

South African Post Office Presentation

Parliamentary Committee on Communications

12 June 2009

Cape Town

Post Office



We deliver, whatever it takes.

Agenda

- Board of Directors Overview: Chairperson
- Organisational Overview : Group CEO
 - Business Units Overview
- Financial Overview : Group CFO
- Conclusion : Group CEO

Board Overview

SA Post Office Board Chairperson

Ms VF Mahlali

Board Overview

- ❑ History of the SA Post Office
- ❑ SA Post Office Waves of Transformation
- ❑ Corporate Governance Framework
- ❑ Board Focus - 2009/2010
- ❑ Cross - Cutting Challenges
- ❑ Priorities - 2009/2010

History of Post Office

1991 – 1998 : The initial commercialization era

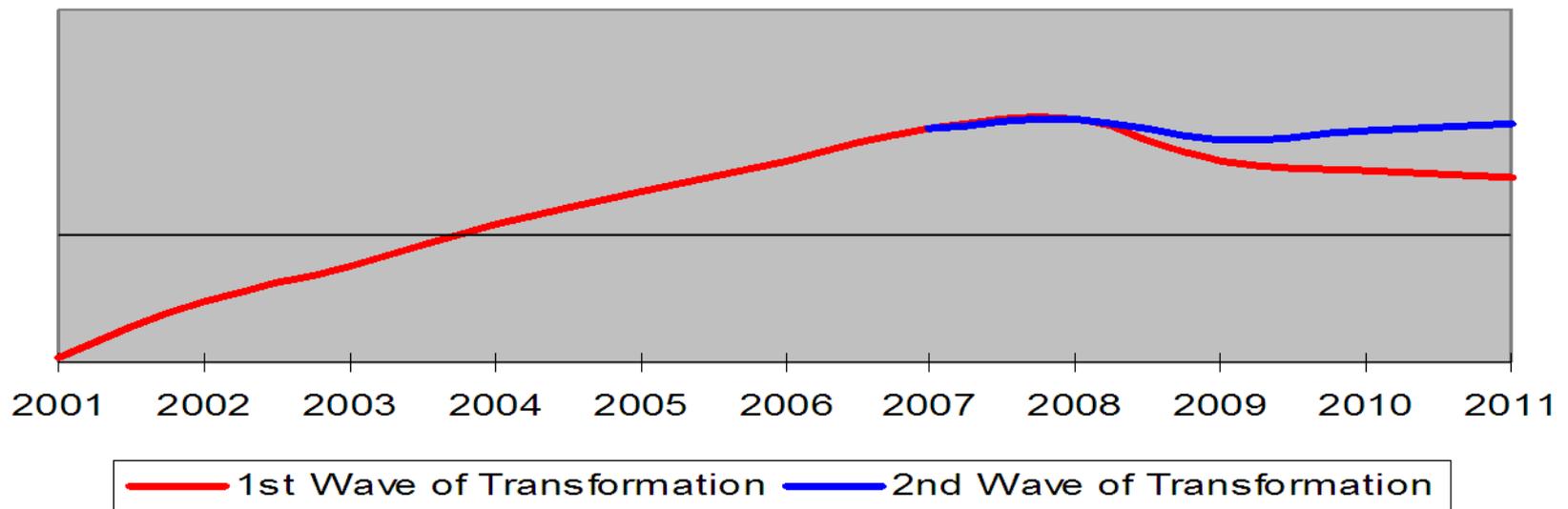
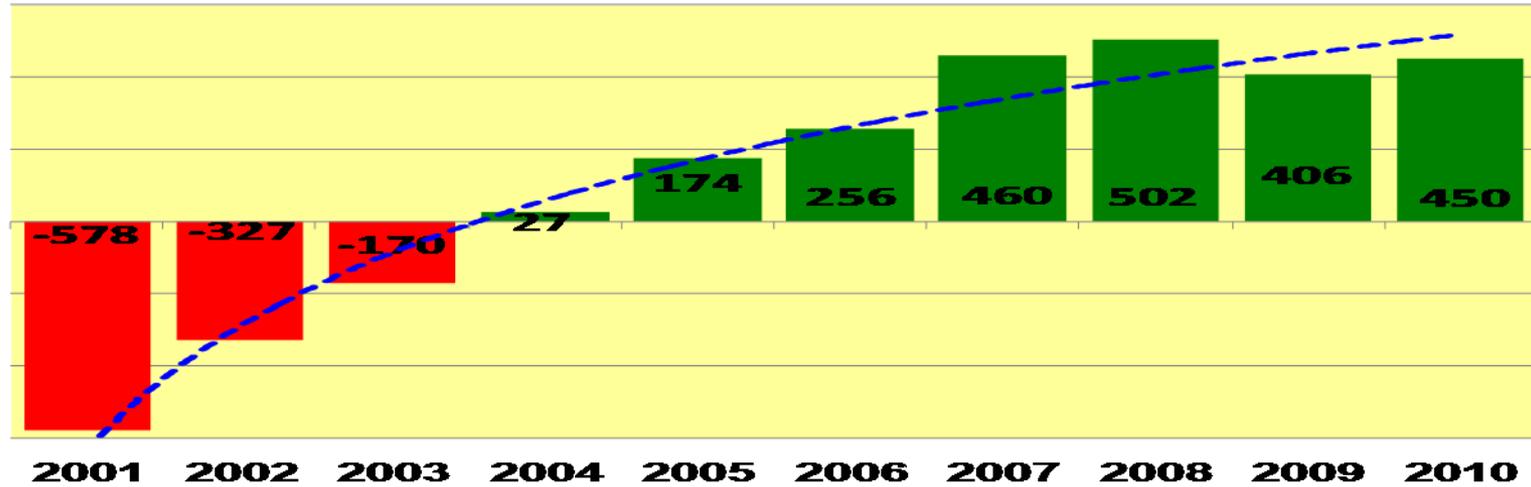
1999 – 2002 : The strategic management partner era

2001 – 2004 : The restructuring & transformation era

2005 – 2006 : The repositioning era

2007  : Growth, development & sustainability era

SAPOO Waves of Transformation



Board Focus 2009

- Embed/Institutionalise corrective measures for organisational stability and operational efficiency
- Create a culture of compliance and corporate governance
- Strengthen leadership and improve performance of Board in discharging it's fiduciary duties
- Creating an enabling environment for enhancing sustainable growth and development of SAPO

Corporate Governance Framework

- ❑ SA Post Office Limited is a public company established in terms of the Companies Act, 61 of 1973. The State (Republic of South Africa) is the sole shareholder represented by the Minister of Communications.
- ❑ The Shareholder appoints directors for a renewable fixed term of three years.
- ❑ The roles and responsibilities of the Board are defined in the Articles of Association, Shareholder's Compact, Board Charter and the Companies Act.
- ❑ The Board is comprised of sixteen (16) members, four (4) executive directors (i.e. GCEO, COO, CFO & MD : Postbank) and twelve non executive directors.

Corporate Governance Framework

- ❑ The Board meets on a Quarterly basis.
- ❑ The and also holds strategic sessions and risk assessment workshops
- ❑ The board functions through six (6) Committees and one (1) Advisory Committee which are chaired by non-executive directors,
 - Chairpersons' Committee
 - Audit Committee
 - Human Resources and Transformation Committee
 - Postbank Committee
 - Remuneration and Performance Management Committee
 - Risk Management
 - Stamp Advisory Committee

Cross-Cutting Challenges

- ❑ **Implications of Economic Downturn on SAPO Business and Mandate (eg expansion versus cost containment)**

- ❑ **Vision coherence and co-ordination among and between Government stakeholders: SAPO as preferred Service Delivery intermediary**
 - Sector Portfolio: ICASA/Sentech/USSASA
 - Economic Cluster (eg Postbank – Financial Services)
 - Infrastructure Cluster (Thusong/Multipurpose Centre)
 - Social Cluster (Grants/Pensions)
 - Security cluster (ID, Trust Centre, SAPO Security)

- ❑ **Implications of New Business Model**
 - Postbank Corporatisation (Banking License & Subsidiary Board Establishment)
 - Logistics Consolidation (CFG & Speed Services)
 - Postal Addressing and Postal Code Restructuring
 - SAPO Property Portfolio Restructuring

Priorities - 2009

❑ **Consolidate** (Gains, Structural Synergy for Operational Efficiency and Revenue Growth)

❑ **Corporatisation**

The art of organising the structure of a government owned entity or part thereof into a legal entity, with the corporate structure found in corporate trade companies. These companies tend to have a Board of Directors, Management and Stakeholders.

The main goal of corporatisation is allowing Government to retain ownership of the company, but still enable it to run as efficiently as its private counterparts.

❑ **Corporate Citizenship** (Employer of Choice; a Caring and Responsible Citizen - Corporate Governance and Social Responsibility)

Organisational Overview

Group Chief Executive Officer

Organisational Overview

- ❑ Vision, Mission and Values
- ❑ Regulatory and Legislative Framework
- ❑ Social Mandate
- ❑ Global trends
- ❑ License Obligations
- ❑ Group Structure
- ❑ Critical success factors
- ❑ Business Transformation Pillars
 - ❑ Organizational design
 - ❑ Business restructuring
 - ❑ Corporate governance
 - ❑ Human capital development
 - ❑ High performance organisation

Legislative Environment

Acts

- Postal Act: Mandate for the provision of Postal and Financial service
- Financial Services Acts: FAIS, FICA and NPS
- Electronic and communications Act: Preferred Authenticated Service Provider
- PFMA
- Occupational Safety Acts
- Credit Act
- Intergovernmental Relations Framework Act 13
- Companies Act
- King III

Regulations

- Postal regulations - ICASA
- Courier Regulations – ICASA
- Financial Regulations – FSB, PASA and Savings Bank Regulations
- World Savings Bank Institute

International

- Universal Postal Regulations
- Kyoto convention
- World Customs standards & convention

Vision and Mission

Vision

To be recognized among the leading providers of postal and related services in the world

Mission

We will enable the nation to efficiently connect with the world by distributing information, goods, financial and Government services; leveraging our broad reach and embracing change, technology and innovation

SA Post Office Values

- ❑ We have a passion for our customers and will meet their specific needs through excellent service
- ❑ We aim to contribute positively to our communities and environment
- ❑ We treat each other with respect, dignity, honesty and integrity
- ❑ We recognise and reward individual contributions
- ❑ We embrace diversity in the way we conduct business

Social Mandate

❑ Social Mandate - Will focus on 10 priorities highlighted by State of the Nation Address

- economic growth & development
- building economic and social infrastructure
- develop and implement comprehensive rural strategy
- strengthen the skills and human resource base
- improve health profile for all
- intensify the fight against crime and corruption
- build cohesive, caring and sustainable communities
- pursue African advancement and enhance international co-operation
- built a developmental state
- improve public services

❑ Triple Bottom Line Reporting (Profit, People, Planet)

License Obligations

License issue	Target for 2008/9	Achieved in 2008/9	Target for 2009/10
Address expansion	1.63m	1,67m	1.78m
Branch Roll out - New	100	45 completed	100
Branch Roll Out - Upgrades	100	75	100
Quality of service <ul style="list-style-type: none">• Delivery standard• Queue times	95% 7 Min	94.2% 15 min	Target 95% 7 min

Global trends in the postal environment



Optimization

Maximising the efficiency and effectiveness of existing processes, systems and networks performance systems



Innovation

The introduction of new products and services designed to respond to the needs of a demanding market



Diversification

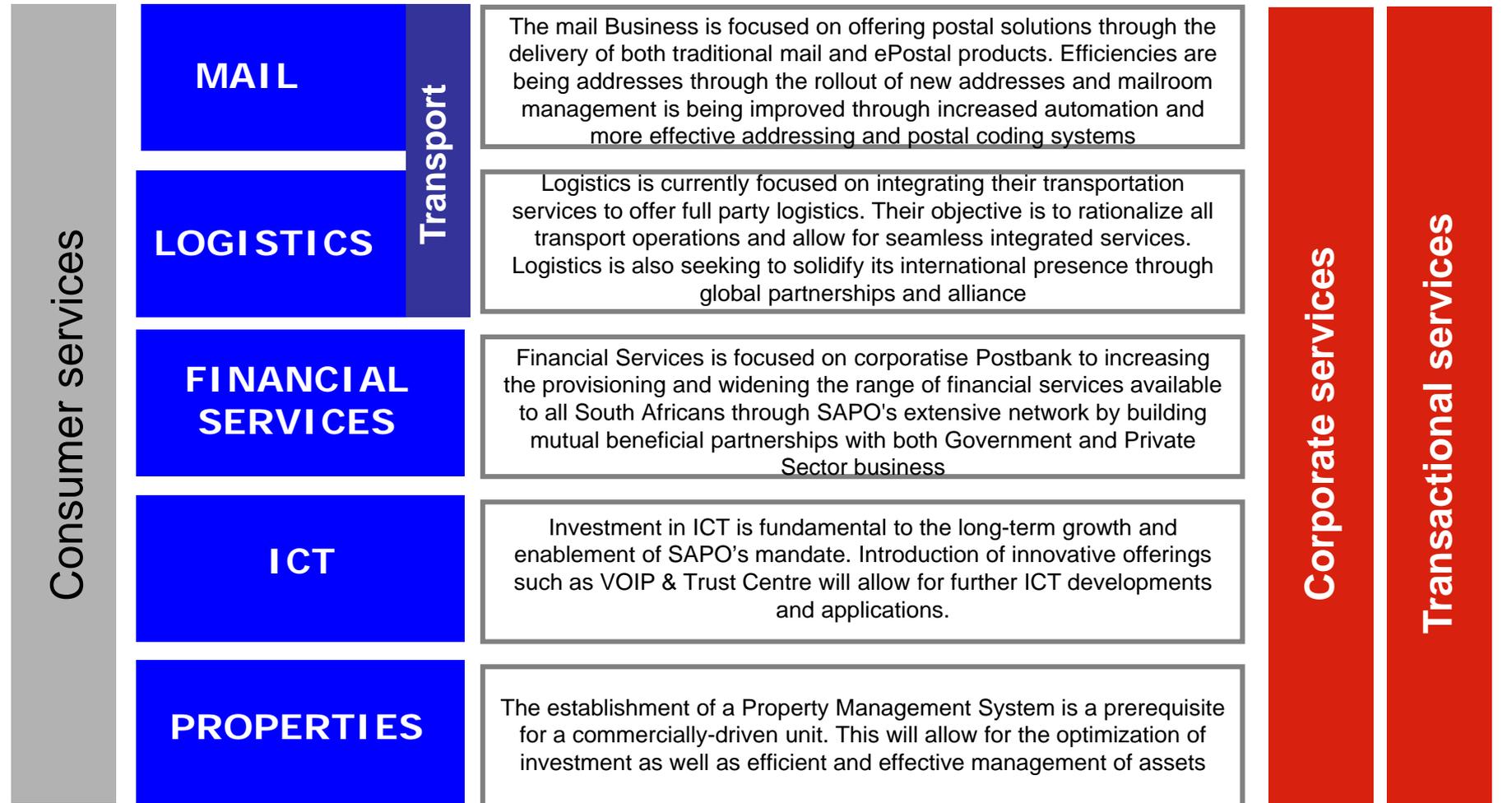
Entering new lines of businesses through investment in new capabilities, partnerships and acquisitions



Globalisation

Expanding and capturing business opportunities beyond local borders

Organisational Design – business model



Group structure

South African Post Office Group

Mail

Logistics

**Financial
services**

**New
Businesses**

Key statistics

Mail centre's: 26

Mail Depot's: 438

Volumes p/d: 5.88m

Delivery standard: 94.5%

Bulk Customers: 481



Properties

ICT

Corporate and Business Support

Consumer Services (Customer channel)

Group structure

South African Post Office Group

Mail



Logistics

**Financial
services**

Bank

**New
Businesses**

Properties

ICT

Key statistics

Nr of depots: 26

Nr of parcels p/d: 50 000

Nr of containers moved p/d: 500

Bulk customers: 200

Consumer parcels p/d: 20 000

Corporate and Business Support

Consumer Services (Customer channel)

