Post Office

We deliver, whatever it takes.

South African Post Office

Strategic Corporate Plan

2015/16 – 2017/18

Table of Contents

Post Office

OFFICIAL SIGN OFF

It is hereby certified that this Strategic Corporate Plan:

- Was developed by the management of the South African Post Office (SA Post Office) under the guidance of the Acting Group Chief Executive Officer and the Administrator;
- Takes into account all the relevant policies, legislation and other mandates for which the SA Post Office is responsible;
- Reflects the strategic objectives and goals which SA Post Office endeavours to realize over the next three year period from 2016 to 2018.

Ms Manteng Maleka

Acting Chief Financial Officer **Signature:** _____

29 April 2015

Mr Mlu Mathonsi

Acting Group Chief Executive Officer **Signature:** _____

29 April 2015

Approved by:

Dr Simo Lushaba

Administrator **Signature:** _____

29 April 2015

PART I:

Foreword and Overview

Post Office

1. Foreword by the Administrator

The South African Post Office currently finds itself at an unprecedented cross-road where for the first time in its history it has been placed under administration. Financial and other operating challenges facing the organisation are not unique to the SA Post Office though. What will differentiate the company from others in similar situations is the manner in which it responds to these challenge in order to come out stronger, agile and on a path of sustainable recovery for the future.

Global and local trends impacting the postal industry dictate that the SA Post Office responds accordingly by adapting to the changing landscape. As part of the turnaround plan devised to move the organisation from being under administration to healthy financial and operational positions achieved sustainable growth, the SA Post Office is working on implementing a new business model. This model is aligned to the vision and goals of government under the National Development Plan. The South African government adopted the National Development Plan which aims to eliminate poverty and reduce inequality as the guiding roadmap for our country's future development path. All efforts of the SA Post Office's new business model are directed at improving our service delivery capability.

The 2015/16 – 2017/18 Strategic Corporate Plan takes on greater focus now, not only as our roadmap for achieving our strategic objectives and delivering on our mandate, but as the defining plan which articulates the new business model and positions the organisation for sustainable operations.

As with many developing countries, South Africa is faced with a massive 'triple' challenge of inequality, poverty and unemployment. As a state-owned entity, we have a responsibility to assist government to provide adequate and reliable access to services for our people. The SA Post Office must provide affordable access to postal and financial services to all people in the country. This however, has to be balanced with the need for the organisation to be profitable and self- sustaining.

Our customers require us to be competitive, innovative and agile. The new business model will help to reposition the SA Post Office to meet its customer demands in a rapidly changing and technologically-driven market. The Shareholder is mindful of the challenges facing the organisation and remains supportive of the efforts to turn around the fortunes of the organisation.

This Strategic Corporate Plan will guide us as we strive towards the realisation of our goal of creating a better life for all our people. We commit ourselves to working with all our stakeholders to ensure that we achieve the key objectives outlined in this Plan.

Dr Simo Lushaba CD(SA)

2. Overview by the Acting Group Chief Executive Officer

The SA Post Office's Strategic Corporate Plan points the way towards the achievement of the goals and objectives that we have set ourselves as an organisation. This year's Plan is a reflection of the unprecedented situation the organisation finds itself in, challenged by a lack of working capital, without funding for capital projects and having to deal with low morale amongst employees, to name but a few, all of which resulted in the organisation being placed under Administration.

While the natural desire is to continue with business operations "as usual" this challenging time calls for some radical intervention on both the part of executive management, employees and all other stakeholders. Executive Management especially appreciates the intervention of the shareholder through the Administrator to deploy a technical team to provide assistance in turning the organisation around and onto a sustainable trajectory. It is "business un-usual" indeed.

All recovery initiatives of the organisation continue to be aligned to our mandate, license agreement, priorities of Government, and the National Development Plan. The financial position of the SA Post Office has been largely affected by declines in our mail volumes compounded by an inflexible operating model that has failed to adapt to the substitution effect of digital trends.

Our license obligations require the SA Post Office to provide affordable postal and financial solutions to the nation, as well as rolling out additional addresses to communities in under-serviced and rural communities. Remaining financially viable and true to our mandate requires us to radically transform the organisation to find sustainable alternative revenue streams. This focus will enable the organisation to become less dependent on the mail business.

The 2015/16 – 2017/18 Strategic Corporate Plan provides us with a good opportunity to chart a new path underpinned by a new operating model. This journey will see us using a new business and operating model to create a healthy, financially stable, and highly efficient and customer centric organisation that is a key contributor to the South African economy. Over the next three years, our main focus will be on ensuring that the new business model is successfully deployed across the organisation, that the business is self-sustaining, and that we improve our financial position (i.e. increasing our revenue base and aggressively managing our costs) and that we improve overall efficiencies throughout our new operating business functions.

Our focus in the new financial year includes the implementation of a new organisational structure and the SA Post Office Strategic Turnaround Plan. The new structure is intended to introduce a new commercial and business delivery focus within the Group, in addition to entrenching a new culture of responsibility and accountability. The Strategic Turnaround Plan will focus on different phases that will see the organisation addressing its fundamental building blocks (including addressing its capacity and capability shortcomings).

The phases will include focusing on revenue improvement, cost containment initiatives, implementing initiatives that will drive diversification, and innovation to enable the business to drive growth. Key to our plans will be the following:

- redefining the way that we serve our customers,
- the roll-out of the Government's Digital Terrestrial Television (DTT) project,
- a revised digital strategy that is responsive to current local and global trends,
- a rationalised mail processing and retail delivery function,
- rationalisation of transport capability,
- optimisation of our property portfolio to unlock value,
- corporatisation of Postbank which will see more people having access to financial services.

In delivering this Strategic Corporate Plan, it is important to acknowledge that we will need the full commitment and support of all our stakeholders for delivering on the strategic intent laid out in this document.

We remain committed to good governance. With this in mind, we will renew our focus to improve our levels of transparency and strengthen our internal controls in order to improve accountability and decision making. Underpinning all this, is our goal of delivering value to our primary shareholder, the South African Government and delivering vital services to all South Africans.

We will deliver whatever it takes.

Mr Mlu Mathonsi

3. Executive Summary

The South African Post Office SOC Ltd (SA Post Office) is mandated through its license agreement and Universal Service Obligation (USO) to provide postal, and communication services to all South Africans at affordable prices. This mandate charges the regulator, ICASA, with ensuring the provision of universal services and managing the performance of the SA Post Office through the license agreement. In order to fulfil on the mandate of the USO, a strategic priority for the SA Post Office includes, rolling out new addresses and points of presence in rural and under-serviced areas. This requirement is aligned to enabling the Government's national development program for 2030.

The postal industry has been going through a major transformation to adjust to structural changes in its core mail business, for a number of years which has seen declines in revenue and volumes. The SA Post Office remains a monopoly entity in the reserved mail business, which constitutes the biggest component of its business. The global trend has seen a steady decline in mail volumes as other forms of communication pervade the market. In an effort to reduce its dependency on mail and exploit new revenue streams, the SA Post Office needs to focus on further diversifying its products and services.

The SA Post Office faces several challenges that impact the business's ability to deliver against its mandate and license requirements. These include, negative customer perception, uncertain financial sustainability due to declining revenues, loss of USO subsidy and a large fixed cost base. These challenges present the organisation with opportunities to exploit new growth alternatives. The 2015/16 – 2017/18 Strategic Corporate Plan of the SA Post Office is aimed at addressing these business challenges facing the organisation and mapping out a new path that will see the organisation reposition itself, into a profitable, self-sustaining, efficient and customer centric organisation.

The SA Post Office Management team has been implementing short term initiatives to address the current performance barriers and concerns in the Group. This has led to the development of the Strategic Turnaround Plan (STP) that is aimed at implementing strategic initiatives that will stabilise the business and steer it in a positive growth direction. This plan, now in its second revision, sets the course for the organisation going forward. The initiatives include amongst others, the implementation of alpha-numerical postal codes, the roll-out of the Government's Digital Terrestrial Television project, expansion of the E-Business products and channels, optimisation of our property portfolio to optimise value, providing more South African homes with addresses and the corporatisation of Postbank (which will see more people having access to financial services).

The successful implementation of the new business model and the Strategic Turnaround Plan are key to the success of this Strategic Corporate Plan.

PART II:

Strategic Overview

Post Office

4. Strategic Direction

4.1. Strategic Intent

The strategic intent is to turn SAPO around in line with the Strategic Turnaround Plan, which establishes a new business model, such that SAPO becomes customer–centric, with income derived from the reserved markets being sufficient to meet operating costs for the developmental obligations of SAPO such as the universal service obligation (USO) whilst ensuring that business activities, including government business, in the unreserved markets are competitive, profitable and commercially viable to achieve sustainable growth for SAPO. We will position SAPO as a key service provider that delivers government services to citizens. Business derived from government will grow to levels of 50 - 55% of SAPO revenue per annum whilst still growing from the current revenue levels from private and consumer segments of the market.

4.2. Vision

A leading provider of postal, logistics and financial services that is responsive to market changes whilst achieving sustainable growth.

4.3. Mission

We facilitate communication and delivery of services by linking government, business and customers with each other across the world by leveraging our broad reach, employees, technology and innovation.

4.4. Values

SA Post Office subscribes to the following values when planning and executing business delivery within the agreed mandate:

- We are customer centric and will meet customer specific needs through excellent service;
- We contribute positively to our communities and environment;
- We treat each other with respect, dignity, honesty and integrity;
- We strive for a high performance culture and recognise individual contributions;
- We embrace change and diversity in the way we conduct business.

4.5. Strategic Goals and objectives

The following key Strategic goals and objectives were identified for the SAPO Group that will serve as the foundation for the execution of the strategy:

No	Strategic Goals	Strategic Objectives
1	**Implement the Strategic Turnaround Plan to achieve a sustainable organisation**	Deliver sustainable developmental obligations funded from the reserved market Create a commercially viable business from the unreserved markets Achieve operational efficiency and effectiveness Achieve Leadership stability that ensures continuity and accountability Achieve labour stability and improve labour relations, Achieve financial sustainability
2	**Create a customer centric organisation to restore customer confidence**	Improve the customer experience to achieve customer loyalty
3	**Position SAPO as a key service partner that delivers government services**	Grow to levels of 50 - 55% of SAPO revenue per annum
4	**Corporatisation of Postbank and increase access to financial services,**	Facilitate the corporatization of Postbank Increase access of financial services to the unbanked
5	**Ensure good corporate citizenship and corporate governance**	Ethical Leadership Sustainability contribution Legal compliance Effective risk and governance Effective stakeholder management

Figure 1: SA Post Office Strategic Goals and Objectives

5. Shareholder mandates and NDP

5.1. Mandate

The SA Post Office is mandated through the Postal Act 44 of 1958 and the Postal Services Act 124 of 1998 to provide postal services to all South Africans. These Acts provide for the regulation of postal services and the operational functions of the company, including its Universal Service Obligations (USO), as well as the operation of the Postbank.

The USO mandates the SA Post Office to provide services such as address provision, basic letter and accessible mail delivery and collection services to all under serviced areas.

The SA Post Office is also a major state entity in terms of Schedule 2 of the Public Finance Management Act (PFMA) No 1 of 1999 (as amended) and is a State Owned Company (SOC) Limited in terms of the Companies Act No 71 of 2008 (as amended).

The SA Post Office's legislative mandate in terms of its licence and Universal Service Obligation (USO);

The mandate of the SA Post Office as a State Owned Entity to ensure alignment of its programmes with the overall programmes of Government;

The mandate of the Postbank is derived from the Postbank Act 9 of 2010 as amended and Government's priorities of financial inclusion of rural and lower income individuals and communities in South Africa.

5.2. Licence

The Postal Services Act of 1998 charges the regulator, the Independent Communications Authority of South Africa (ICASA), to ensure the provision of universal service through the reserved postal services licensee namely the South African Post Office.

The license to operate as South Africa's postal services provider was issued to the SA Post Office on behalf of the regulator in August 2001. The licence is valid for a period of 25 years and reviewed every three (3) years in terms of targets and performance. The License will be reviewed in 2015/16 with the Regulator.

The Postal Services Act further appoints ICASA to monitor the incumbent against any "anti-competitive" behaviour. Further, effective from October 2011, the South African Post Office was licensed as an Authorised Financial Services Provider by the Financial Services Board (FSB) in terms of the Financial Advisory and Intermediary Services (FAIS) Act 37 of 2002.

5.3. Legislation

The SA Post Office complies with the protocols and legislation governing state owned companies and is guided by various postal, courier and financial regulations laid down by the regulatory bodies such as ICASA and the Financial Services Board (FSB).

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

- SA Post Office SOC Ltd Act 22 of 2011 (as amended);
- Postbank Act 9 of 2010 (as amended);
- Postal Services Act 124 of 1998 (as amended);
- Public Finance Management Act 1 of 1999 (as amended);
- Companies Act 71 of 2008 (as amended);
- Relevant legislation applicable to the postal sector and to SOCs;
- King III Code on Good Corporate Governance; and
- Electronic Communications and Transactions Act 25 of 2002 (as amended).

A detailed list of other related legislations are included in *Appendix C*.

5.4. The Department of Telecommunications and Postal Services

The Department of Telecommunications and Postal Services is mandated to develop ICT policies that create conditions for an accelerated and sustained shared growth of the South African economy, and to ensure the development of robust, reliable, secure and affordable ICT infrastructure. This is to contribute to the development of an inclusive information society in which information and ICT tools are key drivers of economic and societal development.

The national development plan considers ICT to be a critical enabler of economic development, mainly because enhanced communication and information flows improve productivity and efficiency. The Department of Telecommunications and Postal Services will thus focus on the development of various aspects of ICT policy, increased broadband coverage, the migration to digital broadcasting, and a new postal services delivery model over the medium term. These activities all contribute to outcome 6 of Government's 2014-2019 medium term strategic framework (an efficient, competitive and responsive economic infrastructure network).

The following programmes are key to the Department achieving its strategic objectives and aligned to the SA Post Office's strategy:

Programme 2: International Affairs and Trade

Programme purpose - Ensure alignment between South Africa's international activities and agreements in the field of ICT and South Africa's foreign policy.

Objectives - Contribute to the harmonisation and coordination of the frequency spectrum with neighbouring countries through bilateral agreements with neighbouring countries by March 2016. Strengthen national and regional capacity in the postal sector in the SADC region through international cooperation by:

- collaborating with the International Telecommunications Union and Universal Postal Union to deliver improved connectivity and financial services in rural and underserviced areas of South Africa through the postal network by March 2016

– implementing the Universal Postal Union Quality of Service Fund projects to improve sub-regional postal services by March 2016.

Programme 3: Policy, Research and Capacity Development

Programme purpose - Develop ICT policies and legislation that support the development of an ICT sector that creates favourable conditions for the accelerated and shared growth of the economy. Develop strategies that increase the uptake and use of ICTs by the majority of the South African population in order to bridge the digital divide.

Objectives

• Ensure that broadband connectivity provides secure and affordable access for all citizens to education, health and other government services, and stimulates socioeconomic development by:

– implementing the digital readiness programme in line with South Africa Connect (the national broadband policy and strategy)

– compiling a report on legislation and regulations that inhibit the achievement of broadband policy objectives by March 2016

– developing policy to enable the rapid deployment of electronic communications networks by March 2016

– developing and facilitating the implementation of capacity building programmes focusing on IT literacy for educators, government officials, health care workers and other provincial governments by March 2018.

• Implement the cost to communication programme of action aimed at promoting affordable ICT services for consumers by:

– developing an approved roaming policy by March 2016

– developing an approved local loop unbundling strategy by March 2017

– developing a policy directive on the reduction of data costs by March 2016.

• Ensure that broadband connectivity stimulates socioeconomic development by implementing the digital opportunities programme of the broadband policy and strategy of South Africa Connect, through developing and facilitating the implementation of the digital entrepreneurship programme to enhance ICT adoption and usage by SMMEs by March 2018.

• Ensure that citizens have access to postal services to achieve economic inclusion by developing and facilitating the implementation of the national address system policy by March 2018.

Programme 4: ICT Enterprise Development and SOE Oversight

Programme purpose - Oversee and manage government's shareholding interest in the ICT public entities. Facilitate growth and development of small, medium and micro enterprises (SMMEs) in the ICT sector.

Objectives

• Ensure optimally functional ICT state owned companies that effectively deliver on their respective mandates by:

– reviewing the mandates and funding models for state owned companies by March 2016

– developing and implementing oversight models for state owned companies by March 2016

– monitoring state owned companies' compliance with statutory requirements on an ongoing basis.

• Ensure that South Africa has access to modern, sustainable and competitive banking services by facilitating the corporatisation of the Postbank through:

– facilitating the licensing of the Postbank by March 2016

– facilitating the appointment of Postbank board members by March 2016

– facilitating the establishment of the Postbank Holding Company by March 2016

– facilitating the incorporation of the Postbank Company by March 2016.

Sub-programmes

• Public Entity Oversight provides oversight on state owned enterprises by managing government's shareholder interests in public enterprises. This includes facilitating the enterprises' corporate plans and ensuring that planning cycles are aligned with and comply with guidelines.

• Small, Medium and Micro Enterprise Development facilitates the growth and development of ICT SMMEs.

This sub-programme hosts an e-commerce platform and will produce content that covers the agriculture, tourism, and arts and craft sectors.

• ICT Support administers and manages the transfers to the .za domain and hosts the 112 emergency call centre programme.

Programme 5: ICT Infrastructure Support

Programme purpose - Promote investment in robust, reliable, secure and affordable ICT infrastructure that supports the provision of a multiplicity of applications and services.

Objectives

• Ensure that broadband connectivity provides secure and affordable access for all citizens to education, health and other government services, and stimulates socioeconomic development by implementing the digital development and digital future programmes.

• Implement digital development and digital future pillars in line with South Africa Connect (the national broadband policy and strategy) by: implementing phase 1 of the digital development programme, which is focused on providing connectivity to 1 296 identified government institutions, by March 2016

– implementing the digital future strategy, which is focused on the implementation of a wholesale open access network, by March 2018

– finalising the policy directive on spectrum for broadband by March 2016

– providing connectivity to 972 schools in line with phase 1 of digital development, as part of the Broadband Policy and Strategy of South Africa Connect, by March 2016

– establishing institutional capacity for cyber security through operationalising the cybersecurity hub by March 2018

– creating an effective national spectrum framework to ensure that citizens reap socioeconomic benefits from the use of the spectrum through reviewing and updating the national radio frequency plan, and reviewing the national radio frequency spectrum policy, by March 2017.

Sub-programmes

• Broadband is responsible for developing and facilitating the implementation of the broadband policy, strategy and implementation plan, and ensuring that goals for broadband are achieved.

• Digital Terrestrial Television is responsible for supporting the conversion from analogue to digital television transmission technology, with the ultimate goal of releasing valuable frequency spectrum from next generation mobile broadband and other applications

5.5. The National Development Plan (NDP)

The National Development Plan (NDP) has been accepted as the main guiding policy document of Government with the primary aim of charting a new path for the country. The NDP's main aim is to change the life chances of millions of South Africans and seek to build a country where all citizens have the capabilities to grasp the ever-broadening opportunities available.

Postal Services, by their very nature, founding legislation and regulatory frameworks, have a fundamental role to enable development, economic activity, trade and social cohesion. The Post Office's network is key to ensuring inclusion of vulnerable and marginalised communities into services such as financial and government services. SAPO must build its value proposition and commercial ethos around this unique positioning. SAPO is well positioned to support attainment of specific elements of the National Development Plan. The diagram below indicates the different SA Post Office initiatives intended to support the NDP:

National Development Plan Objectives		SAPO's Role
ECONOMY AND EMPLOYMENT	*The proportion of adults in rural areas working should rise from 29 percent to 40 percent.*	• Using the SAPO infrastructure for job seekers in rural areas to access job opportunities and submit applications. • Connecting citizens to Government programmes and opportunities such as learnerships
	Exports (as measured in volume terms) should grow by 6 percent a year to 2030 with non-traditional exports growing by 10 percent a year.	• Enable entrepreneurs in rural areas to access domestic, regional and international markets. • Provide SMEs with Business Centres to run their businesses
	Public employment programmes should reach 1 million by 2015 and 2 million people by 2030.	• Scale up the role of SAPO as paymaster to the Expanded Public Works employees.
ECONOMIC INFRASTRUCTURE	*Competitively priced and widely available broadband.*	• Support Set Top Box distribution for the digital migration project • E-enablement in rural areas by provision of broadband hotspots for connectivity • Third-party payments and electricity and airtime sales
SOUTH AFRICA IN THE REGION AND THE WORLD	*Intra-regional trade in Southern Africa should increase from 7 percent of trade to 25 percent of trade by 2030.*	• Increase cooperation with regional Postal Operators • Enable trade and logistics solutions into the region • Facilitate remittances transfer for the regional diaspora residing in South Africa
IMPROVING EDUCATION, TRAINING AND INNOVATION	*Between 80 – 90 percent of learners should complete 12 years of schooling and or vocational education with at least 80 percent successfully passing the exit exams*	• Affordable and efficient distribution of learning materials • Internet access to e-learning services and registration into universities utilising the branch network
HEALTH CARE FOR ALL	*Everyone must have access to an equal standard of care, regardless of their income.*	• Logistics solutions for distribution of medicines and healthcare supplies into rural areas
SOCIAL PROTECTION	*Create an effective social welfare system that delivers better results for vulnerable groups, with the state playing a larger role compared to now.*	• Administration and payout of social grants • Facilitate savings and insurance services
BUILDING A CAPABLE AND DEVELOPMENTAL STATE	*A public service immersed in the development agenda but insulated from undue political interference.*	• Align SAPO's future strategies to the developmental agenda and facilitation of economic activity and trade
	Clear governance structures and stable leadership enable state-owned enterprises (SOEs) to achieve their developmental potential.	• As an SOE, turn the organisation to enable a meaningful contribution to the developmental agenda of South Africa

Figure 2: SA Post Office alignment to NDP Priorities & Objectives

In the long-term, SAPO is positioned to become the face of South African government services to citizens, through its proposition as a trusted platform for government delivery and providing access for citizens. Core to this proposition, is the vast physical delivery infrastructure and branch network touching all corners of South Africa. The 30% Government business that has been given to SAPO, will enable SAPO to play a meaningful role in reducing the cost of providing government services to all South Africans.

