

Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)**Meeting to be held at 9.30 am on 16th July 2013**
at 148 Old Street, London, EC1V 9HQ in the Board Room**The Board will be preceded by a breakfast for Non-Executive Directors at 8.15am at Bistrot Bruno Loubet, 86-88 Clerkenwell Road, London, EC1M 5RJ****GRO**

0930	1	Board Effectiveness Review	Alice Perkins
1000	2	IT Supply Chain Procurement activity <ul style="list-style-type: none"> • Programme update and Strategy • Data Centre tower award positioning • Service Integrator tower award positioning • Transitional support services 	Sue Barton/ Lesley Sewell
1100		BREAK	
1110	3	Progress report on Government Funding and Strategic Plan	Sue Barton/ Chris Day
1140	4	Horizon Update	Susan Crichton/Mark Davies
1210	5	FS Strategy including: <ul style="list-style-type: none"> • investment required and effect on state aid/funding • insurance proposition 	Nick Kennett/ Chris Day
1255		LUNCH	
1315	6	Financial Performance Update	Chris Day
1335	7	Chief Executive's Report (including Network IR update)	Paula Vennells
1350	8	Pensions Valuations	Chris Day/ Virginia Holmes
1405	9	Group Structure	Susan Crichton
1415	10	Minutes of Previous Meeting and matters arising Minutes for noting: Remuneration Committee Status report update	Alice Perkins
1420	11	<u>Items for Noting</u> <ul style="list-style-type: none"> • Significant Litigation Report • Health and Safety Report • Sealings 	Alwen Lyons
1425	12	Any other business	Alice Perkins
1430		BREAK	
1445		Mutualisation Sub Committee <ul style="list-style-type: none"> • Public Purpose Statement 	Sue Barton
1600		CLOSE	

Post Office Ltd – Strictly Confidential

POST OFFICE LTD BOARD

Board Effectiveness Review

The Chairman's Board evaluation report is attached as appendix 1. The areas proposed for discussion at the Board and for action are covered in section 13.

Alice Perkins
July 2013

Annex 1

Board Effectiveness Review**1. Process**

The Chairman interviewed all the Board Directors and the Company Secretary on a one-to-one basis using the Discussion Guidelines, attached at Annex 2, between 20 June and 3 July. A list of interviewees is at Annex 3. The Chief Executive had consulted her ExCo colleagues and included their views in her feedback.

This report summarises all the points made. There were many common themes and where the same points were made more than once, they have not been repeated. All the suggestions made for improving how the Board works are included and brought together in section 13.

The process included peer feedback for all members of the Board which the Chairman will communicate separately on an individual basis. Concurrently, the SID has conducted a peer review of the Chairman's performance which is being fed back separately to her.

The Board will discuss this report at its July meeting and it will then be sent to the Shareholder Executive.

2. Context

Alice Perkins took over the Chairmanship of the Post Office Board from Donald Brydon in October 2011. At that time the CEO, CFO, SID and Company Secretary were all in their present roles. The other NEDs joined the Board over the period from [March] to September 2012. So at the time of carrying out this evaluation, the Board has been in existence for less than a year. It is early days in its life.

3. Headline Comments

The creation of a new PO Board has gone remarkably well in a very difficult context and challenging environment. The Board is maturing. It has come a long way since autumn 2011 and is operating very well (8 out of 10). We can be pleased with where it has got to and the Shareholder should be pretty pleased. The issue now is how to make it even better.

This is a well-functioning Board. The Directors have a wide range of skills and experience from different backgrounds. We have the key bases covered. We are working together effectively; it's fun and really challenging.

This is a disparate set of Directors who have come together and are pointing in the same direction most of the time; there is a sense of team work. We do listen to each other and can agree to disagree or agree on what we are prepared to live with. It can feel uneven as between the respective contributions of the Executives and the NEDs.

The Board has got better as it has matured. People have become feistier; they are challenging but very respectful of each other and of the business. Board members come well prepared; they are good at listening. They don't always agree and sometimes issues get re-opened when people thought they had been settled. The debate can be circular and hard to close down but it is helpful if people speak up if they disagree.

The Board is quite different from a year ago. It is stimulating, vibrant, pro-active and searching for solutions in its determination to fix the business. It is extremely positive and helping the Executives to improve. It adds value.

Annex 1

The Board provides a good balance between support and challenge – it is giving clear direction and has a clear mandate and has stopped diving into the detail. It feels like a team which is great. ExCo feels very positive about it – should they and the Board meet a couple of times a year?

The Board has been the most amazing improvement for the PO. The recruitment of the NEDs has gone really well – they have very different skills and have the ability to contemplate working in a different environment from what they are used to. The company has adjusted well to the new Board. Thank goodness we went in that direction.

4. Organisation of the Board

Overall, this is very good. The Company Secretary, supported by Jorja Preston, provides excellent support to the Board including looking after the hygiene factors, really well. The electronic papers are great and one Director commented positively on the Reading Room while another wondered whether it is as useful as it could be?

The meetings are held at the right frequency, for the right length of time and they run to time. The quality of the papers has improved but there is further to go – some should be crisper and they should always arrive in time for Board members to digest them properly before meetings unless there is an emergency to report.

A common theme was that the Board could use its time even better. There is still a tendency for Executives to repeat what is in the papers. The Board could get better at taking papers as read if there are no issues to discuss. For instance, while retaining a paper on financial performance and key indicators at each Board meeting, should the Board discuss this at alternate meetings and without any introduction from the CFO unless it is to add something new? This would release time which could be spent on the substance of the business such as mails and financial services.

Several people commented on the nature of the debate. The Board does not need to be led by the Executives to a conclusion - this is not a good use of the Directors' expertise. It is getting better at having a robust debate. One person commented that it is a very respectful Board and another Director suggested that it should become more hard-edged and willing to call a spade.

The Board is not a talking shop. It takes decisions all the time but the Chairman could be even clearer about when decisions have been made and they could be recorded in a decision log at the end of the minutes. This should flush out outstanding differences and the Board would be able to decide explicitly how to handle these rather than finding that the issues were being unexpectedly re-opened by one member of the Board to the surprise of the others.

Should the Board make more use of the NEDs in creative ways so that they are generating ideas rather than reviewing ideas which have come up from the Executives? (e.g. the session on Outsourcing at the recent Awayday.)

The recent Awayday had been good (though the session on Mails had been a wasted opportunity). How many of these should there be in a year (in the last year there have been two – Shoreditch and Kingston)?

Should the Board meet outside Head Office more often e.g. at a large Crown or a call centre?

Annex 1

Should the Board meet the ExCo on a regular (but infrequent) basis? And what about the SLT?

Should the Board have a dinner with partners?

One Director asked that dates for future Board meetings in 2014 and even 2015 should be fixed now.

It was also suggested that the Board should have a regular opportunity to review the forward programme of agendas as it has in the past.

There is sometimes an absence of follow-through (e.g. the delay in circulating the updated Rothschild's work). While this has got better, there is further to go.

5. Committee Organisation

The right Committees are in place. The Board has only just set these up so their roles should be clear and they are.

The Committees have been feeling their way on the frequency and timing of their meetings. There is a need to find a schedule which works and is more settled. This is especially true of the ARC and the RemCom.

The RemCom is the Committee with the most difficult business in practice and it has not always felt as though it is in control of it. This should improve with experience of the interaction with the Shareholder, better forward planning and better professional support from the business.

The ARC initially felt too much like the main Board but that is better now that membership has been reduced to three NEDs. It is discharging its responsibilities properly and has handled the two year-ends extremely well. One Director commented that it might be trying to do too much and might need to be more flexible in its use of time. There is important and urgent work for it to do on risk, which is in hand for the autumn. Several Directors commented that that it was the next major priority after settling the strategy.

The Mutualisation Committee has been less effective than the Board although it has the same membership. It should review its future programme in the light of the strategy.

6. Strategy

The Board has spent a great deal of time on the Strategy since it has been fully formed and this has been helpful in terms of its understanding of the business and its development as a team.

The Directors all think the Strategy has been well developed and are happy with the substance of what they have agreed. At the time of writing, this is subject to negotiations with the Shareholder.

However, the process got off to a shaky start at Shoreditch. Lessons were learned from that and by the end the NEDs all felt satisfied that they had been able to make the contribution they wanted to make. There was universal recognition that Sue Barton's role in this had been invaluable.

One Director commented that there was further to go in articulating the vision of what the Post Office would be in 2020.

Annex 1

7. Board Composition

There is universal agreement that the Board has a great mixture of skills and experience. Almost all the key aspects of the business are covered and several people commented that whatever came up as an issue, there would be at least one member of the Board who had the relevant experience to make a valuable contribution to its resolution. The areas where additional expertise would be valuable were large-scale operations including change management, industrial relations and IT.

Some people also commented on the mix of Directors in terms of their styles and temperaments. There is a good balance between the entrepreneurial and the risk conscious and between those whose glasses are half full and those whose are half empty. It would be important in future to ensure that any changes in the Board did not result in the balance being skewed too far one way or the other.

The Board is well balanced in terms of gender. In future it would be good if there were also a greater diversity of ethnicity.

8. Board Involvement

The Directors' knowledge of the business was generally thought to be sufficient for their roles, though individual Directors raised areas which they it would be helpful for them to understand better e.g. the economics of the network including SPMs' pay.

There had been a tendency in the early days for NEDs to appear to "meddle" in the business and dive down too much into the detail but this had diminished over time. This needs watching as it is always tempting for NEDs to fall into that trap on any Board.

All the NEDs commented on how willing the Executives were to engage with them outside Board meetings and were impressed by the extent to which most of them, and especially the CEO, were open to challenge. In return, the Executives commented that the NEDs were very generous with their time outside the Boardroom.

The relationship between the Chairman and the CEO appeared good, supportive but also challenging with no obvious tensions.

One NED wondered whether they should become more involved by e.g. opening new PO branches and/or developing relationships with key stakeholders (see next section). The CEO wondered whether they could contribute to interviewing key candidates for ExCo positions.

9. Board Relationships with Key Stakeholders

There is general recognition that there is more to do here. The Board needs to understand its shareholder's position better, especially that of the Minister concerned. The session with Mark Russell had been extremely useful ("formative"/"an eye-opener") in that context. It was excellent that he had agreed to come again in the autumn and there should be more sessions to help the Board understand this area.

It is also recognised that more time should be spent forging relationships with other key stakeholders inside and outside the business. The Forum at the recent Awayday had been a good use of time.

Annex 1

10. Risk, Compliance, Financial Monitoring.

The Directors believe that they are carrying out their fiduciary duties appropriately overall. Several people commented on the need to do more work on risk management as noted above. More than one NED commented that the financial and performance report could be improved further. Is there sufficiently robust reporting of the delivery of key projects, including cost-cutting – is there a danger of the Board being lulled into a false sense of security over these?

There is also a need to satisfy the Board that the right compliance measures are in place in financial services as the company expands its business in this area. This is something for the ARC in the first instance; there is a need to spend more time on this.

