

PRIVATE AND CONFIDENTIAL

Report to the Board of Royal Mail Group

Board Governance Assessment 2009

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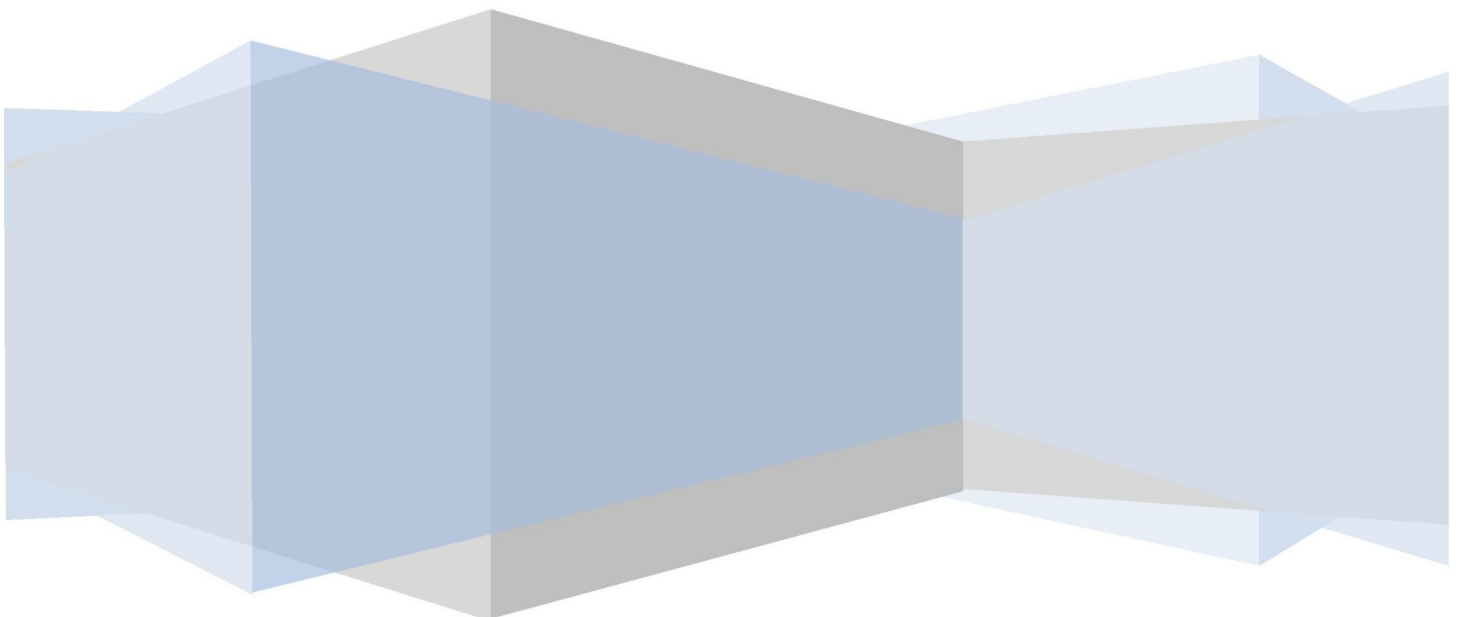


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Introduction and Summary

This report summarises responses to face to face interviews and a two part questionnaire on the operation and governance of the Royal Mail Board. All Board Directors were interviewed and all completed the questionnaire. The interviews were broad ranging and help to provide context for the questionnaire responses.

The questionnaire has 2 parts:

Part 1 comprises 11 distinct sections and a total of 72 questions on a 1-7 scale, where 1 indicates dissatisfaction and 7 indicates satisfaction. In addition, respondents are given the opportunity to write comments under each section.

Part 2 asks respondents to assess the level of Board engagement at Royal Mail for seven business activities, indicating both their rating for current engagement and desired engagement.

Here, we report on both the quantitative data from the scaled questions and the qualitative data from the written observations and interviews.

We show, where appropriate, the overall means for individual questions taken from the databank of a wider sample of Boards drawn mainly from the FTSE 100, but also including not-for-profit and privately owned enterprises based outside the UK. The databank therefore does not constitute a directly comparable or random sample, but is included for illustrative purposes and to show where there may be patterns in high and low scores on other Board surveys using similar questions

Appendix 1 shows questionnaire results by rank order. Appendix 2 shows wider databank means by rank order. Appendix 3 shows the gap between Royal Mail and the wider databank means. Appendix 4 shows bar chart comparisons of mean scores for the Board, Executive Directors, Non-Executive Directors and the wider databank.

Overall, the results show that Board members express satisfaction with various aspects of Board functioning and governance.

63% of questions in Part 1 are at and above the mean from the wider databank and 69% have a rating of 5.5 or above on a seven point scale.

Particular strengths are:

- Corporate governance (qs 16, 23, 48)
- Board mechanics (qs 1,6,7,8)
- Executive Directors representative of the business (q 28)
- Audit Committee (qs 55-60)

Interview data support these strengths but also indicate areas for improvement which include:

- Clarification of Royal Mail vision and goals
- Rebalancing of Board expertise and experience (see also qs 20,21,22)
- More strategic discussions (see also qs 14, 44)

Responses to Part 2 also indicate a Board which is insufficiently engaged in several priority areas – suggesting

- Increased attention to PS and POL strategy; innovation and new products; customer focus; people development; and governance

Finally comments in both questionnaire responses and interviews indicates a need to

- Tighten recruitment of NEDs according to governance good practice (q 17)

Analysis of Interview Responses

Introduction and background

Interviews were conducted face to face in London with all Board Directors. The purpose was to allow individuals to discuss issues free from the constraints of the questionnaire design; and, at the same time, to comment on key themes emerging from the pattern of questionnaire responses.

The interviews helped to provide a context for the questionnaire responses.

Many commented on the unique history and context of the RM Board – referencing the shareholder relationship; mix and scale of operations; demanding market conditions; technological change and so on. Combined with recent industrial relations issues and possible privatisation initiatives, Board members described a challenging context of considerable uncertainty and complexity.

In addition, the Board itself is in a period of transition. The Chairman and three NEDs joined during 2009 and another NED is arriving in 2010. Of four Executive Directors two have resigned in recent months – one of them, the CEO.

Members with longer experience draw a vivid picture of the Board as it developed after 2002 emphasising a CEO influenced NED profile; active involvement in strategy and operations; engagement with executives; and a clear “turnaround” imperative from operating loss into profit.

All Board members acknowledge that the context has changed over recent years – but that substantial business challenges remain. How, then, can the Board equip itself to actively shape its new agenda and meet these challenges?

Board strengths

The interviews confirm some of the more positive questionnaire responses.

They describe a Board which operates to generally high standards of corporate governance and which is supported by broadly well structured committees. The NEDs are appropriately independent. Chairman and CEO roles are sufficiently differentiated.

The basic mechanics of the Board (role and scope of Board; number of meetings; provision of information; access to advice etc) appear to operate well.

NEDs are seen to cover some important areas of competence relating to, for example, the shareholder relationship and industrial relations. NEDs express positive views of Executive Director capability. Board members describe a culture of respect within which all have the opportunity to contribute.

Areas for Improvement

In order to perform to its full potential and recognising the changing composition of the Board there are opportunities for improvement. There is clear recognition of the need for the Board to be proactive and to exhibit strong solidarity around objectives and priorities given its distinctive shareholder relationship.

The result is a sense of frustration which is experienced and reported in a variety of ways:

- Big strategic, commercial and operational issues are recognised and need further analysis and debate by the Board
- There is a continuous challenge to ensure fire fighting does not displace reflection on key issues
- The Board needs to reassess its priorities particularly after the General Election
- There was clear momentum towards a part-privatisation of Letters - what next?
- The Board needs to take care to focus and avoid being side tracked into detail
- Discussions require more focus
- Board papers do not match sophisticated analysis and detail with clear indication of strategic issues for discussion (in this sense the EDs are not helping the NEDs)
- Complexity of issues can encourage members to discuss apparently simpler (but often less important) issues
- Presentations are too lengthy and at the expense of debate
- EDs feel NEDs are supportive but are hungry for increasing challenge from NEDs
- Discussions do not involve enough members of the Board
- Too much time is spent educating NEDs; this limits time for discussion. A changing Board needs induction away from Board meetings as far as possible
- NED experience mix is in course of necessary adjustment to enable them to place Board papers in an operational context
- There needs to be increased clarity over decisions and points for action

Next steps

The issues identified above are interconnected not discrete; and the weight attached to each view varies by Board Member. But when asked to consider actions that might improve performance three major themes tend to emerge:

- Clarification and proactive communication of the RM Board “story” – its vision, goals, priorities etc
- Rebalancing of the Board to incorporate experience and expertise in vital areas (variously described as logistics, IT, operational change, retail, customer front line, CEO business focus etc)
- Tighter, more strategic focus for Board discussions (with associated implications for several issues: agenda; papers; discussion process/time management/conclusions; approval levels – i.e. what must go to Board etc)

Together with the more detailed observations emerging from Parts 1 and 2 of the questionnaire, these areas may be the start point for further Board discussion.