Specifically, government offerings include:

- Improvement in the efficiency and effectiveness of delivering government services to citizens;
- Position SAPO branches as citizen-service desks for government and leverage Post Office branch network for service delivery and improvement of citizen access to services;
- Support cost efficient and smarter way of working for government, and
- Become the logistics partner of choice to government.

6. Situational analysis

6.1. SAPO's strategic planning model

The SA Post Office's utilises an integrated strategic management model which is based on figure 2. This models enables SAPO to develop informed strategic responses and adjust the strategy, if required, through a continuous environmental to understand the impact of all internal and external factors that may influence SAPO's ability to maintain its competitive advantage as well its ability to deliver on its universal service logistics.

A key component of the strategic formulation is to assess the business and operating model for relevance in the situation it finds itself in. If there is a need for organisational adjustments, then SAPO will move, with speed, to ensure that the organisation is optimised for efficiency and effectiveness.

Figure 3: SAPO Integrated strategic management model

The strategic plan informs the various programs, projects and operational plans that will move the organisation towards its strategic goals. These plans are under-pinned by critical success factors along with the applicable key performance indicators ensuring that effective monitoring and evaluations mechanisms are in place for the strategic journey that SAPO plans to undertake.

6.2. Environmental Scan

South Africa's economic growth path, inflation trajectory, and balance of payments performance since 1994 have moved to structurally more favourable levels. Further evidence of this improvement is found in the following statistics:

- South Africa is an upper-middle income economy, with a GNI that is among the 25 largest in the world (measured in PPP terms).
- South Africa has a fairly diversified economy; services account for almost two-thirds of total economic activity.

However, South Africa's unemployment rate remains high, limited progress has been made in narrowing wealth and income gaps, unemployment and poverty levels remain disturbingly high. Economic growth is barely averaging 2%, while the CPI inflation rate has breached the 6% upper control targeted limit as set by

the South African Reserve Bank. This unfortunate combination (stagnating growth and rising inflation) presents a major dilemma to the policy makers.

South Africa, with the most advanced economy in Africa, will continue to play an important role in regional and world affairs. Alongside fellow members of the Southern African Development Community, South Africa will also seek to build closer "South-South" ties, especially with China, India and Brazil, as well as with other African trade blocs. South Africa will also prioritise the maintenance of close relations with the EU and the US.

The key task facing policymakers will be to facilitate growth while avoiding macroeconomic imbalances. The authorities will employ a fiscal stimulus and targeted industrial incentives to boost activity and employment, but will also focus on keeping spending in check to guard against the loss of South Africa's investment grade credit rating. The main medium term challenge is to overcome structural constraints such as skills shortages and inadequate infrastructure, which are preventing South Africa from growing more quickly.

Government has indicated its commitment to fiscal consolidation by curtailing proposed growth in spending while simultaneously increasing taxes in the form of higher income tax rates and fuel duty. The monetary environment will become less accommodating because of concerns about inflationary pressure arising from the sustained weakness of the rand, which is market-determined and widely traded. Nonetheless, rates will rise during the forecast period, translating into higher bank lending rates and costlier credit.

Growth is expected to quicken during the 2015-19 period and will be helped by a further modest increase in world growth and an expansion of regional trade, but the rate of expansion will remain relatively modest because of several factors. These include delays in the installation of new electricity capacity, sluggish private investment (because of strike threats and policy uncertainty), fiscal consolidation and progressively tighter money. Growth will benefit from a small rise in job creation, higher real wages and the expansion of the black middle class, which will spur consumer outlays on goods and services.

However, despite a steady improvement in power supplies, structural constraints will persist, including skills shortages, crime, corruption and inefficient parastatals, while unemployment will remain high.

Industry Analysis

Postal Sector Trends

The global financial crisis brought an unprecedented disruption to the postal market and, while there are signs of recovery, economic instability within the postal market remains. Mail volumes continue to decline in most markets and it is clear that postal operators are entering a new era for the postal industry; an era where volume decline of traditional mail is a sustained feature.

Internationally, the postal industry is undergoing a transformation. Business models that have existed for generations are clashing with the latest technology and social trends. In response to these key market trends, postal operators are focusing on diversification, launching profitable new business lines that are vastly different from their historic business. They have also reworked their legacy mail networks into parcel

networks that are well positioned to take advantage of the growing eCommerce wave. Postal operators are also placing a major emphasis on modernizing across all areas of their operations through the effective use of technology.

Below are a number of relevant global trends that are already or will likely impact the postal, retail and transportation activities at SA Post Office

Figure 4: Global postal trends

Financial Industry Trends

The continued rapid growth in the number of black people with middle and high incomes should promote an increased demand for financial services products during the forecast period. Meanwhile, continued efforts by the government to increase the availability of financial services products to low-income earners should increase financial services activity at the lower end of the market.

Banks

Future areas of growth in the banking sector include personal banking (especially at the lower end of the market), further African expansion for some banks, and the small and medium-sized business sector. All four of the largest local banks have established branches or offices in Africa, Europe, Australia, the US and Asia.

Demand for personal banking services will be partly driven by the growing number of people joining the ranks of the middle- and high-income groups. However, there will also be continuing efforts to tap into the unbanked market, via special low-cost accounts and a possible expansion of tele/cell-phone banking.

Insurance

South Africa is by far the biggest insurance market in Africa and ranks 17th in the world. Local insurers collected an estimated R450bn in premiums in 2012, a rise of 10.9% in inflation adjusted terms compared with the previous year. Life insurance accounted for 82% of all premiums, while all non-life policies together brought in the remaining 18%.

The industry is divided into three sectors: long-term insurers (mostly life); short-term insurers that deal with corporate general insurance and standard individual coverage, such as households and automobiles; and reinsurance companies.

Personal insurance is expected to increase at a fairly rapid rate over the forecast period. The growing number of black people in the middle- and high-income brackets will boost the motor and homeowner insurance segments, while ongoing concerns about the high rate of violence and crime in the country will also prompt people to take out insurance cover.

The life insurance sector will also continue to expand. One of the fastest growing product lines is investment-linked life annuities, marketed through linked product companies and consisting mostly of unit trusts.

Despite expanding demand for life cover, South Africa's traditional insurers are facing intense competition from abroad. Such competition is raising fears that downward pressure on premium rates is pushing revenue below the levels required to cover actual risks.

6.3. Telecommunications Industry

Mobile

The number of mobile subscriptions is expected to expand by an annual average of 7% over our 2015-19 forecast period, taking the total number of subscribers to nearly R107m in 2019. Growth in the mobile market will largely reflect the continued expansion of the number of black people joining the middle- and high-income groups, as it is this demographic segment that is responsible for much of the increase in mobile ownership, although the rate of increase is slowing, reflecting the maturity of the market. High penetration rates and market maturity are forcing network operators to compete for customers at the service level and to look for new revenue streams.

Demand for mobile data services and mobile banking is growing rapidly which reflects the difficulty faced by low earners in setting up traditional bank accounts and hence the recent boom in mobile-phone accessibility. Mobile payment apps are on the increase, as a growing number of shoppers across the income spectrum revert to cashless shopping.

Internet

Internet penetration and broadband subscriptions are still at a relatively low level. Around one-third of South African households had Internet access as of 2012, according to the International Telecommunication Union (ITU). However, much of this access appears to be taking place at work, in universities or in Internet cafés: according to the general household survey for 2012 released by Statistics South Africa in August 2013, fewer than 10% of South African households have access to the Internet at home. Mobile solutions will continue to provide the most rapid growth in Internet access.

6.4. Logistics Industry

The South African courier industry is estimated to have an annual turnover of some R8 billion and is made up of a large number of industry players ranging from companies with an international footprint to single individuals. It is estimated that there are some 30-40 medium to large courier companies in South Africa and between 2,000 and 3,000 small players.

The current courier industry is currently undergoing significant changes. Firstly, increased use of electronic communication has resulted in a move from the delivery of envelopes, packets and parcels. Secondly, increasing e-commerce is causing a shift from traditional Business to Business deliveries to Business to Consumer.

Online shopping has brought new opportunities to the courier industry as consumers have high expectations and expect speed delivery. As a result of this shift, traditional routes to commercial and industrial areas had to be extended to include residential areas where the SAPO has traditionally had supremacy.

In recent years, there has been an increase in the delivery costs due to one parcel per trip deliveries and having to make repeat deliveries. Rising fuel and electricity costs and the implementation of e-tolls from 2013 has resulted in a renewed focus on cost containment by the larger operators across the logistics sector.

The role of information technology in the courier market is becoming increasingly important as there is a need to transfer and share information with customers. In particular, customers are increasingly demanding the ability to communicate via social media platforms which will become a significant medium of interacting with customers in future.

In recent months, labour unrest has become a significant factor in South Africa and the logistics industry has not been immune to these developments. Companies that experience less labour unrest will invariably attract more customers.

6.5. Internal assessment of SAPO

A diagnostic review of the South African Post Office revealed findings that are summarised below:

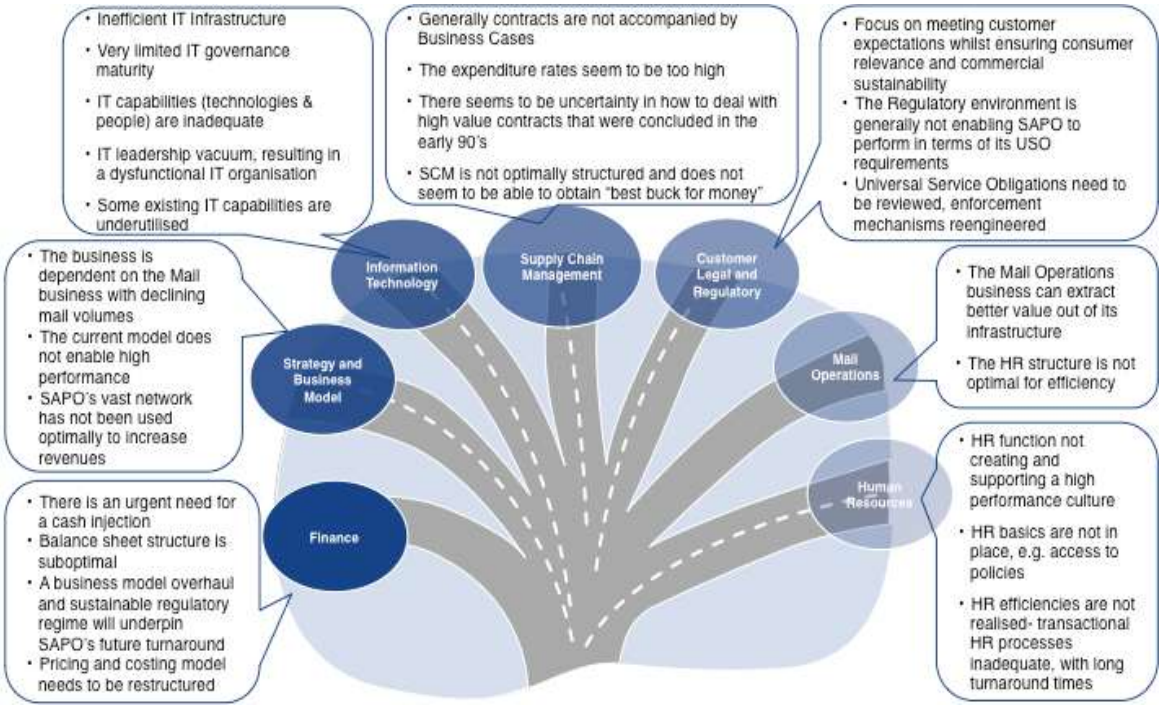

Figure 5: SA Post Office key challenges

Governance weaknesses are evident across all domains, including poor enforcement of the reserved area and unclear definition of the Universal Service Obligation (USO) by the Regulator; limited oversight by the Department; inadequate oversight by the Board and ineffective management. These weaknesses have created various deficiencies within the organisation and they must be addressed in the period of this Strategic Plan.

Staff morale is very low and the environment has become toxic due to perceived lax attitude in dealing with perceived corruption and poor consequence management within SAPO.

The relationship between labour and management is currently weakened as a result of a lack of consultation and communication between management and labour.

The SWOT Analysis

The SWOT analysis builds on the other components of the strategic context work and identifies in simple terms where SAPO is positioned with regard to trends, developments and the broader environment in which it operates. The analysis identifies the organization's strengths and weaknesses, as well as the threats and opportunities concerning the organization's future.

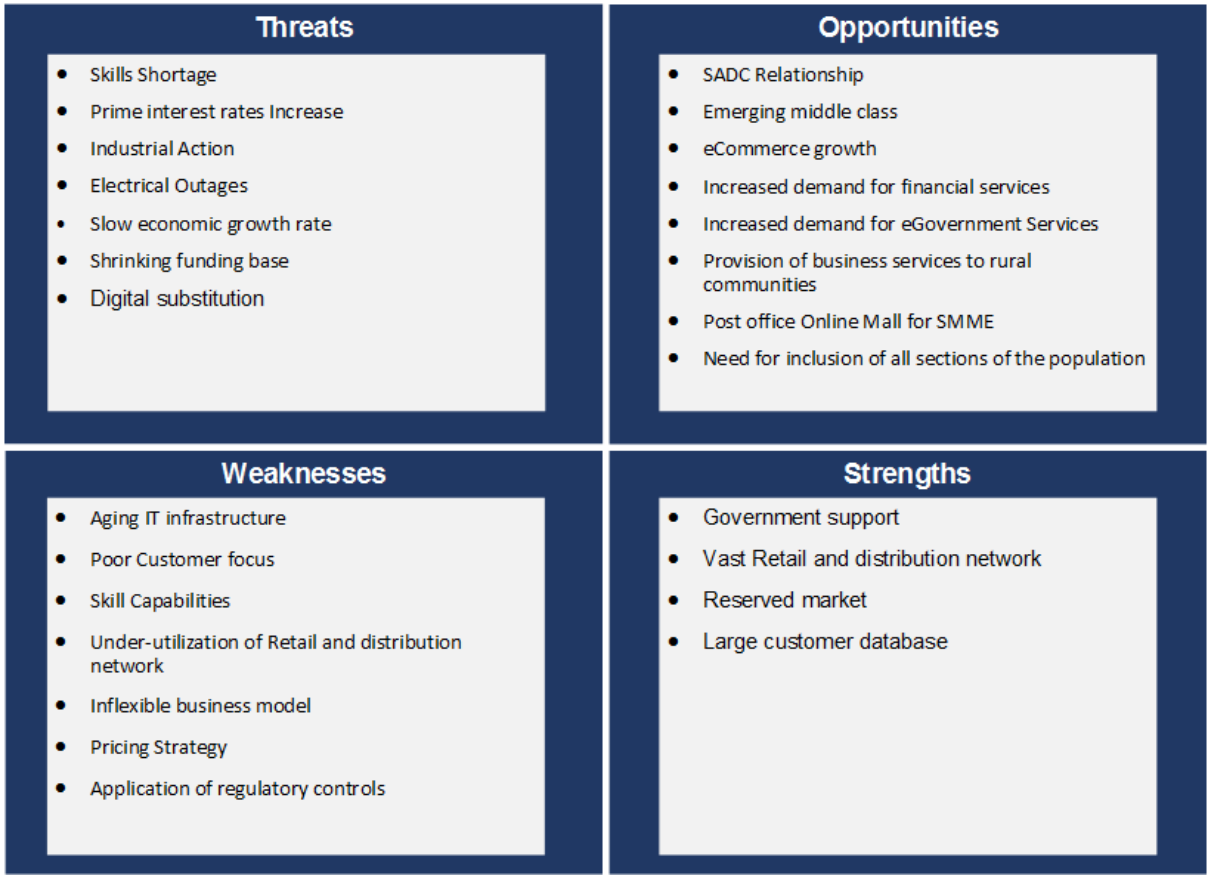

Figure 6: Summary SWOT Analysis

7. Strategic Turnaround Plan

In November 2014, the Minister of Telecommunications and Postal Services appointed an Administrator for the South African Post Office to bring stability to the organisation following prolonged labour unrest, instability within the organisation, continuous financial strain as well as problems with service delivery. The Administrator was also required to develop a Strategic Turnaround Plan for SAPO.

In December 2014, a technical intervention team was appointed, to assist the administrator in stabilising the organisation and guide it towards sustainability and are mandated to:

- Facilitate the processes of resolving leadership instability at SAPO and restoring clients/business and public confidence in the Post Office;
- Bring the business operations and the organisation to normality, including resolving the current labour unrest;
- Ensure that SAPO builds up revenue streams to sustain its business operations and be able to meet its short-term operational commitments.
- Ensure the resolution of outstanding Human Resources issues
- Fast-track Postbank license application process;
- Give effect to the Corporate Plan of the Post Office contemplated in Section 52 of the Public Finance Management Act in order to achieve the objectives of the Post Office;
- Develop a business case that would underpin National Treasury support; and
- Ensure compliance with all relevant legislation and regulations.

Although it is critical to create an enabling environment for SAPO, the organisation must also resolve a plethora of internal issues that threaten its sustainability. SAPO's main revenue streams remain the mail business, with limited success in diversifying revenue to other related and adjacent markets. A number of offerings have been deployed as revenue diversification opportunities, however achieving scale in any of them remains a challenge.

Drawing on the diagnostics findings, SAPO's sustainable growth strategy is underpinned by the following four key pillars:

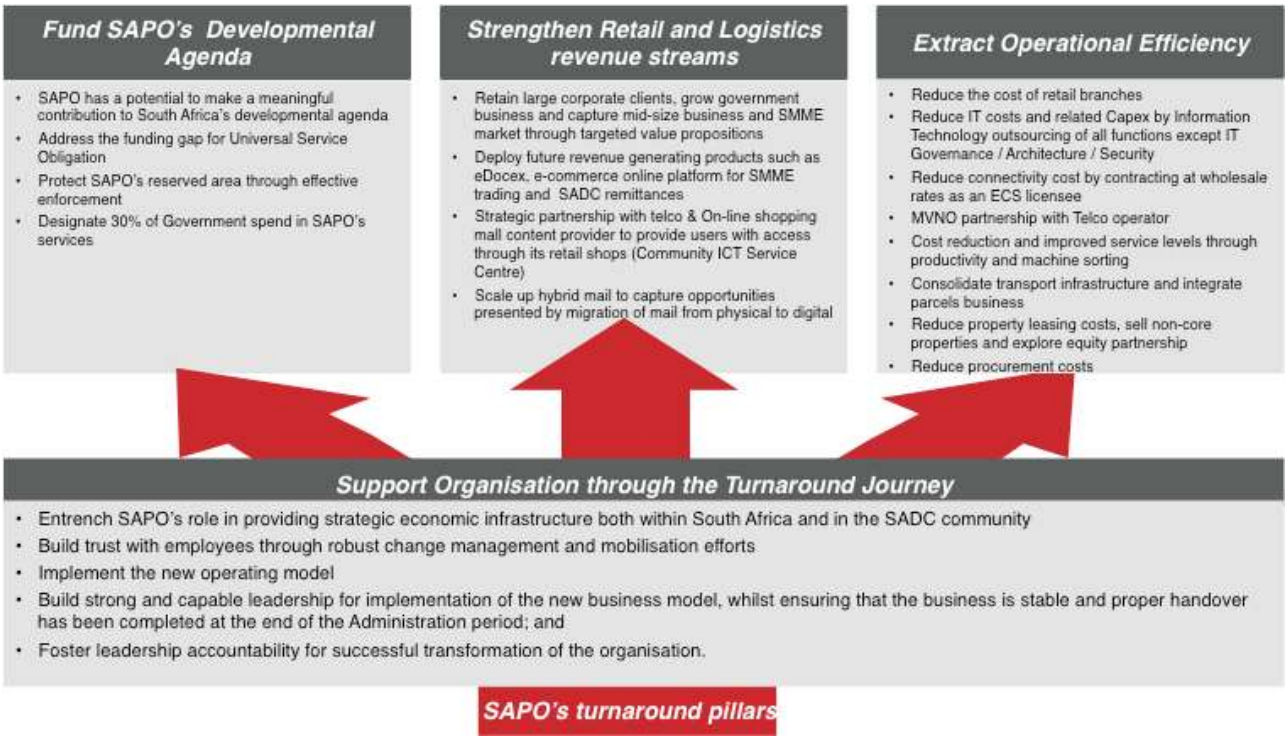

Figure 7: Key Transformation Themes

7.1. The SA Post Office Turnaround Approach

To realise the strategic turnaround plan, an implementation approach is developed with clearly defined milestones per phase:

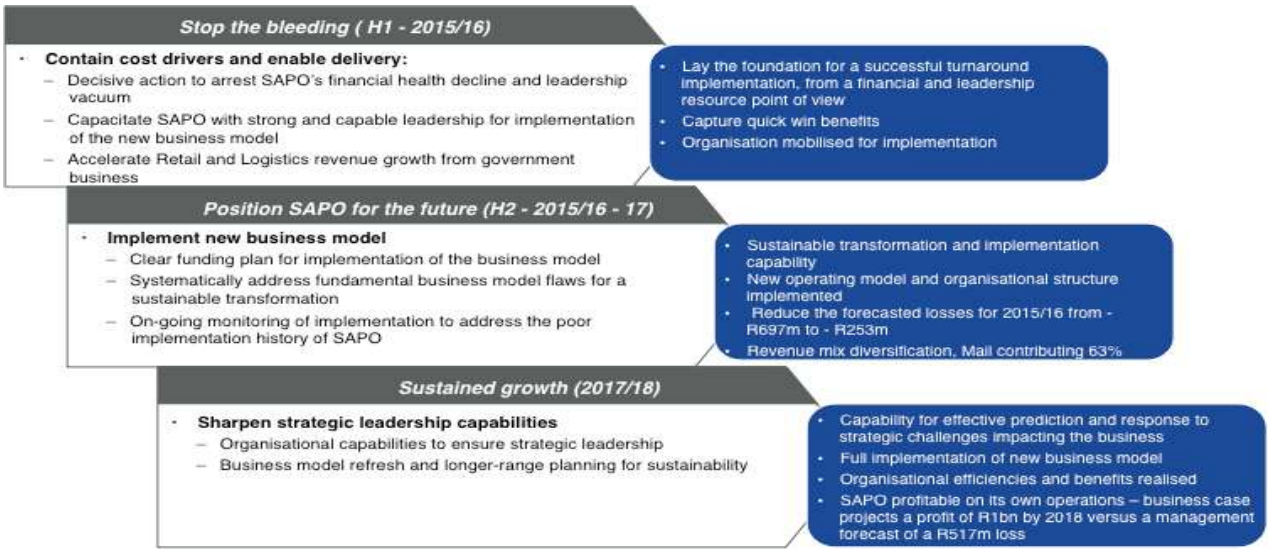

Figure 8: Journey of the Turnaround implementation

The roadmap to achieve the implementation of the turnaround is indicated in the figure below.

