and losses realised on the sale of these financial assets will no longer be transferred to profit and loss, but instead reclassified below the line from the FVOCI reserve to retained earnings.
- Trade and other receivables currently classified as loans and receivables and measured at amortised cost meet the condition for classification at amortised cost and hence there will be no change to the accounting of these assets.
- There will be no impact on the Group's accounting for financial liabilities. The Group's trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

IFRS 9 introduces a new impairment model, which requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 is effective for the annual reporting period beginning 1 April 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group will adopt the modified retrospective approach. On adoption the Group will disclose the transition as a change in accounting policy as per the requirements of IAS 8 accounting policies, changes in accounting estimates and error.

IFRS 15 - revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer and introduces a five-step revenue recognition model.

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

Management has assessed the effects of applying the new standard on the group's financial statements and has identified the following areas that will be affected:

- **Collectability of revenue** - The current credit management policy and processes requires enhancement to include customer contract validity assessment in terms of IFRS 15. The Group's revenue may be reduced further due to identification of additional classes of uncollectable customers ie, non-valid contracts in terms of IFRS 15.
- **Separately identifiable performance obligation** - The Group's contracts with its external customers provide for multiple services such as sale of standards, certification, laboratory services, training and design institute management service. For each revenue stream, IFRS 15 requires separately identifiable distinct goods and services.
  The current practice is to recognise revenue from all services as a single source under "revenue from services rendered". The split of separate performance obligations will impact the timing of revenue recognition, which will take place when each separate performance obligation is satisfied ie, when control passes to the customer at a point in time or over time.
- **Contract modification** - The Group's contract modifications relate to various elements, including change in type of services. Some contract modification may result in a change which leads to an adjustment of previously recognised revenue and/or prospective reallocation of the transaction price to the remaining performance obligations in the contract. This may lead to revenue amount adjustment.
- **Transaction price, including variable consideration** - The Group's contracts have price uncertainty at the beginning of each billing period. Although services to be provided to the customer are determinable, the billable amount is only established post usage and consumption. Transaction prices for services and sale of standards are mainly made up of the fixed rates and variable components such as annual escalation of fees on the annual certification fees, penalty on cancellation of scheduled audits, reimbursements of re-certification costs, discounts on annual payments.
  IFRS 15 requires entities to estimate the transaction price over the contract term, and apply the constraint at inception of the contract. The Group would need to determine estimates and judgments relating to quantity and price of the products and services rendered and apply revenue constraint at the start of the contract. Allocation of transaction price to performance obligation – sale of standards and services rendered.
  IFRS 15 requires the estimation of the transaction price at inception of the contract, and allocation of the transaction price based on the stand-alone selling price. Under the current accounting standard the Group determines the stand-alone selling price (SSP) on sale of standards, certification, laboratory services, training and design and institute management services. The transaction price is confirmed when the variability (quantity/price) is resolved. Management needs to determine if the stand-alone selling price is based on the observable market prices.
- **Portfolio vs individual contract approach** - IFRS 15 is applied to individual customer contracts. However the Group can adopt the portfolio approach based on similar contract characteristics. When accounting for a portfolio, the Group uses estimates and assumptions that reflect the portfolio rather than individual contracts. This may result in slight differences.

- **Significant financing component**- certain customers have discretion to decide on the timing of payment for testing services provided to them upfront. The timing of the transfer of services and payments differs and Group may thus provide financing for the testing services to the customer.
- **Contract cost assets**- the Group's inability to determine costs to acquire and costs to fulfil customer contracts is an opportunity lost for improving EBITDA as IFRS 15 requires for such costs to be capitalised and amortised over a useful life ie customer life.

IFRS 15 - revenue from contracts with customers (continued)

IFRS 15 is effective for annual reporting period beginning on 1 April 2018.The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group will adopt the modified retrospective approach. This method requires the standard to be applied to contracts that are initiated after the effective date. In respect of contracts that have remaining obligations as of the effective date, the cumulative impact of the adoption will be recognised in retained earnings as of 1 April 2018 and comparatives will not be restated.

IFRS 16 – Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

IFRS 16 – Leases (continued)

The Group will assess the potential impact on the financial statements resulting from the application of IFRS 16.

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The following new or amended standards are not expected to have a significant impact on the Group's financial statements.

IAS 7 Cash flow statements - disclosure initiatives (amendments to IAS 7)
IAS 12 Income taxes - clarification to existing standard (amendments to IAS 12)
IFRS 10 Consolidated financial statements - investment entities: applying the consolidation exception (amendments to IFRS 10)
IAS 28 Investment in associates and joint ventures - measuring an associate or joint venture at fair value (amendments to IAS 28)
IAS 40 Investment properties - clarification to existing standard (amendments IAS 40)
IFRS 2 Share based payments - clarification to existing standard (amendments to IFRS 2)
IFRS 4 Insurance contracts - to be applied with IFRS 9 (amendments IFRS 4)
Various annual improvements to IFRSs 2012-2014 cycle

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**
3. REVENUE				
Revenue comprises income from services provided for the sales of standards, certification of products and systems and testing and inspection of products for compliance with standards and training.				
Revenue comprises:				
Investigations, tests and services and training	**200 618**	186 352	**-**	-
Product and system certification	**280 796**	277 753	**-**	-
Sale of standards	**27 606**	29 547	**27 606**	29 547
Design Institute services	**7 338**	7 240	**7 338**	7 240
Intercompany sale of standards	**-**	-	**458**	2 231
	516 358	500 892	**35 402**	39 018
4. OTHER INCOME				
Includes:				
Bad debts recovered	**-**	399	**-**	-
Corporate services recoveries	**-**	-	**29 894**	24 112
Deferred income in respect of government grants recognised during the year for plant and equipment	**8 925**	8 016	**5 733**	5 733
Dividends received from available-for-sale investments	**5 182**	4 334	**5 182**	4 334
Foreign exchange gains	**2 843**	1 086	**380**	189
Profit on disposal of property, plant and equipment	**-**	-	**67**	-
Realised gains on available-for-sale investments	**7 613**	19 609	**7 613**	19 609
Rentals in respect of operating leases:				
Rental income from investment property	**14 875**	13 749	**14 875**	13 749
Intercompany rental income received in respect of:	**-**	-	**56 486**	62 533
Land and buildings	**-**	-	**31 727**	38 840
Equipment	**-**	-	**24 759**	23 693
Royalties received	**-**	-	**-**	9 277
5. EMPLOYEE BENEFIT EXPENDITURE				
Salaries and wages	**465 261**	441 593	**210 401**	177 655
Medical aid and other employment benefits	**38 504**	36 150	**14 776**	12 254
Pension contributions	**32 552**	31 080	**15 047**	12 821
Board emoluments (note 30.6)	**3 542**	5 625	**3 498**	5 480
	539 859	514 448	**243 722**	208 210
Post-employment healthcare benefits (note 23)	**8 478**	8 491	**5 554**	5 480
Long service leave benefits (note 23)	**3 217**	2 475	**1 559**	359
	551 554	525 414	**250 835**	214 049

	GROUP		SABS	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
6. OTHER EXPENDITURE				
Includes:				
Amortisation of intangible assets (note 13)	**3 938**	3 380	**1 338**	834
Audit fees	**3 284**	3 264	**2 197**	2 292
Bad debts	**29 571**	7 620	**(9 249)**	(335)
Bad debts written-off	**6 672**	461	**108**	7
Impairment of receivables/(reversal of impairment)	**22 899**	7 159	**(9 357)**	(342)
Board emoluments (note 30.6)	**1 118**	-	**1 007**	-
Computer software and licence fees	**9 301**	8 596	**9 263**	8 505
Consumables	**19 920**	20 392	**2 719**	3 271
Depreciation on investment properties (note 12)	**433**	433	**7 021**	7 020
Direct operating expenses relating to investment properties that:				
Generated rental income	**15 322**	14 286	**17 947**	28 947
Did not generate rental income	**1 754**	2 037	**5 774**	7 910
Reversal of impairment on shareholder loan (note 36)	**-**	-	**-**	(65 661)
Insurance	**2 212**	2 292	**2 212**	2 290
Legal costs	**2 995**	3 935	**2 995**	3 935
Loss on disposal of property, plant and equipment	**89**	281	**-**	221
Membership fees	**5 262**	5 455	**4 624**	4 772
Municipal services	**50 036**	47 651	**48 184**	45 904
Postal services	**2 898**	2 640	**919**	476
Realised foreign exchange losses	**4 233**	6 179	**518**	411
Rentals in respect of operating leases (minimum lease payments)	**6 790**	7 513	**590**	948
Land and buildings	**4 231**	4 399	**-**	-
Vehicles and equipment	**2 559**	3 114	**590**	948
Training	**3 492**	2 237	**2 628**	1 730
7. INTEREST RECEIVED				
Bank balances	**892**	804	**888**	801
Money market investments, short-term deposits and available-for-sale investments	**28 324**	29 383	**28 324**	29 383
	29 216	30 187	**29 212**	30 184
8. INTEREST PAID				
Interest on banking facilities and late payments to SARS and suppliers	**107**	43	**102**	35

9. TAXATION

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Deferred taxation - current year	**20 327**	-	**-**	-
The charge for the year can be reconciled to the loss per the statement of profit and loss as follows:				
Loss before taxation	**(53 719)**	(62 491)	**-**	-
Taxation at 28% (2017: 28%)	**(15 041)**	(17 497)	**-**	-
Non-taxable/non-deductible differences				
Exempt expenditure/(income)	**(894)**	(639)	**-**	-
Non-deductible expenditure	**141**	-	**-**	-
Unrecognised deferred tax portion	**15 794**	18 137	**-**	-
Impairment of deferred tax asset	**20 327**	-	**-**	-
Taxation expense	**20 327**	-	**-**	-
Deferred tax income/(expense) recognised directly in other comprehensive income	**258**	(518)	**-**	-

Exempt income and expenses relate to the deferred income on government related grants and the expenditure incurred on earmarked projects.

The SABS has been exempted from income tax in terms of the provisions of section 10(1)(cA)(I) of the Income Tax Act, however the subsidiary SABS Commercial SOC Ltd is not subject to the exemption.

The SABS note has been adjusted to reflect the exemption. The Group figures disclosed represents the SABS Commercial SOC Ltd taxation.

10. DISCONTINUED OPERATIONS

The shareholder benchmarked the regulatory systems with others globally and it was evident that the practice of having a standards body as a regulatory body is not optimal or advantageous. After careful consideration of the practice, the benchmarking results and public input, the shareholder decided that the Regulatory division should be a separate agency reporting to the Department of Trade and Industry. The National Regulator for Compulsory Specifications Act and the new Standards Act, 2008 (Act No. 5 of 2008), were signed by the President in July 2008. The effective date was 1 September 2008.