11. Looking Forward

Directors are concerned about the quality of the pipeline for the top posts, especially for the CEO's position. This is something which has already been identified and work is underway under the direction of the NomCo to address it. Progress is being made in relation to the ExCo positions and job specifications for new recruits to the ExCo are targeted at candidates with the potential to be future CEOs. This is a real weakness which NomCo and the Board need to keep actively under review.

The induction of the NEDs had been done well and everyone was satisfied with this. The Board needed to decide now what additional development was needed, for example, visits to branches (should each NED commit to visit a certain number every year?) or workshops/Board sessions on particular issues?

It will be important to manage the tenure of the NEDs so that there is no bunching of retirements.

12. Overall Board Effectiveness

The Directors thought that the Board got the balance right between fulfilling its fiduciary duties and making a positive, substantive contribution to the business. Looking back over the last year, one Director commented that the Board's agenda had felt as though it had lurched in an unplanned way but that once the Strategy was settled, it should be possible to get more stability into the business and focus on key elements of its delivery.

The right balance has been struck between support and challenge. But the Board has now "formed". It has been "quite kind" to the business. It can now be more challenging and expect more; it needs to be more demanding e.g. about cost-cutting, and tougher with failure.

Generally the Directors were satisfied with the quality of the external advice received e.g. the auditors, and Rothschild's, but one Director commented that the business did not always seem to be clear about what it was using advisers for, or doing that well.

13. Areas for Discussion and Action

Annex 1

Discussion

What is the right balance amount of rigour and challenge? Does the Board agree that it should be more forthright than it is now? How would that affect the balance between the NEDs and the Executives?

Does the Board agree that time should be saved in meetings by moving more briskly through agenda items and discussing financial performance and key indicators only every other meeting (assuming things are on track?) If so, what would it like to spend more time on? Is giving more time to our key stakeholders, including understanding the Shareholder better, a key priority?

How could the NEDs be used more creatively?

What does the Board want to do outside Board meetings e.g. branch visits (an annual target for NEDs?), workshops, meetings with key stakeholders, or with ExCo/SLT?

Are two Awaydays a year right?

Would the Board like a dinner with partners?

Should the Board meet outside Head Office more frequently e.g. at large Crowns or call centres?

Is the Reading Room as useful as it could be?

Action

The Chairman to sum up discussions even more clearly. Board members to speak up if they disagree or register clearly that they are willing to support the majority view despite remaining reservations.

Executives to assume as a matter of course, that their papers have been read and not to repeat material already covered unless asked to do so. The Chairman to move more swiftly through each item unless there are questions or issues raised by the Board.

Company Secretary to fix Board dates for 2014 and if possible, 2015; to record decisions taken in a "log" at the end of the minutes of each meeting; to continue to work with the Executives to raise the standard of papers and ensure they are sent out in good time; to ensure all follow-up action is taken timeously and circulate a forward programme of Board agendas every 6 months.

All Committees to keep the cycle of their meetings under review and follow-up on the key issues identified in this report e.g. succession planning for NomCo and risk for ARC.

Alice Perkins
July 2013

Annex 2

POST OFFICE BOARD EVALUATION SUMMER 2013

DISCUSSION GUIDELINE

1. Overall impression of the Board

- Shared understanding of the Board's role
- Dynamics of the Board
- Culture and climate in the Boardroom
- Sense of teamwork
- Use of time
- Quality of discussion and listening
- Decision-making

2. Organisation of the Board

- Agenda
- Meeting frequency and length
- Formal processes and duties
- Informal processes
- Information and support materials
- Servicing of the Board

3. Committee organisation

- Clear remits
- Agendas
- Meeting frequency and length
- Membership, attendees and advisers
- Information and support materials

4. Strategy

- Development
- Understanding
- Agreement
- Communication
- Review

5. Peer reviews

Feedback on contribution of individual Board members

- Executive Directors
- Senior Independent Director/Committee Chairmen
- Other Non-Executives

DISCUSSION GUIDELINE

6. Board composition

- Balance of skills and experience, including diversity
- Future requirements

7. Board involvement

- Directors' knowledge
- Relationship Chairman and CEO
- Relationships with management
- Contact outside boardroom

8. Board relationship with key stakeholders

- Shareholder relations
- Employee/Franchisee relations
- Other key stakeholder relations

9. Risk, compliance, financial monitoring

- Identification
- Monitoring
- Openness
- Balance with performance
- Responsibility

10. Looking forward

- Succession planning for board members; non-executive and executive
- Directors' development needs
- Future remuneration for non-executives
- Induction and training

11. Overall Board effectiveness

- Fulfilment of fiduciary duties
- Contribution to business
- Checks, balances and support
- Short and long term health of business
- Support/independent advice

Annex 3

List of Interviewees

Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer
Chris Day	Chief Financial Officer
Alwen Lyons	Company Secretary

A black and white photograph of a Post Office building. A large, three-dimensional sign is mounted on the exterior. The sign is white with a dark circular logo containing the words "POST" and "OFFICE". Below the logo, the words "Bureau de Change" are written in a smaller font. The building has a classical architectural style with columns and windows. A large, curved white shape is overlaid on the left side of the image, partially obscuring the building.

2013-2020 Technology Strategy

Post Office Board Update

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July 2013



Agenda

- 1 Setting the scene
- 2 Technology landscape overview
- 3 Progress update
- 4 Future Board engagement
- 5 Summary
- A Branch counter (Horizon)
- B IT Separation



1

Context: The decisions made over the past year in progressing our strategy have positioned us well to deliver against our refreshed 2013-20 Business strategy

Over the past year we have involved the Board in our strategic Technology journey, the business drivers we are responding to and our delivery plans.

Previous decisions have supported our approach to:

- ***IT supply chain:*** procurement of our supply chain driving value for money, flexibility and a smaller IT function through our new IT supply chain model including:
 - Consulting, Products and Solutions frameworks¹.
 - Services Integrator and Towers model for the provision of our future operational technology.
- ***Improve our IT Operating model:*** meeting business demand including:
 - Improved integration and collaboration with business units
 - Reorganisation of IT& Change
 - Reduction in the size of our retained organisation
 - Increasing the maturity and skill levels of our people.
- ***Risk and Resilience:*** Protecting branch counter service through to 2015 through investment in Horizon (our branch counter service) to address end of life equipment in our data center in Belfast.
- ***Separation:*** endorsement of our plans.

¹: Our frameworks have been procured and are delivering value today.



1

Updating our strategy: We have updated our technology strategy to take account of the changes demanded by our refreshed business strategy.

Our Technology strategy published in support of our 2011-15 Business strategy has been refreshed to accommodate:

- The newly refreshed 2013-20 Business strategy incorporating:
 - Customer service focus.
 - Speed to market.
 - Continuing to focus on cost control.
 - Support of our financial services and commercial propositions.
- improved understanding of the demands of achieving independence from Royal Mail Group.
- experiences and feedback received from the procurements we have been progressing.
- understanding of the commercial stance of Fujitsu services and other incumbents.



1

Board proposals: At the July 2013 Board meeting we are bringing forward proposals for continued Branch counter support and providing advanced notification of decisions to be made in September.

July 2013 Board

We are asking for Board to:

- ***Transitional support services with Fujitsu***
Approve the two year transitional support agreement with Fujitsu Services.

This will enable us to:

- Protect branch counter services beyond 31st March 2015.
- De-risk the Network transformation and Crown transformation delivery.
- Give us time to determine and develop a new fit for purpose Point of Service solution.

September 2013 Board

We will be asking the Board in September to approve the award of the following contracts to our selected bidders:

- ***Data Centre***
 - For provision of our strategic capability.
- ***Services Integrator***
 - Includes the provision of Service Desk
 - Remaining bidders include CapGemini, CGI and ATOS.



