



Post Office Limited ("POL")

Annual Review

November 2012

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1

Executive Summary

1 Key Messages

1 Key Issues

2

Business Overview

2 Business Overview

"At the Post Office our aim is to provide you with the things that are important to you – from your savings account to your broadband package, your car insurance to your rod fishing licence. Whether you pop into a branch or shop online, you can be sure all your needs will be handled with care. That's the Post Office promise."

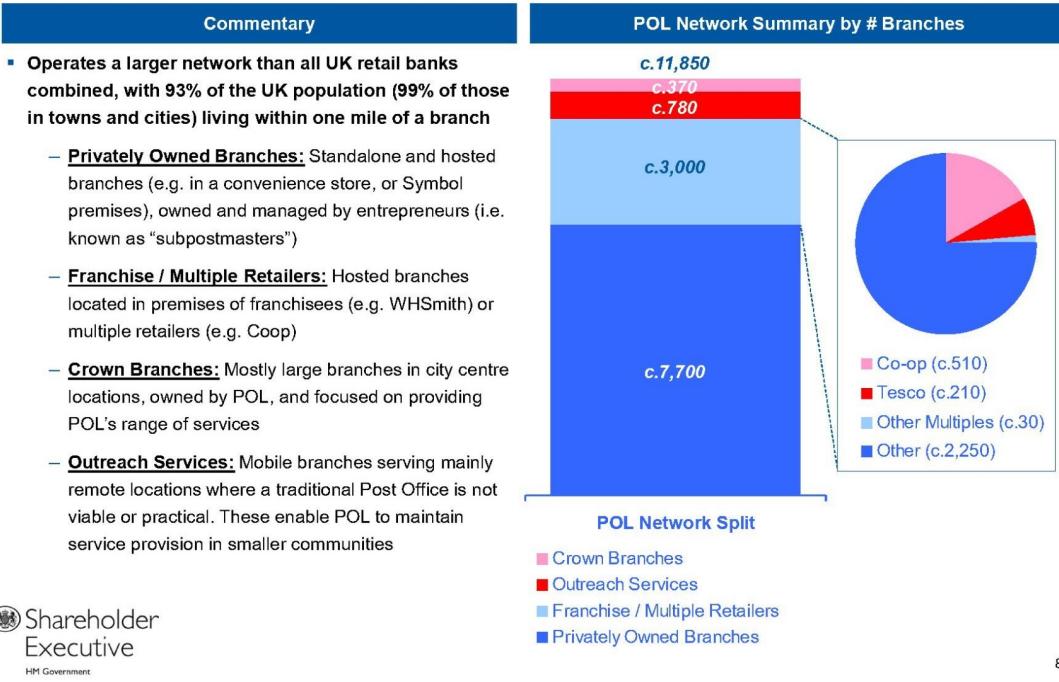


Mails & Retail	Government Services	Financial Services	Telephony and Other
<p>Sales '11/12: £[•]m Sales '14/15: £[•]m CAGR '11/12 – '14/15: [•]%</p> <ul style="list-style-type: none"> Provision of stamps, labels, international mail, special delivery and parcel services for Royal Mail Shop-floor retail including lottery, collectibles (e.g. Olympic coins) and stationery 	<p>Sales '11/12: £[•]m Sales '14/15: £[•]m CAGR '11/12 – '14/15: [•]%</p> <ul style="list-style-type: none"> Key growth area, including POCA services (e.g. benefits exception for claimants opting not to use a bank account), passport check-and-send, DVLA driving licence renewals, and a range of identity services 	<p>Sales '11/12: £[•]m Sales '14/15: £[•]m CAGR '11/12 – '14/15: [•]%</p> <ul style="list-style-type: none"> Broad range of financial services including bill payments, local business banking services (e.g. deposits), counter banking services on behalf of UK retail banks, ATMs, foreign exchange, insurance and savings 	<p>Sales '11/12: £[•]m Sales '14/15: £[•]m CAGR '11/12 – '14/15: [•]%</p> <ul style="list-style-type: none"> Retail home phone and broadband services in conjunction with British Telecom (migrating to Fujitsu in 2013) Also includes a small range of miscellaneous services including cash-transit and warehousing

Shareholder Executive

HM Government

2 [to delete]



2 Business Overview: Market and Regulation

Market overview

- [Description of the markets in which the Portfolio Company operates]
- [Major competitors]

Regulatory

- [Description of regulatory environment]

