



POST OFFICE LIMITED

Performance Report

May 2012

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Headlines

May 2012



Headlines (Period)

- Revenue of £77.5m was £2.0m adverse to budget and £1.3m adverse to prior year driven by lower stamp sales post last months price rise.
- Operating profit of £8.4m in the period was £0.1m favourable to budget but £2.1m favourable to prior year.
- Excluding NSP and Projects the BAU EBIT was £1.8m favourable to prior year due to the reduced costs.
- Cash flow was an outflow of £26m vs a budgeted outflow of £45m.

Profit Target (YTD vs Budget)

Period 2 operating profit was £17.9m against the budget of £19.1m, giving an adverse variance of £1.2m.

- Net Income was £153.8m which was £3.8m favourable to budget and £7.9m favourable to prior year - this is driven by the stamp sales ahead of the price rise which were £5m better than budget and are likely to unwind over the coming months.
- YTD staff costs were £2.8m favourable to budget and £0.3m favourable to prior year. The variance against budget is due to the large number of vacancies within the business.
- YTD Agents' cost are £2.7m adverse to budget due to the increased sales volumes and £2.6m adverse to prior year for the same reason.
- YTD non people costs were £0.7m favourable to budget driven by consumables and £0.6m favourable to prior year also driven by lower consumables and lower IT costs offset by higher consultancy and temporary staff.
- Interbusiness expenditure is largely in line with budget.
- Project costs are £5.6m over spent at period 2 driven primarily by flow through of prior year projects. The project budget will be reviewed and reprioritised at Quarter 1.

Cashflow (YTD vs Budget)

The YTD cashflow was an inflow of £432m which was £46m favourable to the budget of £386m (period 1 £40m fav).

The £46m variance to budget was mainly due to Business Creditors and Network Cash:

- Business creditors were £22m favourable to budget. Within business creditors, the increase in trade payables, due to project activity in the final months of 2011/12, has continued this year and the balances for purchases and accruals is £15m higher than budgeted. Agent's pay balances are £7m higher than budget due to stamp sales and this variance is expected to fall away in period 3.
- Network cash was £28m favourable to budget. Branch and cash centre holdings are largely on budget, but both cheques and debit card values are favourable this month.
- Other variances netting of to £4m adverse.

Headcount

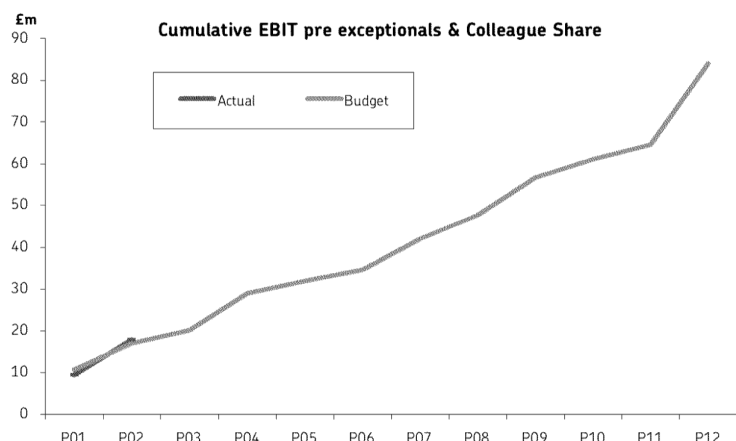
Headcount of 7,837 is in line with expectations.