Technology landscape overview

2

2 The Post Office Today

POST
OFFICE



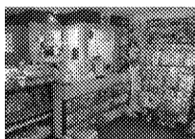
CHANNELS



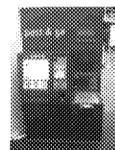
Specialist
Branch



High Value
Branch



Low Value
Branch



Self-Service



Contact
Centre



Online



Mobile

PRODUCTS



Financial services



Mails & retail



Government
services



Telephony &
broadband



Travel

SUPPORT FUNCTIONS

Marketing

Supply chain

Procurement

Legal &
compliance

Finance

HR

Property

TECHNOLOGY

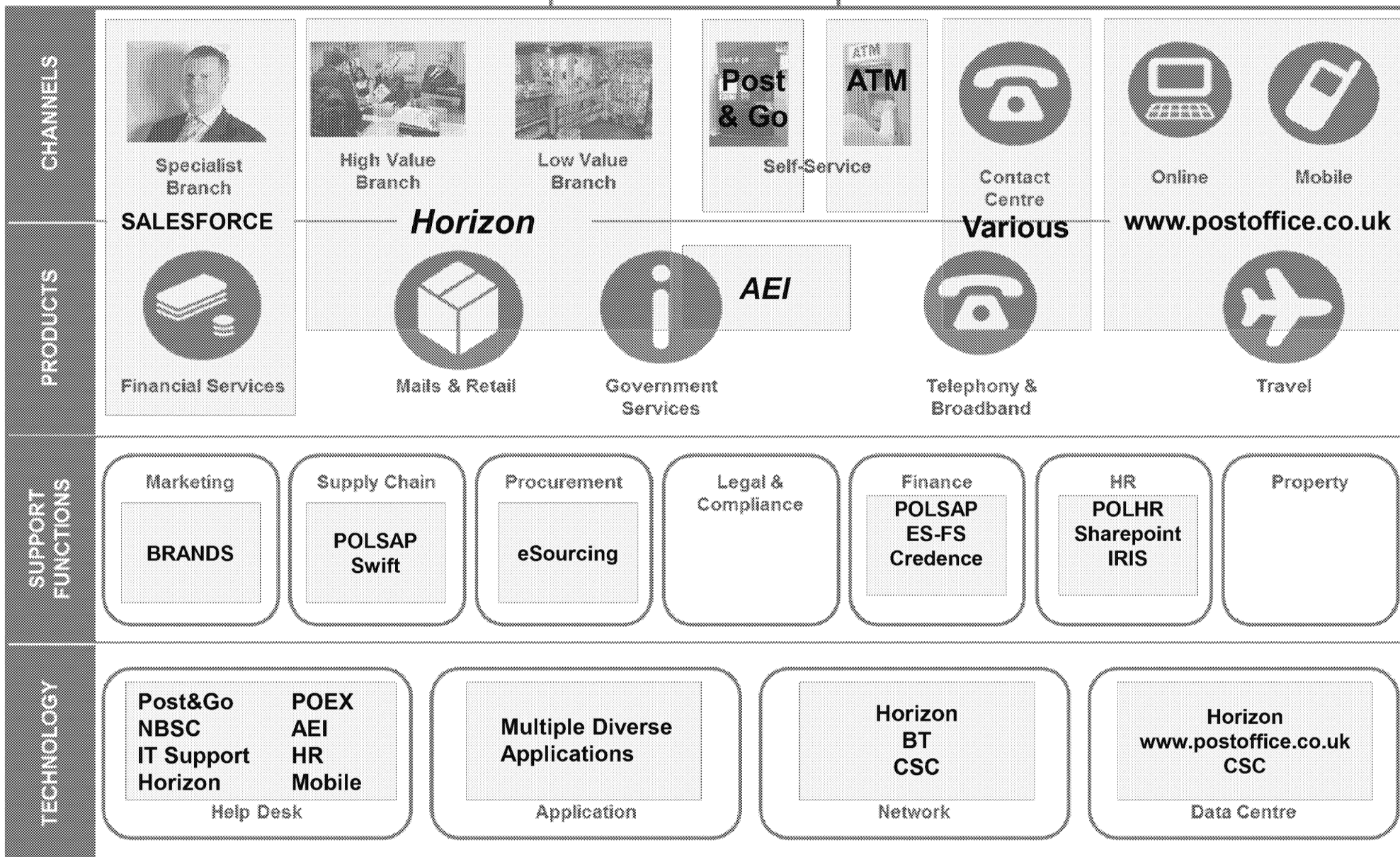
Help desk

Application

Network

Data centre

2 Post Office Technology Landscape





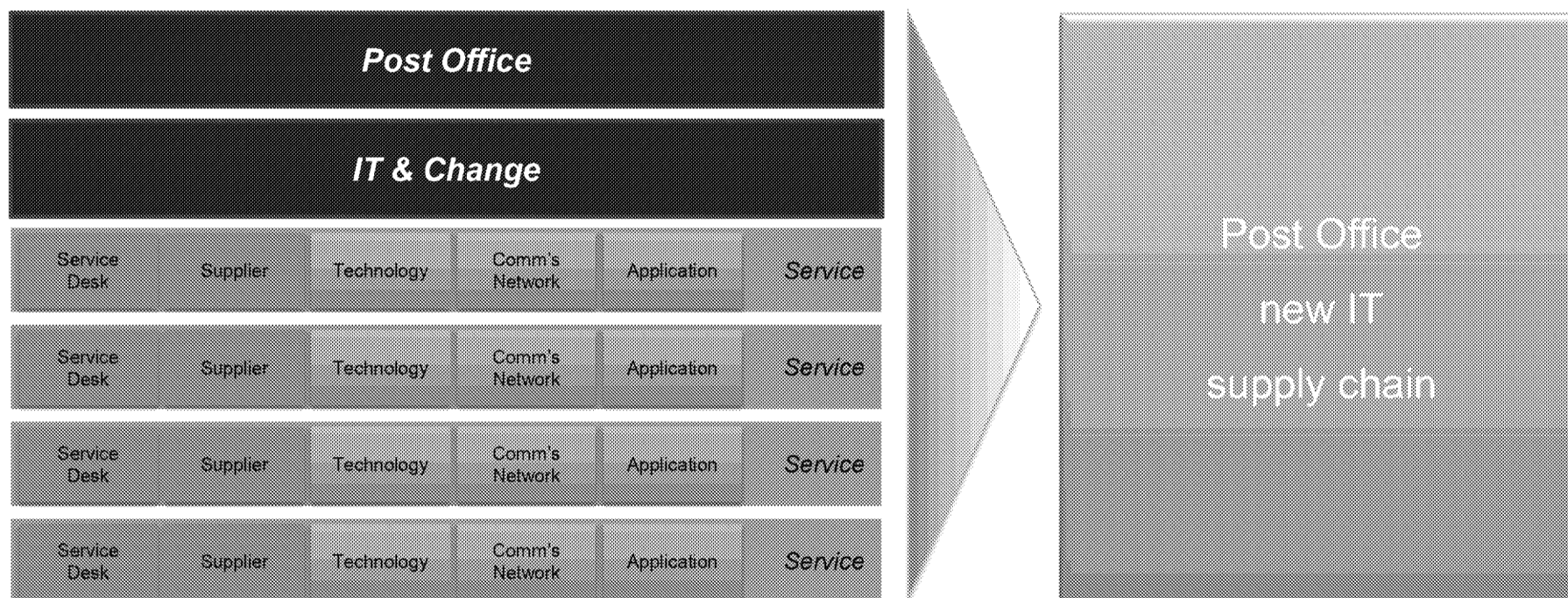
Progress update

3



IT supply chain: Post Office's legacy commercial contracts have been established over many years with inconsistent terms & conditions.

- 90% of Post Office IT contracts and services terminate within the 2012-2015 strategic term.
- Our legacy contracts and services have been established over many years and do not provide the optimal vehicle for us to compete commercially.
- We are moving to a new contractual model providing flexibility, speed to market and value for money whilst meeting the demands of public sector bodies.





3

IT supply chain: Post Office is continuing to progress the establishment of its future IT supply chain, enabling us to deliver the technology required for our future 2013-2020 Business strategy.

Post Office IT will be:

- a smaller organisation,
- business focussed and driven,
- fit for purpose and more responsive.

Frameworks will help us:

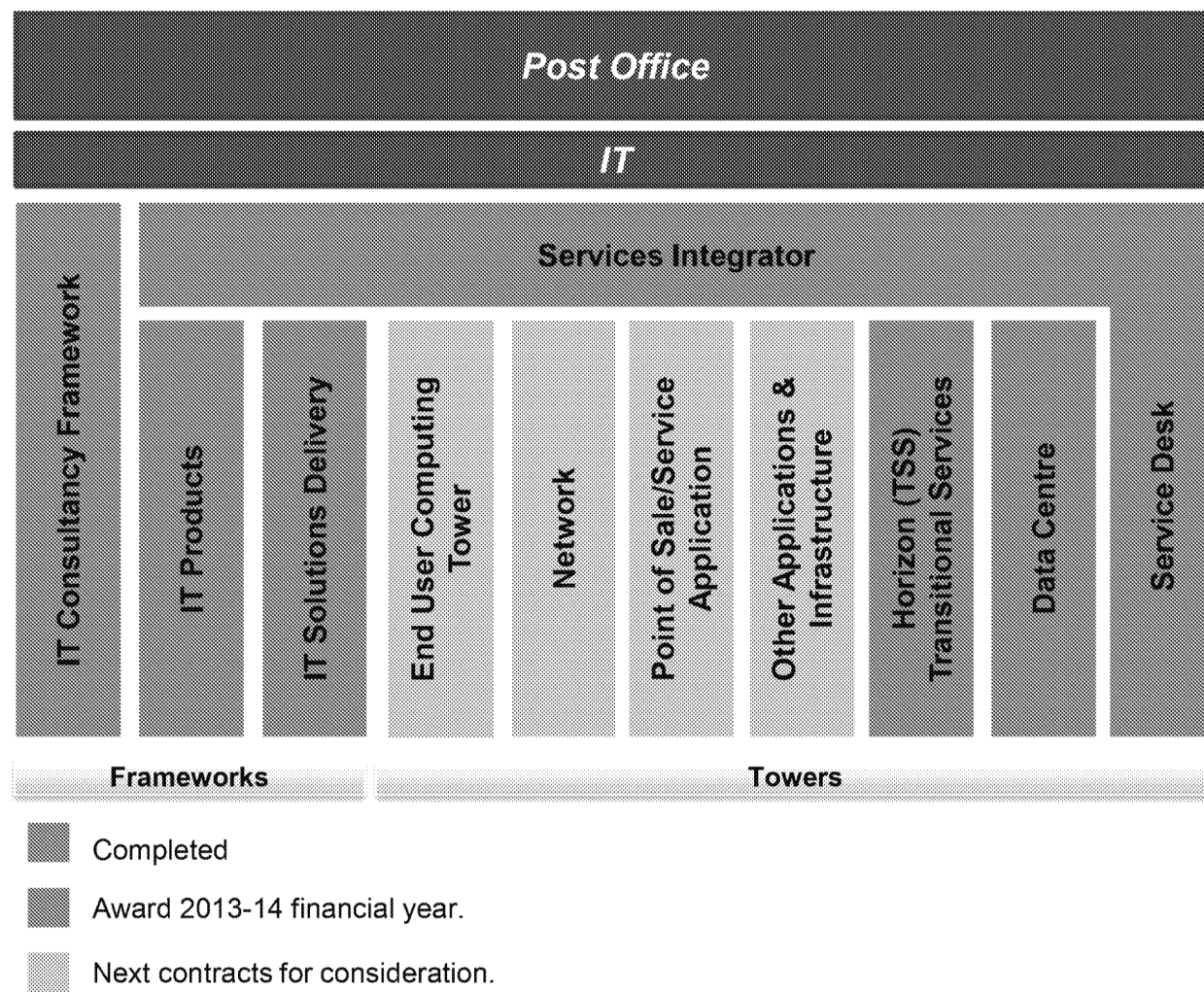
- leverage innovation,
- access an increased range of skills and specialisms from the market,
- avoid supplier lock-in,
- procure solutions efficiently,
- improve speed to market.

The Services Integrator will:

- augment Post Office skills,
- provide flexible resources to meet demand,
- assume responsibility for the delivery of business solutions.

The Towers model will:

- provide access to lower cost operational technology,
- provide industry standard components and solutions,
- rationalise our technology estate,
- provide more integrated solutions.