Previously the Regulatory division, through the Global Conformity Services (GCS) Namibia (Pty) Ltd was the responsible inspection body for the European Union in Namibia. The split of the SABS into two entities was agreed with the Namibian authorities and the Namibian Standards Institute (NSI) took over the operations of the GCS Namibia (Pty) Ltd. The activities of GCS Namibia (Pty) Ltd have been accounted for as a discontinued operation. Ministerial approval was granted to transfer the Walvis Bay immovable property and the movable assets in Namibia to the NSI. An agreement was entered into between SABS, SABS Commercial SOC Ltd, GCS Namibia (Pty) Ltd and the NSI in accordance with which the movable assets in Namibia were transferred to the NSI on 31 March 2010. The SABS has a property in Luderitz and permission was granted for the disposal of the property. SABS sold the property and the transfer of the property is finalised. The company is dormant and in liquidation.

	GROUP		SABS	
	2018 R'000	**2017 R'000**	**2018 R'000**	**2017 R'000**
Non-current assets				
Intercompany loans	**-**	-	**49**	49
Current liabilities				
Trade and other payables	**94**	94	**-**	-
Liabilities of disposal group	**94**	94	**-**	-
Net liabilities directly associated with assets	**(94)**	(94)	**-**	-
*(N$1 equal R1)				

The inter company loan in 2016/17 was not eliminated at Group level. The figures for the current and prior year have been corrected. This impact is deemed immaterial.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land	Buildings	Laboratory equipment	Furniture and office equipment	Vehicles	Artwork	Capital work-in-progress	Total
2018	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Opening carrying value	350 700	192 673	86 048	18 838	348	894	65 796	715 297
Cost	350 700	286 419	251 715	102 589	1 138	1 016	65 796	1 059 373
Accumulated depreciation	-	(93 746)	(165 667)	(83 751)	(790)	(122)	-	(344 076)
Additions	-	-	-	-	-	-	18 913	18 913
Work-in-progress transfers	-	4 497	14 866	4 185	-	-	(23 548)	-
Category transfers	-	(657)	(753)	1 334	76	-	-	-
Work-in-progress expensed *	-	-	-	-	-	-	(2 919)	(2 919)
Disposals	-	(64)	(87)	(54)	-	-	-	(205)
Depreciation	-	(9 477)	(19 568)	(9 087)	(87)	(40)	-	(38 259)
Closing carrying value	**350 700**	**186 972**	**80 506**	**15 216**	**337**	**854**	**58 242**	**692 827**
Cost	350 700	291 172	259 166	105 478	1 432	1 016	58 242	1 067 206
Accumulated depreciation	-	(104 200)	(178 660)	(90 262)	(1 095)	(162)	-	(374 379)
2017								
Opening carrying value	350 844	198 027	83 071	20 324	490	934	56 093	709 783
Cost	350 844	283 171	238 693	101 276	1 138	1 016	56 093	1 032 231
Accumulated depreciation	-	(85 144)	(155 622)	(80 952)	(648)	(82)	-	(322 448)
Additions	-	-	-	-	-	-	42 459	42 459
Work-in-progress transfers	-	3 790	19 997	7 093	-	-	(30 880)	-
Work-in-progress expensed	-	-	-	-	-	-	(1 876)	(1 876)
Disposals	(144)	(12)	(34)	(95)	-	-	-	(285)
Depreciation	-	(9 132)	(16 986)	(8 484)	(142)	(40)	-	(34 784)
Closing carrying value	**350 700**	**192 673**	**86 048**	**18 838**	**348**	**894**	**65 796**	**715 297**
Cost	350 700	286 419	251 715	102 589	1 138	1 016	65 796	1 059 373
Accumulated depreciation	-	(93 746)	(165 667)	(83 751)	(790)	(122)	-	(344 076)

*Work-in-progress expensed relates to initial feasibility and professional fees on long-term projects which did not result into an asset.

11. PROPERTY, PLANT AND EQUIPMENT (continued)

SABS	Land	Buildings	Laboratory equipment	Furniture and office equipment	Vehicles	Artwork	Capital work-in-progress	Total
2018	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Opening carrying value	349 700	24 806	2 512	12 124	-	890	52 645	442 677
Cost	349 700	47 441	6 041	81 334	-	1 000	52 645	538 161
Accumulated depreciation	-	(22 635)	(3 529)	(69 210)	-	(110)	-	(95 484)
Additions	-	-	-	-	-	-	13 018	13 018
Work-in-progress transfers	-	4 458	974	3 972	-	-	(9 404)	-
Assets transferred from/(to) subsidiary	300	428	(86)	375	75	-	(665)	427
Work-in-progress expensed	-	-	-	-	-	-	(2 144)	(2 144)
Disposals	-	-	-	(50)	-	-	-	(50)
Depreciation	-	(2 175)	(452)	(6 282)	(2)	(40)	-	(8 951)
Closing carrying value	**350 000**	**27 517**	**2 948**	**10 139**	**73**	**850**	**53 450**	**444 977**
Cost	350 000	53 374	6 702	63 609	139	1 000	53 450	528 274
Accumulated depreciation	-	(25 857)	(3 754)	(53 470)	(66)	(150)	-	(83 297)

	Land	Buildings	Laboratory equipment	Furniture and office equipment	Vehicles	Artwork	Capital work-in-progress	Total
2017	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Opening carrying value	349 623	23 760	1 158	13 696	-	930	40 607	429 774
Cost	349 623	44 999	4 392	79 468	-	1 000	40 607	520 089
Accumulated depreciation	-	(21 239)	(3 234)	(65 772)	-	(70)	-	(90 315)
Additions	-	-	-	-	-	-	22 820	22 820
Work-in-progress transfers	-	3 017	1 666	4 627	-	-	(9 310)	-
Assets transferred from (to) subsidiary	221	(77)	-	(107)	-	-	(1 008)	(971)
Work-in-progress expensed	-	-	-	-	-	-	(464)	(464)
Disposals	(144)	(12)	-	(65)	-	-	-	(221)
Depreciation	-	(1 882)	(312)	(6 027)	-	(40)	-	(8 261)
Closing carrying value	**349 700**	**24 806**	**2 512**	**12 124**	**-**	**890**	**52 645**	**442 677**
Cost	349 700	47 441	6 041	81 334	-	1 000	52 645	538 161
Accumulated depreciation	-	(22 635)	(3 529)	(69 210)	-	(110)	-	(95 484)

Capital work in progress for the Group includes R4.2 million for new laboratory equipment, R53.1 million for infrastructure, refurbishment projects and security equipment and upgrades and R0.9 million for ICT equipment and office furniture.

Freehold land and buildings as well as significant components to the buildings are stated at cost less accumulated depreciation and accumulating impairments. The useful life of each building is deemed to equate its economic useful life as management has taken a decision not to sell these buildings.

No assets were pledged as security and there are no contractual commitments.

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

In the 2016/2017 financial year, the Group adopted IFRS for the first time. The Group elected to measure certain items of property, plant and equipment at fair value at the date of transition to IFRS and to use these fair values as the deemed costs at 1 April 2015. At the date of transition to IFRS an increase of R346.5 million (31 March 2016: R346.5 million) was recognised in property, plant and equipment for the Group and R346.4 million (31 March 2016: R346.4 million) for SABS. All land within the Group were fair valued. The carrying values of the individual items of land to which the exemption was applied have been adjusted. The land was revalued by independent valuators. This amount has been recognised in retained earnings.

12. INVESTMENT PROPERTIES

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening carrying value	**8 370**	8 803	**162 597**	169 617
Cost	**13 731**	13 731	**231 301**	231 313
Accumulated depreciation	**(5 361)**	(4 928)	**(68 704)**	(61 696)
Depreciation	**(433)**	(433)	**(7 021)**	(7 020)
Closing carrying value	**7 937**	8 370	**155 576**	162 597
Cost	**12 984**	13 731	**230 554**	231 301
Accumulated depreciation	**(5 047)**	(5 361)	**(74 978)**	(68 704)

Investment properties and significant components thereof are stated at the costs thereof. At the reporting date, management's assessment of the investment properties was R15.3 million for the Group and R403.0 million for SABS. (2017 Independent valuation at market values: R53.3 million for the Group and R511.3 million for SABS). Refer to notes 4 and 6 for income and expenditure related to investment properties.

Investment properties for SABS consist of:
- Buildings N, R and Z including the parking located on the Groenkloof Campus
- A property in East London
- All the buildings on the Groenkloof Campus except for the administration building Block A

Investment properties for the Group consist of:
- Buildings N, R and Z including the parking located on the Groenkloof Campus
- A property in East London

13. INTANGIBLE ASSETS

	GROUP			SABS		
	Computer software R'000	Capital-work-in-progress R'000	Total R'000	Computer software R'000	Capital-work-in-progress R'000	Total R'000
2018						
Opening carrying value	8 317	2 181	10 498	2 277	2 181	4 458
Cost	69 963	2 181	72 144	40 291	2 181	42 472
Accumulated amortisation	(61 646)	-	(61 646)	(38 014)	-	(38 014)
Work in progress transfers	2 659	(2 659)	-	2 659	(2 659)	-
Work in progress transferred to expenses	-	(1 144)	(1 144)	-	(1 144)	(1 144)
Additions	116	5 857	5 973	116	5 857	5 973
Amortisation	(3 938)	-	(3 938)	(1 338)	-	(1 338)
Closing carrying value	**7 154**	**4 235**	**11 389**	**3 714**	**4 235**	**7 949**
Cost	76 416	4 235	80 651	46 864	4 235	51 099
Accumulated amortisation	(69 262)	-	(69 262)	(43 150)	-	(43 150)

	GROUP			SABS		
	Computer software R'000	Capital-work-in-progress R'000	Total R'000	Computer software R'000	Capital-work-in-progress R'000	Total R'000
2017						
Opening carrying value	10 427	3 178	13 605	2 040	3 178	5 218
Cost	68 693	3 178	71 871	39 221	3 178	42 399
Accumulated amortisation	(58 266)	-	(58 266)	(37 181)	-	(37 181)
Work in progress transfers	997	(997)	-	997	(997)	-
Additions	273	-	273	74	-	74
Amortisation	(3 380)	-	(3 380)	(834)	-	(834)
Closing carrying value	**8 317**	**2 181**	**10 498**	**2 277**	**2 181**	**4 458**
Cost	69 963	2 181	72 144	40 291	2 181	42 472
Accumulated amortisation	(61 646)	-	(61 646)	(38 014)	-	(38 014)

14. INVESTMENT IN SUBSIDIARIES

The entity's subsidiaries are:

		SABS	
		2018	**2017**
Name	**Ownership**	**R'000**	**R'000**
GCS Namibia (Pty) Ltd	100%	**-**	-
SABS Commercial SOC Ltd	100%		
Opening balance		**65 662**	1
Share subscription		**34 338**	65 661
		100 000	65 662

In 2018 SABS Commercial issued 34 338 000 (2017: 65 661 000) no par value shares for R34.338 million (2017:R65.661 million) for which the SABS fully subscribed. The transaction was settled through the inter company loan (2017: settled through shareholders loan.)

