State Comptroller of Israel | Annual Report 72a – Part Two | 2021

Israel postal Company Ltd.

Financial Aspects of the Israel Postal Company Activity

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Background

The Israel Postal Company Ltd. (the Postal Company or the Company) is a government company fully owned by the State, which began operating in March 2006 according to a license awarded by virtue of the Postal Law 1986 directives. The Company is subject to supervision of the Government Companies Authority (the Companies Authority) and in certain areas of its activity it is also subject to supervision by the Ministry of Communications. Over the past years the Company has been contending with financial difficulties. A multi-year examination and analysis of the Company's financial statements, including analysis of its major financial ratios, provides an indication regarding the Company's financial situation, the trends and risks of its activity, the difficulties it has to contend with, the means and actions it takes to deal with them and the profitability of every activity sector. As part of this audit a multi-year review of the data included in the Company's financial statements was conducted.

Key figures

NIS 229 million	4.95% rate	45% rate	200%
The deficit in the Company's working capital at the end of 2019. At the end of 2020 the deficit in the working capital totaled NIS 519 million.	The Company's gross profit at the end of 2019. In 2017 this rate totaled 8.06%.	The reduction, between 2013–2020, in the quantity of traditional postal deliveries.	The growth rate, between 2012 and 2019 in the scope of imported deliveries from international online trading.
NIS 1.13 billion	**NIS 578 million**	**240 assets**	**8.65%**
The Company's salary expenses for 2019.	The total liabilities the Company made to its employees for budgetary pension, as of 31.12.19.	Has not yet been fully Registered under the Company's name, as of 31.12.19.	The annual weighted interest rate above prime charged by the Postal Bank for payment plans.

Audit actions

From May to December 2020 the State Comptroller's Office examined various financial aspects of the Postal Company's activity. Among others, the emerging trends and risks were examined in view of the financial statements findings, development of the Company's growth engines and the operating and financial data systems on which, among others, the statement information, was based. This audit also examined the regulatory and control of the Company by the Government Companies Authority and the Ministry of Communications in this area. The audit was conducted in the Postal Company and its subsidiary, the Postal Bank Company Ltd. (Postal Bank). Supplementary examinations were conducted at the Government Companies Authority and the Ministry of communications.

Key findings

- **Deficit in working capital –** The Company had a working capital deficit of NIS 229 million as of 31/12/19, a 44% increase compared to its rate as of 31.12.18. At the end of 2020 there was an additional worsening in the working capital deficit parameter – the deficit totaled approximately NIS 519 million.

- **The gross and operational profit rate –** During 2017–2019 there seemed to be a trend of reduction in the Company's gross profit rate from 8.06% to 4.95%, pointing to a continuous erosion in the financial outcomes of the Company's business activity for the examined years. The Company's operating profit rate for 2019 totaled 2.53% and was approximately 20% lower than the common rate in postal companies worldwide.

- **Cash flow –** At the end of 2019 the Company had a positive cash flow from an ongoing activity totaling NIS 46.2 million compared to NIS 95.5 million at the end of 2017 – a reduction of more than 50%. Continuation of this situation will affect the Company's ability to maintain appropriate ongoing operating capacity and to perform new investments without addressing external financing sources.

- **Reporting by sectors** – Reporting by sectors show that the profitability of the company decreased in all sectors of its activity in 2019. In the post and retail sectors its annual losses totaled NIS 69.5 million and its profits from trade and financial services sectors dropped from NIS 67.5 million in 2018 to NIS 37 million in 2019.

- **Traditional postal services –** As part of the traditional postal services the number of letters sent via the Company decreased from 521 million letters in 2013 to 286 million letters in 2020, a reduction of 45%. Revenues from this area of activity decreased from NIS 912 million in 2013 to NIS 632 million in 2020, a reduction of 31%.