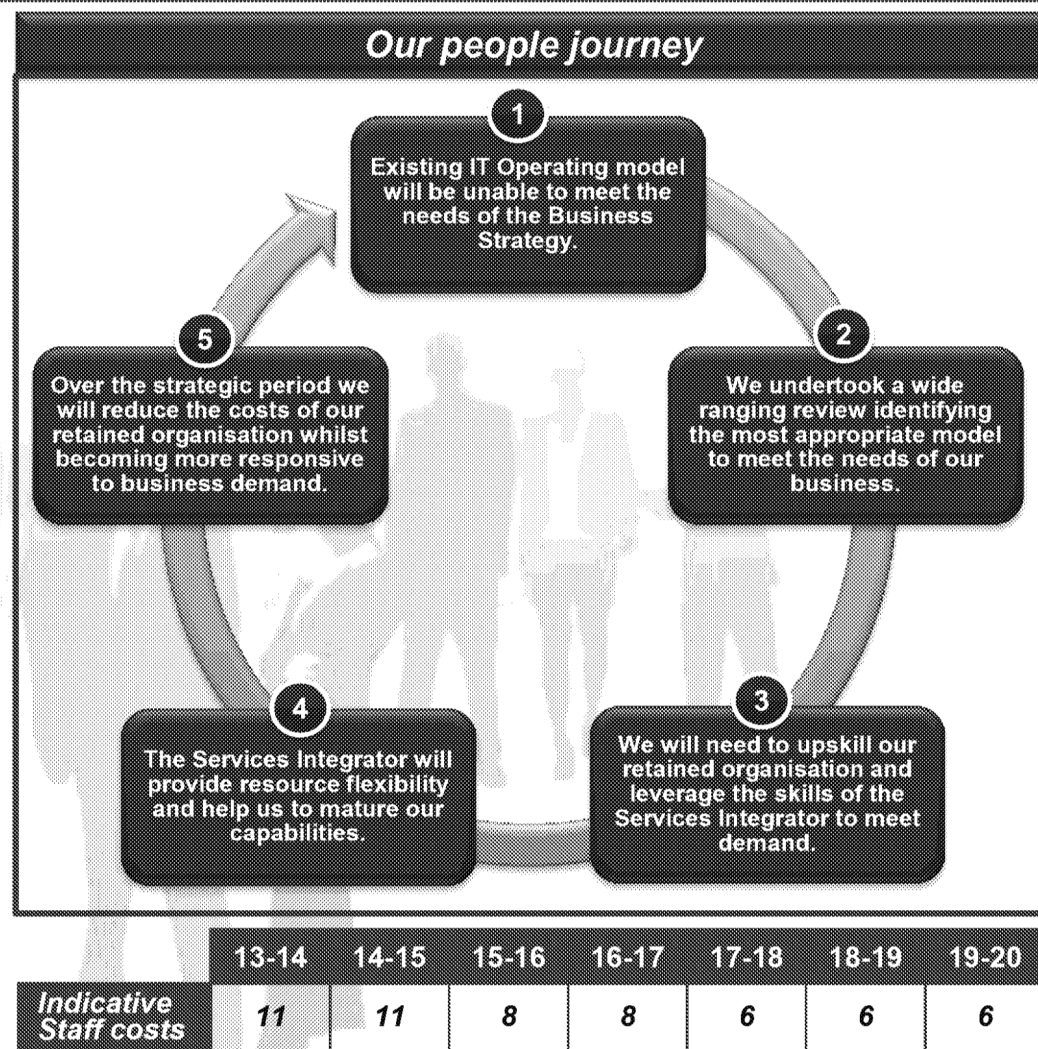




3

IT Operating Model: To enable us to meet the business objectives of our 2013-2020 strategic plan, Post Office needs to enhance the ability and flexibility of our people.

- The capability of our people is our most valuable resource and enables us to compete in an aggressive marketplace.
- To meet the Business strategy our Technology strategy identified the need to uplift the capability and maturity of the IT organisation to become more responsive to business demand.
- The Post Office IT operating model is being transformed to provide:
 - Improved speed to market .
 - Cost efficiency.
 - A more capable, forward thinking and innovative workforce.
- We have worked with Deloitte, ISG¹, Gartner² and others to develop the optimal model for Post Office.
- We will use the capabilities¹ of the Services Integrator to provide us with additional skills and workforce flexibility.



¹ISG: Leading advisory services company specialising in business optimisation.

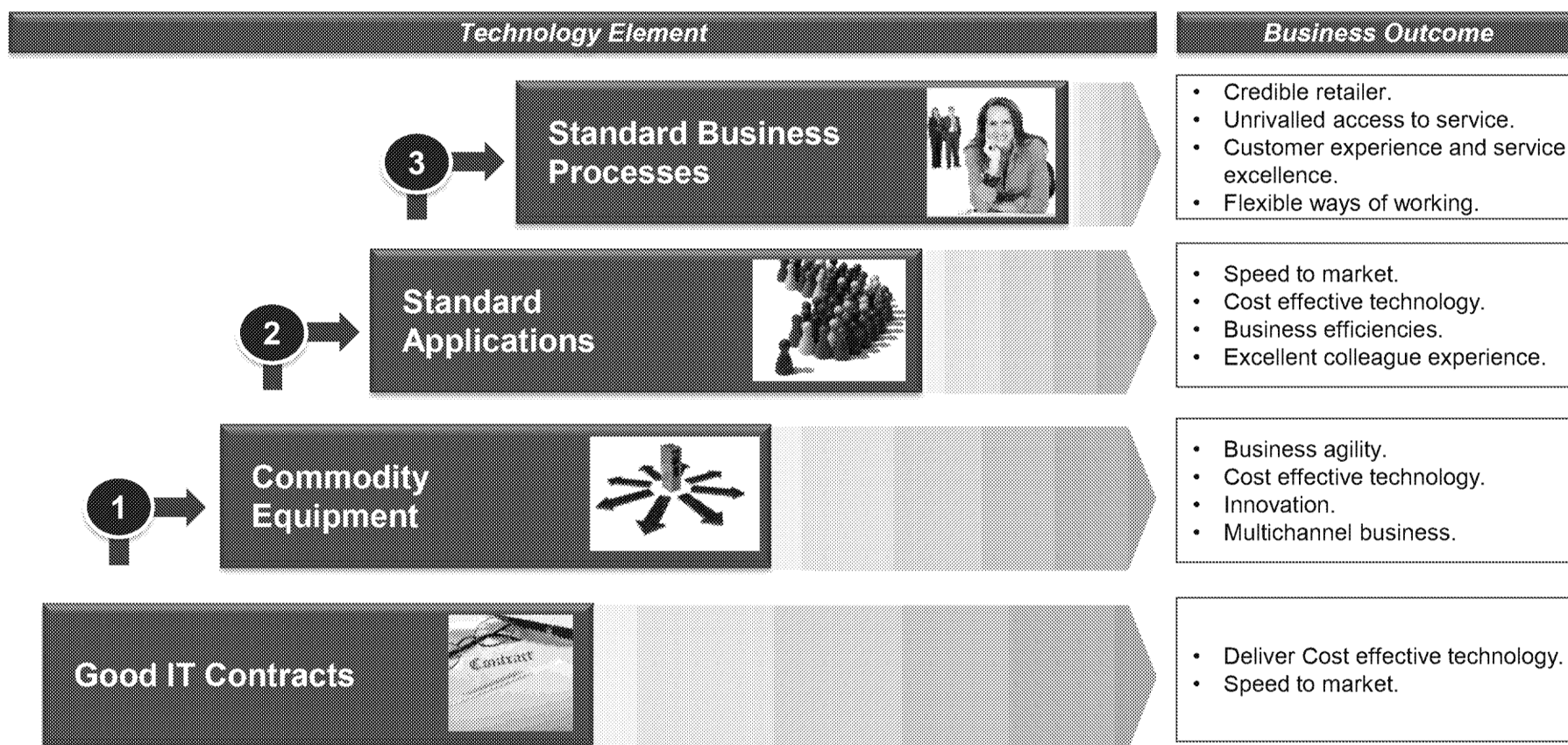
²Gartner: IT research and advisory company.



3

Technology Strategy: Our strategy transforms our technology, delivering reduced costs, improved service and better customer experience to our customers.

- 1 Our Technology Strategy builds on the robust and cost effective IT supply chain for the solutions needed to deliver our 2013-20 Business strategy.
- 2 Our common technology platform, based on open systems products, provides a low cost and flexible ability to integrate our existing systems with the applications and services needed in the future to deliver our strategy.
- 3 By providing great applications on robust technology, backed up with strong service and support from our suppliers we will deliver credible products and services, with the customer experience that will support business growth.





Innovation: Our future business capabilities will be underpinned by innovative delivery of a multi-channel retailing experience.



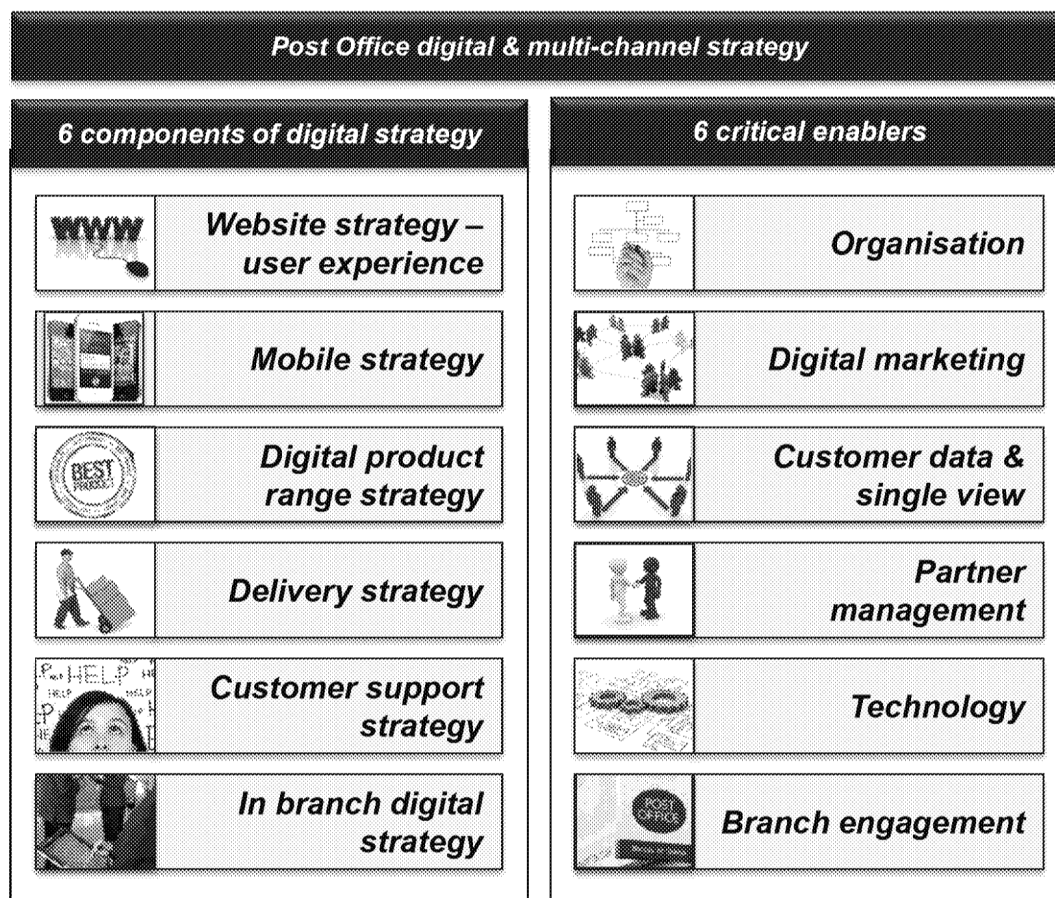
- Over the past year we have worked with innovative SME's (working in the Government space) to specify the technology required to integrate existing and future systems.
- Our proposed platform (**CDP**: Common Digital Platform) is grounded in non-proprietary hardware and software avoiding excessive lock-in and licence costs.
- Our Common Digital Platform utilises commodity services including for example, cloud computing and open source software platforms to support speed to market and value for money.
- Our platform is being designed to scale with business demand, allowing us to flex services as necessary.
- We are currently in the process of proving this platform prior to establishing it more widely in all future developments, including delivery of services to the branch counter.
- Our initial proof of concept (Environment Agency "Rod Fishing Licence") has been developed in weeks rather than months.
- Our approach is enabling us to avoid supplier lock-in, significant licence costs and increase our business responsiveness.