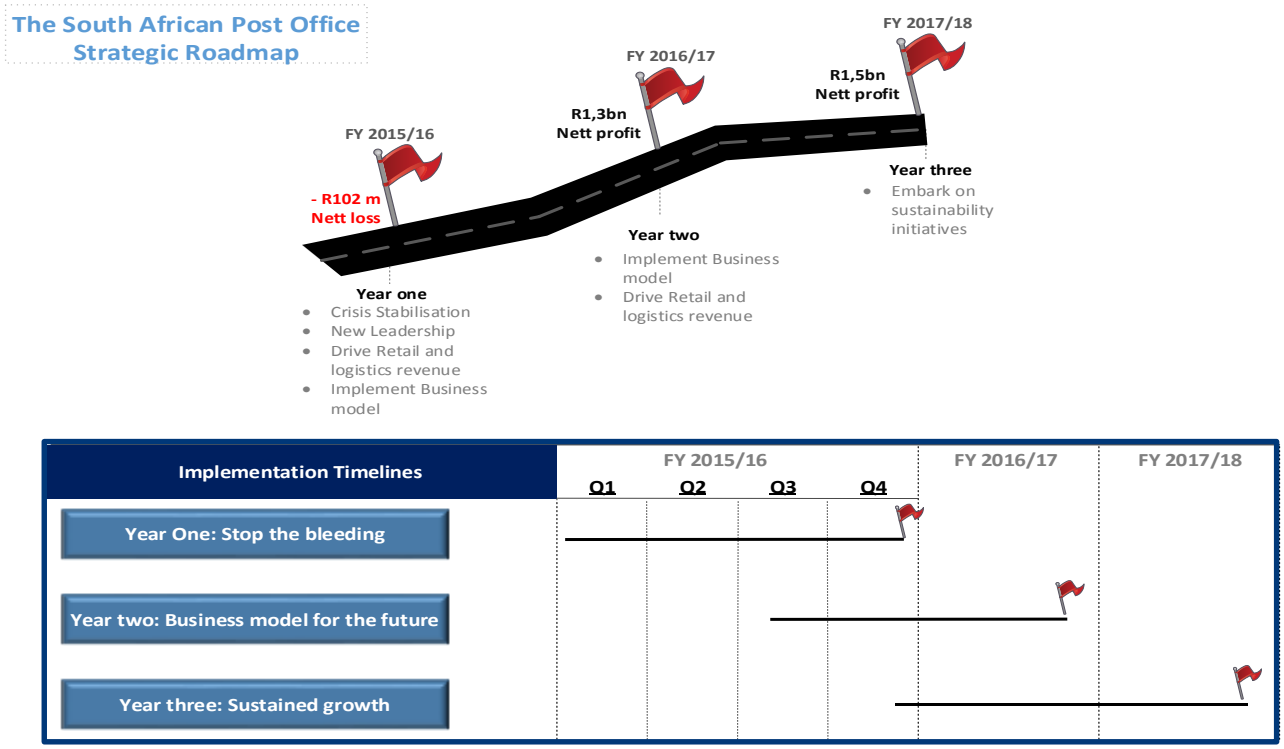

Figure 9: SAPO Turnaround roadmap

Phase 1: Stop the bleeding

This phase intends to arrest the current financial distress faced by SAPO. The key milestones within this phase includes short term cash management, capacitate SAPO with strong and capable leadership and this team is required to ensure the successful implementation of SAPO's sustainable growth strategy. The management team is also required to drive the various revenue initiatives identified in the strategic plan. The process of implementing the new model is also planned to start in this phase. The duration of this phase is estimated to continue for the first half of 2015/16FY.

Phase 2: Strategic Positioning for the Future

The focus area in phase 2 will be a continuation of the business model implementation to systematically address fundamental flaws in SAPO's business model. The business model initiatives will be executed in manner whereby the key flaws are addressed first.

Phase 3: Sustainable Growth

This phase intends on building the newly establish business model and intends on focusing on sustaining its growth trajectory. At this point SAPO should be declaring significant profits of which will be recycled into the organisation to maintain the momentum gained over the previous two phases.

The SA Post Office Management team has been working on a detailed list of initiatives to address the current performance barriers and concerns in the Group. This integrated Programme is currently under review, including an assessment of the overall business impact, integration requirements and costs. A brief summary of the Programme is presented here, with the detailed Programme plan and budget to be presented to the Board of Directors and other stakeholders for approval on its completion.

The sustainability growth strategy focuses on implementing initiatives within four key areas:

• Operations	• Product Innovation
• Commercial (Revenue Growth)	• Business Model

The detailed Strategic Turnaround Plan, as submitted to the Honourable Minister of Telecommunications and Postal Services is included in *Appendix A*.

7.2. The Implementation Process

In order to achieve the delivery of the Strategic Turnaround Plan SAPO will mobilised a team housed within the Group Project Management Office (PMO) which will be tasked with driving the business to implement the initiatives. The team will develop a roadmap and framework that will assist the business managers to create project charters and identify key performance indicators (KPI's) that need to be monitored and ensure delivery of the committed benefits.

7.3. The Monitoring Process

The progress on initiatives will be monitored on a monthly basis to ensure that the initiatives are on track to deliver on the commitments. The Project Management Office (PMO) will be tasked with monitoring implementation and progress on all initiatives.

The current process of the Monitoring Task Team, as established through the DTPS and National Treasury, will be used to monitor progress on the STP implementation.

8. Strategic Alignment

8.1. The new Operating Model

The current BU driven operating model has led to silos and inefficiencies and the organisation is cumbersome and top heavy. The organisation is neither market focused, nor is it customer focused.

A sustainable business model for SAPO is one that reduces the reliance on mail business and moves towards a balanced revenue mix, where Retail, Logistics and Postbank improve their contribution and each operates profitably.

SAPO's new business model will be characterised by strong government revenue growth by scaling up the government offering; strengthening non-banking financial services offerings to drive Retail volumes; tapping into the fast growing SMME sector; growing e-Business revenue and growing major and large accounts revenue through cross-selling. The cost side will be managed down through leveraging strategic partnerships; streamlining Operations, Transport and Property, optimising IT, Procurement and Human Capital cost as well as reducing the cost of the Retail network.

Implementation of the new business model will necessitate a change in SAPO's operating model to place the customer at the heart of the business, break Business Unit silos, create market facing commodity-based SCM, create a commercial capability at SAPO, and consolidate all "commercial" functions, outsource SAPO and Postbank IT and break down e-Business into Mail and Channels.

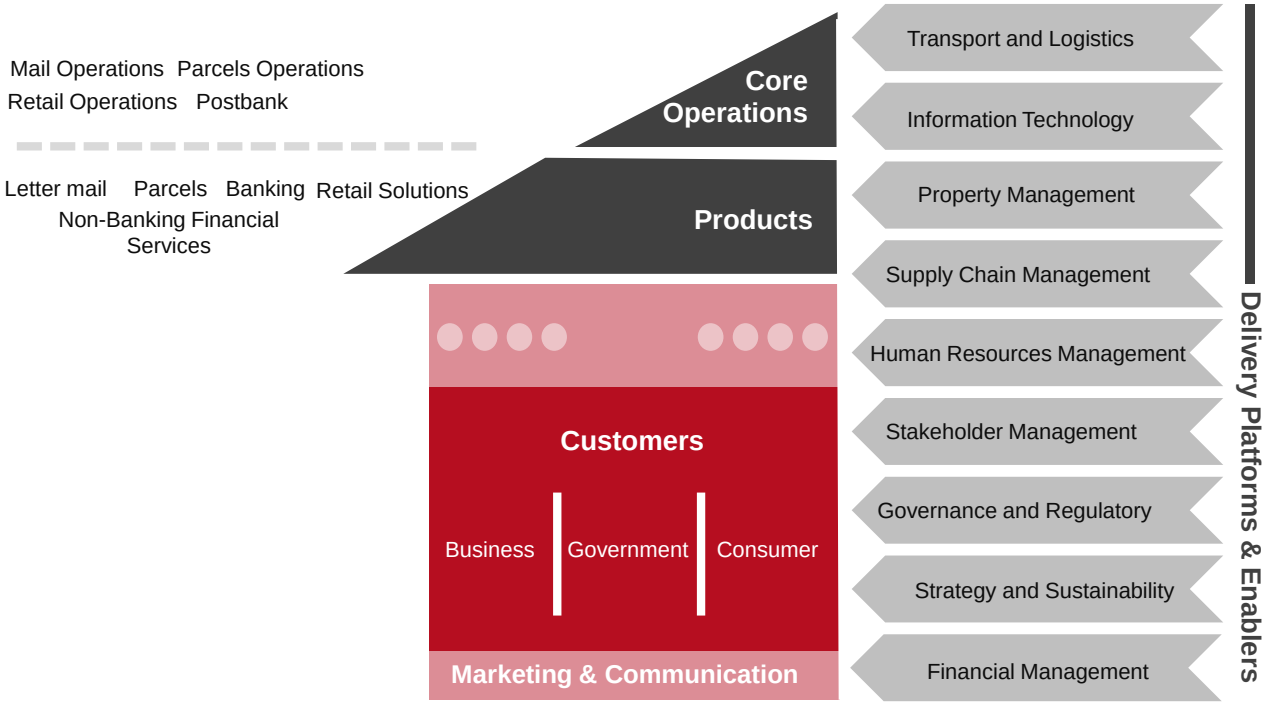

Figure 10: New Business model

8.2. Strategic Review: Core Operations

The strategic positioning for SA Post Office to become a customer focused integrated distribution and financial services organisation requires the organisation to restructure the operations environment to ensure that it meets its mandate and is able to deliver customer centric solutions optimally. The organisation has been structured in different business units creating silos and duplication of resources such as infrastructure, personnel and duplication in processes. The bloated structure creates inefficiencies and impacts negatively on customer service and ultimately the SA Post Office brand. This has over the years resulted in a decline in consumer confidence, staff morale and revenue.

The customer service delivery model will be achieved through structural changes that will integrate the processes for the acceptance, processing and delivery of mail and parcel items which are identical across Mail and CFG thus changing the organisation structures and operational management across the entire value chain.

Regional management duplication will be reduced from being managed by Retail and Mail business and integrated with the consolidation of the area and regional levels for the operational areas and administrative sections such as finance and HR.

SAPO is managed in terms of business units (Mail, e-Business, Retail, Postbank) and has Support Functions to provide services to those business units (e.g. finance, procurement etc). As noted earlier, the current structure has resulted in silos, with some duplication of functions such as mail processing across the Mail and Retail business units, duplication of support functions e.g. Retail structures and Head Office, etc. In addition, the support functions are supposed to operate using a shared services model, but this has not actually been achieved in practice. Hackett was engaged to perform a review of the efficiency of certain support functions, and the findings from this exercise have been taken into consideration when preparing the initial proposal around their restructuring.

The current value chain, excluding the acceptance of deposits and the provision of financial services, can be depicted as follows:

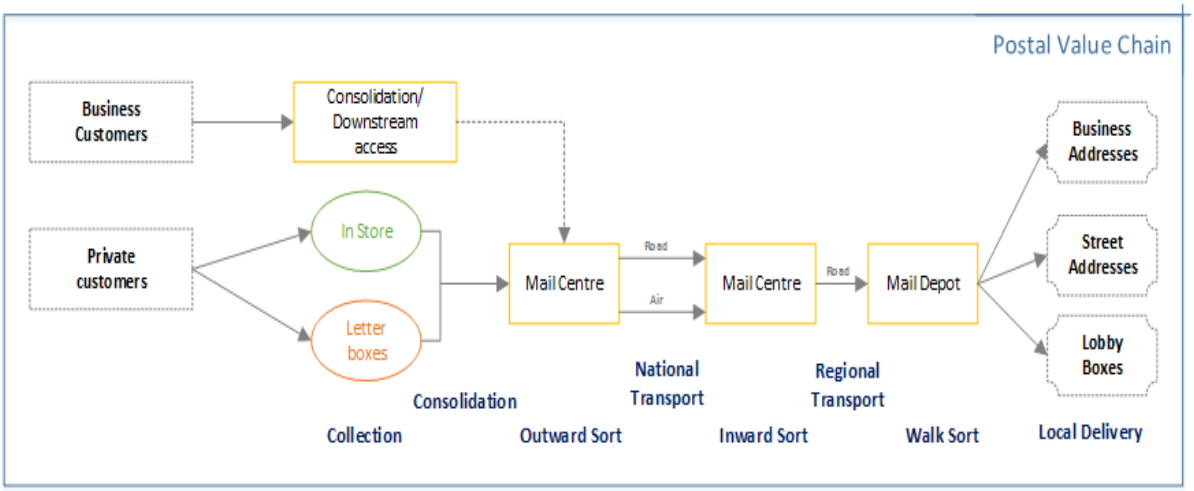

Figure 11: SAPO Postal value chain

Taking the above into consideration, SA Post Office's operating model needs to change significantly.

Functions currently performed in various parts of the group will be centralised (Properties, Transport, parcels across Mail and CFG will be re-integrated into Mail).

A new Customer Service area will be created to drive the focus on customer service, value propositions, strategic data analytics, market research, sales etc.

For support functions, Supply Chain Management will be incorporated into Finance, and Governance structures will be combined. Support and area management structures currently in the Retail and Mail operations will be collapsed to improve end to end customer service.

8.3. Strategic Review: Postbank

Postbank's strategic intent is to serve as the partner of choice for government with regard to its objective of providing affordable transactional banking services and accessible social services to all citizens that need these services. It is through the Post Office's expansive nationwide network that Postbank will be able to provide extensive accessibility, particularly in rural areas.

To enable the above stated strategic intent, Postbank's value proposition to its existing and prospective customers is the promise of low cost financial services to all South Africans. This includes lower income citizens who may have limited access to, or cannot afford, traditional banking services.

Postbank's Corporatisation, will ultimately enable the bank to offer a wider range of affordable products and services to the mass market. This is while adhering to industry standards and meeting the regulatory requirements applicable to a registered bank. The Corporatisation process will serve as a key enabler in

realising the Postbank's strategic intent and value proposition to its customers. During the next three years, Postbank will be pursuing several initiatives:

- Corporatisation:
  - The Banks Act section 12, the application to establish a bank was submitted to the SA Reserve Bank in 2013. The focus will now shift to meeting the Banks Act and supporting regulatory requirements. This will include the hiring of key skilled resources and the establishment of requisite efficient and effective organisational, compliance, IT and process infrastructure;
- Channel Strategy:
  - Developing alternative channels to efficiently deliver relevant banking services at low cost, while also improving the convenience and access for customers. This includes ATMs, Internet Banking and other alternative channel options,
- Product Innovation:
  - Offering innovative products and services that fulfil Postbank's mission and provide relevant, low cost banking and related financial services to South African citizens throughout the country;
  - Evaluating the building blocks required to introduce affordable lending products as part of the corporatisation; and
  - Re-evaluating Postbank's role in the insurance industry to enable greater access to financial services.

Though commercial banks and finance companies have recently increased their focus on lower income customers, there is a viable and important role for Postbank to play in offering affordable banking services that support SA citizens' needs, compared to the profit-driven objectives in commercial shareholder-driven enterprises.

8.4. Strategic Review: Commercial

SAPO's revenue growth continues to rely on mail business, with stagnant to negative growth in the Retail and Logistics BUs. SAPO lacks a cohesive commercial strategy, resulting in a fragmented view of the customer, disparate value proposition, channel, sales, and customer experience strategies. The silo organization of the Business Units has led to an organization that is unable to capture commercial value across all products and offerings. Each BU drives its own "commercial strategy" with no consolidated view across the Group; for example, innovation and new products in e-Business target the same clients and provides offerings that are in direct competition with Mail and Retail BUs. The positioning of e-Business as a standalone profit-centre is fundamentally flawed, rather it must be viewed as an "innovation hub" that develops e-enabled products for mail, logistics, financial services and retail and e-channels for the entire SAPO Group. Management information relating to customer and product profitability is not readily available and utilised in day-to-day management of commercial opportunities and this will change.

Postal Services, by their very nature, founding legislation and regulatory frameworks thereof, have a fundamental role to enable development, economic activity, trade and social cohesion. The Post Office's network is key to ensuring inclusion of vulnerable and marginalised communities. SAPO must build its value proposition and commercial ethos around this unique positioning. SAPO is well positioned to support attainment of specific elements of the National Development Plan.

Products

The lack of a SAPO-wide product strategy has resulted in new products cannibalising existing products. Some of the key gaps include:

- No lifecycle management framework, new product development process, which has led to each business unit having their own teams, frameworks and deploying their own product management practices;
- Management information on product performance and profitability is not readily available;
- New innovations are not approached within a consolidated view of the product portfolio, to ensure that they complement the entire offering of SAPO whilst responding to changing needs of the market; and
- Pricing is sub-optimal due to poor application of the costing model in pricing, discounts and rebates decisions.

Planned Initiatives

– Development of a multi-pronged product development and management strategy

Figure 12: SAPO Product strategy

Components of the strategy:

- Define product lifecycle management process ownership and develop SAPO-wide product strategy;
- Define product performance reporting requirements and work with management accounting to develop on a regular basis;
- Review and balance entire product portfolio and develop recovery strategies for poorly performing products; and
- Review product pricing strategy across all BUs.

The product map is indicated in the figure below.

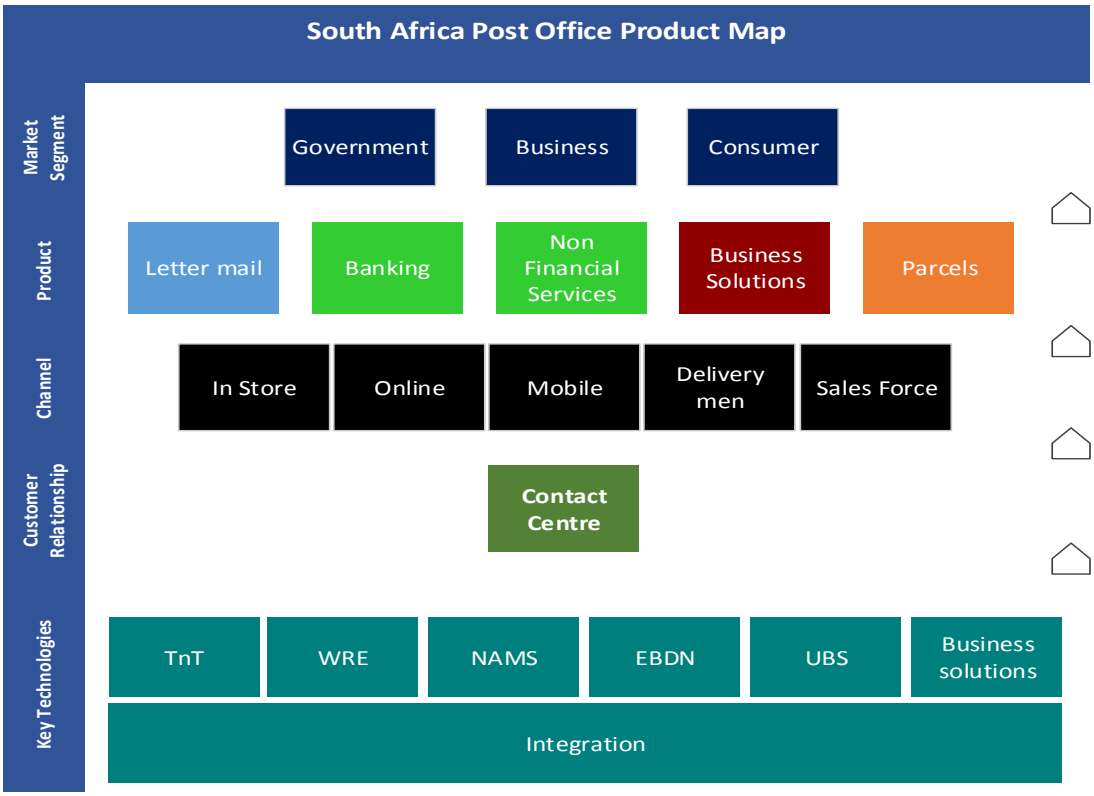

Figure 13: SAPO Product map

A detailed listing of the current products and services is included in *Annexure B.*

Channels

SAPO's channel strategy is still in its infancy, and fragmented with Retail Branches being the dominant channel, but completely divorced from other channels such as contact centres, online, mobile, mailmen, salesforce, etc.

