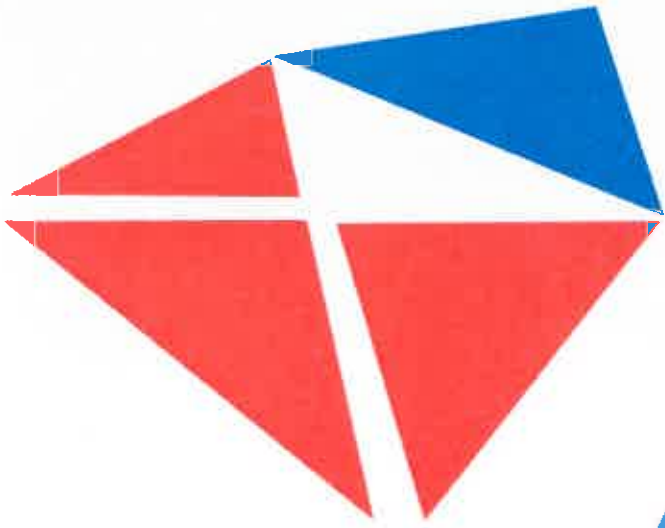


# South African Post Office



## Corporate Strategic Plan

**2016/17 - 2018/19**

**Post Office**



We deliver, whatever it takes.

## OFFICIAL SIGN-OFF

It is hereby certified that this Corporate Plan:

- was developed by the management of the South African Post Office (the SA Post Office) under the guidance of Dr Simo Lushaba, representing the Accounting Authority;
- takes into account all the relevant policies, legislation and other mandates for which the South African Post Office is responsible;
- accurately reflects the outcome oriented goals and objectives which the South African Post Office will endeavour to achieve over a three year period.

It is hereby certified that this Annual Performance Plan:

- was developed by the management of the South African Post Office under the guidance of Dr Simo Lushaba, representing the Accounting Authority;
- was prepared in line with the current Strategic Plan of the South African Post Office;
- accurately reflects the performance targets which the South African Post Office will endeavour to achieve for the financial year 2016-2017.

**Ms Nichola Dewar**

**Acting Group Chief Financial Officer**

**Signature:** N Dewar

**Mr Mark Barnes**

**Group Chief Executive Officer**

**Signature:** A Barnes

**Approved by:**

**Dr Simo Lushaba**

**Chairperson of the Post Office Board**

**Signature:** Simo Lushaba

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# 1 INTRODUCTION

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## Foreword by the Chairperson of the Board

The relevance of the SA Post Office in the economy and its potential for becoming an unparalleled conduit for government services are clearly without question. As a state-owned entity, we have a responsibility to assist government to provide adequate and reliable access to services for South Africans. 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. The 2016/17 – 2018/19 Strategic Corporate Plan places greater focus on achieving delivering on our mandate and positions the organisation for sustainable operations with timely responses to market changes.

Actions of players in the logistics market show that the SA Post Office has not been responding accordingly by adapting to the changing landscape. Our customers require us to be competitive, innovative and agile. This corporate plan will help to reposition the SA Post Office to meet its customer demands in a rapidly changing and technologically-driven market.

An important development during the current financial year (2015/2016) has been the Cabinet's approval of the SA Post Office's Strategic Turnaround Plan (STP). The STP anticipates the SA Post Office being on a sound path of becoming a sustainable business, capable of delivering on its important mandate. The customer-centricity requirements that the STP places on the SA Post Office business is one of the factors that make us confident that the business will achieve much-desired financial growth, including products and services adaptability to consumer needs.

The turnaround at the South African Post Office remains slow however, with continued declines in revenues being experienced in the mail and other parts of the business. This contributes to the monthly cash shortfall that makes the eradication of creditor payment backlogs and long outstanding employee settlements impossible to resolve without additional funding. These financial challenges have largely contributed to the low realisation of benefits from the implementation of the STP to date.

Aligning the business to reduce its traditional high costs structure and modelling it to bring into focus its products and services around evolving customer needs are some of the profitability and sustainability pillars of the current plan. A new Business Model and Operating Model as outlined in the STP have been implemented. SAPO now has an integrated and customer-facing sales team. Transport and Logistics functions are integrated under a single management team that support the entire business and operations of SAPO. Certain key cost reduction recommendations in the STP will still be carried through in the current plan. These will not only focus on human resources, but will also be implemented across the business to enhance the efficiencies in areas such as supply chain and sourcing, product and services management and the efficient management of our properties. This Corporate Plan re-bases the STP to cater for successful resolution of the above challenges and position SAPO to successfully implement its turnaround.

Also principal to the business' sustainability is engagements on Universal Services Obligations (USO) and other licensing conditions. At the helm of our stakeholder matrix sits government with whom we interact, as a shareholder, regulator, and most importantly, a vital potential customer that has been earmarked in our Corporate Plan. Much more sustainable models, to fulfil the USO, will be explored with government.

There has also been much needed stability in the SA Post Office's relationship with labour stakeholders. This has enabled operations to be normalised and the continuation of this stability will allow management to focus on running the company's operations.

The SA Post Office will embark on a major drive to improve how it is perceived in the market by delivering reliable services to our customers. The SA Post Office's growth path is aimed at implementing strategic initiatives that will stabilise the business and steer it in a competitive trajectory. Underpinning this plan, amongst others, include:

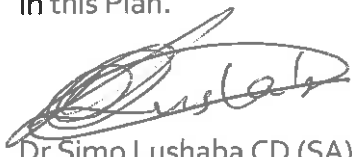
- Developing capacity to match and eventually drive agility of the markets that we serve;
- Enhancing regulatory capacity beyond compliance to effect a viable and sustainable Post Office;
- Growing the retail and logistics business' profitable revenue streams;
- Growing financial services offering through a licensed Postbank;
- Extracting operational efficiencies; and

- Streamlining and improving productivity.

Technology enablement of the SA Post Office and its customers will be an engine that propels growth rather than a threat to our existence! The Post Office will leverage the wave of digital substitution that is an inevitable feature of the postal sector.

The Board of the SA Post Office welcomes the report of the Public Protector. We will ensure that her remedial actions are fully implemented. The report marks a major milestone in the restoration of normality and confidence-building at the SA Post Office. Furthermore, the report adds a critical impetus to the turnaround of the SA Post Office which is already in progress having been set in motion during the Administration period and taken forward with the appointment of the new Board of Directors and senior executives, including the new Group CEO. We are confident that its release and implementation of the remedial actions will assist in focusing all our energies on taking the SA Post Office forward.

This Strategic Corporate Plan will guide us as we strive towards the realisation of our goal of rebuilding a Post Office that creates value for all its stakeholders. 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)

**Chairperson: SA Post Office Board**

## **Overview by the Group Chief Executive Officer**

SAPO finds itself at a crossroads. This corporate plan is drawn in the wake of the damning public protector report and at a time when substantial additional capital is required to get the organization back on its feet.

In order to succeed in its implementation this plan will require equal doses of energy to be applied to the basics and growth opportunities. At an operational oversight level, policy frameworks, contract processes, skills deployment and discipline will need to be, in many instances, rebuilt.

Our growth ambitions will require investment of capital and energy to bring SAPO to a level of competence, capable of competing within our selected new fields of business, in financial services, e-commerce and logistics. But the margins available to SAPO, the low cost producer with the most effective installed base, will generate the required return on capital.

It is clear that when SAPO can provide services to government it would be in the economic interest of the country for that to happen. Management is committed to deliver to the required standards to secure this work. We are grateful for the support of our stakeholders, even though our relationship with government, labour and suppliers are at an all-time low and we know that. We will work tirelessly to repair the past and build secure foundations into the future.

I look forward to working with the Board and Executive management to successfully implement the corporate plan.



Mark Barnes

**Group Chief Executive Officer**

### **Financial overview by the Acting Group Chief Financial Officer**

This corporate plan has the potential to return SAPO to a financially sustainable and well-capitalised position, whilst also repositioning the entity in terms of relevance and reliability.

Although SAPO needs government support in the short term during the turnaround phase, our ambition is to become self-funding. This includes becoming adequately capitalised in terms of the Banks Act to enable SAPO to retain Postbank within the Group to ensure realisation of maximum benefits from the synergies between SAPO and Postbank.

SAPO will continue to control costs centrally to ensure maximum value, whilst also eradicating irregular, fruitless and wasteful expenditure.

Management have committed to delivering the numbers in this corporate plan, and where revenues are not realised, or are achieved slower than planned, appropriate cost reduction measures will be implemented to maintain promised profit margins.



Nichola Dewar

**Acting Group Chief Financial Officer**



## 2 OUR VISION, MISSION

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### Vision

SAPO has revised its vision to one that highlights SAPO's mandate and sets a goal of becoming a leading service provider within the markets in which it operates.

