



MISSION

To become a leading and respected public sector Information Technology company that:

- o Provides relevant and cost effective products and services to the South African Government.
- o Is an employer of choice.
- o Is an advanced user of Information Technology.
- o Delivers value for money to the Shareholder.

VISION

The mission of SITA is to continually:

- o Increase the speed of delivery of our products and services.
- o Improve the return on investment on Government Information Technology expenditure.
- o Improve the quality of our products and services.
- o Improve the security environment within which SITA operates.
- o Innovate in terms of products and services.
- o Support the socio-economic policies of Government.

VALUES

- o Client orientation
- o Competency
- o Integrity
- o Teamwork
- o Fairness

SERVICE DELIVERY

We implemented company-wide service management best practices.

POSITIVE CASH FLOW

A net profit was recorded compared to the loss of the previous year.

EFFICIENCY

Formal contracting on the delivery of services has significantly minimised payment disputes.

THE YEAR UNDER REVIEW

The year under review is the fourth since SITA's inception and reflects continued growth and accomplishments.

SITA is pleased to deliver this report, which marks significant achievements and improvements in our business. The finances of the organisation have turned the corner and a net profit has been recorded, as compared to the net loss of the previous financial year. Revenue also increased significantly. For the first time in SITA's



OUR mandate is to enable Government to improve service delivery to the public through the provision of Information Technology, Information Systems and related services.

history, the Auditor-General expressed an unqualified audit opinion on SITA's annual financial statements, which was a key milestone.

In this year we also commenced work on the e-Government Gateway Programme, launched a Youth Internship Programme and presented our Shareholder's Compact.

SITA's major challenge in the coming years is to improve service delivery and quality of service to client departments, as well as delivering on its mandate.

STRATEGIC OVERVIEW

SITA's strategic objective is to enable Government to improve service delivery to the public through the provision of Information Technology (IT), Information System (IS) and related services, all within a maintained and secure environment. We also continuously align our IT provision strategies to the strategic intent of government.

SITA is committed to the success of the e-Government Gateway programme, which is designed to create a seamless and integrated form of administrative governance. The first phase is due to be launched in the 2003/04 financial year.

When finalised, this programme will give South Africans access to Government services 24 hours a day, seven days a week, throughout the year.

In this year, SITA launched a Youth Internship Programme to assist in building an Information and Communication Technology (ICT) skills base in the

country. This programme will train more than 300 interns annually in various ICT skills, including information security. The financial results have improved substantially and a net profit was recorded while growing revenue. Operating expenses were reduced to 16,3% of revenue, compared to 17,8% in the previous financial year. The organisation has increased its revenue turnover by 44%, which is a major achievement. A particularly significant stride achieved in the brief history of SITA is the presentation of the performance agreement and Shareholder Compact to the Ministry of Public Service and Administration. This agreement defines the parameters of the relationship between SITA and its Shareholder, while outlining business performance targets and a framework for effective accountability.

CHALLENGES

SITA is gathering momentum in fulfilling its mandate and is realising success in achieving its objectives, although it is confronted with numerous challenges that have not yet been fully resolved. The issues discussed below, and others not mentioned here, require continuous re-alignment of SITA's strategies.

Black Economic Empowerment (BEE)

SITA is committed to an ICT sector that recognises the diversity of our society and the need to develop previously disadvantaged groups. Our procurement policies encourage the growth of the BEE and SMME sectors, both at a national and regional level. Thirty per cent of all SITA tenders were awarded to BEE and SMME vendors in the year under review.

SITA is committed to an ICT Industry that recognises the diversity of our society and the need to develop previously disadvantaged people.

SITA is also an active participant in the formulation of a BEE Charter for the ICT industry.

Information Technology Acquisition Centre (ITAC)

The first year of operations of ITAC, as a newly created procurement agency, was significantly challenging for all stakeholders, including Government, the ICT industry and the Government Information Technology Officers Council (GITOC). ITAC'S primary role has been to demonstrate measurable benefits to clients and Government in terms of our strategic goals. The experience gained during the year has shown a



need to focus on skills development, effective contract management, possible creation of partnerships with industry, effective governance and accountability.

SITA'S responsibility, through ITAC, is to ensure a credible process of procurement and the awarding of tenders. The integrity of the process of procurement within ITAC must be efficient, transparent and impervious to all forms of potential corruption. The Board of Directors will soon appoint an Ombudsman to monitor this function.



Procurement through ITAC must be efficient, transparent and impervious to corruption.

APPOINTMENT OF A CHIEF EXECUTIVE OFFICER

Mavuso Msimang has been appointed as SITA's CEO from October 2003 and brings to SITA a wealth of experience and an impressive reputation.

The Board takes this opportunity to thank Ken Modise, SITA's Chief Operating Officer (COO), for taking on the additional role of acting CEO during the past year.

CONCLUSION

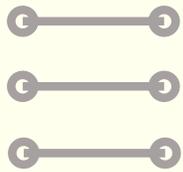
The tremendous progress SITA has made this past year would not have been possible without the leadership and direction of the Minister, Ms Geraldine Fraser-Moleketi.

I thank her for her support and vision. My heartfelt thanks go to all members of the Board of Directors and the Chairpersons and members of the Board committees for their hard work, support and participation.

I also thank the SITA management and all employees who have worked diligently and committed themselves to making a success of our organisation.

Zodwa Manase

Chairperson



MS ZODWA MANASE

**CHAIRPERSON AND
NON-EXECUTIVE
DIRECTOR**

B.Com (Hons), CA(SA),
H.Dip.Tax(SA)
Appointed 1 June 2002



**ADV LEAH
GCABASHE**

**NON-EXECUTIVE
DIRECTOR**

BA.Admin, BA. Law,
MA, LLB
Appointed 1 June 2002



MR COEN KRUGER

**NON-EXECUTIVE
DIRECTOR**

B.Comm. (Hons)
Appointed 24 July 2002



**MR ROBINSON
RAMAITE**

**NON-EXECUTIVE
DIRECTOR**

B.Proc, LLB, MA
Appointed 12 November 1999



**DR ANDILE
NGCABA**

**NON-EXECUTIVE
DIRECTOR**

M.Comm
Management Diplomas
Appointed 17 April 1999



**MS LUCIENNE
ABRAHAMS**

**NON-EXECUTIVE
DIRECTOR**

BSc., Dip. Dev. Admin
Appointed 1 June 2002



**MR MIKE
ROUSSOS**

**NON-EXECUTIVE
DIRECTOR**

BA (Hons), MBA
Appointed 1 June 2002



**DR SIBUSISO
SIBISI**

**NON-EXECUTIVE
DIRECTOR**

BSc. (Hons), PhD
Appointed 1 June 2002

BOARD OF DIRECTORS

We write this at the end of the first year of our renewed mandate.

This was a year of transition, during which even more critical focus was placed on implementation and service delivery. In reflecting over the past year, we can isolate the accomplishments and activities that will feature in our key focus areas in the new financial year: the way we work, the values and beliefs inherent in the organisation and the challenges and critical success factors on our way to world-class positioning.

The year under review challenged us to rezone our energies towards delivering initiatives within the ambit of the SITA Amendment Act. This drive delivered positive and sustainable results that will create momentum for future performance.

Our corporate performance presents an opportunity for SITA to consolidate our operating model and increase its benefits to our customers. The renewed intention is to galvanise our energies towards creating a better public sector outfit. The year's execution also had direct impact on operational areas, such as:

- o Reinforcement of the operating model.
- o Stringent output-centric processes and measurements.
- o Defined output metrics for every function.

As previously mentioned, the year ended March 2003 indicated positive improvement in business results, amid the challenges of maintaining organisational stability, whilst introducing new capabilities as defined by the SITA Act.

CEO'S REPORT

HIGHLIGHTS

To contextualise the year's performance, the following areas highlight the activities executed:

1. Together with the Government IT Officers Council (GITOC), we have successfully achieved critical milestones in the areas of standards, specifically the Minimum Interoperability Standards (MIOS) and Minimum Information Security Standards (MISS).

OUR corporate performance presents an opportunity for SITA to consolidate our operating model and increase its benefits to our customers.

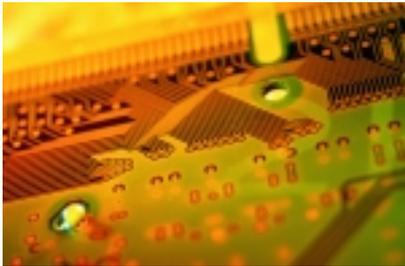
These incorporate the advancement of Open Software Standards (OSS). Within these areas we have:

- o Successfully hosted and continued to advance the Open Software Standard (OSS).
 - o Focused on the advancement of XML standards for deployment of technology solutions in Government.
2. In anticipation of the required needs of mobile computing and the transformation of Government communication infrastructure, we completed the implementation of the Virtual Private Network-enabled Government Common Core Network (GCCN).



Ken Modise
Chief Operating Officer and acting CEO

Whilst replacing the outmoded OpeNet, the GCCN seeks to merge all existing and disparate networks in Government departments into a secured common network. Once achieved, this will significantly contribute towards the realisation of the interoperability of the wide area network (WAN) environment. We have run pilot projects to assess the concept of mobile computing.



WE partnered with industry to advance an e-Government strategy that will bring IT convenience to citizens and users.

In this regard we have piloted:

- o A Wireless Local Area Network.
- o A Voice over Internet Protocol (VOIP).
- o Video conferencing over the network.

Furthermore and in line with our renewed mandate, we were awarded a Private Telecommunication Network (PTN) licence by the Independent Communication Authority of South Africa (ICASA).

This infrastructure allows us to supply high levels of network availability to distributed Government facilities, mobile employees, remote workers, partners and local authorities and municipalities.

3. We integrated 13 departments, thus achieving our goal of establishing strategic partnerships and alliances with Government departments and extending services already contracted between SITA and the IT industry.

4. By focusing on the leveraging of economies of scale, we achieved savings to Government in excess of R100-million. This was mainly achieved through the establishment of enterprise agreements and the consolidation of resources.
5. Through the risk management strategy, we reduced the number of high business impact

security incidents, thus increasing the level of security management and decreasing the vulnerability of departments on data access.

6. In line with the objective of bringing convenience to users and citizens, we partnered with industry to advance Government's strategy on e-Government. We began implementation of the first phase of the Government Gateway project. When complete, Gateway will enable citizens to interact with Government through a single window, 24 X 7, 365 days a year anytime, anywhere.
7. Through the continued focus of improving customer experience with SITA, for the first time

in our history, we were able to contract formally with Departments. Eighty four per cent of service level contracts were signed during the period under review.

8. Our renewed focus on the customer base and the implementation of the operating model, enabled us to maintain an adequate revenue stream to support the business. Based on the service contracts signed, we increased our revenue by 44% to R1,96 billion, a R600-million business growth year-on-year. We achieved all this whilst maintaining our pricing obligation of net operating margin of less than 7% of revenue.
9. Recognising that a skilled, knowledgeable workforce is key to gaining competitive advantage, and in response to the President's clarion call to address the digital divide, we are developing a new skills base through an unprecedented training and development drive.
 - o In collaboration with the Umsobomvu Youth Fund we have established the Youth Internship Programme which is training over 300 youths in specialised areas of IT. These trainees will be deployed across Government and within SITA.
 - o Advanced programmes have been established in the areas of Information System Security (ISS) and networking. Collectively these programmes have more

than fifty participants. The security programme is aimed at developing specific IT security skills that are in short supply nationwide, whilst the networking programme focuses on managing the evolving networks within Government.

10. The foundation has been laid for the organisation's human capital development programme. Five per cent of personnel costs are directed to staff development, per line of business per annum.

IN collaboration with the Umsobomvu Youth Fund we established a Youth Internship Programme which is training over 300 youths in specialised areas of IT.

The target was to increase the employee satisfaction index level to 75%, and although we fell short on this, the basis has been set for the new reporting year.

- o Our technical staff turnover was reduced almost by half, from 12% to 6,5%.
 - o We recorded, in total, less than 12% staff turnover per annum.
11. The provinces and local authorities programme was greatly enhanced by the signing of a partnership agreement with a Belgian agency, CIPAL, an arrangement informed by the progress SITA achieved with upgrading the Thabo



Mofutsanyana district municipality. This partnership seeks to deliver finance management solutions and assist local government entities to operationalise existing infrastructures towards efficient business management and maximum utilisation of attendant resources.

12. SITA successfully completed the Master System Plans (MSP) for the Ekurhuleni and Tshwane (Pretoria) metros, which set these organisations on course to build comprehensive frameworks for proliferation in all Government environments.

SITA successfully completed the Master System Plans (MSP) for Ekurhuleni and Tshwane (Pretoria) metros.

The MSP roadmap, as implemented, will form the base of Government's total IT assets, identify commonality of purpose using IT and open an opportunity of sharing these lessons across Government organs.

13. Further progress was made in establishing independent SITA retirement funding arrangements in terms of the SITA Act. The SITA Board has given a mandate for the executive committee to investigate the matter further, with the aim of establishing arrangements in the current financial year. SITA's positive financial performance has enabled the funding of R60,8-million of previously unfunded post retirement medical benefits.

The IT Acquisition Centre

The IT Acquisition Centre (ITAC) has been established to centralise IT procurement requirements for Government organs by leveraging economies of scale. The centre processed more than 300 tenders at a value of R2,8-billion in this reporting year.

The early phases of ITAC's formation presented enormous challenges that are being continuously addressed to alleviate disruption of procurement services.

Considerable savings realised by Government to date by centralising its procurement add up to over R100-million for the year.

SITA will advance the ITAC's services to all regions, to effect procurement processes, without disadvantaging provincial and local government structures. Progress has been made in setting up resources in Cape Town, with offices planned in KwaZulu-Natal, the Eastern Cape and the Limpopo province in the near future. This will culminate in managing procurement by ensuring delivery from regional suppliers.



SEAT Management Services

SITA is engaged with industry in delivering the Government SEAT management programme, which should be finalised for implementation in the new year. The intended benefit will be realised through managed risk of procurement and ownership of obsolete technologies. The approach will deliver significant cost reduction on the desktop IT provisioning, with Government paying for computing power used.

STILL TO DO

Even so, SITA is only four years “young” and much remains to be done. Whilst we remain on course towards effecting the operating model for business predictability and drawing lessons from the year past, our focus in the ensuing year will be marked by pursuing the following to resolution:

- o The overdue transfer to SITA of the National Treasury transversal systems (valued at approximately R500-million).
- o The completion of ISO/ITIL standards for operational processes.
- o The implementation of an effective marketing and positioning campaign for SITA.

The new year will harness initiatives towards programmes focusing on female employee development linked to the internship drive. Partnership opportunities will be explored, with both Government agencies and industry to deliver qualitative programmes.

