Shareholder Executive

HM Government

Post Office Limited ("POL")

Annual Review

December 2012

RESTRICTED – POLICY & COMMERCIAL

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1 Executive Summary

1 Executive Summary

While the profile of POL today is broadly similar to how it looked in November 2011, significant progress has been made in a number of areas…

…the business is now independent from Royal Mail and management have started to mobilise a number of key areas of strategic development…

…at the same time however, the risk profile of POL has changed – both in terms of its strategy and its viability as a standalone business

- **Since the last annual review in November 2011 considerable progress has been made at POL**
  - the business is now independent following its separation from Royal Mail in April 2012
  - a board has been put together to support POL's development, Chaired by Alice Perkins
  - a number of POL's core strategic initiatives have started to mobilise, marking the beginning of a period of change
  - Government responded to the mutualisation consultation and is supporting POL in the stakeholder forum process
  - important contracts – including with Royal Mail and DVLA – have been renewed making POL a more viable business
  - the relationship with the Bank of Ireland has been restructured to drive growth in personal financial services
  - financial performance has been strong, with an outperformance of budget in 2011/12 and strong trading YTD in 2012/13
- **However concerns are starting to emerge in relation to some areas of POL's strategy. This focuses risk to the outer years of POL's plan, when the financial benefits from these initiatives are expected to start to be delivered**
  - Network Transformation: Some slipping against targets, although management still expect to meet near term conversion objectives and have a focused plan in place to address weaknesses in implementation
  - Crown Transformation: A detailed workplan has only recently been put together, with delivery expected to commence shortly. There is significant implementation and timing risk around this strategy
  - Revenue Growth: POL will miss new revenue targets in the short term – however it is not clear for how long such shortfalls can be made up by strong performances elsewhere in the business
  - Mutualisation: Progress is starting to be made, albeit more slowly than some stakeholders had hoped. Stakeholders are however engaged with the process and further developments are expected to be made in the coming months

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Executive Summary (cont'd)

POL's risk profile is compounded by the uncertainty surrounding its future plan (e.g. how the business has been trading vs. how the plan envisages it trading)…

…combined with changes that have been made to the sequencing of POL's strategy, it is extremely difficult to form a meaningful view around trends and valuation

- **Actual trading has started to diverge from the profile of trading envisaged by the plan, meaning forecasts for 2013/14 and 2014/15 are becoming less relevant as a guide to POL's future**
- **The financial information and commentary presented in this document should therefore be interpreted in this context**
  - combined with a negative cash generation profile, also means that a valuation of POL is difficult
- **In addition to facing a number of strategic challenges, there are some questions around the capability of management**
  - the team is strong and knows the business / market well, however they need time to demonstrate their ability to deliver the strategy successfully (e.g. have experience with the "old" POL, not a transforming growth business)
- **POL has had a good year, however its track record of successes is no indicator of future performance**
  - the business is approaching a challenging period but mixed signals (e.g. slippage on some initiatives, progress elsewhere) and the fact that some initiatives have not been mobilised yet mean that it is too early to see whether POL is capable of transformation and delivering the benefits of the strategy
- **The ShEx POL team works closely with POL management at many levels. We monitor performance of the business closely and challenge progress against the strategy in a structured way**

OUR KEY FOCUS FOR 2013
1.) Develop revised plan and funding proposal for the next spending review
2.) Push through Network Transformation, Crown Transformation and Revenue Growth (incl. Government Services)
3.) Progress POL's mutualisation process

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2 Business Overview

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Business Overview

POL operates the #1 retail footprint in the UK, managing a network of c.11,800 branches and delivering a range of around 170 services across a number of markets including Mails and Retail, Financial Services, Government Services and Telephony…

…the business has been 100 per cent. owned by Royal Mail Holdings plc, the parent group of Royal Mail Group Limited since April 2012

Post Office Limited

11/12A Net Income(1) £865.3m, 11/12A Operating Profit £61.3m (7.1% margin), 11/12A Headcount 7,798

Mail and Retail

11/12A Sales: £387.5m (44.8% total sales ex. NSP)

- Provision of stamps, labels, international mail, special delivery and parcel services on behalf of Royal Mail
- Also active in in-branch and online retail with stationary, collectibles (e.g. stamps, Royal Mint coins) and lottery (in-branch only)

Financial Services

11/12A Sales: £261.5m (30.2% total sales ex. NSP)

- Broad range of financial services including bill payments, SME banking services (e.g. deposits and withdrawals), retail banking services for UK high-street banks, ATMs, foreign exchange, insurance and savings products

Government Services

11/12A Sales: £135.7m (15.7% total sales ex. NSP)

- BPO offering focused on Government as a customer. Services include POCA (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

Other

11/12A Sales: £80.7m (9.3% total sales ex. NSP)

- Retail home phone and broadband services provider with 480k subscribers (130k of which are double-play) (51 per cent. divisional total sales)
- Also provides a small range of miscellaneous services (e.g. cash-transit and warehousing)

The Network

- POL's network of c.11,800 branches is distributed across an owned estate of 373 "Crowns", 7,450 privately owned branches operated by subpostmasters, c.3,000 branches operated by multiple retailers and symbol groups and c.1,000 "Outreach" post offices (i.e. limited hours service in remote locations where a permanent branch is not viable)
- Of the c.3,000 branches owned by retail partners, 270 are managed by The Co-operative Group (530 by co-operative groups more generally), 420 by Martin McColl's and 210 by OneStop (owned by Tesco). c.80 ex-Crown branches are operated by WH Smith under a franchise agreement

(1) References to Net Income relate to revenue less cost of goods sold. This is used by POL as a proxy for revenue and ensures a greater degree of comparability between different activities (e.g. Mails where CoGS are c.1 per cent. gross revenue and Telephony they are >70 per cent.)
Note: EBITDA is not a relevant financial KPI due to POL's capital expenditure being impaired in the period during which it is incurred. Therefore neither impairment nor depreciation charges are representative of an underlying or normalised "business as usual" expense.

2 Market Overview and Competitive Positioning

POL has a strong trusted brand across a wide range of markets, which is increasingly a crucial differentiator for the business…

…however there are gaps in customer knowledge about POL's broader offering which management are seeking to address, while at the same time they fight stiffening competition

Post Office Limited

Mail and Retail

Selected Key Competitors

- Clear leader in retail mails although this is widely seen as a declining market
- Also strong in higher growth packets and parcels, where competition is stronger
- Currently lack a collect and returns offer which is a key growth driver for the competition (e.g. Collect+). POL / RM are developing a competing product set for launch in 2013
- Strategy to transform the estate and customer experience through Network and Crown Transformation initiatives

Financial Services

Selected Key Competitors

- Competitive offer in almost all segments where POL is active
- Brand equity is also a key differentiator in many areas – especially when POL competes against high-street banks
- Offer currently lacks a transactional account which is seen as a weakness. In development with a tentative launch date in Q1 2013/14
- Recent restructuring of BoI relationship should be catalyst for change

Government Services

Selected Key Competitors

- High level of competition in low value-add transactional services (e.g. payment processing)
- Less competition in more complex areas where POL can leverage its footprint, relationships with Govt. and its branch / staff security profile
- Relevant competitive landscape is also evolving as POL / its peers seek partners, expand in new markets and meet new challengers in existing markets

Telephony and Other

Selected Key Competitors

- Competitive price driven market, with a large number of players
- Most peers are able to provide a broader offer than POL (e.g. triple- or quad-play), however POL will be launching a mobile proposition in 2013. Also potential for IPTV launch
- Subscriber base is seen to be both low-churn but also low-spending / price conscious. Risk around ability to up-sell / cross-sell

3 Long Term Strategy

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Long Term Strategy – Introduction

The financial plan developed in 2010 remains the one against which management monitor the business's performance…

…on the basis of this plan POL was able to secure a £1.34bn funding package and access to a £1.15bn WCF…

…while the current plan seeks to make POL more sustainable and more viable, it is still likely to require funding through the next spending round

- **POL's strategy was developed in 2010, prior to POL's separation from Royal Mail, to cover the period 2011/12 – 2014/15**
  - centred around three pillars – Network Transformation, Crown Transformation and Revenue Growth. Each of these was expected to contribute to the transformation of POL into a viable standalone business
- **The strategy is closely aligned to Government's policy objectives for the post office network**
  - maintain a minimum network size of 11,500 post office branches, with no network closure programme
  - ensure that 6 clearly defined "access criteria" are met
  - ensure that 5 clearly defined types of services are available across the network (e.g. benefits, bill payments and postal services)
  - reduce Government's subsidy for the network, from the current level of c.£210 million
- **Government also has two policy priorities linked to POL as a commercial entity. These are:**
  - to support and monitor the implementation of POL's strategy
  - to work with management and stakeholders to explore options for mutualising POL
- **To support the strategy a new funding agreement was put in place, totalling £1.34bn over the plan period (State Aid approval was received in March 2012). Government also provides a £1.15bn WCF – this is not subject to State Aid**

Mar YE (£m)	2011/12	2012/13	2013/14	2014/15	Total
Network Subsidy Payment	180.0	210.0	200.0	160.0	**750.0**
Other Government Funding	0.0	200.0	215.0	170.0	**585.0**
Total Government Funding	**180.0**	**410.0**	**415.0**	**330.0**	**1,335.0**

- **Assuming policy objectives remain unchanged, Government will need to continue to fund POL during its next strategic planning period**
  - on the basis that management can deliver the current strategy the annual funding requirement will be materially lower (both as a subsidy, and as a payment to fund the strategy's implementation)

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Long Term Strategy – Financial Summary

POL's headline financials have not changed significantly from the expectations laid out in the 2010 plan…

…however the makeup of POL – in terms of its sales and cost mix – is different…

…a disconnect has therefore emerged between the targets laid out in the plan and the relevance of the trading that supports those targets

Mar YE (£m)	2012F	2013F	2014F	2015F	CAGR
Mail and Retail	365.7	374.2	372.3	374.2	0.8%
Financial Services	236.7	235.3	229.7	219.0	(2.6%)
Government Services	137.8	141.8	157.0	197.0	12.7%
Telephony and Other	96.7	112.0	125.1	135.8	12.0%
Net Income (ex. NSP)	**836.9**	**863.3**	**884.1**	**926.0**	**3.4%**
% growth	*n.a.*	*3.2%*	*2.4%*	*4.7%*	*n.a.*
Network Subsidy Payment	180.0	210.0	200.0	160.0	(3.9%)
Net Income (in. NSP)	**1,016.9**	**1,073.3**	**1,084.1**	**1,086.0**	**2.2%**
% growth	*n.a.*	*5.5%*	*1.0%*	*0.2%*	*n.a.*
Total Costs	(1,022.1)	(1,025.7)	(1,019.7)	(1,025.9)	0.1%
% Net Income (ex. NSP)	*(122.1%)*	*(118.8%)*	*(115.3%)*	*(110.8%)*	*(3.2%)*
JV Income	36.0	37.0	38.0	39.0	2.7%
Operating Profit	**30.8**	**84.6**	**102.4**	**99.1**	**47.6%**
% margin	*3.7%*	*9.8%*	*11.6%*	*10.7%*	*42.7%*
Free Cashflow	**(37.1)**	**(155.0)**	**14.0**	**(28.9)**	**(8.0%)**

- **POL's long term strategy was not prepared from the bottom-up, meaning there is no significant detail behind any targets in the plan. One-year budgets are however prepared from the bottom-up, during an October - March budgeting process**
  - management remain focused on net income and operating profit targets but have not presented a revised plan to the Board
  - they acknowledge that many of the commercials supporting the numbers in the original plan are no longer relevant
  - although most strategic initiatives have remained, many had not been fully worked-through in 2010 (i.e. no workplans existed)
- **This makes it difficult to monitor POL's financial plan or the delivery of its strategic initiatives**
  - detail on financials are only available in-year. Furthermore POL's budget is prepared in a different way to its plan, meaning bridges are often needed to compare actual performance with targets for certain initiatives (e.g. "new" income growth)
  - strategic initiative workplans are sometimes "retrofitted" to the 2010 plan, to match top-down targets with bottom-up detail

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Long Term Strategy – Network Transformation

The NTP will see a widespread restructuring of POL's estate, changing how customers interact with branches and how POL interacts with its network…

…POL has experience of delivering large transformation programmes, however the scale of the NTP is unprecedented…

…if successful, POL will look very different. It will also go a long way to improving POL's financial profile, making it more sustainable in the long term

- **POL's Network Transformation Programme ("NTP") aims to transform the non-Crown estate (c.11,425 branches), making the in-branch experience more attractive for customers while at the same time improving the flexibility of POL's cost base**
- **The first phase – which runs to March 2015 – will see conversion of 6,000 branches to new format models (4,000 "Mains" and 2,000 "Locals")**
  - gives customers refreshed branches with longer opening hours. Mains will continue to offer the full range of post office services, while Locals will offer 95 per cent. of services (by volume)
  - introduces new subpostmaster contracts that move agents away from "Core Tier", or fixed payments, towards a greater emphasis on variable pay (i.e. remuneration driven by transaction volumes)
  - the NTP's pilot recently closed, with 270 branch conversions in operation across both formats (32 Mains, and 238 Locals)

	"MAIN" MODEL	"LOCAL" MODEL
Typical Branch	Mostly town centres, processing >1,200 transactions p / w	Mostly urban fringe and rural, processing <1,200 transactions p / w
POL Services Offer	Full range of POL services	95% POL services by transaction volume
POL Positioning in Branch	Primary counter separate from retail with subsidiary counter integrated	Fully integrated into retail
# targeted conversions	4,000 by March 2015	2,000 by March 2015
POL Investment in Branch	Up to £45,000	Up to £10,000

- **The NTP is voluntary, and therefore requires subpostmaster engagement (or for subpostmasters to sell their branches to new operators more willing to engage) for it to be implemented successfully**
  - support from the NFSP has been key to develop the strategy, run the pilot, and launch the broader implementation
- **A large share of the 6,000 branches are expected to relocate**
  - the economics of the new models are better when part of a retailer (e.g. a convenience store) vs. standalone post office
- **The second phase of the NTP is expected to commence in March 2015**
  - should see the conversion of a large share of the remaining 5,500 branches. The structure of this phase is yet to be determined, however it will require further funding from Government

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Long Term Strategy – Network Transformation (cont'd)

Status: RED

- ***POL is currently under-target and has been slipping further behind as weeks progress***
- ***Management are taking actions however many issues could have been identified earlier***
- ***Not yet clear whether these actions will improve performance***
- ***High level of risk that 2012/13 and future targets are missed***

- **POL is currently behind on the delivery of the NTP**
  - had planned to have converted 370 branches by the end of September 2012/13 but only reached 270
  - weekly conversions are below the 50pw target meaning the shortfall is increasing month-on-month (avg. of 5pw in October)
- **The programme is facing two key challenges – one from the NFSP and one from subpostmasters directly**
  - the NFSP signed off on a new subpostmaster contract in August 2012, and has supported the NTP since November 2010. However locally (e.g. among area reps) and among the NFSP's executive board there is less consistency in support
  - volunteers have also been slow to move through the pipeline (e.g. delays to business planning, ongoing economic uncertainty, expect more Government Services work to arrive, know option is open for 3 years)
- **POL have responded to these with a "5 Point Plan" which management expect will bring the NTP back on track. With these measures they believe that the 1,200 conversion target for 2012/13 is still deliverable (on a contract signed basis)**
  - (i) send NTP advocates into the field to talk through their experiences with subpostmasters
  - (ii) strengthen local communication channels with subpostmasters through POL's network of area sales managers
  - (iii) speed up the implementation of new remuneration structures for Financial Services and Telephony sales
  - (iv) develop clearer messaging around Government funding for NTP
  - (v) work with subpostmasters around the selective flexibility of contracts (e.g. opening hours)
- **The NFSP is also seeking to negotiate enhanced financial and contractual terms for subpostmasters**
  - there is a risk that they might withdraw support for the NTP if their objectives are not met
- **POL is continuing to work with a number of multiple retailers (not NSFP members) who want to engage with the NTP**

SHEX ACTIONS

Monthly meetings have been set up to monitor the NTP and POL also provide ShEx with weekly updates on shorter-term developments - management are open and present "warts and all" views. It is critical for ShEx to maintain close and frequent interactions. Jo Swinson has a keen interest to be kept up to date on progress.