3

Long Term Strategy

3 Overview

- POL's current commercial strategy was developed in 2010 and forms the basis of the 2010/11 – 2014/15 financial plan
 - marks a turning point for the business, which has seen a shrinking estate, falling revenues and structural losses for a considerable period of time
 - closely aligned to key policy objectives around customer access, focused on both network availability (e.g. 5 branch access criteria) and key services (e.g. social benefit and tax credit payments, national identity and licensing scheme applications, payment facilities for public utility services, access to postal services, access to basic cash and banking facilities and Government savings)
- Built around 3 key financial and commercial pillars, which in turn support Government's core policy goal for POL to be on a "clear path" towards mutualisation by the end of this parliament



3 The Network Transformation Programme – The Plan

3 The Network Transformation Programme – Where Are We Today?

3 Crown Transformation Strategy – The Plan

3 Crown Transformation Strategy – Where Are We Today?

3 Revenue Growth – The Plan

3 Revenue Growth – Where Are We Today?

3 Mutualisation – The Plan

3 Mutualisation – Where Are We Today?

3 Other Key Strategic Initiatives

4

POL's Business Plan

4 The 2010 “Strat Plan”

4 The 2010 “Strat Plan” – Operating Performance to Date vs. Target

4 Income Statement

4 Historical Performance to Budget

Year ended	2008A		2009A		2010A		2011B	2012F	2013F	2014F	2015F
	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target	Target	Target
Policy											
[Target]											
[Target]											
[Target]											
Commercial											
[Target]											
[Target]											
[Target]											

4 Income Statement – Revenue Analysis

4 Income Statement – Cost Analysis

4 Cashflow Statement

Year ended £m	2008A	2009A	2010A	2011B	2012F	2013F	2014F	2015F	CAGR 2011-15
EBITDA									
Movement in working capital									
Capital expenditure									
Operating cash flow									
Dividends									
Other									
Net cash flow									
Closing net debt									

4 Cashflow Statement - Capex Analysis

Year ended	2008A	2009A	2010A	2011B	2012F	2013F	2014F	2015F	CAGR 2011-15
Maintenance capex (£m)									
Maintenance capex (% of revenue)									
Investment capex (£m)									
Investment capex (% of revenue)									
Return on investment (%)									
- Project 1 capex									
Return on investment (%)									
- Project 2 capex									
Return on investment (%)									
- Project 3 capex									
Return on investment (%)									
Total capex (£m)									
Total capex (% of revenue)									

4 Balance Sheet

4 Threats and Opportunities

- [Identify opportunities not currently in the current business plan to increase revenues (e.g. new products), reduce costs or capex. Comment on management plans to progress]
- [Identify threats/risks not currently in the current business plan that could substantially impact revenues, costs or capex. Comment on management plans to mitigate]

4 Restructuring and Organisational Change

- [Identify opportunities not currently in the current business plan to increase revenues (e.g. new products), reduce costs or capex. Comment on management plans to progress]
- [Identify threats/risks not currently in the current business plan that could substantially impact revenues, costs or capex. Comment on management plans to mitigate]

5

Indicative Valuation Analysis

5 Overview

- [DCF valuation and assumptions]
- [Company and transaction comparables]
- [Movement in value from last time and explanation]
- [Factors impacting the likelihood of achieving the valuation in a private sector sale e.g. pension liabilities]

6

Board and Management

6 POL's Board

- **Following the recent recruitment of Tim Franklin as NED, POL has a complete and independent Board for the first time in its history**
 - mix of backgrounds, and provide active support to senior management across a number of key areas of the business (e.g. retail competencies, Government Services and Financial Services, mutualisation and mutual ways of working)
 - management have indicated that there has been an increased level of scrutiny / challenge in recent months in terms of financial results and commercial performance more broadly
- **Quality of management team is AMBER in POL's traffic light assessment**
 - more time needed to develop a firm view on the team's ability to deliver Network / Crown transformation, and growth
 - despite the track record of some recent hires, private sector experience among senior managers remains limited
 - some conflicting interactions recently on commercial matters; these have been discussed with management at length
 - departure of HR director has seen her responsibilities split across existing management; this is being monitored closely
 - succession plan not currently in place, but currently one area of focus for Paul Vennells

6 Remuneration

- Remuneration and incentives

- POL MD remuneration set through RM Board remuneration process. HMG also has an approval right over POL executive incentive arrangements to deliver the strategy agreed in October 2010. When the business separates, new articles of association will give HMG fuller rights to approve POL Board remuneration directly. Upon separation from Royal Mail, ShEx will join the POL board.