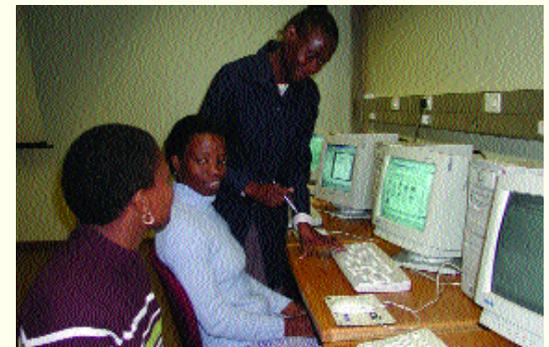
OPERATIONAL REVIEW

CLIENT INTERFACE

Customer Relationship management is cardinal to SITA. This is enshrined in the strategic focus and transfused into our business objectives. The challenge of customer coverage has been aggressively addressed, with complementary resources to ensure a SITA presence in all Government environments. The Client Interface function has been bolstered with

THE new year will harness initiatives towards programmes focusing on female employee development linked to the internship drive.

additional resources to manage the customer engagement process and ensure a single point of entry. The approach seeks to minimise unmanaged responses to customer requirements, streamline accountability on resource deployment and ensure service continuity through an integrated business approach. As a result, new account managers have been recruited and assigned to fulfil the relationship management role for all Government entities. Our customer service levels are improving due to the introduction of service managers to critical accounts. This initiative complements our intent to recruit and retain critical skills that will contribute towards



SITA's service delivery commitment. Collectively, these initiatives will consolidate the business fundamentals to match both organisational challenges and stakeholder requirements.

Service Level Agreements (SLAs)

During this period, SITA also took steps to tightly manage its accounts receivable, while ensuring that formal contracts have been concluded with all Government clients. Formal contracting on services delivered has significantly minimised payment disputes and service delivery concerns.

SITA intends to build on its achievements and sustain its financial discipline.

The inherent benefits of Service Level Agreements (SLA's) are mutual in ensuring alignment of resources to deliver required services, as well as measuring the quality of deliverables against customer requirements. Looking forward, SITA intends to build on the achieved position and sustain the financial management discipline.

In excess of eighty per cent of these Government contracts are now regulated by SLA's, in terms of the Public Finance Management Act.

The Future

In the new financial year, SITA will launch Industry Engagement Sessions aimed at giving industry the opportunity to present their

products and services to SITA, as well as briefing SITA on the latest technology advancements. The sessions will also present an opportunity for Government personnel to participate.

SERVICE DELIVERY

We are firm in our resolve to improve service delivery across our customer base and have embarked on a programme to improve our processes. At the core of this programme is the intent to effectively deliver on

services we contract for, whilst simultaneously ensuring a level of institutional capacity and sustained capability.

During the period under review and in line with our operating model, we adopted a company-wide implementation of Service Management best practices, with Information Technology Infrastructure Library (ITIL) as the framework for implementation and BS15000 as the standard for Service Management and certification purposes. Our experience with projects in the South African Police Service, Eastern Cape



province, the Integrated Justice System cluster and Gauteng province, convinced us to follow this framework for service delivery.

The benefits we will derive from this implementation are:

- o Improvement of core and support processes across the entire organisation, including third party reliance and dependencies.
- o Support of the objectives of the SITA IT House of Values.
- o Improved quality of service – more reliable business support to clients and customers.
- o More focused IT/IS service continuity procedures.
- o Better information on services rendered and flexibility to repackage our services and increased benefits for our customers.
- o Greater flexibility for the business through improved understanding of best practices.
- o Positive impacts on staff motivation and job satisfaction through better understanding of capability and better management of expectations.

- o System-led benefits, such as improvements in security, accuracy, speed and availability to required service levels.

THE BS 15000 IT Service Management Standard is the world's first standard for IT service management

- o Improved cycle time for changes and a greater success rate.

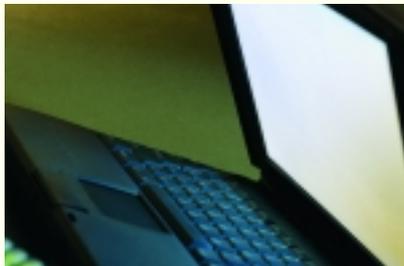
The BS15000 IT Service Management Standard is the world's first standard for IT service management. The standard specifies a set of inter-related management processes, and is based heavily upon the ITIL framework. BS15000 consists of two parts, BS15000-1 and BS15000-2.





**TSHIFHIWA
NETSIANDA**

GENERAL MANAGER
HUMAN RESOURCES,
CORPORATE FACILITIES
AND SERVICES



HUMAN CAPITAL

The advent of the information age some 30 years ago, sparked an explosion of demand for IT solutions from virtually every sector of modern society. Despite the slowdown in recent years, the IT industry, particularly in developing countries, has struggled to keep up with the insatiable demand for IT professionals.

The company is now operating several in-house training programmes to build skills, transforming itself into an employer of choice

SITA is no different and has been hampered by a lack of high calibre IT professionals in sufficient numbers. The company is now operating several in-house training programmes to build skills, transforming itself into an employer of choice that can attract the talent and experience it requires.

Training and skills development

Training is high on SITA's agenda. SITA has invested over R34 million in the Youth Internship Programme (YIP), aimed at training up to 300 unemployed youth annually, in partnership with the Department of Public Service and Administration (DPSA), the Public Sector SETA (PSETA) and the Umsobomvu Youth Fund (UYF). YIP is helping to close the skills shortage gap that exists in our IT

industry and targets 51% female and 4% disabled candidates, as per national guidelines.

During this period SITA launched two database administrator courses for disadvantaged individuals: one for internal staff and the other aimed at external candidates.

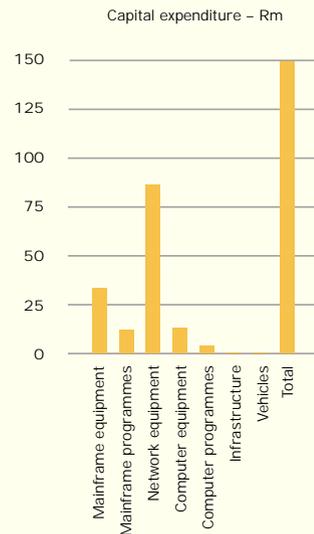
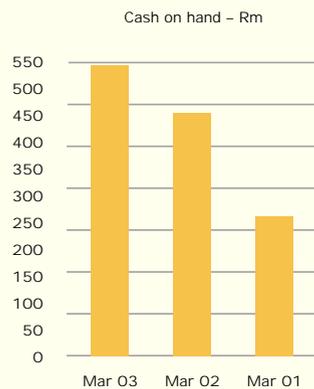
A seven-month database administrator course was also launched for external applicants with BSc, BCom Informatics or equivalent degrees. The selection process prioritised the selection of black females, white females and black males. Course graduates will be considered for employment at SITA, based on their performances and the availability of vacancies.

A twelve-month course for SITA staff wishing to pursue database administration careers was also instituted, with successful students being moved into database administrator positions.

Pat Gumede has been appointed, after the year end, as the General Manager for Human Capital.

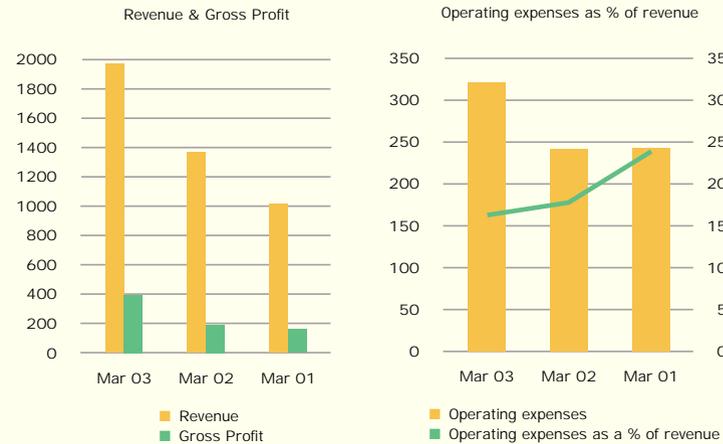
FINANCIAL RESULTS

SITA has finally turned the corner, financially speaking, by recording a net profit of R83-million, compared to a loss of R51-million the previous year. Revenue grew a hefty 44%, from R1,36-billion last year to R1,96-billion, while operating expenses were kept in check. The operating expenses reduced from 17,8% to 16,3% of total revenue (significantly lower than the 23,9% recorded in 2001), despite two unbudgeted-for items, namely post-retirement medical aid contributions of R60,8-million and a R3-million bill from the Auditor-General. SITA also built up significant reserves during the year, growing its cash reserves by 20% from R456-million in 2002 to R546-million in 2003. This was largely achieved on the back of tight



cost management that enabled SITA to improve gross margins from 14% to a healthy 20%.

The appointment of three divisional general managers for finances enabled the chief financial officer (CFO) to delegate day-to-day



FOR the first time in SITA's history the Auditor-General expressed an unqualified audit opinion on SITA's annual financial statements.

operational issues to the appropriate management levels.

The unsatisfactory cash flow and debt management practices of the past were corrected by implementing bi-weekly cash flow cycle forecasts and ensuring that all business units reported on real inflows. Targets were set for all departments, with actual results



PIETER ELS

CHIEF FINANCIAL OFFICER (CFO)



measured against set goals. Financial controls have been tightened to the extent that, for the first time in SITA's history, the Auditor-General has expressed an unqualified audit opinion on SITA's annual financial statements.

We are also able to report:

- o A reduction in trade creditors of more than 10% – despite a 44% growth in business.
- o The average debtors collection period was reduced from 92 days to 86 days.
- o The value of debtors outstanding over 60 days was reduced to 21% of total debtors versus a target of 30%.

The year ahead

SITA's financial functions are now properly bedded down and fully aligned with the company's business model, which leads to the next logical step of financial modelling, which will be focused on in the coming year.

The momentum gained with the improvements in internal and business controls, will be built on in the next financial year.



JONES TSHABALALA

GENERAL MANAGER
RISK MANAGEMENT



RISK MANAGEMENT

The risk management function, an integral element in our operating model, has advanced in developing a framework that will encompass the following elements:

- o Security Management System (ISO 17799/MISS).
- o Quality Management System (ISO 9001:200).
- o A Fiduciary Management System compliant with all relevant legislation, including the Public Finance Management Act (PFMA) and the King II Report on Corporate Governance.

The implementation of the risk framework will minimise risk issues.

The implementation of the risk framework will minimise risk issues related to all management processes. This framework will integrate all SITA's business processes such as Service Delivery, Client Interface, Finance, Human Capital and Risk Management. A recruitment drive to bring the requisite skills on board has been started for early 2003/4 completion.

The overall intent is to avail the services to all Government entities after their implementation within SITA.

DIVISIONAL PERFORMANCE

SITA CIVILIAN

SITA Civilian (SITA C) provides transversal systems and infrastructure to provincial and national government.

SITA C is responsible for managing and developing Government's web-based transversal systems, to deliver personnel systems, financial management, accounting and logistical functions.

Work is underway on evolving the current transversal network into a next-generation Integrated Finance Management System (IFMS), which will include all current networks and the National Treasury systems, presently managed by private sector companies. This three-year project (in terms of a master plan and currently in its first phase) involves developing requirements, assessing current applications and charting the way forward.

Disaster recovery

Client data stored on the current mainframe computing system is backed up onto mainframes that have been retired from the frontline. This back-up system is being improved by reinforcing the linkages between SITA C and its client-base.

Local Government

Although national, and to an increasing extent provincial Government, are joining hands within a coordinated IT framework, South Africa's 284 municipalities have largely remained out in the cold. Municipal IT systems are largely isolated and vary greatly in terms of age and efficiency.

Callers will be able to access all Government departments through a one-number call centre.

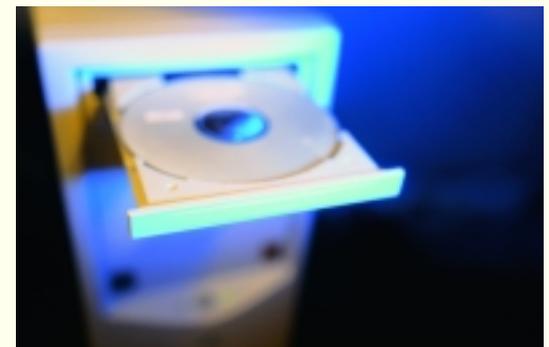
SITA C has accordingly entered into a partnership agreement with CIPAL, Belgium's private sector equivalent to SITA, to integrate the fragmented municipal systems around the country into a network that will allow information sharing, financial transactions, knowledge management and seamless IT functionality.

The first pilot scheme, supported by the South African Local Government Association (SALGA), the Department of Provincial and Local Government (DPLG) and the Free State Department of Housing and Local Government, is underway at Thabo Mufutsanyana district municipality. The system will be rolled out to other municipalities from August 2003 onwards.



ZEPH SEREPO

CHIEF EXECUTIVE
SITA CIVILIAN





Call centres and help desks

SITA C is setting up a command centre that will coordinate services for all Government networks, mainframes, databases and distributed PCs. Callers will be able to access all Government departments through a one-number call centre, with Government IT users utilising the service through a single-number helpdesk.

Printing

Each day SITA C prints thousands of pages, including ID documents, Persal reports, pension vouchers, hospital manuals and cheques, for more than 120 Government departments and organisations. These printing operations are performed around the clock at Beta Data Centre (Pretoria), Centurion Data Centre and Bloemfontein Data Centre.

SITA continuously seeks solutions to simplify Government operations, by enabling the translation of governance drivers through IT.

In mid-2002 the Education Departments of the Free State, Mpumalanga, North West and the Northern Cape commissioned SITA to print, staple, pack and distribute examination papers totalling 74 million images, before mid-October. Excellent organisation and much personal sacrifice by SITA C's printing workforce enabled this

mammoth task to be successfully delivered in time. Having proved its ability to meet tough deadlines, SITA C has since acquired three new high-capacity printers to raise capacity and further contribute to revenues.

The year ahead

SITA C's major goal in the year ahead is to continue gaining expertise – through skills building and recruitment – so that it can further leverage its current client relationships to provide better and more comprehensive services.

SITA will continue to partner with industry in the delivery of non-core functions in accordance with its mandate. This arrangement will enable SITA C to concentrate on its core functions, providing transversal services and developing IT skills in the broader community.

SITA DEFENCE

SITA Defence (SITA D) develops, maintains and supports ICT solutions for South Africa's Department of Defence. SITA D does not compete with private sector vendors, but rather defines the parameters within which their services and products can be rendered.