SAPO's biggest weakness in its business model is the high-fixed cost basis of its large retail infrastructure. The retail branch network investments have tended to be biased towards regulatory compliance and property development trends, rather that commercial performance of branches in economically viable areas and developmental" or USO branches in uneconomical areas.

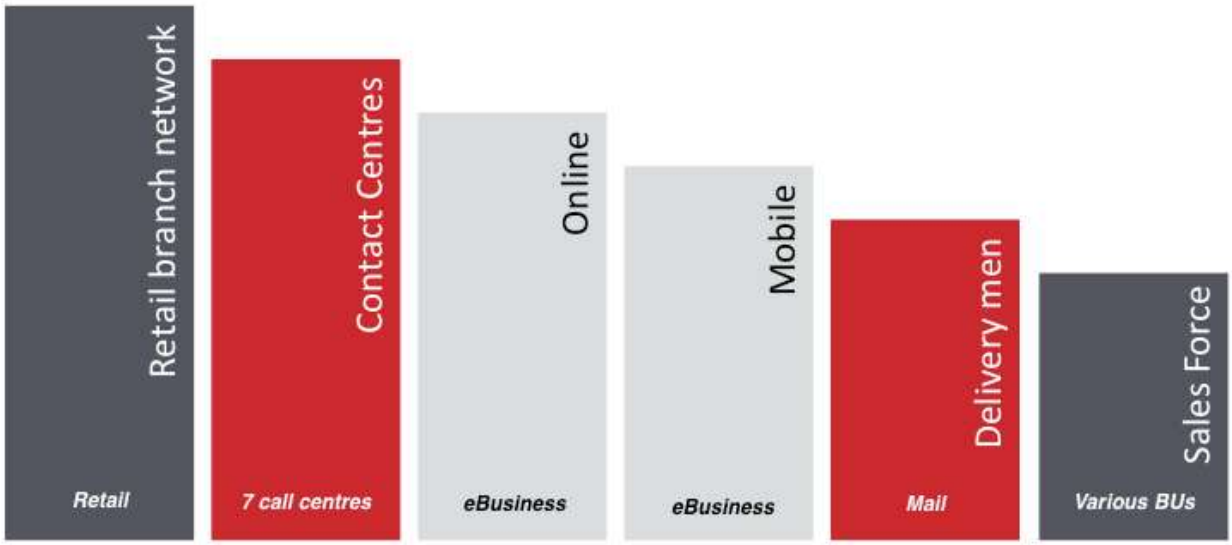

Figure 14: SAPO Channel strategy

Planned Initiatives

- Establishment of a single channel management function to support the multi-channel strategy.
  - The retail network will be Rebalanced, Remodelled and Revitalised to ensure a cost efficient model for future SAPO business model.
    - Remodel the retail branch network to improve sustainability, ensuring an optimal mix of brick and mortar, Own versus RPA and franchise, mobile units, self-service kiosks, etc. to achieve the following mix:
      - 40% RPA,
      - 25% Owned: conventional,
      - 20% store-in-store,
      - 15% mobile,
      - 5% self-service kiosks;
  - Consolidate and modernise contact centres – develop an outsource option to optimise costs, improve service quality and adopt best in class practices.
  - Define a role for delivery men and sales force as a channel.
  - Allocate specific branches as Postbank flagship branches.

Customers

A customer segmentation study was initiated in 2010 to cover the mail and logistics business units, however, implementation of the customer segmentation model was not carried through.

Similarly, SAPO'S value proposition is not clearly defined, consistently understood and implemented across the Group. Postal Services play a vital enabling role for communications and transactions, linking South Africans to each other and South African businesses and government to all citizens through the vast branch

network and strong physical distribution and delivery network. SAPO supports social cohesion and the developmental agenda, whilst at the same time remaining an important enabler to trade and the economy.

Customer segmentation model

SAPO's major customers are big business, followed by public sector – together contributing 98% of SAPO revenues.

SAPO must become a partner to business by providing value-added business communication and transaction solutions. The strategy for business customers is to retain the existing Large Business customer base by enhancing customer experience and key accounts management. The following interventions are key:

- SAPO must reclaim its relationship with Large Business Customers from the Mailing Houses that process and lodge mail on their behalf.
- Single-view of the customer and intimate understanding of needs to improve cross-selling opportunities.
- Urgently close capacity and capability gaps in customer understanding through deep analytics within the key sectors that drive post office's revenue, namely; retail, financial services, telecommunications, education and healthcare sectors.
- Improve customer value proposition and product offerings to meet client needs.
- Improved quality, reliability of service, and customer service.

Previously untapped markets such as the SMME sector will be developed through deliberate offerings that address specific needs to support their core needs. In the short-term, Business Solutions, within SAPO branches and the Online SMME trading platform are specific offerings that will drive this market, as enablers for SMME's businesses.

Government, as a customer segment will drive SAPO's growth in the short to medium term. This customer segment will grow; through implementation of the 2015 Cabinet Decision to set aside 30% of government spend on SAPO business offerings. In the 2015/16 fiscal year, a growth from the current R1, 2 billion revenue per annum to over R3 billion per annum is targeted through specific "quick win" opportunities. Projects that will yield a revenue contribution of R11 billion to SAPO, in the next three years have been identified.

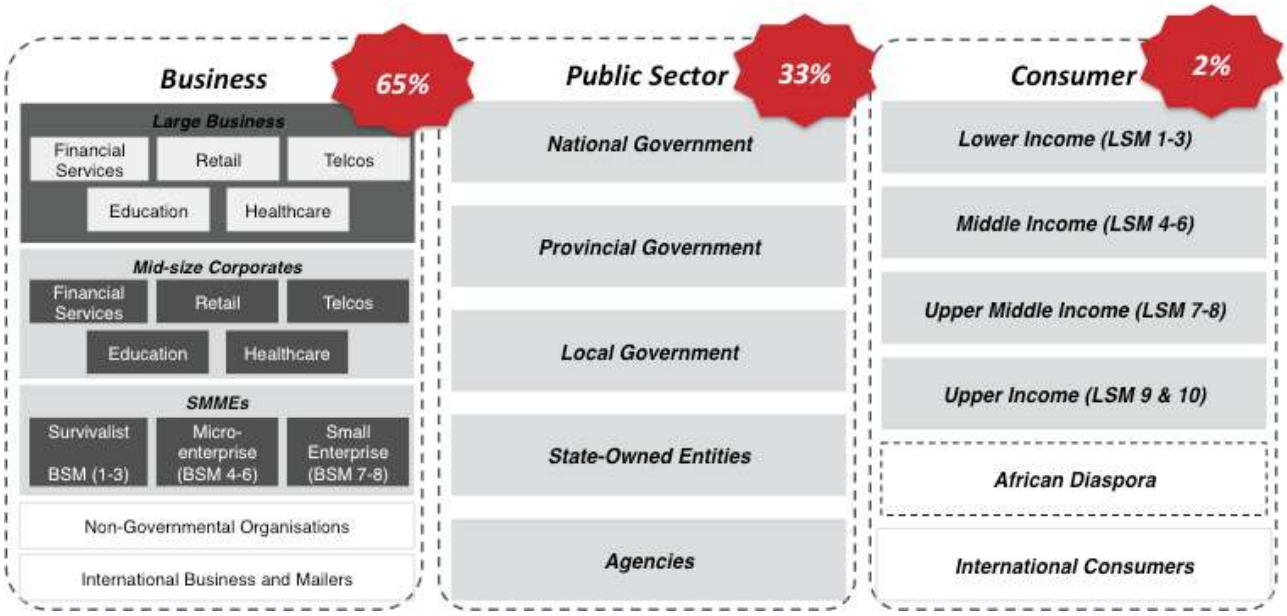

Figure 15: SAPO Customer segment model

8.5. Strategic Review: Delivery Platforms and Enablers

The delivery platforms and enablers that are responsible for strategic direction, corporate governance, policy and procedures of the Group, and Shared Services that is responsible for the management and centres of excellence to the Group.

It is clear that the delivery platforms and enablers have a critical role to play in providing efficient and cost effective support to the core operations, while also setting strategy, creating policy and ensuring compliance on behalf of the Group. The technical focus areas vary widely and each unit will continue to develop and refine its technical competence. In addition, the focus on the following improvement areas during the planning period:

- Cost management;
- Business process efficiency and integration;
- Expansion of the use of enabling technologies;
- Increasing the efficiency and service quality from Group Shared Services;
- Talent Management;
- Create a business support environment that promotes and facilitates innovation;
- Efficient and effective procurement processes.

Transport and logistics

SAPO runs various transport and logistics operations both within the postal business operations as well as the parcel business, CFG. The transport and logistics stream sought to analyse these and identify opportunities for improvement in terms of efficiency, cost and service level enhancement

A key recommendation for the group is to proceed to restructure the Transport and Logistics function and bring this under one structure for the entire business. Mandate for such a structure is to find opportunities for network optimisation and economies of scale across the SAPO Group.

Information Technology

The current systems are old and out of support. The old business model enabled silos within SA Post Office resulting in decentralisation and duplication of solutions, bespoke solutions deployed and no longer compatible or scalable, lack of disaster recovery due to concentration of risk in the current data centre and no network redundancy.

Through Infrastructure Refresh to replace legacy systems Group IT will enable standardisation, high availability of systems with full redundancy and faster turnaround time for deployment of solutions.

The upgrade of the following core systems is critical for business to perform its services.

- Universal Banking Solution (UBS) Banking system
- Postilion Financial Switch
- Websphere Message Queue (MQ)
- SAP Enterprise Resource Planning (ERP) system
- Third Party Management System
- Microsoft Exchange
- EMC backup and Storage systems
- Microsoft Active Directory
- Database systems
- WRE Point of Sale system
- Track and Trace solution

The current SA Post Office data network consist of current core network infrastructure with some but not optimal redundancy in place, ageing regional network infrastructure which could result in an entire region going “off-line” and copper-based Telkom infrastructure that does not enable scalability for sites. Group IT proposes the outsourcing of the data network infrastructure with full redundancy which will provide reduced operating costs, provide access to certified competent resources and make capital funds available by outsourcing non-core business functions. The outsourcing of the data network infrastructure will reduce risk by leveraging the technology available within a managed service company and provide flexibility as vendors have multiple resources available to them.

Property Management

The scope of the proposed initiatives covers all the owned and leased properties in use by the SAPO group. The entire organisation is in scope, all business units will be affected, key of which will be the core business areas in particular, Retail, Mail and Courier business as the biggest clients of the Properties BU. The processes within SCM, Legal, OHS Services and Retail have a significant impact on the ultimate delivery of these initiatives.

In summary, the initiatives are aimed at:

- Developing a property management strategy for the SAPO group guiding the approach to acquisition and alienation of property, developing, leasing or otherwise making property available to Group for all operational purposes. The governance, decision making criteria, economic evaluation criteria, interfaces with other BUs, use of benchmarks and business unit mandates will be included.
- Maintaining a comprehensive, accurate register of all assets owned by the SAPO group which was steadily rebuilt in the past year. Specific data required will be market related value, asset condition, potential revenue generation capability, current OHS Act compliance, and an estimate of operating and capital expenditure to rectify any significant compliance or revenue potential concerns.
- Reviewing all current property leases to align the leased properties with the property management strategy, and to renew, cancel or renegotiate leases as required.
- Developing a comprehensive plan to renovate and / or buy, sell or lease all the properties owned by SAPO in alignment to the license requirements, OHS Act requirements, business needs and property management strategy.
- Agreeing on a sourcing model for facilities management services to inform the most cost effective strategy for the organization.
- Designing and implementing a complete range of internal operations capabilities to manage and enhance the property portfolio once it has been stabilized. The scope of this initiative will include integrated business processes, enabling technologies, governance structures, updated policies, and a reviewed organizational structure.

Supply Chain Management

SCM is accountable for ensuring a transparent, fair, competitive and equitable procurement process.

The following strategic objectives have been identified for SCM to deliver on its mandate:

- Reduction of the total cost of ownership through sustainable savings.
- Enhance efficiency and improve process turnaround times.
- Extract value for money through strategic sourcing initiatives.
- Improve customer service satisfaction levels.
- Drive BBBEE initiatives and ensure compliance with legislation
- Supplier Service Management

Human Resources Management

The current efforts to reposition the company to improve its effectiveness require a more coherent and focused people strategy that addresses two critical issues, namely; building employee capacity that is relevant for this purpose and ensuring a climate and culture that would enable this transition.

The foundations for establishing this goal was the focus of the Human Capital in the past year with specific emphasis on normalisation of employment on the top level of the organisation together and surfacing of concerns in the Labour environment. This proved to be challenging, however there was movement towards the stabilisation of employee relations.

Human Capital Management initiatives are focussed to address the following key areas:

- Stabilization of the employee relations environment
- Enable optimal levels of employee engagement to enable empowerment and performance
- Efficient and effective workforce management to enhance efficiencies through an optimally structured and capacitated workforce (Effective staff numbers, enabling structures as well as well and appropriately developed employees)
- Enhanced governance and efficiencies (Including an automated human capital management system)
- Embedding a High Performance Culture through the inculcating the organisational values and effective management of the Post Office
- Development of the required competencies and skills to enable the organisation to meet current and future business needs
- Developing the management capability to ensure compliance and implementation of best practices in the HCM field

- Re-engineering and /or improving HR practices, processes and systems to ensure operational excellence in alignment with business requirements.

These focused initiatives in HCM must be underpinned by continuous programmes to empower managers with the required knowledge and skills to manage the organisations maintaining human capital to enable higher levels of productivity and performance within relevant industry frameworks and ensuring legislative compliance e.g. FAIS, AARTO, South Africa's labour law transformation, etc.

Stakeholder management and expectations will be considered and addressed through various Human Capital Management initiatives amongst others; The Government's annual programme of national imperatives provides an opportunity for HCM to contribute to particularly education and training; and employment creation through various programmes such as graduate programmes and learnerships. The increased commitment from government departments such as the DTPS, to increase e-skills and the uptake and usage of ICTs creates an opportunity for HCM to make a contribution through the company's CSI programme for e-literacy. Further to this the South African Post Office is committed to support initiative such as the National Development Plan (NDP) through various initiatives, such as: gainful employment for people who are differently abled, ensuring gender equity, especially at leadership level, building capacity through the youth of South Africa e.g. take a girl child to work initiatives and others.

The evolving Employee –Employer value proposition must balance the needs and aspirations of the different categories of the workforce through a more customised approach to the design of employee offerings such as remuneration and benefits, etc., balanced with organisation requirements for increased human capital efficiencies to ensure higher productivity and efficiencies.

The Communications strategy is included in *Appendix H* and the Environmental Strategy is included in *Appendix I.*

8.6. Strategic Review: Regulation

The purpose of the regulatory stream was to advance SAPO's position on how the regulatory regime should be reviewed to enable sustainability. One of the most contentious issues for SAPO with respect to the regulatory regime is the definition and funding model for universal service in a digital era with particular emphasis on the Universal Service Obligations (USO). The USO is underpinned by the Constitution of the Republic as every citizen's right to access basic postal services especially in the underserviced and rural areas.

In broad terms universal service means the rolling out of infrastructure and postal services whilst guaranteeing a postal point of presence within 3kms walking distance where citizens can access a basket of basic postal service or a group of services e.g. money transfer, parcel, and ordinary mail at a uniform cost irrespective of their geographical location. Access to a postal point is fundamental to participation in

economic and social activities. Postal services ensure access through the movement of articles for economic and social participation. Social participation in the South African context is linked to the fact that this is a developmental state with a lot of social imbalances and discrepancies and cost implications. The developmental objective is to ensure that every citizen is afforded access to and inclusion into economic activity.

Notwithstanding the above mentioned socio-economic development objectives of Government and its concurrent universal service obligation to South Africans, the challenge is that the increasing cost of rolling out the USO in its current form, that is roll-out through physical infrastructure in a low margin and declining mail volume environment has lowered SAPO's profitability for reinvestment in under serviced areas and to roll out future infrastructure expansion projects. In fact, the physical retail network is a loss leader in SAPO's business.

In the South African context this social mandate given to SAPO was funded through both a Reserved Market and a state subsidy until recently where it was decreased with the view to phase it out. The phasing out of the subsidy came at a time where the world was going digital and mail volumes were going down, bearing a financial strain on SAPO.
The South African fiscus is under pressure from competing and increasing developmental needs in a shrinking economy, consequently funding of the USO through the subsidy allocation is not sustainable.

The current legislative definition of the USO is now incongruous with the developments in the ICT industry - specifically liberalisation and convergence. The definition is a barrier to finding innovative solutions to the funding of the USO and identification of suitable execution agencies other than SAPO. The regulatory space therefore is not moving with the technological changes- within a digitised era.

Policy makers must recognise the converging nature of communications, SAPO's proposed role in ICT and the rapid congruence of the physical and digital mail domains to review the Postal Services Act including defining a sustainable mechanism for funding the USO. A number of sources must be explored including:

- Ring-fencing underserviced and uneconomic areas to subsidise SAPO's retail branches, to cover both capital investment and on-going operating losses via a direct government subsidy;
- SAPO as an ECNS and ECS licensee, can access the Universal Service Fund that was established through the Electronic Communications Act, under the custodianship of USAASA, provided that these licences are being utilised, and a contribution into the Fund is made. The Strategic Turnaround Plan proposes an offering that SAPO will launch to the market, using its ECS and ECNS licences. At that point SAPO will be eligible to contribute to the USF and also access funds for specific universal access projects.
- The recent Cabinet Decision on a 30% set aside from government business will become a key funding mechanism for SAPO's Universal Service Obligation upon implementation.

- The DTPS must co-ordinate the strengthening of the enforcement role of the Regulator to protect SAPO's reserved area.
- Initiatives to reduce the cost of the USO including the proposed retail branch remodelling must be supported.

Engagements have commenced with the Regulator and a task team has been formulated, consisting of participants from the DTPS, National Treasury, ICASA and SAPO, to move the regulatory matters forward.

9. Financial Projections

9.1. Group Financial Overview for the 2014/15 Financial Year

The South African Post Office (SAPO) continues to face challenges such as increasing digitisation, stronger competition and weaker economic conditions. These trends continue to drive structural declines in letter mail volume. The financial performance has further been impacted by the four-month industrial action resulting in direct loss of revenue of R358 million during this period. The industrial action has also resulted in loss of key customers.

The forecasted revenue of R5 292 million is projected to decline by R680 million (11%) in comparison to prior year due to lower revenue for mail (decline of 11%), e-business (decline of 20%) and logistics revenue (decline of 30%).

The main contributors to operating expenditure are staff (59%), transport (10%), and property expenditure (10%).

The operating expenditure of R6 483 million will increase by 3%:

- Higher staff costs - increase of 8% due to annual salary increase for the bargaining unit and conversion of casual staff to permanent staff.
- Material & services costs - increase of 4% due the increase in software costs, maintenance of mail sorting equipment and uniform costs.
- Interest costs - increase of 13% due to the interest paid on Postbank depositors funds which is off set by the higher interest income received for Postbank investments.
- Also contributing is the interest paid on the overdraft facility.

Cost containment initiatives implemented limited the operating expenditure increase to 3%; transport costs will reduce by 12% on prior year (due to lower national line haul and airline cost), property costs will reduce by 7% on prior year (due to lower maintenance cost) and travel costs will reduce by 37% on prior year.

The forecasted net loss for the 2014/2015 financial year is R1 155 million in comparison to a net loss of R359 million for the previous financial year and budget net loss of R249 million.

9.2. Group Financial Projections 2015/16 to 2017/18

As mail volumes decline and parcel volumes continue to grow internationally, the focus over the medium term is to transform the business operations by re-aligning and streamlining operations and expanding into new areas of growth through product diversification. The implementation of the revised business-operating model over medium term will be another key area of focus. The cost reduction initiatives for the primary cost drivers (staff, transport and property costs) will remain key focus areas over the medium term to drive business operations to acceptable net profit margin of 16%.