Analysis of Board Responses to Part 1 of the Questionnaire:

The Board

Role and Organisation

The mean score for this section comprising eight items is 5.7 out of a possible 7.

- 4 questions score strongly (qs 1,6,7,8) at 6 or above; and all are above the wider mean.
- but comments reflect differing views as to the number of meetings, individual contribution and focus.

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean NEDs</i>	<i>Mean EDs</i>	<i>Mean Databank</i>
1	The role and scope of the Board's authority is clearly defined.	-	-	-	1	1	3	5	6.2	6.0	6.5	6.0
2	The Board keeps under review whether its role should be changed in any way.	-	-	-	1	4	3	1	5.4	5.2	5.8	5.2
3	The Directors' experience is utilised.	-	1	-	1	5	1	2	5.1	5.3	4.8	5.1
4	The Board reviews its composition annually.	-	1	-	2	2	4	-	4.9	5.4	4.3	5.2
5	There are written defined expectations concerning Directors' responsibilities.	-	-	-	2	5	2	1	5.2	5.2	5.3	5.1
6	The number of meetings is sufficient.	-	-	-	2	1	2	5	6.0	6.2	5.8	6.0
7	The length of meetings is adequate.	-	-	-	1	-	4	5	6.3	6.3	6.3	6.0
8	The current Board committee structure is appropriate.	-	-	-	1	2	1	6	6.2	6.0	6.5	5.9

Comments from questionnaire

NED

3	Experience of customer focus and people skills could be added
6	There is a need for constant discipline to match time with effort
7	Planned reduction to 7 meetings pa is at the low end. Whilst length of meetings is fine there is a slight bias towards presentations versus discussion. Committee structures fine except unclear what has happened to the proposed industrial relations committee. Overall the board operates to a high standard and the new chairman has improved the effectiveness of meetings
8	There is a fine balance to be achieved, between adequate time and allowing too much time, for a board. Director's expertise is used, but they are also there to contribute on a wider spectrum, which does not always seem to happen.

ED

2	Still probably too many board meetings and some could be tighter / shorter.
5	Concerned that, with current authority levels, the reduction in the number of meetings from 10-7 may impact governance of major projects / initiatives.
9	Some directors make limited contributions, or only comment on their specialist areas of expertise

Agenda

The mean score for this section comprising eight items is 5.5 out of a possible 7.

- there are significant spreads on several questions
- 2 questions (qs 10,14) are some way below the wider means
- in the comments time spent on strategic issues is a common concern; views on POL performance vary

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
9	The agenda-setting process schedules issues in a timely fashion.	-	-	-	1	3	3	3	5.8	6.0	5.5	5.6
10	All Directors are able to influence the content of the agenda.	-	-	1	2	4	-	3	5.2	5.5	4.8	5.8
11	Agenda items focus on relevant issues.	-	-	-	1	3	3	3	5.8	6.2	5.3	5.7
12	The Board identifies issues for review on a regular basis.	-	-	-	1	3	4	2	5.7	5.7	5.8	5.5
13	Board meetings are productive and achieve their objectives.	-	-	1	1	2	4	2	5.5	6.0	4.8	5.6
14	Sufficient meeting time is devoted to strategic issues.	-	1	-	2	5	1	1	4.8	4.8	4.8	5.3
15	Sufficient meeting time is devoted to corporate performance	-	-	-	1	2	4	3	5.9	6.2	5.5	5.3
15a	Sufficient time is devoted to POL performance	-	-	1	2	3	3	1	5.1	5.3	4.8	-

Comments from questionnaire

NED

3	More time should be devoted to people issues
6	There is a constant need to ensure the urgent does not crowd out the important. There also needs to be more granularity about POL's operational performance.
7	Performance reporting is improving. This should enable the executive team to spend more time on strategic issues. POL executed the recent post office rationalisation with excellence. Strategy and execution going forward remain a concern.
8	Chairman's restructuring of the regular reporting has been a positive. It is very difficult to get the balance right between strategy and today. The very nature of the business and the stage of transformation, means that we have to adapt to whatever the key issue of the day is. However, all issues we are dealing with have an implication for the long term future
10	There are aspects of strategy that we do not consider well enough - notably regulation, where we take a rather narrow, non-strategic view of issues.

ED

2	Parts of board meetings are productive but many parts end up being informative for non-execs but less useful for execs due to the lack of insights/added value in return on some subjects.
5	Time spent on POL performance / issues much improved
9	Strategic debate is limited and at a superficial level

Corporate Governance

The mean score for this section comprising four items is 5.7 out of a possible 7.

- q 16 is particularly strong
- q 17 is below the wider mean
- q 19 elicits a mixed response
- positive comments are made about adjustments in the NED mix; others relate to the unique ownership structure of RM

	Question	1	2	3	4	5	6	7	Mean Board	Mean EDs	Mean NEDs	Mean Databank
16	The Board operates to high standards of corporate governance.	-	-	-	-	-	3	4	6.6	6.3	6.8	6.2
17	Non-Executive Directors are recruited according to corporate governance good practice.	-	-	-	2	2	2	1	5.3	5.3	5.3	6.1
18	Directors receive appropriate guidance in matters of corporate governance.	-	-	-	1	3	2	1	5.4	5.0	5.8	5.8
19	The balance of executive/non executive directors is appropriate	-	-	1	1	1	1	3	5.6	6.3	5.0	5.8

Comments from questionnaire

NED

1	There may be some difference in understanding of best practice between those from commercial and non-commercial backgrounds.
6	No problem here - inevitably some general corporate governance practice is made harder by who we are
7	Some short cuts on recent appointments.
8	We are in the process of recruiting some more NED's which will redress the balance. Our ownership structure means we have extra dimensions to deal with when recruiting new NED's.
10	My recruitment was to governance best practice.

ED

2	We have already identified the need for more non-execs with the right skills sets required for the company in the future.
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Non-Executive Directors

The mean score for this section comprising eight items is 5.2 out of a possible 7.

- the independence of the NEDs is strongly scored (q 23)
- q 20 is the lowest response of all questions and some way from the wider means
- qs 21 and 25 also score below 5
- again there are concerns about NED balance but also positive comments about steps taken to achieve a better balance; other comments suggest a positive basis for ED:NED relationships

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
20	Non-Executive Directors represent an appropriate mix of expertise and experience.	-	1	1	5	2	-	1	4.2	4.2	4.3	5.5
21	The recruitment criteria for Non-Executive Directors ensure a balanced Board.	-	1	1	1	5	-	2	4.8	5.0	4.5	5.4
22	Non-Executive Directors have appropriate knowledge of the Group and the issues it faces.	-	-	-	2	5	1	2	5.3	5.5	5.0	5.4
23	Non-Executive Directors are sufficiently independent of executive management.	-	-	-	-	2	2	6	6.4	6.2	6.8	6.4
24	Non-Executive Directors have enough opportunities to meet without the Executive Directors.	-	-	-	3	3	1	3	5.4	5.5	5.3	5.4
25	Non-Executive Directors have adequate knowledge of key executives below the Board.	-	-	1	3	4	1	1	4.8	5.2	4.3	4.7
26	Non-Executive Directors have adequate opportunity to meet with key executives below the Board.	-	-	1	2	4	1	2	5.1	5.3	4.8	4.7
27	Non-Executive Directors are offered the opportunity to undertake additional training.	-	-	-	2	3	2	2	5.4	5.8	4.7	5.0

Comments from questionnaire

NED

3	recruitment of NEDs does not bring about diversity of background or experience
6	Generally good constructive relationship
7	With fewer board meetings it will be desirable for non exec's to spend more time in the business. We should consider whether this should occur on an individual basis or whether it would be desirable to have a managed program. This would increase exposure to the organisation below board level too.
8	The current recruitment process will achieve a better balance of relevant experience and expertise. The style of the organisation is such that the Executives are very open to involvement with the NED's and their views are actively sought and welcomed.
10	The current Board does not have the right mix of expertise amongst its non-execs, but the Chairman has put in place a process for correcting this

ED

2	NED capability is mixed
4	A relatively new group with developing knowledge
9	Need more non-execs with wide enough experience to contribute across a variety of subjects. Need more ex CEO types

Executive Directors

The mean score for this section comprising four items is 5.9 out of a possible 7.