In line with its mandate and contracted service contracts, SITA D has achieved savings in excess of R30-million on existing services. These savings allow for reinvestment into the evolving requirements of defence.

SITA's focus on improving service delivery management to the Department of Defence was once again bolstered by the division being ISO 9000 certified. This will further enhance our goal of making our quality of service predictable and reliable.

An Information System Security (ISS) internship program was initiated during the year under review with the help of certain of our clients. Eleven interns are presently undergoing training that is scheduled for completion at the end of September 2003. Although SITA D exceeded the budgeted revenue for the year, it obtained greater value from effective cost containment. The debtor's book also reflects consistent, in-time collections which positively impacted on the group's cash flow.

Information System Security (ISS)

The need for Government Departments to meet Minimum Information Security Standards (MISS) cannot be over emphasised. SITA D, through its ISS unit, focused largely on protecting state assets and on assisting departments to be MISS compliant where possible.

SITA D's ISO 9000 certification will further enhance our goal of making our quality of service predictable and reliable.

Although this process is still in its early stages, a total of 21 Government Departments received ISS products and services during the year. These services ranged from training and awareness, policy implementation, vulnerability assessments and total ISS solutions.

The year ahead

SITA D is focusing on information systems security, with special emphasis on anti-virus monitoring, intrusion detection and joint ventures. The division will also investigate opportunities to add value to the Nepad initiatives.

Two key Government applications are scheduled for upgrading this year, namely the mainframe-based Health Information System and the Online Support Information Systems (OSIS), which supports the maintenance of Government assets.



**MAKANO
MOJAPELO**

**CHIEF EXECUTIVE
SITA D**





DAVID SETSHEDI

CHIEF EXECUTIVE
SITA E



SITA E

SITA E is the youngest of SITA's operations and houses the IT Acquisition Centre (ITAC), certification and research & development (R&D).

Innovations remain the lifeblood of the technology realm. SITA continuously seeks solutions to simplify Government operations, by enabling the translation of governance drivers through IT. The following are some initiatives that were started during the current year:

SITA E will continue to revise its enterprise agreements with existing software vendors, as well as developing agreements with new vendors.

Master Systems Plan (MSP)

SITA, through its R&D unit, has partnered with private sector companies to craft a new Master Systems Plan (MSP) in-a-box. Four Government departments have been identified to run pilot implementations in the next fiscal year.

Embedded in the new Master Systems Plan (MSP) are value-add services designed to enhance and properly integrate all aspects of our clients' IT installations and scenario mapping for future requirements. A key component of the MSP in-a-box is to prepare a roadmap that will assist Government to move from current technologies, towards e-Government integration.

Licensing through enterprise agreements

SITA has concluded seven Enterprise Agreements with software vendors covering the procurement of all existing and new software products, thereby delivering significant value-add benefit to Government.

Government is now set to reap year-to-year savings from this programme.

Open Source Software (OSS)

SITA, through GITOC, has pushed for the adoption of an OSS policy and strategy, making South Africa one of the top five countries worldwide to do so. Extensive research has been conducted along the lines of what is feasible, secure and sustainable. SITA is perceived as a driver of OSS in Government and continues to play a critical role in all IT forums of Government. The group has established a working group on OSS in GITOC as well as signing a memorandum of understanding with the CSIR.

Preliminary research results suggests that an estimated amount of 30% on total IT spend could be saved within the next two to three years. OSS has proved to be feasible in the web-enablement environment and to this effect SITA has included at least three indigenous languages in the GITOC portal (www.gitocouncil.gov.za).

Going forward, SITA will be assisting Schoolnet.SA to roll out OSS applications and operating systems across the 27 000 high schools in the country. The company acknowledges the change-management issues associated with the adoption of this endeavour and has since embarked on a massive awareness campaign to this effect.

Gateway

Government initiated the development and implementation of South Africa Online through the Department of Public Service and Administration (DPSA). This e-Government Gateway aims to facilitate access to all information about, and services provided by Government. SITA was subsequently tasked to manage delivery of the project.

The Gateway infrastructure will ensure 24 X 7 access to information and services anywhere, anytime, through the Internet, telephone and fax, and is designed to function with any related technologies, existing or emerging.

This implementation is on course with the following sub-projects initiated; call centre, portal, service centre, communication and change management. Progress is monitored for delivery of phase one during the new fiscal year.

The year ahead

SITA E will continue to revise its enterprise agreements with existing software vendors, as well as developing agreements with new vendors. This policy will be broadened to include similar enterprise agreements with hardware, server and other ITC vendors.

In line with our renewed mandate, we intend fast tracking the telecommunications business to take advantage of the capital invested to date in our Voice Over Internet Protocol (VOIP) network and opportunities presented by the convergence of technologies.



CONCLUSION

The progress recorded reflects steps towards the right direction. We believe that a start has been made and the foundation laid for consolidating on these gains. The challenges remain on expediting the organisational transformation and maintaining a cohesive approach that will cement the operating model, whilst delivering on the promise to our customers.

The year under review marked the end of SITA's beginning – which now enables us to clearly focus on our future. Our business model is beginning to bear fruit, whilst we now have the financial resources available to pursue our legislated objectives.

The SITA Board has appointed Mr Mavuso Msimang as the SITA CEO from 1 October 2003, which means that I will soon be handing over the CEO position, that I have filled for the past year. Mr Msimang's superb track record as outgoing CEO of the National Parks speaks for itself, and I heartily welcome him to the SITA team.

My year at the helm was exhilarating and I believe the results will continue to show in the years ahead. Right now, its time to focus "full steam" ahead on my duties as COO.



My thanks goes to the Board of SITA for the continued guidance and support. My appreciation goes to the Minister of Public Service and Administration, Ms Geraldine Fraser-Moleketi and her staff.

I would also like to thank my colleagues in the executive management team and all SITA employees for their dedication and the tremendous support displayed. Thank you also to the Government IT Officers Council for its unwavering support during this momentous year.

A handwritten signature in black ink that reads "Ken Modise". The signature is stylized and written in a cursive-like font.

Ken Modise

COO and Acting CEO



KEN MODISE

CHIEF OPERATING OFFICER (COO) and ACTING CEO

BA (Comm), Dip. Marketing



PIETER ELS

CHIEF FINANCIAL OFFICER (CFO)

B.Acc (Hons), CA(SA), Higher Dip. Tax Law



ZEPH SEREPO

CHIEF EXECUTIVE SITA C

BSc. (Hons).



MAKANO MOJAPELE

CHIEF EXECUTIVE SITA D

B Comm U.E.D



DAVID SETSHEDI

CHIEF EXECUTIVE SITA E

B.Admin (Hons)



MOJALEFA MOSEKI

CHIEF INFORMATION OFFICER (CIO)

MA (Comm), Dip. Journalism, EDP Gibs



MAHLUBANDILE RADEBE

GENERAL MANAGER CORPORATE AFFAIRS

BA, BL (Hons), LLB, LLM



TSHIFHIWA NETSIANDA

GENERAL MANAGER HUMAN RESOURCES, CORPORATE FACILITIES AND SERVICES

B.Comm. (Hons)



JONES TSHABALALA

GENERAL MANAGER RISK MANAGEMENT

Dip. Dev. Mngmnt, Dip. Risk Management

SITA EXECUTIVE MANAGEMENT COMMITTEE (EXCO)

The implementation of the SITA Amendment Act of 2002 began in earnest in the year under review. The development of this plan, and the company's performance, has to be viewed against the vision of SITA as outlined in the Act. A performance review for this financial year is measured against SITA's balanced scorecard.

This year's business plan identified the following focus areas:

- Implementing the new business model, which includes an effective and value adding Information Technology Acquisition Centre ("ITAC");
- Providing "end to end" services across Government, citizens and business;
- Focus on strengthening the service delivery capability of SITA;
- Stabilising and strengthening provincial operations;
- Human resource development.

CUSTOMER/STAKEHOLDER OBJECTIVES

GOAL	OBJECTIVE	TARGET	RESULT
To deliver value for money in IT/IS and related services to Government	1. To comply to service level agreements thus ensuring customer satisfaction/loyalty.	<ul style="list-style-type: none"> ● 10% decrease in critical impact issues ● Customer satisfaction index 	<ul style="list-style-type: none"> ● Achieved in areas with signed SLA's. 84% SLA's signed. Total number of SLA's at 339 with 286 SLA's valued at R1,87 million signed. Total revenue at R1,96 million.
	2. To increase service and product request throughput to Industry.	<ul style="list-style-type: none"> ● % of requests throughput to Industry to R-value. ● 70% satisfaction index level. 	<ul style="list-style-type: none"> ● Not achieved. ● Introduced a customer satisfaction survey which requires SITA to focus on turn around time, advisory services, etc.
	3. To establish partnerships and alliances with Government Departments.	<ul style="list-style-type: none"> ● 5 formal alliances set ● 5 formal partnerships set 	<ul style="list-style-type: none"> ● Achieved. ● Achieved with industry to service Government. 13 departments integrated.
	4. To focus on e-Government.	<ul style="list-style-type: none"> ● Formal Alliance with DOC through a signed MOU ● Number of e-Government business opportunities accepted by client. 	<ul style="list-style-type: none"> ● Achieved. ● Together with the Department of Public Service Administration we are facilitating the e-Government strategy ● Phase one of the e-Government Gateway programme initiated. The programmes encompass all facets of government service delivery.
	5. To ensure interoperability and compatibility, reduce unnecessary duplication and achieve economies-of-scale.	<ul style="list-style-type: none"> ● 60% of Government in possession of an approved MSP ● 5m savings affected for Government IT ● R-value savings affected. 	<ul style="list-style-type: none"> ● Not achieved. ● Developed MSP's for the Ekurhuleni, Tshwane metro. Together with Research & Development commenced the project to develop MSP in-a-box due for introduction in 2003/04 financial year. ● Achieved. ● Effected total savings of just over R100 million mainly through ITAC.
	6. To increase the level of security management.	<ul style="list-style-type: none"> ● Reduce number of high business impact security incidents. 	<ul style="list-style-type: none"> ● Achieved. ● Together with the Government IT Officer's Council developed and introduced the Minimum Information Security Standards. Based on these standards introduced the Information Security Awareness programme and related contingencies associated with the programme.

FINANCIAL GOALS & OBJECTIVES

GOAL	OBJECTIVE	TARGET	RESULT	
To ensure SITA's revenue stream is adequate to support the business	1. Ensure thorough due diligence prior to undergoing business venture i.e. ensuring financial viability and funding methodology	<ul style="list-style-type: none"> • Due diligence policy developed and implemented • Ongoing due diligence of business practices by divisions 	<ul style="list-style-type: none"> • Achieved. <p>Policy developed and being implemented across the business</p>	
To provide relevant products and services to the Government cost-effectively	2. Manage cash flow to maintain an operating surplus.	<ul style="list-style-type: none"> • Cash flow in line with projections • 30% R-value outstanding debt after 60 days. 	<ul style="list-style-type: none"> • Achieved. <p>Exceeded budgeted and forecasted cash flow amounts</p> <ul style="list-style-type: none"> • Achieved. <p>Ended on 21%</p>	
	3. To reduce operating expenses.	<ul style="list-style-type: none"> • 20% reduction in operational expenses. 	<ul style="list-style-type: none"> • Not Achieved. <p>Despite two unbudgeted for expense items of R63,8 million, reduced operating expenses from 17,8% to 16,3% of total revenue.</p>	
	4. To establish and secure funding options.	<ul style="list-style-type: none"> • Net amount of funds available. 	<ul style="list-style-type: none"> • Achieved. <p>Closed year on R546 million cash on hand.</p>	
	5. To improve operating margin.	<ul style="list-style-type: none"> • Operating margin not less than 7% of turnover 	<ul style="list-style-type: none"> • Not Achieved. <p>4,6% operating margin percentage of turnover after R63,8 million unbudgeted for expenditure.</p>	
	6. To establish cost benchmarking for IT/IS products and services.		<ul style="list-style-type: none"> • Establish total cost of ownership model 	<ul style="list-style-type: none"> • Achieved. <p>Performed as part of seat management.</p>
			<ul style="list-style-type: none"> • Cost comparison matrix benchmarking. 	<ul style="list-style-type: none"> • Achieved. <p>Performed as part of request for increase in service tariffs.</p>
	7. To improve financial control.		<ul style="list-style-type: none"> • Number of financial irregularities reduced by 30%. 	<ul style="list-style-type: none"> • Achieved. <p>Only one reported incident.</p>

PROCESS GOALS & OBJECTIVES

GOAL	OBJECTIVE	TARGET	RESULT	
To complete the restructuring of SITA	1. The Establishment of three subsidiaries	<ul style="list-style-type: none"> • The establishment of capacity and concretisation within divisions • Self-sustainability of divisions • Cohesive business principles established for divisions • Financial framework completed • Legal Framework completed and subsidiaries registered 	<ul style="list-style-type: none"> • Achieved. Separate divisions of Civilian, Defence and e-Service introduced. • Two achieved. Defence and Civilian self sufficient with e-Service being cross subsidised. • Achieved. • Achieved. • Not achieved. Subsidiaries not yet registered but operating as separate entities. 	
	To be an advanced user of Information Technology	2. To establish a service delivery performance management system	<ul style="list-style-type: none"> • Internal Performance System approved and implemented. • SLA management system. 	<ul style="list-style-type: none"> • Achieved. Implemented performance system based on a balance scorecard. • Achieved. 84% (286 of 339) service level agreements signed.
		3. To redesign the logistics chain in line with e-procurement practices that smoothly interfaces Government, SITA and the Industry	<ul style="list-style-type: none"> • 5% reduction in lead time. • 20% improvement in on-time delivery. • 5% cost saving. 	<ul style="list-style-type: none"> • Not achieved. Introduction of customer satisfaction survey and service delivery management should bear fruit in the new year. • Achieved. R100 million savings achieved for Government.
		4. To optimise business opportunity management	<ul style="list-style-type: none"> • Number of business proposals presented with 10% improvement on successful proposals 	<ul style="list-style-type: none"> • Achieved. Overall business growth of 44% achieved, compared to previous year.
		5. To embed quality in product and service delivery	<ul style="list-style-type: none"> • All lines of business ISO 9000 certified. • Reduce non-conformance logged calls by 20%. 	<ul style="list-style-type: none"> • 33% achieved. The Defence unit certified, with the other two divisions in the early stages of the process. • Not achieved.
		6. To embed security in product and service delivery as well as daily operations	<ul style="list-style-type: none"> • E-Government security matrix requirements compliance. • 15% reduction in known critical security incidents. 	<ul style="list-style-type: none"> • Achieved. Together with the Government IT Officers Council introduced the Minimum Information System Security (MISS) standards. • Achieved. Based on MISS, began awareness programmes and pre-empting security risks.
		7. To establish a world-class IT/IS planning and architecture capability.	<ul style="list-style-type: none"> • Approved implemented architecture framework to guide IT/IS management. 	<ul style="list-style-type: none"> • Achieved. Together with GITOC developed and introduced the Minimum Interoperability Standards (MIOS) for Government.

