

Post Office Limited ("POL") – Alice Perkins Briefing

1. Points to Consider Raising

1.1. Board Review

Alice recently completed a Board evaluation, based on interviews with POL's Directors and the Company Secretary. Overall the Board believes it is performing acceptably, and that progress is being made in addressing the "right issues in the right way". ShEx welcomes this review, and especially some of the points it raises in its "issues" section which internally we have previously identified as areas of concern (e.g. quality of Board materials, focus of Board time, avoiding Board being too "executive"). ***You might consider asking Alice about her views of the evaluation and whether the results were surprising in any respect. It would also be useful to understand if she thinks there is room for particular improvement in any area and how this might best be achieved.***

1.2. Future Challenges Facing POL

After almost four years as Chair Alice will be leaving in July. ***It would be useful to ask her for her honest reflections on the challenges going forward, including what she would like her successor to address when he / she arrives later in 2015. It could also be interesting to explore her views of market challenges (e.g. mails competition, POL's relationship with Royal Mail) and business-specific issues (e.g. investment plans, strategy work) facing POL.***

1.3. CEO and Management Capability

Over the past two years POL's management team has been strengthened in a number of areas, including most recently through the appointment of a new CFO and Head of Mails. However the ShEx team still has questions about the capability of some of the team and in particular Paula Vennells, POL's CEO (e.g. in respect of owning POL's strategy and driving the business forward). ***It might be useful to ask Alice's for her views on POL's senior team, including Paula Vennells, and also her reflections of the process to bring in the new CFO (i.e. as this required Ministerial approval it took much longer than she expected). This feedback could be useful for ShEx.***

1.4. Post Office's Relationship with Government

ShEx believes that its relationship with POL is open and collaborative and that it has been working well for both sides for the past couple of years. ***It might be useful to ask Alice what she thinks about POL's relationship with its shareholder and whether she can see any areas that could benefit from improvement.***

2. General Background

2.1. Chair Resignation and Recruitment

In January Alice tendered her resignation as POL Chair after serving in this role for 3 years. We believe her decision to move on was due to it being the right time (e.g. POL has now been independent for 3 years and the process of separation from Royal Mail is almost complete) but also due to frustrations experienced with Government (e.g. certain areas of Post Office policy, such as mutualisation, being seen to intrude on the business and complexities linked to remuneration and senior management appointments which require Ministerial approval). ShEx is grateful for Alice's contribution to the business and we consider that she has been an effective chair.

A process to hire a replacement for Alice is currently underway and in the past week advice has gone to Ministers on a long list of prospective candidates. We hope to be in a position to make an

appointment before Alice steps down in July. You might also want to note that POL's Senior Independent Director, Neil McCausland, will also be leaving the business when his contract expires in the Autumn to focus on his other business interests and Board appointments. A process to recruit a replacement will commence once we have a clearer view as to who the next Chair is likely to be, such that we can ensure the Board is suitably balanced.

2.2. Financial Performance

After a challenging first half of 2014/15 POL's performance has recovered in the latter part of the year and the business is expected to deliver operating marginally below budget for the full year. Revenue has underperformed significantly, primarily due to challenges in mails and telephony markets, but this has been almost entirely offset by strong cost management.

2.3. Funding and State Aid Approval

In mid-March the UK Government secured approval from the European Commission for POL's funding for the 3-year period 2015/16 to 2017/18. This is a welcome recent development and ensures the Department can provide £640m to POL – originally committed in November 2013 – over the next funding period to enable it to continue its transformation strategy.

2.4. Market Developments

POL faces challenges in a number of its markets, impacting financial performance and also – in some areas – the credibility of the business's broader strategy. Challenges in mails and telephony are particularly acute; in the former a number of new competitors have emerged though expected growth has not, and in respect of the latter the market has developed faster than POL can respond causing the business to find itself increasingly marginalised (e.g. proliferation of triple- and quad-play bundles, customer demand for data, etc.). Performance in Government Services has also continued to fall short of expectations due to a combination of opportunities not coming to market and existing contracts not achieving planned volumes. POL is however continuing to grow in financial services where it is positioned as a leading challenger and as a business with a strong (and untarnished) brand.