3

Long Term Strategy – Crown Transformation

POL's Crown estate faces a number of legacy costs related to property leases and employee pay that contribute to a recurring loss of c.£50 million per year…

…achieving breakeven will be a major step in making POL a more sustainable and viable business. It should also support stronger relationships with a number of stakeholders hostile to the Crowns

- **POL's strategy to restructure the Crown estate targets reaching operating profit breakeven by March 2015**
  - understood to have been loss-making for a considerable period of time, and in 2010/11 made an operating loss of £51m
  - current plan differs in some areas to the 2010 strategy. The original plan had to be "re-cut" due to complications linked to TUPE'ing of Crown employees to potential franchise partners and the impact of wider Royal Mail pay settlements
- **The new strategy is focused on four pillars: (i) people and productivity benefits (e.g. redundancy and automation); (ii) income benefits; (iii) property benefits; and (iv) other benefits (e.g. franchising)**
  - management believe that this new strategy - in place since Summer 2012 - is more closely aligned to POL's growth profile

Mar YE (£m)	2011F	2012F	2013F	2014F	2015F
Variable Net Income	87.1	91.4	98.5	102.8	105.1
Fixed Net Income	44.5	48.7	44.5	43.1	41.8
Retention Income	6.0	4.1	5.1	6.8	8.9
Net Income	**137.6**	**144.2**	**148.1**	**152.8**	**155.8**
% growth	*n.a.*	*4.8%*	*2.7%*	*3.1%*	*2.0%*
Staff Costs	(118.0)	(119.2)	(117.5)	(106.7)	(96.7)
% staff cost to income ratio	*(85.7%)*	*(82.7%)*	*(79.3%)*	*(69.8%)*	*(62.1%)*
Property Costs	(39.0)	(41.8)	(39.0)	(35.3)	(30.1)
% property cost to income ratio	*(28.4%)*	*(29.0%)*	*(26.3%)*	*(23.1%)*	*(19.3%)*
Non-Staff Costs	(4.0)	(3.2)	(3.6)	(3.4)	(3.3)
Infrastructure Costs	(23.0)	(23.1)	(24.4)	(23.6)	(22.7)
Allocated Costs	(12.4)	(12.4)	(13.7)	(13.3)	(12.1)
Total Costs	**(196.4)**	**(199.7)**	**(198.2)**	**(182.2)**	**(164.9)**
% net income	*(142.7%)*	*(138.5%)*	*(133.8%)*	*(119.3%)*	*(105.9%)*
POL Crown Operating Profit	**(58.8)**	**(55.5)**	**(50.1)**	**(29.5)**	**(9.1)**
% margin	(42.7%)	(38.5%)	(33.8%)	(19.3%)	(5.9%)
Financial Services JV Income	8.2	9.2	9.8	9.5	9.1
Group Crown Operating Profit	**(50.7)**	**(46.4)**	**(40.3)**	**(20.0)**	**0.0**
% margin	*(36.8%)*	*(32.2%)*	*(27.2%)*	*(13.1%)*	*0.0%*

see following page

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Long Term Strategy – Crown Transformation (cont'd)

The strategy is complex given the need for POL's Network and Commercial teams to work together…

…performance in other areas of the business could also impact the Crowns given the way in which costs are allocated across the business (e.g. the stronger is performance elsewhere, the fewer costs would be allocated to the Crowns, and vice-versa)

- **The highest risk areas of the plan are seen to be employee-linked cost savings and income growth – together these account for 70 per cent. of the targeted savings**
  - employee savings require POL to achieve high levels of utilisation across its "Post & Go" machines (many in locations which are untested) and to manage employee restructuring initiatives while maintaining constructive dialogue with the CWU
  - income growth requires the Crown estate to work closely with other areas of POL (e.g. Government Services, Financial Services) to deliver new revenues at low-incremental cost

Mar YE (£m)	2011F	2012F	2013F	2014F	2015F	Cumulative
Staff Savings from Automation	-	-	-	4.0	4.9	8.9
Hours and M'ment Structure	-	-	5.3	2.5	-	7.8
"Post & Go" Deployments	-	-	0.3	-	-	0.3
Raising of Bonus Threshold	-	-	-	-	0.7	0.7
People and Productivity Benefit	**0.0**	**0.0**	**5.6**	**6.5**	**5.6**	17.7
Government Services Income	-	-	3.0	6.0	-	9.0
Financial Services Income	-	-	3.5	2.5	5.0	11.0
Telephony	-	-	0.6	0.4	0.2	1.2
SME	-	-	0.5	0.5	2.0	3.0
All Other	-	-	0.0	0.4	0.6	1.0
"Income Decline"	-	-	(2.0)	(2.0)	(2.0)	(6.0)
Income Benefit	**0.0**	**0.0**	**5.6**	**7.8**	**5.8**	19.2
Hosting and Relocations	-	-	0.5	1.1	2.6	4.2
Property Benefit	**0.0**	**0.0**	**0.5**	**1.1**	**2.6**	**4.2**
Retentions and Renewals	-	-	1.3	1.9	2.3	5.5
Divestments / Franchising	-	-	-	3.0	3.0	6.0
Other Benefit	**0.0**	**0.0**	**1.3**	**4.9**	**5.3**	**11.5**
P&L Benefit	**0.0**	**0.0**	**13.0**	**20.3**	**19.3**	**52.6**
Other Business Wide Impacts	-	4.3	(6.9)	-	0.7	(1.9)
Net P&L Benefit	**0.0**	**4.3**	**6.1**	**20.3**	**20.0**	**50.7**

70% total savings

possible upside

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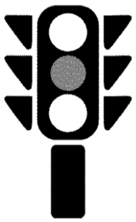
Long Term Strategy – Crown Transformation (cont'd)



Status: AMBER

- ***Management are confident of achieving breakeven target by March 2015***
- ***Positive outlook around the initiatives that have commenced***
- ***Remaining strategy still in planning phase but detailed development work has been completed***
- ***Significant implementation and delivery risk remains***

- **Of the initiatives that make up the Crown Transformation strategy only the "people and productivity benefit" workstream has commenced**
  - the strategy received sign-off in the Summer, and voluntary redundancy is one element that has not changed materially from the original plan
- **Offer letters have recently been sent out to volunteers, and management are confident that the oversubscribed programme will be c.£1m over-budget on recurring savings and c.£1m under-budget on one-off implementation costs**
  - gives confidence that targets will be met for the next tranche of voluntary redundancies (linked to automation)
- **POL recently completed a bottom-up property review of the Crown estate which has allowed management to put together detailed workplans on a number of other initiatives**
  - franchising of c.60 locations which are expected to deliver savings ahead of budget. POL will be initiating dialogue with potential commercial partners shortly and expect to have this workstream complete towards the end of 2014
  - plan to merge, relocate or "host" a small number of branches. Some of these activities are well developed and discussions with other stakeholders are expected to commence shortly. This is also set to complete towards the end of 2014
  - branches to be retained have been identified, allowing POL to plan refurbishments. This will support Financial Services and Government Services income growth, while at the same time enhancing the broader in-branch customer experience
- **However significant risk remains**
  - need to maintain positive engagement with key stakeholders (e.g. CWU) throughout the process
  - high level of reliance on other areas of POL in order to support income growth targets (e.g. Financial Services)
  - expected benefits / cost-to-deliver may change as commercial discussions develop (e.g. benefits of franchising and "hosting")
  - need to ensure franchised branches are profitable to POL (e.g. that losses are not being transferred to a different team)

SHEX ACTIONS

Quarterly meetings have been set up to monitor Crown Transformation, and there is regular dialogue with key members of network management, the Crown Transformation team and other management with an interest in the Crowns (e.g. IT). Jo Swinson also has a keen interest in the programme and has asked to be kept up to date on a regular basis.

3 Long Term Strategy – Revenue Growth

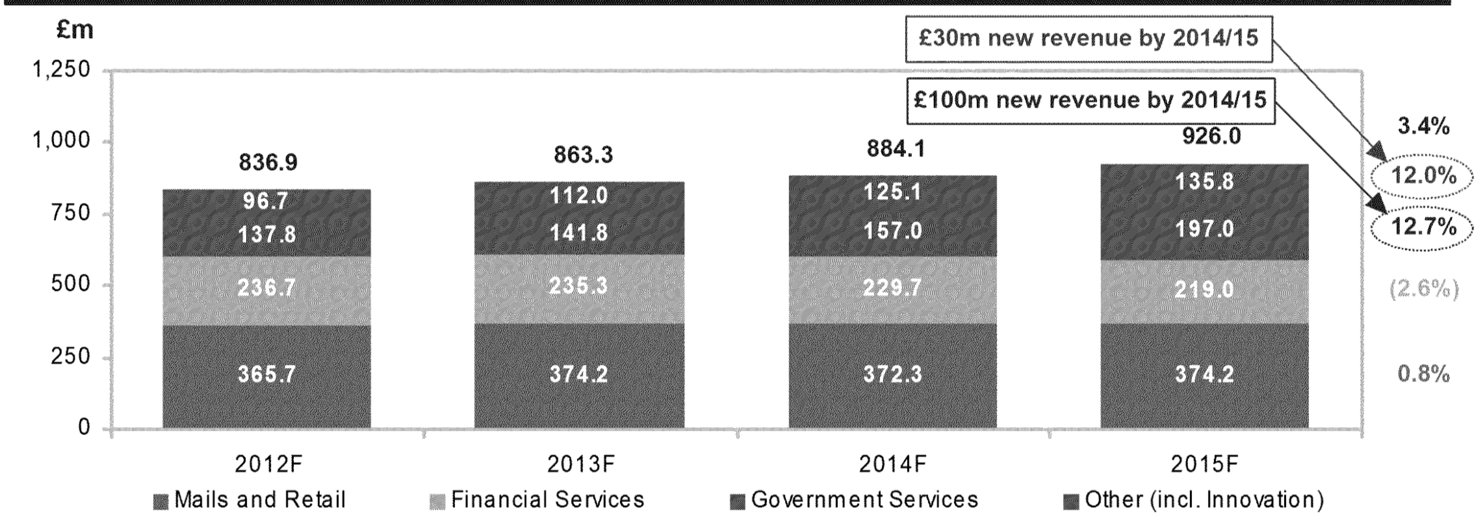
Divisional revenue growth targets mask complex mix effects within each category…

…while some divisional growth targets may not seem ambitious, revenue losses within a division can mean significant new revenues are required to meet expectations…

…this is particularly relevant in Government Services and Other (incl. Innovation)

- **POL's revenue growth plan is ambitious, requiring significant new income to be delivered in two main areas:**
  - £100m from Government Services, linked to positioning POL as a physical channel for services that require a face-to-face touch-point (e.g. ID and verification, assisted digital and data re-use / "Tell us Once" data management)
  - £30m from Other (incl. Innovation), including from 4G hosting, telephony, online mails and payment solutions
- **New growth is critical for POL to expand its top line, since revenues in a number of existing areas are expected to decline**
  - Mails: Declines in business and social mail, compounded by additional softness driven by a weak macroeconomic climate
  - Government Services: Migration of transactions away from face-to-face delivery (e.g. online, or onto direct-payment models), and increasing competition for certain types of contract / service (e.g. revenue services)
  - Financial Services: Competitive pressures in bill-payments and an increased migration of payment solutions to other delivery methods (e.g. direct debit, online)

POL Revenue Growth 2011/12 – 2014/15



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Long Term Strategy – Revenue Growth (cont'd)

Status: RED

- ***Management are confident of achieving headline revenue targets***
- ***But the mix that makes up these will differ to the original forecasts***
- ***"New" revenue targets in Govt. Services and Innovation remain valid***
- ***POL will not meet these in the near term, however longer term objectives may still be achievable***

- **Management remain focused on headline revenue and operating profit targets, and as such no revised plan has been put to the Board**
  - management do acknowledge that the actual business is different to the one supporting the plan, and they expect the sales mix to change (e.g. more Mails and Retail and Financial Services, and less Government Services)
  - "new" revenue targets in Government Services and Innovation remain relevant. It should also be noted that Financial Services is now key growth area, whereas in 2010 it was seen as an area of managed decline
- **POL management are not as focused on "new" revenues as the plan would suggest**
  - in Government Services management is focused on total revenue and not "new" revenue (e.g. mixing defended revenue with new revenue). ShEx is pushing back on this and believes POL needs to develop the relationships / skillsets to win work
  - product launches are expected, however there is no structured bottom-up plan that supports Innovation targets
- **POL will miss 2012/13 targets for "new" Government Services revenue, and future targets also look highly uncertain. For the current period, POL is expected to achieve £8m truly "new" revenues against a target of £25m**
  - management have restructured the business development function, which now appears more focused in its approach to winning work. However there is still a mismatch between revenue targets for 2014/15 and the pipeline
  - the recent DVLA win is a positive step. While it is expected to reduce the amount of revenue POL earns from DVLA on a like-for-like basis, its framework structure (and the contract's high-profile nature) should position POL well with OGDs
  - "new" revenue targets for 2013/14 and 2014/15 (£50m and £100m respectively) remain extremely challenging. ShEx is active in its support and challenge of management and POL is monitored extremely closely
  - there is upside risk in some areas (e.g. extension of IPS check-and-send which had not been included in the plan) however this is not something management can rely on going forward to support (or drive) performance
- **POL will also miss the 2012/13 target for Innovation revenue, although future targets may still be met**
  - there has recently been an increase in the number of launches expected to come to market in 2013/14 (e.g. collect and returns, mobile telephony and personal financial services (e.g. transactional accounts))

SHEX ACTIONS

Active support is provided to support Government Services and Financial Services growth ambitions (e.g. facilitating dialogue, providing direct support where possible). There is also close monitoring of both financials and key commercial areas on a monthly basis, with ad hoc monitoring in other areas.

3

Long Term Strategy – Mutualisation

With a history that stretches back >350 years and a turnover of almost £1bn, the mutualisation of POL will be the largest and most complex transaction of its type ever undertaken anywhere in the world…

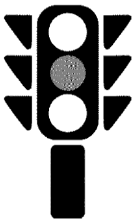
…from a standing start in 2010, and given the stated need to engage stakeholders in a bottom-up process, momentum is slowly being established

- **Establishing the opportunity for POL to be mutualised was one of the commitments outlined in the "Securing the Post Office Network in the Digital Age" report, published by BIS in November 2010**
  - the Postal Services Act 2011 put in place the legislation that made such a transfer of ownership possible, and between December 2011 and July 2012 Government ran and responded to a public consultation on POL's mutualisation
- **In its response to the public consultation, Government made it clear that it wants "clear progress to have been made towards mutualisation of POL by the end of this parliament". However it also identified four key targets that will need to be met before POL can be mutualised**
  - (i) a mutual needs to be both financially and commercially sustainable, minimising the need for Government intervention in the event of financial distress
  - (ii) the right culture needs to be developed, encouraging stakeholder engagement and marking a move away from the established "top-down" style of management
  - (iii) POL's strategic plan needs to be delivered successfully – playing a role in making POL sustainable and viable
  - (iv) Government must endorse a mutualisation (which represents VfM), and Parliament must vote for an ownership transfer

Oct-10	Nov-10	May-11	Sept-10 to Jun-11	Sept-11 to Jul-12	Current
"Post Office: Made Mutual" *Mutuo*	**"Securing the Post Office Network in the Digital Age"** *BIS*	**"Options for a Mutual Post Office"** *Co-Operatives UK*	**Postal Services Act 2011**	**"Building a Mutual Post Office"** *Public Consultation*	**POL Stakeholder Forum ("PSF")**
• Published as part of a series of documents on mutuals in the Public Sector • Identified need to define / protect public benefit, and to capture the interests of a diverse range of stakeholders	• Policy statement to set out plans for transformation of POL • Announced commissioning of Co-Operatives UK report and plans for public consultation	• Commissioned by BIS to explore options for POL's mutualisation • "Logical solution" for ownership to include producers, consumers and communities, but not HMG (contractual relationship only)	• Legislation to allow for the transfer of POL's ownership to a mutual • Must act for the public benefit and have members with an interest in the use by the public of such services	• Emphasises need to develop a suitable culture and ensure financial stability • Not prescriptive around structure but outlines next steps (e.g. successful delivery of strategy, stakeholder forum and engagement)	• First meeting held in mid-Oct with monthly sessions lined up thereafter • Looking to define public benefit purpose, and encourage new ways of working with stakeholders • Set-up of Customer and Producer working groups

3

Long Term Strategy – Mutualisation (cont'd)



Status: AMBER

- ***Implementation slow to start following the consultation response***
- ***Momentum is now building around the PSF which is a catalyst for other workstreams***
- ***But the process is still in its early stages, with visibility limited over structure and timing***
- ***Success relies on POL delivering key strategic and other initiatives***
- ***ShEx will engage with Government more broadly in 2013 on the work of the PSF***

- **Meetings of the PSF have been held in October and November, with a third session due to take place soon**
  - set up to define the public benefit purpose of a mutual POL. This definition will be critical in helping to shape what a mutualisation process (and a mutual POL) will look like
  - all key stakeholders participated despite initial challenges (e.g. NFSP wanting representation with 2 seats instead of 1)
- **First meeting focused on broad themes and objectives of the forum, with the second session hosting presentations from mutualisation advocates and discussing preliminary workplans of the PSF "Working Groups"**
  - these are groups commissioned by the PSF to look in detail at Customer and Producer perspectives, and will engage with a broad collection of stakeholders. Each will report back to the PSF to inform its work
    - Consumer Group: Chaired by Mike O'Connor, the CEO of Consumer Focus. Met for the first time on 3 December
    - Producer Group: Co-chaired by Mervyn Jones (NFSP Commercial Director) and Andy Furey (CWU Assistant Secretary). Workplans have been discussed but no meetings have taken place
- **Other workstreams (e.g. Finance, Governance and Culture) have been mobilised and some work has commenced**
  - expect to ramp-up activities once the work of the PSF has moved forward and the expected form of a POL mutual has started to develop. Current preparatory and desk-based activities underway (e.g. Rothschild work)
- **It is expected that the PSF will make a recommendation to Government in Q1 / Q2 2013 as to the proposed definition of the public benefit purpose of a mutual POL**
  - this will be tested with Parliamentarians, HMT customers, staff, subpostmasters and other stakeholders
  - likely to be finalised in Q3 2013, following which further work on governance structure / financial viability will begin
  - transfer of ownership to a mutual model, and the Parliamentary process approving it, is likely to occur next Parliament
  - public report detailing remaining steps to mutualisation is an option for late 2014 / early 2015
- **In the mean time it is important for POL to encourage the right type of engagement with its stakeholders (e.g. consensus building and collaboration). Any hostile or confrontational negotiations pose a risk to a mutualisation / process timetable**

SHEX ACTIONS

ShEx sits on the PSF and each of the "Working Groups". We also have a regular dialogue with the POL team leading day-to-day mutualisation activities and will be actively supporting them to shape what the process looks like, its speed and direction. It is critical for us to be closely involved throughout, to ensure POL and Government are aligned.