Profit & Loss Statement

May 2012



£m	Current Month			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Forecast	Budget	Variance	Outturn
External Income	50.0	53.1	(3.1)	49.7	0.3	108.3	116.1	(7.8)	106.3	2.1	668.6	668.6	0.0	621.1
Interbusiness Income	25.5	24.4	1.1	27.1	(1.6)	65.2	53.7	11.5	59.3	5.9	347.2	347.2	0.0	358.6
TOTAL GROSS INCOME	75.5	77.4	(2.0)	76.7	(1.3)	173.5	169.8	3.7	165.5	8.0	1,015.8	1,015.8	0.0	979.7
Cost of Sales	(9.0)	(9.1)	0.0	(8.3)	(0.8)	(19.7)	(19.7)	0.1	(19.6)	(0.1)	(117.9)	(117.9)	0.0	(114.4)
TOTAL NET INCOME	66.4	68.4	(1.9)	68.4	(2.0)	153.8	150.1	3.8	145.9	7.9	897.9	897.9	0.0	865.3
Staff Costs	(20.4)	(20.6)	0.1	(20.3)	(0.2)	(43.0)	(45.8)	2.8	(43.3)	0.3	(268.9)	(268.9)	0.0	(251.3)
Agents Costs	(35.6)	(36.4)	0.8	(37.4)	1.8	(84.2)	(81.6)	(2.7)	(81.7)	(2.6)	(482.8)	(482.8)	0.0	(482.9)
Non-Staff Costs	(9.9)	(11.9)	2.0	(11.8)	1.8	(24.2)	(24.9)	0.7	(24.8)	0.6	(168.4)	(168.4)	0.0	(149.2)
Interbusiness Expenditure	(6.6)	(6.7)	0.0	(6.8)	0.2	(14.6)	(14.5)	(0.1)	(14.7)	0.0	(83.3)	(83.3)	0.0	(84.9)
Depreciation	0.0	(0.1)	0.1	(0.0)	0.0	(0.1)	(0.1)	0.1	(0.1)	0.0	(0.8)	(0.8)	0.0	(0.4)
Total Expenditure (pre P00C)	(72.6)	(75.6)	3.0	(76.3)	3.7	(166.2)	(166.9)	0.8	(164.5)	(1.6)	(1,004.2)	(1,004.2)	0.0	(968.7)
POFS - Share Of Operating Profits	0.0	0.0	0.0	0.3	(0.3)	(0.0)	0.0	(0.0)	0.5	(0.5)	0.0	0.0	0.0	(0.6)
FRES - Share Of Operating Profits	3.3	2.7	0.7	2.1	1.3	5.4	5.4	(0.0)	4.1	1.2	32.6	32.6	0.0	31.4
EBIT Pre Overhead Allocations	(2.8)	(4.6)	1.8	(5.5)	2.7	(7.0)	(11.5)	4.4	(14.0)	7.0	(73.7)	(73.7)	0.0	(72.6)
Group Overhead allocations	(1.2)	(1.2)	(0.0)	(1.6)	0.4	(2.5)	(2.4)	(0.1)	(3.4)	0.9	(14.6)	(14.6)	0.0	(19.6)
EBIT - BAU	(4.0)	(5.8)	1.8	(7.1)	3.1	(9.5)	(13.9)	4.4	(17.3)	7.8	(88.3)	(88.3)	0.0	(92.2)
One off Project costs (P00C)	(3.4)	(1.7)	(1.7)	(0.4)	(3.0)	(8.3)	(2.7)	(5.6)	(1.0)	(7.3)	(37.7)	(37.7)	(0.0)	(26.5)
EBIT - Post Project Costs	(7.4)	(7.5)	0.1	(7.5)	0.1	(17.8)	(16.6)	(1.2)	(18.3)	0.5	(126.0)	(126.0)	0.0	(118.7)
Network Payment	15.8	15.8	0.0	13.8	2.0	35.7	35.7	0.0	31.2	4.5	210.0	210.0	0.0	180.0
EBIT pre exceptionals & Pre Colleague Share	8.4	8.3	0.1	6.3	2.1	17.9	19.1	(1.2)	12.8	5.0	84.0	84.0	0.0	61.3
Interest	(0.7)	(0.8)	0.1	(0.1)	(0.6)	(0.6)	(1.2)	0.6	(1.3)	0.7	(8.0)	(8.0)	0.0	(4.4)
Impairment	(2.6)	(2.6)	0.0	(1.2)	(1.3)	(16.2)	(4.6)	(11.6)	(1.7)	(14.5)	(132.7)	(132.7)	0.0	(36.2)
Exceptionals & Redundancy & Severance Costs	3.1	1.3	1.8	0.0	3.1	5.0	2.4	2.6	0.0	5.0	91.6	91.6	0.0	0.3
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	1.3
Colleague Share/ Business Transformation Payments	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	(2.8)
Total Profit/(Loss) Before Tax	8.3	6.2	2.1	5.0	3.3	6.1	15.7	(9.5)	9.8	(3.7)	34.9	34.9	0.0	19.5



Period 2 (Period vs. Prior Year)

Operating profit of £8.4m was £0.1m adverse to budget but £2.1m favourable to prior year of which £2.0m was due to the increased Network Subsidy Payment.

