



SA Post Office Quarter 1 Performance (30 June 2015)

Agenda

1

OVERVIEW

2

FINANCIAL OVERVIEW

3

PROGRESS ON IMPLEMENTATION OF STP

4

PEFORMANCE INDICATORS

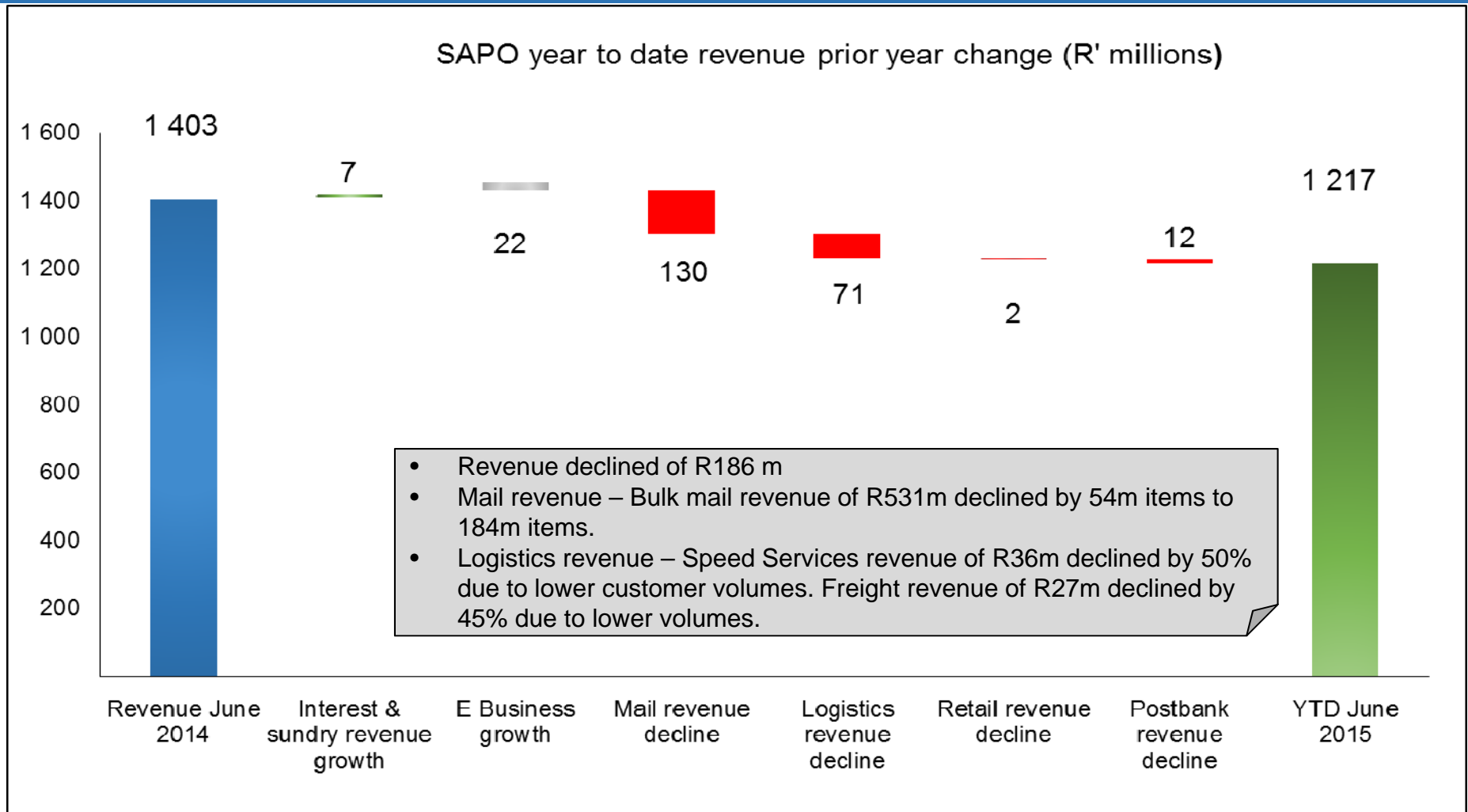
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NEXT STEPS