3

Long Term Strategy – Other Key Strategic Initiatives

The core pillars of POL's long term strategy are supported by a number of parallel initiatives…

…these seek to improve customers' perception of POL as a place to transact and also deliver a number of improvements to the business's infrastructure to make it more sustainable and efficient

Initiative	Commentary
IT Transformation	▪ **Group of initiatives that improve both the front-office and back-office capabilities of POL** – e.g. systems integration, payment channels, new customer relationship management system, improvements to the "Horizon" backbone ▪ **Sequenced to align with other POL strategic initiatives (e.g. Network Transformation)**
Mails Collections and Returns	▪ **New service developed with Royal Mail to compete with Collect+'s (Yodel / PayPoint JV) and myHermes' proposition, to handle parcel collections and drop-offs through post offices** – work in progress and not expected to launch before 2Q in calendar 2013 – focus on landing commercial terms, and ensuring post offices can offer secure handling
Independence and Separation	▪ **Range of initiatives to support POL following its separation from Royal Mail** – notice served on IT and Finance transitional services agreement with 2-year fuse now lit; notice on relevant estates agreements expected to be given in December ▪ **Strengthening activities being rolled-out cautiously, with under-spend a key driver of current year-to-date cost outperformance compared to budget**
Brand and Communications	▪ **New Communications Director in place to lead a new communications and marketing strategy. Focused on internal and external engagement** – new advertising campaign commenced in October to "reconnect" with POL's customers. Expected to develop over the next 18 months to educate customers on specific product lines
Finance Transformation	▪ **Separate workstream from IT Transformation, and focused on the implementation of more robust financial reporting systems and management information reporting** – expect to launch procurement process in the coming months with new systems in place by the end of the plan. Will enable far more detailed management information drill-down

3

Long Term Strategy – New Strategic Plan

POL's next strategic plan is already in development, more than two years before the current plan ends…

…important in order to secure Government support for the strategy / funding and State Aid approval…

…expect the core of the new plan to remain steady (e.g. Network Transformation, Revenue Growth) but also for it to build on the foundation created by the 2011/12 – 2014/15 initiatives

- **POL has recently started the initial planning phase of a new strategic plan to cover the period after 2014/15**
  - workstream led by POL's new Strategy Director Sue Barton, with support from across the business
  - draft to be presented to BIS in March 2013, to ensure that a new funding agreement can be legally secured by March 2015
  - active dialogue with ShEx to understand lessons learned from the last process (e.g. top-down vs. bottom-up planning)
  - Government funding will still be required, to support non-commercial branches and to ensure the strategy is delivered
- **To support its financial plan (and in particular the work required to build a case around Government funding), POL has been asked by BIS to consider a number of different "counterfactual" scenarios. These include:**
  - (i) continuation of current strategic plan with status quo funding support;
  - (ii) continuation of current strategic plan with status quo funding support, over a longer timeframe;
  - (iii) continuation of current strategy with "Stay as You Are" (e.g. lower or "maintenance") funding support;
  - (iv) continuation of current strategy with partial discretion over network and with funding support;
  - (v) absolute strategic discretion with funding support;
  - (vi) absolute strategic discretion with no funding support; and
  - (vii) continuation of current strategic plan with status quo funding support and Scottish independence
- **Some work has already been completed by POL in relation to Scottish independence**
  - c.12 per cent. of the estate is located in Scotland, including c.7 per cent. of Crowns and c.14 per cent. of UK rural branches
  - c.8 per cent. of POL's variable income is generated in Scotland, excluding all fixed income and subsidy payments
- **However a detailed analysis of its impact is made complicated by uncertainty surrounding key elements of execution / implementation – including both in relation to postal services policy and the commercial environment**
  - access criteria and approach to funding
  - policy around the post office network and post office products
  - retention of a single POL vs. separation into "POL UK" and "POL Scotland"
  - impact on clients (e.g. DWP, DfT, utilities etc.) and key stakeholders (e.g. CWU, NFSP)

4 Operating Performance

4 Operating Performance – Actual Performance vs. Budget

Mar YE (£m)	2010/11			2011/12			2012/13 YTD *(6m to September)*		
	Target	Actual	*variance*	Target	Actual	*variance*	Target	Actual	*variance*
Mails and Retail	377.9	370.4	*(7.5)*	372.8	387.5	*14.8*	186.9	193.2	*6.3*
Financial Services	266.2	261.4	*(4.8)*	249.6	261.5	*11.9*	139.1	137.7	*(1.4)*
Government Services	130.7	128.7	*(1.9)*	138.5	135.7	*(2.9)*	70.0	68.9	*(1.0)*
Telephony	55.2	44.2	*(11.0)*	46.5	41.4	*(5.1)*	22.5	22.8	*0.3*
Other	41.0	43.1	*2.1*	38.0	39.3	*1.3*	14.2	20.3	*6.1*
POL Net Income	**871.0**	**847.8**	***(23.2)***	**845.3**	**865.3**	***20.1***	**432.6**	**442.9**	***10.3***
Memo: Net Income (incl. NSP)	*1,021.0*	*997.8*	*(23.2)*	*1,025.3*	*1,045.3*	*20.1*	*535.6*	*546.0*	*10.3*
Staff Costs	(249.9)	(252.8)	*(2.9)*	(247.9)	(251.3)	*(3.4)*	(134.7)	(126.7)	*7.9*
Agents Costs	(474.3)	(474.9)	*(0.6)*	(478.3)	(482.9)	*(4.6)*	(236.1)	(235.1)	*1.0*
Non-Staff Costs	(259.3)	(227.8)	*31.5*	(159.7)	(149.2)	*10.6*	(78.4)	(74.8)	*3.6*
Interbusiness Expenditure	n.a.	n.a.	*n.m.*	(91.8)	(84.9)	*6.8*	(40.7)	(40.7)	*(0.0)*
Depreciation	n.a.	n.a.	*n.m.*	(0.7)	(0.4)	*0.3*	(0.4)	(0.5)	*(0.1)*
Group Overhead Allocations	(20.8)	(16.7)	*4.1*	(20.4)	(19.6)	*0.8*	(8.7)	(7.3)	*1.4*
POL Op. Profit	**(133.3)**	**(124.4)**	***8.9***	**(153.5)**	**(123.0)**	***30.5***	**(66.4)**	**(42.2)**	***24.2***
% margin	*(15.3%)*	*(14.7%)*	*0.6%*	*(18.2%)*	*(14.2%)*	*3.9%*	*(15.3%)*	*(9.5%)*	*5.8%*
Financial Services JVs	33.3	25.3	*(8.0)*	28.0	30.8	*2.8*	23.2	21.8	*(1.4)*
Group Op. Profit (pre-POOC)	**(100.0)**	**(99.1)**	***0.9***	**(125.5)**	**(92.2)**	***33.3***	**(43.2)**	**(20.3)**	***22.9***
% margin	*(11.5%)*	*(11.7%)*	*(0.2%)*	*(14.8%)*	*(10.7%)*	*4.2%*	*(10.0%)*	*(4.6%)*	*5.4%*
Project One Off Costs	(20.0)	(15.3)	*4.7*	(18.2)	(26.5)	*(8.3)*	(12.1)	(21.6)	*(9.5)*
Group Op. Profit (post-POOC)	**(120.0)**	**(114.4)**	***5.6***	**(143.7)**	**(118.7)**	***25.0***	**(55.3)**	**(42.0)**	***13.3***
% margin	*(13.8%)*	*(13.5%)*	*0.3%*	*(17.0%)*	*(13.7%)*	*3.3%*	*(12.8%)*	*(9.5%)*	*3.3%*
Network Subsidy Payment	150.0	150.0	*0.0*	180.0	180.0	*0.0*	103.0	103.0	*0.0*
Group Op. Profit (post-NSP)	**30.0**	**35.6**	***5.6***	**36.3**	**61.3**	***25.0***	**47.7**	**61.1**	***13.3***
% margin	*3.4%*	*4.2%*	*0.8%*	*4.3%*	*7.1%*	*2.8%*	*11.0%*	*13.8%*	*2.8%*

- **POL has consistently outperformed its budget at operating profit level for the past two financial years, and also looks set to beat budget this year**
  - strong cost performance has been a consistent theme, with Non-Staff Costs and Overhead Allocations coming in under budget in each of the past two years. This looks set to continue in the current year, with Staff Costs also likely to come in under budget at full year due largely to lower spending in "strengthening"
  - on the revenue side, performances in 2011/12 and YTD have been strong after weakness in 2010/11, and in particular Mails and Retail has performed well. This provides some support to the view that Mails and Retail expectations laid out in the plan may have been conservative, with risk focused on the upside

4 Operating Performance – 2012/13 Budget Reforecast

Mar YE (£m)	2013B				H2 Win / Loss vs. H1 Perf.	
	Budget	Q2 R'cast	£ var	% var	YTD vs. Bud.	FY vs. Bud.
Mails and Retail	403.8	406.3	2.5	0.6%	6.3	(3.7)
Financial Services	274.7	276.7	2.0	0.7%	(1.4)	3.3
Government Services	139.9	135.7	(4.2)	(3.0%)	(1.0)	(3.2)
Telephony	45.7	45.2	(0.5)	(1.0%)	0.3	(0.8)
Other	33.8	34.8	1.0	3.0%	6.1	(5.1)
POL Net Income	**897.9**	**898.7**	**0.8**	**0.1%**	**10.3**	**(9.5)**
Memo: Net Income (incl. NSP)	*1,107.9*	*1,108.7*	0.8	0.1%	10.3	(9.5)
Staff Costs	(268.9)	(263.8)	5.1	(1.9%)	7.9	(2.8)
Agents Costs	(482.8)	(483.5)	(0.7)	0.2%	1.0	(1.8)
Non-Staff Costs	(166.2)	(163.6)	2.5	(1.5%)	3.6	(1.1)
Interbusiness Expenditure	(83.3)	(83.3)	(0.0)	0.1%	(0.0)	(0.0)
Depreciation	(0.8)	(0.8)	0.0	(0.5%)	(0.1)	0.1
Group Overhead allocations	(16.8)	(14.6)	2.2	(13.2%)	1.4	0.8
POL Op. Profit	**(120.9)**	**(111.0)**	**9.9**	**(8.2%)**	**24.2**	**(14.3)**
% margin	*(13.5%)*	*(12.4%)*	1.1%	(8.3%)	n.m.	n.m.
Financial Services JVs	32.6	31.2	(1.5)	(4.5%)	(1.4)	(0.1)
Group Op. Profit (pre-NSP)	**(88.3)**	**(79.8)**	**8.4**	**(9.6%)**	**22.9**	**(14.4)**
% margin	*(9.8%)*	*(8.9%)*	0.9%	(9.6%)	n.m.	n.m.
Project One Off Costs	(37.7)	(39.8)	(2.1)	5.6%	(9.5)	7.4
Group Op. Profit (post-POOC)	**(126.0)**	**(119.6)**	**6.3**	**(5.0%)**	**13.3**	**(7.0)**
% margin	*(14.0%)*	*(13.3%)*	0.7%	(5.1%)	n.m.	n.m.
Network Subsidy Payment	210.0	210.0	0.0	0.0%	0.0	0.0
Group Op. Profit (post-NSP)	**84.0**	**90.4**	**6.3**	**7.5%**	**13.3**	**(7.0)**
% margin	*9.4%*	*10.1%*	0.7%	7.4%	n.m.	n.m.

- **At the end of September POL provided an updated forecast for the full year, reflecting POL's trading performance during the first 6 months of 2012/13**
  - at the half year net income was £10m ahead of budget, but most of these gains are expected to be lost in H2 with the reforecast estimating only £1m outperformance at the full year. Of POL's 4 main activities only Financial Services is expected to deliver a stronger performance in H2 than H1
  - the operating profit reforecast is £6m higher for the full year than Budget, driven mainly by a strong operating cost performance. In particular Staff Costs and Non-Staff Costs are expected to remain ahead of Budget - but with H2 losing some of the gains seen in H1

4

Operating Performance – Income Statement

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	*CAGR*
POL Net Income	**847.8**	**865.3**	**897.9**	**884.1**	**926.0**	**2.2%**
% growth	*n.a.*	*2.1%*	*3.8%*	*(1.5%)*	*4.7%*	*n.a.*
Agents Pay	(474.9)	(482.9)	(482.8)	(525.4)	(560.2)	*4.2%*
Staff Costs	(252.8)	(251.3)	(268.9)	(193.7)	(169.1)	*(9.6%)*
Central and Supporting Costs	(244.5)	(254.1)	(267.1)	(278.5)	(273.9)	*2.9%*
POL Op. Profit	**(124.4)**	**(123.0)**	**(120.9)**	**(113.5)**	**(77.2)**	***(11.2%)***
% margin	*(14.7%)*	*(14.2%)*	*(13.5%)*	*(12.8%)*	*(8.3%)*	*(13.2%)*
Financial Services JVs	25.3	30.8	32.6	38.0	39.0	*11.4%*
Group Op. Profit (pre-NSP)	**(99.1)**	**(92.2)**	**(88.3)**	**(75.5)**	**(38.2)**	***(21.2%)***
% margin	*(11.7%)*	*(10.7%)*	*(9.8%)*	*(8.5%)*	*(4.1%)*	*(22.9%)*
Project One Off Costs	(15.3)	(26.5)	(37.7)	(22.1)	(22.7)	*10.4%*
Group Op. Profit (post-POOC)	**(114.4)**	**(118.7)**	**(126.0)**	**(97.6)**	**(60.9)**	***(14.6%)***
% margin	*(13.5%)*	*(13.7%)*	*(14.0%)*	*(11.0%)*	*(6.6%)*	*(16.5%)*
Network Subsidy Payment	150.0	180.0	210.0	200.0	160.0	*1.6%*
Group Op. Profit (post-NSP)	**35.6**	**61.3**	**84.0**	**102.4**	**99.1**	***29.2%***
% margin	*4.2%*	*7.1%*	*9.4%*	*11.6%*	*10.7%*	*1,309.0%*

- **Net income is expected to be broadly flat across the plan period, although this masks significant mix effects across POL**
  - although POL's actual trading has diverged considerably from the plan, and despite management's strategy changing in a number of areas, targets for key "headlines" (e.g. group net income, operating profit) remain the same
- **Absolute increase in net income of £78m is expected to be partially offset by increases in costs, which rise by £47m by 2014/15**
  - cost performance measured as a percentage of net income is driven by Staff Costs which fall from c.30 per cent. net income to c.18 per cent. net income between 2010/11 and 2014/15. Other key cost lines as a percentage of net income are flat *(see page 33 for further commentary)*
  - management have indicated that cost estimates do not reflect their expectations, and that they may be changed when the plan is revisited at year-end
- **Financial Services JVs have improved however following the Bank of Ireland renegotiation, estimates for 2013/14 and 2014/15 are no longer relevant**
- **Project costs have also been rising, as POL starts to mobilise an increasing number of strategic initiatives**
  - management have indicated that their expectations for total spend are now lower, and combined with movements in phasing, forecasts may change
- **Group operating profit performance has been strong and by 2012/13 both margins and absolute profits are expected to have more than doubled**
  - but a large proportion of this growth is expected to be delivered by increases in the NSP, which rises £30m to £210m between 2010/11 and 2012/13