- q 28 is particularly strong
- most responses are positive and above the means
- comments are also positive

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
28	The Executive Directors as a group are representative of the business.	-	-	-	-	1	5	4	6.3	6.3	6.3	5.9
29	The Executive Directors work well as an Executive Team.	-	-	-	1	4	3	2	5.6	5.5	5.8	5.8
30	The Executive Directors are a balanced team of management expertise and experience.	-	-	-	-	3	6	1	5.8	5.7	6.0	5.7
31	The Board has sufficient opportunity and information to evaluate the performance of the Executive Directors.	-	-	-	-	3	4	2	5.9	5.8	6.0	5.5

Comments from questionnaire

NED

1	The executives are individually of the highest quality. The team dynamics appear open and respectful of each other's roles. I would welcome more cross functional input from executives at Board meetings outside their direct areas of responsibility.
6	Good team but would like POL to be a more cohesive part of the Group
8	The team are a good mix, with the obvious shortcoming of no HR director.

ED

2	Difficult sometimes for non-execs to fully evaluate executive performance from board meetings, however some of the non-execs have taken great care and effort to get to know the business and the key people and are able , to form good solid judgements on individuals.
5	The forthcoming NED appointment will be helpful in the light of POL's financial services aspirations.

Information

The mean score for this section comprising nine items is 6.0 out of a possible 7.

- another solid set of scores – particularly qs 32, 38, 39
- comments are also positive but several say that there is a requirements for greater structure focus in order to address key questions in high quality discussion

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
32	The quality of information provided to the Board and its Committees is appropriate	-	-	-	1	1	5	3	6.0	5.7	6.5	5.9
33	The quantity of information provided to the Board and its Committees is appropriate.	-	-	-	2	3	2	3	5.6	5.2	6.3	5.9
34	Additional information required is fully and promptly made available.	-	-	-	1	2	4	3	5.9	5.8	6.0	6.1
35	Presentations to the Board are of a high standard.	-	-	-	-	3	4	3	6.0	6.0	6.0	5.8
36	Directors receive appropriate education on issues facing the Group.	-	-	-	-	4	3	3	5.9	6.0	5.8	5.3
37	The induction process provides adequate information for new Directors to understand the Company and their role.	-	-	-	-	4	3	3	5.9	6.0	5.8	5.2
38	The Board has appropriate access to external advice	-	-	-	-	1	4	5	6.4	6.3	6.5	5.9
39	Non-committee members are appropriately informed about the business of Board committees.	-	-	-	1	1	3	4	6.1	6.0	6.3	5.6

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40	The papers for each Board and Committee meeting are provided sufficiently in advance of the meeting.	-	-	-	2	1	3	4	5.9	5.8	6.0	5.4
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Comments from questionnaire

NED

1	Excellent Board and Committee administration and backup. Consistently high quality and supportive.
6	Constant battle to get to the main points through a lot of detail.
7	Generally papers are provided on time. The unfortunate exception was for the strategy away-days.
8	The quality of information has improved over the last few years, (dramatically) The quality of support papers is excellent, but the structure of papers some times requires you to go through a very long an detailed paper to get to the key issue. I do not mean that we do not need the detail; it is the timing and structure of information provision that may need reviewing.
10	The paperwork for Board meetings is of a good standard. However, there is not always clarity as to the key questions that the Board is being asked to answer. And far too much time in Board meetings is spent on going through pre-circulated papers and presentations, rather than taking papers as read and providing a tight, brief overview that sets up the discussion and leaves plenty of time for Board discussion. This inhibits effective Board engagement. That was particularly marked at the Startegy awayday when much of the time was absorbed with the executive talking to the non-execs, despite a substantial and high quality briefing pack.

ED

2	We go to great lengths in a fast changing business/ environment to ensure that the board are rarely surprised (if ever)and that they have all the relevant information.....if anything I think there are times where they perhaps get far too many papers and we need to do more to ensure they are more concise.
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Monitoring Group Performance

The mean score for this section comprising six items is 5.5 out of a possible 7.

- responses related to objectives, performance and monitoring are broadly positive
- board contribution to strategy (q 44) and communication with shareholder do less well
- comments are mixed with differing views about measures, oversight and shareholder communication

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
41	The Board has agreed appropriate and rigorous company performance objectives	-	-	-	-	3	5	2	5.9	5.7	6.3	5.6
42	The Board has robust procedures for monitoring corporate performance (operational and financial).	-	-	-	-	2	7	1	5.9	5.8	6.0	5.6
43	The Board monitors business development effectively.	-	-	-	2	4	3	1	5.3	5.2	5.5	5.3
44	The Board contributes effectively to the Group's strategic direction.	-	1	-	-	6	1	2	5.2	5.5	4.8	5.6
45	The Board is able to identify potential problems in the Group's performance.	-	-	-	1	3	4	2	5.7	5.8	5.5	5.4
46	The Board communicates effectively with the shareholder	-	-	1	1	4	3	-	5.0	5.4	4.5	5.5

Comments from questionnaire**NED**

1	Operating KPI's appear broad and deep (possibly too many at Board level). Financial performance KPI's focus too heavily at the sales/costs/operating level, and not enough at the financial sustainability of the company.
6	The plan provides a sound basis for performance management.
7	Are goals sufficiently stretching? Perhaps there is a need to raise the profile of financial services for monitoring in the Post Office Strategy development is an evolutionary process, more discussion and debate would add more value. The board has less visibility of shareholder communications and feedback than would be the case in a quoted company.
8	The provision of performance objectives and monitoring is now well established. The shareholder is fully briefed about performance.
10	It is difficult to be sure that the Board is effectively overseeing these key aspects of the business, given its scale. The Board itself does not communicate with the shareholder, that resting with the Chairman, Chief Executive and SID.

ED

2	Communication with the shareholder is not straightforward - on the face of it we have one shareholder but in practice different parts of government will often have conflicting objectives. Most high level contact is , therefore , done by the Chairman/CEO
9	Board concentrates more on performance than on strategic direction. Shareholder communication often lacks coordination and tends towards interaction at too low a level within Government. The Board receive comprehensive financial and operational performance information.

Board Leadership and Culture

The mean score for this section comprising eight items is 5.8 out of a possible 7.

- scores are broadly positive and comparable to the wider means
- q 54 is the weakest but on a par with boards elsewhere
- comments are positive but suggest there is scope to improve quality of discussion

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
47	The Board receives effective leadership.	-	-	-	-	2	6	2	6.0	6.0	6.0	6.0
48	The roles of Chairman and Chief Executive are clearly differentiated at the company.	-	-	-	-	-	2	8	6.8	6.8	6.8	6.4
49	Board meetings are managed efficiently.	-	-	-	-	2	6	2	6.0	6.0	6.0	6.0
50	The Board operates constructively as a team.	-	1	-	-	3	3	3	5.6	6.0	5.0	5.7
51	The Chairman and the Group Chief Executive have created a culture in which all Directors can participate fully.	-	-	-	1	2	3	4	6.0	6.2	5.8	5.9
52	Board discussions are a free and open exchange of views.	-	-	1	1	1	5	2	5.6	5.7	5.5	6.0
53	There is a constructive relationship between Non-Executive Directors and Executive Directors.	-	1	-	-	1	5	3	5.8	6.3	5.0	6.0
54	There is sufficient consideration given to succession planning of Board members.	-	1	-	1	6	1	1	4.9	5.2	4.5	5.0

Comments from questionnaire

NED

1	Directors feel able to and do contribute freely to debate. The Chairman and CEO both encourage this and allow any voice to be heard. The CEO takes constructive criticism well and is not at all defensive.
3	Succession planning should be more long term.
6	Nice and open
8	There is a learning curve being scaled and peak performance has not yet been achieved. The degree to which board meetings are a free and frank exchange of views is as much down to the willingness of the NEDs to contribute, both on their subject and outside their comfort zone.
10	I think the Board works reasonably on these dimensions but could be a lot better.

ED

2	Although the opportunity is there for interaction it is sometimes too much of a one way conversation.
9	There are no bars to directors' contributions. However, debates are limited and several of the Directors seldom contribute.

Audit Committee

The mean score for this section comprising six items is 6.2 out of a possible 7.

- scores are very positive (all exceed the wider means)
- most comments are also positive

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
55	The Committee receives effective leadership.	-	-	-	-	1	5	2	6.1	6.0	6.3	5.9
56	The role, scope and authority of the Committee are clearly defined.	-	-	-	-	1	5	4	6.3	6.3	6.3	6.2
57	The composition of the Committee is appropriate with the right level of experience and expertise.	-	-	-	1	2	4	3	5.9	5.5	6.5	5.8
58	There are sufficient meetings of the Committee.	-	-	-	-	1	5	4	6.3	6.2	6.5	6.1
59	The Committee meetings are managed effectively.	-	-	-	-	1	5	2	6.1	6.0	6.3	5.9
60	The Committee is provided with adequate resources to perform its function effectively.	-	-	-	-	-	5	4	6.4	6.5	6.3	6.1

Comments from questionnaire

NED

6	Well run
7	New appointment. Too early to assess. The meeting to review the regulatory accounts was brief and not attended by the external

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	auditor
8	Certain that new Chairman he will do an excellent job. My sense is that it needs some strengthening on the commercial front.
10	My general sense is of a well-run committee.