A leading provider of postal, logistics and financial services to the South African market

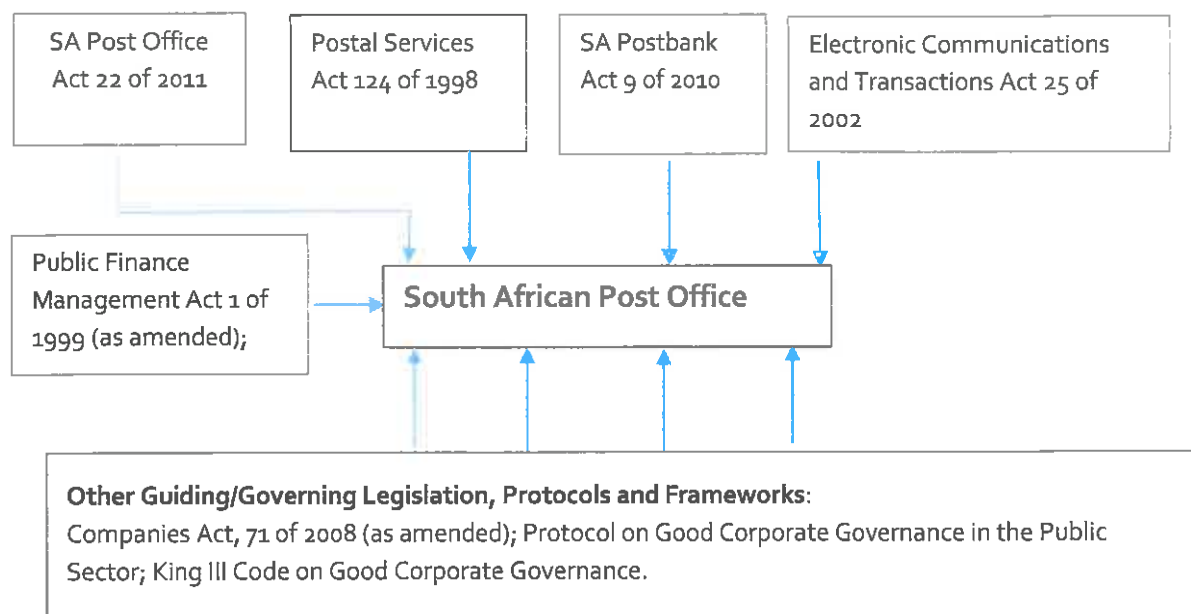
### Mission

We leverage our established infrastructure and link government, business and customers with each other locally and abroad.

## 3 LEGAL AND REGULATORY FRAMEWORK

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SAPO is primarily governed by the SAPO Act 22 of 2011, the Postal Services Act 124 of 1998, the SA Postbank Act 9 of 2010, the ECT Act 25 of 2002 and the PFMA 1 of 1999 (as amended) amongst other pieces of legislation.



SAPO also applies other relevant governance frameworks and legislation to its operations, such as the King Codes of Good Corporate Governance.

Context

## 4 SAPO: CURRENT CONTEXT

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The purpose of this corporate plan is to outline SAPO's strategic focus and direction for the period 2016-2019. The strategic actions outlined in this document are aimed at resolving the challenges, both short term and long term, faced by SAPO.

It is anticipated that after three years, SAPO will be self-funding, have a strong brand and financial structure of sufficient quality to return to the capital markets directly. Achieving these goals will enable SAPO to begin the process of (1) releasing government guarantees and (2) potentially either returning capital or, at the very least, paying dividends. SAPO's long term strategic objective is therefore to be able to issue SAPO bonds as a highly rated investment instrument.

Currently SAPO faces several challenges, both internal and external, which must be addressed, if SAPO is to achieve its growth strategy.

### **Key Short Term challenges faced by SAPO:**

- ***Service Instability*** - due to outstanding creditor balances. At the end of January 2016, SAPO owed its creditors an accumulated R0.9 billion. As a result of slow payment by SAPO, some creditors are refusing to supply SAPO with essential goods and services, which is undermining SAPO's ability to conduct business thereby negatively influencing SAPO's credibility with customers.
- ***Operational Losses*** - SAPO (excluding Postbank) is losing approximately R125 million per month. The Strategic Turnaround Plan (STP) was predicated on SAPO receiving 30% of government business, as well as significant funding which did not materialise. It is however important to note, that whilst some genuine cost savings have been achieved from STP initiatives, a significant portion of the reported savings are as a result of forced reductions in income generating operations such

as branch closures and loss of staff through attrition, and not as a result of proactive cost-cutting measures.

- **Historically unstable labour environment** - A number of union agreements with staff and contractual obligations have historically not been met. These include obligations arising out of the necessary conversion of temporary to permanent staff, wage negotiations (increases and scale adjustments) and the equal pay for equal value principle.

### **Key Long Term Challenges Facing SAPO**

- **Increasing growth of competitors** in the logistics and parcels market - Companies such as DHL and Aramex are making significant headway into the African and South African market, with specific growth strategies being implemented where e-commerce is driving growth in the courier and express markets.
- **Migration of consumers** to using online channels - The impact of digital substitution can be clearly seen in volume trends for SAPO's major mail products. This trend is expected to continue as internet access grows across South Africa and Africa.
- **Operational inefficiencies** - While mail volumes have been dropping, SAPO's operating costs have been rising and productivity falling. SAPO has also not streamlined its operating processes in line with international best practice.
- **Low performance culture** - The present situation has caused low staff morale amongst the workforce resulting in low levels of output across the organisation.

### **Key Opportunities**

There are also opportunities in SAPO's environment that the company can exploit for growth. The three of the most prominent opportunities are:

1. The South African Mail, Envelope and Courier (MEC) market size is currently approximately R10.5 billion and is growing at 10% to 15% p.a.
2. SAPO has a nationwide network with 2 500 points of representation, which enables the company to be a key provider of services to government as well as acting as a channel for providing government services to South Africans.
3. Digital substitution also presents an opportunity for SAPO to create innovative products.

The Courier and Freight Group (CFG), a wholly-owned subsidiary of SAPO, has relied on shareholder support for several years. Given the significant market potential for courier and parcels services, where a small market share can deliver large revenues, SAPO is evaluating its options. CFG could be divisionalised or recapitalised to tap into this market potential. Engagements with the shareholder on this are underway.

Analysis indicates that with adequate capitalisation, SAPO is able to address its challenges and seize the opportunities in its environment. The company is forecast to become profitable in 2018 (R1.3bn before abnormal once-off costs) and profits should further improve to R2.3bn in 2019.

For SAPO to achieve and maintain the anticipated profitability, the company plans to focus on the following strategic areas:

- Increasing and Diversifying Revenue Streams
- Cost Management
- Improving Operating Efficiency
- Foster a Modern and Performance Driven Organisation



Figure 1: SAPO Strategic Goals

These strategic focus areas are also areas identified in the Strategic Turnaround Plan (STP) as being key for SAPO's long term sustainability. The top-most priority for SAPO is to return to profitability. Thus strengthening and diversifying revenues will be key as well as

returning to operational stability. Settlement of outstanding debts with SAPO's creditors will ensure operational stability.

The regulatory environment is key to SAPO's business and it will be addressed as part of SAPO's revenue focus. Through initiatives to reform the legislation and regulations governing SAPO. In addition, the regulatory environment imposes costs on SAPO through the Universal Service Obligations (USO). As part of reducing its operational costs, SAPO will engage with the regulator and National Treasury about the re-instatement of the subsidy for the non-commercial services required by the USO.

In addition to these strategic themes, SAPO will also completely cease all irregular, fruitless and wasteful expenditure.

SAPO's revenue growth and cost strategy for the next three years has three elements. The first element (**Base Case**) is focused on returning to pre-crisis profitability levels excluding past subsidies. The second element (**Growth:**



**Private sector**) consists of driving growth opportunities in non-government markets. The third element (**Growth: Public sector**) focuses on generating growth from servicing government. These three elements will be executed concurrently, with the Base Case assumptions and models forming the foundation for SAPO's return to profitability.

## 5 INCREASE AND DIVERSIFY REVENUES

### Base Case Revenue Increase

Provided that SAPO is adequately capitalised and operationally functional, SAPO's base case is focused on returning the organisation to a "steady-state" of financial performance.

#### Postal Revenue Increase

The Base Case forecast for postal revenues is expected to rise to R3.5bn p.a. though this is lower than the pre-strike level of R3.8 billion p.a. This growth will come from the ICASA average tariff increase and recovery of some of the volumes lost as a result of strikes and their concomitant loss of trust. By focusing on doing the basics correctly through operational stability, such as delivering on time and increasing reliability of our services, SAPO intends to re-acquire lost customers. SAPO currently has 80% of the reserved mail market, despite being awarded 100% of the reserved area. SAPO will focus on regulatory enforcement of the reserved market in 2016.