Innovation: The technology which underpins our Multi-Channel and Digital Branch Strategy is cost effective, flexible and fit for purpose.

Our 2013-20 Business strategy is supported by key technology elements including:

- Modern and agile ways of working to help deliver new products and services to market more quickly helping us compete in the market.
- New branch counters & devices will help:
 - engage our customers.
 - Increase the productivity of our colleagues.
 - Provide market opportunities currently difficult for us to access.
- Customer service systems will help us engage in meaningful conversation with our customers.
- Our technology will be able to deliver across existing and new channels seamlessly, interacting with our customers when and where it is most convenient for them.





POS (Point of Service) 2020: delivering the Post Office channel experience.

POS 2020 will define the point of service (including branch counter) experience and capabilities going forward.

We are undertaking work to:

- Provide a modern Point of Service (POS) capability across all our channels.
- Open up Horizon through integration, using open and internationally recognised standards.
- Allow services built once can be utilised across all our channels including branch.
- Enable us to provide basic counter services through standard integration points and common services.
- Use industry standard processes.
- Ensure we only customise processes essential as market differentiators.
- Provide a consistent and excellent customer experience across channels.

Capabilities of our new solution might include:

- single customer account,
- Omni-channel shopping baskets,
- Pricing engine,
- Product bundling and promotions.



4

Future Board engagement: As we move forward over the next year we will be seeking further Board approvals in support of the delivery of our Technology strategy.

- We have a phased approach to the delivery of our Technology strategy to safely manage the change portfolio.
- Over the period to 2015 we will be bringing a number of initiatives to the Board to complete our IT supply chain.
- Some of these contracts carry a value in excess of £50m, financial governance requires additional Shareholder Executive approval.

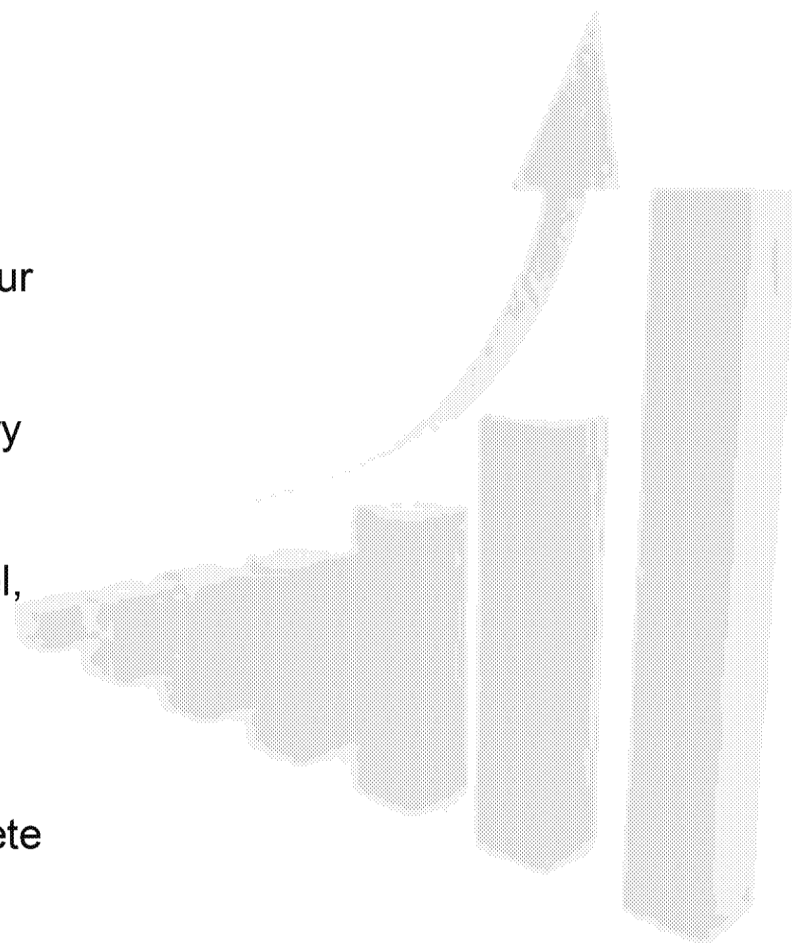
<i>Indicative Approvals Sought</i>					
<i>Subject</i>	<i>ExCo</i>	<i>Main Board</i>	<i>ShEx</i>	<i>~ Mtg</i>	<i>Financial Year</i>
Horizon Transitional support services	✓	✓	✓	July	2013-14
Services Integrator & Service Desk award	✓	✓	✓	Sept	
Data Centre award	✓	✓		Sept	
Risk and Resilience	✓			Sept	
Technology Strategy Update	✓	✓		Apr	2014-15
Network procurement	✓	✓	✓	tbc	
Other Application & Infrastructure	✓	✓	✓	tbc	
POS Application procurement	✓	✓	✓	tbc	



Summary

Over 2013-14 financial years we:

- have a significant programme of work,
- are continuing to update our strategy in line with our 2013-2020 Business strategy,
- are continuing to take the best independent industry advice and guidance available,
- will continue to implement our new operating model,
- will continue to progress our IT supply chain procurements,
- will be executing our Separation strategy to complete by September 2014.





Conclusions & Ask

1

We are asking for Board to:

- Approve the two year Transitional Support Services agreement with Fujitsu Services.

2

We will be asking the Board in September to approve the award of the following contracts to our selected bidders:

- Data Centre award.
- SI/SD award.

A black and white photograph of a Post Office building. A large, three-dimensional sign is mounted on the exterior. The sign is white with a dark circular logo containing the words "POST" and "OFFICE". Below the logo, the words "Bureau de Change" are written in a dark font. The building has a classical architectural style with columns and windows. A large, curved white shape is overlaid on the left side of the image, partially obscuring the building.

Thank You



Branch counter (Horizon)



FUJITSU



Branch Counter: Fujitsu is currently Post Office's largest technology partner providing critical services including our branch counter service (Horizon).

Branch Counter Systems (Horizon)

- Horizon is a bespoke solution operating out of resilient data centres in Northern Ireland.
- Our plan is to migrate Horizon to our new IT supply chain over the strategic term.
- Horizon was originally created in 1995 in partnership between the then DSS¹, Post Office and ICL².
- The system is in all our c.11,800 Post Office's nationwide, operating some c.30,000 counter positions.
- The service has not been tendered under public procurement law since that time.

Delivering our 2020 vision:

- It is prudent in selecting a way forward to recognise the significant investment Post Office have already made in Horizon over its lifetime.
- Early in 2013 we identified a number of routes forward.
- All options are dependant upon public procurement law and negotiations with Fujitsu
- We are undertaking further work this financial year to establish the requirements for and market test our options for continued channel services post 31st March 2015..
- Our precise path forward will not become clear until this work comes to fruition.

¹ DSS: Department of Social Security.

² ICL: International Computers Ltd, subsequently bought by Fujitsu.

Contractual Context

- The contract under which services are provided is known as HNG-x
- HNG-x contract ends 31st March 2015.
- The branch counter service known as Horizon is the most significant service provided under the HNG-x contract.
- A range of services are provided through the HNG-x contract including:
 - Horizon, our Branch Counter system
 - Core Finance (SAP)
 - Management Information (Credence)
- Contract value to Fujitsu circa £65m pa plus BAU change.
- There is no automatic extension capability written into the contract.
- We are required by Public Procurement Law to offer the services to the market.



Managing Legacy (Horizon): In considering how we continue to provide Post Office branch counter services we have established the following principles and path forward.

Principles

In considering how we continue to provide branch counter services we must take account of a number of key requirements including:

- De-risking the network and crown transformation programmes.
- The Horizon transitional support services are designed to guarantee business stability while the Post Office implements a modern, fit for purpose Point of Service solution.
- The services provided under this agreement will amongst others include:
 - Branch communications data network
 - Data centre hosting in Fujitsu's Belfast data centre.
 - Horizon application support.

Moving forward

The major tenets comprising our future plans require us to:

- Conclude commercial negotiations with Fujitsu to agree on a 2 year Transitional support service.
- Begin procurement for our future POS solution.
- Commence procurement for our Network Tower. This tower will assume responsibility for the provision of the branch communications network at March 2017.



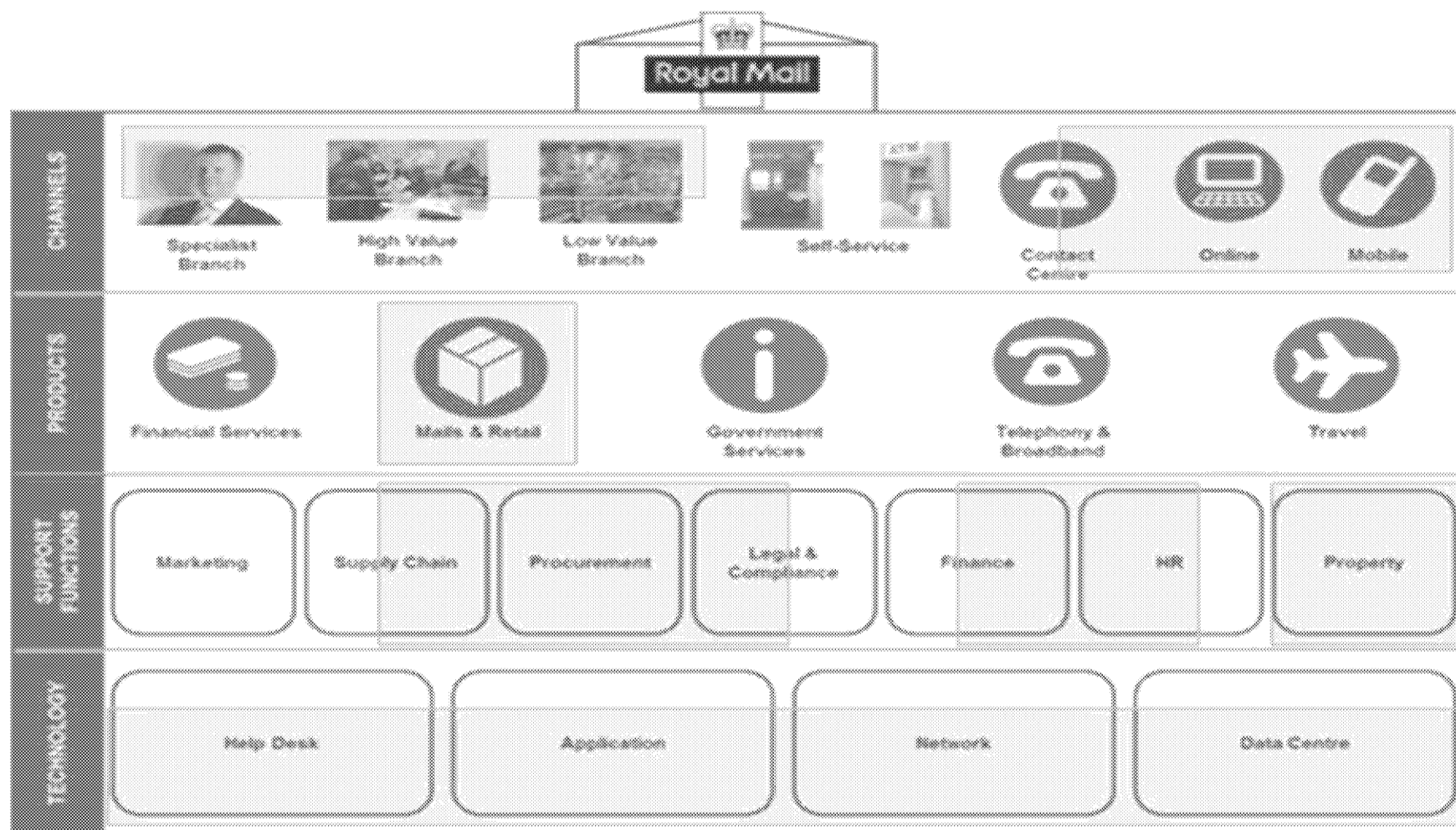


IT Separation





Separation Context: Historically Post Office have benefitted from common IT services provided across the Royal Mail Group.