The Group results and position comprise SABS, SABS Commercial SOC Ltd and the GCS Namibia (Pty) Ltd. Separate financial statements are available for each subsidiary company.

14. INVESTMENT IN SUBSIDIARIES (continued)

The results of SABS Commercial SOC Ltd for the financial year can be summarised as follows:

	SABS	
	2018	**2017**
	R'000	**R'000**
Revenue	**481 414**	464 105
Other income	**8 957**	3 348
Expenditure	**(544 090)**	(529 939)
Operating loss	**(53 719)**	(62 486)
Net finance cost	**(1)**	(5)
Taxation	**(20 327)**	-
Loss for the year	**(74 047)**	(62 491)

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**
15. AVAILABLE-FOR-SALE INVESTMENTS				
Opening balance	**427 338**	407 244	**427 338**	407 244
Additions (net of costs)	**448 386**	124 225	**448 386**	124 225
Disposals	**(458 062)**	(103 000)	**(458 062)**	(103 000)
Profit/(loss) on investments transferred to equity (note 22)	**12 863**	(1 131)	**12 863**	(1 131)
Non-current portion	**430 525**	427 338	**430 525**	427 338
Available-for-sale investments comprises:				
Equities and bonds	**430 525**	427 338	**430 525**	427 338

These investments are held in various diversified portfolios and are intended to create a base of plan assets to cover post-employment medical benefits and capital expansions.

	GROUP		SABS	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
16. DEFERRED TAXATION				
Assessed losses	**22 929**	24 039	**-**	-
Accelerated wear and tear for tax purposes on property, plant and equipment	**(11 957)**	(11 397)	**-**	-
Intangible assets	**(688)**	(849)	**-**	-
Other	**(147)**	(171)	**-**	-
Other deductible temporary differences	**50 637**	32 971	**-**	-
Employee related provisions	**24 819**	22 360	**-**	-
Doubtful debts allowance	**11 458**	4 391	**-**	-
Income received in advance	**14 360**	6220	**-**	-
Unrecognised portion of deferred tax asset	**(40 707)**	(24 784)	-	-
Less: Impairment of deferred tax assets	**(20 327)**	-	-	-
Deferred tax asset	**(260)**	19 809	**-**	-
The movement for the year in the Group's deferred tax positions was as follows:				
Opening balance	**19 809**	20 327	**-**	-
Temporary differences on tax losses	**(1 110)**	9 594	**-**	-
Temporary differences on property, plant and equipment	**(561)**	(1 423)	**-**	-
Temporary differences on intangible assets	**161**	(701)	**-**	-
Temporary differences on employee related provisions	**2 459**	4 684	**-**	-
Reversing temporary differences on other deductible temporary differences	**(21 018)**	(12 672)	**-**	-
Closing balance	**(260)**	19 809	**-**	-
Balance at the beginning of the year	**19 809**	20 327	**-**	-
Current year charge	**(20 069)**	(518)	**-**	-
Per the statement of profit and loss - impairment of deferred tax asset	**(20 327)**	-	**-**	-
Per the statement of comprehensive income	**258**	(518)	**-**	-
Closing balance	**(260)**	19 809	**-**	-
Reflected in the statement of financial position as follows:				
Deferred tax assets	**-**	19 809	**-**	-
Deferred tax liabilities	**(260)**	-	**-**	-
Deferred tax (liability)/asset	**(260)**	19 809	**-**	-

At the reporting date the Group has unutilised tax losses of R81.9 million (2017: R85.9 million) available for offset against future taxable profits.

	SABS	
	2018	**2017**
	R'000	**R'000**
17. LOANS TO GROUP COMPANIES		
Loans to GCS Namibia (Pty) Ltd		
GCS Namibia (Pty) Ltd	**49**	49
Loans to SABS Commercial SOC Ltd		
Opening balance	**109 639**	69 312
Net movement in loan	**(26 610)**	40 327
Increase in loan to SABS Commercial SOC Ltd	**7 728**	40 327
Decrease in loan to SABS Commercial SOC Ltd - share subscription (note 14)	**(34 338)**	-
Closing balance	**83 029**	109 639
Current portion	**-**	-
Non-current portion	**83 029**	109 687

SABS Commercial SOC Ltd was a subsidiary throughout the year and was directly held. GCS Namibia (Pty) Ltd is registered in Namibia. The interest on the loan is rated by mutual agreement and the loan is repayable 367 days after demand, but no later than 31 March 2050.

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**
18. INVENTORY				
Consumable stores	**2 728**	1 671	**2 728**	1 671
Obsolete stock written-off	**(20)**	(31)	**(20)**	(31)
	2 708	1 640	**2 708**	1 640
No amounts other than obsolete stock were recognised as expense during the year (2017: Nil)				
19. TRADE AND OTHER RECEIVABLES				
Trade receivables	**212 442**	169 143	**13 398**	19 139
Less: Impairment of trade and other receivables	**(53 425)**	(30 526)	**(868)**	(10 225)
	159 017	138 617	**12 530**	8 914
Other receivables	**6 503**	8 550	**5 170**	6 778
Deposits and payments in advance	**5 915**	7 491	**5 120**	6 539
Employee related debtors	**588**	1 059	**50**	239
	165 520	147 167	**17 700**	15 692

The impairment of debtors has been determined by reference to past default experience and the current economic environment. Affected trade receivables are discounted at an effective rate of 6.5% (2017: 7%). No interest is charged on overdue accounts. The credit period is 30 days from date of invoice. The carrying amounts approximate their fair value. No individual customer represents more than 10% of the Group's trade receivables.

19. TRADE AND OTHER RECEIVABLES (continued)

	GROUP 2018 R'000	SABS 2017 R'000
Impairment of trade and other receivables:		
At 31 March 2016	**(23 367)**	(10 567)
Utilised during the year	**405**	8
Raised during the year	**(7 564)**	334
At 31 March 2017	**(30 526)**	(10 225)
Utilised during the year	**6 672**	108
Raised during the year	**(29 571)**	9 249
At 31 March 2018	**(53 425)**	(868)

The following is considered as objective evidence that trade receivables are impaired:

- All legal collections avenues have been exhausted
- Customer in liquidation/de-registration or with an adverse credit rating
- Judgment awarded in favour of the company
- Uneconomical to initiate legal action or to continue legal pursuit
- Prescribed invoices
- Remaining balances after the expired certification
- Customers with a history of judgment against them or a returned cheque history
- Inability to pursue foreign customer legally

As at 31 March the age analysis of trade and other receivables is as follows:

GROUP				Past due			
2018		Total	Not past due	> 30 days	> 60 days	> 90 days	> 120 days
Carrying value (R'000)		**159 605**	**40 918**	**20 812**	**10 681**	**5 780**	**81 414**
	%	100%	26%	13%	7%	4%	51%
Impairment (R'000)		**53 425**	**7 949**	**2 338**	**4 126**	**2 140**	**36 872**
	%	100%	15%	4%	8%	4%	69%
2017							
Carrying value (R'000)		139 676	36 632	15 683	11 684	6 540	69 137
	%	100%	26%	11%	8%	5%	49%
Impairment (R'000)		30 526	626	556	1 820	285	27 239
	%	100%	2%	2%	6%	1%	89%
SABS							
2018							
Carrying value (R'000)		**12 581**	**4 026**	**2 618**	**207**	**238**	**5 492**
	%	100%	32%	21%	2%	2%	44%
Impairment (R'000)		**868**	**13**	**16**	**1**	**3**	**835**
	%	100%	2%	2%	-	-	96%
2017							
Carrying value (R'000)		9 153	1 956	1 470	11	253	5 464
	%	100%	21%	16%	-	3%	60%
Impairment (R'000)		10 225	37	12	6	4	10 166
	%	100%	-	-	-	-	100%

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**

20. 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 2018 R'000	GROUP 2017 R'000	SABS 2018 R'000	SABS 2017 R'000
Current accounts - bank and deposit balances	**83 913**	75 119	**83 896**	75 102
Money market investments	**42 060**	16 799	**42 009**	16 748
Cash on hand	**22**	25	**16**	16
Net cash and cash equivalents used in the statement of cash flows	**125 995**	91 943	**125 921**	91 866

The Group has cash management facilities, resulting in all bank balances being swept daily into the account held by SABS.

Short-term deposits are made for varying periods between one day and three months, depending on the immediate operational cash requirements of the Group, and earn interest and the respective short-term deposit dates. The funds are available on demand and there are no restrictions placed on the funds.

The Group has opted to not have access to any overdraft facilities. If the need arises to make use of overdraft facilities the Group will get the necessary approvals.

The carrying value of cash and cash equivalents approximates fair value due to the short-term maturity of these instruments. The effective interest rate of money market instruments is 7.24% at 31 March 2018 (2017: 6.99%).

21. GENERAL RESERVE

Ministerial approval has been granted to build up a general reserve to a maximum of 50% of one year's operational expenses, to provide for aspects such as replacement of assets and other contingencies. No funds have been transferred to the reserve during the year under as they were not required.

	GROUP 2018 R'000	GROUP 2017 R'000	SABS 2018 R'000	SABS 2017 R'000
Opening balance	**54 282**	54 282	**54 282**	54 282
Amount transferred to general reserve	**-**	-	**-**	-
Closing balance	**54 282**	54 282	**54 282**	54 282

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
22.OTHER COMPONENTS OF EQUITY				
Available-for-sale investments				
Opening balance	**(5 738)**	15 002	**(5 738)**	15 002
Movements during year	**5 250**	(20 740)	**5 250**	(20 740)
Gains on investments realised in statement of profit and loss (note 4)	**(7 613)**	(19 609)	**(7 613)**	(19 609)
Gains/(losses) on revaluation of available-for-sale investments (note 15)	**12 863**	(1 131)	**12 863**	(1 131)
Closing balance	**(488)**	(5 738)	**(488)**	(5 738)
Employee benefits				
Opening balance	**7 667**	7 971	**3 288**	4 925
Movements during the year	**5 377**	(304)	**6 042**	(1 637)
Remeasurements of defined benefit liability - Before tax	**5 119**	214	**6 042**	(1 637)
Tax income/(expense)	**258**	(518)	**-**	-
Closing balance	**13 044**	7 667	**9 330**	3 288
	12 556	1 929	**8 842**	(2 450)

23. EMPLOYMENT BENEFIT OBLIGATIONS

Defined contribution plans

Retirement benefits are provided for through the SABS Retirement Fund to which the organisation and its employees contribute. This fund operates as a defined contribution fund and is administered in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956), as amended.