ED

2	The audit committee was very effectively run by previous Chairman and new Chair has made an excellent start
5	My perception is that it does operate very effectively.
9	The Audit Committee is a high point of overall Board effectiveness

Nomination Committee

The mean score for this section comprising six items is 5.9 out of a possible 7.

- broadly positive scores
- some comments suggest that professional HR expertise is missing

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
61	The Committee receives effective leadership.	-	-	-	-	2	4	3	6.1	6.0	6.3	5.7
62	The role, scope and authority of the Committee are clearly defined.	-	-	-	1	2	2	4	6.0	6.2	5.8	6.0
63	The composition of the Committee is appropriate with the right level of experience and expertise.	-	-	-	1	4	2	2	5.6	5.6	5.5	5.9
64	There are sufficient meetings of the Committee.	-	-	-	-	2	2	4	6.3	6.4	6.0	5.8
65	The Committee meetings are managed effectively.	-	-	-	1	3	3	1	5.5	6.0	4.7	5.6
66	The Committee is provided with adequate resources to perform its function effectively.	-	-	-	1	2	3	2	5.8	6.2	5.0	5.9

Comments from questionnaire

NED

3	Would benefit from permanent HR director. Would help with more strategic overview.
6	Needed only as and when; needs discipline not to stray into executive management role from time to time
8	The committee has been changed recently, and we need to let it run for a bit to see how it works going forward. The ownership structure of the business means we have to be

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	very diligent on following procedure; otherwise we can fall foul of the law. We need an HR professional on this committee.
--	--

ED

9	Recent vast improvements on scope and leadership. Light on big company HR experience
---	--

Remuneration Committee

The mean score for this section comprising six items is 5.5 out of a possible 7.

- there are fewer responses here
- some critical comments are made concerning shareholder influence

	<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>	<i>Mean Databank</i>
67	The Committee receives effective leadership.	-	-	1	-	2	3	-	5.2	5.7	4.7	5.6
68	The role, scope and authority of the Committee are clearly defined.	-	-	-	1	1	3	3	6.0	6.0	6.0	6.1
69	The composition of the Committee is appropriate with the right level of experience and expertise.	-	-	1	-	5	1	1	5.1	5.0	5.3	5.9
70	There are sufficient meetings of the Committee.	-	-	-	-	1	4	3	6.3	6.0	6.5	6.0
71	The Committee meetings are managed effectively.	-	-	1	-	2	3	-	5.2	5.7	4.7	5.6
72	The Committee is provided with adequate resources to perform its function effectively.	-	-	1	-	2	3	1	5.4	5.8	5.0	5.7

Comments from questionnaire

NED

6	Tough task fairly done
7	The use of independent consultants in developing the LTIP is a positive move. The interface with Government creates an unsatisfactory environment for effective remuneration policy.
8	We could do with strengthening our Rems and Bens knowledge

ED

2	The Committee is really well led under the most difficult of circumstances given the issues our shareholder has with the need to ensure that we pay appropriately in order to have access to the right people from a recruitment and retention point of view.
9	The executives are put under too much pressure to make personal accommodations to satisfy Governments agenda

Analysis of Board Responses to Part 2 of the Questionnaire:

Board Priority Tasks

- there are substantial spreads in most response sets for both current and desired engagement
- there are relatively big gaps – on average – between current and desired engagement of the board in all areas with the exception of industrial relations
- the largest gap relates to innovation and new products

<i>Question</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>Mean Board</i>	<i>Mean EDs</i>	<i>Mean NEDs</i>
<u>Strategy for Postal Services (incl Parcels):</u>	-	-	3	2	4	1	-	4.3	4.7	3.8
Current Engagement	-	-	3	2	4	1	-	4.3	4.7	3.8
Desired Engagement	-	-	1	1	-	5	3	5.8	5.3	6.5
<u>Strategy for POL:</u>	-	-	2	4	4	-	-	4.2	4.2	4.3
Current Engagement	-	-	2	4	4	-	-	4.2	4.2	4.3
Desired Engagement	-	-	1	2	1	3	3	5.5	5.0	6.3
<u>Innovation & New Products:</u>	-	-	5	2	2	-	-	3.7	3.6	3.8
Current Engagement	-	-	5	2	2	-	-	3.7	3.6	3.8
Desired Engagement	-	-	-	2	2	3	2	5.6	5.8	5.3
<u>Customer Focus:</u>	-	1	4	3	1	1	-	3.7	4.0	3.3
Current Engagement	-	1	4	3	1	1	-	3.7	4.0	3.3
Desired Engagement	-	-	1	2	3	2	2	5.2	5.3	5.0
<u>Industrial Relations:</u>	-	-	3	1	3	1	2	4.8	4.8	4.8
Current Engagement	-	-	3	1	3	1	2	4.8	4.8	4.8
Desired Engagement	-	-	1	2	4	-	3	5.2	5.3	5.0
<u>People Development:</u>	1	-	3	1	5	-	-	3.9	4.0	3.8
Current Engagement	1	-	3	1	5	-	-	3.9	4.0	3.8
Desired Engagement	-	-	1	1	5	2	1	5.1	5.2	5.0
<u>Governance Relationship:</u>	-	1	1	7	-	1	-	3.9	3.8	4.0
Current Engagement	-	1	1	7	-	1	-	3.9	3.8	4.0
Desired Engagement	-	1	-	3	2	2	2	5.0	5.3	4.5

Appendices

Appendix 1

Questionnaire results by rank order of means

	<i>Question</i>	<i>Mean Board</i>
48	The roles of Chairman and Chief Executive are clearly differentiated at the company.	6.8
16	The Board operates to high standards of corporate governance.	6.5
60	The Audit Committee is provided with adequate resources to perform its function effectively.	6.4
23	Non-Executive Directors are sufficiently independent of executive management.	6.4
38	The Board has appropriate access to external advice.	6.4
7	The length of meetings is adequate	6.3
28	The Executive Directors as a group are representative of the business.	6.3
56	The role, scope and authority of the Audit Committee are clearly defined.	6.3
58	There are sufficient meetings of the Audit Committee.	6.3
64	There are sufficient meetings of the Nomination Committee.	6.3
70	There are sufficient meetings of the Remuneration Committee.	6.3
1	The role and scope of the Board's authority is clearly defined.	6.2
8	The current Board committee structure is appropriate	6.2
55	The Audit Committee receives effective leadership.	6.1
59	The Audit Committee meetings are managed effectively.	6.1
39	Non-committee members are appropriately informed about the business of Board committees.	6.1
61	The Nomination Committee receives effective leadership.	6.1
6	The number of meetings is sufficient	6.0
32	The quality of information provided to the Board and its Committees is appropriate	6.0
35	Presentations to the Board are of a high standard.	6.0
47	The Board receives effective leadership.	6.0
49	Board meetings are managed efficiently.	6.0
51	The Chairman and the Group Chief Executive have created a culture in which all Directors can participate fully.	6.0
62	The role, scope and authority of the Nomination Committee are clearly defined.	6.0
68	The role, scope and authority of the Remuneration Committee are clearly defined.	6.0
15	Sufficient meeting time is devoted to corporate performance	5.9
34	Additional information required is fully and promptly made available.	5.9
36	Directors receive appropriate education on issues facing the Group.	5.9
37	The induction process provides adequate information for new Directors to understand the Company and their role.	5.9
40	The papers for each Board and Committee meeting are provided sufficiently in advance of the meeting.	5.9
41	The Board has agreed appropriate and rigorous company performance objectives	5.9
42	The Board has robust procedures for monitoring corporate performance (operational and financial).	5.9
57	The composition of the Audit Committee is appropriate with the right level of experience and expertise.	5.9
31	The Board has sufficient opportunity and information to evaluate the performance of the Executive Directors.	5.9
9	The agenda-setting process schedules issues in a timely fashion.	5.8