Like for like vs. prior year variances of £3.1m favourable was mainly due to:

- Lower Agents cost of £1.8m due to fewer sales specifically Mails and Government Services,
- Lower non staff costs of £1.8m due to consumables,
- Higher JV income of £1.0m driven by FRES phasing correction from period 1, and
- Lower group overheads of £0.4m due to Separation.

Offset by:

- Lower net income of £2.0m driven by Mails (stamps) and Government Services (POCA).

Non like for like vs. prior year variances of £1.0m adverse was due to:

- Higher project costs of £3.0m,

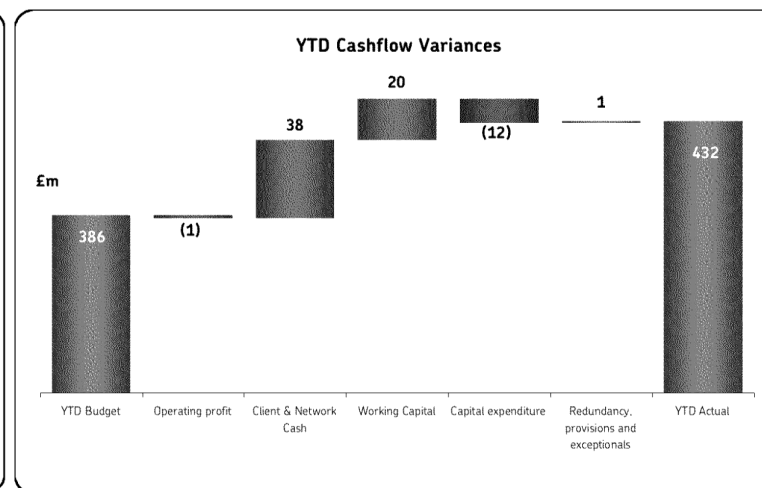
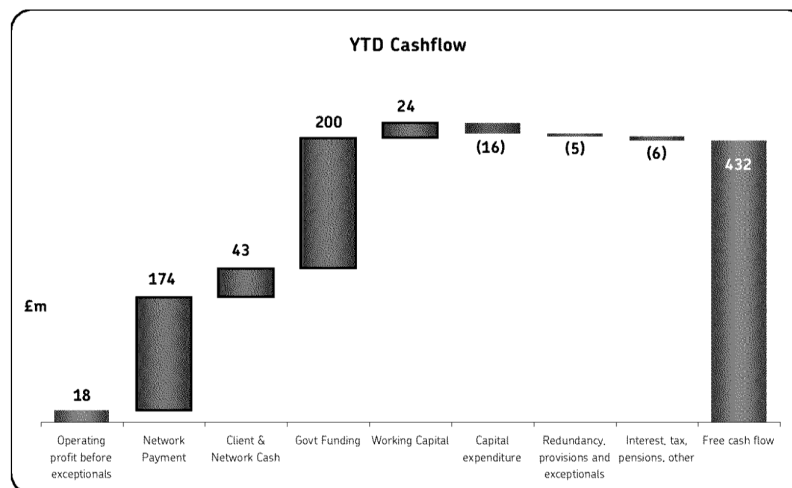
Offset by:

- Higher Network Subsidy Payment of £2.0m.

Cashflow Analysis & Balance Sheet Summary

May 2012

Period 2 cashflow was £19m favourable to budget primarily due to increased creditors £34m favourable offset by working capital £15m adverse.