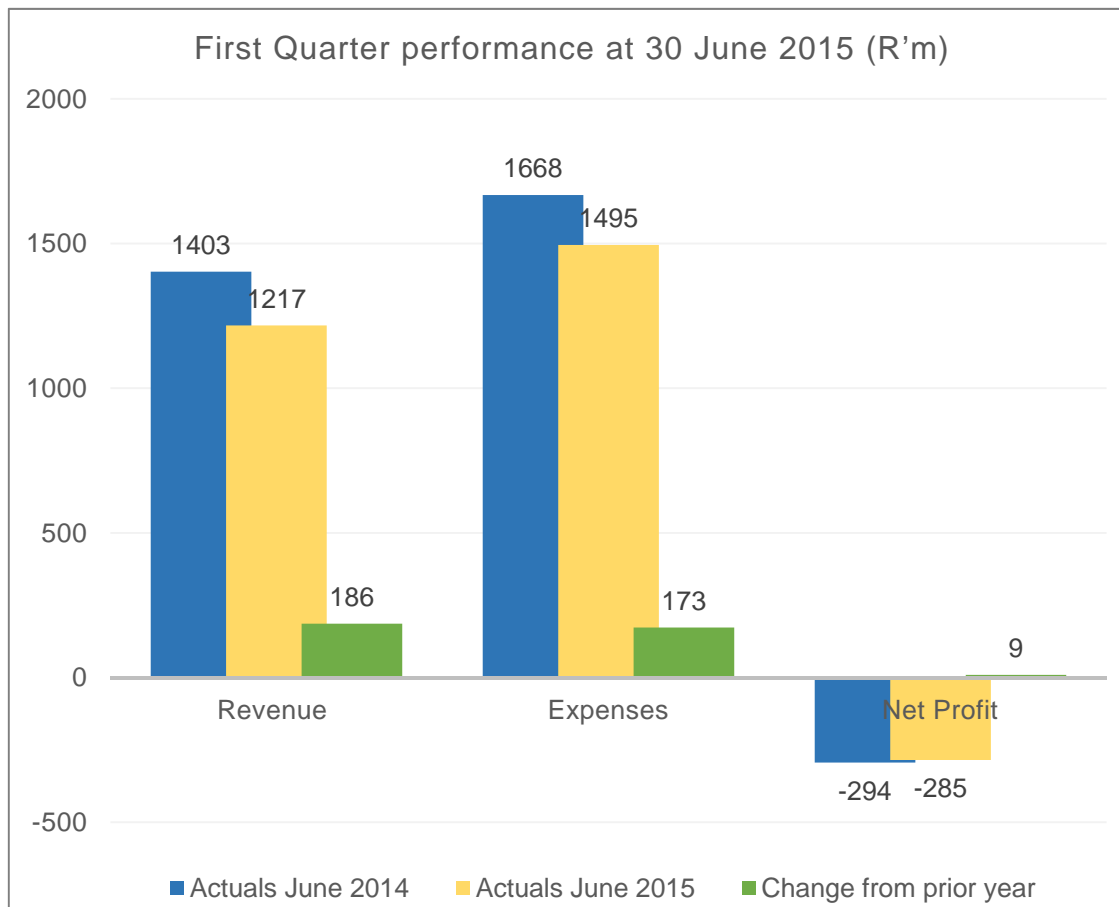
Overview

- Postal services and Courier revenue remain under pressure in the first quarter.
- The first quarter net loss of R285 million continues to constrain the cash flow position and constraints operations.
- Approvals have been received for the increase in the borrowings limit to secure long term funding.
- The labour environment has remained stable and engagements with labour representatives are ongoing.
- Strategic Turnaround Plan is in the early implementation stages.