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11	Agenda items focus on relevant issues.	5.8
30	The Executive Directors are a balanced team of management expertise and experience.	5.8
53	There is a constructive relationship between Non-Executive Directors and Executive Directors.	5.8
66	The Nomination Committee is provided with adequate resources to perform its function effectively.	5.8
12	The Board identifies issues for review on a regular basis.	5.7
18	Directors receive appropriate guidance in matters of corporate governance.	5.7
45	The Board is able to identify potential problems in the Group's performance.	5.7
19	The balance of executive/non executive directors is appropriate	5.6
29	The Executive Directors work well as an Executive Team.	5.6
33	The quantity of information provided to the Board and its Committees is appropriate.	5.6
50	The Board operates constructively as a team.	5.6
52	Board discussions are a free and open exchange of views.	5.6
63	The composition of the Nomination Committee is appropriate with the right level of experience and expertise.	5.6
13	Board meetings are productive and achieve their objectives.	5.5
65	The Nomination Committee meetings are managed effectively.	5.5
2	The Board keeps under review whether its role should be changed in any way.	5.4
27	Non-Executive Directors are offered the opportunity to undertake additional training.	5.4
72	The Remuneration Committee is provided with adequate resources to perform its function effectively.	5.4
24	Non-Executive Directors have enough opportunities to meet without the Executive Directors.	5.4
22	Non-Executive Directors have appropriate knowledge of the Group and the issues it faces	5.3
43	The Board monitors business development effectively.	5.3
5	There are written defined expectations concerning Directors' responsibilities.	5.2
10	All Directors are able to influence the content of the agenda.	5.2
44	The Board contributes effectively to the Group's strategic direction.	5.2
67	The Remuneration Committee receives effective leadership.	5.2
71	The Remuneration Committee meetings are managed effectively.	5.2
69	The composition of the Remuneration Committee is appropriate with the right level of experience and expertise.	5.1
17	Non-Executive Directors are recruited according to corporate governance good practice.	5.1
3	The Directors' experience is utilised.	5.1
15a	Sufficient time is devoted to POL performance	5.1
26	Non-Executive Directors have adequate opportunity to meet with key executives below the Board.	5.1
46	The Board communicates effectively with the shareholder.	5.0
54	There is sufficient consideration given to succession planning of Board members.	4.9
4	The Board reviews its composition annually	4.9
14	Sufficient meeting time is devoted to strategic issues.	4.8
21	The recruitment criteria for Non-Executive Directors ensure a balanced Board.	4.8
25	Non-Executive Directors have adequate knowledge of key executives below the Board.	4.8
20	Non-Executive Directors represent an appropriate mix of expertise and experience.	4.2

Appendix 2

Wider databank scores by rank order of means

	<i>Question</i>	<i>Wider Data Mean Board</i>
23	Non-Executive Directors are sufficiently independent of executive management.	6.4
48	The roles of Chairman and Chief Executive are clearly differentiated at the company.	6.4
16	The Board operates to high standards of corporate governance.	6.2
56	The role, scope and authority of the Audit Committee are clearly defined.	6.2
17	Non-Executive Directors are recruited according to corporate governance good practice.	6.1
34	Additional information required is fully and promptly made available.	6.1
58	There are sufficient meetings of the Audit Committee.	6.1
60	The Audit Committee is provided with adequate resources to perform its function effectively.	6.1
68	The role, scope and authority of the Remuneration Committee are clearly defined.	6.1
1	The role and scope of the Board's authority is clearly defined.	6.0
6	The number of meetings is sufficient	6.0
7	The length of meetings is adequate	6.0
47	The Board receives effective leadership.	6.0
49	Board meetings are managed efficiently.	6.0
52	Board discussions are a free and open exchange of views.	6.0
53	There is a constructive relationship between Non-Executive Directors and Executive Directors.	6.0
62	The role, scope and authority of the Nomination Committee are clearly defined.	6.0
70	There are sufficient meetings of the Remuneration Committee.	6.0
8	The current Board committee structure is appropriate	5.9
28	The Executive Directors as a group are representative of the business.	5.9
32	The quality of information provided to the Board and its Committees is appropriate	5.9
33	The quantity of information provided to the Board and its Committees is appropriate.	5.9
38	The Board has appropriate access to external advice.	5.9
51	The Chairman and the Group Chief Executive have created a culture in which all Directors can participate fully.	5.9
55	The Audit Committee receives effective leadership.	5.9
59	The Audit Committee meetings are managed effectively.	5.9
63	The composition of the Nomination Committee is appropriate with the right level of experience and expertise.	5.9
66	The Nomination Committee is provided with adequate resources to perform its function effectively.	5.9
69	The composition of the Remuneration Committee is appropriate with the right level of experience and expertise.	5.9
10	All Directors are able to influence the content of the agenda.	5.8
18	Directors receive appropriate guidance in matters of corporate governance.	5.8
19	The balance of executive/non executive directors is appropriate	5.8
29	The Executive Directors work well as an Executive Team.	5.8

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35	Presentations to the Board are of a high standard.	5.8
57	The composition of the Audit Committee is appropriate with the right level of experience and expertise.	5.8
64	There are sufficient meetings of the Nomination Committee.	5.8
11	Agenda items focus on relevant issues.	5.7
30	The Executive Directors are a balanced team of management expertise and experience.	5.7
50	The Board operates constructively as a team.	5.7
61	The Nomination Committee receives effective leadership.	5.7
72	The Remuneration Committee is provided with adequate resources to perform its function effectively.	5.7
9	The agenda-setting process schedules issues in a timely fashion.	5.6
13	Board meetings are productive and achieve their objectives.	5.6
39	Non-committee members are appropriately informed about the business of Board committees.	5.6
41	The Board has agreed appropriate and rigorous company performance objectives	5.6
42	The Board has robust procedures for monitoring corporate performance (operational and financial).	5.6
44	The Board contributes effectively to the Group's strategic direction.	5.6
65	The Nomination Committee meetings are managed effectively.	5.6
67	The Remuneration Committee receives effective leadership.	5.6
71	The Remuneration Committee meetings are managed effectively.	5.6
12	The Board identifies issues for review on a regular basis.	5.5
20	Non-Executive Directors represent an appropriate mix of expertise and experience.	5.5
31	The Board has sufficient opportunity and information to evaluate the performance of the Executive Directors.	5.5
46	The Board communicates effectively with the shareholder.	5.5
21	The recruitment criteria for Non-Executive Directors ensure a balanced Board.	5.4
22	Non-Executive Directors have appropriate knowledge of the Group and the issues it faces	5.4
24	Non-Executive Directors have enough opportunities to meet without the Executive Directors.	5.4
40	The papers for each Board and Committee meeting are provided sufficiently in advance of the meeting.	5.4
45	The Board is able to identify potential problems in the Group's performance.	5.4
14	Sufficient meeting time is devoted to strategic issues.	5.3
15	Sufficient meeting time is devoted to corporate performance	5.3
36	Directors receive appropriate education on issues facing the Group.	5.3
43	The Board monitors business development effectively.	5.3
2	The Board keeps under review whether its role should be changed in any way.	5.2
4	The Board reviews its composition annually	5.2
37	The induction process provides adequate information for new Directors to understand the Company and their role.	5.2
3	The Directors' experience is utilised.	5.1
5	There are written defined expectations concerning Directors' responsibilities.	5.1
27	Non-Executive Directors are offered the opportunity to undertake additional training.	5.0
54	There is sufficient consideration given to succession planning of Board members.	5.0
25	Non-Executive Directors have adequate knowledge of key executives below the Board.	4.7
26	Non-Executive Directors have adequate opportunity to meet with key executives below the Board.	4.7
15a	Sufficient time is devoted to POL performance	-

Appendix 3

Questionnaire results by gap between Board data and wider databank means

	<i>Question</i>	<i>Gap</i>
37	The induction process provides adequate information for new Directors to understand the Company and their role.	0.7
15	Sufficient meeting time is devoted to corporate performance	0.6
36	Directors receive appropriate education on issues facing the Group.	0.6
39	Non-committee members are appropriately informed about the business of Board committees.	0.5
38	The Board has appropriate access to external advice.	0.5
40	The papers for each Board and Committee meeting are provided sufficiently in advance of the meeting.	0.5
64	There are sufficient meetings of the Nomination Committee.	0.5
27	Non-Executive Directors are offered the opportunity to undertake additional training.	0.4
61	The Nomination Committee receives effective leadership.	0.4
26	Non-Executive Directors have adequate opportunity to meet with key executives below the Board.	0.4
28	The Executive Directors as a group are representative of the business.	0.4
48	The roles of Chairman and Chief Executive are clearly differentiated at the company.	0.4
31	The Board has sufficient opportunity and information to evaluate the performance of the Executive Directors.	0.4
60	The Audit Committee is provided with adequate resources to perform its function effectively.	0.3
41	The Board has agreed appropriate and rigorous company performance objectives	0.3
42	The Board has robust procedures for monitoring corporate performance (operational and financial).	0.3
7	The length of meetings is adequate	0.3
8	The current Board committee structure is appropriate	0.3
16	The Board operates to high standards of corporate governance.	0.3
45	The Board is able to identify potential problems in the Group's performance.	0.3
70	There are sufficient meetings of the Remuneration Committee.	0.3
2	The Board keeps under review whether its role should be changed in any way.	0.2
55	The Audit Committee receives effective leadership.	0.2
59	The Audit Committee meetings are managed effectively.	0.2
1	The role and scope of the Board's authority is clearly defined.	0.2
9	The agenda-setting process schedules issues in a timely fashion.	0.2
12	The Board identifies issues for review on a regular basis.	0.2
35	Presentations to the Board are of a high standard.	0.2
58	There are sufficient meetings of the Audit Committee.	0.2
5	There are written defined expectations concerning Directors' responsibilities.	0.1
57	The composition of the Audit Committee is appropriate with the right level of experience and expertise.	0.1