LEARNING AND GROWTH GOALS & OBJECTIVES

GOAL	OBJECTIVE	TARGET	RESULT
To be an employer of Choice	1. To adhere to the socio-economic policies of Government	<ul style="list-style-type: none"> • EE ratios. 40 White: 60 HDI by 2004. • 25% increase in spending towards BEE 	<ul style="list-style-type: none"> • Current 54 White: 46 HDI • Baseline of 30%.
	2. To be an acknowledged corporate citizen	<ul style="list-style-type: none"> • 2 programmes registered by end of FY 2001-02 	<ul style="list-style-type: none"> • Not Achieved. Commenced the staff satisfaction survey which highlights need for greater focus on employee wellbeing programmes.
	3. To retain scarce resources.	<ul style="list-style-type: none"> • Staff turn-over (technical) Less than 12% staff turn-over p.a. (resignations) • % skills shortage per skills group. 	<ul style="list-style-type: none"> • Achieved. Staff turnover of 6,5 % v/s 12% industry norm. • As part of the Human Capital strategy introduced the SITA critical skill programme.
	4. To develop staff in line with client service requirements.	<ul style="list-style-type: none"> • 5% of personnel costs for staff development per line of business p.a. 	<ul style="list-style-type: none"> • Not achieved. Staff development costs at R6,1 million for the year. Key programmes due to run across current and new financial year.
	5. To establish a corporate business culture.	<ul style="list-style-type: none"> • Employee Satisfaction Index level at least 75%. • Productivity (Revenue per Employee). 	<ul style="list-style-type: none"> • Not achieved. Commenced the employee satisfaction programme as a baseline in this financial year. • Productivity year on year increase of 29%.

INTRODUCTION

Corporate governance is concerned with structures and processes for organisational decision-making, accountability, control and behaviour, from the top of the organisation right down to its lowest levels.

SITA is managed and regulated by a Board of Directors in accordance with the SITA Act (Act 88 of 1998) as amended.

SITA complies with the requirements of the SITA Act, 88 of 1988, as amended (SITA Act), the Public Finance Management Act, 1 of 1999,

SITA is in the process of implementing the recommendations of the King Report on Corporate Governance for South Africa 2002.

as amended (PFMA), and the Companies Act, 61 of 1973, as amended (Companies Act). In addition, SITA is in the process of implementing the recommendations of the King Report on Corporate Governance for South Africa 2002 (King II Report), including the Code of Corporate Practices and Conduct contained therein, as well as the Protocol on Corporate Governance in the Public Sector 2002.

SHAREHOLDING AND BOARD REPRESENTATION

The South African Government is the sole shareholder of SITA and is represented on its Board of Directors by Mr Muthanyi Robinson Ramaite (Director-General: Department of Public Service and Administration).

SHAREHOLDER COMPACT

In terms of the Treasury Regulations issued in accordance with the PFMA, SITA must, in consultation with its executive authority, the Minister of Public Service and Administration, annually conclude a shareholder compact documenting the mandated key performance measures and indicators to be attained by SITA.

A Shareholder Compact should be reached between

SITA and Government in 2003. In addition to setting out key performance measures and indicators, this compact will also provide an efficient and effective framework to guide the relationship between SITA and its shareholder. It therefore serves to promote and encourage good governance practices within SITA by clarifying the respective roles and responsibilities of the Board and the shareholder.

GOVERNING BODIES

BOARD OF DIRECTORS

The composition of the Board appears on page 5.

The Board of SITA, in keeping with the recommendations of the King II Report, comprises only of non-executive Directors. These Directors, appointed by the Minister of Public Service and Administration, after deliberations with, and confirmation by Cabinet, were drawn from diverse backgrounds to bring a wide range of experience and skills to the Board.

ROLE AND FUNCTION OF THE BOARD

The Board is the accounting authority of SITA in terms of the PFMA.

The Board is responsible for providing strategic direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating the detailed planning and implementation of policy to the Executive Management Committee (EXCO).

The Board meets quarterly and monitors management's compliance with policy and its achievements against objectives. A structured approach is followed for delegation, reporting and accountability, which includes reliance on various Board committees. The Chairperson guides and monitors the input and contribution of the Directors.

Additional meetings of the Board are convened between scheduled meetings, if and when major issues require Board resolution.

DIRECTORS' REMUNERATION

Directors receive fees for their contribution to the Board and the committees on which they serve. The remuneration of the Directors is determined by the Minister of Public Service and Administration, with the concurrence of the Minister of Finance. Further details on Directors' emoluments appear on page 77 of this report.

THE Directors were drawn from diverse backgrounds to bring a wide range of experience and skills to the Board.

COMPANY SECRETARIAL FUNCTION

The Board is assisted by the company secretary in identifying key issues that should form the focus of the Directors' attention. The company secretary also ensures that all relevant matters are placed on the agendas for discussion.

The company secretary, together with other assurance functions, monitors SITA's compliance with the requirements in terms of the SITA Act, the PFMA, Companies Act and other legislation, and regularly reports to the Board in this regard.

BOARD COMMITTEES

A number of Board committees assist the Board in discharging its responsibilities. Each committee operates within the ambit

of its defined terms of reference and delegated duties. These committees are as follows:

- o Chairperson's Committee.
- o Audit Committee.
- o Human Resource and Remuneration Committee.
- o Supplier Selection Authority (Tender Board) Committee.

In accordance with the recommendations of the King II Report, all committees, except for EXCO, comprise of a majority of non-

IN accordance with the recommendations of the King II Report, all committees, except for EXCO, comprise a majority of non-executive directors/members and are chaired by independent non-executive directors/members.

executive directors/members and are chaired by independent non-executive directors/members.

AUDIT COMMITTEE

The Audit Committee comprises of three non-executive members, of which one is the Chairperson.

Two Audit Committee meetings were held during 2002/3. These are normally attended by the external auditors, the chief financial officer, the independent internal audit department and relevant corporate officials. The internal and the external auditors have unrestricted access to the Chairperson of the committee and to the Chairperson of SITA.

The committee monitors the quality, integrity and reliability of SITA's compliance with relevant legislation and ensures that an appropriate system of internal control is maintained to protect SITA's assets. It reviews the activities of the internal audit department and the effectiveness thereof. It is also responsible for the evaluation of the independence, objectivity and effectiveness of the external auditors and for the

review of accounting and auditing concerns identified by internal and external audit. The committee promotes the accuracy, reliability and credibility of financial reporting, and ensures that the annual financial statements and the annual report of SITA is reviewed by management and the external auditors before approval by the Board.

MEMBERS:

Ms Y Kwinana (Chairperson)
Mr JL Grundling
Mr B Kgomo

SUPPLIER SELECTION AUTHORITY – TENDER BOARD

COMMITTEE

The Tender Board Committee comprises three executive members and two non-executive members, including an independent non-executive chairperson.

The Tender Board Committee is responsible for administering the implementation of a "Total Government IT Procurement Framework". It concentrates on key strategic focus areas, including the reduction of duplication, the realisation of economics of scale, the enhancement of system security and the maximising of interoperability of IT products and services. Improved services are, and will continue, to be delivered.

The committee's main responsibility is the assessment and approval of tenders for services and products procured above a certain pre-determined Rand value.

Due to the variability of the IT environment within which it operates, this committee meets on a bi-weekly basis.

MEMBERS

Ms L Mthembu (Chairperson)

Mr I Mamoojee

Mr Z Serepo

Ms M Mojapelo

Mr D Setshedi

HUMAN RESOURCE AND REMUNERATION COMMITTEE

The committee comprises of three non-executive directors, two non-executive members and two executive members. It is chaired by an independent non-executive director. Committee meetings are held quarterly.

The Human Resources and Remuneration Committee:

- o Influences and approves human resource policies/strategies and monitors compliance with the Employment Equity Act, 55 of 1998.
- o Makes recommendations to the Board on the appointment of executive and non-executive Directors.
- o Is responsible for the oversight and monitoring of the human capital management strategies and implementation within the company, ensuring that these benefit the company and employees; the continued existence of the company; and to ensure a return on investment for the stakeholders.
- o Determines, agrees and develops the company's general policy on executive and senior management remuneration.
- o Recommends specific remuneration packages for executive Directors of the company to the Board of Directors, including but not limited to basic salary, benefits in kind, any annual bonuses, performance-based incentives, pensions and other benefits.

- o Annually reviews the terms and conditions of executive Directors' service agreements, taking into account relevant information from comparable companies.
- o Determines any grants to executive Directors and other senior employees made pursuant to the company's executive incentive scheme(s).
- o Is kept informed of relevant information for other group executives and senior managers.

THE Human Resource Committee is responsible for the oversight and monitoring of the human capital management strategies and implementation within the company, ensuring that these benefit the company and employees

MEMBERS

Adv L Gcabashe (Chairperson)

Ms Z Manase

Ms L Abrahams

Ms N Orleyn

Mr L Mbetse

Mr K Modise

Ms P Gumede

CHAIRPERSON'S COMMITTEE

The Chairperson's Committee comprises four non-executive directors and two non-executive members. It is chaired by a non-executive director.

This committee reviews and expedites matters that should be attended to at Board meetings. It aims to reduce the time for decision-making and also ensures the Board is discharging its responsibilities by attending to all matters requiring its attention.

MEMBERS

Ms Z Manase (Chairperson)

Mr M Roussos

Adv L Gcabashe

Ms L Abrahams

Ms L Mthembu

Ms Y Kwinana

EXECUTIVE MANAGEMENT COMMITTEE (EXCO)

The committee assists the Chief Executive Officer (CEO) in guiding and controlling the overall direction of the business and in exercising executive oversight, whilst responsible for ensuring the effective

management of the day-to-day operations of the business.

EXCO is chaired by the CEO and meets at least once a month.

EXCO is in turn assisted by its sub-committees; Client Interface, Service Delivery Forum, Human Capital, Finance & Treasury and Risk Management.

MEMBERS

Mr K Modise (Acting CEO, COO)

Mr P Els (CFO)

Mr Z Serepo (Chief Executive: SITA C)

Ms M Mojapelo (Chief Executive SITA D)

Mr D Setshedi (Chief Executive: SITA E)

Mr T Netsianda (General Manager Human Resources, Corporate Services)

Mr J Tshabalala (General Manager Risk Management)

Mr M Radebe (General Manager Corporate Affairs)

Mr M Moseki (CIO)

PUBLIC FINANCE MANAGEMENT ACT (PFMA)

The PFMA focuses on public sector financial management and its related outputs and responsibilities. In response, SITA has established an ongoing process of awareness, education and advice on the PFMA within the organisation.

The Directors comply with their fiduciary duties as set out in the PFMA. The Board's responsibilities as the accounting

authority, in terms of the PFMA and other regulations, include taking appropriate action to ensure:

- o Economic, efficient, effective and transparent systems of financial and risk management, and internal controls exist.
- o A system is maintained for properly evaluating all major capital projects prior to a final decision on each project.
- o The implementation of appropriate and effective measures to prevent unauthorised, irregular fruitless and wasteful expenditure, losses from criminal conduct and expenditure not complying with legislation.
- o Revenue due to SITA is collected.
- o The economic and efficient management of available working capital.
- o The definition of objectives and the allocation of resources in an economic, efficient, effective and transparent manner.

RISK MANAGEMENT

SITA endeavours to minimise risk by ensuring that the appropriate infrastructure, systems, personnel and controls are in place throughout the organisation and that risk management is integrated into management processes. The Board is responsible for the total process of risk management, internal control and for reviewing the effectiveness of systems.

Risk control strategies and policies have been put in place to ensure that total risk is managed in an integrated way. The risk culture of the organisation has developed well in the past 12 months, whilst further strategies will be put in place to improve communication with all employees to ensure that risk awareness is incorporated into SITA's working culture and language.

The Integrated Risk Management department is accountable for providing assurance to the Board that the risk management process is in place and is integrated into day-to-day business activities. SITA divisions have designated risk co-ordinators to integrate risk management into day-to-day business activities. Risk management is addressed through

SITA divisions have designated risk co-ordinators to integrate risk management into day-to-day business activities.

risk categories that include, amongst other; financial, technical, environmental, legal, human resources, information, stakeholders, regulatory and strategic risks. An integrated risk management strategy and process is being embedded in all SITA's divisions.

INTERNAL CONTROL

The Board has ultimate responsibility for establishing a framework of internal controls, including an appropriate procurement and provisioning system. The controls throughout SITA focus on those critical risk areas identified by operational risk management,

confirmed by executive management and endorsed by the auditors. The controls are designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Organisational policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities, whilst containing self-monitoring mechanisms. Both management and internal audit closely monitor the controls and actions taken to correct deficiencies, as and when these are identified.

INTERNAL AUDIT

The internal audit function has been outsourced via a tender to an independent external audit firm. In line with the PFMA and the King II Report requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of an independent, objective appraisal and evaluation of the risk management processes, internal controls and governance processes,

as well as identifying corrective actions and suggested enhancements to the controls and processes. The risk-based audit plan is based on the major risks emanating from SITA's Integrated Risk Management process. The audit plan is responsive to changes in SITA's risk profile.

RISK controls are designed to provide cost effective assurance that assets are safeguarded.

Internal audit is fully supported by the Board and the Audit Committee and has full, unrestricted access to all organisational activities, records, property and personnel.

REPORTING TO STAKEHOLDERS

In order to present a balanced and understandable assessment of its position, SITA is continually striving to ensure that its reporting and disclosure to stakeholders is relevant, clear and effective. It places great emphasis on reporting on both financial and non-financial matters, as well as addressing both positive and negative aspects in order to demonstrate the long-term sustainability of the organisation.

SITA's predetermined objectives, representing both financial and non-financial key performance indicators, with its performance against these indicators are reflected on pages 25 to 28.

STAKEHOLDER RELATIONS

In addition to the interests of Government as the shareholder, SITA recognises the legitimate interests of employees, customers, suppliers, trade unions and local communities in its affairs. Communication and interaction with stakeholders are ongoing during the year and addressed through various channels depending on the different needs of the various stakeholders. High-level stakeholder issues are addressed in this report.

BUSINESS CONDUCT

SITA has implemented an ethics programme that is in line with the PFMA and the recommendations of the King II Report, which promotes ethical behaviour in the workplace. This is supported by a written business conduct policy dealing with ethics as it is applicable throughout SITA and its divisions.

GENERAL

SITA recognises that corporate governance is a dynamic function and, as such, its systems of corporate governance are reassessed on an ongoing basis to ensure that these meet world-class level of standards and continue to be relevant to SITA's business as it evolves.