Group structure

South African Post Office Group

Mail



Logistics



Financial services

New Businesses

Corporate

Key statistics

Nr of savings acc: 1.5m

Deposits: R 1.87bn

Nr of transactional accounts (Flexi): 4.96m

Deposits: R 1.2bn

Investment account: 35k

Deposits: R259.8m

Total assets R3.4bn

Consumer Services (Customer channel)

Group structure

South African Post Office Group

Mail



Logistics

**Financial
services**

**New
Businesses**

Consumer services key statistics

Nr of outlets: 2 408

Counter points: 4 178

Nr of tx p/d: 637 129

Nr of customers p/d: 232 340

Pay a Bill clients: 315

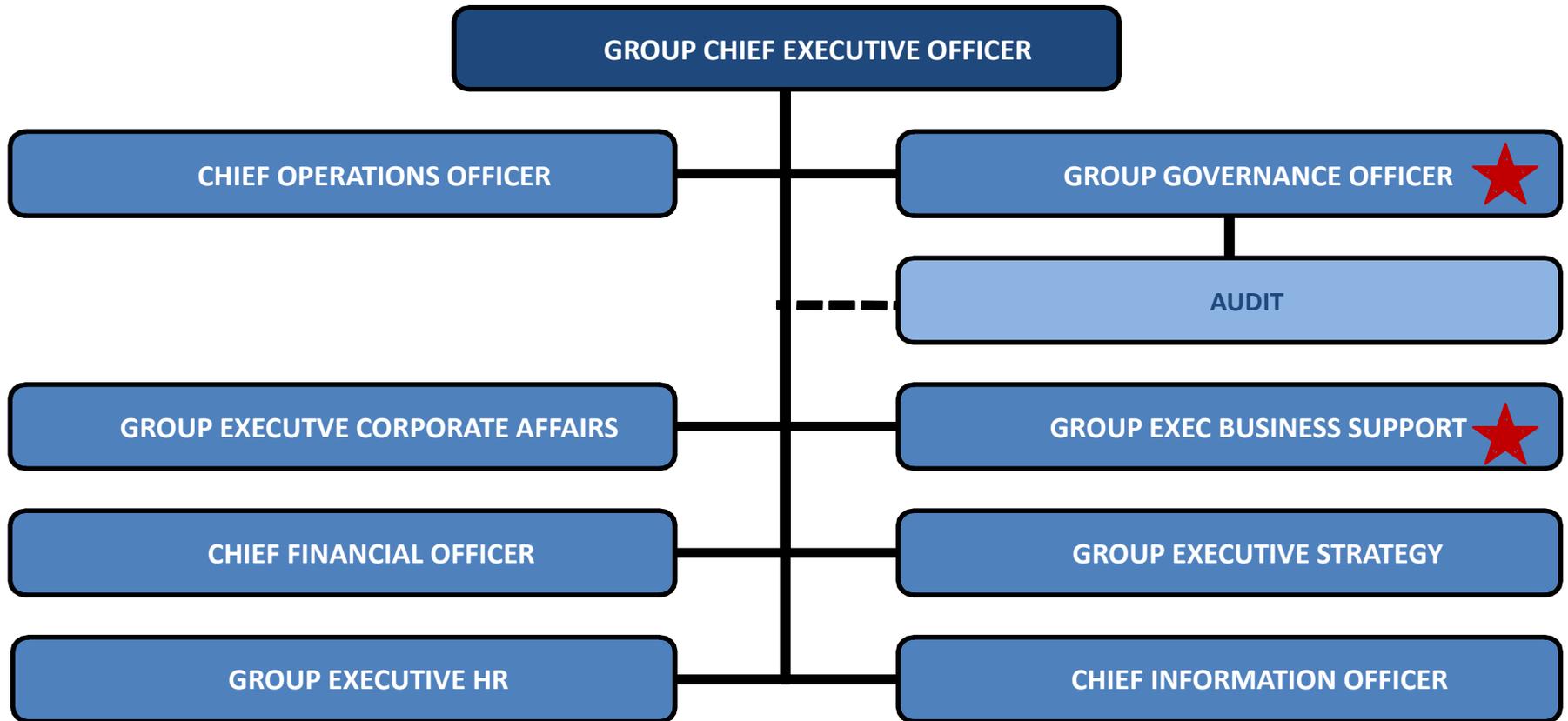
Pay a Bill Collection p/m: R18m

Properties

ICT

Consumer Services (Customer channel)

Organisational Structure



★ Not yet filled - 2010

5 Business pillars of Transformation

Business restructuring

- Establish a focused and integrated courier and freight business within the Logistics Unit
- Corporatisation of Postbank
- Well-balanced investment plan to address access and capacity challenges
- Improve productivity and efficiency
- Restructure and redefine the corporate and business support structures

Organisation design

- Full implementation of the business model
- Re-align operational structure to new business model.

Corporate governance

- Enhance internal control and contract management
- Review all policies and procedure
- Improve risk management and mitigation plans

High performance organisation

- Change management program
- Communication program
- Strong performance management to ensure correct and positive behaviour

Human capital development

- Transformation programme
- Identify and manage critical skills to ensure capacity within the company
- Re-focus training to ensure compliance

Business restructuring

Corporatisation

- Group Holding structure
- Postbank corporatisation
- Logistic company re-organisation
- Property companies review
- Dormant company review

Consolidation

- Financial Services: Consolidation of all financial services under one unit
- Logistics: Consolidation of all parcels
- Transport: Consolidation of fleet between Mail and Logistics
- Business support services: Consolidation of all support services under one unit

Technology enablement

- Infrastructure
 - Network upgrade , DRP
 - Trust Centre
 - Enterprise architecture
- Business platforms
 - Flexcube, SASSA, Point of Sale [WRE]
 - Track and Trace, Postal addressing code, e-fulfillment solutions

Corporate Governance

- ❑ Anti fraud and corruption strategy
- ❑ Formalised ethics committee
- ❑ Investment committee
- ❑ Enterprise risk management
- ❑ Financial service banking compliance
- ❑ Accreditation of Trust Centre (ECA and ECT Act compliance)
- ❑ King compliance
- ❑ Continuous review of procurement processes

Mail Business Overview

Mail Business Executive

Mail Business Overview

□ Mail Business Overview

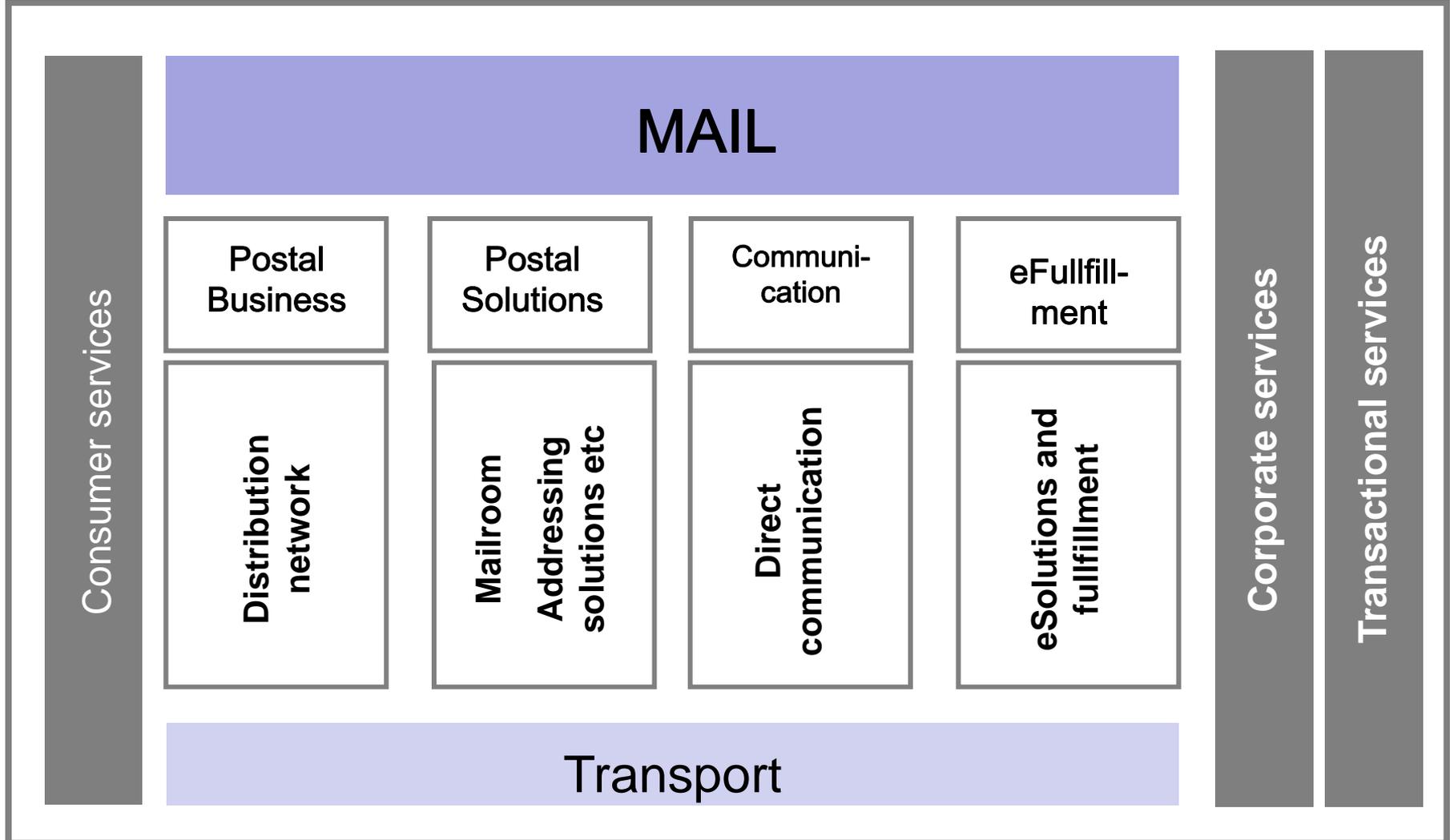
□ Key Statistics

- Mail Business Infrastructure
- Mail Volume Trends

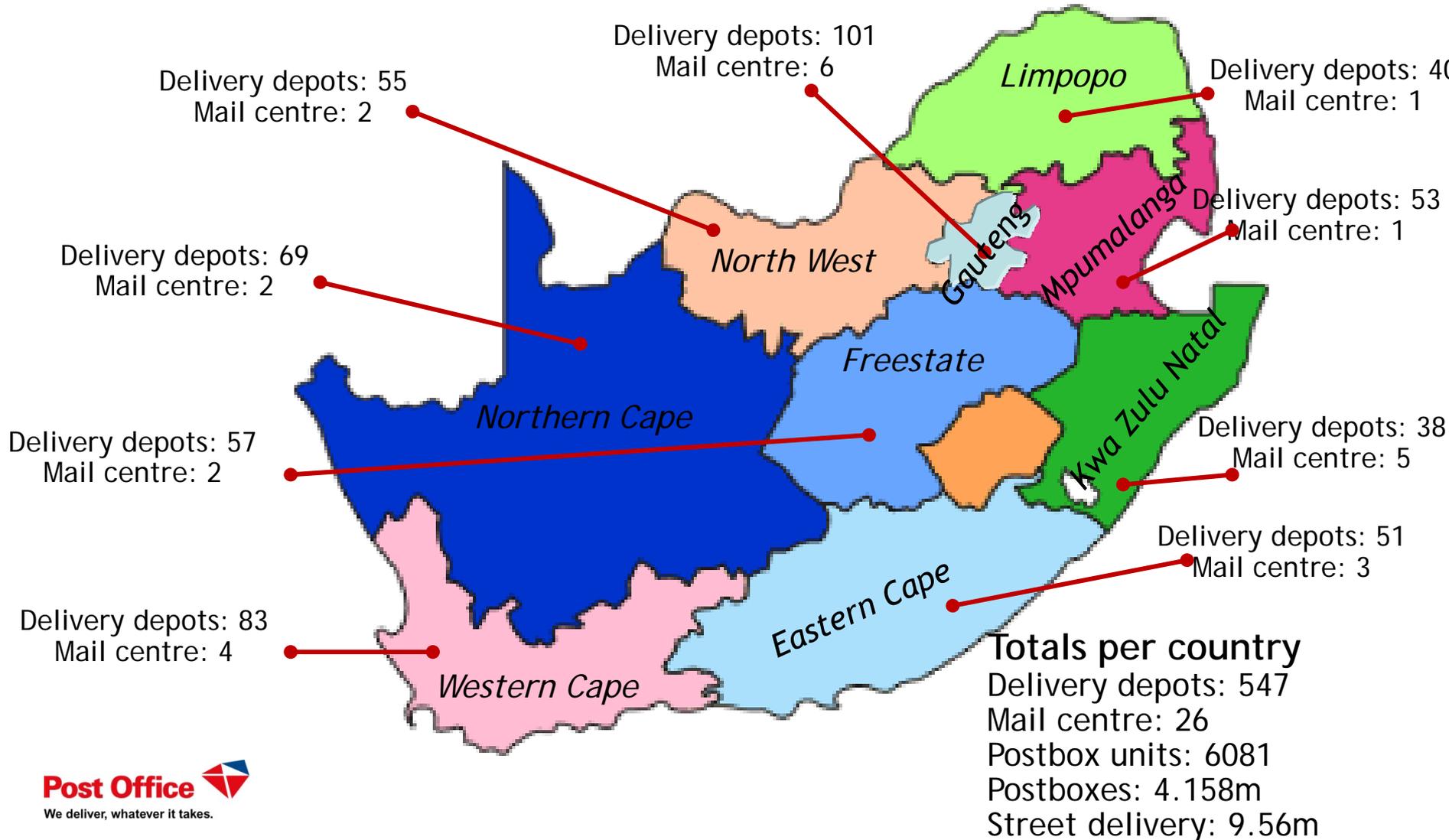
□ Major Key Projects

□ Performance Trends

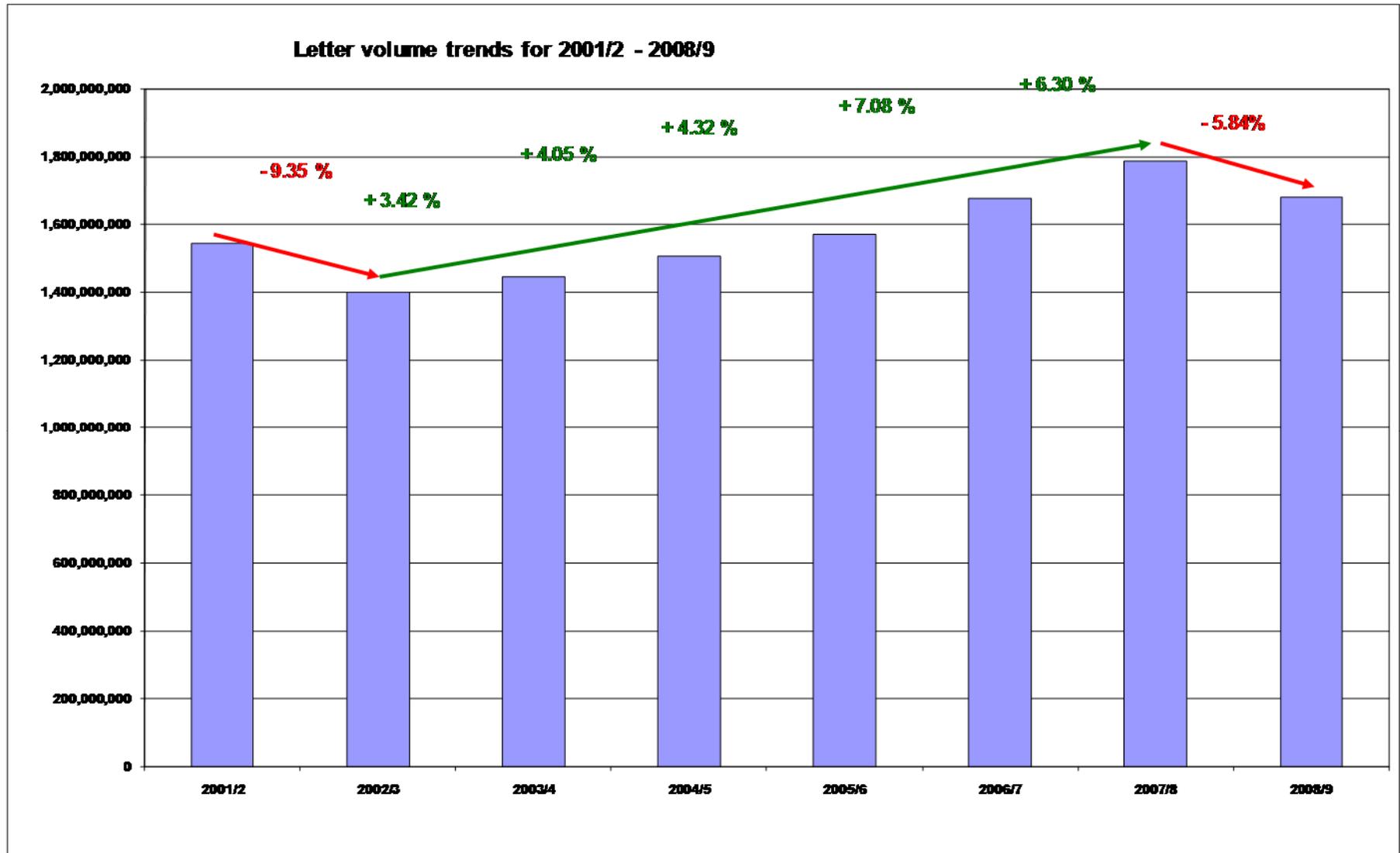
Organisational Design – Mail Business Model