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11	Agenda items focus on relevant issues.	0.1
25	Non-Executive Directors have adequate knowledge of key executives below the Board.	0.1
30	The Executive Directors are a balanced team of management expertise and experience.	0.1
32	The quality of information provided to the Board and its Committees is appropriate	0.1
51	The Chairman and the Group Chief Executive have created a culture in which all Directors can participate fully.	0.1
56	The role, scope and authority of the Audit Committee are clearly defined.	0.1
3	The Directors' experience is utilised.	0.0
6	The number of meetings is sufficient	0.0
23	Non-Executive Directors are sufficiently independent of executive management.	0.0
24	Non-Executive Directors have enough opportunities to meet without the Executive Directors.	0.0
43	The Board monitors business development effectively.	0.0
47	The Board receives effective leadership.	0.0
49	Board meetings are managed efficiently.	0.0
62	The role, scope and authority of the Nomination Committee are clearly defined.	0.0
13	Board meetings are productive and achieve their objectives.	-0.1
18	Directors receive appropriate guidance in matters of corporate governance.	-0.1
54	There is sufficient consideration given to succession planning of Board members.	-0.1
65	The Nomination Committee meetings are managed effectively.	-0.1
68	The role, scope and authority of the Remuneration Committee are clearly defined.	-0.1
22	Non-Executive Directors have appropriate knowledge of the Group and the issues it faces	-0.1
50	The Board operates constructively as a team.	-0.1
66	The Nomination Committee is provided with adequate resources to perform its function effectively.	-0.2
34	Additional information required is fully and promptly made available.	-0.2
19	The balance of executive/non executive directors is appropriate	-0.2
29	The Executive Directors work well as an Executive Team.	-0.2
53	There is a constructive relationship between Non-Executive Directors and Executive Directors.	-0.2
72	The Remuneration Committee is provided with adequate resources to perform its function effectively.	-0.3
33	The quantity of information provided to the Board and its Committees is appropriate.	-0.3
4	The Board reviews its composition annually	-0.3
63	The composition of the Nomination Committee is appropriate with the right level of experience and expertise.	-0.3
44	The Board contributes effectively to the Group's strategic direction.	-0.4
52	Board discussions are a free and open exchange of views.	-0.4
67	The Remuneration Committee receives effective leadership.	-0.4
71	The Remuneration Committee meetings are managed effectively.	-0.4
14	Sufficient meeting time is devoted to strategic issues.	-0.5
46	The Board communicates effectively with the shareholder.	-0.5
10	All Directors are able to influence the content of the agenda.	-0.6
21	The recruitment criteria for Non-Executive Directors ensure a balanced Board.	-0.6
69	The composition of the Remuneration Committee is appropriate with the right level of experience and expertise.	-0.8
17	Non-Executive Directors are recruited according to corporate governance good practice.	-1.0
20	Non-Executive Directors represent an appropriate mix of expertise and experience.	-1.3

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15a	Sufficient time is devoted to POL performance	-
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Appendix 4

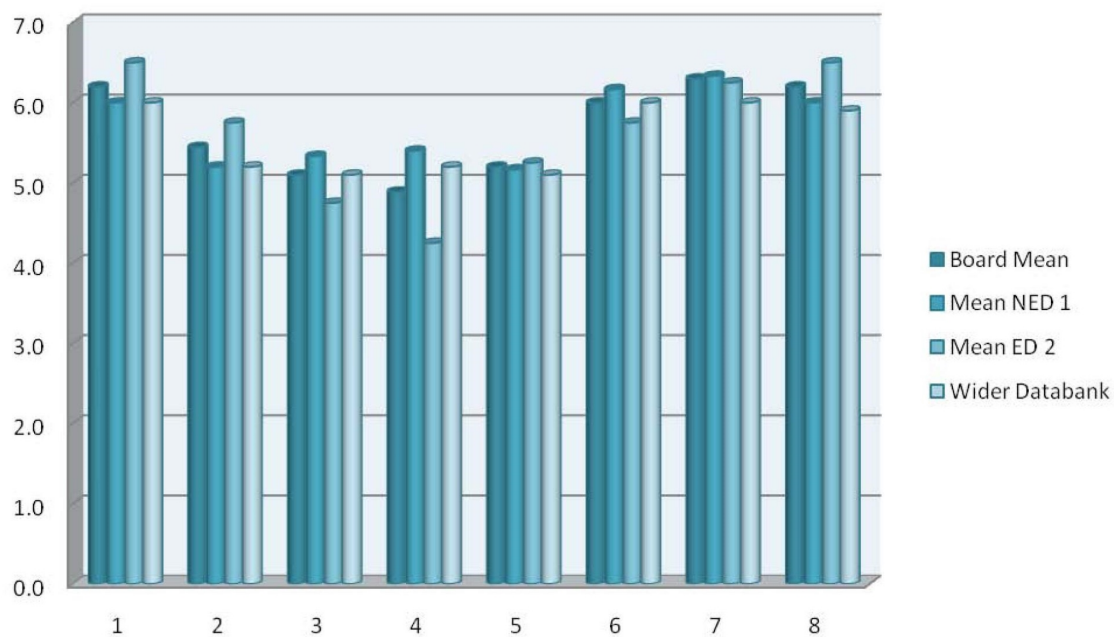
Table showing frequency of numbers rated per respondent

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2	-	-	-	-	-	-	1	-	8	-
3	-	2	1	-	-	1	2	-	8	1
4	5	8	4	3	5	9	12	-	11	8
5	21	21	28	7	9	32	22	3	11	30
6	37	39	21	14	6	30	36	11	9	27
7	10	3	4	47	43	-	-	49	26	7