Post-employment healthcare benefit obligation

This obligation arises as the SABS provides post-retirement medical assistance for current employees and pensioners of the SABS who are members of Bestmed or Discovery Medical Scheme and are entitled to receive a contribution subsidy from SABS. All employees employed by the SABS before 1 September 1998 who have belonged to Bestmed or Discovery for at least ten years and retire after the age of 60 are entitled to a post-retirement medical subsidy. There are no plan assets for this liability.

The funding of the liability is managed through the operational cash of the Group. Valuations of these obligations are carried out annually by independent qualified actuaries. The most recent valuation was done as at 31 March 2018.

If an eligible employee is younger than age 56, employed before 1 September 1998 and not on a medical aid at the valuation date, it is assumed that the employee will join the medical aid before retirement and will receive the post-retirement healthcare benefit. These employees were included in the liability. At the reporting date, the Group had 409 (2017: 415) pensioners and 128 (2017: 139) active employees and SABS had 350 (2017: 357) pensioners and 43 (2017: 45) active employees entitled to the benefit.

The total outstanding liability amounts to R82.7 million per the valuation performed during March 2018 (2017: R85.5 million).

* The assumed retirement age is 65 for all employees employed before 1 September 2000 and 60 for all employees employed after 1 September 2000. No allowance was made for early retirement.

23. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**
Post-employment healthcare benefit				
Opening balance	**85 472**	83 172	**59 376**	57 287
Provisions made - current service and interest cost	**8 478**	8 491	**5 554**	5 480
Benefits paid	**(6 083)**	(5 977)	**(5 040)**	(5 028)
Remeasurements (other component of equity)	**(5 119)**	(214)	**(6 042)**	1 637
Total liability	**82 748**	85 472	**53 848**	59 376
Current portion	**(6 561)**	(6 738)	**(5 523)**	(5 766)
Total non-current portion	**76 187**	78 734	**48 325**	53 610
The amount recognised in the other comprehensive income is determined as follows:				
Actuarial (loss)/gain - change in financial assumptions	**(1 652)**	4 244	**(854)**	2 400
Experience gain/(loss)	**6 771**	(4 030)	**6 896**	(4 037)
	5 119	214	**6 042**	(1 637)
The amount recognised in the statement of profit and loss is determined as follows:				
Current service cost	**799**	881	**281**	304
Interest cost	**7 679**	7 610	**5 273**	5 176
	8 478	8 491	**5 554**	5 480
Present value of the obligation				
Opening balance	**85 472**	83 172	**59 376**	57 287
Current service cost	**799**	881	**281**	304
Interest cost	**7 679**	7 610	**5 273**	5 176
Pensioners subsidy benefit payments	**(6 083)**	(5 977)	**(5 040)**	(5 028)
Actuarial gain/(loss) - change in financial assumptions	**1 652**	(4 244)	**854**	(2 400)
Experience (loss)/gain	**(6 771)**	4 030	**(6 896)**	4 037
Closing balance	**82 748**	85 472	**53 848**	59 376

Long service leave award obligation

The Group provides employees employed before 1 March 2008 with three additional leave days after five years of service and another three days after ten years of services. Employees annual leave entitlement is increased with these days. The Group's net obligation in this respect is the amount of future benefit that employees have earned in return for their services in current and prior periods. The obligation is valued annually by independent qualified actuaries. Any unrecognised actuarial gains or losses and past service costs are recognised immediately. There are no plan assets for this liability. At the reporting date, the Group and SABS had 342 (2017: 371) and 120 (2017: 125) employees entitled to the benefit respectively.

The total outstanding liability is R25.8 million as per the valuation performed during March 2018 (2017: R26.3 million).

23. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Long service leave award obligation				
Opening balance	**26 323**	27 310	**8 564**	9 501
Provisions made	**3 217**	2 475	**1 559**	359
Benefits paid	**(3 771)**	(3 462)	**(1 386)**	(1 296)
Net liability in statement of financial position	**25 769**	26 323	**8 737**	8 564
Current portion	**(3 568)**	(3 481)	**(1 299)**	(1 169)
Total non-current portion	**22 201**	22 842	**7 438**	7 395
Present value of funded obligations	**25 769**	26 323	**8 737**	8 564
The amount recognised in the statement of profit and loss is determined as follows:				
Current service cost	**1 675**	1 861	**556**	660
Interest cost	**2 124**	2 420	**685**	845
Actuarial loss - change in financial assumptions	**(203)**	(196)	**(65)**	(59)
Experience (loss)/gain	**(379)**	(1 610)	**383**	(1 087)
	3 217	2 475	**1 559**	359
Present value of the obligation				
Opening balance	**26 323**	27 310	**8 564**	9 501
Current service cost	**1 675**	1 861	**556**	660
Interest cost	**2 124**	2 420	**685**	845
Actuarial loss - change in financial assumptions	**(203)**	(196)	**(65)**	(59)
Experience (loss)/gain	**(379)**	(1 610)	**383**	(1 087)
Benefits paid	**(3 771)**	(3 462)	**(1 386)**	(1 296)
Closing balance	**25 769**	26 323	**8 737**	8 564

23. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	GROUP			SABS		
Changes in the defined benefit obligation	**Post employment healthcare benefit obligation R'000**	**Long service leave award obligation R'000**	**Total R'000**	**Post employment healthcare benefit obligation R'000**	**Long service leave award obligation R'000**	**Total R'000**
Opening balance - 1 April 2016	**83 172**	**27 310**	**110 482**	**57 287**	**9 501**	**66 788**
Amount recognised in profit and loss	**8 491**	**2 475**	**10 966**	**5 480**	**359**	**5 839**
Current service cost	881	1 861	2 742	304	660	964
Interest cost	7 610	2 420	10 030	5 176	845	6 021
Actuarial loss - change in financial assumptions	-	(196)	(196)	-	(59)	(59)
Experience loss	-	(1 610)	(1 610)	-	(1 087)	(1 087)
Benefits paid	(5 977)	(3 462)	(9 439)	(5 028)	(1 296)	(6 324)
Amount recognised in other comprehensive income	(214)	-	(214)	1 637	-	1 637
Actuarial loss - change in financial assumptions	(4 244)	-	(4 244)	(2 400)	-	(2 400)
Experience gain	4 030	-	4 030	4 037	-	4 037
Closing balance - 31 March 2017	**85 472**	**26 323**	**111 795**	**59 376**	**8 564**	**67 940**
Current portion	6 738	3 481	10 219	5 766	1 169	6 935
Non-current portion	78 734	22 842	101 576	53 610	7 395	61 005
Amount recognised in profit and loss	8 478	3 217	11 695	5 554	1 559	7 113
Current service cost	799	1 675	2 474	281	556	837
Interest cost	7 679	2 124	9 803	5 273	685	5 958
Actuarial loss - change in financial assumptions	-	(203)	(203)	-	(65)	(65)
Experience (loss)/gain	-	(379)	(379)	-	383	383
Benefits paid	(6 083)	(3 771)	(9 854)	(5 040)	(1 386)	(6 426)
Amount recognised in other comprehensive income	(5 119)	-	(5 119)	(6 042)	-	(6 042)
Actuarial gain/(loss) - change in financial assumptions	1 652	-	1 652	854	-	854
Experience loss	(6 771)	-	(6 771)	(6 896)	-	(6 896)
Closing balance - 31 March 2018	**82 748**	**25 769**	**108 517**	**53 848**	**8 737**	**62 585**
Current portion	6 561	3 568	10 129	5 523	1 299	6 822
Non-current portion	76 187	22 201	98 388	48 325	7 438	55 763

23. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

The significant assumptions used in determining post-employment healthcare benefit and long service leave obligations are shown below:

	2018	2017
Discount rate per annum		
Post employment healthcare benefit obligation	9.12%	9.30%
Long service leave award obligation	7.92%	8.40%
Salary inflation		
Post employment healthcare benefit obligation	7.58%	8.20%
Long service leave award obligation	7.58%	8.20%
Healthcare cost inflation		
Post employment healthcare benefit obligation	6.23%	6.20%
Pre-retirement mortality		
Post employment healthcare benefit obligation	SA85-90 (Light) table, rated down 1 year for males and females	SA85-90 (Light) table rated down 1 year for males and females
Expected retirement age - Males and females		
Post employment healthcare benefit obligation	60/65 years*	60/65 years*

Quantitative sensitivity analysis for significant assumptions on the obligations as at 31 March 2018 is as follows :

Sensitivity analysis - Post-employment healthcare benefit obligation

Below the effects on the central basis liability results when assumptions are increased or decreased on:

			GROUP		SABS	
		Impact on liability R'000	Liability R'000	Change in liability %	Liability R'000	Change in liability %
Healthcare cost inflation	+1%	Increase	91 827	11.0%	58 457	8.6%
	Central		82 748	-	53 848	-
	-1%	Decrease	75 026	(9.3%)	49 810	(7.5%)
Discount rate						
	+1%	Decrease	75 279	(9.0%)	49 944	(7.3%)
	Central		82 748	-	53 848	-
	-1%	Increase	91 655	10.8%	58 371	8.4%
Post-retirement mortality improvements						
	PA(90)-1	Decrease	79 533	3.9%	51 562	4.3%
	Central		82 748	-	53 848	-
	PA(90)-3	Increase	86 003	(3.9%)	56 174	(4.2%)

23. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

Quantitative sensitivity analysis for significant assumptions on the obligations as at 31 March 2018 is as shown below:

Sensitivity analysis - Post-employment healthcare benefit obligation

Below the effects on the central basis liability results when assumptions are increased or decreased on:

Future sensitivity on service and interest cost (March 2019)			GROUP		SABS	
		Impact on liability R'000	Liability R'000	Change in liability %	Liability R'000	Change in liability %
Service cost						
	+1%	Increase	1 156	19.5%	381	18.3%
	Central		967	-	322	-
	-1%	Decrease	815	(15.7%)	275	(14.6%)
Interest cost						
	+1%	Increase	8 238	11.6%	5 136	9.1%
	Central		7 385	-	4 708	-
	-1%	Decrease	6 660	(9.8%)	4 333	(8.0%)

Sensitivity analysis - Long service leave award obligation

Below the effects on the central basis liability results when the assumptions are increased and decreased by:

Discount rate						
	+1%	Decrease	24 374	(5.4%)	8 290	(5.1%)
Central			25 769	-	8 737	-
	-1%	Increase	27 309	6.0%	9 228	5.6%
Salary inflation						
	+1%	Increase	27 299	5.9%	9 225	5.6%
	Central		25 769	-	8 737	-
	-1%	Decrease	24 357	(5.5%)	8 284	(5.2%)
Expected retirement age						
	+1 year	Increase	27 647	7.3%	9 463	8.3%
	Central		25 769	-	8 737	-
	-1 year	Decrease	23 916	(7.2%)	8 015	(8.3%)
Future sensitivity on service and interest cost (March 2019)						
Service cost						
	+1%	Increase	1 722	6.2%	590	5.7%
	Central		1 622	-	558	-
	-1%	Decrease	1 531	(5.6%)	528	(5.4%)
Interest cost						
	+1%	Increase	2 225	6.3%	749	5.8%
	Central		2 094	-	708	-
	-1%	Decrease	1 972	(5.8%)	668	(5.6%)

23. EMPLOYMENT BENEFIT OBLIGATIONS (continued)

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Five-year summary of post-employment healthcare benefit obligations:					
Present value of obligation	82 748	85 472	83 172	84 291	85 515
Actuarial (gains)/losses	(5 119)	(214)	(4 312)	3 669	5 300

The contributions expected to be paid during the next reporting period is R6.6 million (2017: R6.7 million) for the Group and R5.5 million (2017: R5.8 million) for SABS.