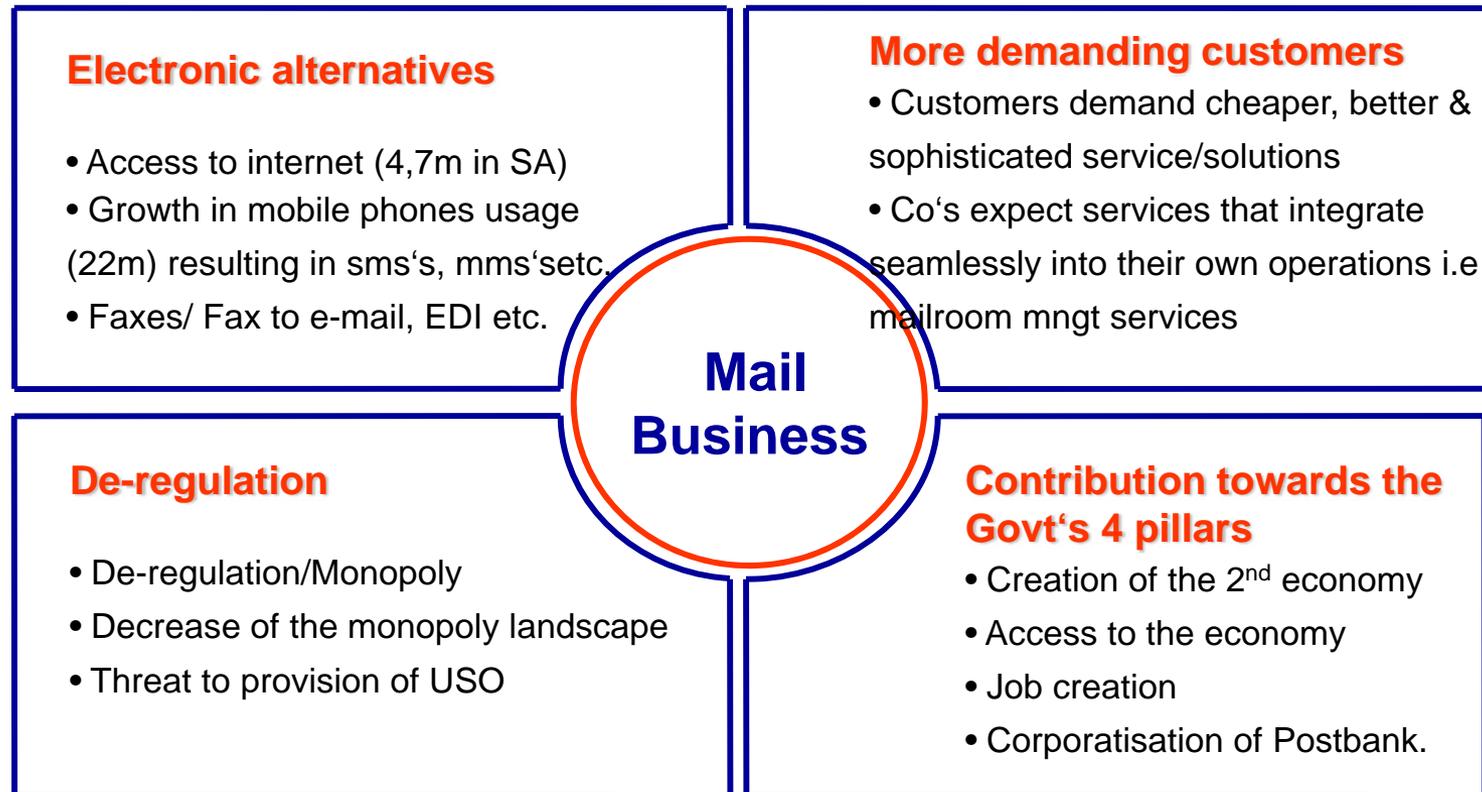
Mail footprint



Mail Volume trend



Challenges



Major Key Projects

ISO

Address Expansion



E-fulfillment

Post Code and Addressing

New Postal Addressing and Postal Code System

- ❑ The comprehensive address code describes the journey of a mail item from origin to destination.
- ❑ It also contains internationally-compliant data and some other useful information.
- ❑ The code comprises four basic types or sets of data:
 - **Origin** : *Where the mail item came from*
 - **Postal Routing and Delivery**: *down to Delivery Point identification*
 - **Geographical location**: *from country to specific delivery point location*
 - **Tariff**: *the postal revenue value*

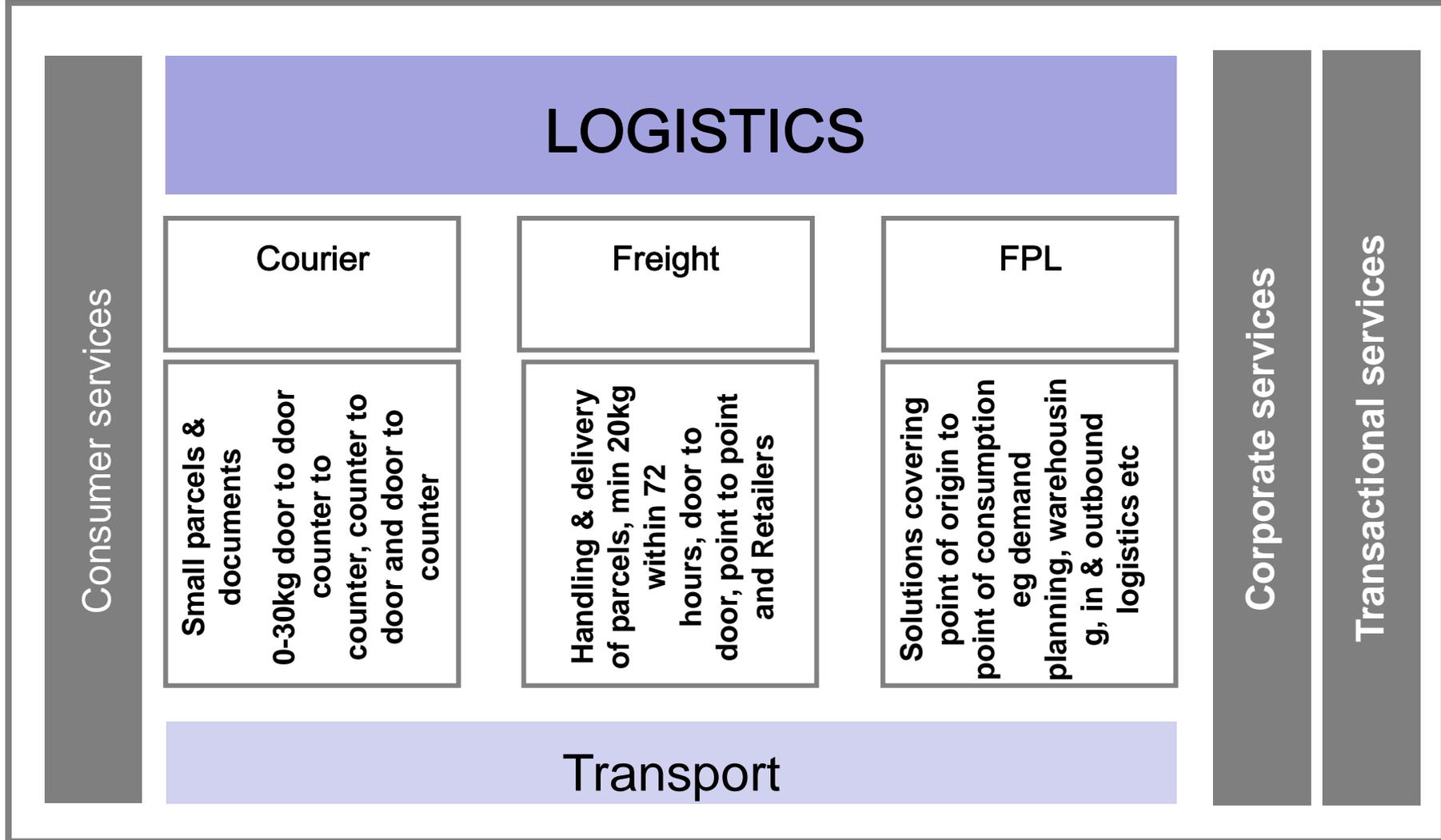
New Postal Addressing and Postal Code System

- ❑ Rural and informal addressing:
 - Complete compatibility with rural addressing system and the like.
- ❑ International mail capability:
 - Can be configured for compatibility with other countries using (even slightly) similar hierarchical postcode or barcoded „intelligent mail“ systems.
- ❑ Standards compliance:
 - International Standards Fully compliant with UPU S42 International Postal Address Components and Templates,
 - National Standards: Also fully compliant with SANS 1883 Addressing Standards.
 - Geographic standards: Will comply with geographic standards such as ISO/TC211.
- ❑ Other inter-operability factors...

Logistics Overview

Managing Director: CFG

Organisational Design – Logistics Business Model



Logistics Offerings



The Courier & Freight Group



**Document
Exchange
Services**



**Full spectrum courier
And freight services**



**Consolidated Freight
containers**



**Courier services
Doors and counters**

Value proposition and core offering

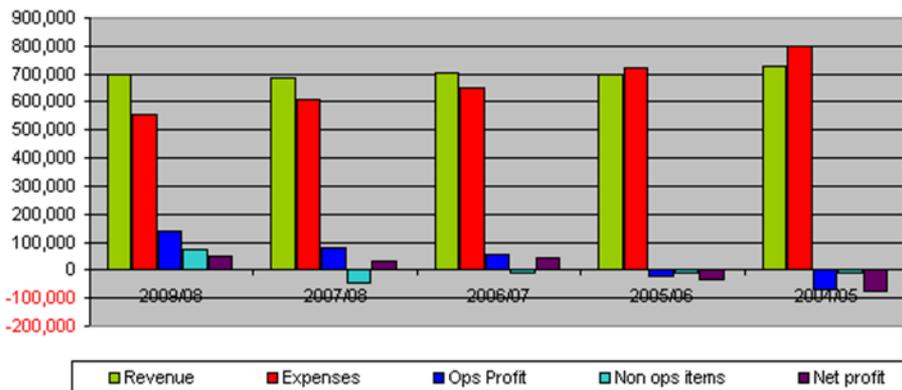
				
Target market	Consumer / Business	Business	Business Bulk	Legal profession
Service Offering	Courier services involving counters	Courier and Freight services	Consolidated mini freight containers	Move legal documents between members
Competitive Advantage	The Counter (Post Office Network) – Affordability	National footprint, no sub-contractors	Sell space Sealed containers No tampering	Access to the back offices of the courts
Positioning	No-Frills	Premium	Reliability	Secure

Logistics Key Projects

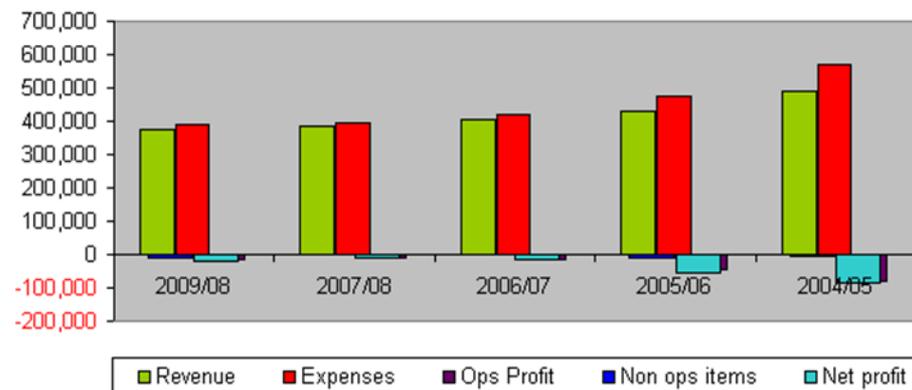
- Develop effective Transport unit
- SSC/CFG Integration
- Container and fleet re-capitalisation
- Pursue government as key partner for full logistics solutions
- Track and trace development