SAPO Group Financial Overview for Quarter 1



SAPO Group Financial Overview for Quarter 1



- Revenue continues to decline R186m below the prior year.
- The impact of the strike was devastating as customers have found alternatives.
- The SAPO brand has to be rebuilt in the market place to restore customer confidence.
- Costs are lower than the prior year by R173m due to the high focus on cost optimisation but still remain higher than the revenues.
- The revenue shortfall to meet expenses leaves SAPO with a cash shortfall of approximately R100m per month.

SAPO Statement of Financial Position



Year to date 30 June 2015 (R'000)	SAPO Group	Post Office	Postbank	Courier Freight Group	Docex
Non-current assets	2 942 583	2 859 621	202 236	20 349	4 044
Current assets	8 054 688	941 316	7 027 199	65 720	20 453
Total assets	10 997 271	3 800 937	7 229 435	86 069	24 497
Capital and reserves	1 297 505	(804 536)	2 176 629	(638 122)	8 840
Non-current liabilities	1 788 953	1 782 296	0	6 653	3703
Current liabilities	7 910 814	2 823 177	5 052 806	717 538	15 654
Equity and Liabilities	10 997 271	3 800 937	7 229 435	86 069	24 497

Total assets increased by R330 million.

- Postbank short terms investments increased by R224 million.
- Trade and non trade receivables increased by R137 million.
- Postbank statement of financial position is strong with cash and short investments exceeding depositors funds by R1,8 billion.

Total equity and liabilities increased by R330 million.

- Retained income decreased due to net loss for the first quarter.
- Increase in current liabilities
 - Trade and other payables increased by R180 million.
 - Postbank depositors funds increased by R173 million.
 - Bank overdraft increased by R324 million to R403 million.

Statement of Cash flows

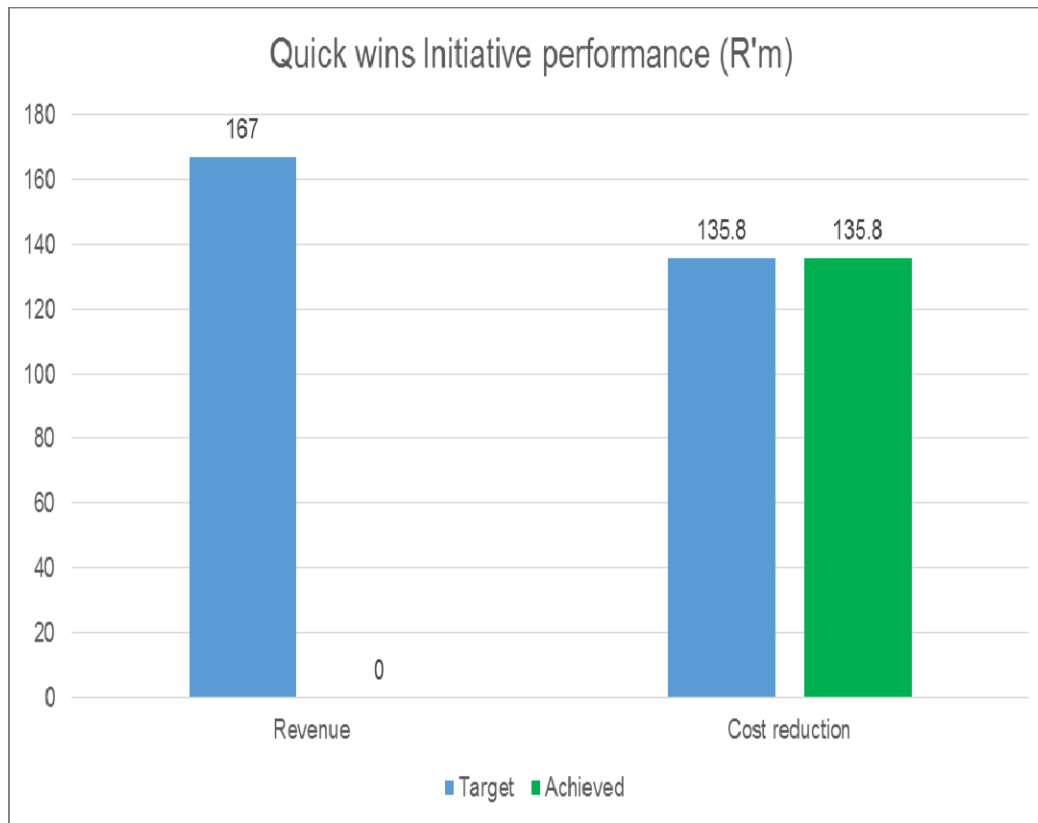
Year to date 30 June 2015 (R'000)	SAPO Group	Post Office	Postbank	Courier Freight Group	Docex
Net cash from operating activities	(241 903)	(261 839)	40 432	(20 923)	427
Purchase of property, plant and equipment	(578)	(578)	0	0	0
Purchase of other intangible assets	(33 452)	(12 562)	(20 890)	0	0
Net movement in financial assets	(224 303)	0	(224 303)	0	0
Movement in deposits from the public	172 615	0	172 615	0	0
Movement in subsidy	21 772	21 772	0	0	0
Movement in cash from financing activities (overdraft)	324 336	324 336	0	0	0
Total cash movement for the year	18 486	71 129	(32 146)	(20 923)	427
Cash at the beginning of the year	3 400 749	25 948	3 335 301	27 403	12 098
Cash at end of the period	3 419 235	97 077	3 303 155	6 480	12 524