#### Logistics Revenue Increase

By restructuring the logistics business within SAPO and improving operational efficiencies, SAPO aims to acquire 15% market share from 2018 onwards, this will deliver revenue growth of 82%, from the current baseline of 5% market share which was achieved at the height of SAPO's peak performance. Recovery to past levels is expected to occur by 2018. The growth in parcels is expected to be partially driven by growth in e-commerce, which has been growing at 35% p.a.

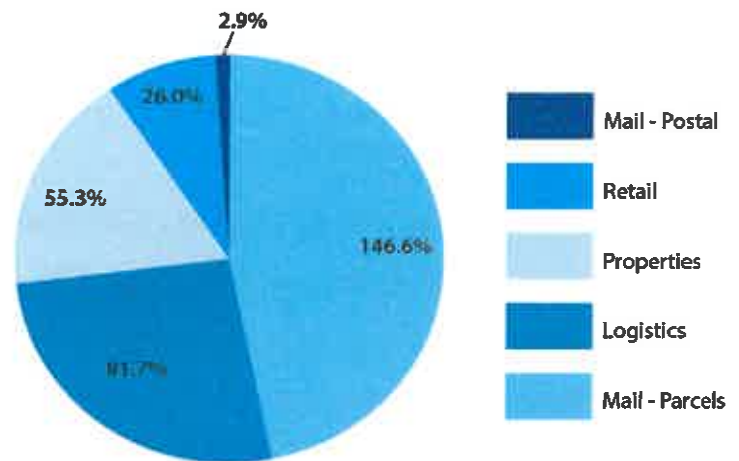


Figure 2: Revenue Stream - 3yrs CAGR

### **Retail Revenue Increase**

SAPO will engage with government to expand existing motor vehicle license services and become a national service provider of various government services. As the SAPO brand recovers, an increase in branch traffic is expected. SAPO will engage with government to become a national provider of not only MVL renewal services, but also much more broadly other government initiatives, such as the DTT and social grant payments (SASSA) etc. Revenues of R0.9 billion over three years, are expected from the DTT project, as an example.

### **Property Revenue Increase**

Property revenues include proceeds from the disposal of properties on an “as is” basis, including properties identified during the retail network rebalancing exercise, however this excludes additional sales opportunities that may exist. Rental of properties will be an important focus area as part of SAPO’s growth strategy. Building a strong rental property portfolio will provide SAPO with a base for building a property management business.

### **Postbank Revenue Increase**

Postbank revenue will essentially be organic deposit growth. Recent brand marketing and product awareness campaigns are expected to drive this growth. Further gains are expected from the impact of the increasing interest rate environment.

### **The Growth Case Revenue Increase**

In order for SAPO to achieve sustainability and financial independence, SAPO will grow and diversify beyond its current revenue base.

The SAPO infrastructure is well positioned to further expand into financial services, e-commerce and logistics, similar to the postal operator models successfully developed in Britain, Italy, New Zealand and Japan. The size of the local markets in which SAPO seeks to operate are significant, and small gains in market share generate substantial revenue. Revenue growth and diversification will come from both the private and the public sectors.

## Private Sector Revenue Initiatives

### Mail/Parcels Revenue Growth

No additional growth is forecast for letter mail – the base case already includes a significant recovery of past volumes and revenues.

Growth will increase as a result of fulfilment of higher e-commerce volumes, in line with international trends.

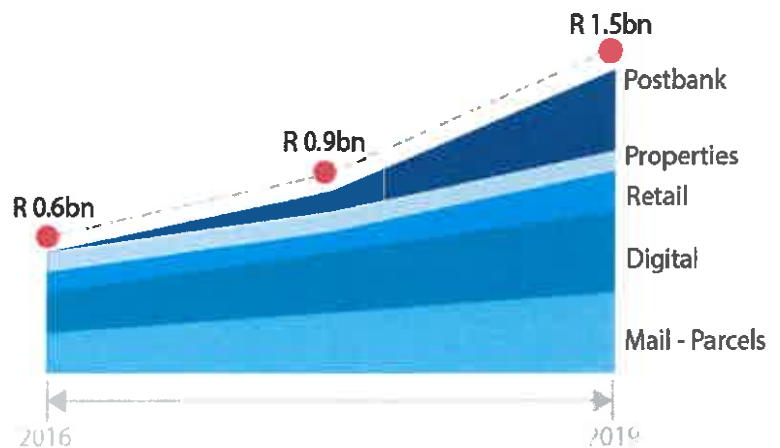


Figure 3: Private sector revenue generation

Revenues will increase due to increased volumes of e-registered mail, electronic bill presentation and payment, online shopping including facilitation of online payments, ticket sales and the introduction of new products such as digital Docex.

### Retail Revenue Growth

Revenues will result from commissions earned from the expansion of the third party collections business, online offerings, money transfer services utilizing the UPU and Postbank systems, and business services offered using an upgraded multi-functional device fleet.

### Properties

Property disposal realizations will be generated by additional sales of properties on an 'as is' basis, as well as increased rentals after refurbishment of some properties. The entire property portfolio and SAPO's property strategy will be examined within 3 months and recommendations presented to the Board.



## Postbank

The bank will introduce internet banking, ATMs and POS acquiring (initially acquiring SAPO transactions to keep related bank charges within the Group), as well as lending and bank assurance products. The strategy assumes that lending activities will only be introduced from 2018 onwards. *[Note: lending activities are excluded from the scope of the banking license that Postbank has applied for, so a separate application to SARB to lend will be required at a later stage].*

There are however significant transaction-based revenue generating opportunities in the meantime.

## Government Business Revenue Increase

Growth and diversification of revenues is going to be driven from a focus in the public sector. SAPO is able to make an obvious and compelling case for government business to be retained within government owned enterprises. Key to this argument, is that the required standard of services must be delivered. Once SAPO has settled its creditors, service delivery infrastructure is expected to be able to perform to meet client requirements. SAPO will engage the government on the opportunity for margin re-capture from the private sector, which presents an enormous opportunity for the fiscus given the current economic climate and governments' efforts to cut costs.

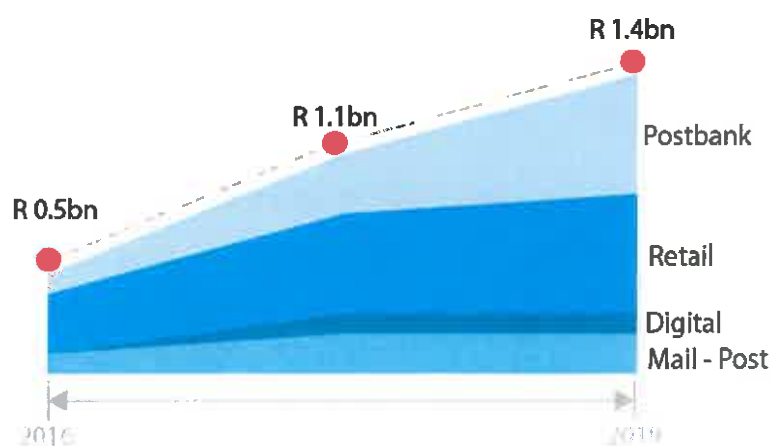


Figure 4: Government sector revenue generation

### **Mail Government Business**

Revenue from the government will increase due to the improved enforcement of the reserved area of mail items between 0 and 1kg within government departments and state entities. ICASA will be engaged to improve its regulation of the area. National Treasury will also be engaged to ensure that the award of the RT5 tender for transversal mail and courier services is in compliance with the reserved area. SAPO will work to re-capture the 0 to 1kg market in government in the period of this corporate plan through using account managers to engage with the various government departments and entities.

### **Retail Government Business**

SAPO is currently the only distributor for the DTT project and SAPO will use this project as a test case to demonstrate to government that SAPO can deliver on similar projects. Therefore areas such as issuing drivers' licenses, smart ID cards, and bulk MVL registrations for SOEs and government departments will be other revenue opportunities that will be pursued. A big project that SAPO will pursue in government is the issuing of social grants by the South African Social Security Agency (SASSA).

### **Postbank**

SAPO's strategic objective is to capture the business from the Government Employee Housing Scheme initiative, which none of the registered banks have indicated appetite for.

If SAPO is awarded a contract to deliver payment of social grants by SASSA, then capex of R0.640 billion will be required. Given that the margin on the SASSA contract could reach R1.0 billion p.a. the payback period of this investment would be 8 months. This would support a substantial reduction in the total costs of delivery of social grants to government. *Potential revenue from this initiative has not been included in the government growth case.*

## 6 COST MANAGEMENT

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### Base Case Cost Management

SAPO has a challenge in that it has a large fixed cost base versus the declining revenues that the company has been experiencing. Reducing the fixed cost base is key to SAPO's ongoing sustainability.