Logistics Performance trends

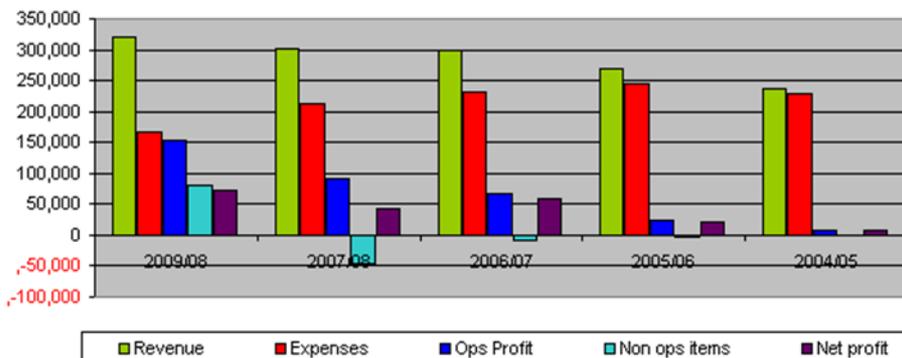
TOTAL LOGISTICS



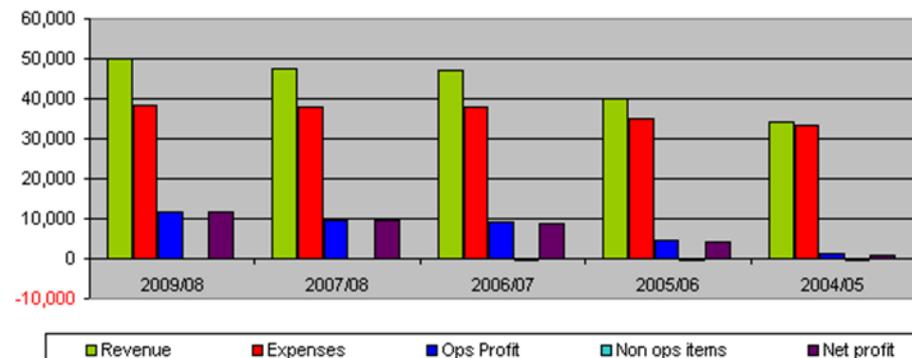
CFG



SSC



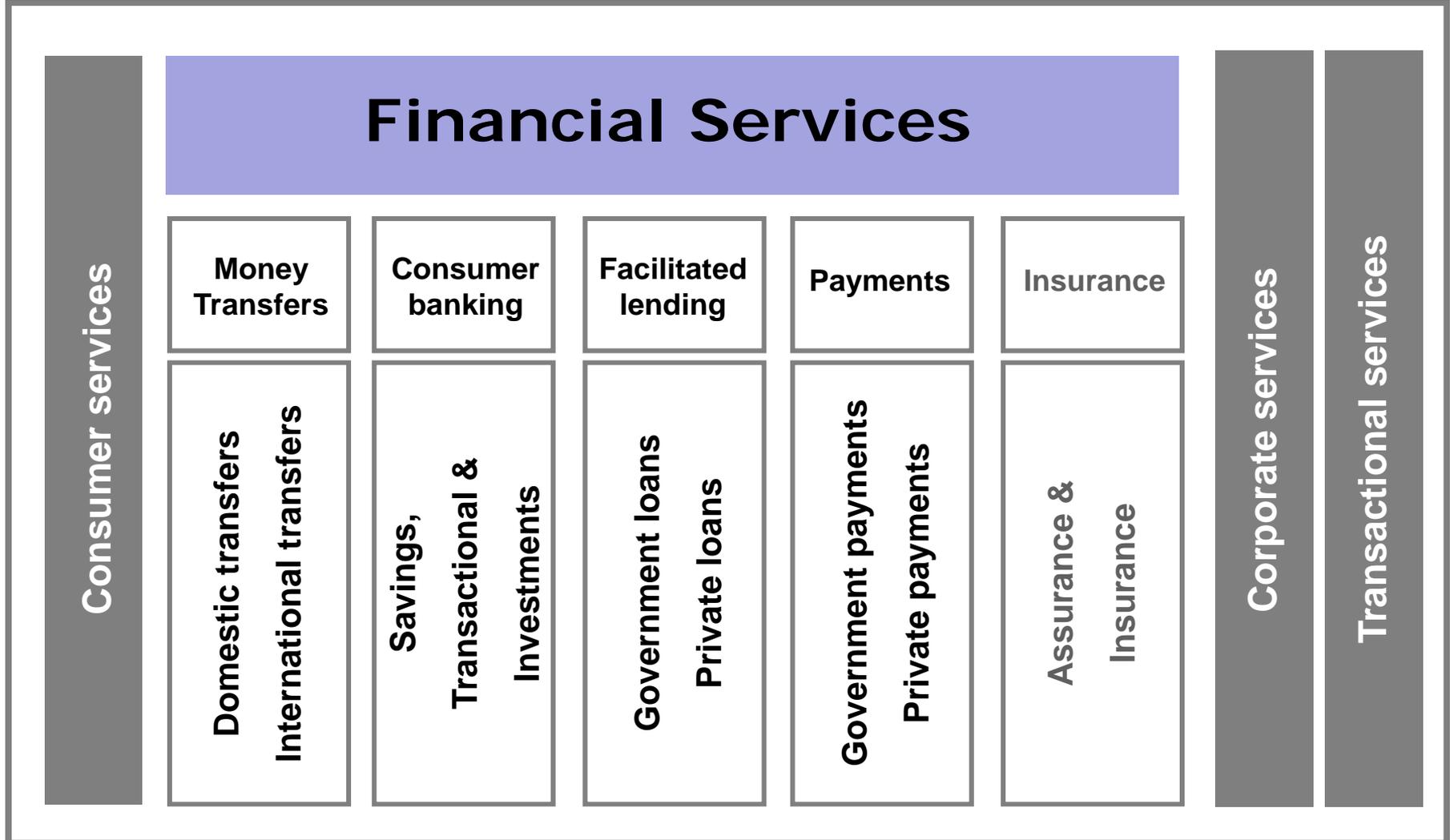
DOCEX



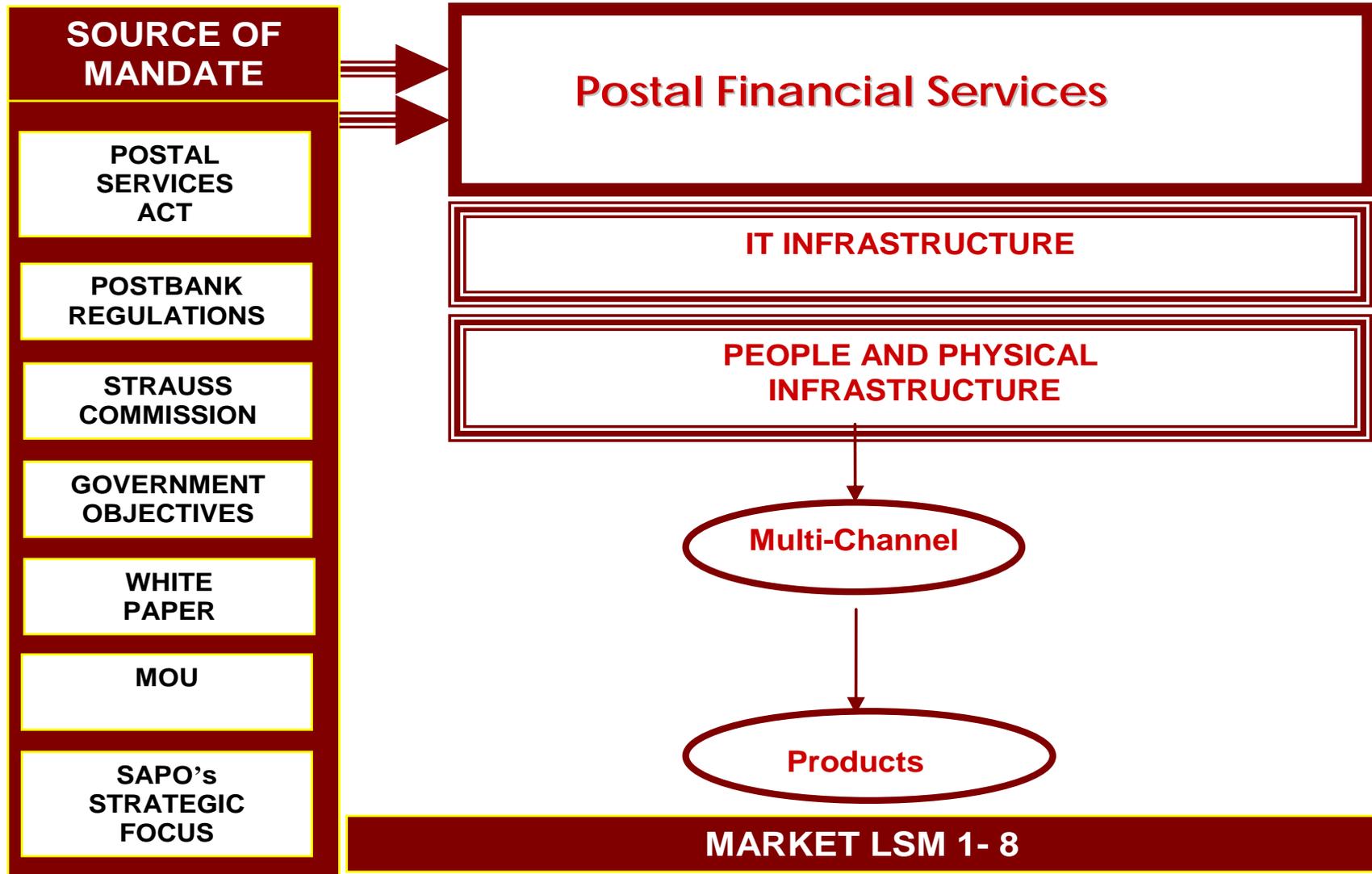
Financial Services Overview

Managing Director: Postbank

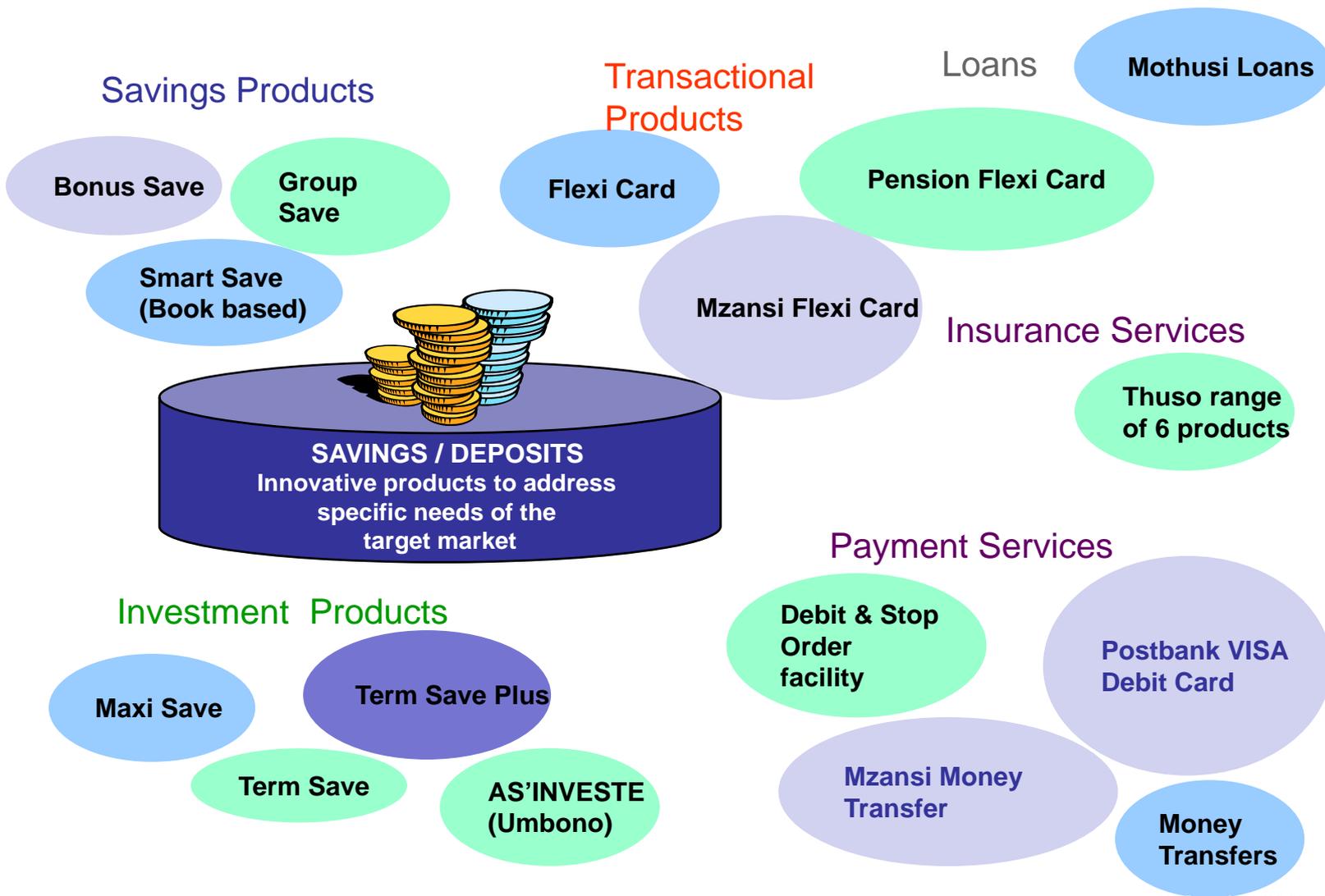
Financial services business model



Financial Services's mandate

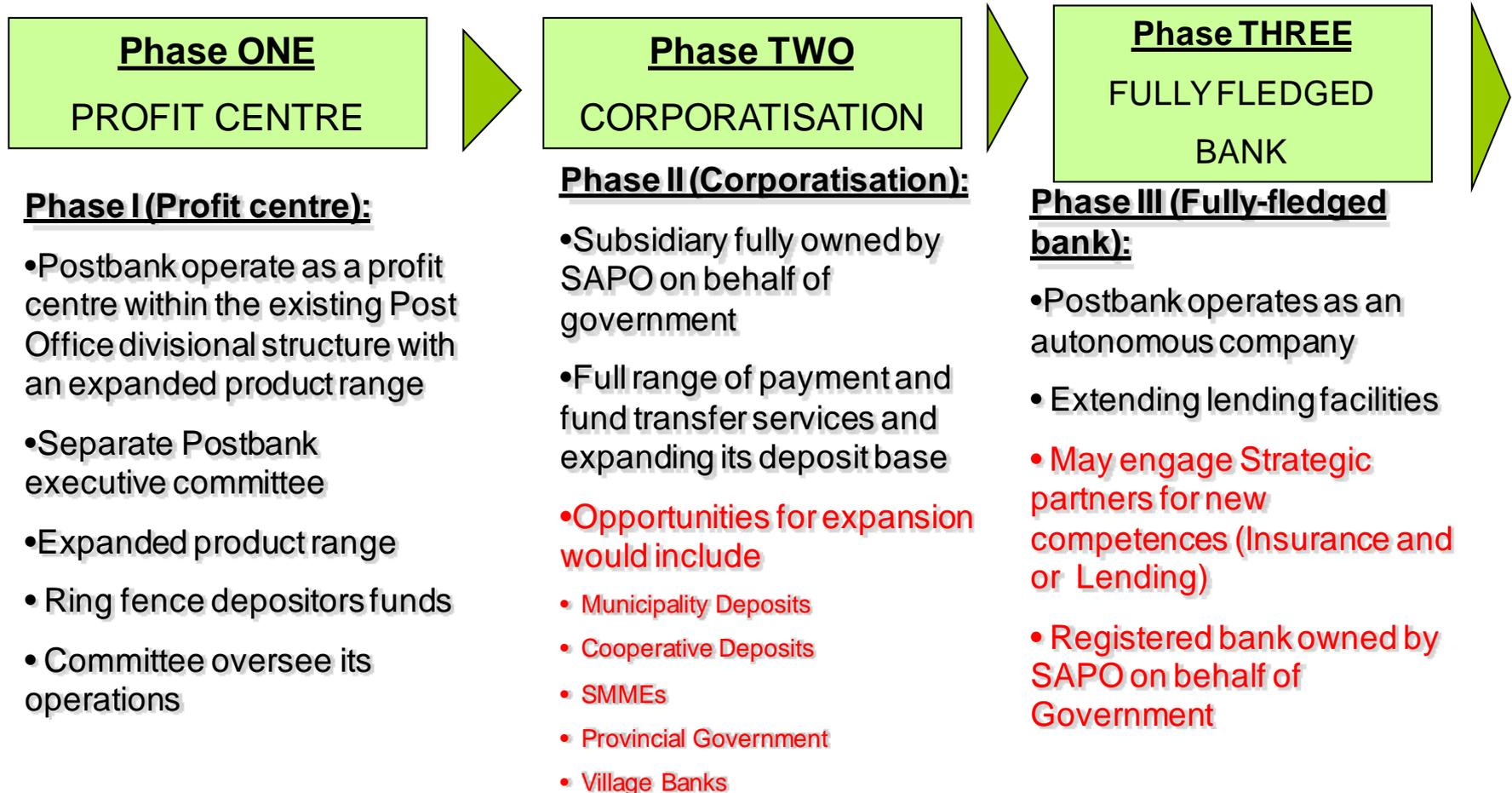


Financial Services product portfolio



Financial Service's key programs

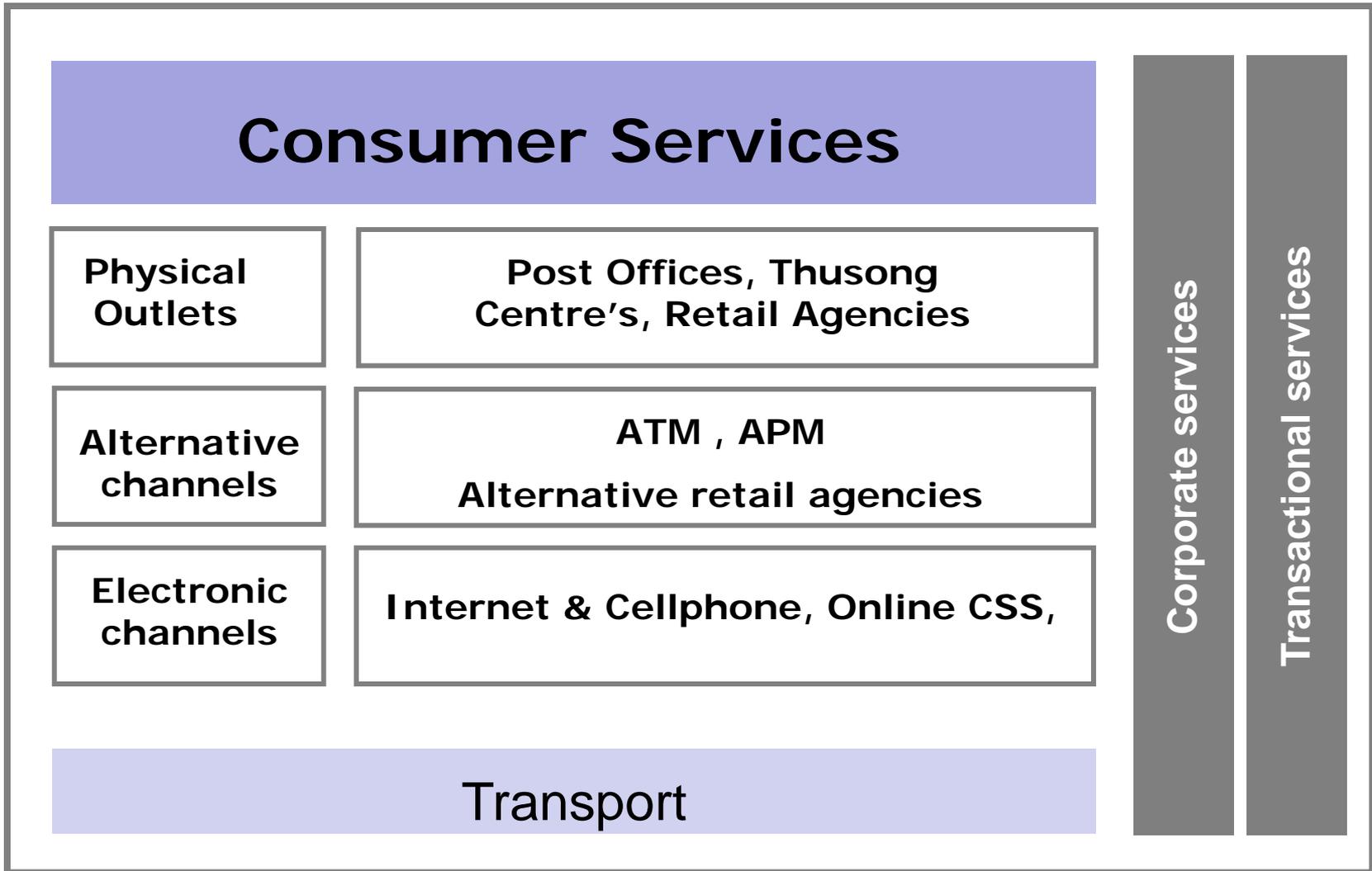
□ Postbank corporatisation



Financial Service's key programs

- ❑ Expand payment services to retailers in order to grow market share
- ❑ Developed and implement money remittance service and system between SA, DRC, Lesotho, Mozambique and Angola
- ❑ Develop a bank POS system for all post office
- ❑ Government Business

Consumer Services business model



Consumer Services key programs

- Teller training program to ensure FAIS compliance
- New POS
- Implement alternative channels eg SPAR
- Retail agency automation

Corporate Services and Business Support Overview

Group Chief Executive Officer

Human Capital Management

- Human capital development
- Employment equity
- Talent management
- Performance management

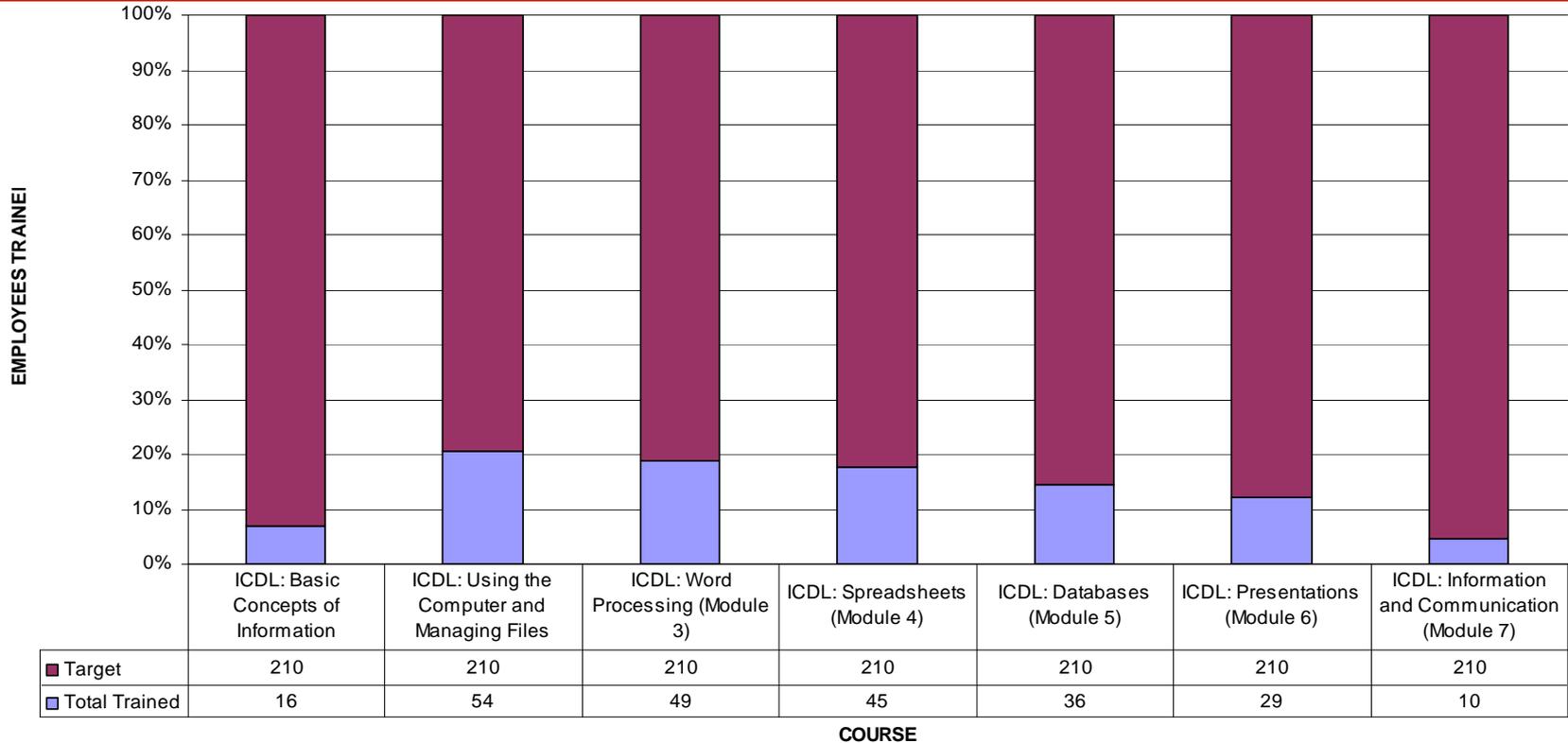
Human Capital Development

Programme	Purpose
Leadership journey	To adjust the leadership behaviour to ensure consistency
Coaching and mentoring	Enable and equip leaders to coach and mentor teams
People change enablement	Build capacity to enhance readiness to deal and manage behavioural change
Personal mastery	Assist employees to reach full potential and high levels of emotional intelligence (EQ)
SAPO values	Entrench and live values of company
Diversity management	Value and embrace different kinds of diversity
Team development	Optimal functioning of teams to achieve targets
Induction program	Proper socialising of new employees into SAPO environment
Specialised training programs	Mail and Logistics staff, Financial services and Consumer services staff

Human Capital Development

- Learning and Development
 - Vocational training
 - E-skills training
 - AARTO training
 - ISO training
 - Special development initiatives
 - Learnership programs
 - Recognition of Prior Learning
 - ABET
 - Graduate program
 - Bursaries

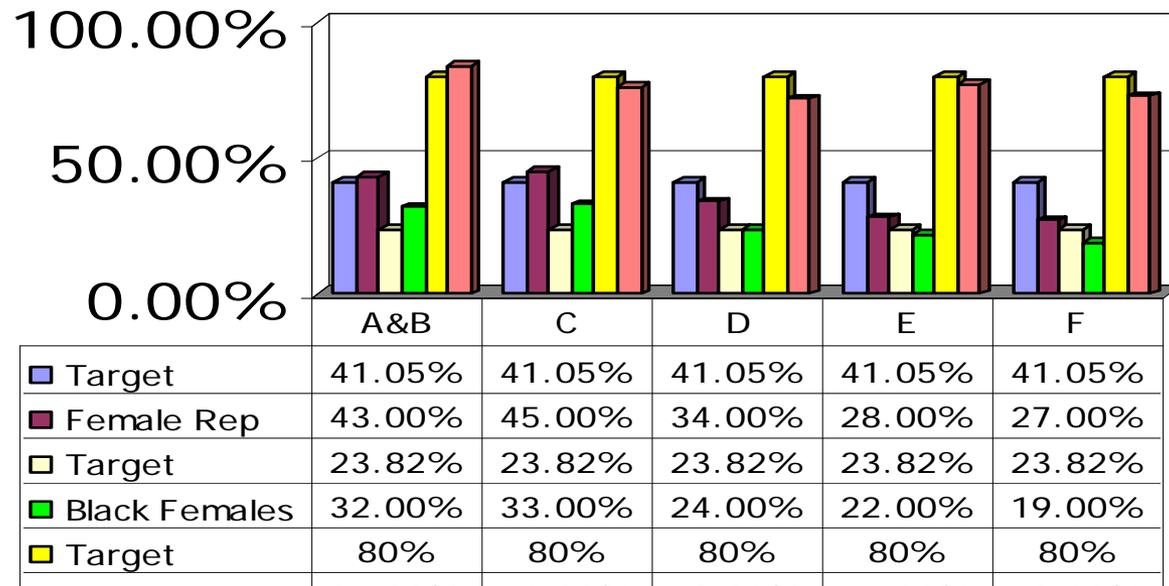
E-skills: Digital Literacy



The target is to train 210 people (30 per region)

Training will be completed by 31 March 2010 (limited training venues in the regions)

Employment Equity



Information Technology

- Implementation of ICT unit**
- Trust Centre**
 - **Accreditation**
 - **Business growth**
- Business continuity**
- IT Security**
- IT infrastructure upgrade**

Properties

- Multi channel strategy to achieve access requirements**
- Facilities upgrades**
- Thusong service centres**

Key initiatives per corporate units

Risk Unit

- ⇒ **Full Ruby roll out**
- ⇒ **Compliance monitoring**
- ⇒ **Financial Services risk management framework development**

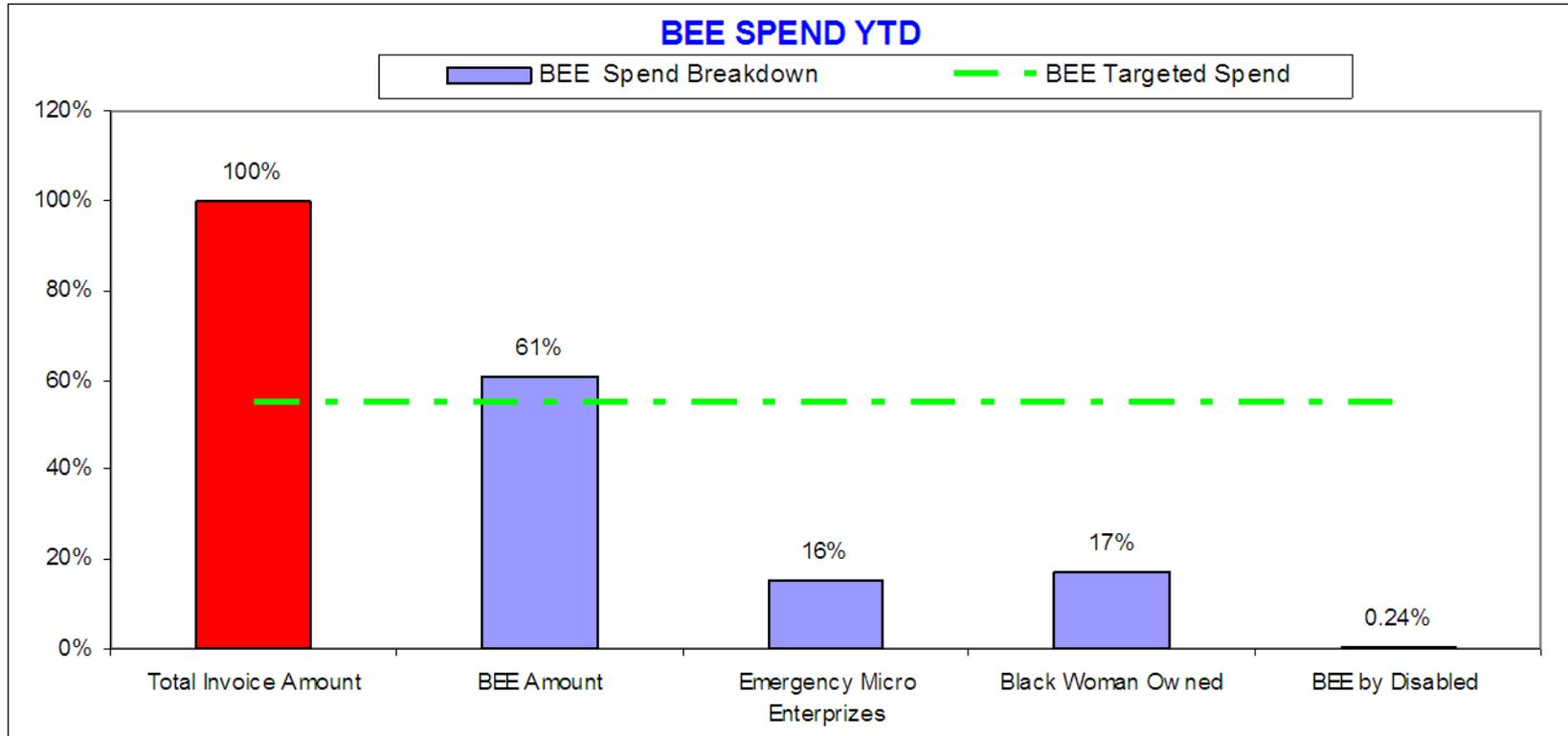
Finance Unit

- ⇒ **Treasury system implementation**
- ⇒ **Finalise ABC costing models**
- ⇒ **Balance Sheet restructuring to continue**

SCM

- ⇒ **Strategic sourcing**
