



Mr A Furey
Assistant Secretary
Communication Workers Union
150 The Broadway
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22 July 2009

Dear Andy

Further to our meeting last week, I thought it would be helpful if I confirmed the key points of our discussion in writing. I want to ensure we have a shared understanding of the current position regarding the profitability of the Crown network and the imperative to address this position as soon as possible.

In our submission to Government in 2006, in return for the £1.7bn of funding necessary to deliver the current 5 year business plan, we agreed to deliver a number of objectives that would determine the success of the plan; one of these objectives was returning the Crown network to a break even position by March 2011. As we are about to start discussions with Government for the 11-16 funding it is important that we are seen to be serious about these earlier commitments.

At this point the Crown network was losing in excess of £70m pa and, had we not taken some difficult decisions including the franchising/closure of 85 offices, this loss would have been over £100m pa by the end of the plan.

Despite these and other tough measures, in February this year we realised that the Crown break even objective would not be achieved in the life of this plan and revised our forecast to a £20m loss by 2011. This change in position and the new commitment was grudgingly agreed by the Government as POL was on track to hit the overall 08/09 profit target. As you know we shared this change in the Crown target at the Quarter 4 business update.

As I outlined, a number of circumstances have conspired to make the challenge even more difficult than originally anticipated including:

- Slower than planned growth in financial services, this is despite the investment in the FSS role and has been compounded by the economic situation especially the impact of the low interest rate on the savings market.
- The telephony pillar not meeting the planned targets. We have revised the telephony business case and it is now meeting the revised targets but much of this business is coming through the direct channel and not the Crown offices.



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- The impact of the recession on the suite of travel products, although we have retained market share the sales are below target
- A decline in the mails market coupled with a loss of market share to other retailers and channels.
- The lower interest rates have resulted in a significant loss in POCA income and this is reflected in the Crown P and L.

As a result of the above factors, as shared with you in our in confidence "open book" discussions, the Crown network is currently on track to make not a £20m but a £50m loss by 2011.

This is clearly an unsustainable position, it is critical that we take steps to address this and get back on the "flight path to profit" as soon as possible as we are starting discussions with Government about the funding package we need for 2011-16. Given the possible change in Government post an election next year we are keen to bring the funding discussions to a conclusion ahead of "purdah" so both a timely response to the issue and a meaningful plan of action are critical.

I would very much like the current Crown network to continue to be part of the estate for the 11-16 plan and beyond, and feel they could have a key role to play in our aspiration to extend our financial services/banking offer. However, as I am sure you can appreciate, without a credible plan to return to profit and the ability to show that we have made significant inroads into the loss during the remainder of this 5 year plan it would be difficult with the public spending constraints for government to support this position.

I know securing the future and size of the network is important to you and your members. It is to me too and I was pleased in 2007 to be able to give the guarantee of no more closures or franchising for the remainder of the plan. I will not be in a position to extend this guarantee until we can show that the Crowns are a viable long term proposition. Without wishing to be melodramatic, the only thing I could guarantee with the current financial position would be the need to close significant numbers of Crown branches.

Andy, we have got some difficult challenges ahead and we may have to deliver messages and take actions that are unpopular and unpalatable to some people in the short term to try to protect the long term future for the majority. We would like the CWU and Unite to work with us as I believe you would add real value to the process of identifying saving opportunities and explaining the message to the workforce.

We need to make £10m additional saving across the Crown estate for the remainder of this financial year. As I have discussed with Brian Scott I would envisage these savings would come from a combination of front line and management changes.



I cannot stress strongly enough that doing nothing is just not an option. As I am sure you appreciate, aside from the funding discussion timetable, the sooner we start to identify and act upon opportunities the fewer savings we will need to make to achieve the £10m full year effect.

Please confirm whether you are prepared to work with us to get the best possible result and maintain the constructive industrial relationship we have developed over the last couple of years.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Alan Cook", with a horizontal line underneath the signature.

Alan Cook
Managing Director