Balance Sheet

£m	Mar-12	Actual	Budget	Variance
Fixed Assets	101	129	117	12
Debtors	89	84	82	2
Cash	759	732	760	(28)
Client Balances	(194)	(210)	(200)	(10)
Trade Creditors	(245)	(629)	(608)	(21)
Pension deficit	(198)	(198)	(198)	0
Provisions	(15)	(14)	(15)	1
Investments, Funding	48	103	111	(8)
Net Assets	345	(3)	49	(52)
Funded by	Mar-12	Actual	Budget	Variance
Capital and Reserves	32	3	6	(3)
Loan	(377)	0	(55)	55
	(345)	3	(49)	52

Cashflow

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- Other variances netting of to £4m adverse

Cash Management Table

£m	Prior Year	Mar-12	P2		
	May-11	Opening	Actual	Budget	var
Retail, Cash Centres	561	614	560	560	0
Bureau	72	54	78	72	(6)
Cheques, debit cards	122	91	94	128	34
Network Cash	755	759	732	760	28
		Opening	P2		
Headroom (£m)	509	739			

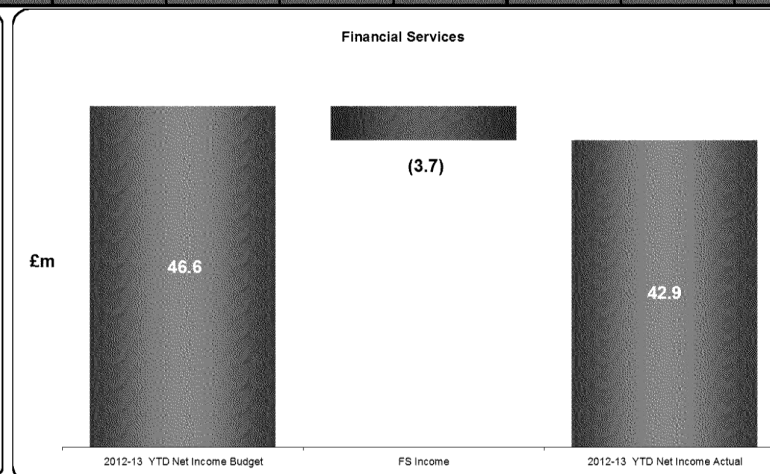
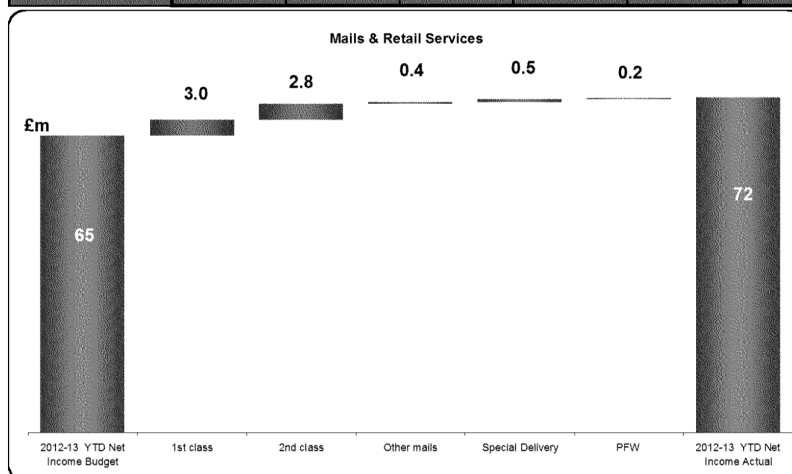
Cash Management

- Retail and Cash Centre cash (manageable cost) - flat against budget, and £1m favourable to prior year.
- Bureau (manageable cost) - £6m adverse to budget and ia flat against prior year.
- Cheques and debit cards (customer driven) - £34m favourable to budget and £28m favourable to prior year.

Net Income By Pillar May 2012



Net Income (£m)	Period			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	FYF	Budget	Variance	Outturn	Variance
Mails & Retail	28.4	28.1	0.3	29.5	(1.1)	71.5	64.5	7.0	64.3	7.2	403.8	403.8	0	387.5	16.3
Financial Services	20.7	21.6	(0.9)	19.7	1.0	42.9	46.6	(3.7)	42.2	0.7	274.7	274.7	0	261.5	13.2
Government Services	10.7	11.3	(0.6)	11.7	(0.9)	24.9	25.0	(0.1)	25.0	(0.1)	139.9	139.9	0	135.7	4.3
Telephony	3.5	3.6	(0.1)	3.6	(0.1)	7.3	7.6	(0.3)	8.0	(0.6)	45.7	45.7	0.0	41.4	4.3
Other	3.1	3.7	(0.6)	3.4	(0.3)	7.2	6.3	0.8	6.5	0.6	33.8	33.8	0	39.3	(5.5)
TOTAL NET INCOME	66.4	68.4	(1.9)	67.8	(1.3)	153.8	150.1	3.8	146.0	7.9	897.9	897.9	(0.1)	865.3	32.5