GOVERNING BODIES: RECORD OF ATTENDANCE AT MEETINGS FOR THE YEAR ENDED 31 MARCH 2003

Members	Date of appointment	Committee	Board meetings	Special Board meetings	Audit Committee	Human Resource & Remuneration Committee	Chairperson's Committee	Supplier Selection Authority
Number of meetings			4	6	2	3	3	24
Attendance of meetings								
Ms Z Manase	1 June 2002	B,C,H	4	6		3	3	
Ms L Abrahams	1 June 2002	B,C,H	4	5		3	3	
Dr A Ngcaba	17 April 1999	B	2	2				
Mr R Ramaite	17 April 1999	B	3	4				
Mr M Roussos	1 June 2002	C,B	4	5			0	
Mr C Kruger	24 July 2002	B	2	2				
Adv L Gcabashe	1 June 2002	B,C,H	4	6		3	3	
Dr S Sibisi	1 June 2002	B	2	5				
Ms Y Kwinana	9 January 2003	A,C			1			
Mr B Kgomo	6 December 2001	A			2			
Mr J Grundling	26 January 1999	A			2			
Ms L Orleyn	9 January 2003	H				*		
Mr L Mbetse	9 January 2003	H				*		
Ms L Mthembu	1 October 1999	C,S					1#	22
Mr I Mamoojee	1 January 2001	S						19

Committee legend:

- A – Audit Committee
- B – Board of Directors
- C – Chairperson's Committee
- H – Human Resources & Remuneration Committee
- S – Supplier Selection Authority
- # – Appointed to the Chairperson's Committee during the current year
- * – No meetings held since appointment to the relevant committee

AUDIT COMMITTEE REPORT

for the year ended 31 March 2003

The audit committee has adopted appropriate formal terms of reference, which have been confirmed by the Board of Directors, and has performed its responsibilities as set out in the terms of reference.

In performing its responsibilities the audit committee has reviewed the following:

- o The effectiveness of the internal control systems.
- o The effectiveness of the internal audit function.
- o The risk areas of the entity's operations to be covered in the scope of the internal and external audits.
- o The adequacy, reliability and accuracy of financial information provided to management and other users of such information.
- o The accounting or auditing concerns identified as a result of both internal and external audits.
- o The entity's compliance with legal and regulatory provisions.
- o The activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- o The scope and results of the external audit function, its cost-effectiveness, as well as independence and objectivity of the external auditors.

The audit committee is also responsible for:

- o Reporting to the Board of Directors and the Auditor-General where a report implicates any member(s) of the accounting authority of fraud, corruption or gross negligence.
- o Communicating any concerns it deems necessary to the Board of Directors, and the Auditor-General, if appropriate.
- o Confirming the internal audit department's charter and internal audit plan.
- o Encouraging communication between members of the Board, senior executive management, the internal audit department and the external auditors.
- o Conducting investigations within its terms of reference.
- o Concurring with the appointment and dismissal of the head of the internal audit department.
- o Approving the internal audit work plan.
- o Deciding whether or not an interim report should be subjected for review by the external auditors.

The audit committee is satisfied that internal controls and systems have been put in place and that these controls have functioned effectively during the period under review. The audit committee considers the company's internal controls and systems appropriate in all material respects to:

- o Reducing the company's risks to an acceptable level.
- o Meeting the business objectives of the company.
- o Ensuring the company's assets are adequately safeguarded.
- o Ensuring that the transactions undertaken are recorded in the company's records.

The audit committee has evaluated the annual financial statements of SITA (Pty) Ltd for the year ended 31 March 2003 and concluded that these comply, in all material respects, with the requirements of the Companies Act, 1973 (Act No. 61 of 1973), as amended, the Public Finance Management Act, 1999 (Act No. 1 of 1999), as amended, the SITA Act, 1998 (Act No 88 of 1998), as amended and South African Statements of Generally Accepted Accounting Practice.

The audit committee agrees that the adoption of the going concern premise is appropriate in preparing the annual financial statements. The audit committee has therefore recommended to the Board of Directors, the adoption of the annual financial statements.



Ms Y Kwinana
Chairperson
15 July 2003

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS



The Directors of the company are responsible for the preparation of the annual financial statements of the company, to maintain a sound system of internal control and to safeguard the shareholder's investments and the company's assets. In presenting the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice and applicable accounting policies have been used, while prudent judgments and estimates have been made. In order for the Directors to discharge their responsibilities, management has developed and continues to maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. Such systems can provide reasonable, but not absolute, assurance against material misstatement or loss. The Directors, primarily through the audit committee, meet periodically with the external and internal auditors, as well as executive management, to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The company's internal auditors independently evaluate the internal controls and co-ordinate their audit coverage with the external auditors. The Auditor-General is responsible for reporting on the financial statements. Both external and internal auditors have unrestricted access to all records, property and personnel as well as to the audit committee. The Directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The Directors are of the opinion, based on the information and explanations given by management and internal auditors, and on comment by the external auditors on the results of their audit conducted for the purpose of expressing their opinion, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. As the Directors have reviewed the company's financial budgets for the period to 31 March 2004, and in the light of the current financial position, they consider it appropriate that the annual financial statements be prepared on the going-concern basis. The Auditor-General has audited the annual financial statements of the company and his report appears on page 42. Against this background, the Directors of the company accept responsibility for the annual financial statements, which were approved by the Board of Directors on 29 July 2003 and are signed on its behalf by:

Ms Zodwa Manase
Chairperson:
SITA Board of Directors

Adv L Gcabashe
SITA Board Member

CERTIFICATE BY COMPANY SECRETARY

I, Keith Mathole, in my capacity as acting Company Secretary of SITA (Pty) Ltd, hereby certify that to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all such returns as are required of it in terms of the Companies Act 1973, and all such returns are true, correct and up to date.

Mr Keith Mathole
SITA acting Company Secretary

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF SITA (Pty) Ltd.

for the year ended 31 March 2003



A U D I T O R - G E N E R A L

1. AUDIT ASSIGNMENT

The financial statements, as set out on pages 43 to 77, for the year ended 31 March 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995, (Act No. 12 of 1995), section 16(9) of the State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and the Companies Act, 1973 (Act No. 61 of 1973). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on the financial statements, based on our audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- o Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- o Assessing the accounting principles used and significant estimates made by management.
- o Evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

Audit of financial statements

In my opinion, the financial statements fairly present, in all material respects, the financial position of SITA at 31 March 2003 and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act, 1973, and the Public Finance Management Act, 1999.

4. APPRECIATION

The assistance rendered by the staff of SITA during the audit is sincerely appreciated.

Shauket Fakie

SA FAKIE

Auditor-General

Pretoria

29 July 2003

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the State Information Technology Agency (Pty) Ltd (SITA) for the year ended 31 March 2003. This report and the audited annual financial statements comply with the requirements of the Public Finance Management Act No 1 of 1999, (PFMA) the SITA Act No 88 of 1998, as amended, and the Companies Act No 61 of 1973, as amended. The Board of Directors acts as accounting authority in terms of the PFMA.

GENERAL

Nature of business

The nature of SITA's business is to provide information technology (IT), information systems (IS) and related services in a maintained information systems security environment to, or on behalf of, participating Government departments and public bodies. In this regard SITA is an agent of the South African Government, in accordance with the SITA Act No 88 of 1998 as amended by Amendment Act 38 of 2002.

SITA is specifically mandated to focus on, and to ensure that, through effective co-ordination and consolidation mechanisms, Government IT systems;

- o Can communicate (Interoperable or Compatible IT).
- o Operate in secure environments (IS Security).
- o Eliminate unnecessary IT duplications.
- o Exploit economies of scale.
- o Introduce HDI's into the ICT industry.

This complies with chapter six of the Presidential Review Commission Report instituted by former President Nelson Mandela in March 1998.

Function of business

In accordance with section 7 of the SITA Act, as amended, the prescribed functions of SITA are to:

- o Provide or maintain a private telecommunication network or a value-added network service.
- o Provide or maintain transversal information systems.
- o Provide data-processing or associated services for transversal information systems.
- o Train in information technology or information systems.
- o Develop application software.
- o Provide maintenance services for information technology software or infrastructure.
- o Provide data-processing or associated services for departmentally-specific information technology applications or systems.
- o Provide technical, functional or business advice and support, or research, in respect of information technology.
- o Provide management services for information technology or information systems.

SITA must set standards regarding:

- o The interoperability of information systems between departments.
- o Comprehensive information systems security environment for departments.
- o Every acquisition of any information technology goods or services by a Government department in compliance with these standards.

In the performance of its duties and exercising of its powers, SITA must:

- o Eliminate unnecessary duplication of IT goods or services.
- o Leverage economies of scale to provide cost-effective service.
- o Comply with Government policies on information management and information technology.

Mission and objectives

Mission

SITA is committed to equip the South African Government with the IT means to effectively fulfill its responsibility to South African citizens and residents by:

- o Leveraging IT as a strategic resource for Government.
- o Fostering competitiveness within the IT industry through best procurement practices.
- o Establishing South Africa as a global Information and Communications technology player.

Objectives

SITA can achieve its objectives by focusing on six (6) core performance areas:

- o Deliver value for money in IT/IS and related services to Government.
- o Ensure SITA's revenue stream is adequate to support its business.
- o Provide relevant cost effective products and services to Government.
- o Complete the restructuring of SITA.
- o Be an employer of choice.
- o Be an advanced user of Information Technology.

FINANCIAL MATTERS

Financial results for the year

Reports on the activities and performance of the company are contained in the CEO's report set out on pages 7 to 22.

The financial results of the company are set out on pages 56 to 77. The results for the year ended 31 March 2003 are highlighted below:

	2003	2002
	R	R
Income statement for the year ended 31 March		
Revenue	1 967 580 976	1 363 997 789
Profit/(loss) from operations	91 372 574	(78 636 006)
Net interest received	28 498 444	7 817 670
Net profit/(loss) after taxation	82 836 910	(51 509 119)
Balance sheet as at 31 March		
Assets		
Property and equipment	400 684 640	326 929 482
Current and other	1 016 516 666	844 217 268
Total assets	1 417 201 306	1 171 146 750
Equity and liabilities		
Share capital and reserves	656 811 299	573 974 389
Long-term and current liabilities	760 390 007	597 172 361
Total equity and liabilities	1 417 201 306	1 171 146 750

ADDITIONAL FINANCIAL INFORMATION

The following key figures are extracted from the financial statements:

Total direct operating costs	1 574 872 791	1 176 464 470
Total indirect operating expenses	320 802 558	274 793 931
Total capital expenditure	148 137 582	79 404 504
Total training and research expenses	20 711 616	9 608 682

The following key ratios are derived from the financial statements:

Return on total shareholder's interest (after tax)	12,6%	(8,9%)
Return on total shareholder's interest excluding depreciation (after tax)	23,9%	10,0%
Return on total assets	5,8%	(4,4%)
Return on total assets excluding depreciation	11,1%	5,0%
Current ratio	1,48:1	1,60:1
Revenue per permanent employee	R861 463	R668 954
Debt: Equity ratio	0,16:1	0,16:1
Net profit % (after tax)	4,2%	(3,8%)

FIXED ASSETS

Bureau Beta, Centurion and Numerus Buildings

Since its inception on 1 April 1999, SITA has spent considerable effort in getting the abovementioned properties transferred into the name of the company. This has taken more time than anticipated, due to the complexity of the process of transferring assets. These assets are, however, included in the records of SITA, which is currently exercising all rights and responsibilities of ownership in respect of these properties.

The current status of each building to be transferred to SITA is as follows:

Bureau Beta

The requisite conditions for registering the abovementioned property have been met, awaiting final consent by the Department of Public Works (DPW) to the City of Pretoria (Tshwane) on this property's sub-division and consolidation.

SITA has been requested to provide the State Attorney with the following information (current status shown in brackets):

- o A resolution from the Board authorising signatories to the Transfer Agreement, to sign the agreement on behalf of SITA (submitted).
- o The value of the property (submitted).
- o The rate at which SITA will pay VAT on the transfer (SITA exempt due to Amendment Act 38 of 2002).
- o Copies of the Ministerial and Treasury Approval for the abovementioned transfer (submitted and approval received).

Centurion

The transfer of this property is still outstanding, as the condition of transfer is still under discussion with the DPW.

Numerus

All relevant conditions pertaining to the registration of the abovementioned property have been met, but there appears to be a problem regarding Title Deed no T14508/1927, which has gone missing from the Deeds Registry's offices. An application, in terms of section 38 of the Deeds Registration Act, should be made by the DPW to resolve this matter.

CAPITAL EXPENDITURE

	2003 R	2002 R
Asset category		
Mainframe, computer, network equipment	146 806 819	77 933 467
Office furniture	786 123	1 471 037
Buildings and infrastructure	245 295	—
Vehicles	299 345	—
Total	148 137 582	79 404 504

DIVIDENDS

No dividends have been proposed or paid for the year ended 31 March 2003.

AUTHORISED SHARE CAPITAL

The authorised share capital for the 2002/2003 period amounts to one share at R1,00, compared to the previous period's one billion ordinary shares at R1,00 each.

ISSUED SHARE CAPITAL

	2003 R	2002 R
Ordinary shares of R1,00 each	1 000 000 000	1 000 000 000
Less: Adjustments – legislated	625 333 736	0
Less: Adjustments	374 666 263	374 666 263
Total	1	625 333 737

Section 17 of the SITA Amendment Act 38 of 2002, stipulates that SITA's authorised and issued share capital, amounts to R1,00. The value of the reduction of the share capital was transferred to a non-distributable reserve during the current financial year.

The adjustment in the previous year was made as a result of the share capital documentation lodged with the Registrar of Companies, erroneously indicating the issued share capital at R1-billion. The issued share capital per SITA's records amounts to R625 333 737. This represents shares issued, being the net balance between all assets and liabilities transferred to SITA on 1 April 1999, in accordance with the SITA Act.

INTERNAL AUDIT

In terms of the PFMA, the company must establish an internal audit discipline with sufficient resources to ensure its effective and efficient operation.

SITA outsourced this function, in accordance with SITA's competitive tender procedures, to the specialist internal audit company, SizweNtsaluba VSP.

SizweNtsaluba VSP reports directly to the Audit Committee, in line with good corporate governance practice.

The Audit Committee approved an annual audit plan and a rolling three-year strategic internal audit plan, based on identified key risk areas.