The realization of the Strategic Turnaround Plan initiatives reduces net loss to R102 million for the 2015/2016 financial year and significant improvement in the net profit position for the 2016/2017 and 2017/2018 financial years.

SAPO Group Income Statement

SA Post Office Group	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Revenue	**5 972 505**	**5 292 080**	**6 732 978**	**8 365 401**	**8 855 879**
Mail revenue	3 863 158	3 444 152	4 531 912	5 631 414	5 863 044
E-Business revenue	222 461	178 188	294 032	323 435	355 779
Logistics revenue	724 749	508 065	617 902	802 450	939 940
Postbank revenue	256 549	221 499	252 760	299 482	303 256
Retail revenue	389 421	392 593	469 095	734 050	788 296
Interest revenue	407 033	457 905	487 538	511 652	537 235
Sundry revenue	109 135	89 677	79 738	62 918	68 330
Expenses	**6 319 246**	**6 482 965**	**6 856 584**	**6 448 287**	**6 561 338**
Staff expenses	3 537 402	3 835 491	3 911 637	3 674 213	3 824 864
Transport expenses	713 413	628 547	629 205	538 853	553 390
Property expenses	697 017	651 261	684 049	592 036	608 785
Material and services	278 646	288 601	353 821	371 512	390 087
Interest paid	74 338	83 839	313 384	317 984	322 815
Depreciation	166 928	164 571	196 201	267 481	293 471
Other operating expenditure	851 502	830 655	768 288	686 208	567 927
Operating (loss) / profit	**(346 741)**	**(1 190 885)**	**(123 606)**	**1 917 114**	**2 294 541**
Non ops item	(162 198)	(49 486)	(50 942)	(50 271)	(49 294)
Subsidy	0	85 305	56 888	0	0
Taxation	150 062	0	15 207	(569 339)	(705 456)
Net (Loss) / Profit	**(358 877)**	**(1 155 065)**	**(102 453)**	**1 297 504**	**1 539 791**

Figure 16: SAPO Group income statement

SAPO Group Statement of Financial Position

The salient points of the SAPO Group Statement of Financial Position:

- The forecasted net loss position for the 2014/2015 financial year has reduced the retained earnings.
- The consequence of the business operations not generating positive cash flows resulted in the overdraft position being maintained.
- A 3 year term loan of R1 200 million will secured in the 2015/2016 financial year to fund the Strategic Turnaround Plan implementation.
- The Postbank short-term investments and cash surplus over depositor's funds is maintained over the medium term.

SA Post Office Group	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Non-Current Assets	**2,954,225**	**3,424,187**	**3,868,653**	**4,029,882**	**4,215,369**
Property, plant and equipment	1,367,609	1,345,194	1,407,268	1,444,260	1,511,769
Investments and other financial assets	653,485	1,010,904	1,074,379	1,144,202	1,221,007
Deferred tax	800,568	800,685	800,685	800,685	800,685
Other non current assets	132,563	267,404	586,320	640,734	681,909
Current Assets	**8,337,216**	**7,377,737**	**8,423,880**	**9,700,566**	**11,519,559**
Trade and other receivables	600,618	528,238	522,338	516,496	510,713
Cash & short term investments	7,659,095	6,775,979	7,831,699	9,117,719	10,945,812
Other current assets	77,503	73,520	69,844	66,351	63,034
	11,291,441	**10,801,924**	**12,292,533**	**13,730,448**	**15,734,928**
Equity	**2,438,296**	**1,319,398**	**1,492,944**	**2,790,448**	**4,330,240**
Share capital	200,940	200,940	200,940	200,940	200,940
Non-distributable reserves	1,313,470	1,329,637	1,605,637	1,605,637	1,605,637
Retained income	923,886	(211,179)	(313,633)	983,871	2,523,663
Non- current liabilities	**2,028,192**	**2,003,576**	**3,291,642**	**3,384,117**	**3,481,222**
Operating lease liability	76,491	84,052	88,255	92,669	97,304
Retirement benefit obligation	1,308,066	1,395,952	1,465,850	1,539,248	1,616,322
Deferred tax	244,287	244,287	244,287	244,287	244,287
Provisions	399,348	279,286	293,250	307,912	323,308
3 year term loan	0	0	1,200,000	1,200,000	1,200,000
Current liabilities	**6,824,953**	**7,478,950**	**7,507,947**	**7,555,883**	**7,923,467**
Subsidy unutilised	85,305	0	0	0	0
Trade and other payables	809,000	1,565,409	1,337,270	1,116,557	1,201,519
Retirement benefit obligation	131,243	146,755	154,183	161,988	170,188
Unearned revenue	324,631	318,138	311,776	305,540	299,429
Provisions	330,109	257,347	262,494	267,744	273,098
Deposits from the public	4,737,610	4,820,446	5,061,468	5,314,542	5,580,269
Funds collected on behalf of third parties	92,040	96,642	106,306	114,811	123,996
Bank overdraft	311,378	270,000	270,000	270,000	270,000
Other current liabilities	3,637	4,212	4,450	4,701	4,968
	11,291,441	**10,801,924**	**12,292,533**	**13,730,448**	**15,734,928**

Figure 17: SAPO Group statement of financial position

SAPO Group Statement of Cash Flows

The salient points of the SAPO Group Statement of Cash Flows:

- The business operations not generating positive cash flows resulting in serious cash flow challenges.
- A 3 year term loan of R1 200 million will be secured in the 2015/2016 financial year to fund the Strategic Turnaround Plan implementation.
- Allocation of R56,888 million (after payment of vat) subsidy allocation for the 2015/2016 financial year.
- Postbank depositors' funds is projected to growth annually by 5%.
- Capital expenditure for Postbank over the medium term amounts to R453 million.
- Capital expenditure of Post Office over the medium term amounts to R707 million which is depended on the availability of funding.

SA Post Office Group	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Net cash from operating activities	(333 969)	(639 019)	(188 016)	1 333 305	1 892 082
Net cash (to)/ from investing activities	306 551	(1 375 051)	(771 196)	(553 432)	(595 443)
Proceeds from subsidy	0	0	56 888	0	0
Movement in overdraft facility	311 378	(41 378)	0	0	0
3 year term loan	0	0	1 200 000	0	0
Movement in deposits from the public	245 399	82 836	241 022	253 073	265 727
Funds from National Treasury - Postbank	205 000		276 000	0	0
Total cash movement for the year	734 359	(1 972 612)	814 698	1 032 946	1 562 367
Cash at the beginning of the year	3 276 755	4 011 114	2 038 502	2 853 200	3 886 146
	4 011 114	**2 038 502**	**2 853 200**	**3 886 146**	**5 448 513**

Figure 18: SAPO Group statement of cash flows

9.3. SAPO Group excluding Postbank

Income Statement

The forecasted net loss for the 2014/2015 financial year was impacted by the industrial action and continuation of Mail volume decline of 5% annually. Revenue is forecasted to decline by 14% to R4 633 million due to decline in mail revenue by 11%, E-Business by 20% and Logistics by 30%. The investment reserves have been depleted resulting in no further interest revenue.

Operating expenditure of R6 528 million for the 2014/2015 financial year is forecasted to increase by 2% due to cost optimization initiatives implemented during the year. Transport and property costs is forecasted to decline by 12% and 7%; whilst staff costs will increase by 8% due to the annual inflationary increase and conversion of casual employees to permanent employees.

The realization of the Strategic Turnaround Plan initiatives reduces net loss to R256 million for the 2015/2016 financial year and significant improvement in the net profit position for the 2016/2017 and 2017/2018 financial years.

Postbank	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Non-Current Assets	**194,845**	**246,542**	**529,351**	**559,824**	**585,188**
Property, plant and equipment	18,421	18,184	18,007	17,892	17,841
Other non current assets	176,424	228,358	511,345	541,932	567,347
Current Assets	**6,529,744**	**6,770,081**	**7,131,061**	**7,468,513**	**7,828,439**
Trade and other receivables	123,045	104,831	106,927	109,066	111,247
Cash & short term investments	6,406,699	6,665,251	7,024,133	7,359,447	7,717,191
	6,724,589	**7,016,624**	**7,660,412**	**8,028,337**	**8,413,627**
Equity	**1,911,867**	**2,122,608**	**2,521,674**	**2,632,639**	**2,748,121**
Non-distributable reserves	314,057	314,057	590,057	590,057	590,057
Retained income	1,597,810	1,808,551	1,931,617	2,042,582	2,158,064
Non- current liabilities					
Current liabilities	**4,812,722**	**4,894,016**	**5,138,738**	**5,395,697**	**5,665,506**
Trade and other payables	23,215	19,177	20,136	21,143	22,200
Retirement benefit obligation	2,008	2,128	2,256	2,392	2,535
Intercompany loans	49,775	52,264	54,877	57,621	60,502
Deposits from the public	4,737,724	4,820,446	5,061,468	5,314,542	5,580,269
	6,724,589	**7,016,624**	**7,660,412**	**8,028,337**	**8,413,627**

Figure 19: SAPO Group (excluding Postbank) income statement

Statement of Financial Position

The salient points of the Statement of Financial Position:

- The net losses have reduced the retained earnings.
- The consequence of the business operations not generating positive cash flows resulted in the overdraft position being maintained.
- A 3-year term loan of R1 200 million will be secured in the 2015/2016 financial year to fund implementation of the Strategic Turnaround Plan.
- The Postbank short-term investments and cash surplus over depositor's funds is maintained over the medium term.

SA Post Office Group excluding Postbank	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Non-Current Assets	**2,897,164**	**3,315,429**	**3,477,085**	**3,607,842**	**3,767,965**
Property, plant and equipment	1,349,188	1,327,010	1,389,261	1,426,369	1,493,927
Investments and other financial assets	653,485	1,010,904	1,074,379	1,144,202	1,221,007
Deferred tax	800,568	800,685	800,685	800,685	800,685
Other non current assets	93,923	176,830	212,760	236,586	252,346
Current Assets	**1,807,472**	**607,655**	**1,292,820**	**2,232,053**	**3,691,120**
Trade and other receivables	477,573	423,408	415,410	407,430	399,465
Cash & short term investments	1,252,396	110,728	807,566	1,758,272	3,228,621
Other current assets	77,503	73,520	69,844	66,351	63,034
	4,704,636	**3,923,084**	**4,769,905**	**5,839,895**	**7,459,085**
Equity	**526,429**	**(803,210)**	**(1,028,730)**	**157,809**	**1,582,119**
Share capital	200,940	200,940	200,940	200,940	200,940
Non-distributable reserves	999,413	1,015,580	1,015,580	1,015,580	1,015,580
Retained income	(673,924)	(2,019,730)	(2,245,250)	(1,058,711)	365,599
Non- current liabilities	**2,028,192**	**2,003,576**	**3,291,642**	**3,384,117**	**3,481,222**
Operating lease liability	76,491	84,052	88,255	92,669	97,304
Retirement benefit obligation	1,308,066	1,395,952	1,465,850	1,539,248	1,616,322
Deferred tax	244,287	244,287	244,287	244,287	244,287
Provisions	399,348	279,286	293,250	307,912	323,308
3 year term loan	0	0	1,200,000	1,200,000	1,200,000
Current liabilities	**2,150,015**	**2,722,718**	**2,506,993**	**2,297,970**	**2,395,745**
Subsidy unutilised	85,305	0	0	0	0
Trade and other payables	785,785	1,546,232	1,317,134	1,095,415	1,179,319
Retirement benefit obligation	129,235	144,627	151,927	159,596	167,653
Unearned revenue	324,631	318,138	311,776	305,540	299,429
Provisions	330,109	257,347	262,494	267,744	273,098
Funds collected on behalf of third parties	92,040	96,642	106,306	114,811	123,996
Bank overdraft	311,378	270,000	270,000	270,000	270,000
Other current liabilities	91,646	89,732	87,357	84,865	82,250
	4,704,636	**3,923,084**	**4,769,905**	**5,839,895**	**7,459,085**

Figure 20: SAPO Group (excluding Postbank) statement of financial position

Statement of Cash Flows

The salient points of the Statement of Cash Flows:

- The business operations not generating positive cash flows resulted in serious cash flow challenges.
- Allocation of R56, 888 million (after payment of vat) subsidy allocation for the 2015/2016 financial year.
- A 3-year term loan of R1 200 million will be secured in the 2015/2016 financial year to fund the Strategic Turnaround Plan implementation.
- Capital expenditure of Post Office over the medium term amounts to R707 million which depends on the availability of funding.

SA Post Office Group excluding Postbank	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Net cash from operating activities	(433,942)	(867,389)	(311,737)	1,169,250	1,719,130
Net cash (to)/ from investing activities	(89,690)	(230,412)	(245,700)	(215,800)	(245,900)
Proceeds from subsidy	0	0	56,888	0	0
Movement in overdraft facility	311,378	(41,378)	0	0	0
3 year term loan	0	0	1,200,000	0	0
Movement in intercompany trading account	200,466	(2,489)	(2,613)	(2,744)	(2,881)
Total cash movement for the year	(11,789)	(1,141,668)	696,838	950,706	1,470,349
Cash at the beginning of the year	1,264,185	1,252,396	110,728	807,566	1,758,272
	1,252,396	**110,728**	**807,566**	**1,758,272**	**3,228,621**

Figure 21: SAPO Group (excluding Postbank) statement of cash flows

9.4. Postbank

Income Statement

The forecasted net profit for the 2014/2015 financial year will increase by 52% to R211 million due to a 23% increase in interest income; whilst the increase of 22% increase in staff costs is due to the filling of critical positions and increase in interest paid by 59%.

The reduced net profit of the medium terms is due to the increase in staff costs (continuation of populating the structure), increase in marketing costs, material services (replacement of Postbank cards), depreciation and marketing costs.

Postbank	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Revenue	**612 159**	**658 624**	**739 083**	**810 121**	**851 256**
Postbank revenue	256 549	221 499	252 760	299 482	315 085
Interest revenue	354 087	436 573	486 306	510 621	536 152
Sundry revenue	1 523	553	17	18	19
Expenses	**114 419**	**169 306**	**328 751**	**397 527**	**419 064**
Staff expenses	50 644	61 917	111 604	117 184	123 043
Transport expenses	668	471	3 110	3 265	3 429
Property expenses	4 994	6 512	6 424	6 746	7 083
Material and services	4 418	3 794	35 524	37 300	39 165
Interest paid	35 588	56 571	79 056	83 009	87 160
Depreciation	4 379	3 446	1 665	54 086	58 451
Other operating expenditure	13 727	36 595	91 369	95 937	100 734
Operating (loss) / profit	**497 739**	**489 318**	**410 332**	**412 594**	**432 192**
Non ops item	(359 289)	(278 577)	(287 266)	(301 629)	(316 710)
Subsidy	0	0	0	0	0
Taxation	0	0	0	0	0
Net (Loss) / Profit	**138 450**	**210 741**	**123 067**	**110 965**	**115 481**

Figure 22: Postbank income statement

Statement of Financial Position

The salient points of the Statement of Financial Position:

- The Postbank balance continues to improve due to the growth in the Postbank depositors and short term investments.
- The depositor's funds is projected to growth by 5% annually.
- The short-term investment and cash surplus over depositors' funds is maintained in the medium term.
- The increase in non-current assets is due capital expenditure of R453 million over the medium term.

Postbank	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Non-Current Assets	**194 845**	**246 542**	**529 351**	**559 824**	**585 188**
Property, plant and equipment	18 421	18 184	18 007	17 892	17 841
Other non current assets	176 424	228 358	511 345	541 932	567 347
Current Assets	**6 529 744**	**6 770 081**	**7 131 061**	**7 468 513**	**7 828 439**
Trade and other receivables	123 045	104 831	106 927	109 066	111 247
Cash & short term investments	6 406 699	6 665 251	7 024 133	7 359 447	7 717 191
	6 724 589	**7 016 624**	**7 660 412**	**8 028 337**	**8 413 627**
Equity & Liabilities	**1 911 867**	**2 122 608**	**2 521 674**	**2 632 639**	**2 748 121**
Non-distributable reserves	314 057	314 057	590 057	590 057	590 057
Retained income	1 597 810	1 808 551	1 931 617	2 042 582	2 158 064
Non- current liabilities					
Current liabilities	**4 812 722**	**4 894 016**	**5 138 738**	**5 395 697**	**5 665 506**
Trade and other payables	23 215	19 177	20 136	21 143	22 200
Retirement benefit obligation	2 008	2 128	2 256	2 392	2 535
Intercompany loans	49 775	52 264	54 877	57 621	60 502
Deposits from the public	4 737 724	4 820 446	5 061 468	5 314 542	5 580 269
	6 724 589	**7 016 624**	**7 660 412**	**8 028 337**	**8 413 627**

Figure 23: Postbank Statement of financial position

Statement of Cash Flows

The salient points of the Statement of Cash Flows:

- The business operations are generating positive cash flows.
- National Treasury funding of R252 million allocated for the 2014/2015 financial year has been rolled over to the 2015/2016 financial year.
- Postbank depositors' funds is projected to growth annually by 5%.
- Capital expenditure for Postbank over the medium term amounts to R453 million.

Postbank	Actuals 2013/2014 R'000	Forecast 2014/2015 R'000	Budget 2015/2016 R'000	Budget 2016/2017 R'000	Budget 2017/2018 R'000
Net cash from operating activities	99 973	228 484	123 721	164 055	172 952
Net cash (to)/ from investing activities	396 241	(1 144 639)	(525 496)	(337 632)	(349 543)
Movement in intercompany loans	(200 466)	2 489	2 613	2 744	2 881
Movement in deposits from the public	245 399	82 722	241 022	253 073	265 727
Funds from National Treasury - Postbank	205 000	0	276 000	0	0
Total cash movement for the year	746 148	(830 944)	117 860	82 240	92 017
Cash at the beginning of the year	2 012 570	2 758 718	1 927 774	2 045 634	2 127 874
	2 758 718	**1 927 774**	**2 045 634**	**2 127 874**	**2 219 892**

Figure 24: Postbank Statement of cash flows

9.5. Capital Investment

The plan capital requirements for the MTEF period amounts to R1 160 million and includes an amount of R453 million for Postbank corporatisation. The capital program of R707 million for the Post Office excluding Postbank will have to be reprioritised during the year. The capital projects that improves business efficiency or generate positive cash flows will have to be accelerated.

10. Borrowings and Funding Plan

10.1. Borrowings

SAPO has an approved overdraft facility of R270 million and National Treasury has issued a guarantee for the overdraft facility.

A finance bridging facility of R200 million for a period three months has been approved during April 2015. The bridging facility has been secured against the R1,67 billion National Treasury guarantee.

SAPO is in the process of securing proposals for borrowings for an amount of R1,2 billion. The borrowing proposals will be submitted to the Department of Telecommunications and Postal Services for consideration and the requisite approvals.

10.2. Funding Plan

The SA Post Office has approached the market to raise debt funding in the amount R1.2 billion to support the implementation of the Strategic Turnaround Plan and address delayed creditor settlements.

10.3. Significant transactions

The implementation of the new business model will require a re-organization of the subsidiaries (Courier Freight Group and Docex). This will require the necessary Ministerial approvals by the Department of Telecommunications and Postal Services and Department of Finance.

10.4. Dividend Policy

The company's dividend policy is to consider an interim and a final dividend in respect of each financial year. Depending on the perceived need to retain funds for expansion or operating purposes, the board of directors may pass a resolution for the payment of dividends, subject to the provisions of paragraph 22.1 of the SA Post Office Memorandum of Incorporation (MOI).

11. Corporate Governance

11.1. Appointment of Administrator

On 7 November 2014, all the non-executive members of the Board resigned and all of its committees dissolved. Dr Simo Lushaba was appointed as administrator in terms of Section 25 of the South African Post Office Act No 22 of 2011 (as amended). The Administrator is charged with the responsibility of bringing stability within SAPO and to finalise the Strategic Turnaround Plan (STP) to improve the financial performance.

The process to appoint a new Board of Directors has been initiated by the Department of Telecommunications and Postal Services.

11.2. SAPO Board of Directors

The function of board and its committees is to effect good corporate governance through oversight, directing, controlling and monitoring SAPO to achieve its Strategic Corporate Plan and fulfil its mandate. It is responsible for overseeing, on behalf of the Shareholder, the performance of the South African Post Office against its corporate plan. In carrying out its oversight role, the Board holds management accountable for business performance as well as achievement of the South African Post Office's strategic objectives.

The function of board committees is generally to allow more attention to be given to certain oversight matters. Committees are not intended to replace management nor for the board to abdicate its responsibilities. They exist rather to facilitate a more efficient operation of the board. The Board and its Committees can only work if supported by management who are adequately skilled, delegated with the appropriate authority and responsibility and trusted to deliver on the Board requests (refer *Appendix G* for the detailed Materiality Framework). This will allow the Board to focus on its primary function, which is to offer strategic direction, to monitor and to take timeous corrective action.

The Minister of Telecommunications and Postal Services in accordance with section 11 of the SA Post Office Act appoints the non-executive directors of the Board. The SA Post Office Board has executive directors, appointed by Cabinet on the recommendation of the Minister of Telecommunications and Postal Services.