4 Operating Performance – Mails and Retail Revenue

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	CAGR
Mail	331.8	345.3	361.3	336.4	338.0	*0.5%*
Retail and Lottery	38.6	42.2	42.5	35.9	36.2	*(1.6%)*
Total Mails and Retail	**370.4**	**387.5**	**403.8**	**372.3**	**374.2**	***0.3%***
% growth	*n.a.*	*4.6%*	*4.2%*	*(7.8%)*	*0.5%*	*n.a.*
% group revenue	*43.7%*	*44.8%*	*45.0%*	*42.1%*	*40.4%*	*(1.9%)*

- **Over the past two years a material disconnect has emerged between POL's trading in Mails and Retail and the underlying strategic plan**
  - had been expected to account for a decreasing share of total POL net income, but instead its share has increased (from c.44 per cent. to c.45 per cent.)
  - unless other activities outperform the plan in the coming two years, it is unlikely that Mails' and Retail's share of sales will decrease significantly. This means that POL will not be able to reduce its risk profile away from Mails as a market, and Royal Mail as a client as quickly as planned

Mails

- **Against a challenging economic backdrop and a continuing period of structural change, Mails revenues have been more resilient than expected in POL's strategic plan**
  - by the end of 2012/13 net income is expected to be c.£25m higher than target, driven by growth in mail activities and a robust performance across Special Delivery and Parcelforce
  - expectations for 2013/14 and 2014/15 look bearish given these recent developments, however headline concerns around structural challenges to "conventional" mails activities do remain relevant and the market environment / pricing is still challenging
- **Some of the key initiatives outlined by management in 2010 are still valid however limited detail was provided when the original plan was put together**
  - these initiatives (e.g. revenue generating improvements to existing mails capabilities, and new product launches) are expected to go ahead however their impact on POL's financial performance is unclear

Retail

- **Performance in Retail has also been ahead of plan, driven by continued strength in Lottery sales (which with net income of £35m - £40m accounts for c.90 per cent. total revenue)**
  - while net income in 2012/13 benefitted from a c.£2.5m Olympics and Jubilee boost (e.g. themed stamps and Royal Mint collectibles), expectations for 2013/14 and 2014/15 also look conservative given recent underlying trading activity

4 Operating Performance – Financial Services Revenue

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	*CAGR*
Other Financial Services	178.1	186.1	201.4	144.5	139.2	*(6.0%)*
Banking Services	61.6	58.7	60.1	72.1	69.4	*3.1%*
National Savings	21.8	16.6	13.2	13.1	10.4	*(16.8%)*
Total Financial Services	**261.4**	**261.5**	**274.7**	**229.7**	**219.0**	***(4.3%)***
% growth	*n.a.*	*0.0%*	*5.1%*	*(16.4%)*	*(4.7%)*	*n.a.*
% group revenue	*30.8%*	*30.2%*	*30.6%*	*26.0%*	*23.7%*	*(6.4%)*

- **Forecasts for 2013/14 and 2014/15 are no longer considered to be relevant, both at a divisional level and when one looks at individual activities within Financial Services**
  - the plan had been focused around managed decline, whereas today the business is seen as one of POL's key growth drivers. Therefore the strategy underlying the plan is starkly different to management's strategy today
  - performance in 2011/12 and 2012/13 has diverged materially from the targets outlined in the plan both on sales-mix and on the aggregate top line (e.g. 2012/13B is £40m higher than 2012/13F in the plan)
- **The core of the old strategy was formed around:**
  - the expected franchising of c.170 Crown branches which would no longer have been able to sell financial services products as effectively. POL's current franchising plans now cover less than half this number of branches meaning POL has retained a stronger and broader route-to-market
  - management not focusing on Financial Services as a growth area, given the competitive nature of the market. POL has experienced a "flight to quality" in recent years, and is a very well regarded and competitive brand in the market. Together these provide it with a strong growth platform
  - a decline in traditional banking services due to increased competition, shifts to eBanking and lower NS&I activity which was partially offset by growth in travel services and personal financial services. These are the only parts of the strategy that are still relevant today
- **POL's recent restructuring of its Bank of Ireland relationship means that performance will diverge even more materially from plan in the coming years**
  - provides a c.£15m revenue upside from next year and more attractive commercial terms
- **POL's strategy today is increasingly focused on leveraging the benefits of the Bank of Ireland renegotiation, in addition to launching a number of personal financial services (e.g. transaction accounts, pre-pay cards) and services for SMEs**
  - also seeking to explore the overlap with Government Services, such as in relation to the opportunity presented by Universal Credit

4 Operating Performance – Government Services Revenue

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	*CAGR*
POCA	70.2	70.2	69.3	62.0	56.0	*(5.5%)*
Other Existing Services	58.6	65.5	45.6	45.0	41.0	*(8.5%)*
New Services	0.0	0.0	25.0	50.0	100.0	*n.a.*
Total Government Services	**128.7**	**135.7**	**139.9**	**157.0**	**197.0**	***11.2%***
% growth	*n.a.*	*5.4%*	*3.1%*	*12.2%*	*25.5%*	*n.a.*
% group revenue	*15.2%*	*15.7%*	*15.6%*	*17.8%*	*21.3%*	*8.8%*

Expected to be £8m for 2012/13

- **Trading in Government Services is broadly in line with POL's strategic plan**
  - however there is a risk that as expected "new" revenue growth ramps up in 2012/14 and 2014/15, trading could start to diverge from the plan

POCA

- **Trading in 2011/12 was c.£1m ahead of plan at net income level, with 2012/13 outturn expected to be c.£2m ahead**
  - outperformance mainly due to the profile of the user-base which has had more recipients and higher interest bearing deposits. This has been partially offset by LIBOR which has been below management's expectations (and is expected to remain so, thereby impacting performance going forward)
- **Still pressure on net income from: (i) age-driven attrition of recipients; and (ii) ongoing uncertainty around the potential impact of Universal Credit**
  - material near-term revenue drop is fairly unlikely, suggesting that the plan's targets for 2013/14 and 2014/15 may be conservative

Other Existing Services and New Services

- **POL underperformed the plan in Other Existing Services in 2011/12 and combined with the £25m of "new" revenues budgeted for 2012/13, this underperformance is expected to continue in the current year**
  - lower volumes in existing activities (e.g. AEI and DVLA) and a fewer contract wins (7 new wins this year expected to deliver in-year revenues of £8m)
- **There is a high level of uncertainty around the net income forecasts for 2013/14 and 2014/15**
  - risk around ability to protect existing services and deliver new contract wins
  - also challenging to differentiate between "existing" and "new" revenues (e.g. new contract with existing client, contract extensions, frameworks)

4 Operating Performance – Other Revenue

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	*CAGR*
Telephony	44.2	41.4	45.7	65.0	65.6	*10.4%*
Other and Innovation	43.1	39.3	33.8	60.1	70.2	*13.0%*
Total Other	**87.3**	**80.7**	**79.5**	**125.1**	**135.8**	***11.7%***
% growth	*n.a.*	*(7.6%)*	*(1.5%)*	*57.4%*	*8.6%*	*n.a.*
% group revenue	*10.3%*	*9.3%*	*8.9%*	*14.1%*	*14.7%*	*9.2%*

- **POL's Other Revenue activities significantly underperformed the plan in 2011/12, with the level of underperformance forecast to increase in the current year from a shortfall of c.£16m to a shortfall of c.£33m**
  - split broadly equally between "Telephony" (c.£17m short in 2012/13) and "Other and Innovation" (c.£16m short in 2012/13)

Telephony

- **Ongoing underperformance of the plan, driven by difficult pricing, fewer subscribers and less new product launches**
  - subscribers have been broadly flat at c.480k, and planned tariff increases have been hard to stick. Broadband growth has also been challenging
  - performance is expected to improve in 2013/14 and 2014/15 but results are likely to remain below target

Note: Management have previously considered a sale of POL's Telephony activities, with valuation expectations of c.£30m. This is no longer part of the strategy

Other and Innovation

- **Core of the strategy is driven by what Deloitte see as "speculative" growth in "Innovation". This is expected to account for £30m net income by 2014/15**
  - difficult to track performance as this income line was not specified in detail in POL's plan. Furthermore, since some new services will fall within existing activities (e.g. Financial Services or Telephony) it will be difficult to separate performance against these targets with performance elsewhere in the business
  - however with a current year target of £10m net income and no "new" or "innovative" products having been launched by POL over the last 18 months, this strategy is underperforming. Future performance also remains highly uncertain
- **Some new launches are expected in calendar year 2013 (e.g. collections and returns in Mails, SIM-only and pre-pay mobiles in Telephony and new personal financial services in Financial Services) and these should drive net income. However all of these earnings will be recognised outside of "Other Revenue"**

4 Operating Performance – Contribution Analysis

- **POL does not look at activity level profitability as a management tool to monitor or incentivise performance across the business. From a day-to-day management perspective:**
  - the Commercial teams are incentivised to deliver Product Contribution (i.e. Net Income less variable agents' pay and Direct Product Costs); and
  - the Network team is incentivised to deliver the branch network efficiently and at lowest cost
- **Product Contribution is the lowest level in the P&L where management have comfort that performance is reflected fairly. Below this are the fixed costs of POL's network – costs that need allocating in order to derive divisional profitability**
  - some allocations such as Direct Branch Costs (c.£385m in 2011/12) can be made "intelligently", however management are still cautious about this contributing to a meaningful profit number
  - other allocations, such as for POL's Horizon system (c.£55m in 2011/12) or the Network Subsidy Payment, are far more difficult given the assumptions that need to be made (e.g. split of revenue, transaction volume data)
  - any allocation based analysis is also made difficult by the change to the allocation methodology made between 2010/11 and 2011/12
- **Management acknowledge these limitations and are currently developing systems that will allow them to measure profitability in a more accurate (and "local") way**
  - this includes looking at both activity-level and channel-level (e.g. Crowns, online, subpostmaster branches) profitability
- **Such a platform is also critical for the payment of future subsidy, since this type of look-through would enable Government to target payments more effectively on loss making activities or branches**

Net Income		Aggregate Product Costs		Product Contribution		Aggregate Branch Costs		Channel Contribution		Other Costs, Subsidy and JV Income		Operating Profit
£865.3m	+	(£388.2m)	=	£477.1m	+	(£385.3m)	=	£91.8m	+	(£30.5m)	=	£61.3m
		not allocated				*"intelligent" allocation*				*simplified allocation*		

includes £198m infrastructure costs

4 Operating Performance – Contribution Analysis *(cont'd)*

Mails and Retail (Mar YE £m)	10/11A	11/12A	*growth*
Variable Income	266.0	286.9	*7.9%*
Fixed Income	107.9	104.7	*(3.0%)*
CoGS	(3.5)	(4.1)	*16.7%*
Net Income	**370.4**	**387.5**	***4.6%***
Agents Variable Pay	(164.9)	(176.0)	*6.7%*
Direct Product Costs	(3.7)	(14.8)	*294.8%*
Product Contribution	**201.8**	**196.8**	***(2.5%)***
% margin	*54.5%*	*50.8%*	*(856.9%)*
Direct Branch Costs		(153.8)	*(0.4%)*
Channel Contribution		**43.0**	***(9.2%)***
% margin		*11.1%*	*(13.2%)*
Infrastructure Costs		(84.3)	*46.1%*
Unattributable Costs		(40.0)	*30.8%*
Remaining Allocations		88.9	*37.7%*
Divisional Op. Profit		**7.7**	***(67.4%)***
% margin		*2.0%*	*(68.9%)*

Financial Services (Mar YE £m)	10/11A	11/12A	*growth*
Variable Income	236.1	239.6	*1.5%*
Fixed Income	26.0	24.9	*(4.3%)*
CoGS	(0.6)	(3.0)	*362.2%*
Net Income	**261.4**	**261.5**	***0.0%***
Agents Variable Pay	(81.3)	(76.4)	*(6.1%)*
Direct Product Costs	(9.5)	(26.8)	*180.8%*
Product Contribution	**170.6**	**158.3**	***(7.2%)***
% margin	*65.3%*	*60.6%*	*N.M.*
Direct Branch Costs		(133.6)	*(5.8%)*
Channel Contribution		**24.8**	***(39.3%)***
% margin		*9.5%*	*(36.5%)*
Infrastructure Costs		(59.1)	*(11.0%)*
Unattributable Costs		(26.3)	*16.6%*
Remaining Allocations		57.4	*198.8%*
Divisional Op. Profit		**(3.3)**	***(88.8%)***
% margin		*(1.2%)*	*(88.3%)*

Government Services (Mar YE £m)	10/11A	11/12A	*growth*
Variable Income	144.1	145.6	*1.1%*
Fixed Income	15.4	18.2	*17.8%*
CoGS	(30.8)	(28.2)	*(8.4%)*
Net Income	**128.7**	**135.7**	***5.4%***
Agents Variable Pay	(47.2)	(44.6)	*(5.5%)*
Direct Product Costs	(5.3)	(6.4)	*21.4%*
Product Contribution	**76.2**	**84.6**	***11.0%***
% margin	*59.2%*	*62.4%*	*(14,109.7%)*
Direct Branch Costs		(62.8)	*1.1%*
Channel Contribution		**21.8**	***54.7%***
% margin		*16.1%*	*46.7%*
Infrastructure Costs		(34.6)	*(4.6%)*
Unattributable Costs		(14.0)	*30.8%*
NSP Allocation		31.0	*23.6%*
Divisional Op. Profit		**4.2**	***(154.5%)***
% margin		*3.1%*	*(151.7%)*

Telephony (Mar YE £m)	10/11A	11/12A	*growth*
Variable Income	12.5	23.6	*89.2%*
Fixed Income	120.8	96.9	*(19.8%)*
CoGS	(89.0)	(79.1)	*(11.2%)*
Net Income	**44.2**	**41.4**	***(6.4%)***
Agents Variable Pay	(6.6)	(5.3)	*(19.6%)*
Direct Product Costs	(24.2)	(24.9)	*2.8%*
Product Contribution	**13.3**	**11.1**	***(16.4%)***
% margin	*30.2%*	*26.9%*	*(291.5%)*
Direct Branch Costs		(4.4)	*(60.5%)*
Channel Contribution		**6.8**	***198.2%***
% margin		*16.4%*	*218.5%*
Infrastructure Costs		(2.9)	*(59.4%)*
Unattributable Costs		(2.5)	*(31.1%)*
Remaining Allocations		2.6	*(55.7%)*
Divisional Op. Profit		**4.0**	***(259.9%)***
% margin		*9.7%*	*(270.8%)*

4 Operating Performance – Cost Analysis

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	*CAGR*
Fixed Agents Pay	(147.0)	(155.9)	(137.9)	(115.6)	(78.4)	*(14.5%)*
Variable Agents Pay	(328.0)	(326.9)	(344.9)	(409.8)	(481.8)	*10.1%*
Total Agents Pay	**(474.9)**	**(482.9)**	**(482.8)**	**(525.4)**	**(560.2)**	***4.2%***
% fixed	*30.9%*	*32.3%*	*28.6%*	*22.0%*	*14.0%*	*(18.0%)*
% net income	*(56.0%)*	*(55.8%)*	*(53.8%)*	*(59.4%)*	*(60.5%)*	*1.9%*
Staff Costs	(252.8)	(251.3)	(268.9)	(193.7)	(169.1)	*(9.6%)*
% net income	*(29.8%)*	*(29.0%)*	*(29.9%)*	*(21.9%)*	*(18.3%)*	*(11.5%)*
Non-Staff Costs	(244.5)	(254.1)	(267.1)	(278.5)	(273.9)	*2.9%*
% net income	*(28.8%)*	*(29.4%)*	*(29.7%)*	*(31.5%)*	*(29.6%)*	*0.6%*
Total Costs	**(972.2)**	**(988.3)**	**(1,018.8)**	**(997.6)**	**(1,003.2)**	***0.8%***
% net income	*(114.7%)*	*(114.2%)*	*(113.5%)*	*(112.8%)*	*(108.3%)*	*(1.4%)*
Project Costs	(15.3)	(26.5)	(37.7)	(22.1)	(22.7)	*10.4%*
% net income	*(1.8%)*	*(3.1%)*	*(4.2%)*	*(2.5%)*	*(2.5%)*	*8.0%*