- SAPO Group operating activities utilised cash of R242 million.
- Capital expenditure of R34 million.
- Movement in financial assets– Postbank short term investments increased by R224 million to R3 572 million.
- Depositors funds increased by R173 million to R5 061 million.
- Cash flow position remains constrained as operating activities are not generating positive cash flows.
- SAPO creditors - R893 million and Courier Freight Group creditors - R179 million.

STP- Organizational stability

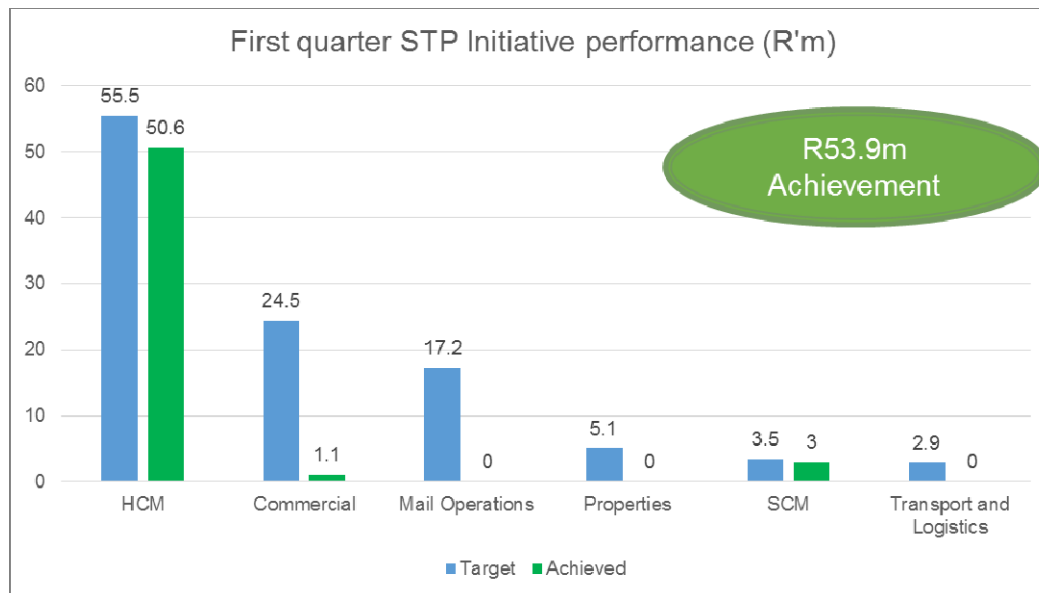
- The communication of the STP to management, by the acting Group CEO, has been completed during June 2015. The acting Group CEO commenced the communication sessions during May 2015 starting with the Executives and Senior Management and thereafter undertaking regional roadshows.
- Leadership structure was approved. The second layer has been approved by Administrator. Third layer and regional structures are being finalised for approval on 27 July.
- Leadership Capacitation Progress:
 - Acting CEO and Acting CFO whilst disciplinary enquiries are in progress
 - Acting Postbank MD whilst finalizing the Bank corporatization process
 - Offer made for Interim COO : Candidate turned down the offer on 17 July
 - Offer made for Company Secretary turned down due to SAPO's low salary scales
 - Group Executive for Governance candidates on final assessments
 - Group Executive for Strategy candidates on final assessments
 - GE for Commercial candidates on final assessments
 - CIO candidates interviewed on 28 July
 - Internal Auditor Contract expiring in August
 - Group Executive for Human Capital in position.