- ⇒ **Enterprise development**
- ⇒ **Green procurement**
- ⇒ **Supplier management forums**

BBBEE Spend



Notes

- The invoice amount is **R70, 240,966 YTD**
- The BEE amount is **R42, 772,212.10**
- Black Women Owned **R11, 925,842.52**
- Enterprises owned by disabled people **R171, 064.00**
- Emerging micro enterprises **R10, 9M**

Key initiatives per corporate units

Security

- ⇒ TV & Access control system implementation
- ⇒ Consumer services security strategy
- ⇒ Crime awareness campaign

Key initiatives per corporate units

⇒ Marketing

- Product pricing
- Customer segmentation
- Marketing plans

⇒ Communication

- Reputation management
- Public relations
- Internal communication

⇒ Stakeholder relations

- International activities

⇒ Brand repositioning

⇒ CSI

- Corporate programs
- Employee volunteerism

International activities

❑ Membership

- Conference of Commonwealth Postal Administration
- SAPOA
- PAPU
- UPU
- Member of the African Support Committee for UPU Content Issues

❑ Providing technical assistance to four regional countries: Angola, DRC, Mozambique & Lesotho

❑ Developing Money Order Transfer solution for SADC Region

SAPO Program response to Government's Programme of Action

Economic growth
and
transformation

- Build a platform for long term self sustainability by ensuring continuous positive financial performance.
- Entrenchment of the Environmental program

Built economic
and social
infrastructure

- Invested R648,7 m(2008/2009) to built economic and social infrastructure
- Build IT and ICT platforms
- Upgrade and build new post offices

Rural
development
strategy

- Corporatisation of Postbank essential: Every Post Office will offer banking services to assist in land claims
- Continuous Address Roll-out

SAPO Program response to Government's Programme of Action

Strengthen skills and human resource base

- SAPO human capital development program in place
- Continue with Learnership Program [571 – 2008/2009]
- e-cadre's (100 employed, 15 SAPO, 85 absorbed in fulltime (jobs)

Intensify fight against crime and corruption

- Despite the 5.6% increase on incidents, more than 10% increase in anonymous reporting of crimes was experienced.
- SAPO is investing R32m in access control and CCTV to combat crime and improve security further.
- Participated in Justice cluster and assist more than 62% of high crime police stations(169) with geo-coded address information

Built cohesive, caring and sustainable communities

- Preferential procurement programs to Extended Public Works Programme.
- Entrepreneur Development Programme
- Building a Thusong centre in co-operation with GCIS

SAPO Program response to Government's Programme of Action

Pursue African advancement and enhanced international co-operation

- Money remittance system to be implemented in Angola, Lesotho, DRC and Mozambique by 3rd Q of this year.
- Active participation in various committees at UPU (EU), PAPU, SAPOA

Built a developmental state

- Facilitating Government services through the following programmes
 - SASSA Project
 - Department of Justice payment
 - Land Claims payout services

Improve public services

- Invest in new Postal Address and Postal Code program
- Service Excellence Programmes
- Community Involvement.