SizweNtsaluba VSP's responsibilities include, but are not limited to, reviewing and appraising the following:

- o Adequacy of the system of internal control aimed at managing the risks associated with the business.
- o Reliability and integrity of financial and operating information and the means used to identify, measure, classify and report information.
- o Systems established to ensure compliance with those policies, plans, procedures, laws and regulations that have a significant impact on operations and reports.
- o Systems of prevention and assisting in the detection and investigation of fraud.
- o Operations or programmes to ascertain whether or not results are consistent with established objectives and goals, and whether or not the operations are being carried out as planned.
- o Means of safeguarding assets and, where appropriate, verifying the existence of such assets.

SITA has appointed a Head of Internal Audit, an individual with vast experience in internal auditing and business controls, with effect from 1 July 2003.

TREASURY MANAGEMENT

SITA's treasury department performs a supporting function and has the responsibility for management of the treasury financial risks, including liquidity risk and interest rate risk. In addition, treasury is tasked with ensuring that SITA is earning a maximum real return on its cash assets, whilst maintaining a low risk profile. The abovementioned activities are carried out in a professional manner by applying sound business principles.

Bi-weekly cash flow projections are prepared and monitored on a daily basis, to identify possible cash flow shortages, or the availability of funds for investment purposes.

INFORMATION TECHNOLOGY ACQUISITION CENTRE (ITAC) PROCUREMENT POLICIES

The Minister of Public Service and Administration requested the following from the Chairperson of the SITA Board of Directors:

- o A comprehensive forensic audit of all tenders issued and/or awarded by SITA from its inception to 30 November 2002. This audit is to be carried out by the Auditor-General or somebody nominated by him.
- o Identification of any tender irregularities (suspected or proven).
- o A progress report that elaborates on all actions taken, either by the Board or the management of SITA, in terms of dealing with such irregularities.
- o An elaboration of measures taken to pre-empt the occurrence of irregularities and to facilitate whistle-blowing.

The Auditor-General was engaged by the Chairperson of the SITA Board of Directors to assist with the request from the Minister. The Office of the Auditor-General subsequently embarked on an agreed upon procedures review of the procurement process.

The findings of this review indicated that there were some inconsistency in the application of procurement policies and procedures. These findings have been reported to the Board of Directors. The Board appointed a sub-committee to consider the Auditor-General's findings, and to recommend corrective actions and measures.

DONOR FUNDING

No donor funding was received for the year under review. An amount of R2 668 052 (two million, six hundred and sixty eight thousand and fifty two rand) has still not been utilised out of the total funds of R8 603 595 (eight million, six hundred and three thousand, five hundred and ninety five rand) received in previous years from the Department of Public Service and Administration.

GOING CONCERN

The Directors are of the opinion, based on enquiries made, and their knowledge of the organisation, that adequate resources exist to support SITA as a going concern. The company's financial statements have therefore been prepared on a going concern basis.

Company law requires the Directors to prepare financial statements for each financial year, that truly and fairly reflect the state of affairs of the company at the end of the financial year and the results of its operations for that period. In preparing these financial statements, the Directors are required to:

- o Select suitable accounting policies and apply them consistently.
- o Make judgements and estimates that are reasonable and prudent.
- o State whether applicable accounting standards have been followed.
- o Prepare the annual financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue to do business.

The Directors are responsible for keeping proper accounting records of the company.

MATERIALITY AND SIGNIFICANT FRAMEWORK

A materiality and significant framework, which came into operation during the year under review, is being developed by SITA's General Manager: Risk Department. This framework will enable the reporting of losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as significant transactions envisaged per section 54(2) of the PFMA that require Ministerial approval. This framework will be finalised in consultation with the external auditors. The risk framework will thereafter formally be approved by the Board of Directors.

DIRECTORS' REPORT continued

HUMAN CAPITAL

Employee statistics

The general staff statistics of SITA as at 31 March 2003, can be summarised as follows:

	Headcount	
	2003	2002
Permanent		
Executive and Senior Management	65	86
Information Technology Staff	1 226	1 429
General Staff *	993	524
Total permanent	2 284	2039
Contractors	759	476
Total employees	3 043	2 515

* Included in General Staff are: e-Services staff, Client interface, Project and Programme Managers, Consultants, Business Analysts and System Administrators.

Details	Africans	Coloureds	Indians	Whites	Total
Females:					
Executive and senior management	9	0	0	3	12
Information Technology staff	129	35	12	239	415
General staff	246	41	18	229	534
Contractors	55	3	2	203	263
Total females	439	79	32	674	1 224
Males:					
Executive and senior management	29	2	3	19	53
Information Technology staff	293	59	68	391	811
General staff	232	30	23	174	459
Contractors	69	19	14	394	496
Total males	623	110	108	978	1 819
Total employees:					
Executive and senior management	38	2	3	22	65
Information Technology staff	422	94	80	630	1 226
General staff	478	71	41	403	993
Contractors	124	22	16	597	759
TOTAL EMPLOYEES	1 062	189	140	1 652	3 043

EMPLOYMENT EQUITY

SITA is committed to creating and maintaining an environment that provides equal opportunities for all its employees, with special consideration to historically disadvantaged groups.

The racial balance of SITA's staff complement of 3043 employees at the end of March 2003, reflected a Historically Disadvantaged Individual (HDI) to White ratio of 46:54. This indicates a distinct improvement from the previous year's HDI to White ratio of 41:59, within a workforce of 2515 employees for that year.

The company has a comprehensive Employment Equity Policy and Procedure that serves to guide management in reaching the overall employment equity target of 60% HDI's by 2004. Special focus during this financial year was given to the employment of females, particularly at senior and management levels. The employment equity targets set for this year, were successfully met, despite the challenges posed by the employee profiles of staff integrated from various Government departments.

POST-RETIREMENT BENEFITS

Post-Retirement Pension benefits

Current contributions on behalf of former State employees to the Government Employees Pension Fund (GEPF), a defined benefit plan, and the Denel Retirement Fund (Denret), a defined contribution plan, are reflected in SITA's expenses. No provision is made for any possible pension-related post-retirement benefits for former state employees, as this is the responsibility of the Government of the Republic of South Africa.

SITA's responsibility regarding the funding of the possible shortfall of the GEPF, is limited to the current contributions made on behalf of its employees. The Government, as their employer, is responsible for any shortfall.

The Act, governing the Government Employees Pension Fund, is the General Pensions Fund Act (Act No. 29 of 1979) and the Rationalisation of Pension Fund and Benefits: Modification Of Laws Act. In terms of the General Pensions Fund Act (amended in part by the Rationalisation of Pension Fund and Benefits: Modification of Laws Act 21 of 1996), the Government is responsible for post-retirement benefits through the Stabilisation Fund. The employer is responsible for current contributions. All other contributions vest with the Government (this would include the Stabilisation Fund).

Post-Retirement Medical Benefits

With reference to the post-retirement medical aid benefits, referred to in the previous annual report as an audit qualification, it is recorded that this item has been resolved.

SITA has, in terms of section 15(b) of the SITA Act, as amended, acknowledged its liability in respect of the post-retirement medical benefits of employees who were transferred to SITA on its establishment. This has led to the financial statements being restated for the 2001/2002 financial year. The effect is fully disclosed in the statement of changes in equity. All new staff members who joined after SITA's establishment, do not qualify for post-retirement medical aid benefits.

5th Quadrant Actuaries & Consultants (Pty) Ltd, a firm of actuaries, was appointed during 2002 to determine and value SITA's current obligation to provide for post-retirement medical aid benefits for its employees (ex-SAPS, ex-CCS and ex-Infoplan employees). These obligations, as quantified, have been accounted for, and are disclosed in Note 9.3 to the annual financial statements.

SITA RETIREMENT FUNDING ARRANGEMENTS

The SITA Act, as amended, requires that SITA's own retirement funding arrangements are established. A tender was awarded to 5th Quadrant Actuaries & Consultants (Pty) Ltd, to assist SITA in this process.

At a Board of Directors' meeting, held on 22 May 2003, a decision was passed that confirms the mandate of the SITA EXCO to investigate and report back on SITA's future retirement funding alternatives. This will include considerations in respect of:

- o Cost arrangements.
- o Own Fund.
- o Participating in a multi-employer fund (umbrella fund).
- o Benefit structures (death and disability).

With 5th Quadrant's proposals in hand, the SITA EXCO appointed an Interim Management Committee, to execute the Board's mandate. The Interim Management Committee has both employee and employer representation.

SITA envisages having its own retirement funding arrangements implemented before the end of the 2003/2004 financial year.

GOVERNING BODIES

Board of Directors

The following information relates to SITA's Board of Directors (Board) and sub-committees of the Board for the period under review.

Meetings (Description)	Number of meetings p.a.
Main Board (Scheduled)	Four
Main Board (Special)	Six
Chairperson's Committee	Three
Audit Committee	Two
HR & Remuneration Committee	Three
Tender Board Committee/SSA	Twenty four

The Directors' remuneration is disclosed in Note 14 to the annual financial statements.

The various sub-committees of the Board are:

Chairperson's Committee

Chairperson: Mr S Rasethaba (25 June 1999 to 31 May 2002)
Ms Z Manase (Appointed 1 June 2002)

Objective: The purpose of the Chairperson's Committee is to ensure that SITA is governed in a manner that is efficient, responsible, accountable, transparent and demonstrating probity. The Committee has to facilitate the implementation of all the Board of Directors' decisions.

Audit Committee

Chairperson: Ms L E Mthimunye (05 November 1999 to 28 January 2003)
Ms Y Kwinana (Appointed 29 January 2003)

Objective: Primarily to provide assistance to the Board, in fulfilling its responsibilities for the integrity of the company's financial reporting process, system of internal controls over financial reporting, audit process and monitoring compliance with applicable laws and regulations. The Committee provides an open avenue of communication between financial management, internal auditors, external auditors and the Board. The Board has ultimate responsibility for the system of internal financial and operational control.

Human Resources and Remuneration Committee

Chairperson: Adv KD Moroka (4 November 1999 to 31 May 2002)
Adv L Gcabashe (Appointed 1 June 2002)

Objective: The functions of the HR and Remuneration Committee, according to the Corporate Governance Manual, are executive performance evaluation, executive remuneration and executive incentive schemes. The Committee considers the quantity, equity and quality of Human Resources and the value that it adds to the business. It also ensures, for all stakeholders in the business, that the remuneration of senior executive members of the company is set by a committee of Board members, who have no personal interest in the outcome of their decisions, and who will give due regard to the interest of the shareholder, and to the financial and commercial health of the company.

DIRECTORS' REPORT continued

Tender Board Committee/Supplier Selection Authority (SSA)

Chairperson: Ms L Mthembu (Appointed 1 October 1999)

Objective: The function of the Tender Board Committee/SSA is to ensure that Government benefits from improved service delivery in the following areas:

- o IT Synergy in Departments and Organs of State.
- o Interoperability of IT products & services.
- o Consolidation and leveraging of SITA's buying power.
- o Applying world-class purchasing strategies, methods and tools.
- o Developing the procurement functions for executive Directors/managers and Government Departments.
- o Negotiation processes, methods and tools.
- o Applying ethical purchasing procedures.
- o Compliance with purchasing/supply policy and procedures.

LIST OF EXECUTIVE DIRECTORS

Name	Qualification	Date appointed
Mr C van Schalkwyk Managing Director: CEO	BA, BAHons. H.Dip.Education, Masters of Science in Policy Economics	4 November 2000 (Resigned from SITA: 30 September 2002)

LIST OF NON-EXECUTIVE DIRECTORS

Ms Z Manase Chairperson	B.Comm (Hons), CA(SA), H.Dip.Tax(SA)	1 June 2002
Dr A Ngcaba	M.Comm	17 April 1999
Mr R Ramaite	B.Proc, LLB, MA	12 November 1999
Mr M Roussos	BA (Hons), MBA	1 June 2002
Adv L Gcabashe	BA.Admin, BA.Law, MA, LLB	1 June 2002
Ms L Abrahams	BSc, Post Graduate Diploma in Public Policy and Development Administration	1 June 2002
Dr S Sibisi	BSc (Hons), PHD	1 June 2002
Mr C Kruger	B.Comm Hons (Economics)	24 July 2002

COMPANY SECRETARIAT

Mr M Tyalimpi Company Secretary	ACIS	7 August 2001 (Resigned from SITA: 9 May 2003)
Mr K Mathole Acting Company Secretary	Grad.ICSA	Acting from 10 May 2003

LIST OF EXECUTIVE COMMITTEE MEMBERS

Name	Qualification	Position
Ken Modise	BA (Comm), Diploma Marketing	Acting Chief Executive Officer and Chief Operating Officer
Pieter Els	B.Acc (Hons), CA(SA), Higher Diploma in Tax law	Chief Financial Officer
Zeph Serepo	BSc (Comp.Science), BSc (Hons)	Chief Executive: SITA C
Makano Mojapelo	B.Comm, U.E.D.	Chief Executive: SITA D
David Setshedi	B.Admin (Hons)	Chief Executive: SITA E
Tshifhiwa Netsianda	B.Comm (Hons)	GM Human Resources, Corporate Services
Mahlubandile Radebe	BA, BL(Hons), LLB, LLM	GM Corporate Affairs
Jones Tshabalala	Dip. Development Management; Dip. Risk Management	GM Risk Management
Mojalefa Moseki	MA (Comm.Pol.Studies), Post Grad. Dip. Comm. Policy Studies	Chief Information Officer

BALANCE SHEET

as at 31 March 2003

	Notes	2003 R	2002 R
ASSETS			
Non-current assets			
		439 197 348	369 917 353
Property and equipment	2	400 684 640	326 929 482
Deferred tax	3	38 512 708	42 987 871
Current assets			
		978 003 958	801 229 397
Cash and cash equivalents	4	546 429 863	455 962 457
Receivables and prepayments	5	407 999 977	301 381 336
Current tax assets		23 574 118	43 885 604
Total assets		1 417 201 306	1 171 146 750
EQUITY AND LIABILITIES			
Capital and reserves			
		656 811 299	573 974 389
Ordinary share capital	6	1	625 333 737
Non-distributable reserves	7	625 333 736	—
Retained earnings		31 477 562	(51 359 348)
Non-current liabilities			
		102 466 651	94 973 731
Borrowings	8	41 600 651	46 800 731
Employee benefits	9	60 866 000	48 173 000
Current liabilities			
		657 923 356	502 198 629
Trade and other payables	10	391 369 452	248 980 794
Prepayments		217 767 214	223 598 059
Provisions for liabilities	11	48 786 690	29 619 776
TOTAL EQUITY AND LIABILITIES		1 417 201 306	1 171 146 750

INCOME STATEMENT

for the year ended 31 March 2003



	Notes	2003 R	2002 R
Gross revenue		1 967 580 976	1 363 997 789
Cost of sales		1 574 872 791	1 176 464 470
Gross profit		392 708 185	187 533 319
Other income	12	19 466 947	8 624 606
Operating expenses	13	320 802 558	274 793 931
Operating profit/(loss)	14	91 372 574	(78 636 006)
Net finance income	15	28 498 444	7 817 670
Profit/(loss) before taxation		119 871 018	(70 818 336)
Taxation	16	37 034 108	(19 309 218)
Net profit/(loss) for the year		82 836 910	(51 509 119)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2003