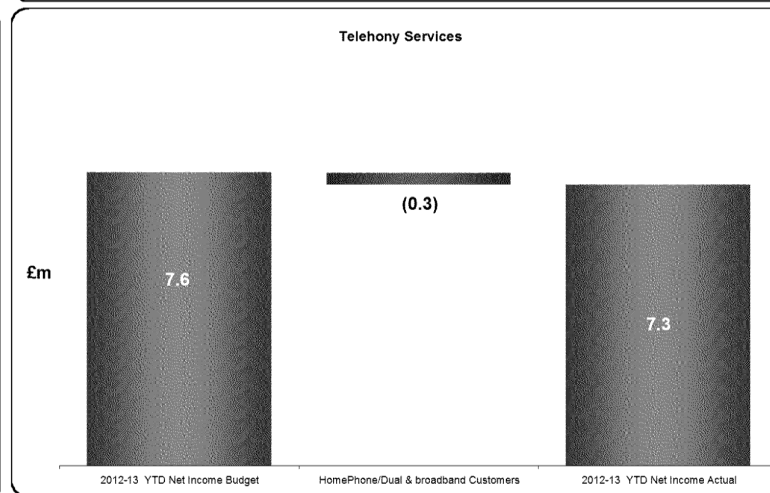
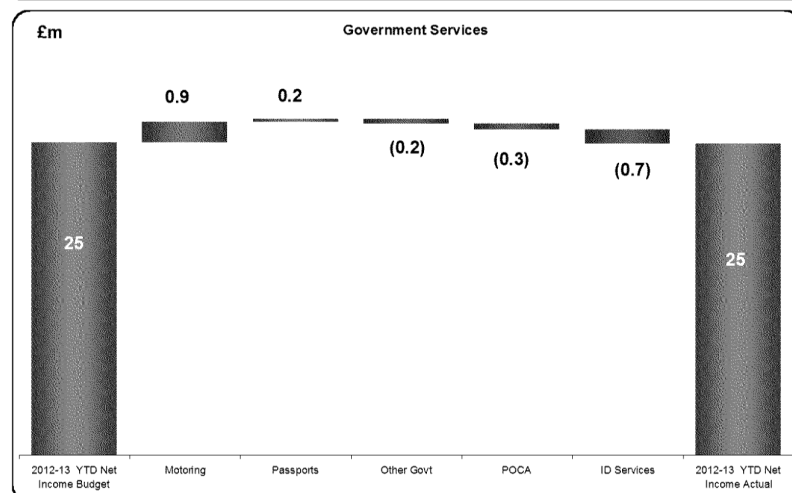
Pillar Performance vs YTD Budget

Mails & Retail Services - £7.0m Fav
Overall strong volumes prior to the price increase from Royal Mail which came into effect at the end of period 1.
1st and 2nd Class £5.8m - stamps were 280% of budget figures due to the buy forward experienced in branches. This favourable variance is expected to unwind over the coming months. Standard parcels were also higher than the prior year by 28%.

Financial Services - (£3.7m) Adv
FS (£3.7m) - Adverse due to the delay in implementing Eagle.

Government Services £0.1m Adv
Motoring £0.9m fav - primarily due to price increase.
POCA (£0.3m) adv - due to fall in number of accounts.
ID Services (£0.7m) adv - volume below budget.

Telephony Services (£0.3m) Adv
HomePhone (£0.3m) - higher customer numbers than budget but more than offset by lower revenue per customer due to competitive inclusive call packages.