Quick wins



- The achievement to date is R135.8m (45%) against the target of R302.8m for all quick win initiatives.
- The cost reduction initiatives achieved 100% of the targets.
- The revenue opportunities have not realized any benefits due to the lack of funding and the requisite service provider partnership agreements.
- Technology achieved R106m in cost reductions through the re-negotiation of software contracts and the Telkom Master Services Agreement.
- Logistics achieved R26.2m in cost reductions through the termination of excess vehicle leases, parking of vehicles, rationalizing the PX routes and the non-renewal of employee fixed term contracts.
- Properties achieved R3.6m cost reduction by relocating the Learning Institute from a leased building.

STP Early gains through Quarter 1 progress



- The first quarter target for the STP initiatives was R108.7 million with achievement of R53.9 million (50%).
- HCM stream with a 91% performance against the target through the exit of 1,537 employees from November 2014.
- Commercial stream performed at only 5% due to a lack of funding to enable revenue opportunities and customer reluctance.
- Mail Operations has not achieved due to the on-going labour discussions.
- Properties has not achieved due to the Telkom mast legal matter that was not resolved. A legal opinion has since been received.
- The SCM stream achieving 86% through the Media Agency contract re-negotiations and the optimisation of inventory.
- Transport and Logistics had focused on quick wins. STP Quarter 1 Initiatives are being implemented with clear benefits expected in Quarter 2.

Funding to enable the STP

- Approval to increase in the borrowing limit by R1.25 billion received on 30th June 2015. After the approval was received engagements have commenced with the Banks to secure the release of the long term funding. The status is as follows:
- **Investec R600 million** – The term sheet is signed and we are awaiting outstanding documents being the draft facility agreement, draft guarantee facility agreement and the draft resolution.
- **ABSA R400 million** - Term sheet has LSA requirement which NT specifically has requested to be excluded per Minister letter dated 30 June; ABSA credit is meeting to consider if State Guarantee terms are sufficient.
- **Nedbank R250 million** – Nedbank credit consider providing a final term sheet and will engage with National Treasury to assess the strength of the state guarantee before issuing a binding term sheet.
- **The bridging finance facility of R200 million**, which was approved in April 2015 until June 2015 as an interim measure whilst the R1.25bn long term funding approval processes were underway, is overdue to Standard Bank and must be settled once the long term funding is released. National Treasury has also sensitised Standard Bank regarding their efforts to sort out the longer term funding in order to settle their R200 million facility.

Performance Indicators

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Deliver sustainable developmental obligations funded from reserved market	Financial performance of the reserved market	Revenue	Develop the financial model	Develop the financial model	In progress	Not Achieved	Accounting separation for reserved and unreserved in progress and to be completed by 30 September 2015. Delays due to changes currently taking place in Operations in order to align with STP
		Cost					
		Net income					
	Financial requirements of the reserved market	Capex					
		Opex					
		Subsidy					
Create a commercially viable business from the unreserved markets	Competitive and Profitable	Market share	Conduct a market analysis	Annual target set	Not Applicable	Not Applicable	Quarter 4 target
		Profitability	Conduct a market analysis	Annual target set	Not Applicable	Not Applicable	Quarter 4 target