#### Staff costs

Staff costs are SAPO's largest cost item and will be reduced over the three years of the plan. The key focus will be the reduction of staff costs through voluntary separation and early retirement in the 2016/2017 and 2017/2018 years. There are historical obligations that the company has with labour that will have to be settled in 2017. The settlement of these obligations plays an important part in stabilising and normalising labour relations at SAPO. The requirement for productivity improvements will form a part of the normalisation of the labour relations, through the negotiation process. The targeted ratio of staff costs to revenue is 40% which is line with other postal companies globally, thus the objective will be to reduce the ratio from its current 78% to 40% over three years. Productivity improvements are crucial to SAPO's long term survival as SAPO simply cannot afford increased staff costs in 2017 and 2018 without the expected additional revenues to cover these costs. *However, should revenues not materialise as planned, then staff rightsizing will be unavoidable.*

The timing of any voluntary separation exercise depends on the availability of funding. Recent changes to pension legislation are likely to impact on the number of staff amenable to voluntary separation, and several exercises might be required to reach the planned 20% reduction in staff numbers across qualifying groups as outlined in the Strategic Turnaround Plan.

In addition, pay adjustments are required in terms of the equal pay for equal value work legislation, as well as the appointment of casuals into existing vacant permanent positions (with increased costs due to resulting pay scale and benefits that will be offered). SAPO

plans to have a slight progression in salary levels to 90% of the average paid in the market, from the current level of 80% to the market, in order to compete for skills in our new revenue areas.

### **Property costs**

This is the second largest cost item for SAPO. There are three areas where property costs will be reduced. 1. Cost reductions will be realised as the branch rebalancing is being rolled out. 2. Lease terms will be improved as lease agreements come up for re-negotiation. 3. SAPO will undertake an optimisation of all of its rented space and in this process reduce the space occupied by SAPO in rented premises and subletting the balance where feasible. A comprehensive evaluation of the current property portfolio and future property strategy will be presented to the Board within three months.

### **Transport costs**

Are expected to increase in support of the projected increases in post, parcels and logistics revenue and is the third largest cost item in SAPO's operations. Currently transport costs make up 8% of revenue (excluding banking) and is below market trends of between 13% and 20% of revenue. The anticipated increase will therefore not take SAPO out of industry benchmark for efficient transport operations.

### **IT costs**

To accommodate an improved leased-line network, IT costs are expected to increase slightly in the base case. Technology improvements, will in future, only be made in support of increased revenue streams or for legislative compliance purposes (see the increased revenue case). The case for outsourcing IT, or not, will be evaluated and presented to the Board within three months.

### **Support costs**

These costs accounted for close to 16.9% of the cost base in 2016. Increased automation of repetitive tasks and streamlined workflows will support the reduction in central support costs. This together with increased revenues, will reduce this ratio to 11.9% by 2019, which is in line with industry norms.

## **Funding costs**

Funding costs have been estimated at an average cost of 9.5% for 2017, with 1% increases in each subsequent year. The funding costs have also assumed that the long term loans are completely repaid by the end of the 2018/19 financial year, as well as a confirmed R0,65 billion equity injection in the 2016/17 financial year. Within the forecast period, SAPO will look to National Treasury for equity injections to replace all or part of the R2.7 billion interim funding to achieve a more appropriate debt:equity structure. Once all loans have been settled, the related government guarantees of R4.17 billion will be released.

## **Postbank costs**

are expected to increase as a result of the Postbank corporatisation process.

*Excluding Postbank, Base Case costs CAGR of 5.0% is lower than the revenue CAGR of 23.1%, indicating a strong return to profitability – if achievable, based on the assumptions underpinning the forecasts.*

## Private and Government Sector Growth Case: Cost Support

Staff costs are anticipated to increase at 10% of growth case revenues to support increased volumes across SAPO's infrastructure.

Within the forecast period, SAPO will look at National Treasury for an equity injection to replace all or part of the R2.7bn bank bridging funding to achieve a more appropriate debt:equity structure.

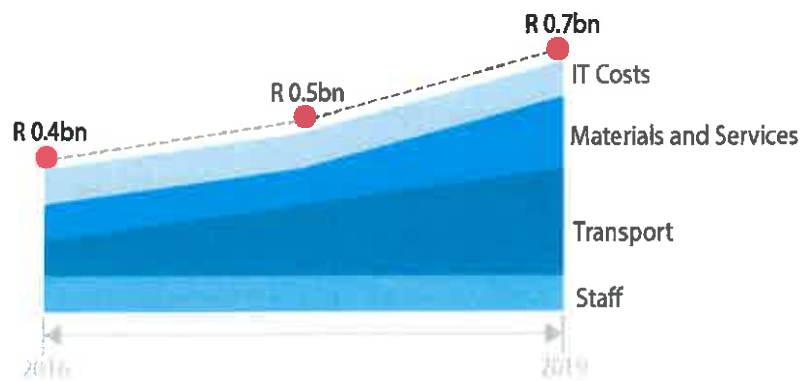


Figure 5: Cost incurred during private sector activities

Transport costs will need to increase to support the large increases in mail and retail revenues.

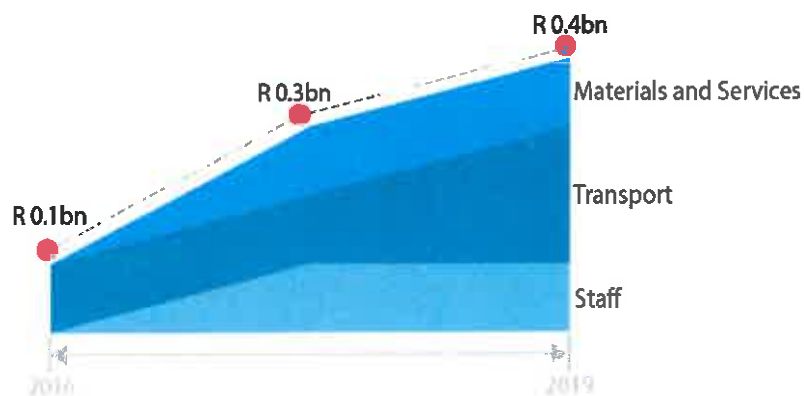


Figure 6: Costs incurred during public sector activities

## **7 ADDITIONAL INITIATIVES TO RAISE FUNDS**

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### **Sale of further properties**

It is currently envisaged that 99 properties will be sold contributing about R0.2 billion, included in the growth case scenario. It is also thought that it may be possible to sell additional properties raising potentially a further R0.25 billion. The initiative will be evaluated in the early part of the financial year for execution in the corporate plan period.

SAPO will commit that any surplus capital raised from additional property sales and reductions in past staff obligations will be utilised to repay long term debt, or to repay Government should equity be injected after the 2016/17 financial year.

### **Reapply for subsidies**

The postal monopoly for the 0 – 1 kg reserved area has historically been unable to cover the costs associated with the Universal Service Obligation imposed on SAPO in terms of legislation. Loss making USO branches result in a drain on SAPO resources of over R0.4bn p.a. as a result of a fixed cost structure together with low transaction volumes in uneconomical areas.

SAPO has been renegotiating the specifics of the USO obligation with ICASA, however there remains a disconnect in expectations between the regulator and the availability of funding to support the non-commercial obligations imposed by the regulator. If funding is not made available, then SAPO will have no option but to evaluate the closure of unprofitable branches. Given that these are largely in the rural areas, this would have a potentially severe impact on those local economies and negatively affect the ability of government to service its citizens in underserved areas.

It is not without international precedence, for Postal organisations to require subsidy for the non-commercial obligations. Other countries provide subsidies and/or significant bailouts to their postal services. This is a structural issue with the global industry and its Universal Service Obligation requirements.

Subsidies were withdrawn in 2010/11 apparently because it was felt that SAPO could fund this subsidy from internal resources – that is clearly not the case, nor has it been for some time. Had SAPO consistently received subsidies from 2010/11 to cover its loss making USO operations, these would have totalled R1.8 billion to date.

### **Strategic Partnerships**

SAPO will form strategic partnerships with companies that have capabilities and resources that SAPO may lack. SAPO will use these partnerships to shorten the time to market on getting access to markets such as e-commerce markets. SAPO will bring its strengths, such as the vast distribution network to these partnerships and leverage the partner's capability or installed base to reduce the required time and investment to penetrate new markets.

### **Regulatory Reform**

SAPO will be engaging with various stakeholders to review and refresh regulations to suit the current operating environment. Further to this, opportunities to encourage tighter control of the reserved market will be discussed and implemented to extract value.



