

RMH(10)POL

ROYAL MAIL HOLDINGS plc BOARD

POST OFFICE LTD – MANAGING DIRECTORS REPORT – PERIOD 2
(May 2010)

1. Profit Target

Operating Profit in the month was £1.6m against a budgeted loss of £0.9m resulting in a £2.5m favourable performance. Cumulatively profit is £3.5m against a planned loss of £3.6m giving a £7.1m favourable position. The favourable year to date performance includes some timing effects expected to reverse. People costs were favourable by £2.3m (staff £1.3m and agents £1.0m) and non staff costs favourable by £5.9m (across most categories including lower losses £1.5m, Computers & Telephones £2.2m and Staff & Agent related £1.5m).

External gross income cumulatively was £2.5m adverse to budget, mainly in Financial Services and Telephony products (though the latter had favourable cost of sales, giving Telephony £0.1m adverse net income). Cumulative sales performance for standard products was at 104% against the budget but focus products was 97%, mainly due to the lower sales on POFS and travel products.

Year to date Profit is £6.3m lower than prior year mainly driven by lower net income (predominantly POCA) and higher costs partly offset by lower people & non-people costs.

Telephony bad debts of £2.0m were written off in the month but did not affect the profit as they had been fully provided. This amount is made up of balances where all debt collection actions had been taken without success and small balances of under £30. This represents writing off the outstanding balances of 7600 customers.

2. Cashflow

The YTD budget is for a cash outflow of £99m - actual performance is an inflow of £61m giving a favourable variance of £160m. The Client category (debtors, creditors and cash) accounts for £118m of this favourable variance with working capital, particularly business creditors, contributing a further £44m favourable.

In Client, cash remains at controlled levels and in total is £79m below the budget set for P2. May's actual of £769m is lower than the equivalent period last year of £787m. Branch cash is particularly favourable (budget £603m, actual £501m) and represents an achievement in a Bank Holiday affected period end.

Client creditors are £57m favourable to budget. Notable are high creditors for

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Within working capital, business creditors at £362m are £35m higher than budget. The main reason is client advances which are unusually high at £62m (highest on file) and are £27m above budget.

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Finally POL's capex is significantly adverse in P2 as the AEI photo-licence equipment is being accounted for as a finance lease resulting in a capex cash outflow of c. £10m. This is matched by finance lease cash inflow below the reported free cash flow subtotal.

3. Meeting with Edward Davey MP

I met with the new Minister for Postal Affairs on 3rd June with our Chairman, Donald Brydon. The session confirmed likely timings of [REDACTED] and the initial thinking on the future of the Post Office as a 100% owned public body. The Minister was well briefed by the BIS team around all the issues faced by the business. As a consequence of this session, POL has now set up a working group to tie in with Group Strategy to work through critical impacts such as legislation “asks” of the Bill, IBA requirements, legal structure, pensions and the like. In addition, the business will provide a “positive story for the Post Office” as an input to the Board awayday for the end of June.

4. **Savings Gateway Update**

We are currently seeking clarity from the new Government regarding their intentions on Savings Gateway and their commitment to the £16m funding. I have written to the Treasury following discussions with BIS, seeking their underwriting of the £400k already committed to our suppliers and to our continuing project costs until a formal contract is signed. Should I not receive a positive response by the middle of this month we will stop work on this project. I have made the Government aware that this would push back their previously stated delivery requirement for December 2010, should they later wish to resume.

5. **Application, Enrolment & Identity (AEI) Services Update**

We have commenced the DVLA driving licence renewal transactions using our Application, Enrolment and Identity (AEI) technology from 18 May. The transaction involves capturing each customer’s photo and electronic signature using a secure booth in Branch offices. This, along with their data, is then sent by secure electronic link to the DVLA, where they check the application and post a new photocard licence to the customer.

This new technology is currently being rolled out and 750 units will be available in Post Office branches by the end of September.

6. **Horizon Online Rollout Update**

The Horizon Online pilot is now operating at 622 customer-facing branches. Good progress has been made on fixing the live issues we have been experiencing with recent updates applied to the Data Centres further improving stability. High Volume pilot migrations are now due to restart on Tuesday 8th June and a schedule for the rest of the pilot has been agreed with stakeholders. We will be migrating the Crown network first and complete by the end of June, with the rest of the Branch Network following after that. We are looking to complete migrations in September.

Financially the programme remains ahead of the business case due to higher than planned benefits and a number of financial savings which have been made. These benefits are already guaranteed and not endangered by project slippage.

7. **Identity & Passport Service (IPS) - Front Office Services (FOS) Update**

The procurement has now been halted and the bid team are awaiting instruction from IPS as to next steps – further communication from IPS due very soon.

Government has announced that the ID Card Programme is to be cancelled and the capture of a second biometric (fingerprint) for latest generation passports ‘halted’.

The Front Office Services (FOS) procurement is still relevant to passport application and the Check and Send Service – of which FOS is intended to subsume – expires in November 2011. IPS has the option to: (1) continue the current procurement with only passports in scope, creating relatively minor delay; (2) cancel and re-start a new procurement with new requirements, creating significant delay and cost or (3) cancel the current procurement and be amenable to an exclusive proposition for providing the service avoiding a further costly procurement and enabling a timely implementation.