Performance Indicators



Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Achieve operational efficiency and effectiveness	Service standards	Mail delivery standards	92%	92%	72.76%	Not Achieved	<p>Across Town performance was 92.03% while between Mail Centers performance was 59.78% resulting in an overall average performance of 72.76%.</p> <p>Operations interrupted by withdrawal of services and suppliers by key vendors due to non-payment.</p> <p>Business continuing to optimize operations</p>
		Retail queue waiting times	7 minutes	98% of outlets to achieve average 7 minutes	98% of outlets conformed to 7 minutes	Achieved	

Performance Indicators

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Achieve operational efficiency and effectiveness	Productivity	People (Mail processing)	1800 standard letters per hour per person	1800 standard letters per hour per person	Productivity in the Mail Processing environment is standing at 83.1%. (1495 letters per hour)	Not Achieved	Will not be soon realisable given the current over-capacitation of Mail Operations AND downtime in sorting equipment
		Transport	Develop and implement efficiency ratios	Develop efficiency ratios	Ratios being developed	Not Achieved	Analysis of transport environment has been completed and efficiency ratios are being developed
		Property (Retail revenue per square metre)	R791 per square meter	R688 per square metre	R345.94 per square meter	Not Achieved	Declines in Retail revenue due to customers switching to alternative arrangements (Supermarkets, Internet, etc)
Achieve Leadership stability that ensures continuity and accountability	Vacancies	% staff turnover	10%	3%	2.43%	Not Achieved	The delay in approval of long-term funding.
		Time to fill vacancies	90 days	90 days	Average 120 days	Not Achieved	SAPO's brand strength in the market making it harder to get high caliber candidates on time

Performance Indicators

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Achieve Leadership stability that ensures continuity and accountability	Performance management	Contracts in place	100%	100%	11.5%	Not Achieved	Management contracts being re-organized in line with the recently approved Organizational structures which necessitates some changes in responsibilities and KPIs
		% of organisational scorecard target achieved	90%	90%	26.3%	Not Achieved	
Achieve labour stability and improve labour relations,	Effective Labour forums	Lost hours due to industrial action	0	0	0	Achieved	Stable but concerns on regular threats by Union Leaders whenever they disagree with Management
		Compliance to labour agreements	100%	100%	<100%	In Progress	Management is seeking legal opinion regarding the Leadership Forum Agreement and other labour agreements, implementation thereof.
		Time to conclude agreements	90 days	90 days	No new agreements concluded	Not applicable	The collective bargaining process is currently underway and no new agreements concluded.

Performance Indicators

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Achieve financial sustainability	Profitability	Product Customer segment Channels	Develop and implement model	Develop	Not Developed	In Progress	Dependent on the finalization of the Commercial section structure which is expected to be complete by end of August 2015. Preliminary work underway
		Revenue	R6.733bn	R1.406bn	R1.217bn	Not Achieved	Decline in customer volume for mail and parcels being the main drivers.
		Expenses	R6.857bn	R1.763bn	R1.495bn	Achieved	Management rolling out Austerity Managers in August to reduce cost.
		(Net loss) /net profit	Net loss (R102m)	(R363m)	(R284m)	Achieved	

Performance Indicators

Strategic Goal 1: Implement the Strategic Turnaround Plan to achieve a sustainable organisation								
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments	
Achieve Financial Sustainability	Profitability	Debtors days	Debtors days outstanding of 20 days	Debtors days outstanding of 45 days	17 days	Achieved		
		Creditors days	Creditors days outstanding of 45 days	Creditors days outstanding of 90 days	>90 days	Not Achieved	Cash flow constraints and delayed conclusion of long-term funding	
		Stock days	Implement efficiency ratios	Develop efficiency ratios	Developed	Achieved	Monitored regularly	
		Stock turnover	Implement efficiency ratios	Develop efficiency ratios	Developed	Achieved	Monitored regularly. May take write off on stock that has been in the warehouse for more than 16 months	
	Balance Sheet SAPO Group (excluding Postbank)	Solvency and Liquidity						
		Current assets / current liabilities	1:1	<1	0.34	Achieved		
		Gearing ratios (Debt /equity)	-143%	Annual target set	Not Applicable	Not Applicable	Quarter 4 target	