Circa 30% by value of Post Office IT is provided and managed through Royal Mail Group contracts.



Context: Post Office and Royal Mail Group will separate our IT systems and services by September 2014 as agreed with Royal Mail Group under the Master Services Agreement.



- We have well developed plans for delivery of separation.
- In line with the Master Services Agreement:
 - business services will be separated by the end of March 2014.
 - IT services will be complete by end of September 2014.
- The Independence and Separation Programme, comprised of a joint Post Office and Royal Mail Group team, is working well.
- We will use the new IT supply chain where possible to deliver value for money technology required for the 21 projects.
- We should recognise that Post Office, as a smaller independent organisation, may not be able to achieve the same economies of scale afforded to Royal Mail Group.
- Technology which will be re-provisioned includes:
 - Finance systems including Treasury.
 - HR
 - Desktop hardware, software and other productivity tools.
 - Supply chain and Fleet management.
 - Customer facing web site and services (www.postoffice.co.uk).
 - Internal websites (intranet).
- The current major suppliers contracted by Royal Mail Group for these services include: CSC, CapGemini, BT, and Steria;

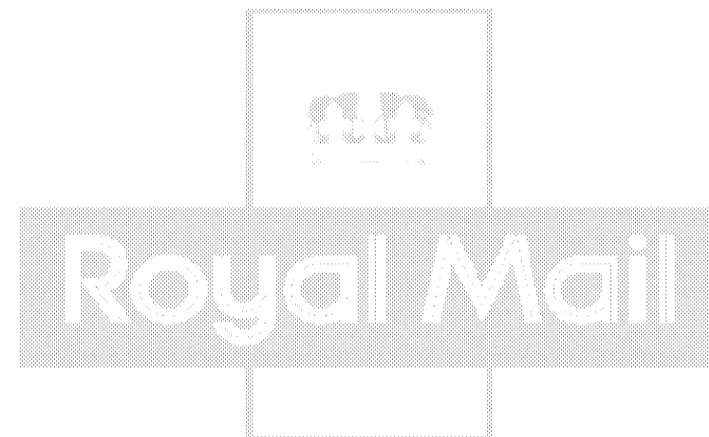
Historical Context

- In 2012 Post Office and Royal Mail Group agreed the Master Services Agreement (MSA).
- The Master Services Agreement governs the continued provision of services between the two organisations to achieve separation.
- There were 131 business services provided by Royal Mail Group on behalf of Post Office.
- 85 have now ceased, leaving 46 remaining;
- Post Office uses a wide range of IT applications from within the Royal Mail Group estate.
- Circa 20 application services have been completed to date.



Current Status: Work is progressing to schedule and we are currently on target to deliver to the agreed timeframes.

- The programme is on track to complete by the end of September 2014.
- IT and Business services are being considered together to ensure we achieve the desired business outcomes.
- Our Technology strategy is guiding our activity to ensure we realise the best outcomes for Post Office.
- We are collaborating closely with Royal Mail Group to ensure mutual success and the team is operating well.
- We are communicating closely with our supplier base to ensure they have good visibility of our timeframes and objectives.
- Both organisations are applying a pragmatic commercial lens to each of the proposed separation activities.
- The Master Services Agreement target dates are being used as the basis for planning and delivery execution, however exceptions will be considered where a business case exists.



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POST OFFICE LTD BOARD

IT&C Transformation Programme Service Integrator and Data Centre Procurement Update

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Board on the current status of the procurements for a Service Integrator and a strategic Data Centre.
- 1.2 Inform the Board that a request for approval to award both contracts is expected to be presented to the Executive Committee and Post Office Board in September 2013. The Service Integrator award will also need approval from the Shareholder Executive

2. Background

- 2.1 As previously agreed by the Executive Committee and the Board, Post Office is re-procuring its IT supply chain to meet the demands of our business strategy, Royal Mail Group Separation activities and support our end of life IT contracts.
- 2.2 As we progress our IT supply chain we will be asking for approval to award contracts to our selected bidders. Due to the size of award, Post Office financial governance requires some of these approvals to be sought from the Board and Shareholder Executive.
- 2.3 The Service Integrator and Data Centre procurements will be the first contract awards. We will be presenting these to the Executive Committee and the Post Office Board in September for approval.
- 2.4 We are currently refreshing the business case for IT supply chain procurement and this will be presented to POLIC in July.

Service Integrator and Service Desk (SISD).

3. Overview

- 3.1 Given the volume of change required to support our IT and business transformation journey the Post Office needs a trusted partner.
- 3.2 The Service Integrator, which will encompass our IT Service Desk, will fulfil this role and is pivotal to the success of our new IT supply chain.
- 3.3 The SISD will be the single point of contact for Post Office colleagues on all aspects of Information Technology (IT).
- 3.4 They will be accountable for the end-to-end management and delivery of current and future IT services.

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- 3.5 The key aims of this procurement are to optimise the IT supply chain to:
- Reduce operating costs.
 - Improve Post Office speed to market for business and product change.
 - Offer an improved user experience.
 - Drive innovation in process, service and cost management.
 - Improve our identification and management of technology risks.
 - Improve our ability to benchmark our services against the market to ensure continued value for money over the life of the Tower contracts.
- 3.6 Our new IT Operating Model balances the responsibilities between the Post Office and the SISD, with Post Office retaining the commercial relationships while the SISD takes accountability for delivery.
- 3.7 Following contract award a number of current Post Office staff will move to work for the Service Integrator (under TUPE).
- 3.8 The key challenge that we face is establishing the new contractual relationships within a short period of time. The sequencing and alignment of contract awards is crucial to our success.

4. Current Status

- 4.1 We are following a Competitive Dialogue procurement process¹.
- 4.2 We have completed an extensive period of dialogue with 3 suppliers (CGI, Cap Gemini and ATOS) to clearly define the Post Office's current, transition and future operating models.
- 4.3 A formal Invitation to Submit Final Tender (ISFT)², which defines Post Office's requirements to the bidders, has been approved by the programme board and issued. Issuing an ISFT enables the three suppliers to submit a bid detailing their final contractual and commercial terms.
- 4.4 Submitted bids will be evaluated on cost and the quality to which they meet the defined requirements, resulting in the selection of a preferred supplier in August.
- 4.5 Approval will be sought from the Executive Committee and Post Office Board in September for contract award.

¹ Competitive Dialogue is a Public Procurement Law (PPL) procedure used where there is a need to develop solutions and requirements with assistance from the market.

² The ISFT does not commit us to contract, but does form the basis of the contract. PPL procedure prevents any negotiation or changes to contractual or commercial terms following issue of an ISFT.

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5. Commercial Terms

- 5.1 The contract is being offered on an initial term³ of 4 years with an option to extend for up to 2 years at Post Office's discretion.
- 5.2 This contract is shorter than the initial term for other Tower contracts. This is to facilitate early re-procurement of the Service Integrator as they will then assist Post Office in selection for future Tower providers.
- 5.3 Based on dialogue, the cost estimates are in the range of £10m to £12m per annum, £40 to £48m over the initial term. Cost estimates will be refined during the evaluation of ISFT responses.
- 5.4 These costs are in line with industry benchmarks for the services we are looking to procure.

Data Centre.**6. Overview**

- 6.1 Data Centres provide the facility to host and operate the IT systems required to support the Post Office.
- 6.2 Post Office currently has multiple Data Centres including some services provided by Royal Mail. Many of these Data Centres are reaching end of life.
- 6.3 Procuring a strategic Data Centre will allow us to consolidate our current data centres which will lead to a reduced cost base. In addition we will have access to technologies, such as Cloud⁴, which will enable us to adjust our costs in line with varying business demand.
- 6.4 Our strategy is to consolidate our Data Centres into one operational facility supported by a resilient backup.

7. Current Status

- 7.1 We are currently in the final stages of dialogue with Fujitsu.
- 7.2 Dialogue will complete during August and subject to its successful conclusion we will recommend the contract award to the Board in September.

8. Commercial Terms

- 8.1 The contract is being offered on an initial term⁵ of 5 years with an option to extend for up to 2 years at Post Office's discretion.
- 8.2 Based on dialogue the cost estimates are in the range of £3m to £4m per annum, £15 to £20m over the initial term⁶. Cost estimates will be refined during the evaluation of the ISFT response.

³ The term was defined in the initial OJEU (Official Journal of the European Union) notice and cannot be changed without restarting the procurement process.

⁴ Cloud: enables Post Office to reduce its overheads by using shared third party IT facilities.

⁵ The term was defined in the initial OJEU (Official Journal of the European Union) notice and cannot be changed without restarting the procurement process.

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- 8.3 These costs are in line with industry benchmarks for the services we are looking to procure.

9. Summary

- 9.1 The Board is asked to note the status of the Service Integrator and Data Centre procurements.

Lesley Sewell
July 2013

⁶ This excludes the capacity that supports the Horizon Point of Sale solution as this is not a committed spend.

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POST OFFICE LTD BOARD

Transitional Support Services with Fujitsu

1. Purpose

The purpose of this paper is to:

- 1.1 Seek approval from the Board for a 2-year agreement¹ with Fujitsu for Transitional Support Services (TSS), so ensuring continued provision of Horizon² counter services.
- 1.2 Gain approval to submit this paper to the Shareholder Executive in July 2013 for approval to sign the TSS agreement before the 30th September 2013.

2. Our journey so far

- 2.1 Fujitsu has developed and run Horizon for the Post Office since 1995. It is a highly complex, bespoke system which given its structure is inflexible and costly to change.
- 2.2 During the last 12 months, we have initiated the following programmes of work to enhance Horizon and better support our business strategy. These include:
 - **Horizon Anywhere:** allows Horizon to run on any Microsoft Windows device.
 - **Branch Counter Refresh:** identifies how we replace out dated counter hardware to enable new services such as internet and email.
 - **Horizon Business Services:** reduces the cost and time for Post Office to connect business partners and clients to Horizon.
- 2.3 In parallel we have conducted market activity to understand how other Postal organisations have transitioned away from their legacy Point of Service (POS) solutions.
- 2.4 Having completed this activity we now better understand the challenge and time requirements to deliver a future POS solution for an organisation of our size and complexity.