Financial Overview

Group Chief Financial Officer

Financial summary

Financial overview 2008/9

	Actuals 2007/08 R'000	Estimate 2008/09 R'000	Change R'000	Change %
Revenue	5,356,762	5,724,937	368,175	7%
Expenses	4,858,085	5,319,312	(461,227)	(9%)
Profit from trading ops	498,677	405,625	(93,052)	(19%)
Non trading items	64,169	76,398	12,229	19%
Subsidy	75,632	110,000	34,368	45%
Non operating items	(11,463)	(33,602)	(22,139)	(193%)
Profit before tax	562,846	482,023	(80,823)	(14%)
Taxation	(187,910)	(127,265)	60,645	32%
Profit after tax	374,936	354,758	(20,178)	(5%)

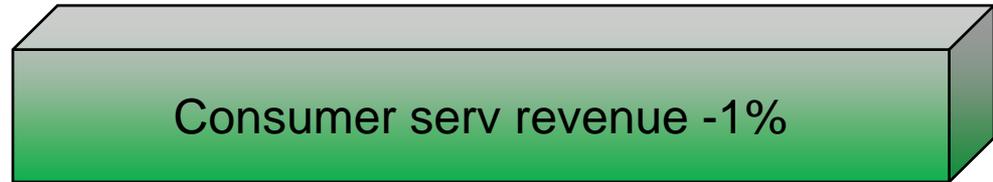
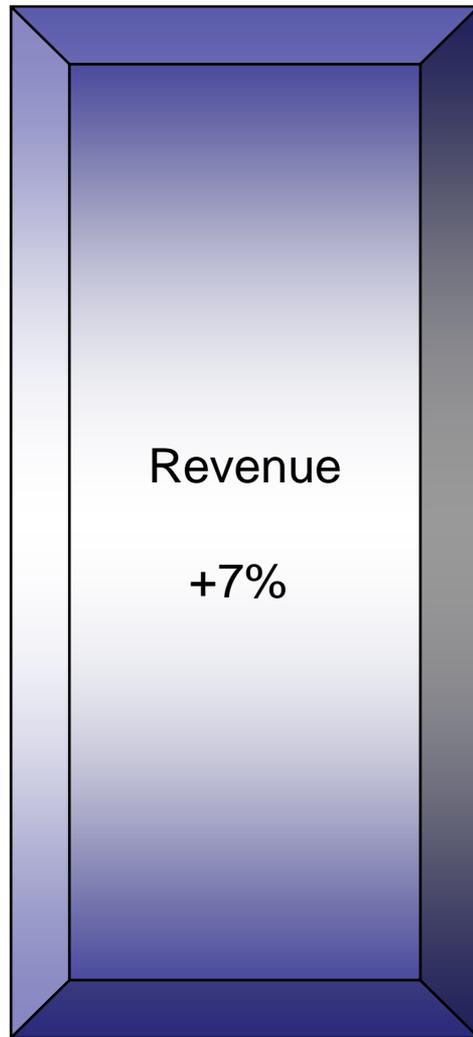
Income statement summary

Financial overview 2008/9

	2009 Estimate	Change	2008
Revenue	R5,725 m	Increase 7%	R5,357 m
Expenses	R5,319 m	Increase 9%	R4,858 m
Profit before tax	R482 m	Decrease 14%	R562 m
Operating profit margin	7,1%	Decrease 2,3%	9,4%

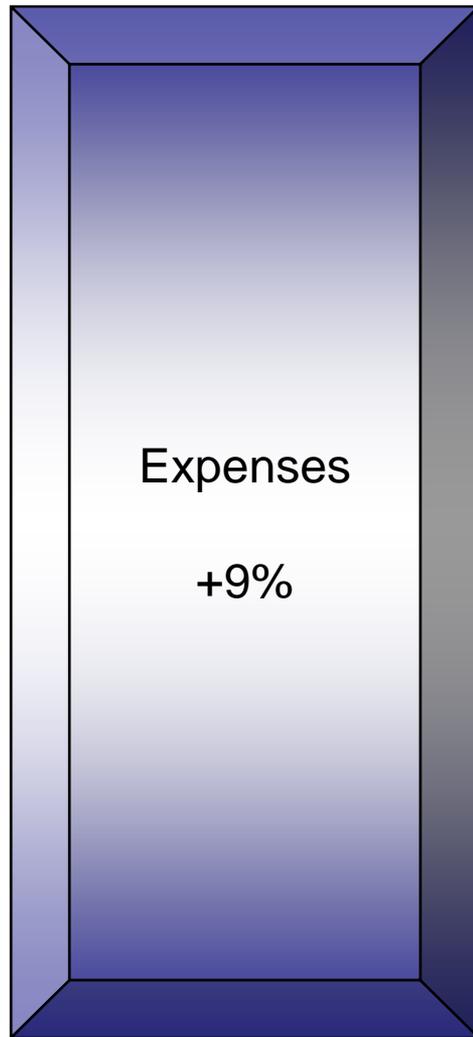
Revenue growth

Financial overview 2008/9



Expense growth

Financial overview 2008/9



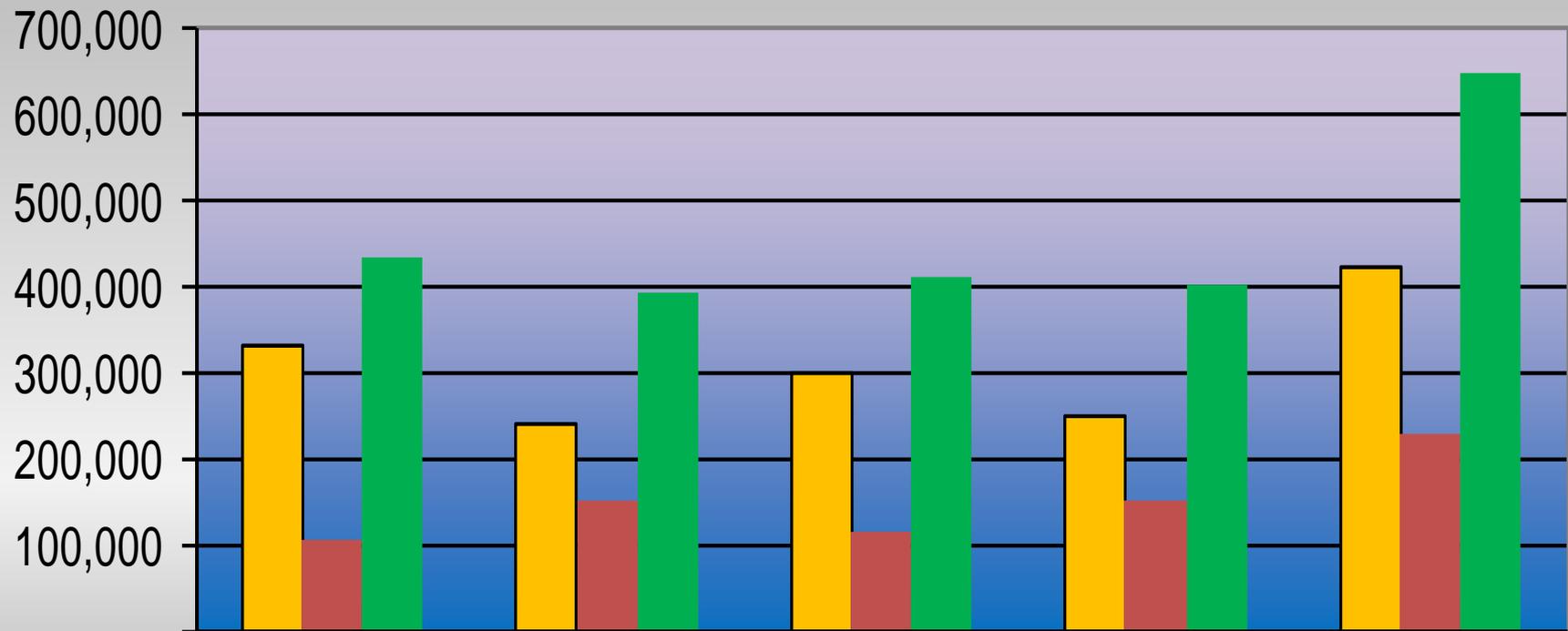
Balance sheet summary

Financial overview 2008/9

	Estimate 2009	Change	2008
Total assets	R8,7 bn	+13%	R7,7 bn
Cash & equivalents	R3,6 bn	+4%	R3,5 bn
Investments	R2,4 bn	+30%	R1,9 bn
Depositors funds	R3,3 bn	+14%	R2,9 bn

Increase in capital investment

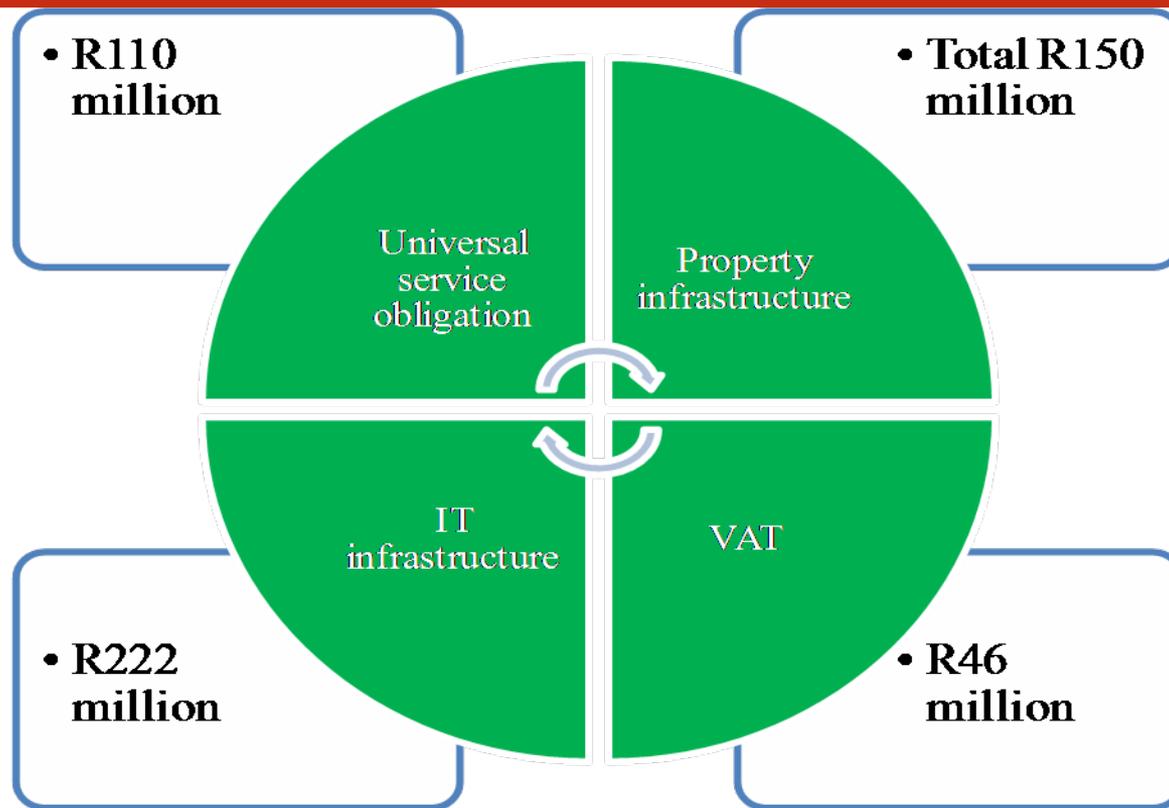
Capex



	2004/05	2005/06	2006/07	2007/08	2008//09
■ Capex	332,720	242,120	300,643	250,435	421,975
■ Committed	103,212	150,791	112,224	150,352	226,808
■ Total	435,932	392,911	412,867	400,787	648,783

Subsidy allocation 2008/9

Subsidy



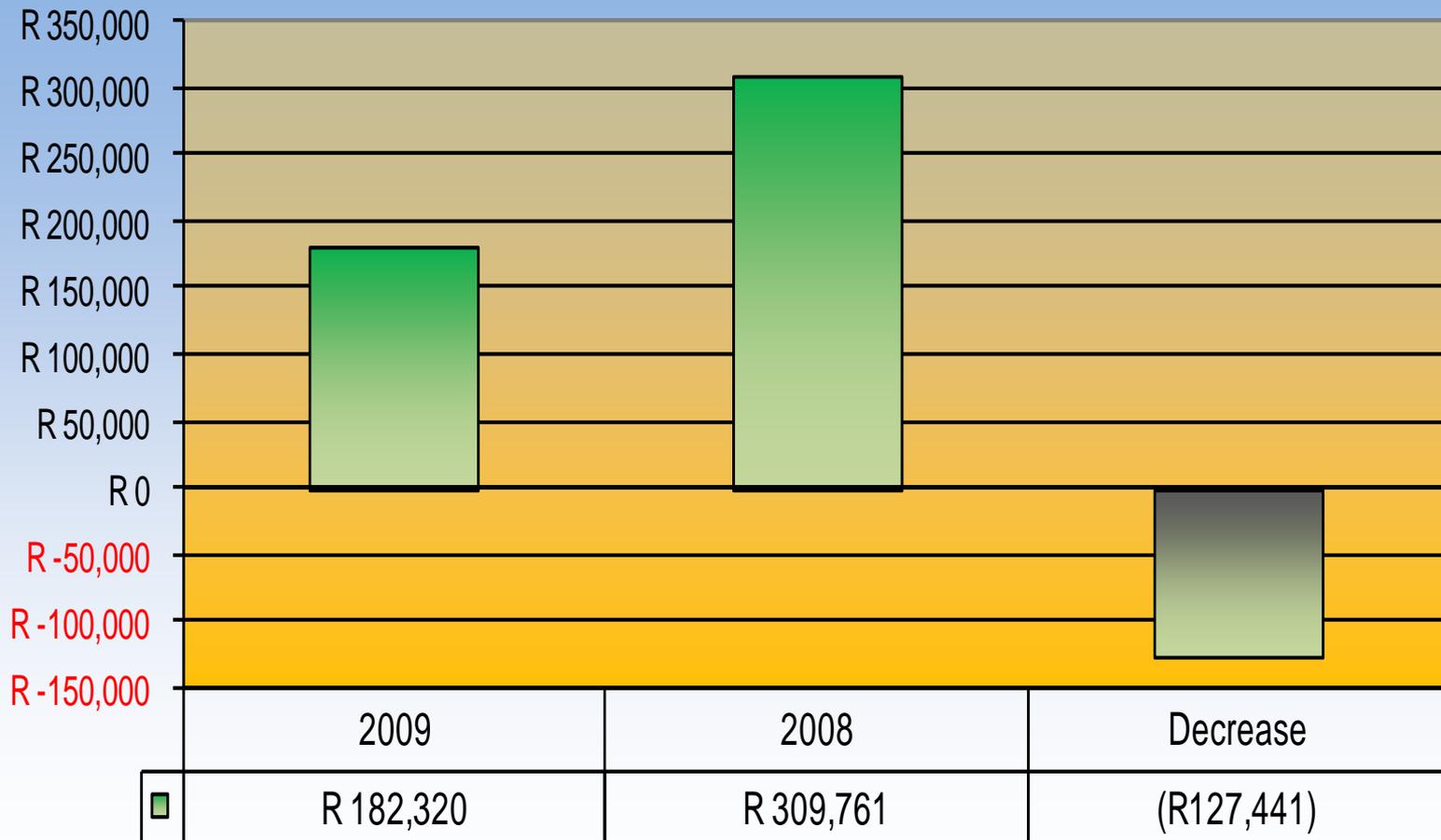
Subsidy [R708m = R372m + R336m]