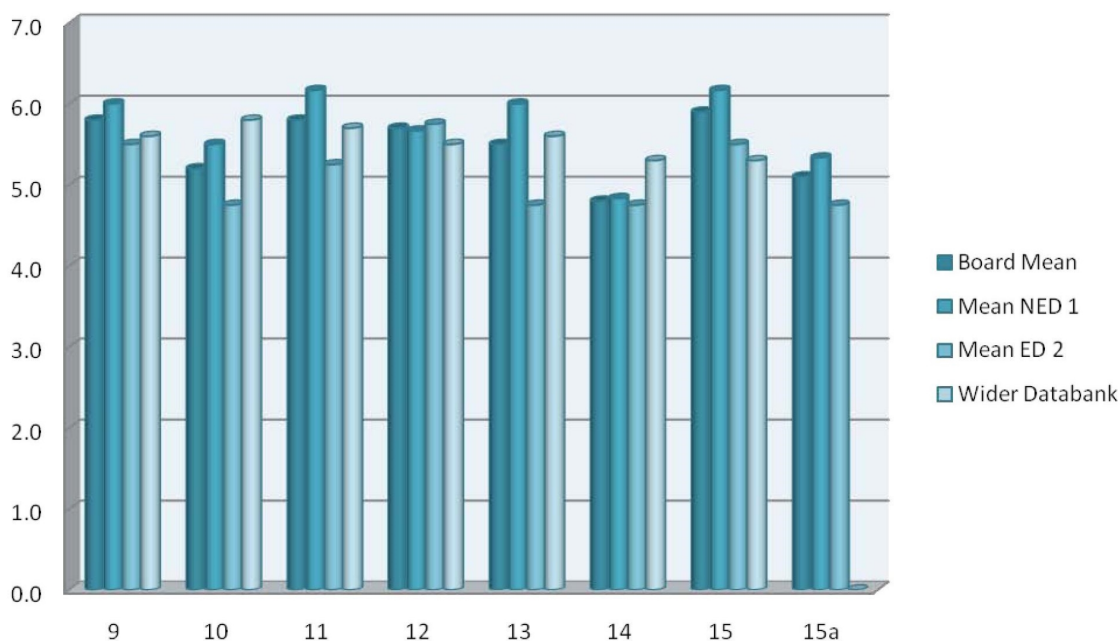
Appendix 5

**Bar chart comparison between mean scores of Board, Executive Directors, Non-Executive Directors
and wider
databank**

Role and Organisation

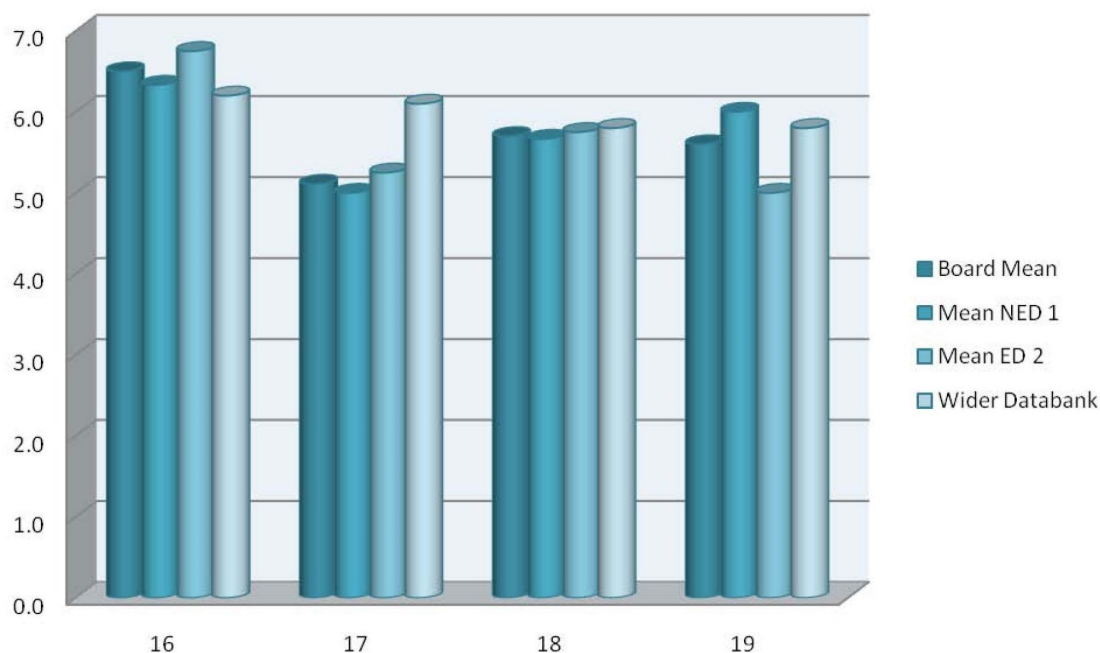


Agenda

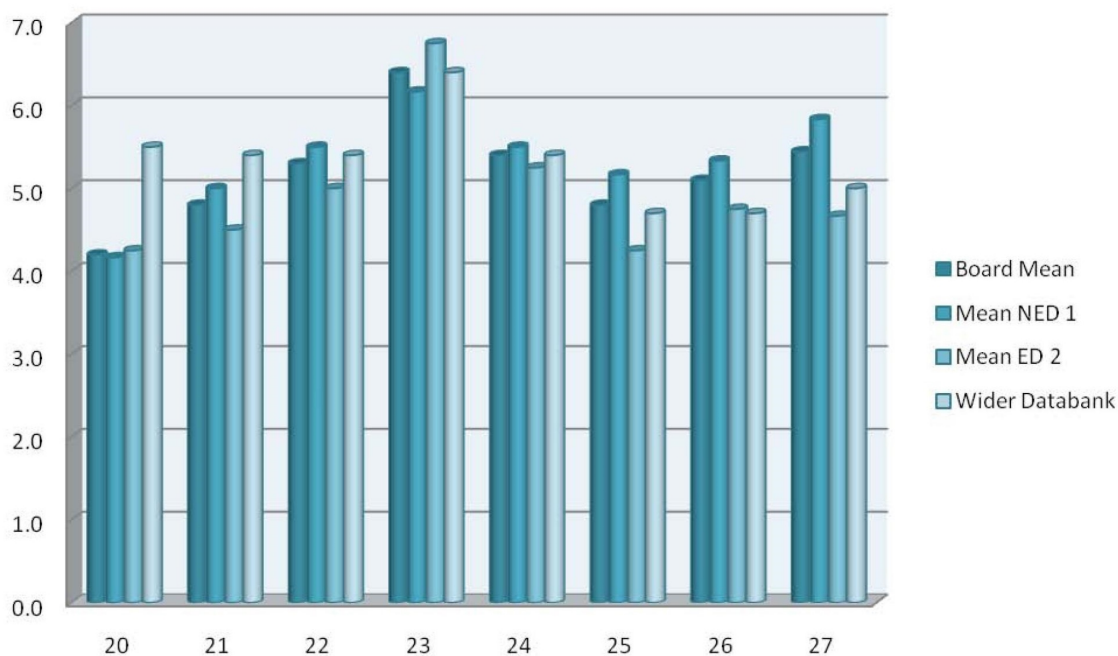


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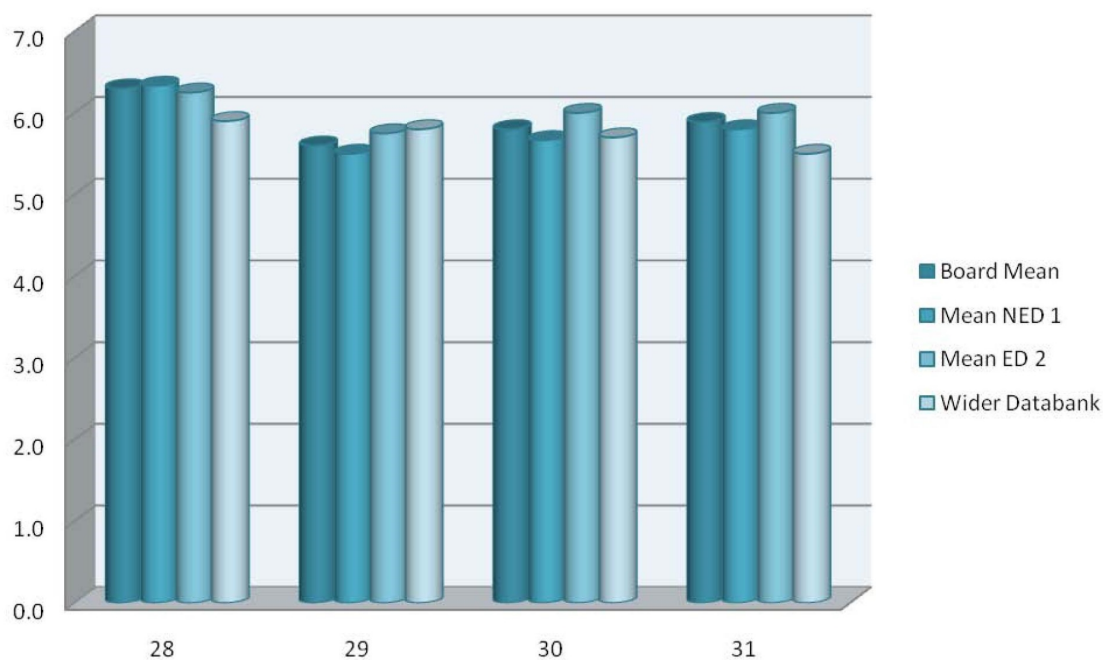
Corporate Governance