## **8 IMPROVE OPERATIONAL EFFICIENCY**

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Improving operational efficiency will focus on three key areas; IT, Mail Operations and Retail Operations.

### **Optimisation of IT Capability**

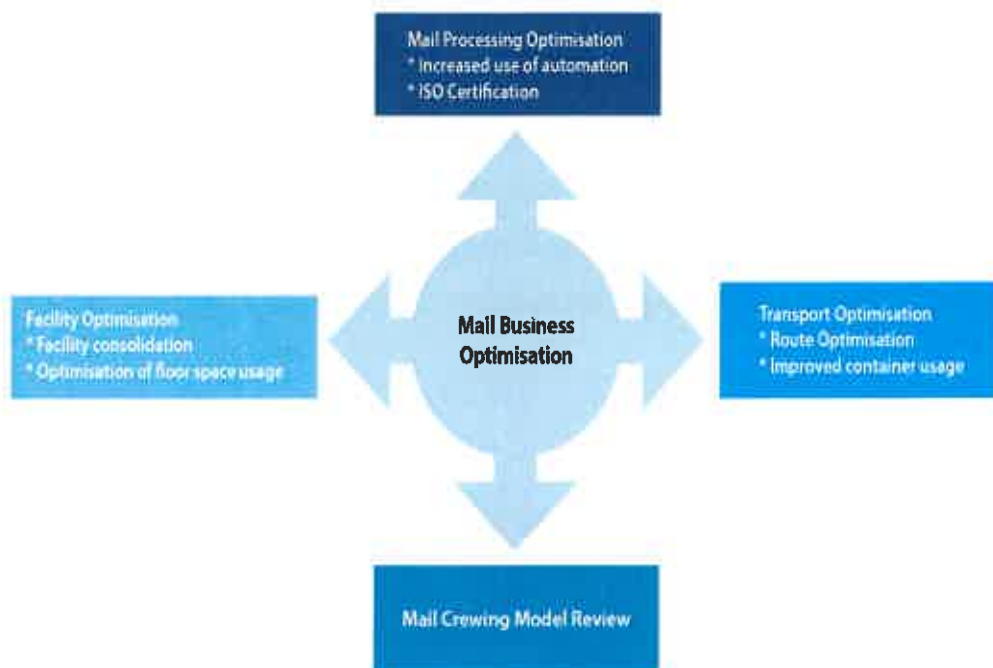
Optimisation of IT Capability will, subject to final evaluation, entail:

- Outsourcing of IT Infrastructure and
- Recruitment of the appropriate IT skills



## Optimisation of Mail Operations

The STP proposed that, to either contain or drive operating costs down, SAPO must exploit rationalization and optimization opportunities within the following areas in its Postal operations:



**Figure 7: Mail Business Optimisation**

## Optimisation of Retail Operations

Retail plays a pivotal role in the last mile process of the Mail value chain. Apart from this, Retail is also the consumer-facing side of the organisation and therefore consumer perceptions are based on their experiences with Retail staff. This clearly indicates that the Retail business unit is SAPO's brand ambassador in the retail consumer space.



Figure 8: Retail Optimisation

## Implementation of a Shared Support Services model

The process of implementing the new business model started towards the end of 2015 and is planned to continue for the duration of this corporate plan. The new business model will position SAPO as customer-centric organisation that develops products and service offerings orientated towards fulfilling its customer needs and expectations. Management has recognized that to effectively support SAPO's revenue generating and operational sections, an efficient shared support services capability is required within SAPO. Furthermore, SAPO management recognize that an optimized shared services environment is a key foundational element to the success of the turnaround plan. The current shared services model will accordingly be reviewed and re-gearred towards

improving productivity, resulting in a reduction of administrative costs over the 3 year period.



## 9 FOSTER A PERFORMANCE DRIVEN ORGANISATION

SAPO does not have a high performance culture. Thus, a key priority for SAPO is to focus on improving productivity across the organisation. SAPO management will implement a variety of best practices with the aim of reducing costs. Further to this, management will also focus on standardising operations around these best practices.

To monitor progress, SAPO will also implement a performance management system. Feedback from this system will be used to embed a culture of high performance within the SA Post Office.



Figure 9: High Performance Organization

## 10 FUNDING PLAN

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### 10.1 Capex Requirements

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#### Base Case Capex Requirement

In order to realise the anticipated revenues in the base case, there will be a requirement for capital expenditure.

Table 1: Base Case Capex Requirement

Capex required: base case	2017	2018	2019	Total
<i>R billions</i>				
IT - revenue initiatives	0.1	0.1	0.1	0.3
IT - POS, EMV pinpads, biometric	0.1	0.1		0.2
Mail sorting machines	0.1			0.1
Properties	0.1	0.1	-	0.2
Group excluding Postbank	0.4	0.3	0.1	0.8

IT capex is required to support revenue initiatives such as track and trace and the Postilion switch replacement. These initiatives will be strictly prioritised within the capex limits above according to their future revenue generation and profitability.

Retail branch infrastructure capex is required to purchase EMV card machines, biometric fingerprint readers to support the banking business, to reduce merchant fees currently paid by SAPO to its corporate bank, and to support the Department of Home Affairs with the Smart ID and passport application and issuance processes. Point of Sale terminals also need to be updated as they can no longer be repaired. Additional machines to support the largest Retail revenue stream (motor vehicle license renewals) are also required. These costs are justified by the projected increases in revenues that they will support.

Properties that require refurbishment to meet minimum OHSA legislated requirements, will be refurbished (or sold, as the case may be). This will also enable some of the properties to be more attractive for letting.

## Capex required for the growth case

One of the major influencing factors is the allocation of capital to SOEs in that SAPO does not have either currency risk or significant commitments to return to operational and financial viability.

Table 2: Growth Case Capex

Capex required: growth case <i>R billions</i>	2017	2018	2019
IT - revenue initiatives	0.1	0.2	0.2

IT capex is needed to support revenue initiatives in business units over and above those required for the base case. Initiatives will be strictly prioritised according to profitability.

## 10.2 Abnormal costs

Abnormal costs comprise R0.7 billion for unrecognised past employee liabilities, which have largely been the cause of labour instability over the last few years. These liabilities arose due to changes in legislation and the conversion of branch managers from the bargaining unit to total cost to company (TCTC) which resulted in disparate pay scales. R0.3 billion is also required for the voluntary severance exercise in 2017. It is clear that the historical staff liabilities are simply unaffordable and a deal with organised labour might need to be reached. It is anticipated that a once-off lump sum payment (lower than the current unrecognised liability) be negotiated in respect of past increases to reduce costs. This alternative settlement cannot be modelled at this time.

## 10.3 Borrowings and Funding Plan

### Borrowings

SAPO has an approved overdraft facility of R 320 million, with borrowings of R270 million. National Treasury has issued a separate R270 million guarantee for the overdraft facility.

Bridging finance facilities for R 1, 0 billion have been secured from various banks against an approved borrowing limit of R 1, 25 billion, backed by R 4, 17 billion of Guarantees from National Treasury.

## **Funding Plan**

SAPO is in discussion, with banks and the National Treasury, for bridging funding of R 2,7 billion to settle outstanding creditors and human resource related expenses, in order to enable operations to return to normality. This funding will be sourced against SAPO's ability to repay the loans, then against the existing government guarantees.

## **Significant Transactions**

There are several properties, as per Ministerial approval, which will be disposed of during the period covered by this plan. In line with regulations, SAPO will approach the Department on a case by case basis for the necessary approvals. Existing loan agreements will require that any proceeds from additional disposals (above the 99 properties in the STP) must be used to reduce existing loan obligations.

## **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 need to retain funds for expansion or operational 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. SAPO will be unable to declare dividends until such time as it returns to profitability, and after taking into account any minimum capital requirements that may be required as a result of compliance with the Banks Act.