3. Recommendations

- 3.1 Extend the existing Fujitsu contract for Horizon via a 2-year TSS agreement to:
 - Secure the continued provision of core Horizon services to 31st March 2017 so allowing time to procure a future POS solution which will either evolve or replace Horizon.
 - Acquire a Horizon Intellectual Property (IP)³ license from Fujitsu so that any new suppliers have the choice to incorporate elements of this solution within their proposal.
 - Allow time to deconstruct and transition Horizon services into the new IT supply chain (Towers model).

¹ The Transitional Support Services agreement is a contract change note, or CCN, which varies the existing Horizon contract.

² Horizon Online electronic counter services are provided by Fujitsu Services under the HNGx managed services contract which provides end-to-end services to all Post Office branches. The Agreement was originally signed 28th July 1999 and has been extended. It expires on 31st March 2015.

³ Intellectual Property or Intellectual Property Rights (IPR).

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4. Considerations

- 4.1 Horizon costs c £68M inclusive of VAT each year, comprising OpEx of c £58M and development business as usual CapEx of c £10M. This expenditure represents approximately 70% of third party IT OpEx spend.
- 4.2 Given the business criticality of Horizon, a risk constrained approach to any transformation impacting counter services is essential.
- 4.3 The HNGx contract with Fujitsu includes a provision for Post Office to request an extension beyond 31st March 2015. Unless otherwise agreed, formal notification must be provided to Fujitsu by 30th September 2013.

5. Transitional Support Services (TSS) Benefits

- 5.1 Post Office branch counter operations are protected during the 2-year TSS period, reducing our risk profile during Crown and Network transformation and separation from Royal Mail Group.
- 5.2 Post Office price points have been maintained and in some cases improved whilst the scope⁴ with Fujitsu has been reduced.
- 5.3 Horizon services will be transitioned to the Towers model during the TSS period and additional partial termination rights⁵ have been negotiated with Fujitsu to support this approach.
- 5.4 Inclusion of additional transition and collaboration principles will allow Post Office to leverage the benefits of its Service Integrator to manage this activity.
- 5.5 Post Office will have sufficient time to implement our future POS solution, engaging with the market to ensure an effective competitive process.

6. Risks

- 6.1 Should transition to our future POS solution extend beyond 31st March 2017, Fujitsu have indicated that additional investment in the Horizon data centre will be required. As a result of this we have already begun the process of determining our future POS solution and preparing to go to market.
- 6.2 Horizon is a complex solution comprising multiple services that are currently provided by Fujitsu. Any transition of these services adds additional risk. A 2-year TSS has therefore been selected as affording the best balance between risk and cost.
- 6.3 There is a risk that we may be unable to agree an IP License with Fujitsu on reasonable terms. Post Office is continuing to meet with Fujitsu and the Board will be updated as discussions develop.

7. Financials

- 7.1 OpEx for the proposed TSS agreement is up to £41.5M inclusive of VAT per annum. This does not represent incremental expenditure beyond the on-going cost of maintaining our Branch counter service.

⁴ Some Horizon services will transition to Towers during FY2014-15 including Service Desk and Engineering Services.

⁵ Post Office can partially terminate for convenience many individual Horizon services. Alternatively, the whole Agreement can be terminated prior to full term. Any early termination is subject to early termination charges.

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- 7.2 At the point of signature, Post Office's liability to early termination charges is increased by c £8.3M. This incremental liability reduces during the term of the TSS agreement.
- 7.3 As we conclude the Tower procurements, we will progressively plan transition of TSS services to the Towers model to optimise our OpEx position.

8. Approval Request

- 8.1 The Board is requested to approve a 2-year Transitional Support Services Agreement with Fujitsu valued at up to £83M.
- 8.2 The Board is asked to note that approval for authority to contract the TSS agreement with Fujitsu will also need to be sought from the Shareholder Executive in July. This will allow us to conclude negotiations and execute the TSS with Fujitsu before the 30th September 2013.

Lesley Sewell
July 2013

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POST OFFICE LTD**Financial Services Strategy Update****1. Background**

- 1.1 At the March 2013 meeting the Board supported the Financial Services (FS) strategy (the Plan) and asked management to provide an update on progress, in particular that the assumptions on the new insurance model remained valid.
- 1.2 The Plan identified the opportunity for the Post Office to become the leading challenger FS brand, with five million customers and gross income of £530 million by 2020. The Plan also confirmed that to deliver the growth, the Post Office needs to enhance its business fundamentally, in particular to:
- Build the brand, so that customers are aware of the Post Office FS offer;
 - Ensure our products are simple, transparent and offer value for money;
 - Improve the sales model and people capability;
 - Enhance the sales and service experience for customers, including leveraging branch and on-line capabilities¹.
- 1.3 The Plan also highlighted the opportunity to change the role that Post Office plays in insurance, taking more value from the transaction. The initial focus for this strategy was on the travel insurance business as the current arrangements expire shortly; subsequent phases encompassed acquiring the Bank of Ireland (UK) plc's (BoI) interest in insurance and taking over the broking activities currently performed by Junction/BSL.
- 1.4 This paper provides an update on progress on the core components of the strategy after three months and is tabled for noting.

2. Travel insurance

- 2.1 To provide customers with travel insurance, Post Office currently utilises a single underwriter (Ageas) via a broker (Aon). This structure is cumbersome, expensive and slow to market and is not capable of delivering the 2020 vision.
- 2.2 Establishing a new model for travel insurance requires:
- Confirming the proposed model to establish an MGA² (see 2.3 - 2.5);
 - Extending the existing travel insurance arrangements (2.6);
 - Identifying and procuring an appropriate insurance platform (2.7);
 - Assessing the future operating model for the Aon call centre (2.8 - 2.9).
- 2.3 Since March, management has been stress-testing the proposed model and engaged Miller Insurance Service LLP, its corporate insurance adviser, to review the model and validate the assumptions³.

¹ This change program is largely funded from the £4.0 million annual investment commitment that Post Office made in Eagle. This does not include Post Office brand investment, or acquiring the insurance businesses. BoI provides £15 million per annum in marketing spend.

² The MGA would control the process of the insurance delivery, giving Post Office significant operational and commercial flexibility.

³ Including comparing the MGA model to alternatives.

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- 2.4 The Miller report⁴ confirmed that utilising an MGA is both workable and appropriate for Post Office, providing operational flexibility and increased control on product and pricing. Miller also confirmed that it would create income in line with projections and that the model overall was of low, and manageable, risk. In particular Miller stated that:
- “...we believe that setting up an MGA is a viable option for POL as this would give you full control. An MGA would also give you enhanced economic value through additional profit commission, whilst allowing you the underwriting ability, flexibility around the coverage and pricing mechanisms to drive change”.*
- 2.5 The business case for the overall travel insurance program is being finalised and will be tabled to POLIC in July; preliminary assessment confirms that the financial projections are consistent with those set out in the Plan.
- 2.6 Management is in negotiations with Aon and Ageas to continue cover to October 2014, thereby allowing a managed transition to the new model⁵. While management is confident that agreement will be achieved before the end of July, Aon have also been instructed to seek alternative underwriting arrangements should agreement not be reached with Ageas.
- 2.7 The delivery of the MGA requires utilising a scalable multi-product insurance platform. Management is in the process of identifying and procuring the appropriate platform. This process will be completed in October 2013.
- 2.8 The Aon call centre employs up to 120 staff⁶ and is dedicated to Post Office travel insurance. With the migration to a new provider triggering TUPE⁷, management is assessing the appropriate operating model and procurement process. This evaluation will be complete by October 2013.

3. Insurance Buy-out from Bol

- 3.1 The Eagle contract established clear parameters for the Post Office to buy out the insurance business from Bol, being:
- One way call option from September 2014 to September 2016;
 - Option price based on Bol's discounted cash flow from the business.
- 3.2 At the March meeting, the Board agreed that management could seek to advance this strategy with Bol ahead of the option period.
- 3.3 To assist accelerate the acquisition, management has engaged KPMG⁸ to develop a financial model and negotiating strategy. The KPMG report will conclude in mid-July; initial feedback confirms that the indicative valuation remains at c£20 million identified in the Plan.
- 3.4 Nick Kennett has had a preliminary conversation with the Bol Distribution Director to ascertain Bol's potential interest in pre-option discussions. He

⁴ Miller report 14th June 2013: “Commercial Travel Insurance – Options and deliverables for creating a long term commercially viable and robust risk financing platform”.

⁵ While a quicker transition is achievable, migrating during the summer holiday season would add considerable risk to the program.

⁶ The number varies through the year, with the peak occurring during the summer holiday period.

⁷ Transfer of Undertakings (Protection of Employment) Regulations 2006.

⁸ KPMG provided expert assistance during Eagle, including on the creation of the insurance buyout option.

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confirmed that Bol would entertain an offer, while seeking to ensure that “the value of the insurance business is maximised over the long term for the benefit of both partners”.

- 3.5 It is anticipated that management will be in a position to propose an acquisition strategy in August.

4. Removing Junction from the Post Office Insurance Program

- 4.1 The Plan assumed that Post Office would no longer use Junction for general insurance broking from 2015/16. Further analysis, in particular following negotiations with Junction to confirm the extension of their services beyond 2014, it is now apparent that transition would occur in 2016/17.
- 4.2 This delay does not impact the 2020 outcomes, but does have timing implications in 2015/16 and 2016/17 years.

5. Financial Services Sub-Brand

- 5.1 Final market research on various FS sub-brand options is underway, with results due in mid-August. The rollout of a new sub-brand could occur from September, although the rollout strategy and timings have yet to be finalised.

6. Financial Services Sales Model

- 6.1 To support the growth of mortgage sales, c50 mortgage specialists have been trained and deployed in Crown branches, ahead of 100 planned by October. The team will then be trained to perform under the new advised sales regulation (Mortgage Market Review) that applies from April 2014.
- 6.2 The deployment of the new FS area and supervisory structure is well underway with all three Regional Managers and 27 of the 36 Area Managers recruited (with nine Area Managers already in training). The full rollout of the FS sales structure will be largely completed by October.
- 6.3 While it is very early days, the establishment of a dedicated and focused sales structure alongside Crowns has shown improvements in both attitude and outcome⁹.
- 6.4 The current FS sales incentive scheme does not encourage and reward effective sales performance. Management, supported by Mercer LLC a specialist HR consulting business, is developing a new incentive structure. It is planned that this will be deployed from October, but will require sign off from Bol and is subject to agreement with the CWU. The plans will also be shared with the Financial Conduct Authority.