	Share capital R	Non-distributable reserves R	Retained earnings R	Total R
BALANCE AT 31 MARCH 2000	202 619 626	—	91 237 047	293 856 673
Corrections for assets capitalised	356 565 569	—	(67 075 739)	289 489 830
Tax effect thereof	—	—	19 390 689	19 390 689
Restated balance at 31 March 2000	598 185 195	—	43 551 997	602 737 192
Issue of share capital	39 555 542	—	—	39 555 542
Net loss for the year	—	—	(43 402 226)	(43 402 226)
Profit as previously stated	—	—	4 208 880	4 208 880
Correction for assets capitalised	—	—	(66 970 105)	(66 970 105)
Tax effect thereof	—	—	19 358 999	19 358 999
Restated balance at 31 March 2001	598 740 737	—	149 771	598 890 508
Issue of share capital	26 593 000	—	—	26 593 000
Net loss for the year	—	—	(51 509 119)	(51 509 119)
Net loss as previously stated	—	—	(16 934 143)	(16 934 143)
Effect of adopting AC116	—	—	(48 173 000)	(48 173 000)
Tax effect thereof	—	—	13 598 024	13 598 024
Restated balance at 31 March 2002	625 333 737	—	(51 359 348)	573 974 389
Legislated adjustment	(625 333 736)	625 333 736	—	—
Net profit for the year	—	—	82 836 910	82 836 910
BALANCE AT 31 MARCH 2003	1	625 333 736	31 477 562	656 811 299

CASH FLOW STATEMENT

for the year ended 31 March 2003



	Notes	2003 R	2002 R
NET CASH INFLOW FROM OPERATING ACTIVITIES		243 690 804	251 972 094
Net profit/(loss) before taxation		119 871 018	(70 818 336)
Adjustments for non-cashflow items:			
Depreciation		74 247 007	109 070 722
Increase/(decrease) in provision for doubtful debts		11 080 520	(2 032 064)
Loss on disposal of assets		21 151	134 265
Increase in provision for post retirement medical benefits		12 693 000	48 173 000
Interest paid		9 823 067	4 812 194
Interest received		(38 321 511)	(12 629 864)
Increase/(decrease) in provision for liabilities		19 166 914	(3 649 129)
Operating profit before working capital changes		208 581 167	73 060 788
Working capital changes		18 858 652	227 776 998
Increase in trade and other receivables	20.1	(117 699 161)	(121 392 390)
Increase in trade and other payables		142 388 658	149 560 987
(Decrease)/increase in prepayments		(5 830 845)	199 608 401
Cash generated by operations		227 439 819	300 837 786
Normal taxation		(12 247 459)	(56 683 362)
Interest paid		(9 823 067)	(4 812 194)
Interest received		38 321 511	12 629 864
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(148 023 319)	(79 320 755)
Purchase of equipment		(148 137 582)	(79 404 504)
Proceeds from insurance claims		89 516	83 749
Disposal of assets		24 747	—
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		(5 200 080)	21 392 920
Cash proceeds from issue of shares	20.2	—	26 593 000
Decrease in borrowings		(5 200 080)	(5 200 080)
NET INCREASE IN CASH AND CASH EQUIVALENTS		90 467 406	194 044 259
Cash and cash equivalents at beginning of year		455 962 457	261 918 198
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	546 429 863	455 962 457

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with Statements of Generally Accepted Accounting Practice on the historical cost basis. The principal accounting policies are set out below and have been applied consistently, except where otherwise indicated.

1.1 Property and equipment

Land is stated at its original cost price. Property and equipment are stated at cost less depreciation. Property and equipment transferred from participating departments were recorded at a revalued amount. Depreciation is provided for on a straight line basis over expected useful lives of the property and equipment. No depreciation is provided for on land. At each balance sheet date the company reviews the carrying amounts of its assets to determine whether there is any indication that these assets may be impaired.

The useful lives for depreciation purposes are as follows:

- Buildings	50 years
- Vehicles	5 years
- Office furniture and accessories	3 – 6 years
- Computer equipment	3 – 6 years

1.2 Taxation

The charge for current tax is the amount of income taxes payable in respect of the taxable profit/(tax loss) for the current period. It is calculated, using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided for all temporary differences, according to the balance sheet liability method. Deferred tax assets are raised only to the extent that it is probable that future taxable profits will be available against unused tax losses that can be utilised. Deferred tax is calculated at the rates that are expected to apply to the period when the asset is realised or the liability is settled.

1.3 Financial instruments

Accounts receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on a review of all outstanding amounts, at year end. Bad debts are written off during the year in which they are approved for write-off.

Trade and other payables are stated at a nominal value.

Cash and cash equivalents are measured at fair value and are defined as cash on hand and non-trade deposits held.

1.4 Inventories

Computer and other consumables, as well as cafeteria purchases, are written off in the period of acquisition as these are considered immaterial.

1.5 Employee benefits

Retirement benefits are provided for all permanent employees via the Government Employee Pension Fund (defined benefit plan) and the Denel Retirement Fund (defined contribution plan). The contributions paid are charged against profit in the year to which they relate. Current contributions on behalf of former State employees to the Government Employees Pension Fund, which is a defined benefit plan, are expensed. No provision is made for pension-related post-retirement benefits for employees, as this is the responsibility of the Government. SITA's responsibility regarding the funding of the shortfall of the pension fund is limited to the current contributions made to the pension fund on behalf of its employees.

Medical benefits are provided for all permanent employees via three medical funds. All contributions paid are charged against profit in the year to which they relate. The company provides post-retirement health care benefits to certain qualifying retirees. The entitlement to post-retirement health care benefits is based on the qualifying employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations of these obligations are carried out by independent, qualified actuaries. Unrecognised actuarial gains or losses are accounted for over the remaining working life of the active employees.

1.6 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and bonuses are recognised when these accrue to the employees. Provision is made for the estimated liability for annual leave and bonuses as a result of services rendered by employees up to and including the balance sheet date.

1.7 Revenue recognition

Revenue

Revenue comprises of services rendered and is recognised on the performance of services based on the stage of completion, determined by reference to the physical amount of work performed in relation to the total project or Service Level Agreement, net of value-added tax (VAT). Where the company acts in the capacity of procurement agent for Government Departments and Organs of State, such revenue and related costs are not accounted for in the records of the company as revenue nor costs.

Other income

Other income comprises rental from buildings and cafeteria sales and is recognised net of VAT and discounts on the accrual basis, in accordance with the substance of relevant agreements.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

1.8 Foreign currencies

Transactions denominated in foreign currencies are translated at the rate of exchange ruling at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains or losses on translation are credited to, or charged against income.

1.9 Research and development costs

Research and development costs are expensed, except that costs incurred on development projects are recognised as development assets (intangible assets), to the extent that such expenditure is expected to give rise to inflows of future economic benefits. Development costs, initially recognised as an expense, are not capitalised as an asset in a subsequent period.

1.10 Government grants

Government grants are recognised as income over the periods necessary to match these with the related cost which these are intended to compensate, on a systematic basis. Government grants are not credited to shareholder's equity.

1.11 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the Public Finance Management Act.

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

All irregular, and fruitless and wasteful expenditure are charged against income in the period in which they are incurred.

1.12 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

	2003 R	2002 R
2. PROPERTY AND EQUIPMENT		
2.1 Land and buildings		
Erf number 262, 263, 264, 677 and 1 of 492 Erasmuskloof Extention 3 (23 730m ²) at a cost of R50,017 million before depreciation. Acquired April 1999.		
2.2 Other land and buildings		
CCS (Centurion) Portion 50 of the farm Brakfontein 390JR, Centurion. CCS (Beta) Portion 3 of Erf 147, Pretoria. SAPS (Numerus), remainder of the farm Prinshof, 349JR. These land and buildings are in the process of being transferred from the Department of Public Works to SITA (Pty) Limited. The values, as agreed with National Treasury, of these land and buildings are however included in the financial statements (refer to Directors' Report).		
2.3 Land		
Carrying value at beginning of year	22 742 785	22 742 785
Additions	—	—
Carrying value at end of year	22 742 785	22 742 785
2.4 Buildings and infrastructure		
Carrying value at beginning of year	160 873 612	164 439 368
Additions	245 295	—
Depreciation	(3 575 786)	(3 565 756)
Carrying value at end of year	157 543 121	160 873 612
Cost	171 533 514	171 288 219
Accumulated depreciation	(13 990 393)	(10 414 607)
	157 543 121	160 873 612
2.5 Computer equipment		
Carrying value at beginning of year	136 208 582	161 119 807
Additions	146 806 819	77 933 467
Assets disposed	(135 417)	(161 545)
Depreciation	(67 946 025)	(102 683 147)
Carrying value at end of year	214 933 959	136 208 582
Cost	536 729 164	390 130 569
Accumulated depreciation	(321 795 204)	(253 921 987)
	214 933 959	136 208 582

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

	2003 R	2002 R
2. PROPERTY AND EQUIPMENT <small>continued</small>		
2.6 Office furniture		
Carrying value at beginning of year	6 478 880	7 264 269
Additions	786 123	1 471 037
Assets disposed	—	(56 470)
Depreciation	(2 398 029)	(2 199 956)
Carrying value at end of year	4 866 974	6 478 880
Cost	11 944 113	11 157 990
Accumulated depreciation	(7 077 139)	(4 679 110)
	4 866 974	6 478 880
2.7 Vehicles		
Carrying value at beginning of year	625 622	1 247 485
Additions	299 345	—
Depreciation	(327 167)	(621 863)
Carrying value at end of year	597 800	625 622
Cost	3 258 057	2 958 712
Accumulated depreciation	(2 660 256)	(2 333 090)
	597 800	625 622
TOTAL PROPERTY AND EQUIPMENT	400 684 640	326 929 482

The Erasmuskloof fixed property, with a book value of R46,5 million, is bonded to Denel (Pty) Ltd as disclosed in note 8. All other assets are freehold and have not been pledged as security for liabilities.

	*Charged/(credited) to income statement R	2003 R	2002 R
3. DEFERRED TAX			
Provision for doubtful debts	(3 021 369)	(11 947 556)	(8 926 187)
Wear and tear allowance	155 870	—	(155 870)
Provision for leave and bonuses	(588 099)	(6 827 583)	(6 239 484)
Post-retirement medical benefits	(3 807 900)	(18 259 800)	(14 451 900)
Prepayments received	1 749 253	(65 330 164)	(67 079 417)
Assessed loss	634 333	—	(634 333)
	<hr/>	<hr/>	<hr/>
Deferred tax asset	(4 877 912)	(102 365 103)	(97 487 191)
Prepayments made	(8 119)	417	8 536
Section 24C allowance	9 361 194	63 851 978	54 490 784
	<hr/>	<hr/>	<hr/>
	4 475 163	(38 512 708)	(42 987 871)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Reconciliation between opening and closing balance			
Deferred tax asset at beginning of year		(42 987 871)	(23 678 653)
Income statement movement for the year		4 475 163	(19 309 218)
		<hr/>	<hr/>
Deferred tax asset at end of year		(38 512 708)	(42 987 871)
		<hr/> <hr/>	<hr/> <hr/>
<p>The deferred tax assets arise from, inter alia, leave provisions and post retirement medical costs. At balance sheet date the company had no unutilised tax losses (2002: R2,1m) available for offset against future profits.</p>			
<p>*Represents after tax amounts that were expensed (charged) or that benefited (credited) the income statement.</p>			
4. CASH AND CASH EQUIVALENTS			
Cash at bank		543 671 939	450 141 509
Cash on hand		89 872	2 638 816
Cash received from donor funding (Refer to the Directors' Report)		2 668 052	3 182 132
		<hr/>	<hr/>
		546 429 863	455 962 457
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

	2003 R	2002 R
5. RECEIVABLES AND PREPAYMENTS		
Trade debtors	457 530 003	342 180 037
<i>Less:</i>		
Provision for doubtful debts	(53 100 250)	(50 412 658)
Current year provision	(53 100 250)	(39 671 940)
Pre-1999 CCS debtors	—	(10 740 718)
	404 429 753	291 767 379
Prepayments	1 391	5 009 268
Other receivables	3 568 833	4 604 689
	407 999 977	301 381 336
6. SHARE CAPITAL		
Authorised and issued		
One (1) ordinary share of R1,00 each	1	625 333 737

The authorised and issued share capital of SITA was reduced in terms of the SITA Amendment Act, No 38 of 2002, with the transfer of share capital to non-distributable reserves. The Directors' Report contains more details in this regard.

7. NON-DISTRIBUTABLE RESERVES

The non-distributable reserve was created upon the reduction of the share capital to R1,00 during the current financial year. This was done in terms of the SITA Amendment Act, 38 of 2002. Refer to the Statement of Changes in Equity.

	2003 R	2002 R
8. BORROWINGS		
Long term loan from Denel (Pty) Ltd	41 600 651	46 800 731
<p>This amount represents the long term loan from Denel (Pty) Ltd in accordance with the business transfer agreement between Denel (Pty) Ltd and SITA (Pty) Ltd.</p> <p>This loan is secured by a first mortgage bond of R52 000 811 against land and buildings with a book value of R46,45 million (refer note 2).</p> <p>The interest rate is fixed at 9% per annum until 31 March 2009, whereafter the rate will change to the coupon rate per annum, as applicable to the R186 Government Bond. The loan is repayable in annual instalments of R5 200 080 as from 1 April 2002 until 31 March 2012.</p>		
Maturity of non-current borrowings:		
Between 0 and 2 years	15 600 240	15 600 240
Between 2 and 5 years	15 600 240	15 600 240
Over 5 years	15 600 251	20 800 331
	46 800 731	52 000 811
<i>Less:</i>		
Short term portion (refer note 10).	(5 200 080)	(5 200 080)
Long term portion	41 600 651	46 800 731

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

9. EMPLOYEE BENEFITS

9.1 Retirement funds

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of the financial year the following funds were in existence.

9.1.1 The Denel Pension Fund is a closed defined benefit fund, and is governed by a Board of Trustees in terms of the Pension Funds Act of 1956 (Act No 24 of 1956). The fund is actuarially valued at intervals of three years or as deemed necessary by the Board of Trustees, using the unit projected credit method. The most recent valuation was done on 31 December 2001, per the pension fund report, and reported a sound financial position. No extraordinary event that could have impaired the solvency of the fund has taken place since this valuation.

9.1.2 The Denel Retirement Fund is a defined contribution fund, managed by a Board of Trustees in terms of the Pension Funds Act of 1956 (Act No 24 of 1956).