## 10.4 Debt Repayment Profile

Adding the base case together with the private and public sector growth initiatives results in a profitable business for the Group (excluding Postbank) from 2018 onwards, as summarised on the table extracted from the Investment Memorandum, as set out below:

Investment Memorandum				
R billions				
<b>Group excluding Postbank</b>				
R billions	2016	2017	2018	2019
Revenue: base case	4.1	5.0	6.3	7.7
Revenue: growth	-	0.6	0.8	1.1
Revenue: government	-	0.4	0.8	0.9
<b>Total inflows</b>	<b>4.1</b>	<b>6.0</b>	<b>7.9</b>	<b>9.7</b>
Costs: base case excl funding and abnormal costs	5.5	5.5	5.8	6.2
Costs: growth case		0.4	0.5	0.7
Costs: government case		0.1	0.2	0.3
Funding costs		0.1	0.1	0.1
<b>Total before abnormal costs</b>	<b>5.5</b>	<b>6.1</b>	<b>6.6</b>	<b>7.3</b>
<b>Profit (loss) before abnormal items</b>	<b>-1.4</b>	<b>-0.1</b>	<b>1.3</b>	<b>2.3</b>
Voluntary severance		0.3	0.1	
Unrecognised staff liabilities		0.7	0.4	
	<b>-1.4</b>	<b>-1.1</b>	<b>0.8</b>	<b>2.3</b>
Repayment of overdraft		0.1		
Capex: base case		0.4	0.3	0.1
Capex: growth case		0.1	0.2	0.2
<b>Total outflows</b>	<b>-1.4</b>	<b>-1.7</b>	<b>0.4</b>	<b>2.1</b>
Non-cash items				
Depreciation		0.1	0.2	0.2
Working capital movements		-1.1	-0.1	-0.1
Capital injection		3.4		
<b>Net cash position</b>		<b>0.7</b>	<b>0.6</b>	<b>2.2</b>

Assuming National Treasury provide equity injections of 50% of R2.7 billion in each of FY18 and FY19, the repayment profile for the loans will be as follows:

SA Post Office Group excluding Postbank <i>R billions</i>	Actuals 2014/2015	Forecast 2015/2016	2017	2018	2019
<b>Existing loans:</b>					
Opening balance		1.00	1.00	1.00	0.35
Repayment				0.65	0.35
Closing balance		1.00	1.00	0.35	0.00
<b>New loans:</b>					
Opening balance			2.75	2.75	2.05
Repayment				0.70	2.05
Closing balance			2.75	2.05	0.00
Net cash position after repayments			0.5	0.3	1.1

This assumes that the existing loans and guarantees will be extended to the end of FY19, with National Treasury support.



## 10.5 Financial Plan

### Balance sheets

Balance sheets <i>R billions</i>	SAPO Group including Postbank				
	Actuals	Forecast			
	2014/2015	2015/2016	2017	2018	2019
<b>Non-Current Assets</b>	<b>5.9</b>	<b>5.8</b>	<b>6.6</b>	<b>7.0</b>	<b>7.4</b>
Property, plant and equipment	1.2	1.1	1.8	2.1	2.1
Investments and other financial assets	4.4	4.5	4.5	4.7	5.1
Other non current assets	0.2	0.2	0.2	0.2	0.2
<b>Current Assets</b>	<b>4.1</b>	<b>3.5</b>	<b>4.0</b>	<b>4.4</b>	<b>5.7</b>
Trade and other receivables	0.4	0.3	0.4	0.5	0.6
Cash & short term investments	3.6	3.1	3.5	3.8	5.0
Other current assets	0.1	0.1	0.1	0.1	0.1
	<b>10.0</b>	<b>9.4</b>	<b>10.6</b>	<b>11.4</b>	<b>13.0</b>
<b>Capital &amp; reserves</b>	<b>0.8</b>	<b>-0.9</b>	<b>-1.4</b>	<b>-0.7</b>	<b>1.7</b>
Share capital	0.4	0.4	0.6	0.6	0.6
Capital injection	-	-	0.7	0.7	0.7
Non-distributable reserves	0.4	0.4	0.4	0.4	0.4
Retained income	0.1	-1.6	-2.9	-2.3	0.1
<b>Non- current liabilities</b>	<b>1.7</b>	<b>2.7</b>	<b>5.4</b>	<b>5.4</b>	<b>4.4</b>
Operating lease liability	0.1	0.1	0.1	0.1	0.1
Retirement benefit obligation	1.3	1.3	1.3	1.3	1.3
Deferred tax	-	0.0	0.0	0.0	0.1
Provisions	0.3	0.2	0.2	0.2	0.2
Long term loan	-	1.0	3.7	3.7	2.7
<b>Current liabilities</b>	<b>7.5</b>	<b>7.6</b>	<b>6.6</b>	<b>6.7</b>	<b>6.9</b>
Trade and other payables	1.4	1.3	0.3	0.3	0.3
Retirement benefit obligation	0.1	0.1	0.1	0.1	0.1
Deferred income	0.3	0.3	0.3	0.3	0.3
Deposits from the public	4.9	5.1	5.2	5.3	5.5
Funds collected on behalf of third parties	0.1	0.1	0.1	0.1	0.1
Bank overdraft	0.1	0.3	0.1	0.1	0.1
Other current liabilities	0.6	0.5	0.5	0.5	0.4
	<b>10.0</b>	<b>9.4</b>	<b>10.6</b>	<b>11.4</b>	<b>13.0</b>
<b>Capital expenditure</b>					
IT - revenue initiatives			0.2	0.3	0.3
IT - POS, EMV pinpads, biometric			0.1	0.1	-
Mail sorting machines			0.1	-	-
Properties			0.1	0.1	-
Postbank - corporatisation			0.4	0.1	0.1
Postbank - lending			-	0.1	-
			<b>0.9</b>	<b>0.6</b>	<b>0.3</b>

## Income statements

The income statements shown below take into account the base case together with the growth case for the private and public sectors:

Income statements <i>R billions</i>	SAPO Group including Postbank Forecast			
	2015/2016	2017	2018	2019
<b>Revenue</b>				
Mail - post and hybrid	3.4	3.7	3.9	3.9
Mail - parcels	0.1	0.5	1.1	1.9
Logistics	0.2	0.3	0.6	1.2
Digital	-	0.2	0.4	0.5
Retail	0.4	0.9	1.3	1.6
Properties	0.0	0.2	0.2	0.2
Sundry	0.0	0.2	0.4	0.4
Postbank	0.6	0.8	1.2	1.8
<b>Total revenue</b>	<b>4.7</b>	<b>6.8</b>	<b>9.1</b>	<b>11.4</b>
<b>Expenditure</b>				
Staff	3.7	3.9	4.0	4.3
Properties	0.6	0.5	0.5	0.5
Transport	0.4	0.7	0.8	1.1
Materials and services	0.2	0.4	0.4	0.6
IT costs	0.3	0.4	0.5	0.5
Communications	0.2	0.3	0.3	0.4
Reduction in support costs	-	-0.1	-0.1	-0.1
DTT costs	-	0.3	0.5	0.5
Funding costs	0.1	0.3	0.3	0.2
Other	0.4	0.4	0.4	0.4
	<b>5.9</b>	<b>6.9</b>	<b>7.6</b>	<b>8.3</b>
<b>Operating profit (loss) before abnormal items</b>	<b>-1.2</b>	<b>-0.1</b>	<b>1.5</b>	<b>3.1</b>
Unrecognised staff liabilities	-	0.3	0.1	-
Voluntary separation	-	0.7	0.4	-
<b>Operating profit (loss) for the year</b>	<b>-1.2</b>	<b>-1.1</b>	<b>1.0</b>	<b>3.1</b>

# 11 ANNUAL PERFORMANCE PLAN 2016 – 2019

Strategic Theme 1: Increase and Diversify Revenues										
Strategic Goal	Key Performance Area	Key Performance Indicator	Annual Target				2016/17 Quarterly Target			
			2016/17	2017/18	2018/19	Q1	Q2	Q3	Q4	
Expand post box user base	Implementation of post box revenue growth model	25% decrease in the current 2 million vacant postboxes by 31 March 2017	25% increase on 2016 postbox subscriber base by 31 March 2017	25% increase on 2017 postbox subscriber base by 31 March 2018	25% increase on 2018 postbox subscriber base by 31 March 2019	25 000	75 000	200 000	200 000	
Achieve base case revenue	Base case revenue	By 31 March 2017, return to revenue levels equal to the revenue achieved as at 31 March 2009	R5.0 billion	R6.3 billion	R7.7 billion	R0.800bn	R1.200bn	R1.750bn*	R1.250bn	
Achieve growth case revenue (Private sector)	Private sector revenue	Achieve R600m revenue by 31 March 2017 in terms of the growth strategy for the private sector offerings	R600 million	R800 million	R1.1 billion	R0.150bn	R0.150bn	R0.150bn	R0.150bn	
Achieve growth case revenue (Public sector)	Public sector revenue	Achieve R400m revenue by 31 March 2017 in terms of the growth strategy for the government sector offerings	R400 million	R800 million	R900 million	R0.040bn	R0.120bn	R0.160bn	R0.080bn	

\* Takes seasonality into account

Strategic Theme 2: Cost Management									
Strategic Goal	Key Performance Area	Key Performance Indicator	Annual Target			2016/17 Quarterly Target			
			2016/17	2017/18	2018/19	Q1	Q2	Q3	Q4
Control total costs	Cost management	Ensure that total operational costs (excluding abnormal items) does not exceed the Corporate plan targets	R6.9 billion	R7.6 billion	R8.3 billion	R1.902 billion	R1.784 billion	R1.607 billion	R1.607 billion