	2018 R'000	2017 R'000	2016 R'000	2015 R'000	2014 R'000
Five-year summary of long service leave awards are as follows:					
Present value of obligation	25 769	26 323	27 310	26 884	26 014
Actuarial (gains)/losses	(582)	(1 806)	(280)	(113)	(1 118)

24. DEFERRED INCOME

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Opening balance - plant and equipment	**281 474**	274 918	**250 820**	256 553
Recognised in deferred income (note 4)	**(8 925)**	(8 016)	**(5 733)**	(5 733)
Grants received to be recognised in future accounting periods	**17 877**	14 572	**-**	-
Closing balance	**290 426**	281 474	**245 087**	250 820
Non-current portion	**259 461**	273 910	**239 354**	245 087
Current portion	**30 965**	7 564	**5 733**	5 733
	290 426	281 474	**245 087**	250 820

The SABS received funds from government earmarked specifically and exclusively for the acquisition of certain assets. Unfulfilled conditions and other contingencies are disclosed if they are present. SABS received R17 million from **the dti** on 29 March 2018 which will be utilised for local content verification.

The funds are treated as deferred income over the useful life of the assets. All assets brought into use are kept in working condition and maintained regularly.

The useful life of the relevant assets are:

- Bio fuel - 5 years
- Netfa encapsulated sphere - 5 years
- Laboratories - 30 years
- Set top boxes project - 3 to 10 years
- National Electrical Test Facility (Netfa) short circuit laboratory - 3 to 10 years

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
25. TRADE AND OTHER PAYABLES				
Trade payables	**98 680**	78 958	**34 481**	36 891
Other payables	**22 705**	14 699	**9 570**	5 904
Short-term employee obligations	**22 648**	14 520	**9 570**	5 904
Straightlining of operating leases	**57**	179	**-**	-
Closing balance	**121 385**	93 657	**44 051**	42 795

The carrying amount of trade and other payables approximates their fair value. Trade payables are normally settled on average 45 days from invoice date and bear no interest.

In the prior year, provisions were presented and disclosed as part of trade and other payables and they were not separately disclosed on the face of the statement of financial position. The non-separate disclosure does not have an impact on the financial results.

26. PROVISIONS

	Opening balance R'000	Additions R'000	Utilised R'000	Reversals R'000	Closing balance R'000
GROUP					
2018					
Employee obligations	55 613	49 010	(34 045)	(21)	70 557
Performance bonus	29 544	27 336	(15 584)	-	41 296
Leave pay	26 069	7 815	(5 947)	-	27 937
Other salary related provisions	-	13 859	(12 514)	(21)	1 324
Other provisions	500	3 801	-	-	4 301
	56 113	52 811	(34 045)	(21)	74 858
2017					
Employee obligations	39 734	37 121	(21 242)	-	55 613
Performance bonus	18 510	26 264	(15 230)	-	29 544
Leave pay	21 224	10 857	(6 012)	-	26 069
Other provisions	-	500	-	-	500
	39 734	37 621	(21 242)	-	56 113

26. PROVISIONS (continued)

	Opening balance R'000	Additions R'000	Utilised R'000	Reversals R'000	Closing balance R'000
SABS					
2018					
Employee obligations	21 998	26 458	(15 150)	(21)	33 285
Performance bonus	12 581	16 108	(6 986)	-	21 703
Leave pay	9 417	4 056	(2 481)	-	10 992
Other salary related provisions	-	6 294	(5 683)	(21)	590
Other provisions	500	3 801	-	-	4 301
	22 498	30 259	(15 150)	(21)	37 586
2017					
Employee obligations	16 206	18 294	(12 502)	-	21 998
Performance bonus	9 459	13 819	(10 697)	-	12 581
Leave pay	6 747	4 475	(1 805)	-	9 417
Other provisions	-	500	-	-	500
	16 206	18 794	(12 502)	-	22 498

In the prior year, provisions were presented and disclosed as part of trade and other payables and they were not separately disclosed on the face of the statement of financial position. The non-separate disclosure does not have an impact on the financial results.

Other provisions - relates to litigation claims and similar commitments anticipated expenses from cases in which the SABS is the defendant party and other miscellaneous provisions. The provisions have been determined based on assessments and estimates by management. Actual results could differ from estimates and there is no certainty regarding timing of these cash flows.

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
27. VAT PAYABLE/(RECEIVABLE)				
March 2018 VAT to be paid to/(refunded by) SARS	**3 659**	3 684	**85**	(4 308)

28. NOTES TO CASH FLOW STATEMENTS

28.1 Reconciliation of (loss)/profit before taxation and interest to cash generated from/(utilised by) operations

	GROUP		SABS	
	2018	2017	2018	2017
	R'000	R'000	R'000	R'000
(Loss)/profit before interest and taxation	**(56 952)**	(74 532)	**(3 234)**	53 613
Adjustments for :	**73 729**	38 194	**5 447**	(108 093)
Depreciation on property, plant and equipment	**38 259**	34 784	**8 951**	8 261
Depreciation on investment properties	**433**	433	**7 021**	7 020
Plant and equipment related government grants amortised	**(8 925)**	(8 016)	**(5 733)**	(5 733)
Amortisation of intangible assets	**3 938**	3 380	**1 338**	834
Loss/(profit) on disposal of property, plant and equipment	**89**	281	**(67)**	221
Realised gain on available-for-sale investment	**(7 613)**	(19 609)	**(7 613)**	(19 609)
Provision for employment benefit obligations	**11 695**	10 966	**7 113**	5 839
Employment benefits paid from provision	**(9 854)**	(9 439)	**(6 426)**	(6 324)
Net provisions raised	**18 745**	16 379	**15 088**	6 292
Reversal of impairment of share holders loan	**-**	-	**-**	(65 661)
Increase/(decrease) in impairment of trade receivables	**22 899**	7 159	**(9 357)**	(342)
Expense transferred out of work-in-progress	**4 063**	1 876	**3 288**	464
Non cash intercompany transactions	**-**	-	**(7 729)**	(40 326)
Transfer of assets (to)/from subsidiary	**-**	-	**(427)**	971
Operating cash flows before working capital changes	**16 777**	(36 338)	**2 213**	(54 480)
Changes in working capital	**3 260**	(685)	**11 930**	(2 382)
Increase in inventory	**(1 068)**	(77)	**(1 068)**	(77)
(Increase)/decrease in trade and other receivables	**(41 252)**	(15 016)	**7 349**	4 943
Increase in asset related government grants	**17 877**	14 572	**-**	-
Increase/(decrease) in VAT liability	**(25)**	(2 096)	**85**	(8 076)
Decrease in VAT receivable	**-**	-	**4 308**	-
Increase in trade and other payables*	**27 728**	1 932	**1 256**	828
Cash generated from/(utilised by) operations	**20 037**	(37 023)	**14 143**	(56 862)

* In the prior year, provisions were presented and disclosed as part of trade and other payables and they were not seperately disclosed on the face of the statement of financial position. The subsequent split has resulted in a difference in the prior movement in trade and other payables as well as provisions.

28.2 Proceeds on disposal of property, plant and equipment

	GROUP 2018 R'000	GROUP 2017 R'000	SABS 2018 R'000	SABS 2017 R'000
Carrying value of disposals	**205**	285	**50**	221
(Loss)/profit on disposal	**(89)**	(281)	**67**	(221)
	116	4	**117**	-

The Group realised proceeds on assets of R116 000 (2017: R4 000)

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**
29. COMMITMENTS				
Capital commitments				
Commitments for the acquisition of property, plant and equipment				
Contracted	**29 363**	19 933	**14 490**	12 690
Capital commitments are funded through internally generated funds and grants received specifically and exclusively for that purpose				
Operating lease commitments - the Group as lessee				
The future minimum payments payable under non-cancellable operating leases are as follows:				
Buildings	**2 695**	4 830	**-**	-
Up to 1 year	**1 680**	3 589	**-**	-
2 to 5 years	**1 015**	1 241	**-**	-
More than 5 years	**-**	-	**-**	-
None of the lease agreements contain any contingent rent clauses and it is assumed that there are no contingent rent payments. The Group does not have the option to purchase the property. Escalation clauses vary from contract to contract averaging 7.2% (2017: 8.375%).				
Vehicles	**1 383**	1 089	**926**	251
Up to 1 year	**890**	912	**502**	232
2 to 5 years	**492**	177	**425**	19
More than 5 years	**-**	-	**-**	-
Total	**4 078**	5 919	**926**	251
Operating lease commitments - the Group as lessor:				
The future minimum rentals received under non cancellable operating leases are as follows:				
Buildings	**20 087**	26 006	**20 087**	26 006
Up to one year	**5 066**	9 607	**5 066**	9 607
Two to five years	**15 021**	16 399	**15 021**	16 399
More than five years	**-**	-	**-**	-

The Group has entered into operating leases on its investment property portfolio consisting of certain offices. These leases have terms of between three and five years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

29. FINANCIAL RISK MANAGEMENT

29.1 Foreign currency risk management

Foreign currency exposures arise from the sale and purchase of standards from overseas clients and purchase of capital equipment, consumables and airfare costs. The Group does not enter into forward exchange contracts. Where possible the supplier is requested to take this cover to fix the price for the Group.