The Board has delegated certain functions without abdicating its own responsibilities to the following committees:

- Audit Committee,
- Risk Management Committee,
- Postbank Committee,
- Human Resources, Remuneration and Performance Management Committee and
- Social, Ethics and Transformation Committee

11.3. Committees of the board

Audit committee

The SAPO Audit committee was established in terms of Companies Act No. 71 of 2008 (as amended) and the Public Finance Management Act as amended and relevant Treasury Regulations and in accordance with section 19.1.1.3 of the SAPO MOI. As a major public entity in terms of Schedule 2 of the PFMA and the Company's Act, SAPO is required to, establish an Audit Committee. The Audit Committee is responsible for, evaluating the Group's financial statements which will be provided to Parliament and other stakeholders, the systems of internal control which management and the Board have established, the audit processes, the risk management framework and assesses the Group's financial performance against its Corporate Plan. Representatives of external and internal audit have direct access to the Chairperson of the Committee. The Audit Committee meets at least four times a year.

Risk Management Committee

The SAPO Risk Management Committee was established in terms of section 51 (1) (a) (i) of the Public Finance Management Act No. 1 of 1999 as amended. The committee monitors, evaluates and advises the Board on the adequacy of risk management processes and strategies within the Group and recommends the approval of risk policies to the Board. It further reviews significant risks facing the company and reports these to the Board. The scope of the Risk Management Committee extends across the Company to include the subsidiary companies whose products and processes expose the Group to Credit Risk, Liquidity Risk, Market Risk, Balance Sheet Risk and Operational Risk within the legislative and regulatory framework that governs the SAPO Group. Representatives of Group Risk Management, Internal Audit, the Security and Investigations division and all core Business Units attend all meetings of the Committee. The committee meets four times a year.

Postbank Committee

The Postbank Committee was established with an oversight role over the Postbank to ensure that the Postbank operates within all the applicable legislation, monitors the performance of the investment portfolio of depositors' funds as well as ensuring that these funds are invested appropriately. It also recommends the approval of ledger fees and bank charges to the Board. The committee meets four times a year. The Postbank Act which came into operation in late 2010, now provides for the establishment of a Board of Directors for the Postbank when it starts operating as a licensed bank.

Human Resources, Remuneration and Performance Management Committee

The Human Resources Remuneration and Performance Management Committee was established in accordance with the Company's Memorandum of Incorporation. The committee reviews all aspects relating to human resources and remuneration within the Group. It also monitors compliance with relevant labour and employment legislative matters and recommends approval of significant human resources related policies to the Board. This committee's mandate includes remuneration and performance management issues. The committee meets at least four times a year.

Social, Ethics and Transformation Committee

The committee was established to monitor the Group's socio-economic development and transformation activities, its adherence to generally accepted ethics standards, and to ensure it is seen as a good corporate citizen through its strategies to combat corruption, protect the environment, and labour and employment practices. The Group CEO and key representatives from management attend meetings of the committee. The committee meets at least four times a year.

IT Governance Committee

The IT committee is responsible for overseeing on behalf of the Board, the execution of IT governance across the Group. The committee reports to the Board and is responsible for the governance of IT across the Group, which includes monitoring and reviewing IT policies and practices to ensure that the required IT support is provided and that IT is positioned as a key enabler for business. The Group CEO, the CIO and relevant representatives from management attend meetings of the committee. The committee meets at least four times a year.

11.4. Internal Control

Internal control is a framework designed to provide reasonable assurance regarding the achievement of organisational objectives. The system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's strategic objectives will be achieved. The Board has the overall responsibility for internal control.

The executive management, as mandated by the Board, has established an organisation-wide system of internal control to manage significant risks. There is on-going monitoring and reporting processes by Business Unit heads to provide feedback on the status of internal controls.

The Board also receives assurance from the Audit Committee, which derives some of the information from regular internal and external audit reports.

11.5. Internal Audit and Assurance

Internal control is a framework designed to provide reasonable assurance regarding the achievement of organizational objectives. The system of internal control, which is embedded in all key operations, provides reasonable rather than absolute assurance that the Group's strategic objectives will be achieved. The Board has the overall responsibility for internal control.

Management prepares the company's financial statements and the auditors examine the underlying accounting assumptions, principles and procedures management has adopted, with Board approval. To make the comparisons required by an audit, the auditor must examine not only the financial statements themselves by the records on which they have been based and the company's system of internal controls, including internal audit.

The executive management, as mandated by the Board, has established an organisation-wide system of internal control to manage significant risks. There is on-going monitoring and reporting processes by Business Unit heads to provide feedback on the status of internal controls.

The Board also receives assurance from the Audit Committee, which derives some of the information from regular internal and external audit reports.

The detailed Internal Audit Strategy are included in *Appendix F.*

11.6. Risk Management Strategy

The Board acknowledges the legislative requirements which define and direct the risk management responsibilities of the Board, the executive management, management and employees as pertained in the PFMA and King III.

The Group's risk management methodology has been formalised and aligned to Par.14 of the National Treasury Practice Note 4 of 2009/2010 issued in terms of Section 52 of the Public Finance Management Act as well that of King III principles. The Board through the Risk Management Policy and Framework has duly accepted accountability for risk management across the Group and has additionally established risk governance structures e.g. Board Committees and other management structures to monitor risk and compliance levels within the organisation.

The Risk Management Policy and Framework is aimed at ensuring the deployment of a common and systematic risk management-operating standard in accordance with international best practices across all operational activities within the South African Post Office. This will ensure the appropriate management of risks, enhance sound corporate governance and to effect regulatory compliance, strategic management, leadership efficiency and performance.

The Board requires management to reinforce effective control measures, continuous improvement strategies and compliance. All Group Executives, Business/Support unit heads and management at all levels have been duly mandated and are required to develop, implement and maintain risk management plans for their respective areas of responsibility and accountability with regards to:

- Achieving an optimal and cost effective balance between risk exposure and risk mitigation;
- Monitoring and maintaining sound business operating environments in order to ensure that these remain within the operational risk appetite;
- Enhancing management decisions with regards to newly identified risks; and
- Reinforcing effective control measures, continuous improvement strategies and compliance.

As a State Owned Company, the Group also has a risk management plan, which is aligned to King III and the ISO 31000 requirements and is inter alia directed at:

- The systematic identification and documenting of key risks that may impact negatively on the ability to achieve the strategic objectives;
- The identification of relevant control failures;

- The identification and implementation of risk mitigation strategies;
- Provide timely information to all relevant stakeholders in order to enhance the decision making process;
- Safeguarding the Group's resources against loss due to fraud, misuse, damage and fruitless and wasteful expenditure;
- Safeguarding the availability, confidentiality and integrity of information systems;
- Ensuring conformance to with applicable legislation, regulations, policies, procedures and operating standards;
- Enhancing policies and procedures for the management of operational risk, financial risk and treasury operations; and
- Ensuring compliance to the Group's Code of Ethics.

The Risk Register and mitigation plan is included in *Appendix E.*

11.7. Fraud Prevention Strategy

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

The detailed Fraud Prevention Strategy is included in *Appendix D.*

11.8. Governance Framework

SA Post Office Group Shareholding Structure

The SA Post Office operates in terms of a Group holding structure, with the SA Post Office as the Group holding company, with two operating subsidiaries and several property companies. The subsidiary companies have their own boards comprising SA Post Office non-executive directors, executive directors and the holding company executives who are appointed in a non-executive capacity to the subsidiary boards. The managing director of the subsidiary company acts as the executive director of the subsidiary.

The relationship between the subsidiary companies and the SA Post Office, as the shareholder, is governed by the individual shareholders' compacts between the holding company and the subsidiary. The shareholder compact, as well as spelling out the roles and responsibilities of the parties, outlines the performance targets to be met by the subsidiary in terms of the overall annual strategic plan for the Group.

The Postbank Act has allowed for the creation of the Postbank Company (SOC) Limited as part of the process of corporatizing Postbank. The processes to register Postbank as a fully-fledged commercial bank with a banking license and as a SOC are currently underway and will result in changes in the current Group structure.

The Group structure is illustrated below.

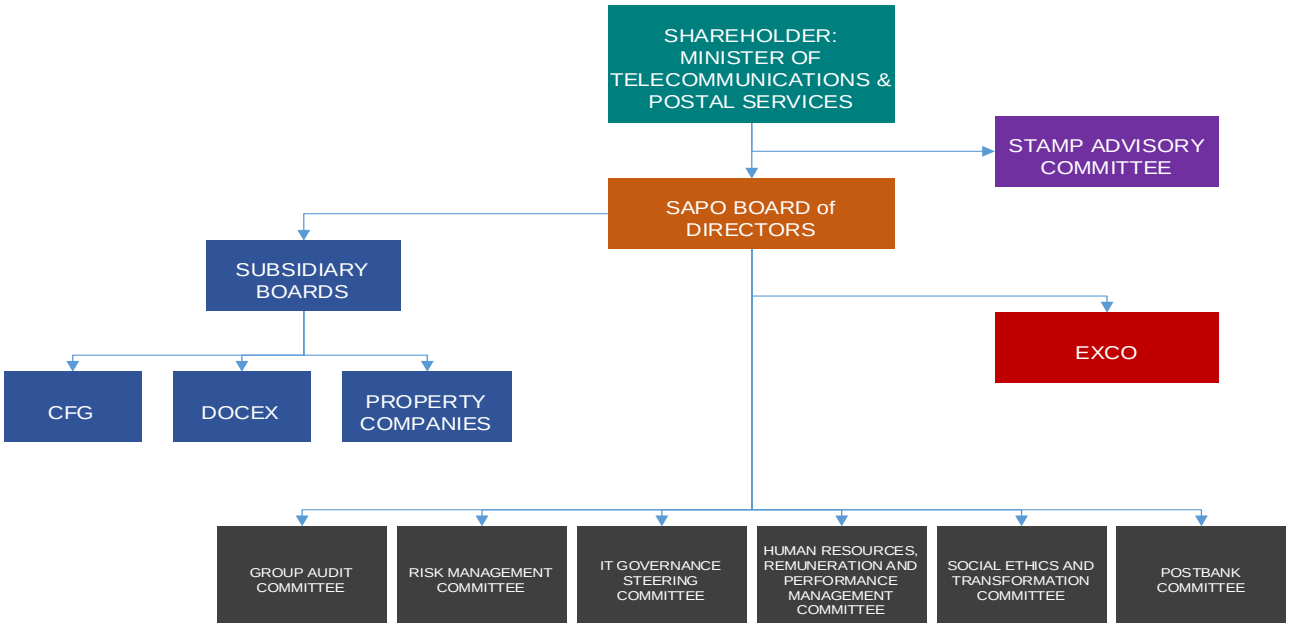

Figure 25: SAPO Group structure

PART III:

Strategic Outcomes

Post Office

12. Performance Measures

The key performance measures sets out targets to facilitate the realisation of SAPO goals and objectives as outlined in the Strategic Plan. The achievement of the key performance measures will be closely monitored by the Executive management team and reported quarterly to the SAPO Board of Directors and other relevant stakeholders. SAPO aims its hold itself accountable for the delivery and achievement of the key performance measures. The key performance measures will be cascade to individual performance management levels.

Post Office
We deliver, whatever it takes.

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
Deliver sustainable developmental obligations funded from reserved market	Financial performance of the reserved market	Revenue	Develop the financial model	Implement model	Implement model	Develop the financial model	Develop the financial model	Develop the financial model	Develop the financial model
		Cost							
		Net income							
	Financial requirements of the reserved market	Capex							
		Opex							
		Subsidy							
Create a commercially viable business from the unreserved markets	Competitive and Profitable	Market share	Conduct a market analysis	Implement strategies	Implement strategies	N/A	N/A	N/A	Conduct a market analysis

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
Achieve operational efficiency and effectiveness		Profitability	Conduct a market analysis	Implement strategies	Implement strategies	N/A	N/A	N/A	Conduct a market analysis
	Service standards	Mail delivery standards	92%	92%	92%	92%	92%	92%	92%
		Retail queue waiting times	7 minutes	7 minutes	7 minutes	7 minutes	7 minutes	7 minutes	7 minutes
	Productivity	People (Mail processing)	1800 standard letters per hour per person	1800 standard letters per hour per person	1800 standard letters per hour per person	1800 standard letters per hour per person	1800 standard letters per hour per person	1800 standard letters per hour per person	1800 standard letters per hour per person
		Transport	Develop and implement efficiency ratios	Implement efficiency ratios	Implement efficiency ratios	Develop efficiency ratios	Implement efficiency ratios	Implement efficiency ratios	Implement efficiency ratios
		Property (Retail revenue per square metre)	R791 per square metre	R910 per square metre	R1046 per square metre	R688 per square metre	R713 per square metre	R738 per square metre	R791 per square metre

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
Achieve Leadership stability that ensures continuity and accountability	Vacancies	% staff turnover	10%	5%	5%	3%	5%	7%	10%
		Time to fill vacancies	90 days	90 days	90 days	90 days	90 days	90 days	90 days
	Performance management	Contracts in place	100%	100%	100%	100%	100%	100%	100%
		% of organisational scorecard target achieved	90%	95%	95%	90%	90%	90%	90%
Achieve labour stability and improve labour relations,	Effective Labour forums	Lost hours due to industrial action	0	0	0	0	0	0	0
		Compliance to labour agreements	100%	100%	100%	100%	100%	100%	100%

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
		Time to conclude agreements	90 days	60 days	45 days	90 days	90 days	90 days	90 days
Achieve financial sustainability	Profitability	Product	Develop and implement model	Implement	Implement	Develop	Develop	Implement	Develop and implement model
		Customer segment							
		Channels							
		Revenue	R6.733bn	R8.365bn	R8.856	To be aligned	To be aligned	To be aligned	R6.733bn
		Expenses	R6.857bn	R6.448bn	R6.561bn	To be aligned	To be aligned	To be aligned	R6.857bn

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
		Net loss / net profit	Net loss (R102m)	Net Profit R1.298bn	Net Profit R1.540bn	To be aligned			Net loss (R102m)
		Debtors days	Debtors days outstanding of 20 days	Debtors days outstanding of 15 days	Debtors days outstanding of 15 days	Debtors days outstanding of 45 days	Debtors days outstanding of 30 days	Debtors days outstanding of 25 days	Debtors days outstanding of 20 days
		Creditors days	Creditors days outstanding of 45 days	Creditors days outstanding of 30 days	Creditors days outstanding of 30 days	Creditors days outstanding of 90 days	Creditors days outstanding of 75 days	Creditors days outstanding of 60 days	Creditors days outstanding of 45 days
		Stock days	Implement efficiency ratios	Implement efficiency ratios	Implement efficiency ratios	Develop efficiency ratios	Implement efficiency ratios	Implement efficiency ratios	Implement efficiency ratios
		Stock turnover	Implement efficiency ratios	Implement efficiency ratios	Implement efficiency ratios	Develop efficiency ratios	Implement efficiency ratios	Implement efficiency ratios	Implement efficiency ratios
	Balance sheet SAPO Group excluding Postbank)	Solvency	<1	Total assets to exceed total liabilities	Total assets to exceed total liabilities	<1	<1	<1	<1

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
		Liquidity Current assets / current liabilities	1:1	1:1	1:1	<1	<1	<1	1:1
		Gearing ratios (Debt /equity)	-143%	932%	93%	N/A	N/A	N/A	-143%

Strategic Goal 2: Create a customer centric organisation to restore customer confidence									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
Improve the customer experience to achieve customer loyalty	Customers	Customer satisfaction	Customer satisfaction index	40%	50%	60%	N/A	N/A	40%

Strategic Goal 3: Position SAPO as a key service partner that delivers government services									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
Grow to levels of 50 - 55% of SAPO revenue per annum	Government business	Implementation of cabinet memo	30% of Government business	40% of Government business	55% of Government business	10% of Government business	20% of Government business	25% of Government business	30% of Government business
		Number of accounts	Develop and implement	Implement	Implement	Develop and implement	Implement	Implement	Implement
		Revenue from Government	Develop and implement	Implement	Implement	Develop and implement	Implement	Implement	Implement

Strategic Goal 4: Corporatisation of Postbank and increase access to financial services,									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
Facilitate the corporatization of Postbank	Bank registration	Obtain section 16 approval to register a bank	50%	75%	100%	10%	20%	30%	50%
Increase access of financial services to the unbanked	Provide banking services	Growth the Postbank depositors	5%	5%	5%	5%	5%	5%	5%

Strategic Goal 5: Ensure good corporate citizenship and corporate governance									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
Ethical Leadership	Improving the ethical environment of the organisation	Effective ethics office	Establish the ethics office	Effective monitoring and reporting	Effective monitoring and reporting	N/A	N/A	N/A	Establish the ethics office
Sustainability targets	Environmental sustainability	Reduce electricity consumption	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year
		Reduce total carbon emissions	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year
Legal compliance	Adherence to PFMA	Elimination of Irregular expenditure	Reduction of 100%	Reduction of 100%	Reduction of 100%	Reduction of 50%	Reduction of 75%	Reduction of 100%	Reduction of 100%
		Minimise fruitless and wasteful expenditure	Reduction of 100%	Reduction of 100%	Reduction of 100%	Reduction of 50%	Reduction of 75%	Reduction of 100%	Reduction of 100%
Effective risk and governance	Risk management	Implementation of the Risk Mitigation Plan to support the STP	100%	100%	100%	100%	100%	100%	100%

Strategic Goal 5: Ensure good corporate citizenship and corporate governance									
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2016/17 Annual Target	2017/18 Annual Target	2015/16 Quarter 1	2015/16 Quarter 2	2015/16 Quarter 3	2015/16 Quarter 4
	Internal control environment	Operational audit issues to be resolved in a timely and effective manner to maintain a sustainable control and governance framework	zero operational audit issues outstanding longer than 90 days	zero operational audit issues outstanding longer than 60 days	zero operational audit issues outstanding longer than 30 days	0 > 120 days	0 > 100 days	0 > 90 days	0 > 90 days
Effective stakeholder management	Stakeholder relations	Stakeholder satisfaction survey	Develop and Implement survey	80%	90%	N/A	N/A	N/A	Develop and Implement survey
		Timely submissions of statutory reporting requirements	100%	100%	100%	100%	100%	100%	100%

PART IV:

Appendices

Post Office

13. A – Strategic Turnaround Plan

Attached in a separate document

14. B – List of Products and Services

Product Lines	Product and service
Letter Mail	Bulk mail (Ordinary letter mail statements; Invoices; accounts) Direct Mail (addressed and unaddressed) Registered letters Postage included envelopes Distribution of parcels (e.g. research docs; valuable items such as credit cards and legal docs) Box & Private Bag rentals Promotional Mail & Advertising Mail Product: Magazine Mail Product: Infomail Secure Mail Safe Mail Postage-Included Envelopes Hybrid Mail Mailroom services Messenger Service Franking Postage stamps & philately items Commemorative stamps and envelopes e-Registered Mail Database Management List provision services Geo-mapping services
Banking	Savings accounts (Smart Save, Bonus Save) Group savings accounts (Bakgotsi) Debit cards (Flexi, Pension Flexi, Mzansi) Investment accounts (Term Save, Term Save Plus)
Non-banking Financial Services	Pay a bill (payments to Corporates) Prepaid airtime Lottery Money transfers Government bonds Corporate share issues
Business solutions	Mobile Based Solutions – Bulk & Premium Rated SMS Notifications & USSD Applications Internet Based Solutions – Electronic Bill Presentment & Payments Solution. Web Based Online Payments Solutions Personal Certificate Class 1, 2,3 and 4 SSL Certificate Certificate Authorities Registration Authorities Software Customisation PKI Training Secure Fax Fax and Photocopier
Parcels	Overnight Express to doors Overnight Express to counters Counter to Door Door to Counter Economy Service

Product Lines	Product and service
	Home Deliveries Brokerage – drive-aways Same day delivery Saturday delivery After hour service Customised solutions (safe-hands, red bin, closed loop) International service Access to the back offices of the courts Door to Door Point to Point International Brokerage Semi Consolidated and Bulk Freight International Clearing and Forwarding Customised solutions – closed loop, safe hands Warehousing Standard 3 ton container Shelved Container Ventilated/Insulated Container Half Container VALUE ADDED SERVICE (SURCHARGE) CG Guaranteed Service – applicable to all above De-stuffing Service – applicable to all Storage Cross Border Brokerage

15. C – List of related legislation

No	Legislation impact SAPO
1	Administrative Adjudication of Road Traffic Offences Act, No. 46 of 1998
2	Banks Act, No. 94 of 1990
3	Basic Conditions of Employment Act,75 of 1997
4	Broad Based Black Economic Empowerment Act, No. 53 of 2003
5	Compensation for Occupational Injuries and Diseases Act, No. 130 of 1993
6	Customs and Excise Act, No. 91 of 1964
7	Criminal Procedure Act, 51 of 1977
8	Consumer Protection Act, No. 68 of 2008
9	Drugs and Drug Trafficking Act, No. 140 of 1992
10	Electronic Communications Act ,36 of 2005
11	Electronic Communications and Transactions Act, No. 25 of 2002
12	Employment Equity Act, No. 55 of 1998
13	Financial Advisory and Intermediary Services Act, No. 37 of 2002
14	Financial Intelligence Centre Act, No. 38 of 2001
15	Income Tax Act, No. 28 of 1997
16	Labour Relations Act, No. 66 of 1995
17	National Environmental Management - Air Quality Act, No. 39 of 2004
18	National Energy Act, No. 34 2008
19	National Environmental Management - Waste Act 59 of 2008
20	National Payment System Act, No. 78 of 1998
21	Occupational Health and Safety Act, No. 85 of 1993
22	Preferential Procurement Policy Framework Act, No. 5 of 2000
23	Prevention and Combating of Corrupt Activities Act, No. 12 of 2004
24	Prevention of Organised Crime Act, No. 121 of 1998
25	Promotion of Access to Information Act, No. 2 of 2000 - Public Bodies
26	Protected Disclosures Act, No. 26 of 2000
27	Post Office Licence (ICASA)
28	Protection of Constitutional Democracy Against Terrorist and Related Activities Act, No. 33 of 2004
29	Regulation of Interception of Communications and Provision of Communication-related information Act, No. 70 of 2002
30	Short-Term Insurance Act, No. 53 of 1998
31	Skills Development Act, No. 97 of 1998
32	Skills Development Levies Act, No. 9 of 1999

33	Trade Marks Act, No. 194 of 1993
34	Trade Metrology Act, No. 77 of 1973
35	Unemployment Insurance Contributions Act, No. 4 of 2002
36	Value-Added Tax Act, No. 89 of 1991
37	Long-Term Insurance Act, No. 52 of 1998
38	Copyright Act, No. 98 of 1978
39	Constitution of the Republic of South Africa, No. 108 of 1996
40	South African Post Office SOC Limited Amendment Bill
41	Protection of Personal Information Act

16. D – Fraud Prevention Strategy

16.1. Group Crime Prevention Strategy and Plan

Apart from the direct losses stemming from fraud, theft, mail violation and corruption, acts of crime and dishonesty a secondary effect and equally damaging, is the impact on the Company's image and brand.