- **The key change to POL's cost profile between 2010/11 and 2014/15 is the shift in Agents Pay between fixed and variable remuneration**
  - this was one of the main motivations behind the NTP. The cost of compensating Agents for lost income are classed as exceptionals
  - when the plan was put together the details of this strategy had not been finalised. Therefore while the split between fixed and variable still has the support of management the absolute amount of Agents Pay does not. Current expectations are for lower total Agents Pay offset by higher Staff Costs
  - the shift is driven by the rate of network transformation. Changes to the sequencing – and to an extent also the structure – of the NTP will impact this

  Note: The ratio increased in 2011/12 due to the effects of the VAT increase and a one-off pay award
- **A number of other initiatives are driving cost movements elsewhere in the business. This includes driving efficiencies such as Crown Transformation and changes being made to the Supply Chain (e.g. single person vehicles)**
  - there has also been a conscious decision to increase cost (e.g. invest margin) in some areas, such as with POL's new communications strategy

4 Operating Performance – Balance Sheet

Amended in September 2012 to a £52m surplus

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	CAGR
Assets	108.3	100.8	108.4	168.0	181.0	*13.7%*
Working Capital	(222.5)	(185.3)	(121.3)	(139.0)	(134.0)	*(11.9%)*
Pension Surplus / (Deficit)	(316.3)	(205.8)	(199.6)	(501.0)	(475.0)	*10.7%*
Client Balances	(156.1)	(193.9)	(267.0)	(175.0)	(183.0)	*4.1%*
Network Cash	704.6	759.2	906.7	702.0	693.0	*(0.4%)*
Cash Equivalent Investments	78.7	61.6	120.0	50.0	50.0	*(10.7%)*
Net Trading Funds	(375.0)	(377.0)	(533.6)	(589.0)	(618.0)	*13.3%*
Net Assets / (Liabilities)	**(178.3)**	**(40.4)**	**13.6**	**(484.0)**	**(486.0)**	***28.5%***
Reserves	178.3	40.4	(13.6)	484.0	486.0	*28.5%*

- **Since 2010/11 POL has driven significant improvements in its working capital profile, generating c.£100m cash through more effective management of non Network Cash funds**
  - debtors balance (incl. Homephone) has been broadly flat with improvements mainly being driven by increased Client Balances (incl. Santander, Bank of Ireland, DVLA, NS&I, utilities) and Trade Creditors (incl. salaries and agents' pay)
  - forecasts for 2013/14 and 2014/15 are likely to change during management's budgeting process at the end of 2012/13
- **Network Cash has however been increasing and is budgeted to be c.£220m higher than the planned target for 2012/13**
  - >80 per cent. cash held in the retail network and cash centres, and reflects stronger performance in Government Services and Financial Services than had been expected by the plan (e.g. POCA, banking services)
  - expectations for 2013/14 and 2014/15 are also likely to change as the 2013/14 budgeting process develops
- **Following the approval of its pensions deal earlier in 2012, Royal Mail undertook a revaluation of its pension scheme**
  - POL is allocated a c.7 per cent. share of Royal Mail's surplus / (deficit) and this exercise has led to a material strengthening of its position, from a c.£199m deficit to a c.£52m surplus
- **POL's balance sheet was expected to be solvent at year end 2012/13 prior to this pensions adjustment**
  - based on an in-year snapshot (as at September 2012) this has improved POL's financial position further (i.e. positive net assets of >£240m)

4 Operating Performance – Cashflow Statement

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	*CAGR*
Operating Profit	**35.6**	**61.3**	**84.0**	**102.4**	**99.1**	***29.2%***
Working Capital	7.2	(29.2)	(120.9)	53.5	12.7	*15.1%*
Capital Expenditure	(37.2)	(30.5)	(132.7)	(126.5)	(125.4)	*35.5%*
Reserves, Provisions and Excep.	(16.7)	(17.4)	(112.4)	(181.5)	(137.4)	*69.3%*
Other Cash Movement	0.0	0.0	0.0	0.0	0.0	*n.a.*
Operating Cash Flow	**(11.1)**	**(15.8)**	**(282.0)**	**(152.0)**	**(151.0)**	***91.9%***
Colleague Share	(7.3)	(9.7)	0.0	(13.0)	(13.0)	*15.5%*
Undis. JV Profit / Pension Creditor	(10.5)	6.1	(5.8)	(21.0)	(19.0)	*16.0%*
FCF (pre-Interest and Tax)	**(28.9)**	**(19.4)**	**(287.8)**	**(186.0)**	**(183.0)**	***58.6%***
Interest	(6.8)	(6.1)	(8.0)	(15.0)	(16.0)	*23.9%*
Tax	20.2	10.4	10.4	0.0	0.0	*(100.0%)*
Free Cash Flow (pre-Funding)	**(15.5)**	**(15.1)**	**(285.4)**	**(201.0)**	**(199.0)**	***89.2%***
Other Government Funding	0.0	0.0	200.0	215.0	170.0	*n.a.*
Free Cash Flow (post-Funding)	**(15.5)**	**(15.1)**	**(85.4)**	**14.0**	**(28.9)**	***16.8%***

- **POL has burned cash in each of the last two years (on a pre- and post-funding basis) and with a number of its key strategies now entering a costly implementation phases this is expected to increase in 2012/13**
  - these are a primary driver behind the cashflow and changes to their timing (e.g. in particular the NTP) have a material impact on POL's cash generation
- **At the time that POL's plan received sign-off, management had not finalised certain key elements of the NTP. This means that the current expected timeline (and its financial / cash impact) is not aligned to the plan**
  - expect more "cheaper" on-site conversions to be opened in the first years of the plan, with more "expensive" off-site conversions taking place later. Management had previously expected these to be evenly distributed across the planning period meaning investment is now likely to be back-ended
- **There have been a number of other changes which impact POL's cashflow. These include: (i) the end of Colleague Share, saving c.£13m cash pa; (ii) the pension settlement, saving c.£20m cash pa; (iii) POL's sale of tax-losses, generating c.£10m cash pa; and (iv) extension of certain client settlement terms**

4 Operating Performance – Capex Profile

Current reforecast at September 2012 is £113m

Mar YE (£m)	10/11A	11/12A	12/13B	13/14F	14/15F	CAGR
Network Development Costs	-	-	44.5	70.4	35.1	*n.a.*
Channel Supporting Strategy	-	-	47.2	15.4	0.0	*n.a.*
Crowns	-	-	4.6	0.0	9.1	*n.a.*
"Need to Do" Technology	-	-	11.2	25.4	25.1	*n.a.*
Replacement Capex	-	-	5.1	15.4	56.1	*n.a.*
Other	-	-	20.2	0.0	0.0	*n.a.*
Total Capex	**41.4**	**36.2**	**132.7**	**126.5**	**125.4**	***31.8%***
% of revenue	*4.9%*	*4.2%*	*14.8%*	*14.3%*	*13.5%*	*28.9%*
Memo: Cashflow Capex	***37.2***	***30.5***	***132.7***	***126.5***	***125.4***	***35.5%***

- **POL's capex investment profile is budgeted to ratchet-up in 2012/13 from c.£36m to c.£133m as the number of strategic initiatives – both core (e.g. Network and Crown Transformation) and supporting (e.g. supply chain and IT transformation) – move into implementation phase**
  - capex is expected to remain at a similar level in both 2013/14 and 2014/15 as the delivery of POL's plan continues
  - all investments require a business case to be put together, with a 12 per cent. programme hurdle rate
  - the "mix" changes each year (e.g. network development and technology ramp-up in 2013/14, channel supporting strategy drops-off post 2012/13)
- **Management's recent reforecast for 2012/13 points to a material change in the outlook for this year**
  - expect capex to be c.£20m lower at the full year due to reduced supply chain and network transformation spend, partially offset by increases in the Government Services and Financial Services transformation budgets
- **Due to the changes being made to the NTP it is also likely that forecasts for 2013/14 and 2014/15 will change during POL's year-end budgeting process**
  - management are targeting the same number of conversions in each year, however the mix between on-site and off-site conversions is expected to change materially. With more off-site work taking place at the back-end of the plan, spending will adjust accordingly

Note: Difference between Total Capex and Cashflow Capex in actuals due to impact of capex creditors and PP&E disposals

4 Operating Performance – Restructuring Changes

Separation from Royal Mail

- **On 2 April 2012 POL became an independent business, moving from being a subsidiary of Royal Mail Group Limited to being a wholly owned subsidiary of Royal Mail Holdings plc (Royal Mail Group Limited's parent company)**
- **Transitional service agreements ("TSAs") were put in place to support this separation, with POL also needing to resource itself in a number of areas to operate effectively as a standalone business**
  - a 2-year notice has recently been served under selected systems focused TSAs, and notice is expected to be served under certain property related TSAs before the end of 2012. Other property agreements are open ended
  - management have also been actively recruiting to ensure they have the capabilities necessary to operate on a standalone basis. YTD POL has under-spent in this area, which has been a key factor behind its strong cost performance for Q1 and Q2

Strategy Development and Strategic Management Board

- **In 2012 POL recruited Sue Barton as Strategy Director, who brought with her a wealth of experience gained most recently as head of Accenture's global Postal Services strategy consulting unit**
  - Sue is currently working on the development of POL's new strategic plan, and ShEx have been in close contact in these early stages to ensure that what is prepared is aligned with our expectations (and learns lessons from the 2010 process)
- **A Strategic Management Board has also been put in place to provide umbrella oversight to the full range of strategic initiatives ongoing across POL**
  - this is focused on ensuring that a consistent approach can be achieved across the business (e.g. planning, implementation, monitoring, responsibility and governance)

Financial Services - Project Eagle

- **Project Eagle, which completed earlier in 2012, has led to the collapsing of the POL and Bank of Ireland "Post Office Financial Services" JV into a bilateral commercial agreement**
  - makes favourable changes the commission structure faced by POL in relation to the sale of personal financial services
  - POL is required to investment in its selling capabilities, while Bank of Ireland is required to invest in its marketing budget
- **POL will incur c.£40m exceptional charges in the current financial year due to write-downs linked to the transaction**
  - c.£30m is non-cash and c.£10m is cash

4 Operating Performance – Opportunities

Opportunity	Commentary	Current Performance
Performance in Existing Activities	▪ There is upside risk to POL's revenues in certain areas where management have taken a conservative view in relation to growth (e.g. Mails, Financial Services)	▪ Some of these upsides have started to emerge (e.g. conventional mails activities, certain established Government Services). It is important that any such outperformance is seen as such, and is not used to catch-up underperformance elsewhere in POL's strategy (e.g. established vs. new revenue in Government Services)
Financial Services Retail Services	▪ POL has recently secured a contract with HSBC to deliver counter deposit and withdrawal services, which means that it now delivers this service for 95 per cent. of UK bank accounts. POL is working on securing a similar contract with Santander - the last remaining retail bank in the UK not to give its customers access to this service. Such a win would deliver incremental revenues, increase the "stickiness" of POL's other contracts in this segment. It would also improve POL's brand positioning	▪ The HSBC contract, which is expected to "go live" in Spring 2013, has increased the pressure on Santander to award similar work to POL. Government is providing support to POL in its efforts to win this contract
Bank of Ireland Contract Renegotiation	▪ POL's renegotiation of its relationship with the Bank of Ireland was not included in the original strategic plan. This initiative, which was announced in 2012/13, is expected to deliver c.£15 million revenue upside to POL with only limited incremental costs. It also changes the remuneration structure of certain personal financial services meaning that POL has a greater incentive to invest in growth	▪ The revenue upside related to the renegotiation will be reflected in POL's budget for the 2013/14 financial year ▪ Furthermore, POL is also investing in its in-branch capabilities to ensure that its financial specialists are trained and have strong systems and infrastructure to support their work ▪ These workstreams are being monitored closely, with benefits expected to start to accrue during 2013/14

4 Operating Performance – Threats

Risk	Commentary	Mitigation
Network Transformation	▪ The NTP is voluntary, and relies heavily on subpostmaster engagement and NFSP support. POL's broader relationship with the NFSP could impact this, as could any perceived problems in the early implementation stages of the NTP ▪ Given the ambitious scale and timeframe, management may also be unable to meet targets (e.g. # openings, costs, financial benefits)	▪ ShEx is working with POL to ensure there is discipline in their monitoring of the NTP, and we also have regular meetings to assess recent performance and the pipeline, monitor trends and anticipate risks ▪ There is also a constructive dialogue established between ShEx and the NFSP
Crown Transformation	▪ The Crown strategy is ambitious, and its success is influenced by both the Network team and POL's commercial teams (e.g. and the need for them to deliver revenue growth) working together ▪ The strategy also assumes that no consolidated pay deal is reached with the CWU, since any such agreement would have a material impact on economics of the strategy	▪ Quarterly reviews have been set up to challenge management and to ensure the plan is on track. Jo Swinson has also taken a keen interest and is meeting with management / being kept up to date ▪ There is also a constructive dialogue established between ShEx and the CWU
Revenue Growth	▪ POL's growth plan in Government Services, Telephony and Innovation is ambitious, and the ability of POL's management to meet such targets is unproven ▪ There is also a lack of detail in POL's strategic plan, making it difficult to track performance / monitor outlook closely. This increases the risk profile of the targets	▪ ShEx actively supports POL with its Government Services ambitions (both Central and Local), including working to raise POL's profile across Government ▪ The team also have a structured approach to monitoring performance which includes challenging management on outlook and performance on a regular basis
Revenue Attrition	▪ Many of POL's markets are facing structural decline or increasing competition and in a number of areas POL's sales concentration is also high. There is therefore a risk that revenues or margin could be lost at a faster pace than forecasted in the plan if key contracts are not renewed ▪ There is also some risk that the way in which POL's services are delivered changes (e.g. to online), making POL's in-branch offer redundant	▪ ShEx is working with management to ensure that POL's commercial teams are responding to these challenges (e.g. monitoring trends, developing new products).

5 Valuation

5 Valuation - Summary

- **POL is loss making and generates negative cashflow prior to receiving Government subsidy and additional Government funding**
  - expected to burn £189m cash in 2014/15, and £22m in the final year of the extended plan in 2016/17 (on an ex. subsidy basis only)
  - without any Government funding (i.e. ex. subsidy and ex. additional funding) cashflow is forecast to be £359m negative in 2014/15 and £102m negative in 2016/17
- **This makes it difficult to construct a meaningful valuation of POL**
  - a DCF requires a large number of assumptions around the development of POL's future cashflow
  - a comparables approach is not possible with negative earnings, and is further complicated by a lack of relevant peers
- **The DCF analysis on the following pages presents two scenarios**
  - (i) Current Strategy with No Funding: POL is assumed to generate significant negative cashflows during the implementation phase of the strategy but once complete, the cashflow trajectory strengthens quickly and continues to grow strongly throughout the forecast period
  - (ii) No Spending on Transformation: POL is assumed to spend none of the funding otherwise provided by Government on strategic transformation (vs. £545m in the scenario above) resulting in slower growth in cashflow and a lower steady state level of free cashflow, but less negative cashflow in earlier years
- **The values presented by this analysis should be viewed with a significant degree of caution given the assumptions that have had to be made. In particular it should be noted that:**
  - POL may find it difficult to fund itself without Government support (e.g. strategy related capex and working capital). Cost of capital is also therefore difficult to assess
  - on a standalone basis and with no funding / policy influence POL would not operate a network of 11,500 branches (e.g. it would close non-commercial locations)
- **As such the analysis is highly indicative, and is based on the following key assumptions:**
  - (i) cashflow forecasts for the period to 2016/17 are taken from the extended POL financial plan
  - (ii) incremental "Growth Cash" is assumed to be generated each year, cumulatively and on a net basis, out to 2026/27
  - (iii) the terminal value is calculated in 2026/27, based on a simple perpetuity growth methodology
  - (iv) an indicative WACC of 10 per cent. is used with a terminal growth rate of 2 per cent.