Forward exchange contracts - recognised transactions

No forward exchange contracts were entered into during the financial year ended 31 March 2018 (2017: None).

Uncovered foreign exchange exposure

At year-end the Group was exposed to the following foreign currency denominated liabilities for which no forward cover had been taken out.

	GROUP	
	2018	**2017**
Foreign currency	**Foreign amount**	**Foreign amount**
	000	**000**
Great Britain Pounds	**11**	-
United States Dollar	**62**	154
Euro	**146**	74
Swiss Franc	**5**	-

Foreign currency sensitivity

The impact of the Group's exposure to foreign currency is not material.

29.2 Interest rate risk management

The Group is exposed to interest rate risk as it places funds in the money market floating interest rates. Interest rate risk is managed through effective cash management. The net interest income at 31 March 2018 was R29.2 million (2017: R30.2 million).

The exposure of financial assets to interest rate risk is as follows:

	2018			2017		
	Interest bearing financial assets	Non-interest bearing financial assets		Interest bearing financial assets	Non-interest bearing financial assets	
	Floating rate R'000	Other R'000	Total R'000	Floating rate R'000	Other R'000	Total R'000
GROUP						
Cash and cash equivalents	125 995	-	125 995	91 943	-	91 943
Trade and other receivables	-	165 520	165 520	-	147 167	147 167
Financial asset exposure to interest rate risk	125 995	165 520	291 515	91 943	147 167	239 110
SABS						
Cash and cash equivalents	125 921	-	125 921	91 866	-	91 866
Trade and other receivables	-	17 700	17 700	-	15 692	15 692
Financial asset exposure to interest rate risk	125 921	17 700	143 621	91 866	15 692	107 558
The exposure of the financial liabilities to interest rate risk is as follows:						
GROUP						
Trade and other payables	-	121 385	121 385	-	93 657	93 657
SABS						
Trade and other payables	-	44 051	44 051	-	42 795	42 795

The Group does not have any exposure to interest rate fluctuations (2017: Nil) as it does not have any interest bearing loans.

29.3 Liquidity risk management

The Group manages liquidity risk through the compilation and monitoring of cash flow forecasts as well as ensuring that there are adequate banking facilities.

The maturity profiles of the financial instruments are summarised as follows:

	Within 1 month R'000	1 - 3 months R'000	>3 -12 months R'000	>1 - 5 years R'000	Total R'000
GROUP					
2018					
Financial liabilities amortised at cost					
Trade and other payables	84 970	36 416	-	-	121 385
2017					
Financial liabilities amortised at cost					
Trade and other payables	65 560	28 097	-	-	93 657
SABS					
2018					
Financial liabilities amortised at cost					
Trade and other payables	29 083	13 215	-	-	44 051
2017					
Financial liabilities amortised at cost					
Trade and other payables	29 957	12 839	-	-	42 795

29.4 Credit risk management

Potential concentrations of credit risk consist mainly of cash and cash equivalents and trade receivables. The Group limits its counterparty exposures from its money market investment operations by dealing only with well-established financial institutions of high quality credit standing. The credit exposure to any one counterparty is managed by monitoring transactions. Credit quality of a customer is assessed based on a credit assessment report and individual credit limits are based on the financial history of the customer as provided in these reports and any previous financial data held by the company. Customers with any relevant adverse financial history are not afforded a credit facility and need to pay on a cash only basis.

Trade receivables comprise a large number of customers, dispersed across different industries and geographical areas. Credit evaluations are performed on the financial condition of these debtors. Where appropriate, the necessary credit guarantees are arranged. Trade and other receivables are shown net of impairment.

The Group is exposed to credit-related losses in the event of non-performance by counterparties. The Group continually monitors its positions and the credit ratings of its counterparties and limits the extent to which it enters into transactions with any one party.

At 31 March 2018, the Group did not consider there to be any significant concentration of credit risk which had not been insured or adequately provided for.

29.4 Credit risk management

The maximum exposure to credit risk is as follows:

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**
Cash and cash equivalents	**125 995**	91 943	125 921	91 866
Trade receivables	**159 017**	138 617	12 530	8 914
	285 012	230 560	138 451	100 780

The credit exposures by geographical region for trade debtors are summarised as follows:

	GROUP		SABS	
	2018	**2017**	**2018**	**2017**
	%	**%**	**%**	**%**
South Africa	**89.3**	81.0	**100.0**	100.0
Other	**10.7**	19.0	**-**	-
Total	**100.0**	100.0	**100.0**	100.0

29.5 Equity price risk

The SABS' investments are invested per the approved investment policy of the Group. The Group's listed securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The approved investment managers' report is prepared and presented to the investment committee of the Board on a quarterly basis on the performance of the investments. The Group's investment committee approved the choice of investment managers who are given a specific mandate. The investment managers manage equity price risk through diversification.

29.6 Fair value of financial instruments

The comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the financials is set out below:

	Carrying amount		Estimated fair value	
	2018	**2017**	**2018**	**2017**
	R'000	**R'000**	**R'000**	**R'000**
GROUP				
Financial assets				
Trade and other receivables	**159 017**	138 617	**159 017**	138 617
Available-for-sale investments	**430 525**	427 338	**430 525**	427 338
Cash and short-term deposits	**125 995**	91 943	**125 995**	91 943
	715 537	657 898	**715 537**	657 898
Financial liabilities				
Trade and other payables	**121 385**	93 657	**121 385**	93 657

29.6 Fair value of financial instruments (continued)

	Carrying amount		Estimated fair value	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
SABS				
Financial assets				
Trade and other receivables	**12 530**	8 914	**12 530**	8 914
Investment in subsidiaries	**100 000**	65 662	**100 000**	65 662
Available-for-sale investments	**430 525**	427 338	**430 525**	427 338
Cash and short-term deposits	**125 921**	91 866	**125 921**	91 866
Loans to Group companies	**-**	-	**83 029**	109 639
	668 976	593 780	**752 005**	703 419
Financial liabilities				
Trade and other payables	**44 051**	42 795	**44 051**	42 795

The following methods and assumptions were used by the Group in establishing fair values:

Financial instruments not traded in an active market

At 31 March 2018 the carrying amounts of cash and short-term deposits, trade receivables, investments, trade payables and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities. Loans between group companies are repayable 367 days after demand, but no later than 31 March 2050, the interest on the loan is rated by mutual agreement.

Financial instruments traded in an active market

Financial instruments traded in an organised financial market are measured at the current quoted market price.

Interest bearing debt.

Interest bearing debt is measured at amortised cost using the effective interest rate method. The carrying amounts of interest bearing debt approximate their fair values.

Available-for-sale investments

For financial assets which are traded on an active market, such as listed investments, fair value is determined by reference to market value.

29.6 Fair value of financial instruments (continued)

Fair value hierarchy

The Group used the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at 31 March 2018, the Group held the following financial instruments measured at fair value:

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
GROUP				
2018				
Available-for-sale investments	430 525	-	-	430 525
2017				
Available-for-sale investments	427 338	-	-	427 338
SABS				
2018				
Available-for-sale investments	430 525	-	-	430 525
2017				
Available-for-sale investments	427 338	-	-	427 338

The cost of the asset is the deemed fair value.

There were no transfers between level 1 and level 2 in the year ended 31 March 2018 (2017: None).

29.7 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising shareholder value.

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Trade and other payables	**(121 385)**	(93 657)	**(44 051)**	(42 795)
Cash and cash equivalents	**125 995**	91 943	**125 921**	91 866
	4 610	(1 714)	**81 870**	49 071
Equity	**837 702**	875 245	**979 040**	941 872

30. RELATED PARTY DISCLOSURE

National government and state controlled entities

The Group is controlled by the South African Bureau of Standards (incorporated in South Africa under section 2 of the Standards Act, 1945 which was superseded by the Standards Act, 1993 (Act 29 of 1993) and subsequently superseded by the Standards Act, 2008 (Act No. 8 of 2008) which reports to the Department of Trade and Industry.

Principal related parties

Related party	Country of incorporation	Nature of relationship
SABS Commercial SOC Ltd	South Africa	Subsidiary
GCS Namibia (Pty) Ltd	Namibia	Subsidiary

The SABS is presumed to be related to all other government entities within the national sphere by virtue of its classification as a national public entity. However, only transactions carried out within the ambit of the dti and transactions not carried out on normal terms are disclosed.

	SABS	
	2018 R'000	**2017 R'000**
30.1 Loans receivable from related parties - SABS		
SABS Commercial SOC Ltd	**83 029**	109 639
GCS Namibia (Pty) Ltd	**49**	49
Loan receivable from group companies	**83 078**	109 688
30.2 Other group transactions - income		
Royalties receivable	**-**	9 277
30.3 Transfer of assets (to)/from related parties		
SABS - assets transferred to subsidiary	**(86)**	(184)
WIP transfer to subsidiary	**(665)**	(1 008)
SABS - assets transferred from subsidiary	**1 178**	221
GCS Namibia (Pty) Ltd	**-**	-

30. RELATED PARTY DISCLOSURE (continued)

The following transactions were carried out with related parties:

30.4 Purchases from related parties

	2018				2017			
	GROUP		SABS		GROUP		SABS	
	Purchases	Balance outstanding	Purchases	Balance outstanding	Purchases	Balance outstanding	Purchases	Balance outstanding
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
National Regulator for Compulsory Specifications	37	-	2	-	93	2	59	2
National Metrology Institute of South Africa	109	-	-	-	123	-	11	-
South African National Accreditations System	1 800	24	55	24	1 473	52	-	-
	1 946	24	57	24	1 689	54	70	2

30.5 Sales to related parties

	Sales	Impairment of debt	Bad debt written-off	Balance outstanding	Sales	Impairment of debt	Bad debt written-off	Balance outstanding
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
GROUP								
National Metrology Institute of South Africa	18	-	-	-	155	-	-	73
National Regulator for Compulsory Specifications	12 528	-	-	2 417	10 875	-	-	650
South African National Accreditations System	47	-	-	20	442	-	-	225
	12 593	-	-	2 437	11 472	-	-	948
SABS								
SABS Commercial SOC Ltd - Corporate Charges	48 447	-	-	-	45 820	-	-	-
SABS Commercial SOC Ltd - Intercompany sale of standards	458	-	-	-	2 231	-	-	-
SABS Commercial SOC Ltd - Rentals: Land and Building	36 501	-	-	-	33 227	-	-	-
SABS Commercial SOC Ltd - Overheads recoveries	2 401	-	-	-	2 930	-	-	-
National Metrology Institute of South Africa	18	-	-	-	27	-	-	34
National Regulator for Compulsory Specifications	8 926	-	-	1 303	7 886	-	-	78
South African National Accreditations system	42	-	-	20	422	-	-	235
	96 792	-	-	1 323	92 543	-	-	347