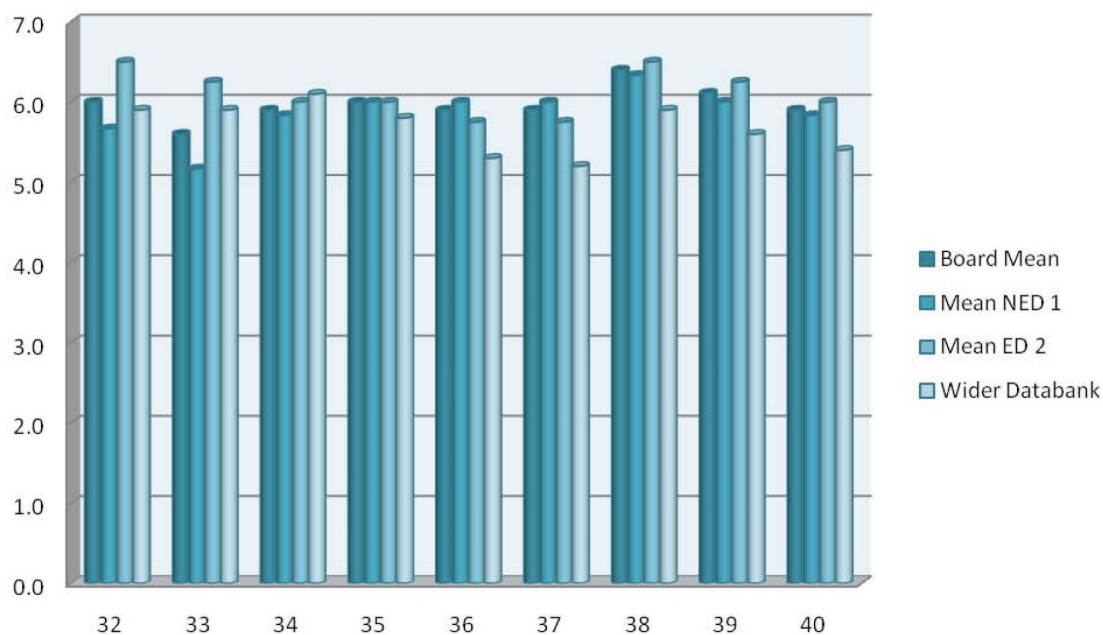
Non-Executive Directors



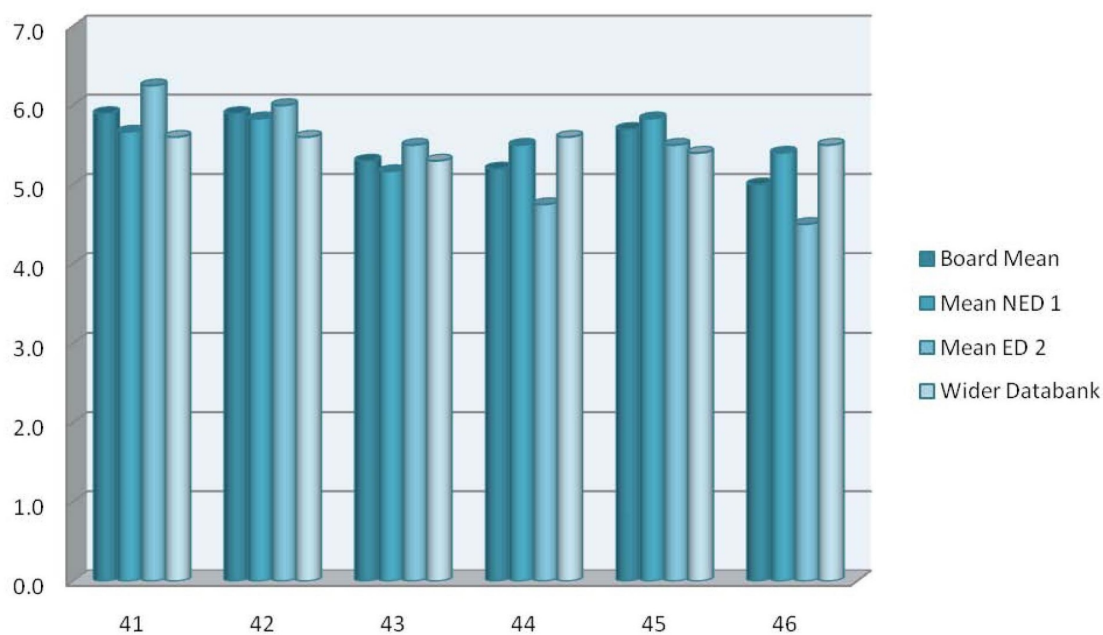
Executive Director



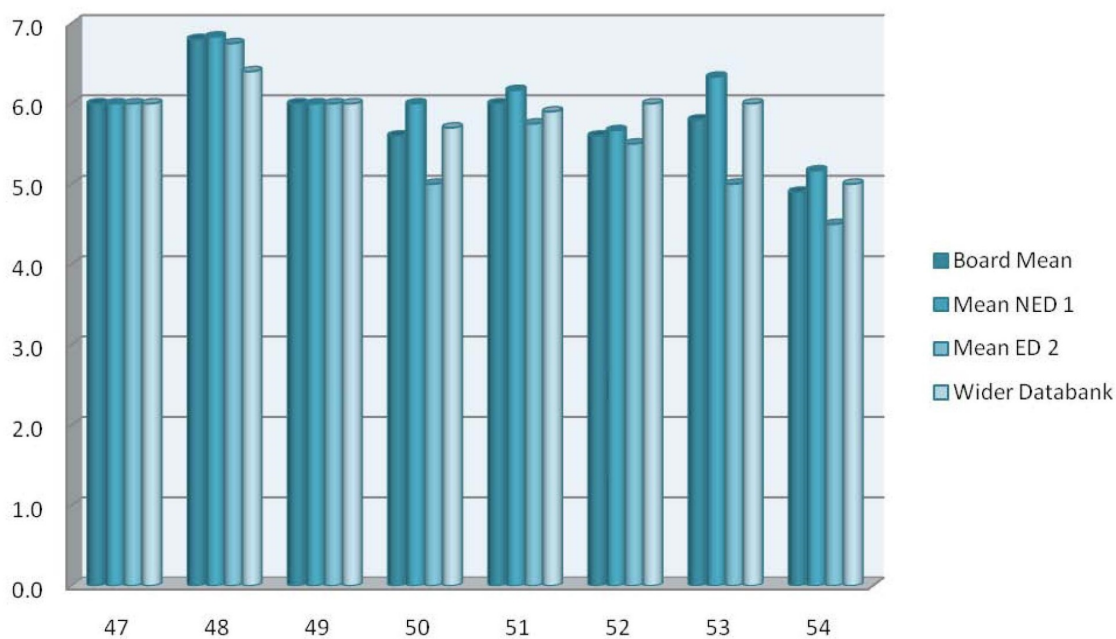
Information



Monitoring Group Performance

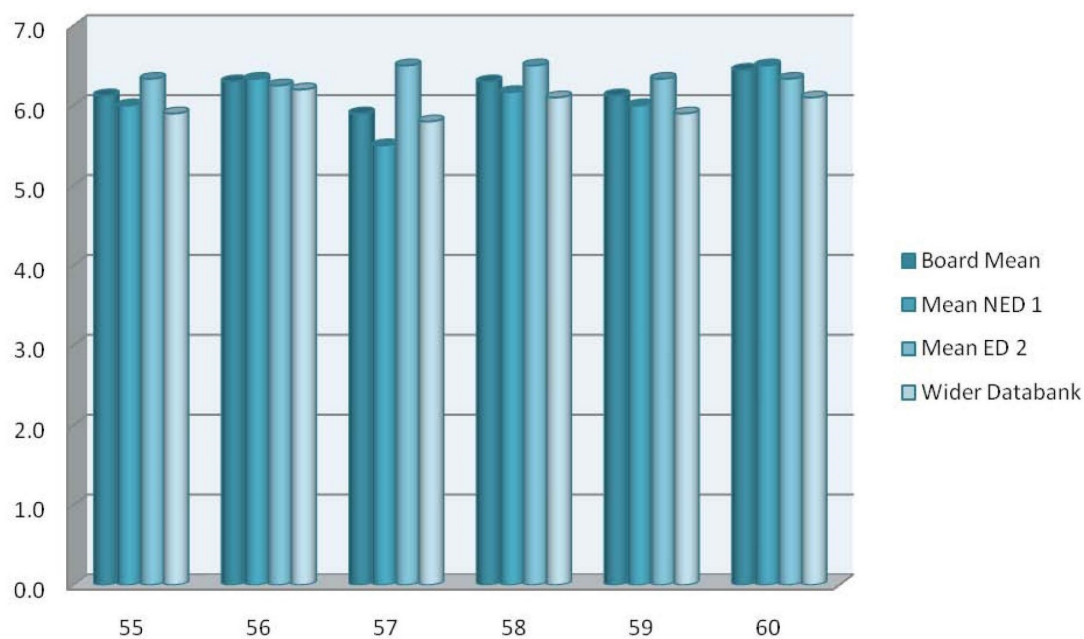


Board Leadership & Culture

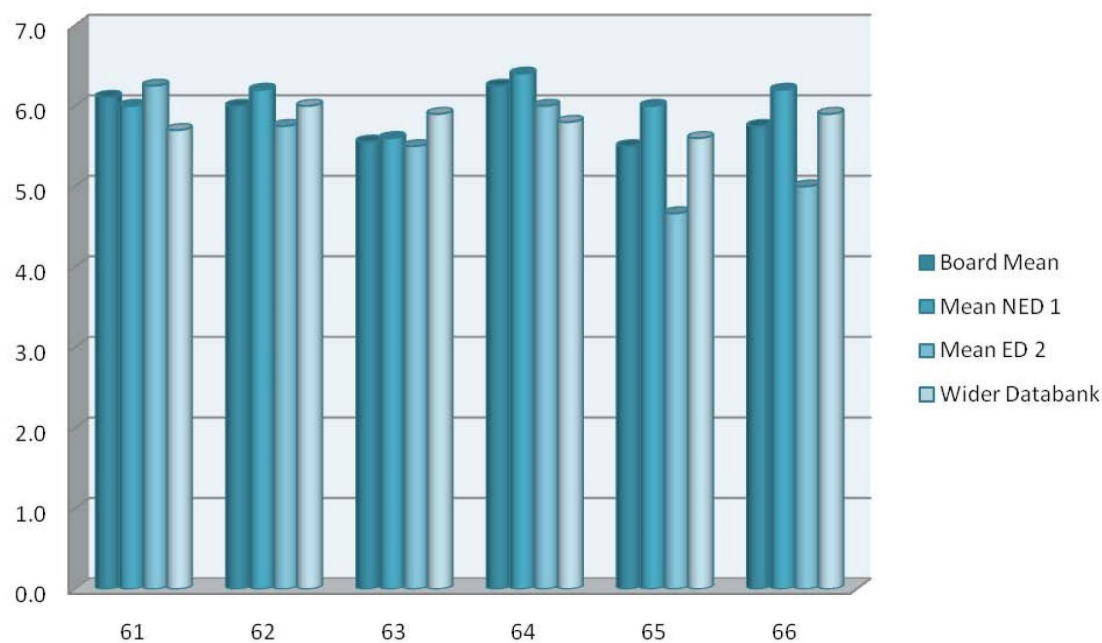


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Audit Committee



Nomination Committee



RemuerationCommitte

