

ColleagueShares



22.03.11

Colleague Briefing

We are communicating today about ColleagueShares and our modernisation programme.

What is happening: ColleagueShares

- ColleagueShares is a phantom equity plan that was started in 2007 to give our people a stake in the company's success.
- The scheme has paid out £1600 to full time eligible colleagues with a further £1000 available if targets are met of which £600 is funded by the ColleagueShare scheme.
- The difficult outlook for the business means it is likely that colleagues will only receive the remainder of the cash bonus element. The ColleagueShares themselves are unlikely to have any value when they start to mature later this year. We will not know the exact final value of the ColleagueShares until the end of the scheme in 2012.
- Despite the fact that the ColleagueShares are unlikely to have any value, the additional £600 payment, which replaces a planned third tranche of 300 ColleagueShares, is based on a value of around £2.00 per ColleagueShare.
- The payments agreed in the Business Transformation agreement are not affected by this announcement.

Review of Mail Centres in Greater London

- We are telling colleagues in London today that we will make a £69 million investment to modernise mail centres in Greater London. In line with the fall in mail volumes we expect to close 2 of the 7 Greater London mail centres on a staged basis in 2012.
- We would like to thank the CWU for their valuable input. We have consulted closely with CWU and Unite CMA and will continue to do so.
- Separately we are announcing consultation with Unite CMA on a proposal to reduce the number of operational line managers across the UK by up to 1000. This is in addition to the 1700 head office managers who will leave the Group by the end of specific initiative.

Why these decisions?

- The future financial prospects for the company are worse today than in 2007.
- The main reasons are:
 - A significant decline in our revenue since then which is in line with other postal operators in Europe. Next year our revenues are forecast to be £1 billion less than we predicted when the scheme was launched in 2007.
 - The increase since 2007 in our pension deficit to around £8.4 billion in March 2010.
 - We are not achieving the cost reductions from modernisation as fast as we had hoped to. We are now 18 months behind on modernisation.
 - We have to invest a further £200 million to upgrade outdated IT systems.

PLEASE PRINT OUT

a copy of this document and hand it to every member of your team at the start of the briefing session.

A total of around £40 million is expected to be paid out in cash bonuses by the end of the scheme.

The ColleagueShares themselves are unlikely to have any value when they start to mature later this year.

We have always made it clear that the value of ColleagueShares, just like real shares, can go down as well as up.

Costs are not falling at the same rate as the decline in revenues.

Modernisation is vital for the company if it is to survive the sharp decline in the postal market.