- **Implementing full structural separation between the Postal Company and the Postal Bank Company (amendment 11 to the Postal Law) –** Amendment 11 from 2012 has not yet been implemented, no structural separation between the Postal Company and the Postal Bank has been performed and the areas of the Postal Bank activity have not been extended. This affects the development potential of the Postal Bank and its potential for revenues, and perpetuates the mixture of the tangible with the financial assets. In addition, it should be noted that in the opinion of the financial statments of 2019 the external CPA expressed reservations concerning the fact that the Postal Bank Company, attributed all its revenues to the Israel Postal Company Ltd (the mother company).

Company salary expenses – Despite the execution of the Company's retirement plan, which was financed by the State at NIS 477 million, including reduction of the total number of positions to 5,050, the salary expenses of the Company showed an increase in the four years between 2016–2019 (the agreement with the State was signed in 2015) from NIS 1.08 billion in 2016 to NIS 1.13 billion in 2019, thereby affecting the Company's profitability.

Registration of Company assets – According to the Company's financial statement for 2019, the registration in the Land Register of 240 (71%) of the Company's 339 assets has not yet been completed, and the legal registration process has been fully completed for only 99 (29%) of the assets. The incomplete registration of 71% of the Company's real estate assets under the Company's name may affect its rights.

Preparing for the privatization of the Company – At the audit completion date (December 2020), six years after the government decision on the matter was made, the Companies Authority has not yet commenced a financial examination to estimate the Company's value, and privatization of the Company has not yet been completed.

Reporting by sectors – The Company commenced reporting by sectors of activity in its statements for 2019.

Key recommendations

Improvement in Company liquidity – The Company should act to improve its liquidity and to close the working capital deficit. It is further recommended that the Company act to improve its activity in all sectors and to locate growth engines for its operations in order to maximize profits from its ongoing activities

Examining adjustments in the license terms – It is recommended that the Ministries of Finance and of Communications complete an examination of the need for adjustments in the license terms and formulate a plan for the Company's future development, taking into account its regulatory obligations, to the need to provide possibilities encourage the company to compete with other companies in order to maintain the Company's financial resilience.

Promoting amendment 11 of the Postal Law – In view of the effect the Postal Company situation has on the development of the Postal Bank and its capability to provide a solution for disadvantaged populations, thereby promoting competition between the banks in Israel, there is a growing need to adapt the Company's license terms to a competitive market. Upon completion of the process, it is recommended that the Ministries of Finance and of communications monitor the implications and take measures to implement the separation, in coordination with the Bank of Israel, in order to promote ammendment 11 and convert the Postal Bank into a fully licensed bank.

- **Drawing Conclusions regarding the salary structure in the Company –** It is recommended that the Company, the Budgets Department and the Salary and Employment Agreements Department in the Ministry of Finance and the Companies Authority draw conclusions regarding the implementation of the rehabilitation agreement signed in 2015 and act to include in the rehabilitation agreement alongside goals for reducing the number of employees and a salary structure that will support the Company's profitability.

- **Resolving real estate rights –** It is recommended that the Postal Company, assisted by the Israel Land Authority (ILA)and the Real Estate Registration and Settlement Department in the Ministry of Justice, complete actions to settle its rights in its real estate assets, conclude leasing agreements with the ILA and fully register its rights in the land assets at the Land Registration Bureau, particularly in view of its substantial assets and the expected privatization process.

Summary

The current audit report details the fundamental trends and risks emanating from the Company's financial statements, including regulatory risks and fluctuating conditions in the postal market, that may make it difficult for the Company to continue providing its services to the public in the long term. The report indicates a trend of worsening in the monetary and financial results of the Company over the years. The report also indicates the lack of substantial accounting information on various areas of the Company's activity and details additional deficiencies regarding the Company's financial activities.

It is recommended that the Postal Company, the Companies Authority and the Ministries of Finance and of Communications operate to rectify the deficiencies emanating from this report and examine implementation of its recommendations accordingly.