- Bonus worthy metrics are split between financial performance (focus product sales, all product contribution, operating profit, total operational costs, free cashflow), customer (call centre performance, mystery shopper) and people (staff engagement index, serious accidents).

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Government Stakeholders

7 Overview

Stakeholder	Stakeholder interest	Assessment of Relationship	Key Current Issues	Strategy to Obtain Support / Overcome Barriers
HMT	<ul style="list-style-type: none"> HMG shareholding HMG lending to business Accounting and budget impact of business performance Long term risk of subsidy 	<ul style="list-style-type: none"> Strong ShEx working relationship with key HMT team 	<ul style="list-style-type: none"> Discussions ongoing re mutualisation and will need to work closely with HMT on progression of proposals 	<ul style="list-style-type: none"> Maintained close dialogue and sharing of strategy
Cabinet Office	<ul style="list-style-type: none"> POL procurement strategy and role in providing transactions to support online services. 	<ul style="list-style-type: none"> Good working relations – merit in expanding and renewing post CO reorganisations. 	<ul style="list-style-type: none"> POL's position in providing face-to-face transactions in light of digital delivery and OPS White paper. 	<ul style="list-style-type: none"> Continue to identify and target key contacts, coordinating with POL where required.
DWP	<ul style="list-style-type: none"> Contracts with POL for payment of benefits 	<ul style="list-style-type: none"> Good working relations 	<ul style="list-style-type: none"> POL's role in delivering Universal Credit, the impact of UC on POCA. 	<ul style="list-style-type: none"> Maintain close dialogue and coordinate with POL where required.
DfT (DVLA)	<ul style="list-style-type: none"> Contracts with POL for provision of services 	<ul style="list-style-type: none"> Strong working relationships 	<ul style="list-style-type: none"> DVLA plans to procure a wider range of face-to-face services shortly – crucial to POL's GS strategy. 	<ul style="list-style-type: none"> Maintain close dialogue and appropriate procedures during procurement process.
Home Office (IPS, UKBA)	<ul style="list-style-type: none"> Contracts with POL for provision of 'check and send' passport applications 	<ul style="list-style-type: none"> Some relationships in place – could be strengthened 	<ul style="list-style-type: none"> UKBA procurement outstanding. Direction on data collection for online passports unclear - key projected revenues for POL. 	<ul style="list-style-type: none"> Attempt to expand contacts with key senior officials, coordinating with POL where required.

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Shareholder Executive Role

8 Overview

The Shareholder Executive POL Team

Title	Name	Role
Director	Susanna Storey ([●]%)	Head of ShEx RMPS Team
Executive Director	Will Gibson ([●]%)	Head of RMPS POL Team
Assistant Director	Mike Whitehead (100%)	Network and Stakeholder Engagement
	Jane Hoy ([●]%)	Government and Financial Services Support
	Tim McInnes (80%)	Financial and Commercial Monitoring, Mutualisation
HEO	Peter Batten (100%)	Network and Stakeholder Engagement
Fast Streamer	Jai Nathan (80%)	Mutualisation, Government and Financial Services Support

- ShEx has a dual-role in working with POL, representing Government as a responsible shareholder and playing a key role as a voice within Government (e.g. guidance on political and commercial issues and, on occasion, client insight)
 - active relationships are maintained across multiple tiers of executive and senior management
 - strong relationship maintained with HMT team (e.g. James Perry, [●])
 - work with selected advisers (e.g. Freshfield's on legal and Deloitte on finance)
 - some interactions with other advisers (e.g. Rothschild on mutualisation, Linklaters on legal, and other *ad hoc* consultants)

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Traffic Light Analysis

9 Traffic Light Analysis

1. Shareholder Relationship	Green	
2. Implementation of Shareholder Model	Amber	Chair's letter not yet issued. Policy and shareholder management roles are combined within ShEx.
3. Quality of Management Team & Board	Green	
4. Strategy	Amber	Strategic plan may not create shareholder value in the short term, pending modernisation.
5. Financial Performance	Amber	The company doesn't produce positive economic profit as network access criteria exceeds a commercial network.
6. Balance Sheet & Risk	Red	Balance sheet is insolvent.

A1

Further Financial Information

4 Further Information on Current Trading

4 2011 Budget and Plan Reforecast

A2 [Appendix]

Appendices

- Traffic light analysis
- Governance documentation: [Chair letter, Shareholder Executive terms of reference]

6 Current Trading and Outlook