Retirement benefits are provided by membership of the Government Employees Pension Fund, which is a defined benefit fund. SITA's responsibility regarding the funding of the shortfall of the pension fund is limited to the current contributions made to the pension fund on behalf of its employees.

According to rule 4.9 of the fund, the entire fund is subject to an actuarial valuation, once every three years. However, due to the frequent changes in liability and asset values, it has been decided to carry out annual actuarial valuations and the next valuation would be carried out as at 31 March 2002. At the date of these financial statements this valuation has not yet been finalised.

NBC Employees Benefits (Pty) Ltd were commissioned by the Minister of Finance, in his capacity as a member of the interim Board of Trustees, to perform an actuarial valuation of the fund as at 31 March 2001. Alexander Forbes Financial Services SA was appointed as the actuary of the fund as from 1 January 2003.

The results, as per the actuarial valuation at 31 March 2001, were as follows:

Fair value of planned assets	R216,9 billion
Shortfall	R4,1 billion
- Including pension increments	
Funding level	98,10%
- Including pension increments	
Actuarial present value of planned assets	R216,9 billion

Actuarial assumptions:

- o Reasonable demographic assumptions regarding resignation, mortality, ill-health and retirement.
- o Financial assumptions regarding future salary increases until retirement, and pension increases after retirement; namely,
 - A long-term rate of 10% per annum.
 - A long-term salary inflation rate of 11% per annum. This is in addition to a promotional scale.
 - Pension increases are provided for at a rate of 7,5% per annum.
 - Rate of interest on 14% per annum to discount the assets and liabilities.
 - Dividends to grow at 11% per annum.

The financial health of the fund is measured by reference to its ability to generate enough income, through future investment returns and contributions, to pay for the benefits of the members as, and when, these fall due.

9. EMPLOYEE BENEFITS *continued*

9.2 Current medical benefits

The company contributes to three medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R35,20 million (2002: R27,15 million).

9.3 Post-retirement medical benefits and its associated liability

The company provides post-retirement medical aid benefits to certain qualifying employees. These benefits are provided by external companies to SITA. The company has anticipated expenditure in terms of continued contributions to medical aid subscriptions for those qualifying employees. The estimated present value of the anticipated liability was calculated by independent actuaries at 31 March 2003, using the projected unit credit method. This valuation was performed for the first time during the year under review and we envisage this to be an annual event. The year under review is the first year that the company adopted AC116 – Employee benefits (revised). Comparative figures have been restated where necessary.

	2003 R	2002 R
Present value of unfunded obligations	60 866 000	48 173 000
Unrealised actuarial gains	—	—
Balance at the end of the year	60 866 000	48 173 000
Provision for post-retirement medical benefits		
Balance at beginning of the year	48 173 000	—
Other expenses included in staff costs	12 693 000	48 173 000
Effect of adopting AC116	—	48 173 000
Current service costs	6 431 000	—
Interest on liability	6 262 000	—
Post-retirement obligations	60 866 000	48 173 000
The principal actuarial assumptions used for the actuarial valuation purposes were:		
Long term discount rate before tax	10,0%	13,0%
Long term medical aid inflation	8,0%	11,0%

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

	Notes	2003 R	2002 R
10. TRADE AND OTHER PAYABLES			
Trade creditors		376 660 433	237 250 272
Short term portion of long term liabilities		5 200 080	5 200 080
Other payables		9 508 939	6 530 442
		<u>391 369 452</u>	<u>248 980 794</u>
11. PROVISION FOR LIABILITIES			
	Leave	Bonus	Total
At 1 April 2001	22 467 390	10 801 514	33 268 904
Additional provisions during the year	27 402 578	14 003 130	41 405 708
Utilised during the year	(24 027 133)	(21 027 703)	(45 054 836)
At 31 March 2002	25 842 835	3 776 941	29 619 776
Additional provisions during the year	33 642 652	36 482 533	70 125 185
Utilised during the year	(31 682 321)	(19 275 950)	(50 958 271)
At 31 March 2003	<u>27 803 166</u>	<u>20 983 524</u>	<u>48 786 690</u>
<p>Leave pay benefits – In terms of company policy, employees are entitled to accumulated vested leave benefits not taken during a leave cycle. Bonus provision – In terms of company policy, employees are entitled to a 13th cheque which they may elect to receive monthly or annually.</p>			
12. OTHER INCOME			
Other income	1.7	<u>19 466 947</u>	<u>8 624 606</u>
13. OPERATING EXPENSES			
Distributive costs		<u>10 602 371</u>	<u>2 928 470</u>
Other non-recoverable indirect operating expenses	14	<u>310 200 186</u>	<u>271 865 461</u>
		<u>320 802 558</u>	<u>274 793 931</u>

	2003 R	2002 R
14. OPERATING PROFIT/(LOSS)		
The following items have been charged/(credited) in arriving at operating profit:		
- Net foreign exchange gain	(5 752 557)	(1 524 468)
- Profit on disposal of assets	—	(14 655)
Depreciation on property and equipment	74 247 007	109 070 722
- Buildings and infrastructure	3 575 786	3 565 756
- Computer equipment	67 946 025	102 683 147
- Office furniture	2 398 029	2 199 956
- Vehicles	327 167	621 863
Non-recoverable depreciation included therein	11 451 142	15 084 264
Loss on disposal of assets	21 151	148 920
Auditor's remuneration	3 787 696	1 059 636
- Audit fees	1 125 505	978 075
- Other expenses	20 000	7 500
- Under provision prior year	112 775	74 061
- Other services	2 529 416	—
Auditor's remuneration for non-audit services consist mainly of special investigation expenses.		
Research expenses	14 622 820	7 762 519

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

	Notes	2003 R	2002 R
14. OPERATING PROFIT/(LOSS) continued			
Directors' remuneration			
<i>Executive Directors</i>			
- Salaries		905 188	2 369 275
- Pension fund contributions		26 608	61 675
		931 796	2 430 950
<i>Non-executive Directors</i>			
- Services as Director		159 386	147 757
- Other		414 596	394 832
Refer to Directors' remuneration schedule on page 77		1 505 778	2 973 539
Staff costs			
- Salaries and employee costs		571 284 810	427 893 786
- Pension costs		32 902 794	27 095 329
- Other post-retirement benefits	9.3	12 693 000	48 173 000
Non-recoverable indirect staff costs included therein		166 525 829	126 824 902
Number of persons employed by SITA as at year end			
- Permanent		2 284	2 039
- Contractors		759	476
		3 043	2 515
15. NET FINANCE INCOME			
Interest income		38 321 511	12 629 864
Interest expense			
- Borrowings	8	(4 466 156)	(4 680 073)
- Other		(5 356 911)	(132 121)
		28 498 444	7 817 670

	2003 R	2002 R
16. TAXATION		
South African normal tax		
Current tax	32 558 945	—
Deferred tax	4 475 163	(19 309 218)
	37 034 108	(19 309 218)
Tax rate reconciliation		
Profit before tax	119 871 018	(70 818 336)
Tax calculated at a rate of 30%	35 961 305	(21 245 501)
Permanent differences	1 072 802	1 082 408
Depreciation of buildings and infrastructure (R3 575 786 x 30%)	1 072 736	1 069 727
Donations	—	150
Fines and non-deductable expenses (R220 x 30%)	66	12 531
Underprovision on deferred tax	—	853 875
Effective tax charge	37 034 108	(19 309 218)
	2003	2002
Tax rate reconciliation	%	%
Standard tax rate	30,00	30,00
Tax effect of permanent differences		
- Depreciation on buildings and infrastructure	0,89	(1,51)
- Fines and non-deductable expenses	0,00	(0,02)
- Underprovision on deferred tax	0,00	(1.21)
Effective tax rate	30,89	27,26

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

17. FINANCIAL RISK MANAGEMENT

The management of financial risk forms part of the total risk management model of the company. The audit subcommittee of the Board reviews this risk management model on a periodic basis. The following is a summary of the pertinent financial risks as well as how they are managed:

Liquidity risk

Cash flow forecasts are done on a daily, weekly and monthly basis in order to accurately predict funding needs. To ensure liquidity, a very favourable interest rate on the current account was negotiated with SITA's bankers.

Credit risk

Trade debtors mainly consist of National and Provincial Government departments, with which SITA has entered into contractual agreements that indicate the payment terms of rendered services. In addition, these clients fall within the ambit of the Public Finance Management Act that prescribes that suppliers of products and services should be paid within thirty days.

Currency risk

Where material transactions concluded, are subject to foreign currency fluctuations, SITA will either take foreign exchange forward cover on the transaction or ensure that the supplier takes forward cover on import transactions. At 31 March 2003 the carrying amounts of cash, trade receivables, trade payables and accrued expenses approximated their fair values due to the short term maturities of these assets and liabilities.

Financial assets

		Carrying values R	Fair value R
Accounts receivables	: 2002	301 381 336	301 381 336
	: 2003	407 999 976	407 999 976
Cash and cash equivalents	: 2002	455 962 457	455 962 457
	: 2003	546 429 863	546 429 863

Financial liabilities

Accounts payables	: 2002	248 980 794	248 980 794
	: 2003	391 369 452	391 369 452

	2003 R	2002 R
18. CHANGE IN ACCOUNTING POLICY		
In the current year the company adopted AC116 – Employee Benefits (revised) for the first time. This has resulted in certain comparative figures being restated.		
Reduction in net profit owing to increase in post-retirement benefits	12 693 000	48 173 000
Tax relief	(3 807 900)	(14 451 900)
Net effect after tax	8 885 100	33 721 100
Opening accumulated loss	16 784 372	–
Reduction in net loss owing to increase in post-retirement benefits	48 173 000	–
Tax relief	(13 598 024)	–
Net effect after tax	51 359 348	–

19. RELATED PARTY TRANSACTIONS

19.1 Major shareholder

The shareholder of SITA is the Government of South Africa, as represented by the Department of Public Service and Administration.

19.2 Directors

The Directors named in the Directors' Report, each held office as a Director of SITA during the year ended 31 March 2003.

Transactions with Directors are disclosed in the 2003 remuneration schedule on page 77.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 March 2003

	2003 R	2002 R
20. NOTES TO THE CASH FLOW STATEMENT		
20.1 Increase in trade and other receivables		
Opening trade and other receivables	301 381 336	177 956 882
Trade and other receivables as per balance sheet	(407 999 977)	(301 381 336)
(Less)/Add: Provisions for doubtful debts	(11 080 520)	2 032 064
	<u>(117 699 161)</u>	<u>(121 392 390)</u>
20.2 Cash proceeds from issue of shares		
Ordinary share capital as per balance sheet	—	625 333 737
<i>Less:</i>		
Non-cash flow items		
Former CCS debtors outstanding at year end originating before 1 April 1999	—	(40 707 775)
	—	584 625 962
Share capital balance	—	(558 032 962)
	—	26 593 000
	<u>—</u>	<u>26 593 000</u>
<i>Consists of:</i>		
Transfer capital	—	26 593 000
	—	26 593 000
	<u>—</u>	<u>26 593 000</u>

Remuneration Schedule 2003



Designation	Duration	Fees as director	Other services	Basic salary	Annual payment Bonus Leave	Expense allowances	Contributions to pension, medical or insurance funds	Other performance bonus	Total	
Non-executive Directors										
Previous Board members										
SM Rasethaba	Chairperson of the Board	2 months ending 31/05/2002	12 636	50 650					63 286	
LE Mthimunye	Board Member	2 months ending 31/05/2002	10 942	33 185					44 127	
KD Moroka	Board Member	2 months ending 31/05/2002	3 490	11 430					14 920	
G Pieterse	Board Member	2 months ending 31/05/2002	3 490	7 818					11 308	
I Mamoojee	Board Member	2 months ending 31/05/2002	0	0					0	
Current Board members										
Z Manase	Chairperson of the Board	10 months ending 31/03/2003	69 498	225 847					295 345	
L Abrahams	Board Member	10 months ending 31/03/2003	27 920	40 125					68 045	
L Gcabashe	Board Member	10 months ending 31/03/2003	31 410	45 540					76 950	
AA Ngcaba	Board Member	12 months ending 31/03/2003	0	0					0	
R Ramaite	Board Member	12 months ending 31/03/2003	0	0					0	
CCW Kruger	Board Member	10 months ending 31/03/2003	0	0					0	
M Roussos	Board Member	10 months ending 31/03/2003	0	0					0	
			159 386	414 596	0	0	0	0	573 982	
Executive Directors										
C van Schalkwyk	CEO	6 months ending 30/09/2002	0	0	514 361	183 903	89 628	11 674	799 566	
MMJ Mojapelo	COO/CE SITA D	2 months ending 31/05/2002	0	0	80 308	0	36 989	14 934	132 230	
			0	0	594 669	183 903	126 617	26 608	931 796	
TOTAL DIRECTORS' REMUNERATION			159 386	414 596	594 669	183 903	126 617	26 608	0	1 505 778
Executive members										
JJK Modise	COO & Acting CEO	12 months ending 31/03/2003			731 779	0	398 025	68 356	800 000	1 998 160
PS Els	CFO	10 months ending 31/03/2003			476 321	0	155 303	60 233	425 000	1 116 857
TOTAL EXECUTIVE MEMBERS' REMUNERATION					1 208 100	0	553 328	128 589	1 225 000	3 115 017

SHAREHOLDER'S DIARY AND ADMINISTRATION

SHAREHOLDER'S DIARY

Fourth Annual General Meeting	8 August 2003
Submission to the Minister	29 August 2003
Submission to the Parliament	End of September 2003
End of the new financial year	31 March 2004

Business plan: 2004/2005

Approval by the Board of Directors	March 2004
Submission to Department of Public Service and Administration	March 2004
Submission to National Treasury	April 2004

Strategic plan: 2005/2006 to 2007/2008

Approval by the Board of Directors	October 2004
Submission to Department of Public Service and Administration	October 2004
Submission to National Treasury	November 2004

Quarterly reports

Submission to Department of Public Service and Administration	30 days after end of each quarter
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Tariff increases

Submission to Department of Public Service and Administration	July 2004
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CONTACT DETAILS

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DIRECTORATE

Ms Z Manase (Chairperson),
Ms L Abrahams, Adv L Gcabashe,
Mr M Roussos, Dr S Sibisi, Mr R Ramaite,
Dr A Ngcaba, Mr C Kruger

COMPANY SECRETARY

Mr K Mathole

REGISTERED ADDRESS

P O Box 26100, Monument Park, Pretoria 0105
450 Tsitsa Street, Erasmuskloof, Pretoria 0001

AUDITORS

Auditor-General
271 Veale Street (New Building)
New Muckleneuk, Pretoria

BANKERS

Standard Bank of South Africa