There is no impact to the UK Border Agency pilot activity, or the DVLA licence application programme roll-out as a consequence of the delay described above.

Next Steps and Actions

- While awaiting IPS's instruction the bid team continues to develop an exclusive proposition based on its summer 2009 proposition to IPS.
- Group is being briefed on the approach to help determine the political will for such a solution.
- The Bid Team continues to monitor competitors' activities and adapt the strategy accordingly.

8. System & Channel Availability

Horizon – Branch availability in May was 99.74% (provisional figure only at this stage) exceeding a stretch target of 99.60% and significantly above the contracted target of 99.45%. This is due to less branch incidents requiring an engineer visit, as well as a marked increase in the stability of the on-line service at branches due to all the fixes applied by Fujitsu to the infrastructure. This now provides us with a very stable environment as we re-commence HNGX roll-out.

ATM – ATM availability performance has increased this month, from 94.91% in April to 95.14% in May (provisional figure only at this stage). This is mainly due to an increase in availability of the Bank of Ireland infrastructure.

Website – Availability increased to 100% in May from 99.48% in April. This was due to no emergency/scheduled maintenance or downtime impacting on performance. Customer availability was similarly high at 99.95%.

Call Centre – Grade of service (GOS) for May outturned at 78.8% against the target of 80%.

We just missed the target threshold this period due to failures on several products. These include Travel Insurance (54%) due to a continued number of issues, including the ongoing situations in Iceland, Thailand, Greece and lengthy queries relating to BA industrial action. We have seen continued excellent performance at the two largest contact centres with Telephony (88%) and Card account (85%).

9. Post Office Budget Card

Post Office Budget card was launched on 25 May, providing customers with a modern and convenient way to help them budget for their outgoings.

Customers will be able to use the card to pay for all bills accepted at our branches and they can be reassured their funds are safe if they lose their card as it is issued by the Bank of Ireland, so covered by the Irish Deposit Protection scheme.

We currently have 300,000 Savings Stamp customers and aim to transfer all of these as well as gaining new customers looking for help with their budgeting in the current economic climate.

10. Network Related Updates

Sales

At the end of week 8, **IRRELEVANT** giving a POL performance of 97%. Standard Product performance **IRRELEVANT** with POL at 104%. Overall, this gives a total income performance **IRRELEVANT** **IRRELEVANT** POL at 102%.

Inland and international express mails have largely recovered from the effects of the flight restrictions seen in weeks 3 and 4, but Travel Money remains severely impacted with reports of travellers waiting until the very last minute to buy their currency, and a resulting increase in market share being seen by FX outlets in airports. Despite the slight relaxation, with permission to fly in a greater density of ash cloud than originally thought, there still remains a possibility of further disruption, which continues to affect FX buying behaviour.

Agency Contracts

The financial consequences process comes into force from 1st June following three months Agency contract change notice period. This is the first stage in managing non-conforming branches more rigorously, using the agents contract disciplines to improve the customer experience and compliance. Repeat 'non-conforming' branches will be visited and retrained, and the costs passed on to them although mitigating circumstances will be taken into account.

National Federation of Sub Postmasters (NFSP): Ways of Working

A collaboration workshop day is being set for July and we await agreement on signing an NDA, in order to work more closely with the NFSP on commercial matters.

Network Operations/Support

Round 2 of the Welsh Assembly Post Office Diversification Fund (PODF) generated 70 applications from Subpostmasters wishing to refurbish their post office with the average funding request in the range of £16k. The Scottish Parliament is currently consulting on a Scottish version of the PODF which, if introduced, will make £1m per year available to Subpostmasters in Scotland to develop their post office business for the future.

Melsonby – the Police investigation has progressed leading to Robin Garbutt, Diana's husband, charged with her murder. Diana's funeral took place on 7th May.

New Mobile Web Site

Mobile platform m.postoffice.co.uk was launched this week, and is a cut down version of the main Post Office website produced specifically for mobile users accessing the internet on their mobile phone. The site contains our core tools:

- Branch finder
- Postcode/Address finder
- Currency convertor

The mobile platform can be accessed by any phone with mobile internet access. It will display differently on various phones depending on the capability of individual handsets. The site also promotes Post Office Travel Insurance with a 'click to call' button allowing users to connect directly to the AON contact centre to get a quote or buy Travel Insurance.

Sales Model Review

Navigant (a specialist FS sales consultancy) have now spent 2 weeks investigating POL's approach to selling FS products. The review completes in 3 to 4 weeks and will feed into a concurrent POL OD review, the 12-17 Strategy refresh, and Eagle.

Customer Experience (CE) Programme

A new programme is being scoped to combine work from the Crowns Waiting Times project and the Brand and Customer Experience programme. The priority will be on delivering a noticeable difference in branches by training, incentivising and communicating a best practice, to be adopted across all Crown and major Agency branches where queuing times are worse than targets, which integrates with our customer complaints' policy.

David Smith

June 2010