Total utilized & committed = R528m

C/F = R180m

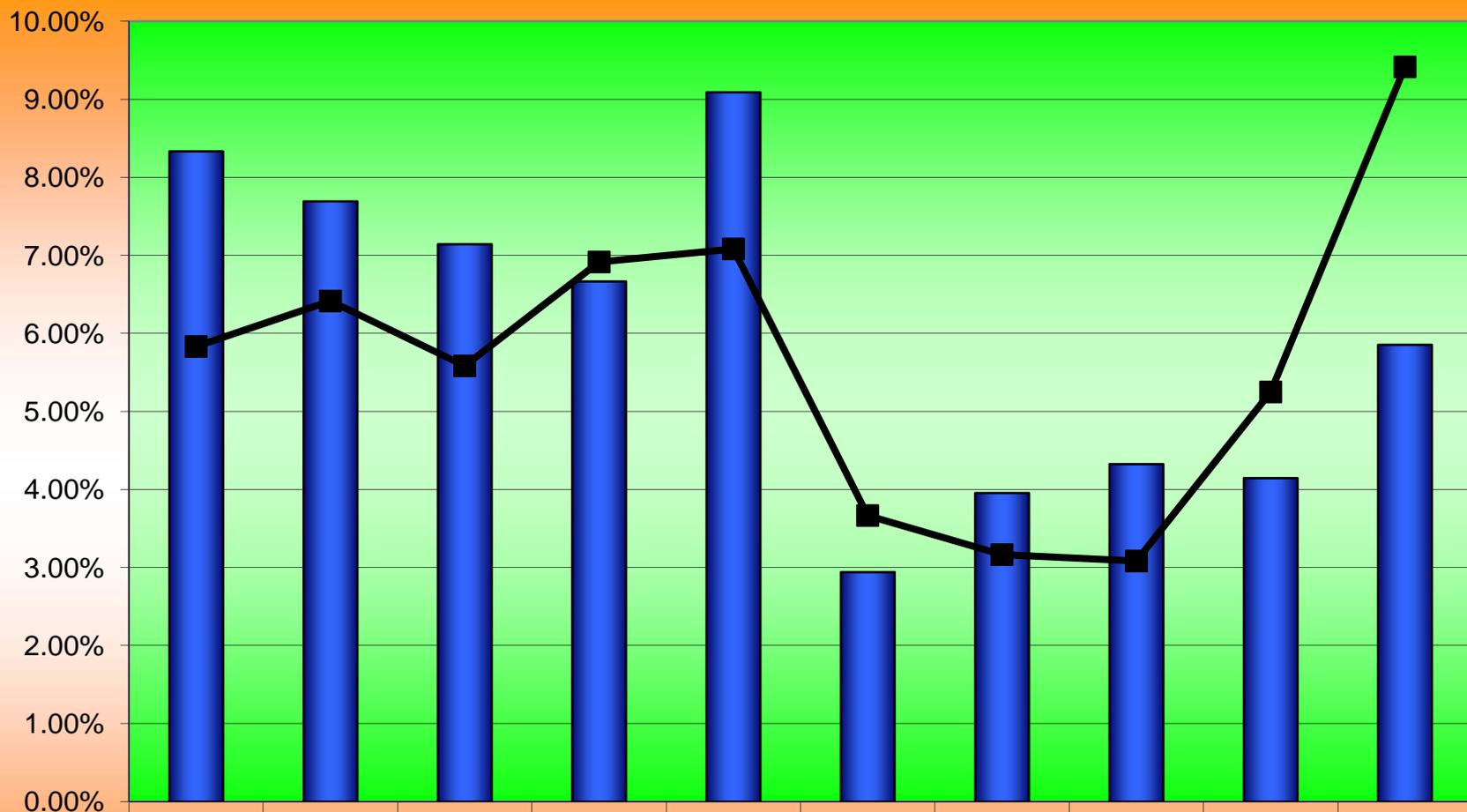
Opex = R156m & capex = R372m (received R371m)

Contingent liabilities



CPIX/ Tariff increase

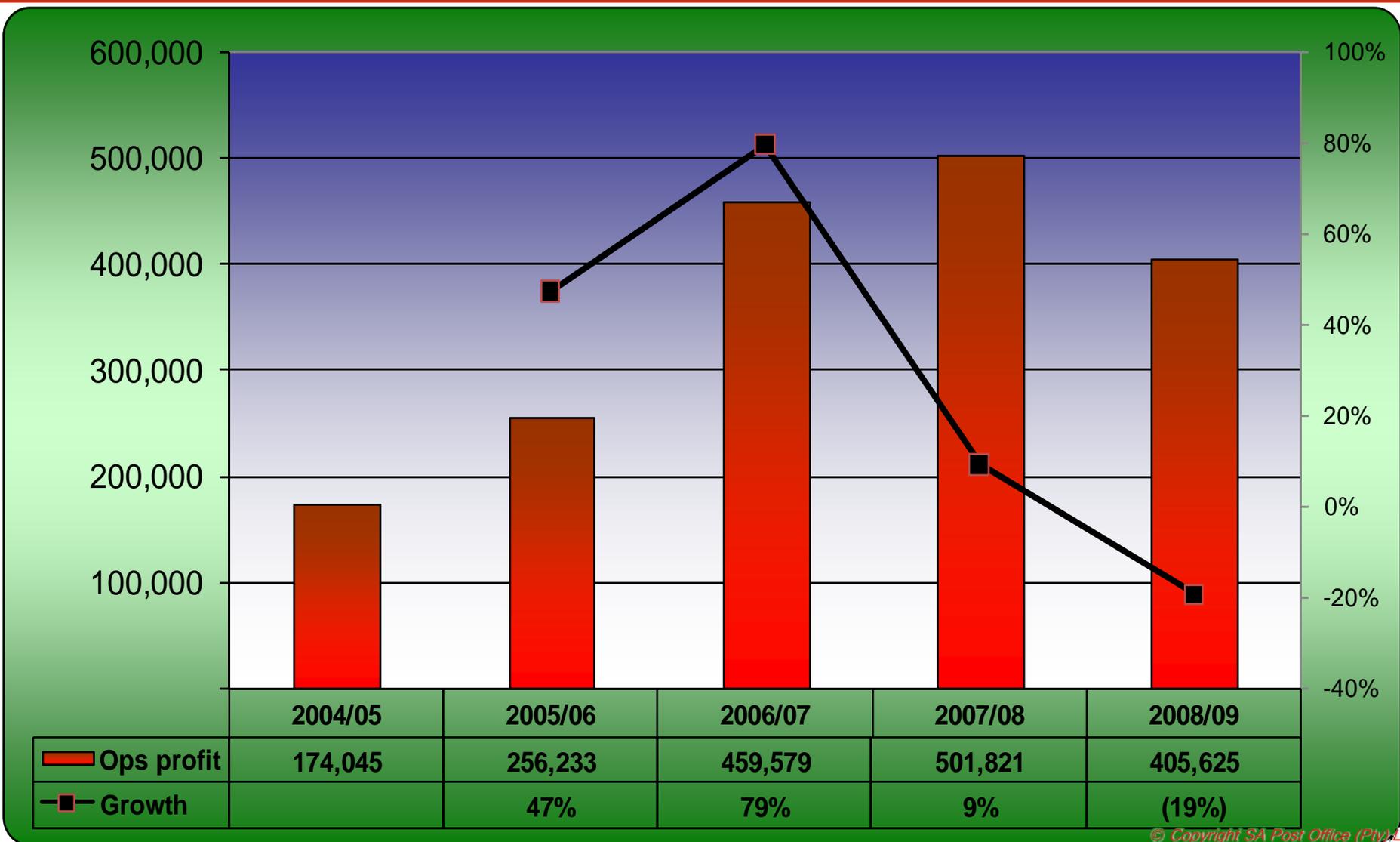
Historical overview



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tariff	8.33%	7.69%	7.14%	6.67%	9.09%	2.94%	3.95%	4.32%	4.15%	5.85%
CPIX %	7.00%	7.70%	6.70%	8.30%	8.50%	4.40%	3.80%	3.70%	6.30%	11.30%