30.6 Key management personnel compensation

The following emoluments were paid to the Board members for attendance of meetings and services beyond the attendance of meetings:

	Committee fees	Salary/ directors' fees	Bonus/ performance payments		Retirement and medical fund	Other *	Total	
	R'000	R'000	R'000		R'000	R'000	R'000	
2018								
GROUP								
Executive								
B Mehlomakulu (CEO)	-	3 126	-	a	202	-	3 328	
Non-executive								
M J Ellman	155	-	-		-	-	155	
W K Masvikwa	118	-	-		-	-	118	1
G P Harris	218	-	-		-	-	218	2
J Molobela	431	-	-		-	-	431	
N Naraindath	141	-	-		-	-	141	3
D E Ndlovu	147	-	-		-	-	147	
Z Monnakgotla	122	-	-		-	-	122	4
A Lotter#	-	-	-		-	-	-	5
G Strachan#	-	-	-		-	-	-	6
	1 332	3 126	-		202	-	4 660	
SABS								
Executive								
B Mehlomakulu (CEO)	-	3 126	-	a	202	-	3 328	
Non-executive								
M J Ellman	139	-	-		-	-	139	
W K Masvikwa	104	-	-		-	-	104	
G P Harris	196	-	-		-	-	196	2
J Molobela	393	-	-		-	-	393	
N Naraindath	119	-	-		-	-	119	3
D E Ndlovu	125	-	-		-	-	125	
Z Monnakgotla	100	-	-		-	-	100	4
A Lotter#	-	-	-		-	-	-	5
G Strachan#	-	-	-		-	-	-	6
	1 177	3 126	-		202	-	4 505	

1. Resigned 21 June 2018
2. Resigned 14 April 2018
3. Resigned 21 June 2018
4. Appointed 31 May 2017
5. Resigned 30 September 2017
6. Appointed 1 October 2017, resigned 21 June 2018

a. 2016/17 bonus of R1 442 979 paid after March 2018

* Other relates to cell phone allowance and leave reimbursements

\# Treasury guideline - Employees of national, provincial and local government or agencies and entities of government serving on boards of public entities are not entitled to additional remuneration

30.6 Key management personnel compensation (continued)

The following emoluments were paid to the Board members for attendance of meetings and services beyond the attendance of meetings (continued):

	Committee fees R'000	Salary / directors' fees R'000	Bonus / performance payments R'000	Retirement and medical fund R'000	Other * R'000	Total R'000
2017						
GROUP						
Executive						
B Mehlomakulu (CEO)	-	2 919	1 330	191	-	4 440
Non-executive						
M J Ellman	187	-	-	-	-	187
W K Masvikwa	143	-	-	-	-	143
G P Harris	229	-	-	-	-	229
J Molobela	328	-	-	-	-	328
N Naraindath	124	-	-	-	-	124
D E Ndlovu	174	-	-	-	-	174
A Lotter[1]	-	-	-	-	-	-
	1 185	2 919	1 330	191	-	5 625

	Committee fees R'000	Salary / directors' fees R'000	Bonus / performance payments R'000	Retirement and medical fund R'000	Other * R'000	Total R'000
SABS						
Executive						
B Mehlomakulu (CEO)	-	2 919	1 330	191	-	4 440
Non-executive						
M J Ellman	159	-	-	-	-	159
W K Masvikwa	130	-	-	-	-	130
G P Harris	202	-	-	-	-	202
J Molobela	300	-	-	-	-	300
N Naraindath	103	-	-	-	-	103
D E Ndlovu	146	-	-	-	-	146
A Lotter[1]	-	-	-	-	-	-
	1 040	2 919	1 330	191	-	5 480

1. Treasury guideline - Employees of national, provincial and local government or agencies and entities of government serving on boards of public entities are not entitled to additional remuneration

* Other relates to cell phone allowance and leave reimbursements

30.6 Key management personnel compensation (continued)

The following emoluments were paid to executives who report directly to the Chief Executive Officer and other key management personnel:

	Salary R'000	Bonus/ performance payments R'000		Retirement and medical fund R'000	Other * R'000	Total R'000	
2018							
Executive management							
SABS							
B Mosako (CFO)	2 019	-	b	234	-	2 253	
S Bissoon (Training)	1 918	601		252	-	2 771	
NBK Gasa (Standards)	775	-		100	38	913	1
W De Witt (Company Secretary)	1 240	98		128	6	1 472	
IC Plaatjes (Corporate Services)	2 148	-	b	329	-	2 477	
F Mitchell (Group Audit Manager)	1 345	375		232	-	1 952	
MA Mello (Enterprise Development)	1 626	-		176	8	1 810	2
ZNR Motloba (Standards Management)	1 152	-		131	-	1 283	3
	12 223	1 074		1 582	52	14 931	
Subsidiary							
MLA Gcabashe (Acting Testing)	1 579	-	b	-	-	1 579	4
GJ Louw (Testing)	344	-		44	12	400	5
Group	14 146	1 074		1 626	64	16 910	

1. Resigned as Executive Standards 31 August 2017
2. Appointed as Executive Enterprise Development 4 May 2017 and resigned 31 January 2018
3. Appointed as Executive Standards Management 1 September 2017
4. Acting Executive: Testing 13 September 2016 - 31 January 2018
5. Appointed 1 February 2018

b. 2016/17 bonus (B Mosako R749 000, IC Plaatjes R823 900, A Gcabashe R339 861), paid after March 2018

* Other relates to cell phone allowance and leave reimbursements

Key management personnel compensation (continued)

	Salary R'000	Bonus/ performance payments R'000	Retirement and medical fund R'000	Other * R'000	Total R'000	
2017						
Executive management						
SABS						
Z Moosa (Human Capital Development)	369	-	56	-	425	1
NBK Gasa (Standards)	903	-	97	-	1 000	2
Dr S Bissoon (Training)	777	-	111	66	954	3
Dr S Bissoon (Standards)	752	601	106	-	1 459	4
IC Plaatjes (Corporate Services)	2 009	278	306	-	2 593	
W de Witt (Company Secretary)	882	-	93	4	979	5
F Mitchell (Group Audit Manager)	1 260	264	214	3	1 741	
B Mosako (CFO)	1 886	447	219	-	2 552	
	8 838	1 590	1 202	73	11 703	
Subsidiary						
F Makamo	1 588	-	250	-	1 838	6
KJ Temba	1 382	627	182	-	2 191	7
MLA Gcabashe	859	289	-	-	1 148	8
Group	12 667	2 506	1 634	73	16 880	

1. Resigned 28 June 2016
2. Appointed 1 October 2016
3. Appointed as Executive Training 4 October 2016
4. Terminated as Executive Standards 3 October 2016
5. Appointed 1 July 2016
6. Terminated 31 January 2017 and transferred
7. Terminated 31 January 2017 and transferred
8. Acting Executive Testing 13 Sep 2016 - 31 Mar 2017

* Other relates to cell phone allowance and leave reimbursements

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
30.7 Government grants				
Government grants				
Received from Department of Trade and Industry	**243 153**	183 211	**243 152**	183 211
Other government grants				
Received from Department of Energy - EE labeling project	**877**	5 579	**-**	-
Received from Department of Trade and Industry - Thermal test chamber donated asset	**-**	8 993	**-**	-
Received from Department of Trade and Industry - Local Content Verification	**17 000**	-	**-**	-
	17 877	14 572	**-**	-
31. CONTINGENT LIABILITIES				
Third parties in respect of services rendered	**5 123**	2 500	**-**	-

The contingent liabilities are partly due to alleged negligence in testing products, which is largely covered by insurance, and limitations of the Standards Act, as well as CCMA employee disputes. The cases are still pending.

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
32. FRUITLESS AND WASTEFUL EXPENDITURE				
The SABS is committed to using its funds in a responsible manner. Corrective action is taken where situations lead to fruitless and wasteful expenditure.				
Opening balance	**7**	201	**-**	197
Movement during the year:	**119**	(194)	**122**	(197)
Interest and penalties incurred due to late payments to suppliers. The amount is not recoverable.	**-**	38	**-**	36
SARS interest and penalties incurred. SARS interest relates to alleged late payments on PAYE and output VAT claimed in the incorrect period. Appeals have been lodged with SARS to reverse interest and penalties.	**122**	-	**122**	-
Salary payment made to terminated employee. A portion of the amount could be recovered in the current year	**(3)**	7	**-**	-
Condoned	**-**	(239)	**-**	(233)
Closing balance	**126**	7	**122**	-

	GROUP		SABS	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
33. IRREGULAR EXPENDITURE				
The SABS is committed to using its funds in a responsible manner. Corrective action is taken where situations lead to irregular expenditure.				
Opening balance	**3 129**	-	**3 129**	-
Incurred during the year:	**-**	3 129	**-**	3 129
Quotation awarded to bidders based on preference points that were not allocated and or calculated according to the requirements of the Preferential Policy Procurement Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations*	**-**	3 129	**-**	**3 129**
Condoned by the Board - awaiting condonement from National Treasury	**-**	-	**-**	-
Closing balance	**3 129**	3 129	**3 129**	3 129

Irregular expenditure to the value of R3 128 613.52 has been condoned by National Treasury, post year-end

* The recalculation of points based on the requirements of the PPPFA did not result in incorrect bidders being appointed.

34. POST BALANCE SHEET EVENTS

The following Board members resigned subsequent to year-end:
G Harris - 14 April 2018
WK Masvikwa - 21 June 2018
N Naraindath - 21 June 2018
G Strachan - 21 June 2018

On 29 June 2018, Dr Rob Davies, the Minister of Trade and Industry, dissolved the SABS' Board of Directors with immediate effect and placed the entity under the control of three co-administrators seconded from **the dti.** The decision by the Minister was based on various governance and operational concerns raised. On the 31st of July 2018, Dr Boni Mehlomakulu resigned as Chief Executive Officer of the SABS Group. On the 27th of August 2018, the Groups' administrators resolved to remove the board of directors of SABS Commercial SOC Ltd with immediate effect. The above changes have not resulted in any interruptions to the operations of the SABS. A CCMA case was lodged by a selected management group against the SABS. The case is in progress and the outcome is uncertain at this point in time. Irregular expenditure to the value of R3 128 612.52 has been condoned by National Treasury. There are no other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, that will have a significant impact on the operations of the Group, the results of the operations, or the financial position of the Group.

35. CHANGE IN ACCOUNTING POLICY

The SABS group moved from SA GAAP to IFRS for the year ended 31 March 2017. In this process the investment in subsidiary was classified and presented as "Available-for-sale investments in subsidiaries" which eluded that the investment in subsidiary was accounted for as a financial instrument under the provisions of IAS 39. SABS has elected the cost model under IAS 27 as the accounting standard to account for the investment in subsidiary.