Business Scorecard

May 2012

Key Performance Indicators	Current Month			Year to Date			Prior Year	Full Year			2011-12 Outturn
	Act	Target	Var	Act	Target	Var		F'cast	Target	Var	
Growth											
Total Revenue (excluding NSP) £m (Bonus)	75.5	77.4	(2.0)	173.5	169.8	3.7	165.5	1,015.8	1,015.8	0.0	979.7
Total Net Income (excl NSP) £m	66.4	68.4	(1.9)	153.8	150.1	3.8	145.9	897.9	897.9	0.0	865.3
Operating profit £m (Bonus)	8.4	8.3	0.1	17.9	19.1	(1.2)	12.8	84.0	84.0	0.0	61.3
Free cashflow £m	(25.8)	(45.2)	19.5	431.7	386.3	45.4	65.7	(85.3)	(85.3)	0.0	(15.0)
Collections & Returns ability to serve RM (Milestones)	0	0	0	0	0	0	N/A	8	8	0.0	N/A
FOoG bid wins (value won vs value bid for) (Rev £m)	0.0	0.0	0.0	0.0	0.0	0.0	N/A	11.7	11.7	0.0	N/A
Customer											
Customer Satisfaction (Quarterly)	86.9%	88.0%	(1.1)%	86.9%	88.0%	(1.1)%	84.9%	88.0%	88.0%	0.0%	86.9%
Queue time % < 5 minutes - Top 1k branches (Bonus)	75.8%	76.6%	(0.8)%	74.7%	76.3%	(1.6)%	72.8%	78.9%	78.9%	0.0%	77.8%
Welcome & Farewell - (mystery shopped) - Top 1k branches	84.8%	85.9%	(1.1)%	83.9%	85.9%	(2.0)%	80.4%	85.9%	85.9%	0.0%	81.5%
Call Centres 3D (Bonus)	104.1%	100.0%	4.1%	101.2%	100.0%	1.2%	105.5%	100.0%	100.0%	0.0%	105.5%
Retail Standards (actual) - Top 1k branches	85.8%	84.9%	0.9%	85.8%	84.9%	0.9%	82.5%	84.9%	84.9%	0.0%	84.1%
Horizon availability	99.8%	99.6%	0.2%	99.8%	99.6%	0.2%	99.8%	99.6%	99.6%	0.0%	99.5%
Branch - Compliance (new basket)	96.7%	95.0%	1.7%	96.8%	95.0%	1.8%	N/A	95.0%	95.0%	0.0%	N/A
Modernisation											
Crown Profit £m (Bonus)	TBC	TBC	-	TBC	TBC	-	N/A	TBC	TBC	-	TBC
Engagement Index % (Once a year)	64%	65%	(1.0)%	64%	65%	(1.0)%	58%	65%	65%	0.0%	64%
Network Conversions (Mains & Locals) (Bonus)	0	0	0	0	0	0	N/A	1200	1200	0	N/A
IT Transformation (Milestones)	2	2	0	3	5	(2)	N/A	12	12	0	N/A

Bonus worthy metrics



Transformation Delivery Summary

May 2012

Summary

- Significant progress across transformation but risk of slippage against plan increasing (due to lack of contingency). Amber delivery status being proactively managed. Red status assessed by Transformation Board with activity in place to monitor resolution.
- Significant further planning underway to build higher levels of confidence for full year delivery. Detailed SPMO and Transformation Board challenge on key programmes.
- Some slippage in planned spend into Q2 and onwards being assessed. Delays in Opex spend from FY11/12 into FY12/13 alongside need for inclusion of new costs in FY12/13 adding pressure to existing Opex challenge. Formal Q2 re-forecast now underway.

Delivery successes

- Telephony contract signed
- Digital strategy agreed
- Internal brand launch completed at vision event
- Network Transformation ramp up progressing well with second visits to agents starting imminently

Challenges

- Penguin procurement process (bidder withdrawals)
- Eagle contract still under negotiation

Effects on costs and benefits

- To be confirmed. Potential knock on impact into 13/14
- Eagle contractual benefits will be delayed until start of contract. 12/13 benefits reduced proportionately (TBC)

Significant changes to Transformation plans

- None however re-planning underway on IT&C Transformation and likely on Project Penguin

Transformation Delivery (1)

May 2012

	On track against current plan
	At risk against current plan
	Has not / will not hit current plan