Individuals and syndicate elements continually vary their initiatives and modus operandi in targeting specific products/assets as well as reengineering their ways and means to overcome operational and financial processes, in fulfilling their criminal objectives.

The single key factor that most negatively impacts upon security and subsequent financial loss is the lack of compliance by employees to the instructions, procedures and systems that govern business operations. This is compounded by the failure of supervisory staff and operational management, to effectively apply and ensure the relevant control measures.

The ability of the South African Post Office to maintain a competitive advantage within an environment of direct competition, ensuring customer trust and service reliability is positively influenced by the Company's ability to effectively detect and prevent incidents of criminality, financial misconduct and dishonesty. It remains an ever challenging objective to identify those areas where human behaviour in conjunction with system and product weaknesses create the opportunities and environment for irregularities to be committed, which contribute to financial loss.

Accountability and control which will enable the prevention of criminality, financial misconduct and dishonesty, is vested within management and all its employees, with the Security and Investigation Services fulfilling an internal preventative and investigative responsibility.

The sustainable detection and prevention of incidents of criminality, financial misconduct and dishonesty can only be achieved through a multi-faceted approach that includes the following:-

- Adopting a preventative style of investigating irregularities with an emphasis upon cause analysis
- The development and deployment of strategic crime prevention strategies
- Directing the integration of physical and electronic security into Business Unit planning
- Overt and covert crime intelligence collection techniques
- The implementation of an effective crime information management system
- Establishment of internal and external partnerships

The investigation and prevention of acts of criminality within the Post Office and its subsidiaries are focussed upon the following:-

- **Postal Crime and Offences** relating to:-
  - Theft, secretion, wrongful diversion and a unauthorised disposal of mailbags and postal articles
  - Violation, damage, destruction, unauthorised opening of mail and postal articles

- **Postal Revenue Offences** relating to:-
  - Forgery of postage stamps and money orders
  - Re-usage of postage stamps with the intent to defraud
  - Theft, misappropriation and embezzlement of money and postage stamps
  - Bulkmail and franking machine fraud
- **Commercial Offences** relating to:-
  - Fraud with the inclusion of postal order -, cheques -, credit card -, savings bank and
  - Pension fraud
  - Corruption and collusive tendering for contracts
  - Unauthorised expenditure of postal money
  - Theft of equipment and post office assets
  - Cyber crime
- **Crimes Against Postal Property and Identity** relating to:-
  - Armed robberies at post office premises
  - Hi-jacking of postal vehicles
  - Housebreaking (burglary)
  - Malicious damage to property

- **Crime through the Mail, Postal Financial Systems and IT Infrastructure** relating to:-
  - Illicit prohibited substance trafficking
  - West African Fraud Schemes (Nigerian “419” scams)
  - Dangerous Goods and Mail Bombs
  - Child pornography
  - Money laundering
  - Mail fraud
  - Cyber crime

National Fraud Prevention Plan:-

The Group’s Fraud Prevention Plan (NFPP) is aligned in accordance to Par.14 of the National Treasury Practice Note 4 of 2009/2010 issued in terms of Section 52 of the Public Finance Management Act as well that of King III principles.

The National Fraud Prevention Plan (NFPP) of the South African Post Office is not only limited to compliance to the Public Finance Management Act (PFMA) and the Treasury Regulation 29.1.1. The Company considers the Plan as imperative to the business, but is also aware of prevalent fraud and corruption risks that its businesses are exposed to.

In doing business, the Post Office expects all its employees and organizations that are in any way associated with it to be honest and fair in their dealings with and on behalf of the organization, its clients and customers.

The main objective of the NFPP is to create a culture which is intolerant of fraud and corruption, by regulating an ethical conduct of its personnel, clients and customers. The Plan seeks to implement response mechanisms in all its businesses to deter any form of fraudulent or corrupt activities. It also places responsibility on the personnel of the S.A. Post Office to conduct their business in a manner that is conscious of the values of the organization.

The effectiveness of the FPP would be ensured by an all-round approach to fraud and corruption, covering elements of fraud prevention, detection, response to fraud and raising personnel awareness on fraudulent and corrupt activities.

There will be a concerted drive to develop and foster a climate within the South African Post Office where all employees strive for the ultimate eradication of fraud, corruption and theft as well as re-enforcing existing regulations aimed at preventing, reacting to and reducing the impact of fraud, corruption, theft, and misadministration where these dishonest acts subsist.

The Group's Crime Prevention Strategy will continue to focus upon the physical and electronic security of premises and business operations at post office outlets, agencies and pension pay-out points, as well as the current focus on products, systems and processes which are targeted by criminal and dishonest elements.

The deployment of the Crime Prevention Strategy will be Business Unit specific to reinforce the current strategies relating to:

- The prevention of fraud, theft and corruption across all Business Units
- The Mail Violation Prevention Strategy
- Regularization and managing the contracts of security service providers such as guarding armed response and CIT
- The deployment of cost effective electronic security systems to reduce reliance on physical security and its associated cost and
- The deployment of a dedicated project management focus with an increased level of crime and cause analysis, project evaluation and impact.

Its zero tolerance approach towards crime is directly in support of the National Crime Prevention Strategy (1995) of the South African Government and is deployed in close co-operation and partnership with other policing and intelligence agencies.

Post Office
We deliver, whatever it takes.

2015/2016 SAPO Group Fraud Risk Assessment (As at 20 April 2015)					
No	**Risks**	**Risk Description**	**Inherent Risk**	**Residual Risk**	**Required enhancement of management actions to improve the current risk management process**
1	**Electronic Fraud**	The risk of electronic fraudulent for the purpose of information theft, fraud, releasing of spyware, viruses, or destruction of files and information due to: ** Unauthorized access to Sapo systems ** Destruction of information ** System errors ** Manipulation of data ** Databse access failures ** Inadequate system administration, etc	**10.0**	**10.00**	Improved control requirements: ** Firewalls ** Dedicated access and not shared access ** Access to servers to be controlled ** Improved user name authentication ** Improved password administration ** Database and sytem administration ** Ensuring proper audit trail log analysis ** Database access protocols - security level segregation & authorisation ** Termination of access to systems ** Remote access control management
2	**Postbank Account Opening Procedures**	**Postbank account fraud regarding:** **Existing Accounts: A**ccount take over of existing Debit Cards & SB6 Savings Bank Books against fraudulent applications & documentation or **New Accounts:** Application of new Postbank Debit Card & SB6 Savings Bank Book against fraudulent applications & documentation for the purpose money laundering **Key causes:** ** **FICA Non-compliance:** Fraudsters present false ID documents as well as FICA documents by which new accounts are opened or new cards or savings bank books are issued ** **Non-validation of Documents:** FICA documents presented on opening Post Bank Accounts or re-issuing of cards/saving books at Retail outlets are not validated for authenticity by Retail and or Postbank. ** **Poor Client Verification & Identification:** Teller staff does not have the tools to distinguish between a fraudulent ID and a genuine ID. Identity theft is therefore prevalent. **Collusion:** Collusion between SAPO Retail staff and external syndicates	**10.0**	**10.00**	Enforcing procedures to ensure that original ID documents are presented at account opening or re-issuing of new cards or saving books Online transmitting of all FICA documents to Postbank where a dedicated team confirms/validates authenticity of documents provided. Regular scrutiny of account history especially with large amounts circulating through the account Implementation of Online Finger Print Verification. Introduction of the HANIS verification system linking Post Bank to Department of Home Affairs. SMS notification to clients of transactions

2015/2016 SAPO Group Fraud Risk Assessment (As at 20 April 2015)					
No	**Risks**	**Risk Description**	**Inherent Risk**	**Residual Risk**	**Required enhancement of management actions to improve the current risk management process**
3	**Procurement Fraud**	Procurement fraud resulting in corrupt activities Manipulation of quotes and or supplying information to service providers that will assist potential suppliers in winning tenders with kick back to employees. Inadequate minuting of PC, EXCO and Board discussions and decisions (Minutes do not reflect reasons for decisions)	**8.0**	**6.40**	Enhance control, transparency and documenting of decisions regarding bids across all levels of the process Ensure the following: ** Bid specifications: Document approvals ** CFST: Fulfillment of CFST Charter ** PC: Transparency of discussions & decisions ** EXCO: Transparency of discussions & decisions ** Board: Transparency of discussions & decisions
4	**Postage Fraud** **(Post Office, Speed Services & XPS)**	Losses incurred by the SAPO Group due to: The understating of mail and parcel volumes & weigths at Branches and Mail Centres Corrupt relationsship between teller, client and mail houses. Inadequate costing models (weight vs volumetrics - SWADDING at PO's and Logistics) Pricing - open to interpretation	**7.5**	**6.00**	Income Protection to improve role and visibility at specifically at Branches and Logistics Ensure the availability of Rate Cards at Branches for Speed Services & XPS Ensure payment against correct weight & volumetrics costing models (SWADDING at PO's and Logistics) Improved Mail House inspections by Income Protection Supervisors to conduct inspections at counter points Product development must include all affected stake holders
5	**Banking Deposit Fraud**	Inconsistent application of banking procedures at Retail Outlets resulting in shortage of cash when the deposit is processed at the banking institution. Banking prepared by one person without a witness present. Risk of deposit bag and slip being disposed off and unavailable for further investigations. While banks have their process of opening and counting the cash under camera, SAPO Retail does not have this ability and therefore SIS is dependent on the statements furnished by the SAPO staff responsible for making up the banking. Current reconciliation takes between 48 hours to 4 days Inadequate and reactive monitoring of delayed banking	**7.5**	**6.00**	Adequate internal controls should be defined and implemented to effectively detect and prevent incidents of banking fraud Management to monitor overnight cash volmues and daily banking reports more rigorously and institute consequence management for procedural non compliance The banking Section should improve the reconciliation turn around times. Banking section to notify Area office immediately in terms of discrepancies. A witness to be present when banking is prepared

2015/2016 SAPO Group Fraud Risk Assessment (As at 20 April 2015)					
No	**Risks**	**Risk Description**	**Inherent Risk**	**Residual Risk**	**Required enhancement of management actions to improve the current risk management process**
6	**Property Fraud**	The potential of corrupting practices due to the manipulation of processes pertaining to new or extention of lease agreements between SAPO and Landlords Non-compliance to the PFMA and Constitution relating to the property procurement procedures Disfunctional and fragmented approach pertaining to property management in SAPO - Dual management of the property portfolio across 2 Business Units: Infrastructure and Properties	**5.0**	**4.00**	Develop and establsih a dedicated Property Lease Procurement Policy in accordance with the requirements of Law. This should also provide for exceptions with regards to the leasing of properties in the Rural areas ito USO and ICASA requirements Centralised Properties section with vetted employees to perform the agreements on rentals.
7	**Qualification Fraud**	Supplying false qualification documents when applying for vacant positions. Inadequate criminal record verification Inconsistent qualifications checks being done by Recruitment and Selection prior to appointments. After the fact qualification assessments (Undertaken after an employee has been appointed - perception that this is delberately delayed until an employee is appointed)	**3.8**	**3.00**	Consistent application of Qualifications Screening Process prior to employment. Proper checks performed with institutions of issuing qualifications.
8	**Pat Label Fraud**	The Webripos system duplicates Pat Labels when printing and the duplicate label doesn't register on the system	**3.8**	**3.00**	Re-engineering of system to overcome the duplication
9	**Petrol Card Fraud**	Overstated First Auto statements compared to vehicle fuel capacity and usage Corrupt relationships between company employee and petrol attendants/management/owners. Inconsistent control and management of petrol cards and transactions scrutinised by a Logistics co-ordinator.	**3.8**	**3.00**	Regular reconciliations and checks (daily) of fuel usage and petrol card expenditure by line management Fraud Awareness training Line Management to stringently apply control measures for the use and allocation of petrol cards. SIS to incorporate inspections of the Logistics control process into their risk audits.

2015/2016 SAPO Group Fraud Risk Assessment (As at 20 April 2015)					
No	**Risks**	**Risk Description**	**Inherent Risk**	**Residual Risk**	**Required enhancement of management actions to improve the current risk management process**
10	**Receipt Manipulation**	Tellers and agencies reissue paid receipts of clients to other clients and enrich themselves with the corresponding amount Clients issued with duplicate receipts and payments not accounted Postbox renewal, POS refunds, Third Party Payments, BRS receipting, Bulkmail receipting, photocopy receip[ts, etc	**3.8**	**3.00**	PO Outlets to request next level of authorisation when teller requests point of sale system to print a duplicate receipt at branch level Supervisors to conduct regular inspection of payment records Crime Awareness Sessions, including public education
11	**Remuneration Fraud**	Casual labour: Overstated hours claimed by casuals Overstated overtime and night shift allowance payments Claims for overtime and night shift allowance which was not worked	**3.8**	**2.25**	Cost Centre Manager to pre-approve hours / additional hours to be worked / additional hours
12	**Leave Fraud**	Subbmission of fraudulent sick leave applications Non completion, submission and approval of leave forms/LAS applications for leave	**3.8**	**2.25**	Proper management of leave/absenteeism by cost centre manager Consequent management All offices to have access to LAS
13	**Payroll Manipulation**	Financial loss due to the payment of non-existent employees Appointment of family members or friends who do not work but receive a monthly salary	**3.8**	**2.25**	DoA in terms of the payroll approval processes Proper employee audit to be conducted (TK 31's to be analysed regularily by responsible management)

2015/2016 Fraud Governance Assessment (As at 20 April 2015)					
No.	**Risks**	**Risk Description**	**Inherent Risk**	**Residual Risk**	**Additional/enhancement management actions required to improve the current risk management process**
1	**Governance: BU Accountability**	Failure by BU's at the operational levels specifically to take ownership of fraud prevention and detection Fraud resulting from the failure by management & employees to apply, enforce and comply with operating standards as well as security and prevention standards at their respective workplaces Failure by BU's to adequately address non-compliance to policies and proceduresmonitor due to the lack of analysing key causes	**7.5**	**6.00**	Management & employees to apply, enforce and comply with operating standards as well as security and prevention standards at their respective workplaces in order to prevent incidents of crime and dishonesty Increased consequence management for failure to apply, enforce and comply with operating procedures BU's to establish adequate processes to monitor and analyse fraud related incidents in order to ensure that mitigation actions are implemented
4	**Governance: S&I Fraud Prevention**	Inadequate and ineffective fraud prevention and awareness initiatives by S&I	**3.8**	**3.00**	In support of BU's to prevent fraud, S&I is to ensure that it deploys effective fraud prevention and awareness initiatives across BU levels Security audits to include farud risk assessments
2	**Governance: SAPS Reporting**	Failure to report fraud related incidents to the SAPS for external investigation and thereby developing a tolerance for crime within SAPO.	**3.8**	**2.25**	BU's in coordination with the S&I to report fraud related incidents more vigilantly to the SAPS for external investigation.
3	**Governance: S&I Incident Analysis**	Inadequate analysis of fraud related incidents in order to determine causes, non-compliance to policies and procedures as well as determining modus operandi	**3.8**	**2.25**	S&I to improve on existing processes during investigations that are directed at determing causes, non-compliance to policies and procedures as well as determining modus operandi and to share such information with BU's
5	**Governance: BU Incident Reporting**	Failure by management and employees to ensure that all fraud related incidents are in a timely manner reported to Security and Investigation Services for investigation. Lack of reporting will influence effective analysis of fraud incidents	**3.8**	**1.50**	Management and employees need to ensure that all fraud related incidents are in a timely manner reported to Security and Investigation Services for investigation
6	**Governance: S&I Investigation Reports**	Final Investigation Reports submitted to management, are not of an acceptable quality and do not adequately contain the investigation findings as well as realistic recommendations in order for management to deploy preventative actions.	**2.5**	**1.00**	Final Investigation Reports by S&I are to be submitted to management timely, and are to be at an acceptable quality and should contain the investigation findings as well as realistic recommendations in order for management to deploy preventative actions.
7	**Governance: S&I Incident Registration**	Failure by the Security and Investigation Services to ensure that all fraud related incidents reported for investigation, are individually registered on the RUBI system and to inform the reporter of the RUBI Ref No as well as the particulars of the investigation officer.	**2.5**	**0.50**	Security and Investigation Services is responsible to ensure that all fraud related incidents reported for investigation, are individually registered on the RUBI system and to inform the reporter of the RUBI Ref No as well as the particulars of the investigation officer.

Legend - Inherent and residual Risk

Level	Description	Factor
High	Disaster with potential to lead to collapse of business and is fundamental to the achievement of objects.	>5 <=10
Medium	Critical event which can be endured but which may have a prolonged negative impact and extensive consequences. Major events which can be managed but requires additional resources and management effort.	>2<=5
Low	Event which can be managed under normal operating conditions.	>=1<=2

17. E – Risk Register

The Risk Register is included in this section and must be referenced to the legend below.

No	Strategic Goals	No	Strategic Objectives
1	Implement the Strategic Turnaround Plan to achieve a sustainable organisation	1.1	Deliver sustainable developmental obligations funded from reserved market
		1.2	Create a commercially viable business from the unreserved markets
		1.3	Achieve operational efficiency and effectiveness
		1.4	Achieve Leadership stability that ensures continuity and accountability
		1.5	Achieve labour stability and improve labour relations,
		1.6	Achieve financial sustainability
2	Create a customer centric organisation to restore customer confidence	2.1	Improve the customer experience to achieve customer loyalty
3	Position SAPO as a key service partner that delivers government services	3.1	Grow to levels of 50 - 55% of SAPO revenue per annum
4	Corporatisation of Postbank and increase access to financial services,	4.1	Facilitate the corporatization of Postbank
		4.2	Increase access of financial services to the unbanked
5	Ensure good corporate citizenship and corporate governance	5.1	Ethical Leadership
		5.2	Sustainability targets
		5.3	Legal compliance
		5.4	Effective risk and IT governance
		5.5	Effective stakeholder management

The Risk Register follows.

18. F – Internal Audit Strategy

Internal Audit Statement of Intent:

To provide a professional, independent, objective assurance and consulting service designed to add value and contribute to the improvement of the SAPO operations.