Strategic Theme 3: Improve Operational Efficiency									
Strategic Goal	Key Performance Area	Key Performance Indicator	Annual Target			2016/17 Quarterly Target			
			2016/17	2017/18	2018/19	Q1	Q2	Q3	Q4
Meet Postbank SLA	Meet banking industry uptime requirements	98% uptime for ATM and POS transactions	98%	98%	98%	98%	98%	98%	98%
Improved customer experience	Manage IT risk throughout	Build resilience into SAPO's IT connectivity	50%	75%	85%	-	-	25%	50%
	Improved internal customer satisfaction	Customer satisfaction index	3	4	4.5	-	1.5	2	3

Strategic Theme 4: Sustainable Delivery of the Social Mandate									
Strategic Goal	Key Performance Area	Key Performance Indicator	Annual Target			2016/17 Quarterly Target			
			2016/17	2017/18	2018/19	Q1	Q2	Q3	Q4
Increase financial inclusion of the mass market	Growth in Postbank depositor accounts	Increase the number of depositors' accounts by 3% year on year at 31 March	3%	3%	3%	0.75%	0.75%	0.75%	0.75%
Meet the mail delivery standard	Mail delivery standard	Achieve the regulated mail delivery standard of 92% as per the agreed delivery model with ICASA	92%	92%	92%	92%	92%	92%	92%
IT performance and sustainability	Systems availability	Mean time to recover priority incidents	Less than 4 hours MTTR	Less than 4 hours MTTR	Less than 4 hours MTTR	10 hours MTTR	6 – 10 hours MTTR	4 – 6 hours MTTR	Less than 4 hours MTTR
		End-to-end service availability and performance	95% availability	95% availability	95% availability	80% availability	85% availability	90% availability	95% availability
IT operations as measured against business SLAs	Business service management	Implement SLAs for all BUs	100%	100%	100%	25%	75%	100%	100%
		Monthly SLA reviews	100% reviewed monthly	100% reviewed monthly	100% reviewed monthly	-	50% reviewed monthly	75% reviewed monthly	100% reviewed monthly
IT investments	Capex projects	% of top 10 IT projects across all BUs delivered on time	50%	75%	100%	-	-	30%	50%

Strategic Theme 5: High Performance Organization									
Strategic Goal	Key Performance Area	Key Performance Indicator	Annual Target			2016/17 Quarterly Target			
			2016/17	2017/18	2018/19	Q1	Q2	Q3	Q4
Performance management systems implementation	Implementation of performance management system	100% performance contracts in place for managerial/TCTC staff by 30 April 2016	100%	100%	100%	100%	100%	100%	100%
		Assessments in place for all managerial/TCTC staff by 31 March 2017	100%	100%	100%	25%	50%	75%	100%
Achieve governance and compliance objectives	Audit issues	No outstanding high and medium audit findings older than 3 months as at 31 March*	No audit findings older than 3 months as at 31 March*	No audit findings older than 3 months as at 31 March*	No audit findings older than 3 months as at 31 March*	Only 25 audit findings older than 3 months*	Only 10 audit findings older than 3 months*	Only 5 audit findings older than 3 months*	Zero audit findings older than 3 months*

\*excluding resolutions with systems implementation dependencies

## 12 RISK MANAGEMENT PLAN

No.	RISK	ROOT CAUSE	CORPORATE PLAN	MITIGATION STRATEGY	RESIDUAL RISK ASSESSMENT			
					2016	2017	2018	2019
1	Impaired brand value	Impact of the past prolonged strikes Poor customer experience Speculative media coverage creating mistrust	Anticipated settlement of past labour and creditor obligations Full and transparent disclosure of the past transgressions per SIU and public protector to resolve past perceptions	Finalisation of the funding plan Implementation of recommendations from the SIU and the Public Protector reports	Red	Yellow	Yellow	Green
2	Competition	Lack of agility and inability to deliver - competitors take market share	Change revenue mix incorporate digital offerings Embrace e-commerce and parcels and logistics business	Restructure/ divisionalise CFG and reposition parcels offering in the market	Red	Red	Yellow	Yellow
3	Operational inefficiencies	Efficiency measures declined as a result of reduced revenue	Return to previous revenue levels	Mail revenues return to previous levels and new growth from enhanced revenue mix	Red	Red	Yellow	Yellow
4	Ageing and decayed infrastructure	Spend backlog on required investments	Capex allocation for catch up	Evaluation of the property portfolio. OHSA compliance Evaluation of IT outsource or Insource decision	Red	Red	Yellow	Yellow
5	Current financial structure	Creditor backlog. Continuing operating losses. Insolvency threat (excluding Postbank)		R650m equity injection R2.7B guarantee to underpin bridging finance Future equity injection by Treasury (performance dependent) in 2017/18	Red	Yellow	Yellow	Green
6	Contract management	Ineffective contract management and oversight	Contract audit to test compliance, economic validity and future sustainability	Elimination of irregular, fruitless and wasteful expenditure	Red	Yellow	Yellow	Green

No.	RISK	ROOT CAUSE	CORPORATE PLAN	MITIGATION STRATEGY	RESIDUAL RISK ASSESSMENT			
					2016	2017	2018	2019
9	PFMA compliance challenges	Protracted approval process.	Expedite processes to capture opportunities in Government business. Push for Government business		Red	Red	Yellow	Green
			Appoint COO to streamline internal processes and improved oversight		Red	Green	Green	Green
9	Human Capital Risk	Complex labour environment	Settlement deal for the past linked to a structured partnership for the future	Single recognition agreement	Red	Yellow	Yellow	Yellow
			Retention and acquisition of skills for new revenue lines		Red	Yellow	Yellow	Yellow
			Implementation of performance contracts commensurate with Incentives		Red	Green	Green	Green
10	Poor control environment	Irregular and wasteful expenditure	Simplicity and clarity of internal controls Root out past intermediaries		Red	Yellow	Green	Green
11	USO and other non-commercial initiatives			Re-instate of the subsidy	Red	Red	Yellow	Green
12	Postbank	Corporitisation timetable	Establishment Postbank as fully fledged bank	Move towards lending SARB compliant autonomy and Independence - segregation of IT and Governance structures Corporate plan success results in appropriate capital structure	Red	Red	Green	Green
		SAP0's BCC status - capital requirement ratios			Yellow	Green	Green	
13	Market position	Weak market position		Rebuild brand trust. Appropriate marketing strategy	Red	Red	Yellow	Green

Legend:	Extremely high	High	Medium	Low
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## 13 APPENDICES

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### 13.1 Appendix A: Costs and Capex

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#### Costs

- Material and Services costs will increase over the next three years, as a result of paper, ink, printers, branch stock items and similar supplies required to support increased revenues in post, parcels and retail.
- Communications costs will increase to accommodate the provision of Wi-Fi and internet café services in branches as well as increased specifications to support the PCI-DSS security standard Appendix for transaction services.
- DTT costs reflect contracted amounts escalated by CPI annually, in terms of the agreement signed with USASSA.
- Fruitless and Wasteful Expenditure will be not be tolerated and the objective will be to reduce to and maintain it at less than 1% of expenditure from 2016/17 onward.

#### Capex

Postbank Capex Funding from the fiscus has already been secured for Postbank's capex requirements to support the banking license, so those needs have been excluded from this base case analysis. Postbank will however require capex for lending activities (excluded from the current banking license scope due to regulatory restrictions). Included for completeness purposes only and no Board approval is required at this stage.

## **13.2 Appendix B: SAPO Operations Optimisation**

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### **Optimisation of IT Infrastructure and Capability**

The approach adopted in the STP regarding optimising the IT Capability is to outsource the non-core elements of IT. This will allow SAPO to focus on the core IT requirements that will enable SAPO to deliver innovative IT solutions that respond to customer needs, particularly in the courier/logistics, retail and banking space.

- Recruitment of requisite IT skills

SAPO's IT platform is a crucial element of the organisation's value chain and must operate at optimum levels. SAPO will recruit skilled resources to manage and support the IT systems and platforms. These skills will be crucial in helping SAPO position itself in the courier/logistics and retail space.

### **Optimisation of Mail Business Operations**

The STP proposed that, to either contain or drive operating costs down, SAPO must exploit rationalization and optimization opportunities with the following areas its Postal operations:

- Transport

Within the transport aspect of SAPO's business, two factors are key to achieving the goal of lowering cost, 1. Optimisation of the transport routes and 2. Improved utilisation of handling units such as trays, mail bags and containers, e.g. rolltainers, etc.

- Facility optimization

Efforts will be undertaken to optimize the utilization of floor space and in some areas, SAPO will take full advantage of opportunities, where economies of scale can be harnessed, such as the consolidation of facilities where feasible.