The investment in subsidiary in terms of IAS 39 would have been carried at cost less any impairment losses as it represents an unquoted equity instrument. The use of IAS 27 is a more reliable accounting measure as SABS is not an investment company.

35. CHANGE IN ACCOUNTING POLICY (continued)

This change in policy does not have an impact on the financial results as the carrying amount is the same under both IAS 39 and IAS 27 for the current year and prior periods. The change in accounting policy impact will therefore not be disclosed in the statement of financial position as it has a Rnil effect.

36. RESTATEMENT OF PRIOR YEAR FINANCIALS - ERROR

SABS provided a shareholder loan to its subsidiary, SABS Commercial. The loan was written off to the statement of profit or loss in the books of SABS, while SABS Commercial continued recognising the loan. During 2016/17 financial year, SABS Commercial issued shares to SABS in exchange for the shareholder loan provided to it. SABS recognised the recovery incorrectly through other comprehensive income and not statement of profit or loss. As a consequence, profit for the year was understated. There was no impact on the net equity of SABS.

	SABS		
	Previously reported R'000	Impact R'000	Restated amount R'000
Impact of restatement on Statement of Profit and Loss			
Revenue	39 018	-	39 018
Other income	145 233	-	145 233
Government grants	183 211	-	183 211
	367 462	-	367 462
Other operating expenditure	(379 510)	65 661	(313 849)
Employee benefit expenditure	(214 049)	-	(214 049)
Depreciation	(8 261)	-	(8 261)
Contract services	(36 723)	-	(36 723)
Travel expenditure	(7 527)	-	(7 527)
Advertising expenditure	(6 548)	-	(6 548)
Repairs and maintenance expenditure	(4 523)	-	(4 523)
Consulting and technical fees	(5 660)	-	(5 660)
Other expenditure	(96 219)	65 661	(30 558)
Operating (loss)/profit	**(12 048)**	**65 661**	**53 613**
Interest received	30 184	-	30 184
Interest paid	(35)	-	(35)
Profit before taxation	**18 101**	**65 661**	**83 762**
Taxation	-	-	-
Profit for the year	**18 101**	**65 661**	**83 762**
Impact of restatement on statement of Other Comprehensive Income			
Profit for the year	**18 101**	**65 661**	**83 762**
Other comprehensive income/(expenditure)	**62 893**	**(65 661)**	**(2 768)**
Items that will not be reclassified subsequently to profit and loss	**64 024**	**(65 661)**	**(1 637)**
Losses on post-retirement medical aid	(1 637)	-	(1 637)
Income tax effect on items not reclassified	-	-	-
Fair value remeasurement on investment in subsidiaries	65 661	(65 661)	-
Items that will be reclassified subsequently to profit and loss	**(1 131)**	**-**	**(1 131)**
Net losses on available-for-sale financial assets	(1 131)	-	(1 131)
Income tax effect on items not reclassified	-	-	-
Total comprehensive income for the year, net of tax	**80 994**	**-**	**80 994**

36. RESTATEMENT OF PRIOR YEAR FINANCIALS - ERROR (continued)

	SABS		
	Previously reported R'000	Impact R'000	Restated amount R'000
Impact of restatement on Statement of Financial Position			
ASSETS			
Non-current assets	**1 212 419**	**-**	**1 212 419**
Property, plant and equipment	442 677	-	442 677
Investment properties	162 597	-	162 597
Intangible assets	4 458	-	4 458
Investment in subsidiaries	65 662	-	65 662
Available-for-sale investments	427 338	-	427 338
Loans to Group companies	109 687	-	109 687
Current assets	**113 506**	**-**	**113 506**
Inventory	1 640	-	1 640
Trade and other receivables	15 692	-	15 692
Cash and cash equivalents	91 866	-	91 866
VAT receivable	4 308	-	4 308
Total assets	**1 325 925**	**-**	**1 325 925**
EQUITY AND LIABILITIES			
Equity and reserves	**941 872**	**-**	**941 872**
General reserve	54 282	-	54 282
Other components of equity	63 211	(65 661)	(2 450)
Accumulated profit	824 379	65 661	890 040
Non-current liabilities	**306 092**	**-**	**306 092**
Employment benefit obligations	61 005	-	61 005
Deferred income	245 087	-	245 087
Current liabilities	**77 961**	**-**	**77 961**
Deferred income	5 733	-	5 733
Trade and other payables	65 293	-	65 293
Employment benefit obligations	6 935	-	6 935
Total equity and liabilities	**1 325 925**	**-**	**1 325 925**

36. RESTATEMENT OF PRIOR YEAR FINANCIALS - ERROR (continued)

In the prior year non-cash items relating to the non-cash transfers of property, plant and equipment and inter-company loans (income and expense transactions between SABS and SABS Commercial) were incorrectly shown on the face of the cash flow statement.

Impact of restatement on Statement of Cash Flows

	SABS		
	Previously reported R'000	Impact R'000	Restated amount R'000
Cash inflow from operating activities	**12 642**	**(39 355)**	**(26 713)**
Cash received from customers	189 194	-	189 194
Cash received from government	183 211	-	183 211
Cash paid to suppliers and employees	(389 912)	(39 355)	(429 267)
Cash (utilised by)/generated from operations	(17 507)	(39 355)	(56 862)
Interest received	30 184	-	30 184
Interest paid	(35)	-	(35)
Cash outflow from investing activities	**(43 148)**	**(971)**	**(44 119)**
Purchase of property, plant and equipment	(22 820)	-	(22 820)
Property, plant and equipment sold to subsidiary	971	(971)	-
Purchase of intangible assets	(74)	-	(74)
Purchase of available-for-sale investments	(124 225)	-	(124 225)
Disposal of available-for-sale investments	103 000	-	103 000
Cash outflow from financing activities			
Increase of loans to group companies	(40 326)	40 326	-
Decrease in cash and cash equivalents	**(70 832)**	**-**	**(70 832)**
Cash and cash equivalents at beginning of year	**162 698**	**-**	**162 698**
Cash and cash equivalents at end of year	**91 866**	**-**	**91 866**

37. GOING CONCERN BASIS OF ACCOUNTING

The going concern consideration regarding the SABS subsidary, SABS Commercial SOC Ltd is included below.

The SABS Commercial SOC Ltd, being a subsidiary of the SABS, has a material uncertainty relating to the going concern assumption. The company incurred a net loss for the year ended 31 March 2018 of R74 045 279 (2017: R62 490 831) and as at that date its total liabilities exceeded its total assets by R41 242 603 (2017: R870 788).

The company has the following adverse ratios as a result of the incurred net loss position:

	2018	2017
ROE	**(179.5%)**	(7 176.4%)
Debt to equity	**(7.1%)**	(317.7%)
Net Profit Margin	**(15.4%)**	(13.5%)

The SABS has subscriped for 34 337 673 shares in SABS Commercial SOC Ltd in the current year (2017: 65 662 327) in lieu of the intercompany loan owned by SABS Commercial in an effort to strengthen SABS Commercial's statement of financial position. The SABS intends on subscribing for further shares in the 2018/19 financial year.

37. GOING CONCERN BASIS OF ACCOUNTING (continued)

Despite the material uncertency reflected in the financial position of SABS Commercial Ltd, the Standards Act, 2008, section 4(1) (a), (b) and (c) outlines the critical legislated functions of SABS with respect to the development, promotion and maintenance of South African National Standards, and the rendering of conformity assessment services. Since these are legislated functions, there is no intention to cease the operations of SABS Commercial in the near future. **The dti** has made available additional funding in the 2018/19 financial year to support the operations of the SABS and reaffirmed it's commitment of continuously working closely with the SABS to ensure long-term sustainability and success. The revised allocation from **the dti** will be aimed at supporting the operations of the SABS Group (icluding SABS Commercial SOC Ltd) which continues to have the support of the shareholder, the SABS.

In addition to this, the following subsequent events and plans have been implemented and are in the process of being executed:

- Devising a turnaround strategy in collaboration with the Co-administrators to return SABS Commercial to profitability.
- Refurbishing the laboratories and facilities required to execute the turnaround strategy and improve on service delivery. This will enable SABS Commercial to improve operational efficiencies thereby increasing throughput and as a result increase revenue. The refurbishment will be funded from current cash reserves in SABS.
- Acquiring new contracts within the certification and laboratory services divisions with income generating ability to the value of R73 300 000 to date.

The financial statements of SABS Commercial SOC Ltd and the Group have thus been prepared on the basis of accounting policies applicable to a going concern.

REFERENCE INFORMATION

ABBREVIATIONS AND ACRONYMS

AFS	Available-for-sale
AFSEC	African Electro-technical Standardisation Committee
ARSO	African Regional Standards Organisation
BBBEE	Broad-Based Black Economic Empowerment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
DCF	Discounted cash flow
EE	Employment equity
EIR	Effective interest rate
EMS	Environmental management system
ERM	Enterprise wide management
GAAP	Generally Accepted Accounting Principles
GCS	Global Conformity Services
HSE	Health, safety, environment
IAS	International Accounting Standard
IASB	International Standards on Auditing Board
ICT	Information communication technology
IEC	International Electro-technical Commission
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IPAP	Industrial Policy Action Plan
ISA	International Standards on Auditing
ISO	International Organization for Standardization
IT	Information technology
King IV	King Report on Governance for South Africa and the King Code of Governance Principles
KPI	Key performance indicator
LTIFR	Lost time injury incident frequency rate
LTI	Lost time injury
MI	Minor injury
MIIFR	Minor injury incident frequency rate
MWh	Megawatt hour
NDP	National Development Plan
NETFA	National Electrical Test Facility
NRCS	National Regulator for Compulsory Specifications
OCI	Other Comprehensive Income
OHS	Occupational, health and safety
PAA	Public Audit Act
PFMA	Public Finance Management Act
PPPFA	Preferential Procurement Policy Framework Act
QMS	Quality management system
QSE	Qualifying small enterprise
R&D	Research and development
RvA	Raad voor Accreditatie
SA	South Africa
SABS	South African Bureau of Standards
SADC	Southern Africa Development Community
SADCSTAN	Southern Africa Development Community Co-operation on Standardisation
SANAS	South African National Accreditation System
SANS	South African National Standard
SMME	Small, medium and micro enterprise
SOC	State-owned company
SQAM	Standards, Quality, Accreditation and Metrology
the dti	The Department of Trade and Industry
VAT	Value Added Tax
VDA	German Association of the Automotive Industry
WIP	Work-in-progress
ZAR	South African Rand

CONTACT DETAILS

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