5 DCF Valuation – Scenario I

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Profit	(98.0)	(61.0)	0.0	57.0	-	-	-	-	-	-	-	-	-	-
FCF	14.0	(28.9)	28.6	57.9	-	-	-	-	-	-	-	-	-	-
less Network Subsidy	*(200.0)*	*(160.0)*	*(130.0)*	*(80.0)*	-	-	-	-	-	-	-	-	-	-
less Other Government Funding	*(215.0)*	*(170.0)*	*(80.0)*	*(80.0)*	-	-	-	-	-	-	-	-	-	-
FCF (ex. Funding)	**(401.0)**	**(358.9)**	**(181.5)**	**(102.1)**	**(67.1)**	**(32.1)**	**2.9**	**37.9**	**72.9**	**107.9**	**142.9**	**177.9**	**212.9**	**247.9**
discount rate	*91%*	*83%*	*75%*	*68%*	*62%*	*56%*	*51%*	*47%*	*42%*	*39%*	*35%*	*32%*	*29%*	*26%*
PV of FCF (ex. Funding)	**(364.5)**	**(296.6)**	**(136.3)**	**(69.7)**	**(41.7)**	**(18.1)**	**1.5**	**17.7**	**30.9**	**41.6**	**50.1**	**56.7**	**61.7**	**65.3**

Net Present Value of remaining financial plan: (£867.2m)

Net Present Value of 10 year “Cash Growth” forecast: £265.6m

Net Present Value of terminal value: £832.3m

Annual Growth Cash 2017/18 to 2026/27	Terminal Growth Rate: *0.0%*	*0.5%*	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
15.0	-	-	-	-	-	-	-
20.0	-	-	-	-	-	-	-
25.0	-	-	-	-	-	-	-
30.0	-	-	-	-	-	11.5	66.1
35.0	**51.2**	**89.0**	**131.0**	**177.9**	230.7	**290.6**	**358.9**
40.0	282.0	327.4	377.9	434.3	**497.8**	569.7	651.8

(£867.1m)
+
£265.5m
+
£832.3m
=
£230.7m

Shareholder Executive
HM Government

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DCF Valuation – Scenario II

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Operating Profit	(98.0)	(61.0)	0.0	57.0	-	-	-	-	-	-	-	-	-	-
FCF	14.1	(28.9)	28.6	57.9	-	-	-	-	-	-	-	-	-	-
less Network Subsidy	*(200.0)*	*(160.0)*	*(130.0)*	*(80.0)*	-	-	-	-	-	-	-	-	-	-
less Other Government Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FCF (ex. Funding)	**(186.0)**	**(188.9)**	**(101.5)**	**(22.1)**	**(7.1)**	**7.9**	**22.9**	**37.9**	**52.9**	**67.9**	**82.9**	**97.9**	**112.9**	**127.9**
discount rate	*91%*	*83%*	*75%*	*68%*	*62%*	*56%*	*51%*	*47%*	*42%*	*39%*	*35%*	*32%*	*29%*	*26%*
PV of FCF (ex. Funding)	**(169.1)**	**(156.1)**	**(76.2)**	**(15.1)**	**(4.4)**	**4.5**	**11.8**	**17.7**	**22.4**	**26.2**	**29.1**	**31.2**	**32.7**	**33.7**

Net Present Value of remaining financial plan: (£416.5m)

Net Present Value of 10 year "Cash Growth" forecast: £204.7m

Net Present Value of terminal value: £429.4m

Annual Growth Cash 2017/18 to 2026/27	Terminal Growth Rate: *0.0%*	*0.5%*	*1.0%*	*1.5%*	*2.0%*	*2.5%*	*3.0%*
5.0	-	-	-	-	-	-	-
7.5	-	-	-	-	-	-	-
10.0	-	-	-	-	-	-	-
12.5	9.6	25.3	42.7	62.2	**84.1**	108.9	137.3
15.0	**125.0**	**144.5**	**166.2**	**190.4**	**217.6**	**248.5**	**283.8**
17.5	240.4	263.7	289.6	318.6	**351.1**	388.1	430.2

(£416.4m)
+
£204.7m
+
£429.4m
=
£217.6m

Shareholder Executive
HM Government

6 Board and Management

6

Board and Management - Summary

POL has a complete and independent Board for the first time in its history…

…Non-Executives bring together a wealth of experience for POL to draw on, to support the delivery of POL's strategic plan…

…CEO and CFO remuneration requires Board approval, and both also participate in a STIP / LTIP bonus scheme

Separation

- **On its separation from Royal Mail in April 2012, POL's employees were transferred to the business under TUPE. This included POL's Executive Directors**
  - since separation POL has been building a new board – this is now complete and is comprised of 2 Executive Directors and 5 Non-Executive Directors (including Alice Perkins, POL's Chair)
- **POL's newly established RemCo met for the first time in October 2012**
  - currently reviewing the existing remuneration framework to ensure that incentives are properly aligned to targets laid out in the strategic plan and Government's ambitions for mutualising POL
  - have proposed to keep remuneration structures the same in 2012/13 as they were in 2011/12
  - only the remuneration of Paula Vennells (CEO) and Chris Day (CFO) require Board approval

Board and Management

- **The Board has a mix of backgrounds, and provides active support to senior management across a number of key areas of the business (e.g. retail competencies, financial services knowledge, mutualisation and pensions). Susannah Storey represents Government as a Non-Executive Director**
  - management have indicated that there has been an increased level of scrutiny and challenge in recent months, in relation to financial results and commercial performance
- **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 Revenue Growth
  - despite the track record of some recent hires, private sector experience among many senior managers is limited
  - departure of HR Director has seen her responsibilities split across existing management; this is being monitored closely
  - succession plan for top roles is being developed by CEO, Paula Vennells

6

Remuneration – 2011/12 Actuals

Remuneration framework for POL's CEO and CFO requires approval from the Secretary of State and the Chief Secretary to the Treasury…

…they are also able to provide comments to POL's RemCo in relation to actual payouts…

…payouts for 2011/12 were broadly in line with expectations

HMG / ShEx Role in Remuneration

- **The Secretary of State for Business and the Chief Secretary to the Treasury approve the remuneration packages for POL's CEO and CFO**
  - in the case of the STIP / LTIP the framework received approval, not actual payouts
  - however the Secretary of State can provide written comments to POL's RemCo, on POL's / individual's performances

2011/12 Remuneration Summary

- **Remuneration in 2011/12 was determined by Royal Mail's RemCo, since POL only became an independent business after the end of the financial year**
  - there was no press coverage or adverse public reaction related to the handling of these payouts

	Base Salary	STIP	LTIP
CEO	• Base salary of £250k and benefits of £30k	• **£172,750** (69 per cent. of base) paid in June 2012 • Based on "Post Office Scorecard" (80 per cent. of total) and personal objectives (20 per cent. of total)	• **No payout** relating to 2011/12 • However if targets set in 2010 are met payout will be received in 2012/13
CFO	• Base salary of £215k and benefits of £64k	• **£54,547** (38 per cent. of pro-rated base) paid in June 2012 • Underlying bonus based on "Post Office Scorecard" and "Royal Mail Scorecard", with a "personal multiplier" triggered by personal development rating. 2011/12 multiplier of 1.0x	• **No payout** relating to 2011/12 • However if targets set in 2010 (pro-rated) are met payout will be received in 2012/13

Note: Chris Day's Salary and bonus have been pro-rated to reflect his 1 August 2011 joining date. Paula Vennells was employed by Royal Mail for the full 2011/12 period.

6

Remuneration – 2012/13 Forward Look

POL requested a number of changes to be made to the CEO and CFO remuneration structures in 2012/13…

…these were mostly turned down, although we have ensured that management's targets are aligned to POL priorities (following the separation of POL from Royal Mail)…

…POL's RemCo will however be presenting its proposals for 2013/14 executive remuneration to BIS in early 2013

2012/13 Remuneration Framework

- **For the 2012/13 financial year POL requested changes to be made to the 2011/12 remuneration frameworks for the CEO and CFO**
  - these amendments, which would have resulted in increased payouts, were rejected by BIS
  - base salaries and the bonus framework will now remain the same for 2012/13 (apart from some changes to targets, to ensure that they are aligned to POL's strategic and commercial priorities)
  - still requires Ministerial approval, and the proposals were most recently put to the SROC on 21 November
- **This structure is expected to be an interim / transitional measure**
  - enables the RemCo to review remuneration and proposals for post-2012/13 are expected in the New Year

	STIP	LTIP
CEO	• Based on "Post Office Scorecard" (80 per cent. of total) and personal objectives (20 per cent. of total)	• Gateway structure that requires two primary conditions to be met before payouts - based on a third condition - are triggered. Payments would be made at the end of 2014/15 – Condition I: Gateway target that ensures POL maintains a network of at least 11,500 post offices that also meet access criteria – Condition II: Gateway target that POL meets a certain number of cumulative Network Transformation conversions. Sliding payout scale from lower threshold – Condition III: Trigger target linked to POL's financial performance at operating profit level. Sliding payout scale from lower threshold
CFO	• Underlying bonus based on "Post Office Scorecard", with a "personal multiplier" triggered by personal development rating • Entitled to maintain current framework for 2012/13 under the terms of the TUPE	

Note: STIP frameworks differ since Paula Vennells was part of the Royal Mail STIP (as a member of the Royal Mail Holdings plc Board) and Chris Day was not. Chris Day's structure is aligned to the framework in place for POL senior management

6 Remuneration – Actuals and Forward Look

2011/12 ACTUALS

	Salary (A)	Short Term Incentive (B)	Benefits (C)	In Lieu Pension (D)	Total 2012 (A)+(B)+(C)+(D)	Bonus as % of Max Bonus
CEO	£250k *(9 per cent. increase on 2010/11)*	£173k	£10k	£30k	£463k	87 per cent. of £200k maximum
CFO	£143k	£55k	£6k	£36k	£240k	86 per cent. of £64k maximum

2012/13 FRAMEWORK

	Salary	% Increase on 2011/12	Max STIP	Max STIP as % of Base Salary	Max STIP Increase on 2011/12	Max LTIP as % of Base Salary
CEO	£250k	0 per cent.	£200k	80 per cent.	0 per cent.	98 per cent. *(payout to be made in 2012 under current LTIP cycle)*
CFO	£215k	0 per cent.	£194k *(or £97k with max 2.0x multiplier)*	90 per cent. *(or 45 per cent. with max 2.0x multiplier)*	0 per cent.	n.a.

6 Remuneration – CEO STIP Targets for 2012/13

POST OFFICE SCORECARD	WEIGHTING	% SALARY			PERFORMANCE METRICS			YTD (6m to Sept.)
		Target	*Threshold*	*Stretch*	*Target*	*Threshold*	*Stretch*	
GROWTH								
Total Revenue incl. NSP (£m)	25.0%	9.6%	4.8%	16.0%	1,016	1,001	1,046	1,109 *(f'cast)*
Operating Profit (£m)	25.0%	9.6%	4.8%	16.0%	84.0	84.0	92.4	92.1 *(f'cast)*
CUSTOMER								
Queue Time (% < 5 mins; top 1,000k branches)	12.5%	4.8%	2.4%	8.0%	78.9%	77.5%	82.8%	78.9%
Call Centres 3D	12.5%	4.8%	2.4%	8.0%	100.0%	95.0%	110.0%	103.3%
MODERNISATION								
Crown Loss (£m)	12.5%	4.8%	2.4%	8.0%	(40.0)	(42.0)	(36.0)	(16.6)
NTP Conversions (# mains and locals)	12.5%	4.8%	2.4%	8.0%	1,200	960	1,345	269
Total	**100.0%**	**38.4%**	**19.2%**	**64.0%**				

PERSONAL OBJECTIVES	WEIGHTING	% SALARY		
		Target	*Threshold*	*Stretch*
Maximise the SLT Talent Pool	33.3%	3.2%	1.6%	5.3%
Leading the Future Strategy of POL	33.3%	3.2%	1.6%	5.3%
Upping POL's Commercial Edge and Pace	33.3%	3.2%	1.6%	5.3%
Total	**100.0%**	**9.6%**	**4.8%**	**16.0%**

Target bonus of 48 per cent. base salary

Threshold bonus of 24 per cent. base salary

Stretch bonus of 80 per cent. base salary

Note: Sliding scale between Threshold and Target and Target and Stretch

Shareholder Executive
HM Government

6 Remuneration – CFO STIP Targets for 2012/13

POST OFFICE SCORECARD	WEIGHTING	% SALARY			PERFORMANCE METRICS			YTD (6m to Sept.)
		Target	*Threshold*	*Stretch*	*Target*	*Threshold*	*Stretch*	
GROWTH								
Total Revenue incl. NSP (£m)	25.0%	7.5%	3.8%	11.3%	1,016	1,001	1,046	1,109 *(f'cast)*
Operating Profit (£m)	25.0%	7.5%	3.8%	11.3%	84.0	84.0	92.4	92.1 *(f'cast)*
CUSTOMER								
Queue Time (% < 5 mins; top 1,000k branches)	12.5%	3.8%	1.9%	5.6%	78.9%	77.5%	82.8%	78.9%
Call Centres 3D	12.5%	3.8%	1.9%	5.6%	100.0%	95.0%	110.0%	103.3%
MODERNISATION								
Crown Loss (£m)	12.5%	3.8%	1.9%	5.6%	(40.0)	(42.0)	(36.0)	(16.6)
NTP Conversions (# mains and locals)	12.5%	3.8%	1.9%	5.6%	1,200	960	1,345	269
Total	**100.0%**	**30.0%**	**15.0%**	**45.0%**				

- Performance multiplier based on appraisal score from March / April review, which is then ratified by a peer comparison assessment. Multipliers are:
  - rating of **1** = multiplier of **0.0x**
  - rating of **2** = multiplier of **0.5x**
  - rating of **3** = multiplier of **1.0x**
  - rating of **4** = multiplier of **1.5x**
  - rating of **5** = multiplier of **2.0x**
- Maximum payout is therefore Stretch (i.e. 45 per cent. base salary) with a 5 appraisal score (i.e. 2.0x multiplier) giving 90 per cent. of base salary

EXAMPLE PERSONAL OBJECTIVES

Broaden/deepen Board contribution

Implement FTSE 100 standard of controls and reporting

Meet the finance challenge to ensure NTP is supported

Deputise for Chief Executive as required

Lead the transformation of the finance function

6 Remuneration – LTIP Targets for 2012/13

- **LTIP awards made this year will pay out in 2015. Metrics relate to network coverage, Network Transformation conversions and operating profit**
  - CEO can receive up to 98 per cent. at stretch, CFO can receive up to 49 per cent. at stretch

Operating Profit Performance for the Financial Year 2014/15	% Payout if 6,000 (Target) or More Contract Conversions are Completed	% Award Payout if 4,800 (Threshold) Contract Conversions are Completed	% Award Payout if < 4,800 Contract Conversions are Completed
Less than £69.3m *(70 per cent. of £99m)*	0 per cent. of award will pay out	0 per cent. of award will pay out	0 per cent.
£69.3m *(70 per cent. of £99m)*	70 per cent. of award will pay out (CEO = £122.5k; CFO = £52.7k)	35 per cent. of award will pay out (CEO = £61.3k; CFO = £26.3k)	0 per cent.
£69.3m - £99m *(70 – 100 per cent. of £99m)*	70 – 100 per cent. of award will pay out calculated on a straight line sliding scale (CEO = £122.5k to £175k; CFO = £52.7k to £75.3k)	35 – 50 per cent. of award will pay out calculated on a straight line sliding scale (CEO = £61.3k to £87.5k; CFO = £26.3k to £37.6k)	0 per cent.
£99m *(100 per cent. of £99m)*	100 per cent. of award will pay out (CEO = £175k; CFO = £75.3k)	50 per cent. of award will pay out (CEO = £87.5k; CFO = £37.6k)	0 per cent.
£99m - £118m *(100 – 120 per cent. of £99m)*	100 - 140 per cent. of award will pay out calculated on a straight line sliding scale (CEO = £175k to £245k; CFO = £75.3k to £105.4k)	50 to 70 per cent. of award will pay out calculated on a straight line sliding scale (CEO = £87.5k - £122.5k; CFO = £37.6k - £52.7k)	0 per cent.
More than £118m *(120 per cent. of £99m)*	140 per cent. of award will pay out (CEO = £245k; CFO = £105.4k)	70 per cent. of award will pay out (CEO = £122.5k; CFO = £52.7k)	0 per cent.