Programme / Project	Plan	Spend	Ben-efts	Headlines
FOoG Implementation				•Good progress now being made on implementation of UKBA service with capacity now at required levels. Risk of some delay to phase 2 (mid Aug to end Sept).
FOoG Sales Pipeline				•Significant management focus on commercial bids as part of DVLA and IDA tender process. Progressing well but timescales tight. Potential for required IDA bid process extension. •Re-baselining of required pipeline spend profile due end of Q1
Network Transformation				•Good progress on agent engagement continues. Second visits scheduled to start in next fortnight. Risks in relation to consumer focus engagement and management of multiples discussions which impact potential deployment speed now reducing. NT database challenge point of management focus. •Under spend in Q1 but majority likely to flow into Q2. Costs for balance of year largely driven by pace of rollout.
Crown Transformation				•Programme team now completing detailed bottom-up planning to confirm delivery (including pilots) and benefits plans alongside associated cost breakdown. Recommendations will be taken to Crown Transformation board on 18th June. •All plans will be re-baselined on agreement with the programme board.
IT&C Transformation				•Overall baseline plan has been re-planned to accommodate more realistic procurement timescale, BaU resource constraints & and Horizon evolution discussions. Likely 4- 6 week delay with impact on dependent programmes (Crown / Finance) understood. •Revised plan (inc spend) is interim awaiting agreement with IT&CT Board (June 18th)and outcomes of Horizon study
FS: Eagle				•Contract signature outstanding with significant management focus on completion. Note realisation of FY12/13 benefits reduced proportionately. Resulting implementation plan and associated costs will require re-forecasting on signature.
FS: Polo			tbc	•Running to plan but with some slippage and no contingency. Significant risk of not meeting October stretch target for proof of concept (with resulting delay to Jan '13). Risk visible to Board and Transformation Board. Spend slightly over budget with re-forecast end Q1
FS: Penguin			tbc	•4 of 5 bidders have withdrawn. Assessment underway on feasibility of remaining bid. Degree of revision to plan and resulting spend dependent on outcome of this activity.
Mails: Drop & Go				•Solution implemented across Crown network. Current activity around deployment running in line with plan however recognition that target deployment of 2000 branches by Oct is a significant stretch.
Mails: Collections & Returns				•Project managing to current plan with functional requirements of capacity model drafted on schedule. •Significant SPMO challenge on outstanding delivery risk and impact on longer term delivery confidence (see slides 8 and annex 3)
Mails: Small Bus Club			tbc	•Feasibility study underway for completion in October. Target launch date of Small Business Club end of FY12/13 but requires detailed analysis before baselining.

Transformation Delivery (2)

May 2012

	On track against current plan
	At risk against current plan
	Has not / will not hit current plan



Programme / Project	Plan	Spend	Ben-efits	Headlines
IT Delivery				<ul style="list-style-type: none"> •Minor slippage on requirements definition for Salesforce solution but action in place to resolve. Salesforce feasibility starting. Firm plans in place for Channel integration & Branch-managed Switch for requirements and design phases (to Jul-12) •£1.5m Salesforce licence costs planned for last year now being incurred this year
Independence & Separation			tbc	<ul style="list-style-type: none"> •Completion of IT separation plan on schedule for end June but lack of contingency adds risk.
Telephony			None in 12/13	<ul style="list-style-type: none"> •Contract with Fujitsu now signed. Plan re-baselined at June Telephony Board and now being implemented. •Work continues on Mobile proposition. RFI not yet issued. New PM in process of being on-boarded. Launch date for mobile service remains uncertain.
Digital			None in 12/13	<ul style="list-style-type: none"> •Web re-design due to kick off beginning of July. Little contingency from start of build to public brand launch in October •MSZ Feasibility study largely on hold due to information not yet available from other projects. Sponsor considering re-baseline
Brand launch			tbc	<ul style="list-style-type: none"> •On schedule for business case and ExCo update in mid June •£2.2m of last year's spend delayed into this year
Finance			None in 12/13	<ul style="list-style-type: none"> •Feasibility phase continues to determine scope of project and evaluate procurement options •No spend in planned budget. High likelihood of additional spend requirements in FY12/13 over amount current provided by POL IC