Functions:

- Development of a risk based, three year rolling audit plan for the entire SAPO Group
- Provision of assurance to all key stakeholders in respect of internal control, risk management and corporate governance
- Carrying out of appropriate consultancy service and ad hoc investigations at the request of key stakeholders
- Provision of written reports on the results of the assurance audit work and other services to the SAPO Executive management and the Board Audit Committee
- Liaison with external audit and other key assurance providers with regard to ensuring an overall effective, combined audit plan to stakeholders
- Training and development of internal audit staff

Key Strategic Initiatives:

Initiatives	2015/2016	2016/2017	2017/18
1. Maintaining a formal quality assurance programme for Internal Audit	Internal QA programme	Plan for an External Independent QA assessment ito of the IIA Standards	Continue with internal, annual peer QA assessment programme
2. Maintain an Internal Technical Committee within Internal Audit to ensure ongoing assessment of new and improvement audit methodologies, technologies and review of new standards from the IIA and appropriate application to the discipline	Internal QA programme Continuous review of audit methodology and compliance	Ongoing technical assessment programme	Ongoing technical assessment programme
3. Re-establish the Information Technology audit team	Re Assess the IT audit strategy based on the new SAPO business model and its impact on the revised IT strategy of the Group	Develop the appropriate IT audit plan with concomitant IT audit skills – in conjunction with the External Auditors	Ongoing
4. Re Assess the overall audit strategy and	Re assess current skills and	Maintain and evolve quality internal audit	Maintain and evolve quality internal audit

Initiatives	2015/2016	2016/2017	2017/18
assurance focus within a new SAPO business model	competencies and re alignment of audit structure and team focus areas, wrt to risk management, governance and internal control	assurance to all stakeholders as relevant to the new SAPO	assurance to all stakeholders as relevant to the new SAPO

Capital investment programme – NONE

Key performance Indicators:

Indicator	2015/2016	2016/2017	2017/18
Maintain the risk based effectiveness and assurance focus of the 3 year rolling audit coverage plan	Ongoing	ongoing	Ongoing
Provision of independent, relevant quality assurance with regard to internal control, risk management and corporate governance	90% achievement of the BAC approved plan Achieve 80% in the Audit Committee Satisfaction Survey	90% achievement of the BAC approved plan Achieve 80% in the Audit Committee Satisfaction Survey	90% achievement of the BAC approved plan Achieve 80% in the Audit Committee Satisfaction Survey
Ensure that all planned audit projects are completed and reported to management within an established benchmark target of productivity time planned	90% achievement of targets as determined within the Approved detailed audit plan	90% achievement of targets as determined within the Approved detailed audit plan	90% achievement of targets as determined within the Approved detailed audit plan
Ensure that Internal Audit appropriately complies with the SAPO audit methodology and the standards of the IIA - this will be achieved through the establishment of an effective QA process within audit: (1) annually - satisfactory results of an internal peer review (2) satisfaction levels of external audit reliance (3) generally compliant assessment with 4 yearly independent review	Generally Compliant with international IIA standards	Generally Compliant with international IIA standards	Generally Compliant with international IIA standards

Indicator	2015/2016	2016/2017	2017/18
Maintain effective productivity levels so that the approved risk based audit plan is comprehensively completed in a timely manner, to ensure effective assurance is provided to all stakeholders	Productivity Target: 80% Non Productive time: 20%	Productivity Target: 80% Non Productive time: 20%	Productivity Target: 80% Non Productive time: 20%
Effectively manage employment equity targets of the SAPO within the audit discipline	Aim to achieve or better the established SAPO targets within IA discipline	Aim to achieve or better the established SAPO targets within IA discipline	Sustain SAPO targets within IA discipline
(1) Develop a skills matrix which can be used to assess any skills and competency gaps within Internal Audit (2) Ensure PD Training programme are strategically established and qualitatively beneficial to improving overall standards in audit (3) Effective and timeous management of the PMS process within IA dept. (4) Establish and ensure effective succession strategies for the discipline	Generally Compliant with international IIA standards	Generally Compliant with international IIA standards	Generally Compliant with international IIA standards

19. G – Materiality Framework

Materiality and Significance

Treasury Regulation No. 28.3.1 of the PFMA requires a public entity to develop and agree a significance framework with the relevant entity's Executive authority. The PFMA prescribes that levels of materiality (section 55) and significance (section 54) be determined for the purposes of interpretation and compliance.

Practice Notes are issued by National Treasury from time to time to further provide guiding principles on determining qualitative and quantitative parameters for significance:

- Material disclosure as per section 55 of the PFMA: Disclosure is prescribed in terms of:
- Losses due criminal conduct;
- Irregular expenditure; and
- Fruitless and wasteful expenditure.

Please Note: The above are dependent on the expense categories involved, e.g. if the loss or irregular expenditure relating to salaries constitutes at least 1% of staff expenses, it will be disclosed in the Annual Report. However, the disclosure requirements with regard to fruitless and wasteful expenditure is not value/ amount dependent, i.e. any amount qualifies for disclosure.

Transactions are deemed to be "significant" where the rand value exceeds any of the following:

- 1% - 2% of the value of total assets;
- 0.5% - 1% of total revenue; and
- 2% - 5% profit after tax.

The framework of acceptable levels of materiality and significance, applied by the SA Post Office Board of directors during the 2013/14, for the purpose of the interpretation of and compliance with the Public PFMA is the following:

- Qualifying transactions are considered to be of an operational nature where they are concluded as part of the normal business of the South African Post Office, and are concluded within the framework of the South African Post Office Act, its mandate and delegations of authority, as well as the agreements with the Shareholder contained in the Shareholder's Compact and Corporate Plan; and Qualifying transactions are considered to be of a strategic nature where they are not part of the normal business of the South African Post Office, are concluded outside the framework detailed above or when they link to national priorities.

The SA Post Office Group Materiality and Significance Framework for 2013 – 2014 was approved by the SA Post Office Board of directors as follows:

- Material transactions and capital expenditure from R50 million and above to be submitted to the Minister for noting;
- Material transactions and capital expenditure above R100 million to be submitted to the Minister for approval;
- Material transactions and capital expenditure above R20 million to be approved by the SA Post Office Board of directors;
- The CEO or his/her appointed designate delegated to approve all transactions across the Group from R50 million and below;
- The CFG Board delegated to approve material transactions and capital projects within CFG up to R12,5 million and transactions above R12,5 million to be submitted to the SA Post Office Board for approval as the shareholder; and
- The DOCEX Board delegated to approve material transactions and capital projects within DOCEX up to R5 million and all transactions above R5 million to be submitted to the SA Post Office Board for approval as the shareholder.

Should any changes be required in respect of the current Group delegation of authority the Board will make the relevant submissions to the Minister in this regard.

Materiality Framework 2015/16

Type of transaction	Materiality Framework	Approved financial thresholds for for 2014/15	Underlying Principles

Material for Section 55 of the PFMA :
 	
Disclosure in the annual report,
 	
• Losses due to criminal conduct;
• The following should be disclosed irrespective of the amounts involved;
• Irregular expenditure; and
• Fruitless and wasteful expenditure.
	Quantitative
	
	• Capital expenditure: 10% of the capital expenditure budget line item;
	• Other expenditure: 10% of the related operating expenditure budget line item, except for the following key cost drivers:
	  ○ 1% of staff expenses; and
	  ○ 5% of transport costs.
		Depends on the related expenditure budget line item.	• Section 55: Evaluation of each loss due to criminal conduct, in the context of the expense category to which it relates to determine whether it qualifies for disclosure in the annual report as required;
			• The value of any identified fruitless or wasteful expenditure will also be reported; and
			• In line with good business practice, as well as the requirements of the Act, the South African Post Office is committed to the prevention, detection of and taking appropriate action on all irregular

Type of transaction	Materiality Framework	Approved financial thresholds for for 2014/15	Underlying Principles
			expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of the South African Post Office. To this end the South African Post Office's systems and processes are designed and continually reviewed to ensure the prevention and detection of all such expenditure, irrespective the size thereof.
Significant for Section 54 of the PFMA: Notice to the shareholder and approval by the Minister of Finance of the following "qualifying transactions" i.e.: • Establishment or participation in the establishment of a company; • Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement; • Acquisition or disposal of a significant shareholding in a company; • Acquisition or disposal of a significant asset; • Commencement or cessation of a significant business activity; and	Quantitative: Qualifying transactions of an operational nature: • 2.5% of total asset category; • Qualifying transactions of a strategic nature; • 5% of asset category; • Qualitative: A qualifying transaction may also be considered significant based on considerations other than financial when, in the opinion of the Board, it is considered to be significant for the application of section 54; • The decision on which non-financial issues may be considered at any time requires careful judgement at a strategic level, and should therefore rest with the Board as	• Maximum R100 million however all expenditure above R50 million approved by the Board must be submitted to the Minister for noting.	• The PFMA is not intended to affect the autonomy of the organisation, but its stated objectives are to ensure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the institutions to which the Act applies. Therefore, the legislature could not have intended for the public entities to report and seek approval on matters of a daily basis; • The business of the South African Post Office is conducted within the framework of the mandate, objects and powers contained in the South African Post Office Act, as well as the business and financial direction set out in the corporate plan; • The South African Post Office also has defined accountability and approval structures from the Board, as the

Type of transaction	Materiality Framework	Approved financial thresholds for for 2014/15	Underlying Principles
• A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.	representative body of the Shareholder. As an example, the Board may consider a qualifying transaction as significant when it could impact significantly on a decision or action by the Minister such as a large retrenchment of less than R100 million.		shareholder representative, to the Group CEO and management; • The responsibility for the day-to-day management of the South African Post Office vests in line management through a clearly defined organisational structure and through formally delegated authorities.

Delegation of Authority

The SA Post Office Board as the accounting authority, has unfettered powers to direct and control the business of the company and may delegate the day to day management to the executive management, but at all times retain full and effective control over the direction and performance.

Although the Board's ultimate accountability is to lead and manage the Group, some of the responsibilities are delegated to executive management. In this regard, to manage the business affairs of the South African Post Office Group, the delegated responsibilities are managed through established governance structures at Board and Executive Committee level. The Board has delegated certain of its powers to management but has retained some powers to itself to control the management and strategic direction of the SA Post Office.

The Board may, in instances of crises within the company, revoke any powers granted to management in order to stabilise the organisation. The Board may also revoke any powers conferred to any official in line with the role of the Board as the Accounting Authority.

The SA Post Office Board has developed a clear definition of the levels of materiality and significance in order to determine the scope of delegation of authority and to ensure that the Board reserves specific powers and authority to itself. The delegated authority from the Board to its subsidiary Boards and to management is in writing and is reviewed and regulated on a regular basis.

20. H - Communication Strategy

Objective

The objective of this communication plan is to provide a holistic communications support of the Corporate Plan and build the reputation of the SA Post Office reputation in the market. The holistic management of the SA Post Office's reputation, both internally and externally, is essential in helping the organisation reach the targets set out in this document. The synergy of the internal and external communications is necessary for optimal positioning of the SA Post Office as articulated in the Strategic Plan. This will assist in achieving strong sentiments amongst internal and external stakeholders, motivated and informed employees, a strong media share of voice, positive image and showcasing the intellectual 'horsepower' of the organisation are key ingredients in building a leading edge company.

Reputation management is not an isolated exercise driven through marketing communications efforts; it is something that requires the entire organisation to appreciate that our individual behaviours have a material impact on the group's reputation. Reputation management is not the sole preserve of communication but rather belongs to everyone. Through a clear, focused and synergised communications strategy, the SA Post Office will look to grow and enhance its reputation both internally and externally. Therefore, reputation management is an exercise of externalising positive organisational developments.

External communications

The purpose of external communication will be to leverage existing platforms to position the SA Post Office brand as elicited in the Corporate Plan pillars. In this regard, attention will be placed on public influence media platforms to position the SA Post Office brand as top of mind entity in the eyes of the public. In this regard, the following external communications areas, which continue from the previous plan, will be embarked upon:

Segmentation and identifying of targeted media: strong emphasis will be placed on identifying relevant media who have the ability to shape reputation with audiences nationally, locally and to an extent globally. This will be cross-referenced against where marketing spend is directed to (paid and unpaid media efforts will be aimed at the same media platforms as far as possible).

Brand positioning and company reputation management efforts: understanding the mechanics of managing the SA Post Office's reputation and leveraging this.

Continuous and systematic **communication:** based on national and organisational milestones, newsworthy proactive and reputation-enhancing messages will be developed.

By way of the media strategy, key objectives (in line with the overall company objective) will be helping the SA Post Office be recognised as a world-class innovative and diversified service provider. In realising this

objective, there will largely be three primary goals: **protecting the reputation of the SA Post Office**, **building the reputation of the SA Post Office** and **strengthening media relations**.

Media relations goals linked to KPIs:

GOAL	STRATEGY
Protect the reputation of the SA Post Office	- Pre-empt issues - Create and maintain standard operating procedures for communications (crisis)
Build the reputation of the SA Post Office	- Leverage media engagement for the key audiences - Maintain strong visibility in the industry - Showcase SA Post Office's expertise (thought leadership)
Strengthen media relations	- Media engagement optimized based on a segmented approach -Spokespeople to be well managed and trained - Be the first port-of-call for the media - Synergy with advertising

Internal communications

The purpose of internal communications is to lobby internal stakeholders on the company vision and mission, including soliciting their buy-in on tactical and strategic thrust of key corporate plans. Therefore, the role of internal communications is to support the organisational objectives of the SA Post Office inwardly, while also this is synergises with media communications to reflect a holistic picture of an organisation that is optimal internal as it would be seen externally by public stakeholders (such as customers). Therefore, all internal communications, as is the case with external communications efforts, are aimed at driving the efforts of achieving the company vision and mission as outlined in the Corporate Plan pillars. In this regard, the internal communications efforts will be geared at 'taking the company's internal stakeholders (employees, unions, etc.) along the journey' of the company as outlined in the Corporate Plan. Additionally, the aim of internal communications will be retain critical talent, employee goodwill and high moral by positioning the SA Post Office as 'the company to work for'. In addition, alongside other internal departments, the internal communications function will seek to play a greater role in training and development in so far as performance issues are concerned, and to strategically position business units and the strategic corporate plan amongst internal stakeholders.

Based on previous research and the last employee climate survey, 48.5% of employees are not familiar with a high performance culture whilst 32% of employees are not familiar with customer intimacy and operational excellence strategic themes. Key observations about the gaps in internal communication include:

Literacy levels – limited at the lower levels of SA Post Office.

Geographical Spread – the SA Post Office locations/offices vary in respect of geographical locations, as well as infrastructure within each branch.

Numbers – approximately 17,000 employees poses a difficult logistical challenge to meet.

Casual labour – problems around casual labour resulted in unprotected strikes previously. Negative sentiments often permeate this section of the employee base.

Computer literacy and penetration – a large proportion of the SA Post Office population do not have PCs, which in effect, translates to a substantial cross-section of the employee base being excluded from electronic communication.

Communications platforms:

Staff newsletters

Electronic communications platforms (Takenote and Touchingbase)

Notice boards

Meetings

Teleconferences

Video conferences

Podcasts, and

Executive regional roadshows (networking sessions, town-hall meetings, social events and regular leadership engagement sessions).

It is recommended that the messaging of the Corporate Plan be simplified to reach the diversity of all employees of the SA Post Office.

Internal communication goals linked to KPIs:

GOAL	STRATEGY
Inform and motivate the employee base	Create a message calendar Create pre-determined message themes which are linked to external messages Channel management - create and maintain a variety of informative, engaging communication platforms Support training and development Content management
Strategically position business imperatives staff	Keep the organisation abreast with latest corporate plan developments Ensure that BU messages align with overall company objectives Ensure that all business imperatives have an equitable and relevant share of voice internally

GOAL	STRATEGY
Build and protect the reputation of the SA Post Office with internal audiences.	Manage content dissemination to ensure that content is relevant Fast turnaround times to counter reputational risks and crises
Position the key leadership in the SA Post Office	Strategically position the Board, GCEO and Exco members to employees Ensure two-way engaging communications

Key message framework

As indicated earlier, it is vital that internal and external messages synergise to minimise confusion and maximise on impact when targeting stakeholders proactively. All proactive internal and external should link to the following, simple core themes for the business:

Business sustainability

- Business sustainability through systems and processes
- the SA Post Office has a core team to wrong-foot competitors and deliver solutions
- A systematic approach being key to business delivery
- If change has to be sustainable, it has to be systematic
- The SA Post Office is facing challenges which are not dissimilar to those faced by other operators; but we don't take these for granted
- We need to take advantage of technological changes to provide efficient solutions to our customers
- Execution and focus being key tenets for improved delivery
- Nationwide network is a launching pad for competitive advantage
- Postbank's value is intrinsically linked to the SA Post Office's unrivalled network across provinces, villages and towns
- The rolling-out of the alphanumerical postal codes is a game-changer for the SA Post Office, as it enables the delivery of mail/parcels to the recipient, affords our customers an economic opportunity, etc.
- Investment in our people/employees is fundamentally important
- Meticulous distilling of the role of the shareholder is vital – we should add tangible value to the shareholder

Corporate governance

- Accountability regarding public funds
- Transparency key in how business in conducted at the SA Post Office

Taking the SA Post Office into the future

- The need to view technological enhancements as something to embrace (versus viewing this as a competitor)

- The needs of all our customers (including commercial and private customers) will be central in the development of future product and service offerings
- The SA Post Office will be involved in the roll-out of set-top boxes for instance
- Given the SA Post Office's unrivalled footprint in South Africa, the organisation will leverage this to offer customers a variety of postal, communication and transactional services
- Money transfer, financial services, delivery, logistics, STB roll outs will offer a full bouquet of services to customers that go beyond the traditional mailing services
- The intention is to ultimately create an organisation that is agile, adaptable and reflective of its significance to the SA economy
- Delivery of our customer promise will be central to the SA Post Office going forward

21. I - Environmental Strategy

21.1. Overview

The South African Post Office recognize that to move beyond greening quick, an immediate paradigm shift must happen and the focus move from pollution control to pollution prevention, clean technologies, service stewardship in support of the environmental sustainability vision.

SAW is chosen to represent the impacts we have on the natural environment and represents:

- S (Soil): Buildings, road networks, biodiversity and energy
- A (Air): Fleet and buildings Greenhouse Gas (GHG) emissions
- W (Water): consumption and monitoring

Environmental measurements

The environmental monitoring and measurement tools are key in achieving the environmental objectives, the indicators below are a tool for measuring performance and a guide for continuous improvement.

Indicators	2015/16	2016/17	2017/18
Energy Management	Reduce electricity consumption by 3% from 34, 847, 796.42 kWh to 33, 802, 362.53 kWh [A]	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year
	Retrofit buildings with energy efficient lights	Retrofit buildings with energy efficient lights	Retrofit buildings with energy efficient lights
	Install sensor in buildings	Install sensor in buildings	Install sensor in buildings
	Install 30% of electricity smart metering system in buildings.	Install 60% of electricity smart metering system in buildings.	Install 80% of electricity smart metering system in buildings
	Install 1% of renewable energy technology on SAPO buildings	Install 2% of renewable energy technology on SAPO buildings	Install 2.5% of renewable energy technology on SAPO buildings
Carbon management	Reduce 2.5% of total emissions for scope 1 from 12,569.69 to 12,255.45 tCO_2e and for Scope 2 from 30, 909.85 to 30, 137.10 tCO_2e [B]	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year
	Offset 10% of total emissions	Offset 15% of total emissions	Offset 20% of total emissions
	Introduce 0.5% of alternative energy	Introduce 0.5% of alternative energy	Introduce 1% of alternative energy

Water Consumption	Reduce water consumption by 3% from 202, 585.06 Kl to 196,507.57 Kl[C]	Reduce water consumption by 3% over prior year	Reduce water consumption by 3% over prior year
Waste management	Reduce paper consumption by 2.5% from 146.08 tons to 142.43 tons[D]	Reduce paper consumption by 2.5% over prior year	Reduce paper consumption by 2.5% over prior year
	Recycle 95% of used paper[E]	Recycle 95% of used paper	Recycle 95% of used paper
	Recycle all waste electronics	Recycle all waste electronics	Recycle all waste electronics
	Recycle all waste cartridge	Recycle all waste cartridge	Recycle all waste cartridge
Pollution Prevention	Ensure that 60% of all material procured by SAPO is biodegradable	Ensure that 80% of all material procured by SAPO is biodegradable	Ensure that 100% of all material procured by SAPO is biodegradable

[A] Electricity reduction is dependent on the overall number of buildings that are billed. This number may increase due to fact that SAPO does not currently collect 100% of the bills every month.

[B]Scope 2 carbon emissions is dependent on the number of buildings which are reported on, this number changes with increase in number of buildings reported on.

[C]Water reduction reporting is also dependant on the number of buildings that are billed. Currently SAPO does not collect 100% of data on the buildings that consume water.

[D]Paper consumption reporting is dependent on statistics of all papers that is purchased and consumed. Currently, there is paper purchased that is not accounted for. This number will increase with an improvement in the data collection systems.

[E]There is not target set for the paper recycled following that this aspect is not condoning paper consumption, rather aims to reduce impact of paper to the landfill by recycling all unwanted scrap and paper, respectively.

22. J - Abbreviations

Abbreviation	Explanation
AARTO	Administrative Adjudication of Road Traffic Offences
ATMs	Automatic teller machines
BBBEE	Broad Based Black Economic Empowerment
BOD	Board of Directors
BU	Business Unit
CAT1B	Category 1B
CFG	The Courier Freight Group
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
COO	Chief Operations Officer
CFST	Cross functional sourcing team
COBIT	Control Objectives for Information and Related Technology
CMMI	Capability Maturity Model Institute
CPI	Consumer Price Index
CSI	Corporate Social Investment
DOA	Delegation of Authority
DR	Disaster Recovery
DTPS	Department of Telecommunications and Postal Services
DTT	Digital terrestrial television
ED	Enterprise Development
ERP	Enterprise Resource Planning system
EU	European Union
EXCO	Executive Committee
FSB	Financial Services Board
FAIS	Financial Advisory and Intermediary Services
GNI	Gross National Income
HCM	Human Capital Management
HR	Human Resources
ICASA	Independent Communications Association of South Africa
ICT	Information and Communications Technology
IT	Information Technology

ITIL	Information Technology Infrastructure Library
ITU	International Telecommunication Union
MOI	Memorandum of Incorporation
MoU	Memorandum of Understanding
MQ	Message Queue
MTEF	Medium Term Expenditure Framework
MTO	Money Transit Office
OHS	Occupational Health and Safety
OHSA	Occupational Health and Safety Act
PaaS	Platform as a Service
PFMA	Public Finance Management Act
PPP	Purchasing power parity
RPA	Retail Postal Agency
SaaS	Software as a service
SADC	Southern African Development Community
SAP	Systems, Applications & Products
SAPO	South African Post Office
SCM	Supply Chain Management
SDC	Supply and Distribution Centre
SOE	State Owned Entity
SOC	State Owned Company
SMME's	Small, medium and micro enterprises
STP	Strategic Turnaround Plan
SWOT	Strengths, weaknesses, Opportunities, Threats
TBVC	Transkei, Bophuthatswana, Venda, Ciskei
TOGAF	The Open Group Architecture Framework
USO	Universal Service Obligation
US	United States
UBS	Universal Banking Solution
WRE	Webriposte