7 Key Stakeholders

7 Government Stakeholders

Stakeholder	Stakeholder Interest	Assessment of Relationship with ShEx	Key Current Issues	Strategy to Obtain Support / Overcome Barriers
HMT	• HMG shareholding and lender to the business • Long term subsidy, and other capital requirements • Accounting / budget impact of business performance	• Strong ShEx working relationship with key HMT team	• Planning around POL's next strategy and funding requirement • Keen to understand financial benefits of NTP • Executive pay • VfM case on mutualisation	• Maintaining frequent and close dialogue
Cabinet Office	• POL procurement strategy and role in providing transactions to support online services • New commercial models team and mutualisation	• Strong ShEx working relationship with key CO team	• Interest in POL's mutualisation process • POL's position in providing face-to-face transactions in light of digital delivery and OPS White paper • Possible assisted digital framework	• Continue to identify and target key contacts, coordinating with POL where required
DWP	• Contractual relationship as a client – e.g. POCA	• Strong working relationship with POL and ShEx	• POL's role in delivering Universal Credit, the impact of this on POCA	• Maintain close dialogue and coordinate with POL where required
DfT (DVLA)	• Contractual relationship as a client – e.g. driving licence renewals	• Strong working relationship with POL and ShEx	• POL has now won the DVLA framework tender – now need to work with DVLA and POL to leverage the contract.	• Maintain close dialogue and coordinate with POL where required
Home Office (IPS, UKBA)	• Contractual relationship as a client – e.g. passport "check and send"	• Some working relationship in place with POL and ShEx but others could be improved	• Direction on data collection for online passports unclear - key projected revenues for POL and likely first target for DVLA framework.	• Expand contacts with key senior officials, coordinating with POL where required

7 Other External Stakeholders

Stakeholder	Stakeholder Interest	Assessment of Relationship with ShEx	Key Current Issues	Strategy to Obtain Support / Overcome Barriers
NFSP	• Network Transformation • Mutualisation • Government Services • Subpostmaster pay	• Close and constructive. NFSP supported the Postal Services Act, and have voiced support for Network Transformation and mutualisation.	• Engagement with mutualisation process • Ensuring new Gov't services contracts are won • Seeking representation on the POL Board	• Maintain dialogue at official and Ministerial level to ensure continued support • Encourage engagement with POL and other stakeholders through mutualisation
CWU/Unite	• Mutualisation • Network Transformation • Government Services	• Constructive dialogue on mutualisation despite ongoing scepticism in relation to POL's financial sustainability	• Engagement with mutualisation process • Concerns about network transformation • Ongoing pensions discussions with Royal Mail	• Encourage engagement with POL and other stakeholders through mutualisation • Careful comms. around Network Transformation
Consumer Focus	• Network Transformation • Government Services	• Improving following a slew of negative (and skewed) media pieces about the Local model	• Implementing the recently agreed Code of Practice for on and off site conversions under Network Transformation – subject to review in Dec 2012	• Build on improving relationship with Mike O'Conner (CEO), who is heading up one of the Stakeholder Forum working groups
Competitors	• State Aid • Government Services	• Healthy engagement	• Current dialogue with PayPoint through the European Commission in relation to State Aid approval	• Maintain dialogue at official level and keep PayPoint's presence as a bill payment provider, relative to POL, under review
European Commission	• State Aid	• Good and open	• PayPoint concern on POL's State Aid approval	• Maintain dialogue ahead of future State Aid requests

8 Shareholder Executive Role

8 Shareholder Executive role

- **ShEx has a dual-role with POL, representing Government as a responsible shareholder and acting as a voice within Government (e.g. guidance on political and commercial issues)**
  - active relationships and frequent dialogue is maintained across multiple tiers of executive and senior management
  - also engage with key stakeholders including unions and customer groups
  - strong relationship maintained with HMT team (e.g. James Perry, Conrad Smewing)
  - work with selected advisers where applicable (e.g. Freshfields on legal and Deloitte on finance)
- **The POL team is fully resourced and since the last Annual Review Tim McInnes, a Grade 6 FTA has been appointed. Jai Nathan also joined the team in September as a Fast Streamer to replace Katie Wake**
  - Jane Hoy will be moving on in December and a search for a replacement is underway

Title	Name	Role
Director	Roger Lowe	Head of ShEx RMPS Team
Executive Director	Will Gibson (90%)	Head of RMPS POL Team
Assistant Director	Mike Whitehead (100%)	Network and Stakeholder Engagement
	Jane Hoy (80%)	Government and Financial Services Support
	Tim McInnes (80%)	Financial Monitoring, Mutualisation
HEO	Peter Batten (100%)	Network and Stakeholder Engagement
Fast Streamer	Jai Nathan (80%)	Mutualisation, Government and Financial Services

- **Actions raised in the November 2011 annual review and subsequent quarterly reviews have also been addressed**
  - additional financial information, and details on POL's management incentive plan and remuneration more broadly have been included in this report
  - KPI dashboards and reporting packs have been developed with POL to support POL level and strategic-initiative level monitoring. Further information on these have been included in the appendix
  - the POL team presented to ExCo on POL's mutualisation, ahead of the first meeting of the Stakeholder Forum. Our interactions with the broader mutualisation process are proceeding along the lines discussed with ExCo
  - it was suggested that ShEx facilitates a meeting between POL and the VOA in relation to the Crown estate. These contact details have been shared with the POL Network team

9 Traffic Light Analysis

9

Traffic Light Analysis

Shareholder Relationship	▪ There is a good and constructive relationship with the new Chair, and a strong relationship with the CEO who has demonstrated her clear commitment to POL's strategic plan. The new NEDs are challenging management, and this has been further improved by the recent appointment of Tim Franklin (who brings with him financial services and mutual experience).
Implementation of Shareholder Model	▪ Generally strong application of a shareholder model, with appropriate monitoring structures in place – this includes frequent dialogue with management. However, policy and shareholder roles are combined.
Quality of Management Team & Board	▪ POL's management team have a strong track record of defending revenues and managing costs. However, in order to meet the business plan targets, they will need to deliver a transformational strategy, at scale, which also includes generating considerable new revenues. It is not clear yet whether they have the right skillsets / capabilities to achieve this. ▪ ShEx are working closely with management to monitor the performance of the business, and provide support where appropriate / possible. Also, a succession plan is currently being developed by Paula Vennells for areas of POL where there is no clear replacement for senior management.
Strategy	▪ HMG requires that POL maintains a network of 11,500 outlets - significantly in excess of what it would maintain on a commercial basis - which means that the business has to rely on Government subsidy. Without this external funding, and in its current form, POL would not be a going concern. ▪ POL's strategy is credible but extremely ambitious, both in terms of its scale (e.g. NTP and Crown Transformation) and focus (e.g. growth in new revenues). Also, management's approach to some initiatives has not been stable – due to implementation (e.g. NTP) or delivery environment (e.g. Crown Transformation) issues. However ShEx is monitoring the business closely, and also works with management to ensure that it has the best possible chance of succeeding.
Financial Performance	▪ The obligations placed on POL by HMG mean that the business is loss making at a net profit level (it is also loss making at an operating profit level, pre-subsidy). As a result it is not considered to be a going concern. ▪ POL's financial performance is monitored closely by ShEx on a monthly basis, and sessions are held with divisional management (both revenue and cost) to understand current trading and near term outlook in more detail.
Balance Sheet and Risk	▪ POL has a business plan in place, and it is funded to deliver this strategy. However POL is only a going concern due to Government subsidy, and makes losses which means it is unable to pay dividends (both today, and likely in the medium term also). ShEx monitors the business closely to ensure that it is meeting its targets and that any issues are identified and addressed early on.

A Appendices

Summary Split of Costs – 2012/13B

Staff Costs (Mar YE - £m)	2012/13B
Central (inc MD's office)	(14.5)
Commercial	(6.5)
Communications	(1.9)
Human Resources	(5.2)
HR - Centrally Held Bonus Payments	(17.7)
Financial Services	(4.7)
Finance	(10.0)
Network	**(189.3)**
Supply Chain	*(55.8)*
Crowns	*(115.9)*
Other Network	*(17.7)*
Legal	(5.6)
Programme costs	0.0
Strategy	**(13.6)**
C&IS / Managed Services	*(12.4)*
Strategy / Programme office	*(1.1)*
POL Staff Costs	**(268.9)**

Non-Staff Costs (Mar YE - £m)	2012/13B
Computers & Telephones	(84.1)
Other Operating Costs	(17.4)
Consultancy, Marketing & Legal	**(18.5)**
Skills Group External Contractors	*(1.4)*
Remainder	*(17.0)*
Finance	(16.3)
Property Facilities	(7.3)
Property Maintenance	(5.2)
Vehicles	(2.3)
Compensation	(1.0)
Collection, Delivery & Conveyance	(0.6)
Staff & Agent Related & Consum.	**(13.4)**
Skills Group Off-Charges	*4.4*
Remainder	*(17.8)*
Inter-business	(83.3)
Depreciation	(0.8)
Group Overhead Allocations	(16.8)
POL Non Staff Costs	**(267.1)**

ii

Summary Split of Investment Budget – 2012/13B

Investment (Mar YE - £m)	Opex	Capex
FOoG	3.8	4.8
IT Delivery	1.6	22.4
IT Transformation	5.4	0.0
Independence & Separation	4.1	0.5
Mails	4.9	0.0
Telephony	6.6	0.0
Customer Engagement	7.5	n.m.
Digital	0.0	1.8
Financial Services	2.3	0.0
Network Transformation	n.m.	44.5
Crown Transformation	n.m.	4.6
Transformation Total	**36.1**	**78.5**
Network	0.8	0.0
Property	1.0	5.1
Supply Chain	0.1	30.9
Network Total	**1.9**	**36.0**

Investment (Mar YE - £m)	Opex	Capex
Mails	1.8	0.0
Telephony	0.0	1.0
Customer Engagement	2.0	n.m.
Digital	0.0	0.9
Commercial Total	**3.8**	**1.9**
Legal & Compliance	0.2	n.m.
Security	0.2	n.m.
Mandatory IT	1.9	11.2
Financial Services	2.5	0.5
PO Story	3.2	0.9
Centrally Held	2.8	3.7
Non-Transformation Total	**10.8**	**16.4**
Total	**52.6**	**132.7**
"Over Programmed"	(14.9)	n.m.
Budget	**37.7**	**132.7**

Exceptionals (Mar YE - £m)	Exceptionals
IT Transformation	0.0
Financial Services	3.0
Network Transformation	96.3
Crown Transformation	9.1
Exceptionals Total	**108.4**

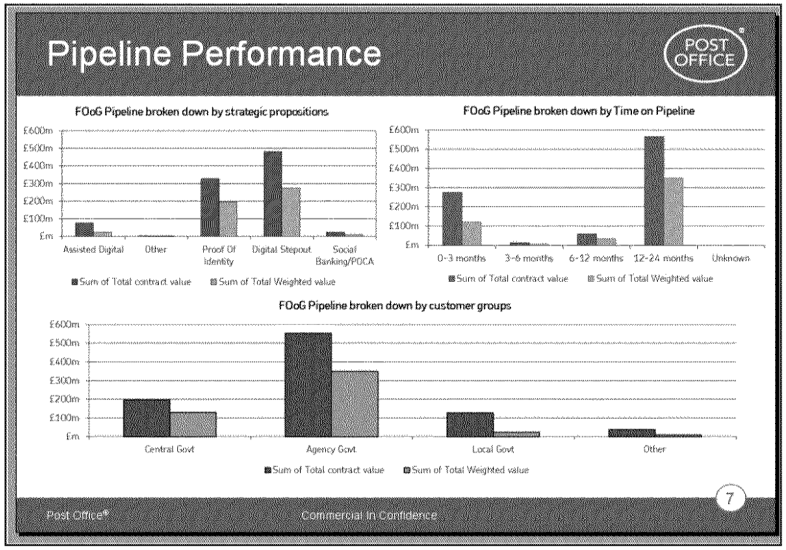
iii POL / ShEx Update Snapshot – Primary KPI Dashboard

Business Scorecard
September 2012

Key Performance Indicators	Current Month			Year to Date				Full Year			2011-12
	Act	Target	Var	Act	Target	Var	Prior Year	F'cast	Target	Var	Outturn
Growth											
Total Revenue (excluding NSP) £m (Bonus)	77.8	74.7	3.1	501.1	490.8	10.3	484.9	1,023.4	1,015.8	7.6	979.7
Total Net Income (excl NSP) £m	69.1	65.6	3.6	442.9	432.6	10.3	428.5	903.8	897.9	5.9	865.3
Operating profit £m (Bonus)	15.8	4.7	11.1	61.0	47.7	13.3	55.5	84.0	84.0	(0.0)	61.3
Free cashflow £m	75.9	26.8	49.1	311.6	270.3	41.3	49.1	(85.3)	(85.3)	0.0	(15.0)
Collections & Returns ability to serve RM (Milestones)	0	0	0	1	2	(1)	N/A	8	8	0	N/A
FOoG bid wins (value won) (Rev £m)	0.3	0.6	(0.3)	2.8	3.8	(1.0)	N/A	10.7	11.7	(1.0)	N/A
Customer											
Customer Satisfaction	88.0%	88.0%	0.0%	86.0%	88.0%	(2.0)%	86.8%	88.0%	88.0%	0.0%	86.9%
Queue time % < 5 minutes - Top 1k branches (Bonus)	83.7%	81.4%	2.3%	78.9%	78.9%	0.0%	77.1%	78.9%	78.9%	0.0%	77.8%
Welcome & Farewell - (mystery shopped) - Top 1k branches	85.9%	85.9%	0.0%	83.9%	85.9%	(2.0)%	80.0%	85.9%	85.9%	0.0%	81.5%
Call Centres 3D (Bonus)	105.9%	100.0%	5.9%	103.3%	100.0%	3.3%	102.7%	100.0%	100.0%	0.0%	105.5%
Retail Standards (actual) - Top 1k branches	84.6%	84.9%	(0.3)%	85.3%	84.9%	0.4%	83.4%	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)	99.2%	95.0%	4.2%	98.1%	95.0%	3.1%	N/A	95.0%	95.0%	0.0%	N/A
Modernisation											
Crown Profit (Loss) £m (Bonus)	(1.9)	(3.2)	1.3	(16.6)	(20.2)	3.5	N/A	(40.3)	(40.3)	0.0	(46.4)
Engagement Index % (Once a year)	64%	65%	(1)%	64%	65%	(1)%	58%	65%	65%	0%	64%
Network Conversions (Mains & Locals) (Bonus)	26	72	(46)	269	322	(53)	N/A	1200	1200	0	184
IT Transformation (Milestones)	0	0	0	8	8	0	N/A	12	12	0	N/A

Bonus worthy metrics

iii POL / ShEx Update Snapshot – FOoG Update



FOoG Programme Summary

POST OFFICE

RAG Status:	Rationale for RAG Status:	Amber status given forecast revenue for 2012-13 below target, longer lead times than expected for contracting processes
Key Achievements and Highlights:		• Welsh National Travel Smartcard - Project went live on 29/10 with ACT Retail Post Terminals in 6 POL branches in South Wales • DVLA have announced a 2 week slip in regards to the DVLA Bid tender award. Preferred bidder will now be announced around the 14th November 2012. Contract Award will be 2 weeks after the Preferred bidder is announced. • DWP IDA Framework Contract Signed. DWP plan is that the call-off contract will be signed by the end of November, next commercial t&cs discussion with DWP is scheduled for 14th November. • Cornwall Council voted unanimously to delay the shared services contract whilst other options for cost savings are explored, this has not been timebound. As a result of the Council vote, BT will not be submitting their Best and Final Offer as planned. Project now subject to replan, once Cornwall Council's timelines are understood. • UKBA Support Payments Tender delivered Tuesday 16th October

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Top 10 Pipeline Prospects

POST OFFICE

Ref	Client	Description	Gross Value	Weighted Value	Time on Pipeline	Target Award Date	Date revenue start	Commentary
PP-0066	DVLA	Front Office Services	£191,000,000	£152,800,000	01yr 08mths	Dec-12	Apr-13	Award date November 2012.
PP-0002	DWP	UC IDA checks	£122,653,742	£110,388,367	01yr 06mths	Nov-12	Nov-13	Awaiting decision - though revenues will depend on volumes coming from the programme
PP-0001	IPS	IPS online passports applications (AEI)	£140,000,000	£56,000,000	01yr 06mths	Dec-13	May-14	This figure may go up by 380,000 pa if FCO's passport applications are taken over by IPS - TBD
PP-0009	DVLA	Front Office Services Extension of Contract	£57,000,000	£51,300,000	00yr 01mths	Jan-20	Apr-20	DVLA contract extension for Front Office Services. Contract will be 7 + 3
PP-0018	IPS	IPS Years Extension	£19,500,000	£19,500,000	00yr 11mths	Jun-12	Nov-12	May be subsumed under the online passport application opportunity
PP-0065	UKBA	New FOS Contract	£42,000,000	£16,800,000	00yr 02mths	Jun-16	Jan-16	
PP-0078	DSA	Computer-based testing services at a network of testing centres	£16,000,000	£11,200,000	00yr 01mths	Apr-13	Sep-13	"Wholesale" approach agreed. Although clear that Learn Direct's bid will be strong there is insufficient time to provide them with the firm fixed price they require to support submission on 19th November
PP-0016	HMRC	HMRC IDA	£27,000,000	£10,800,000	00yr 11mths	Mar-15	Jan-15	Feedback via UTX is that client will not be procuring solution at end of December as originally planned
PP-0072	DWP	Subsidised Bank Accounts	£20,000,000	£10,000,000	00yr 03mths	Mar-13	Oct-13	
PP-0064	Multiple LA's	Social Fund delivery product as per Middlesbrough bid	£30,000,000	£9,000,000	00yr 02mths	Mar-14	Jul-15	Multiple LA's interested including, Leeds City Council and London Borough of Lambeth