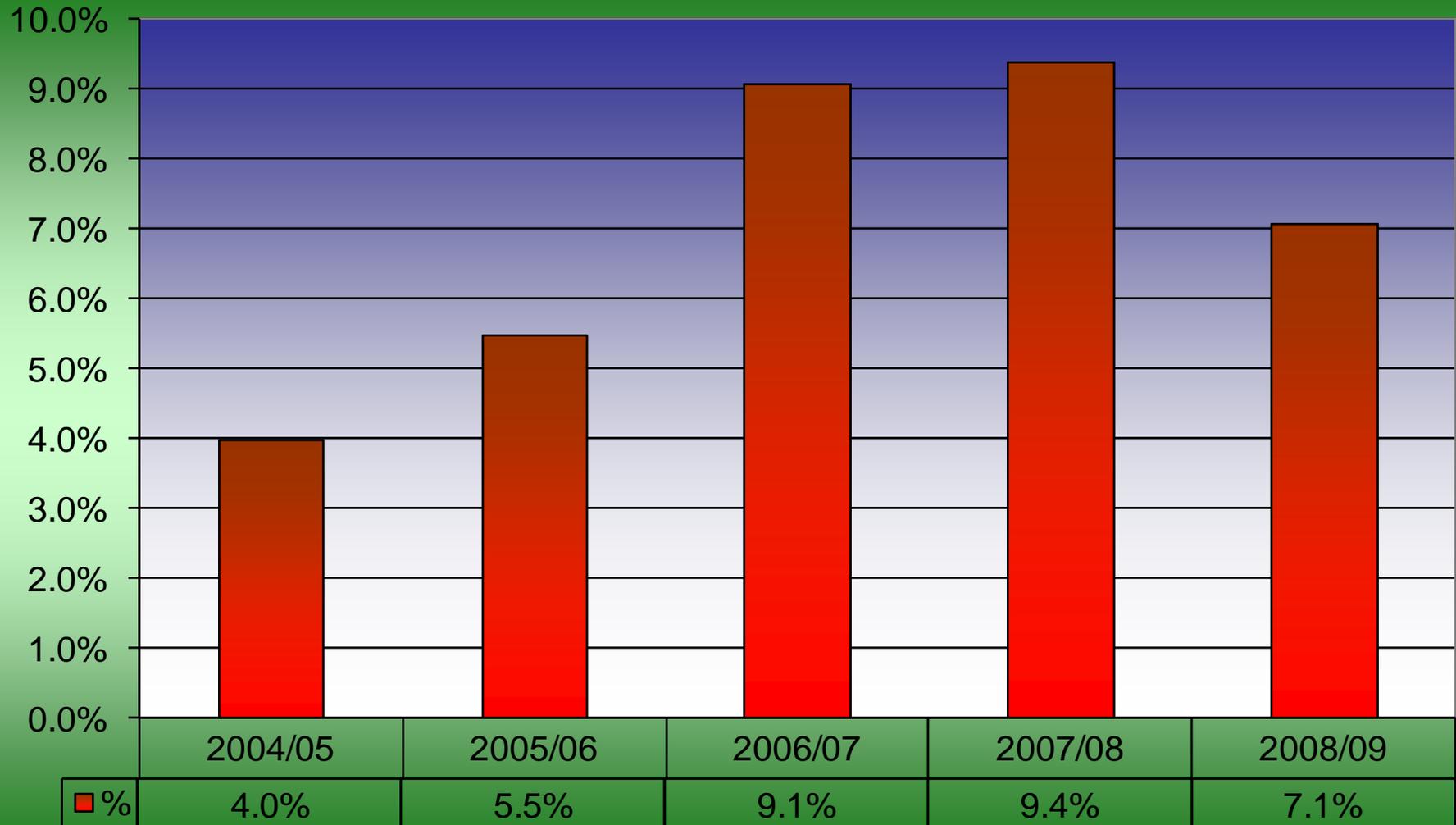
Group operating profit trend

Historical overview



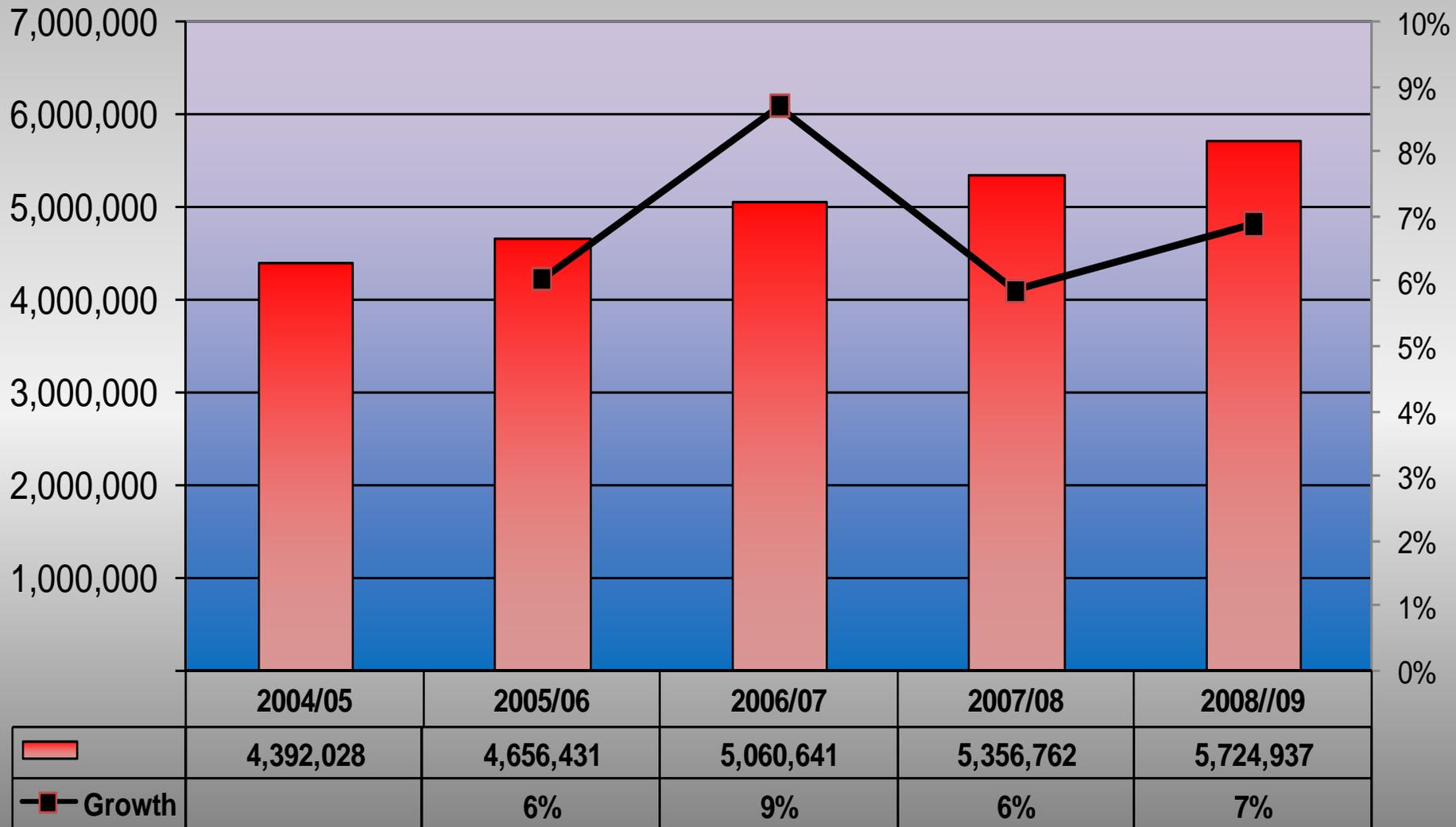
Group operating profit margin

Historical overview



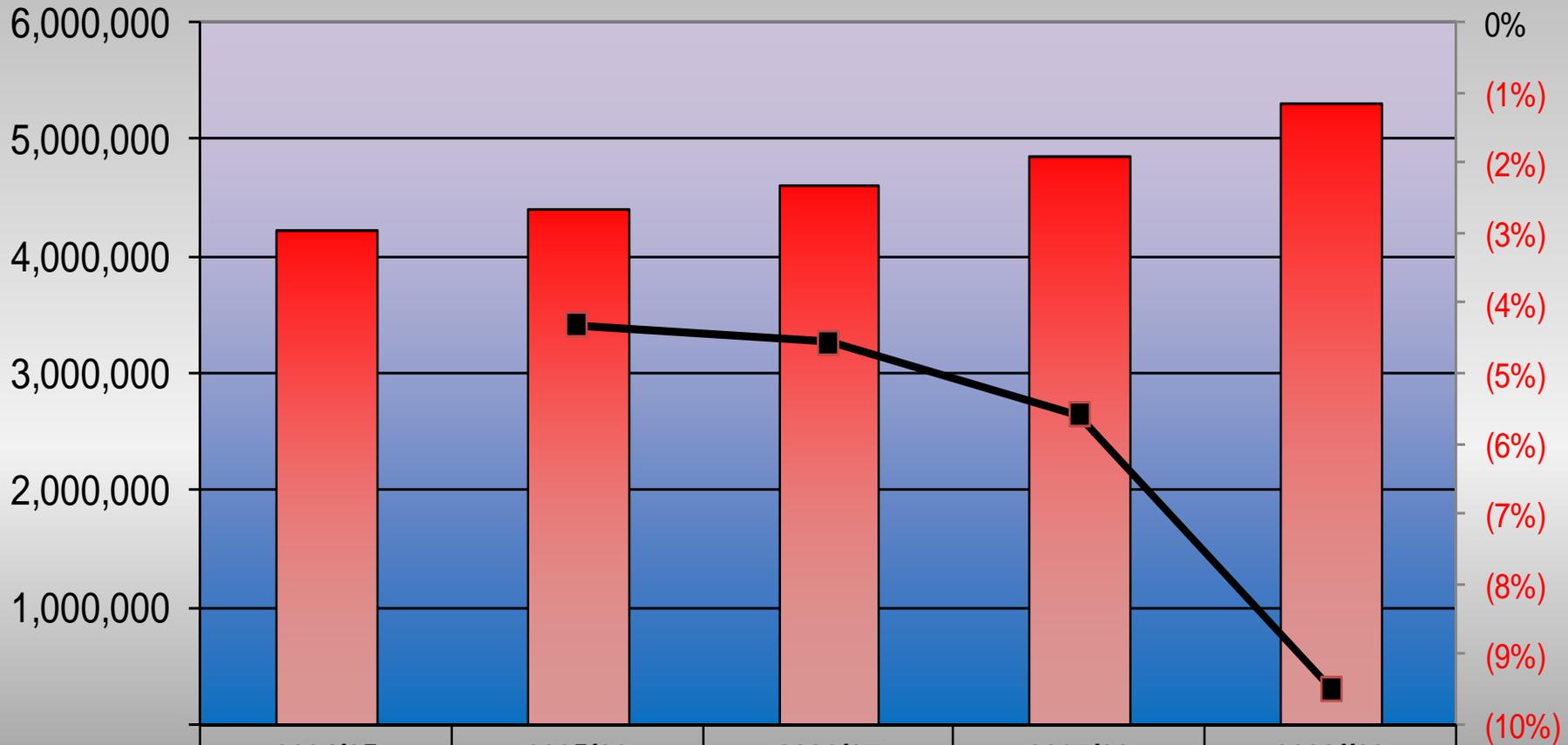
Group revenue trends

Historical overview



Group expense trend

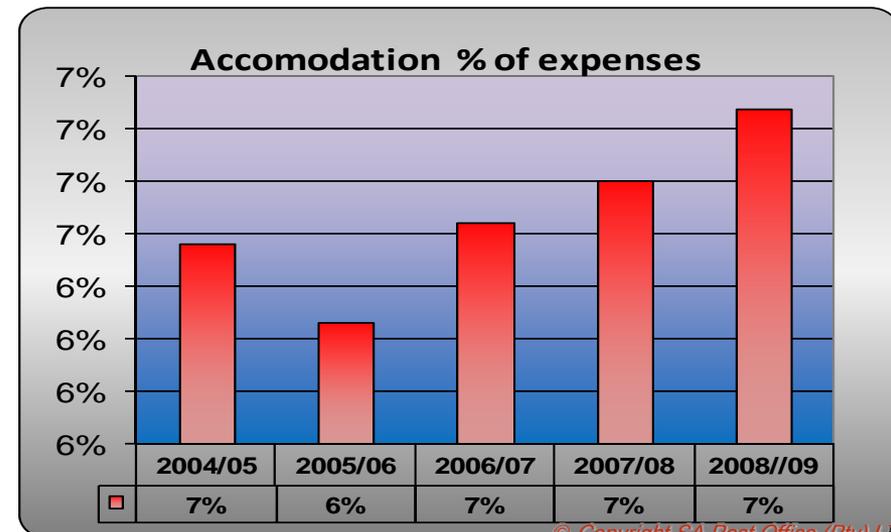
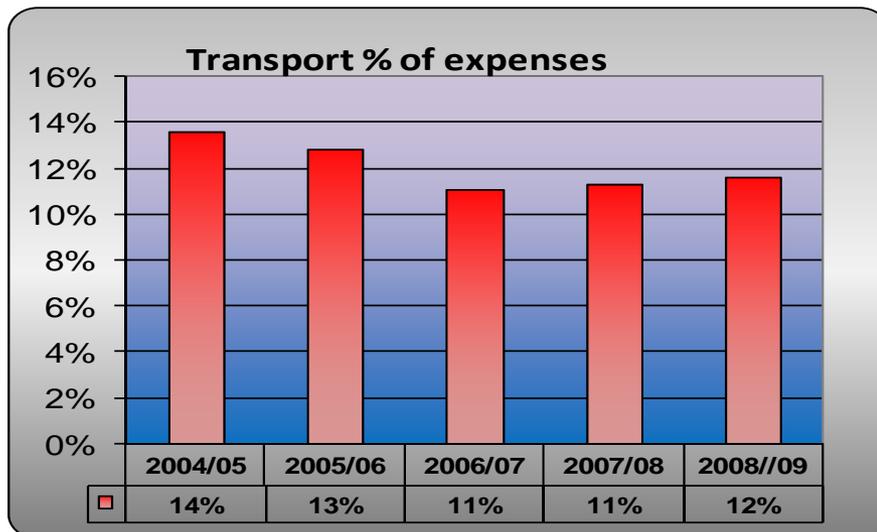
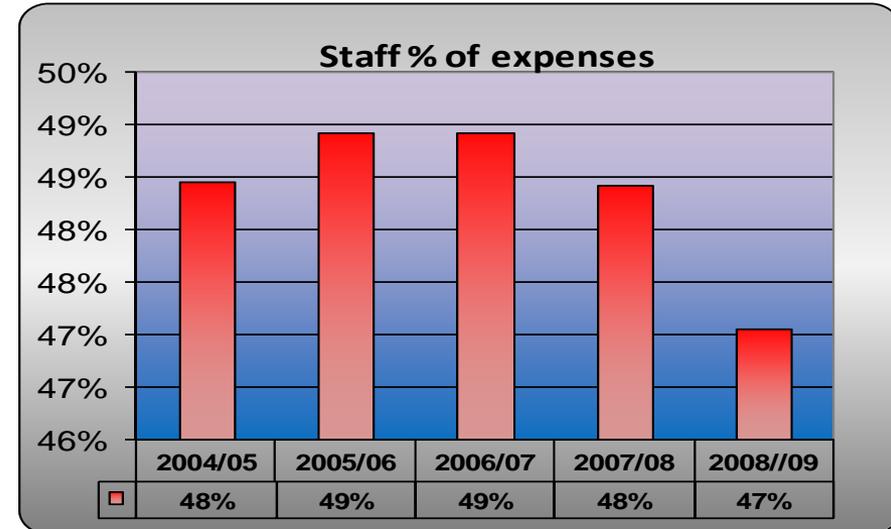
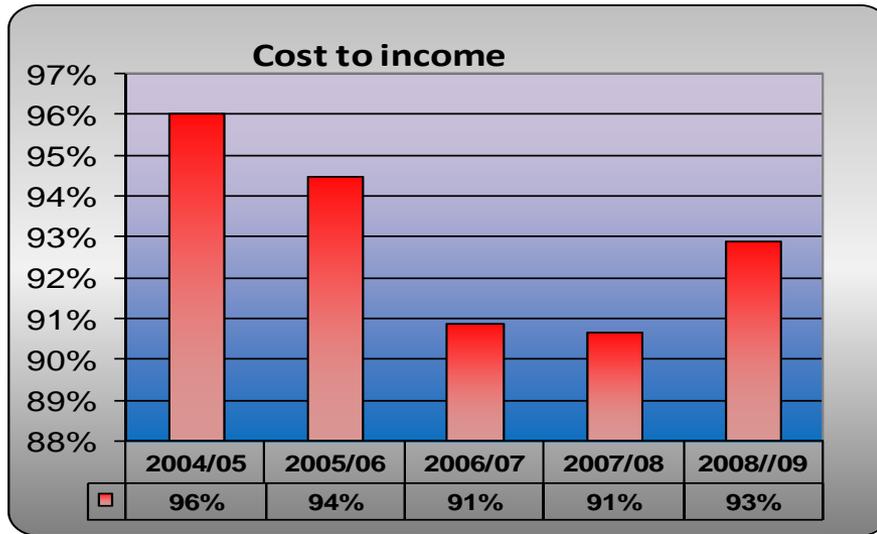
Historical overview



	2004/05	2005/06	2006/07	2007/08	2008//09
	4,217,983	4,400,198	4,601,062	4,858,085	5,319,312
 Growth		(4%)	(5%)	(6%)	(9%)

Group expense trends

Historical overview



Economic outlook

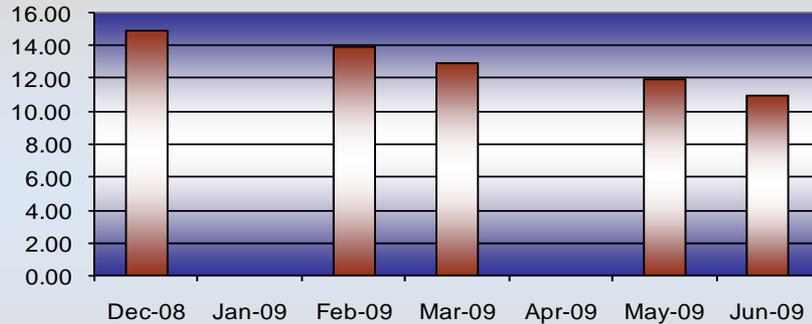
Outlook 2009/10

- ⇒ Downturn of the economy to continue for 2009
- ⇒ Volatility of rand
- ⇒ Lower interest rate
- ⇒ Lower GDP growth
- ⇒ Inflation on imported goods / services
- ⇒ Downturn in economy to impact negatively on revenue and cost

Key economic indicators

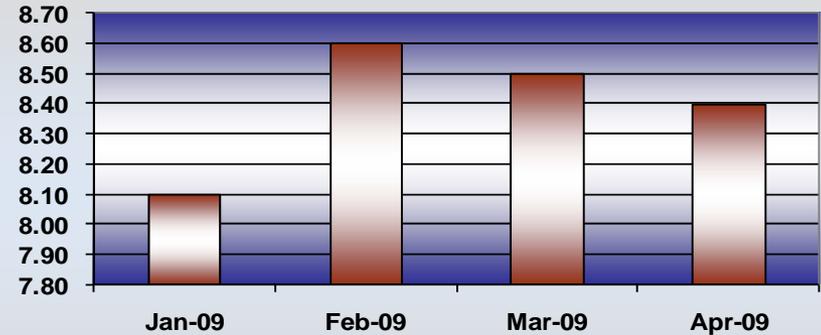
Economic environment

Prime rate



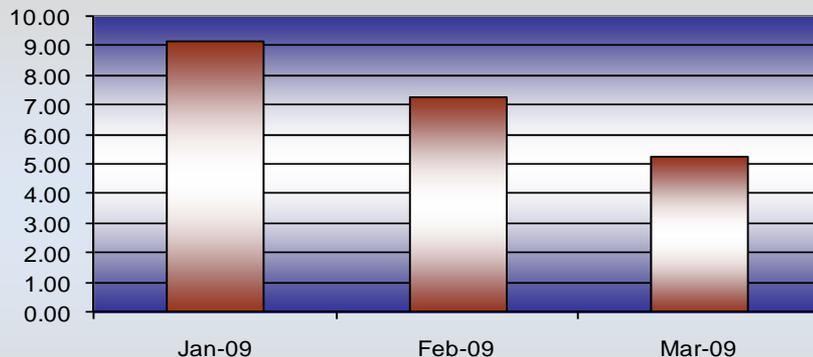
	Dec-08	Feb-09	Mar-09	May-09	Jun-09
□ Prime rate	15.00	14.00	13.00	12.00	11.00

CPI



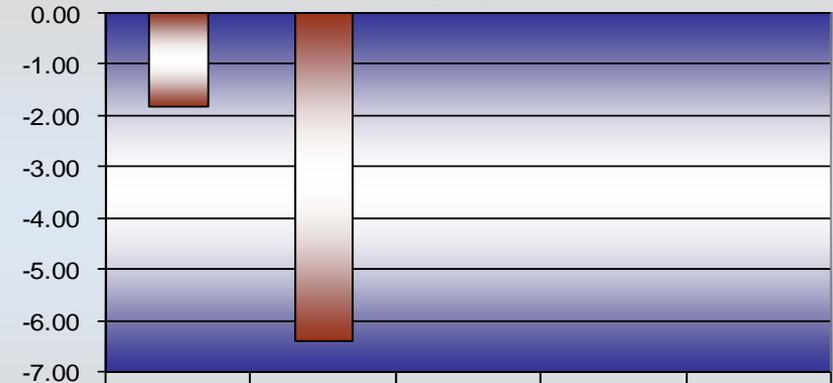
	Jan-09	Feb-09	Mar-09	Apr-09
□ CPI	8.10	8.60	8.50	8.40

PPI



	Jan-09	Feb-09	Mar-09
□ PPI	9.20	7.30	5.30

GDP



	4th 2008	1st 2009	2nd 2009	3rd 2009	4th 2009
□ GDP	-1.80	-6.40			

Financial projections for 2009/10

Outlook 2009/10

	2008/09 Estimate R'000	2009/10 Budget R'000	Change R'000	Change %
Revenue	5,724,937	6,257,071	532,134	9%
Expenses	5,319,312	5,806,409	(487,097)	(9%)
Profit from trading ops	405,625	450,662	45,037	11%
Non trading items	76,398	44,980	(31,418)	(41%)
Subsidy	110,000	93,895	(16,105)	(15%)
Non operating items	(33,602)	(48,915)	(15,313)	(46%)
Profit before tax	482,023	495,642	13,619	3%
Taxation	(127,265)	(138,780)	(11,515)	(3%)
Profit after tax	354,758	356,862	2,104	1%

Conclusion

Group Chief Executive Officer

Critical Success Factors

- Cost containment
- Accelerated implementation of critical programs
- New revenue growth
- Business change/transformation model
- Alignment of programs to SAPO license and social mandate
- Sustainable license review targets

Thank you !