Performance Indicators

Strategic Goal 2: Create a customer centric organisation to restore customer confidence							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Improve the customer experience to achieve customer loyalty	Customers	Customer satisfaction	Customer satisfaction index	Annual target set	Not Applicable	Not Applicable	Quarter 4 target

Strategic Goal 3: Position SAPO as a key service partner that delivers government services							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Grow to levels of 50 - 55% of SAPO revenue per annum	Government business	Implementation of cabinet memo	30% of Government business	10% of Government business	The government customer value proposition has been developed	In Progress	Engagements commenced in July 2015 with various Government departments. Twelve introductory meetings concluded
		Number of accounts	Develop and implement	Develop and implement			
		Revenue from Government	Develop and implement	Develop and implement			

Performance Indicators

Strategic Goal 4: Corporatisation of Postbank and increase access to financial services							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Facilitate the corporatization of Postbank	Bank registration	Obtain section 16 approval to register a bank	50%	10%	In progress	In Progress	Awaiting decision on Board Appointments and Implementation Partner
Increase access of financial services to the unbanked	Provide banking services	Growth the Postbank depositors	5%	5%	3.5%	Not Achieved	Increased from R4 888m to R5 061m

Performance Indicators

Strategic Goal 5: Ensure good corporate citizenship and corporate governance							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Ethical Leadership	Improving the ethical environment of the organisation	Effective ethics office	Establish the ethics office	Annual target set	Not Applicable	Not Applicable	Quarter 4 target
Sustainability targets	Environmental sustainability	Reduce electricity consumption	Reduce electricity consumption by 3% over prior year	Reduce electricity consumption by 3% over prior year	Decreased by 31%	Achieved	
		Reduce total carbon emissions	Reduce 2.5% of total emissions from prior year	Reduce 2.5% of total emissions from prior year	Increased by 42%	Not Achieved	
Legal compliance	Adherence to PFMA	Elimination of Irregular expenditure	Reduction of 100%	Reduction of 50%	Submissions made for condonement of expenditure	Not Achieved	
		Minimize fruitless and wasteful expenditure	Reduction of 100%	Reduction of 50%	Submissions made for condonement of expenditure	Not Achieved	

Performance Indicators

Strategic Goal 5: Ensure good corporate citizenship and corporate governance							
Strategic Objective	Key Performance Areas	Key Performance Indicator	2015/16 Annual Target	2015/16 Quarter 1 Target	2015/16 Quarter 1 Actual Performance	Achieved/ Not Achieved	Reasons for non/over achievement and Comments
Effective risk management and governance	Risk management	Implementation of the Risk Mitigation Plan to support the STP	100%	100%	Implementation in progress	Not Achieved	
	Internal control environment	Operational audit issues to be resolved in a timely and effective manner to maintain a sustainable control and governance framework	zero operational audit issues outstanding longer than 90 days	0 > 120 days	166 outstanding issues > 120 days	Not Achieved	
Effective stakeholder management	Stakeholder relations	Stakeholder satisfaction survey	Develop and Implement survey	Annual target set	Not Applicable	Not Applicable	Quarter 4 target
		Timely submissions of statutory reporting requirements	100%	100%	100%	Achieved	

Next Steps

- Implementation of the 30% government business strategy with greater urgency.
 - Continue engagements with the outstanding Government departments to activate revenue opportunities.
- Increase customer engagements to regain confidence in SAPO.
- Continue labour engagements to maintain labour stability.
- Finalise the long term funding and settlement of long outstanding creditors.
- STP initiatives to gain traction for the financial recovery of SAPO.
- Capacitating the organization, especially at Management level, to enable the STP.
- Finalisation of the March 2015 audited financial statements.



Thank You