- Mail Processing

Operational processes will be reviewed with the objective of removing wastage from the system. A continuous improvement program will be established, along with the use of various operational techniques. Also a number of continuous improvement strategies are being explored for adoption in this year.

- Mail and Transport Crewing model

The crewing models will be reviewed and updated in-line with current retail operational trends.

### **Optimisation of Retail Operations**

- Rebalancing of the Retail network

Under-performing branches will be ear-marked for possible closure and operations to be relocated to the nearest branch.

- Optimisation of the Retail IT network connectivity

With the goal of improving the time to conclude a transaction, Retail operation focus on increasing its network bandwidth across all retail branches, a specific focus will be placed on branches with high-traffic volumes.

- Retail Crewing model

The crewing models will be reviewed and updated in-line with current retail operational trends.

- Counter systems upgrade

Currently, a large number of counter system peripherals are beyond its end of life and are in urgent need to replacement.

- Continuous improvement Initiatives

Various continuous improvement initiatives have been identified and will be re-assessed for relevance. Various initiatives will be planned and implemented over the next three year period.

### **High Performance Organisation**

- Drive Innovation

To be competitive, SAPO will need to foster innovation. Processes and systems that support innovation in SAPO, will be put in place to enable the organisation to be more responsive to customer needs and remain relevant.

- Company Policies Review

During the course of 2016, SAPO will develop a policy and procedure framework to support the development of a high performance organisation. In parallel to this, policies that are deemed mission-critical, specifically, policies that encourage cost management will be revised and routed for approval before the end of this financial year.

- Performance and Consequence Management Systems Implementation

In order to support the STP and the organisation beyond the implementation of the STP, a performance and consequence management framework will be implemented across the organisation. In particular, ensuring that this framework is rolled out to all of SAPO's management team before the end of the second quarter of this financial year.

- Leadership and Career Path Development

Critical to building a high performance organization will be strong and skilled leadership. SAPO will develop leadership programs which will be driven by SAPO's executive committee. In addition, positions that are considered critical, a talent pool will be built to ensure that high-performing individuals are retained.

- Training and Development of Staff

Though SAPO faces funding challenges, the process of identifying the training and development needs of employees will be an ongoing process, so that in the key areas of the business, training and development can be undertaken to support a high performance culture and organisation. The training plans will be aligned to the performance framework. Over time, these initiatives will be widened to the rest of the organization.

- Reward and Recognition System

In order to successfully change SAPO to the envisaged goal of a high performing organisation, a reward and recognition system will be developed and rolled out once funds are available.

### **13.3 Appendix C: Corporate Governance**

#### **SAPO Board of Directors**

In August 2015, the Board of Directors was appointed by the Cabinet on the recommendation Minister of Telecommunications and Postal Services. The SAPO board is comprised of:

Dr Simo Lushaba (Chairman)	Ms. Bulelwa Soci (Deputy Chair)
Ms. Dawn Marole	Ms. Nomahlubi Simamane
Mr. Sihle Ngubane	Mr. Robert Nkuna
Mr. Comfort Ngidi	Dr. Moretlo Molefe
Mr. Mdu Zakwe	Mr. Elvis Rabohale
Mr. Mark Barnes (GCEO)	Ms. Nichola Dewar (Acting GCFO)

#### **Committees of the Board**

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

- Audit and Risk Committee
- Strategy (STP) Committee
- IT Governance Steering Committee
- Human Resource, Remuneration and Performance Management Committee
- Social, Ethics and Transformation Committee and
- Postbank Committee

## 13.4 Appendix D: Governance Framework

### 13.4.1 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.

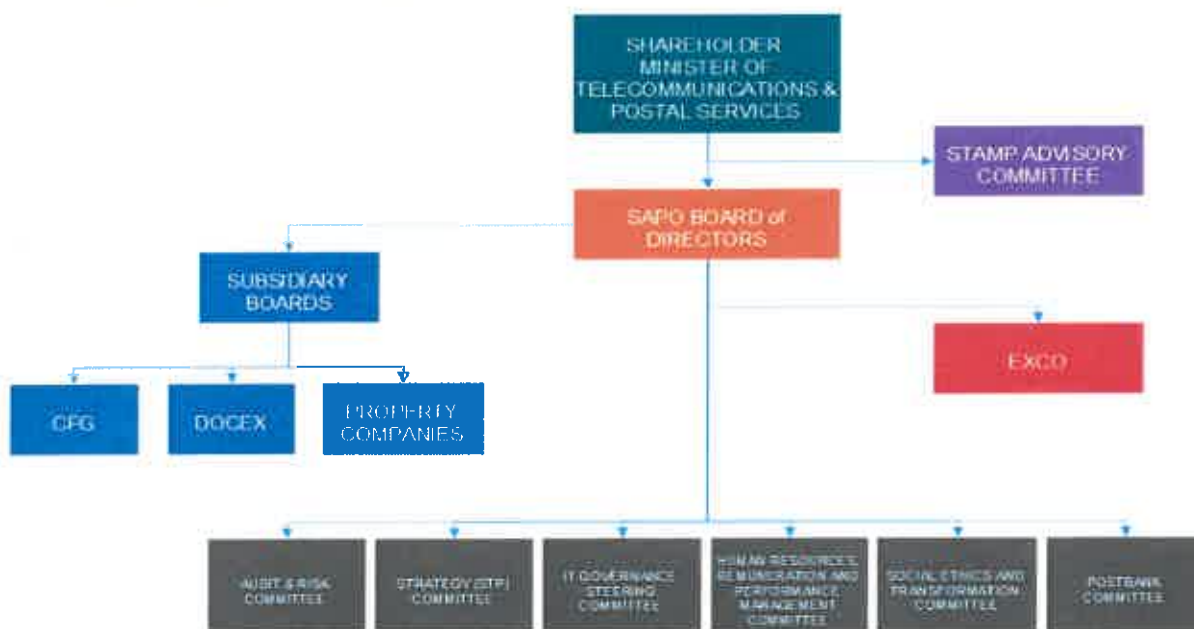


Figure 10: SAPO Group Structure

## **13.5 Appendix E: Mandate, regulation and license**

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### **Statement of purpose**

As per the license agreement with Government, the South African Post Office is obligated to provide a range of competitively priced products and services that must be easily accessible nationally. These products and services, both basic and innovative, should provide for the evolving needs of government, business and citizens.

As a state owned entity, SAPO leverages off its systems and infrastructure platforms to connect citizens business and government. SAPO's key focus is to bridge the digital divide, particularly in the rural areas, through the provision of critical and relevant government services. Viewed as an integral component of Government infrastructure, SAPO encourages economic development by actively engaging with small, medium and macro enterprises and, through Postbank, driving a savings culture within the unbanked communities.

### **South African Post Office Mandate**

The SA Post Office is mandated, as per the Postal Act 44 of 1958 and the Postal Services Act 124 of 1998, to conduct postal and financial services in South Africa. These acts provides for the regulation of postal services and the operational functions of the company, including its Universal Service Obligation. The SA Post Office complies with legislation governing State Owned Companies (SOC) and is guided by various postal, courier and financial regulations as outlined by the regulatory bodies such as ICASA and the Financial Services Board.

South African Post Office SOC Limited was established on 1 October 1991, as a public company, in terms of the Companies Act. The Government of the Republic of South Africa is the sole shareholder represented by the Minister of Telecommunications and Postal Services. As a State owned entity, the SA Post Office complies with the PFMA and all its regulations as far as Schedule 2 entities are concerned. The South African Post Office is also required to comply with the Protocol on Corporate Governance in the Public Sector (1997) and also complies with the King III code on corporate governance.

## Universal Service Obligation

The purpose of the universal service obligation is to ensure accessible, equitable, and affordable postal services to all South African citizens. It's on this basis, that SAPO was issued an Amended Reserved Postal Services License in Notice 149 of 2012 by ICASA<sup>1</sup>, effective retrospectively from 20 October 2008.

The universal service obligation ensures that a basic letter service is available to all South African citizens and specifies the following critical success factors to meeting the expectations of the USO:

- Provision of access points that are reasonably accessible to all people in the country regardless of physical location
- A basic letter service at a uniform rate of postage
- Must be at an affordable price.
- Provide a reliable service

The license provides for the exclusive provision of reserved postal services by SAPO for a period of 25 years and is the only operator allowed to provide services within the reserved area.

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<sup>1</sup> ICASA: The Independent Communications Authority of South Africa



### 13.6 Appendix F: 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 of 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

No	Legislation impact SAPO
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
42	South African Postbank Limited Act, No. 9 of 2010, as amended
43	The Public Finance Management Act, No. 1 of 1999