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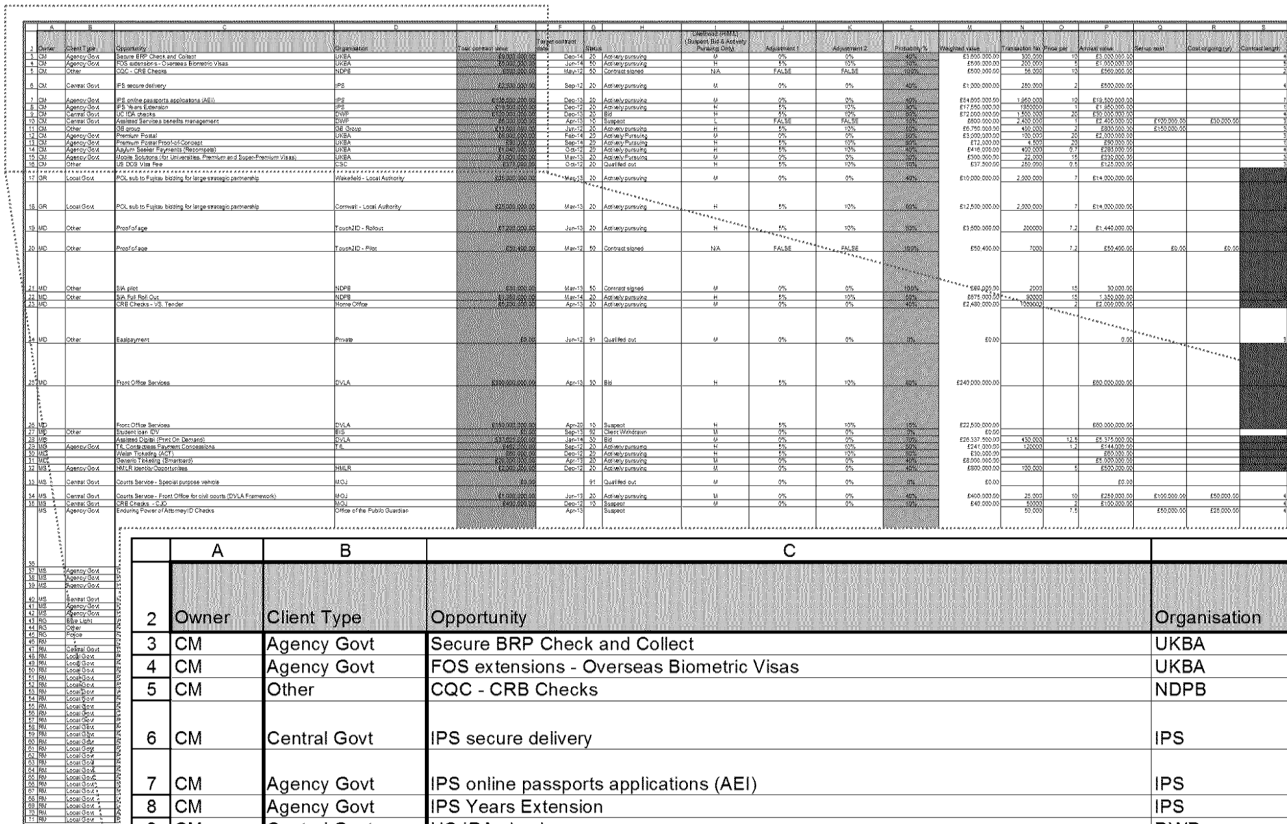
iii

POL / ShEx Update Snapshot – FOoG Pipeline



	A	B	C	D	E	
2	Owner	Client Type	Opportunity	Organisation	Total contract value	Ta da
3	CM	Agency Govt	Secure BRP Check and Collect	UKBA	£9,000,000.00	
4	CM	Agency Govt	FOS extensions - Overseas Biometric Visas	UKBA	£5,000,000.00	
5	CM	Other	CQC - CRB Checks	NDPB	£500,000.00	
6	CM	Central Govt	IPS secure delivery	IPS	£2,500,000.00	
7	CM	Agency Govt	IPS online passports applications (AEI)	IPS	£136,500,000.00	
8	CM	Agency Govt	IPS Years Extension	IPS	£19,500,000.00	
9	CM	Central Govt	UC IDA checks	DWP	£120,000,000.00	
10	CM	Central Govt	Assisted Services benefits management	DWP	£6,000,000.00	
11	CM	Other	GB group	GB Group	£13,500,000.00	
12	CM	Agency Govt	Premium Postal	UKBA	£6,000,000.00	
13	CM	Agency Govt	Premium Postal Proof-of-Concept	UKBA	£90,000.00	

iii POL / ShEx Update Snapshot – Crown Transformation

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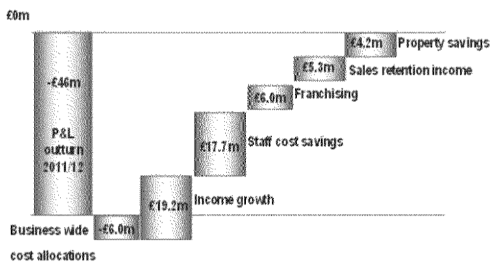
Journey to profit

Strand	Activity	12/13 £m	13/14 £m	14/15 £m	Total £m
People and Productivity	Staff savings from automation	0.0	4.0	4.9	8.9
	Staff hour & management Structure review	5.3	2.5	0.0	7.8
	Tactical post and go deployment and pilots	0.3	0.0	0.0	0.3
	Raising of staff bonus threshold	0.0	0.0	0.7	0.7
				Total People & Productivity	17.7
Product	Government Services income	3.0	6.0	0.0	9.0
	Financial Services incentive renegotiation	3.5	2.5	5.0	11.0
	Telephony	0.6	0.4	0.2	1.2
	SME	0.5	0.5	2.0	3.0
	All other	0.0	0.4	0.6	1.0
	Standard income decline	-2.0	-2.0	-2.0	-6.0
				Total Product	19.2
Property	Hosted, 2:1 and sites	0.5	1.1	2.6	4.2
				Total Property	4.2
Other	Retention / renewals	1.3	1.9	2.1	5.3
	Divest 50-70 branches (net benefit)	0.0	3.0	3.0	6.0
				Total Other	11.3
Total		**13.0**	**20.3**	**19.1**	**52.4**
	· Other business wide impact	-6.0			-6.0
Net P&L impact		**7.0**	**20.3**	**19.1**	**46.4**



6

Post Office® COMMERCIALLY SENSITIVE - IN CONFIDENCE

visionupdate
keeping you in the know

POST OFFICE

November 2012

We are committed to retaining Crown branches as part of the Post Office network – offering customer excellence and leading our sales performance

Kevin Gilliland
Network and Sales Director

Dear Colleague

At a series of Vision events last week, I shared our developing strategy for turning around the current losses in Crown branches to create a sustainable Crown part of the network. I was pleased to be joined at the events by representatives from CWU and Unite CMA who also spoke about Crown Transformation.

At your teamtalk session next week you'll hear more about Crown Transformation from your branch manager and the colleague who accompanied them to the event, and you'll also have the opportunity to put forward your views.

Ahead of that I wanted to share the key messages with you.

Kevin Gililand

Key Messages

- The need to turn around our current losses is very real. We cannot rely on the generosity of future governments and taxpayers to support us
- Our strategy for Crown branches builds on the recent strong performance and is focused on delivering excellent customer service and meeting local customer needs
- It is based on increasing our income, controlling our costs and maintaining a sizeable Crown part of the network
- Our pilots are going well and we'll be looking at how to apply what we are learning across different branches
- We will be able to share proposals for each branch in March 2013
- Our strategy is achievable and we can have a sustainable Crown part of the network into the future

Birmingham Crown branch

253522 Crown Transformation A4.indd 1   31/10/2012 11:01

iii Selected KPI Dashboards – Network Transformation

Microsoft Excel - 12-10 NT Pilot locations

AT41 Cumbria County Council

	A	G	H	I	J	K	L	M	AR	AS	
1	Branch Name	Postcode	Operating Model	On-site / Off-site	NT Acquired Status (Go-live date)	Country	Location Type	Hours	Constituency	MP	LA C
2	Old Town Hastings	TN34 3EG	Local	Off-site	01/09/2008	England	Urban	103	Hastings and Rye	Rudd, Amber (Con)	East Sussex
3	Hetton Road	DH5 8JP	Local	On-site	08/10/2008	England	Rural	97.5	Houghton and Sunderland South	Philipson, Bridget (Lab)	Sunderland C
4	Havers Lane	CM23 3PQ	Local	On-site	16/10/2008	England	Urban	98	Hertford and Stortford	Prisk, Mark (Con)	Hertfordshire
5	Selsey Road	B17 8JR	Local	On-site	25/11/2008	England	Urban	86.25	Birmingham, Edgbaston	Stuart, Gisela (Lab)	Birmingham
6	Corlic Street	PA15 3LJ	Local	Off-site	21/10/2008	Scotland	Urban Deprived	87	Inverclyde	McKenzie, Iain (Lab)	Inverclyde Co
7	Tudorville	HR9 5PY	Local	Off-site	04/12/2008	England	Urban	78.5	Hereford and South Herefordshire	Norman, Jesse (Con)	Herefordshire
8	Rounds Green	B69 2EB	Local	Off-site	26/11/2008	England	Urban	92.5	West Bromwich West	Bailey, Adrian (Lab)	Sandwell Met
9	Willen Village	MK15 9JL	Local	Off-site	08/09/2008	England	Urban	98	Milton Keynes North	Lancaster, Mark (Con)	Milton Keynes
10	Smithies	S71 3SZ	Local	Off-site	13/06/2011	England	Urban	86	Barnsley Central	Jarvis, Dan (Lab)	Barnsley Metr
11	Fisherrow	EH21 6JE	Local	Off-site	15/09/2008	Scotland	Urban	97	East Lothian	O'Donnell, Fiona (Lab)	East Lothian
12	Fiveways Parade	SK7 6DG	Local	Off-site	13/10/2008	England	Urban	103	Hazel Grove	Stunell, Andrew (LD)	Stockport Met
13	East Hamlet	SY8 1QU	Local	Off-site	24/11/2008	England	Rural	38.5	Ludlow	Dunne, Philip (Con)	Shropshire C
14	High St Tunbridge Wells	TN1 1YG	Local	Off-site	27/11/2008	England	Urban	80	Tunbridge Wells	Clark, Greg (Con)	Kent County C
15	Millwey Rise	EX13 5EX	Local	Off-site	12/11/2008	England	Rural	95	Tiverton and Honiton	Parish, Neil (Con)	Devon County
16	Cambourne	CB23 6JX	Local	Off-site	12/01/2009	England	Rural	48.5	South Cambridgeshire	Lansley, Andrew (Con)	Cambridgesh
17	Ash	GU12 6LR	Local	On-site	28/11/2011	England	Urban	112	Surrey Heath	Gove, Michael (Con)	Surrey County
18	Bramley	RG26 5AQ	Local	On-site	07/11/2011	England	Rural	105	North East Hampshire	Arbuthnot, James (Con)	Hampshire C
19	Bromham	MK43 8LD	Local	On-site	03/08/2012	England	Rural	112	North East Bedfordshire	Burt, Alistair (Con)	Bedford Coun
20	Boxgrove	GU1 2PF	Local	On-site	24/08/2012	England	Urban	105	Guildford	Milton, Anne (Con)	Surrey County
21	Giffard Park	MK14 5QD	Local	On-site	30/01/2012	England	Urban	112	Milton Keynes North	Lancaster, Mark (Con)	Milton Keynes
22	East Preston	BN16 1HB	Local	On-site	14/09/2012	England	Urban	105	Worthing West	Bottomley, Peter (Con)	West Sussex
23	Hawkenbury	TN2 5AW	Local	On-site	12/10/2012	England	Urban	112	Tunbridge Wells	Clark, Greg (Con)	Kent County C
24	Adeyfield	HP2 4EP	Main	On-site	19/03/2012	England	Urban	58	Hemel Hempstead	Penning, Mike (Con)	Hertfordshire
25	Kingswood	WD25 0EL	Local	On-site	05/10/2012	England	Urban	119	Watford	Harrington, Richard (Con)	Hertfordshire
26	Maple Cross	WD3 9RP	Local	On-site	11/11/2011	England	Rural	112	South West Hertfordshire	Gauke, David (Con)	Hertfordshire
27	Horsted	ME1 2TG	Local	On-site	28/09/2012	England	Urban	112	Rochester and Strood	Reckless, Mark (Con)	Medway Cour
28	The Pond	WD17 1NA	Main	On-site	29/03/2012	England	Urban	82	Watford	Harrington, Richard (Con)	Hertfordshire
29	Broadbridge Heath	RH12 3LW	Local	On-site	21/09/2012	England	Rural	112	Horsham	Maude, Francis (Con)	West Sussex
30	Nevill Road	BN3 7QQ	Local	On-site	07/11/2011	England	Urban	119	Hove	Weatherley, Mike (Con)	Brighton & Ho
31	Farringdon Road	EC1M 3JB	Main	Off-site	21/02/2011	England	Urban	47.5	Holborn and St Pancras	Dobson, Frank (Lab)	Greater Lond
32	Castlefields	SY1 2LE	Local	Off-site	15/08/2011	England	Urban	105	Shrewsbury and Atcham	Kawczynski, Daniel (Con)	Shropshire C
33	Kircubbin	BT22 2SG	Local	Off-site	06/01/2009	Northern Ireland	Rural	97.5	Strangford	Shannon, Jim (DUP)	Ards Borough
34	Yatton Keynell	SN14 7BA	Local	On-site	09/04/2009	England	Rural	70	North Wiltshire	Gray, James (Con)	Wiltshire Cou
35	Upperlands	BT46 5RU	Local	Off-site	03/02/2010	Northern Ireland	Rural	54	Mid Ulster	McGuinness, Martin (SF)	Magherafelt D
36	Hullbridge Road	CM3 5NG	Local	On-site	23/01/2012	England	Rural	119	Maldon	Whittingdale, John (Con)	Essex County
37	Sunnyside Road	M43 7GZ	Local	Off-site	22/02/2010	England	Urban	107	Ashton under Lyne	Heyes, David (Lab)	Tameside Me
38	Mossley	BT36 5PB	Local	On-site	08/12/2011	Northern Ireland	Urban	89	South Antrim	McCrea, William (DUP)	Newtownabb
39	Bridestowe	EX20 4EG	Local	Off-site	12/08/2009	England	Rural	38	Torridge and West Devon	Cox, Geoffrey (Con)	Devon County
40	Fivemiletown	BT75 0PW	Local	Off-site	14/01/2011	Northern Ireland	Rural	114.5	Fermanagh and South Tyrone	Gildernew, Michelle (SF)	Dungannon &
41	Ellenborough										

Consumer Focus

Draw · AutoShapes

Ready

16	Cambourne	CB23 6JX	Local	Off-site	12/01/2009	England	Rural	48.5	South Cambridgeshire	L
17	Ash	GU12 6LR	Local	On-site	28/11/2011	England	Urban	112	Surrey Heath	G
18	Bramley	RG26 5AQ	Local	On-site	07/11/2011	England	Rural	105	North East Hampshire	A
19	Bromham	MK43 8LD	Local	On-site	03/08/2012	England	Rural	112	North East Bedfordshire	E
20	Boxgrove	GU1 2PF	Local	On-site	24/08/2012	England	Urban	105	Guildford	M
21	Giffard Park	MK14 5QD	Local	On-site	30/01/2012	England	Urban	112	Milton Keynes North	L
22	East Preston	BN16 1HB	Local	On-site	14/09/2012	England	Urban	105	Worthing West	E
23	Hawkenbury	TN2 5AW	Local	On-site	12/10/2012	England	Urban	112	Tunbridge Wells	C
24	Adeyfield	HP2 4EP	Main	On-site	19/03/2012	England	Urban	58	Hemel Hempstead	F
25	Kingswood	WD25 0EL	Local	On-site	05/10/2012	England	Urban	119	Watford	H
26	Maple Cross	WD3 9RP	Local	On-site	11/11/2011	England	Rural	112	South West Hertfordshire	G
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29	Broadbridge Heath	RH12 3LW	Local	On-site	21/09/2012	England	Rural	112	Horsham	M

Shareholder Executive

HM Government