⁹ A few examples of the changed approach seen:

The Mortgage Specialist (MS) in Derby travelled to an agency for an appointment made by the Financial Specialist (FSS) from Chesterfield on a Saturday; not only did she achieve the sale, but used the conversation to sell two life insurance policies and booked a further appointment for the FSS to discuss credit cards and travel insurance when the customer returns to complete the documentation.

The MS in Manchester has achieved 15 mortgage applications since April (1.25 per week) by engaging with local branches, attending their team meetings and sharing his mortgage knowledge.

In the first six weeks of the Polo pilot, Diss Crown office averaged 2.3 applications per week. After a direct coaching session through the new support structure sales have recently averaged 7 per week.

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7. Customer Journeys and Data Analytics

- 7.1 The current customer experience while purchasing an FS product is often poor and inconsistent by channel, leading to a high level of non-completion of applications. Management is undertaking a review of all FS product journeys, mapping the existing processes, seeking customer feedback on their experience and requirements, and then building new processes. All FS journeys will be mapped and new process agreed by Q1 2014/15. Changes will be implemented as they are finalised, although some changes depend on Post Office and partners' systems development.
- 7.2 The credit card and personal loan processes have been mapped and new models are being finalised; a review of the mortgages journey has been completed and the review of savings products is about to commence. In all cases, quick wins will be implemented immediately.
- 7.3 To confirm that these changes are benefiting customers' experience baseline surveys will have been completed by September to create a scorecard of FS Net Promoter and effort scores, by product and channel.
- 7.4 Customer analytics work is behind schedule due to the audit of the Brands database not being completed and the procurement risks being unresolved. Management is seeking ways to bring this critical program back on track.

8. Product update

- 8.1 *Current account*
On 13th May the Post Office launched the current account in 29 branches. Press coverage generated almost 650 separate articles across national newspapers, regional press and broadcast media as well as online. The key messages were successfully delivered and Nick Kennett was quoted 111 times. The story led on BBC and Sky with rolling coverage all day on both channels. 95% of coverage was positive.
- 8.2 After 6 weeks, pilot applications are slightly ahead of target, although sales are behind forecast as referrals for identity verification are higher than anticipated. We anticipate reaching the sales threshold in September 2013.
- 8.3 *Pre-paid debit card (PPD) – Project Penguin*
Post Office is seeking to launch a new PPD card¹⁰ for Christmas 2013. FRES¹¹ has won a tender to launch a reloadable, general spend PPD card branded "Post Office Money Card". It will be available in branches and online.
- 8.4 *Investments & Pensions*
A strategic working group has been established with Bol to launch simple investments products. Research is underway to assess demand, customer requirements and delivery models. The target is to launch in early 2014.
- 8.5 Post Office is also investigating offering retirement solutions to respond to the growing demand for planning products, in particular annuities. Management is in discussion with market providers to offer a white label on-line solution, with a view to a possible launch in late 2014.

¹⁰ Post Office already issues a Sterling PPD within the family of Travel Money Cards.

¹¹ First Rate Exchange Services Ltd – Post Office owns 50 percent.

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8.6 *Payment Services Provider (PSP)*¹²

The Plan highlighted the opportunity for Post Office to offer payment services to SMEs, leveraging their high branch footfall. This service, which is the first stage of the FS SME strategy, is on target for launch in October with Post Office acting as an agent of a global payments provider¹³. The sales and delivery model will be largely on-line and managed by the provider, minimising systems build and branch impact. The business case will be completed in July and is targeted to generate income of £500,000 in 2013/14.

9. Conclusion and Recommendation

- 9.1 There are a significant number of initiatives underway across FS to build a sustainable business and deliver the long term strategy and revenue growth. Initial results confirm the growth opportunity.
- 9.2 While these initiatives are broadly on track, it is critical that they complete during 2013/14 to ensure that the business is positioned to deliver the higher targets for 2014/15 and beyond
- 9.3 The Board is asked to note this paper.

Nicholas Kennett
Director, Financial Services
July 2013

¹² A PSP enables businesses to accept card payments, either where their customer is present with a card or where the transaction is completed remotely ("card not present" or CNP)

¹³ The shortlisted candidates are Global Payments and WorldPay.

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POST OFFICE LTD

Project Polo - Success Criteria

1. Purpose

1.1 At the meeting in May 2013, Directors asked management¹ to table the criteria agreed with the Bank of Ireland (UK) plc (BoI) to confirm the success of the Polo proof of concept (PoC). The satisfactory achievement of the criteria will confirm the intent of Post Office and BoI to proceed to full rollout, and in particular for BoI to procure a full scale current account platform.

1.2 This paper is tabled for noting.

2. Background

2.1 The current account is critical to Post Office's ambition to build a successful financial services business. The PoC will enable the Post Office and BoI to:

- Confirm the demand for a Post Office bank account and Post Office's ability to sell it;
- Understand customers' behaviours and market reaction; and
- Assess the impact of these findings on the enterprise business case², product offering and sales processes.

3. Key Success Criteria

3.1 Prior to commencing the PoC, the parties agreed the criteria that would be used to confirm the success of the PoC and hence enable the project to proceed to full rollout. The assessment is based on four broad criteria and would apply once 1,500 accounts have been opened.

3.2 **Volume and Type of Accounts** – Do the accounts acquired reflect the expected profile - volume, product type, channel of acquisition; has the sale of other financial services products been impacted?

Measurement criteria - Sales volumes reach minimum threshold; less than 20 percent of sales arise through the contact centre³; account types broadly reflect the wider market⁴.

3.3 **Customer profile** – Do customers' behaviours with the product reflect that anticipated?

Measurement criteria –Net Promoter Score exceeds 20 (confirming strong customer satisfaction).

3.4 **Prudential risk** – Are there adverse product risks being experienced?

Measurement criteria – There are no significant credit or fraud losses and no significant reputational damages for either party.

¹ Action item 3k.

² The EBC is the joint business case built by the Post Office and BoI.

³ These occur where an application is not completed in branch.

⁴ Assumed to be Standard account 66%, Packaged account 16% and Control account 18%

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- 3.5 **Commercial viability** – Does the performance of the PoC meet both parties' financial expectations as set out in the EBC.

Measurement criteria – The overall performance of the PoC is broadly consistent with the EBC.

- 3.6 In agreeing the criteria Bol acknowledged that the assessment should take account of the 'lite' version of the current account being offered in the PoC⁵.

4. PoC Status and Actions

- 4.1 After six weeks, PoC applications are slightly ahead, although sales are slightly behind forecast as referrals for identity verification are higher than anticipated. While the parties are assessing process changes to reduce the referral rate, the parties anticipate that the sales threshold of 1,500 will be reached in September 2013.
- 4.2 As a result, Post Office is finalising its requirements for the full rollout for discussion with Bol.
- 4.3 Initial conclusions from the PoC do not highlight material variations from the EBC.
- 4.4 Post Office and Bol are assessing the opportunity to expand the PoC to additional areas, ahead of full rollout. This would utilise the existing platform.

5. Recommendation

- 5.1 The Board is asked to note this paper.

Nicholas Kennett
Director, Financial Services
July 2013

⁵ For example, the PoC does not include an SMS or mobile app, which could lead to more enquiries, and does not allow internet account opening, as customers can only sign-up via a branch in the target region.

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POST OFFICE LIMITED

Performance Report

May 2013

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Headlines

May 2013

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Financials - YTD

Profit

Period 2 YTD operating profit was £7.6m, which was £6.4m adverse to budget of £14.0m, and £10.2m adverse to prior year of £17.9m. There were a number of timing issues which will unwind next month and the underlying variance is close to budget.

- Net Income was £144.5m which was £4.3m adverse to budget and £9.3m adverse to prior year
 - Versus budget - driven by Mails. Specifically International Mails, 1st class labels and Lottery, all c. £1m below budget.
 - Versus prior year, driven primarily by the buy forward last year prior to the Mails price increase.
- Staff costs were £0.6m adverse to budget and £1.8m adverse to prior year. The actual costs include £0.7m for the £100 payment to all staff up to middle manager level which will be cleared against year end accruals in period 3.
- Agents' costs were £6.0m favourable to budget. £3m of this relates to lower sales income. The remainder is made of smaller variances related to some timing and recovered VAT from 2012/13 greater than accrued. £7.7m favourable to prior year, due to lower sales, predominantly Mails buy forward pre price increase.
- Non people costs were £2.0m adverse to budget, and £3.3m adverse to prior year. The overspend is largely driven by the timing of the charge for Microsoft licences taken in full, but which will be reversed next month and spread over the life of the licences. Versus prior year: it is the licence payments and increased marketing expenditure.
- Interbusiness expenditure was £0.5m favourable to budget and £0.4m favourable to prior year due to lower mails costs versus budget and separation savings versus prior year.
- Project costs were £5.4m over spent against the budget due to delay to the Brand expenditure planned for 2012-13.

Cashflow

The YTD cashflow was an inflow of £262m which was £57m favourable to the £205m inflow budget (period 1 was £157m favourable).

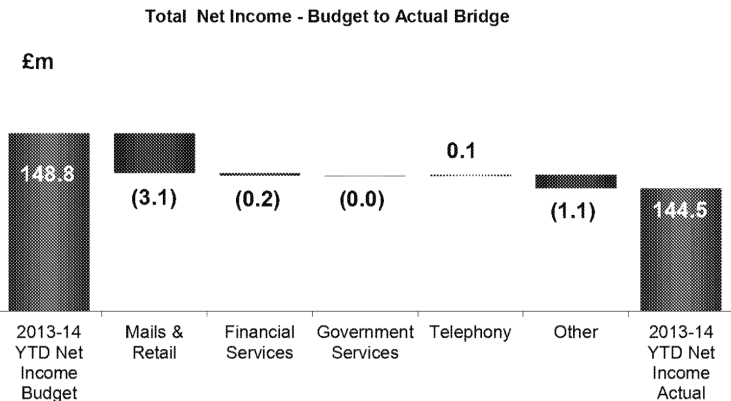
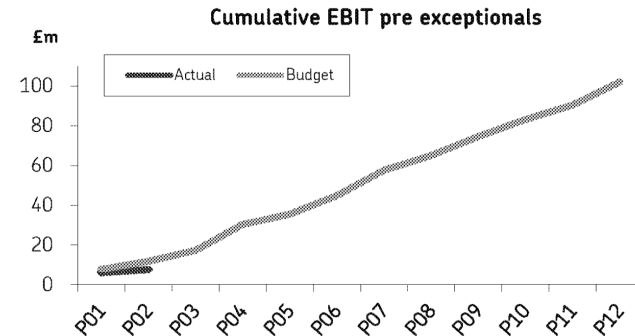
The £57m favourable variance was due to the increased DVLA creditor resulting from the proximity of the accounting month end to calendar month end and new contract terms.

Crown Profit - YTD

The Crown profit is £1.0m adverse to plan with income flat and Direct Product costs driving the variance. This variance relates to costs paid earlier than planned and is expected to unwind over the coming periods.

Non financials - YTD

- Queue time in branches (less than 5 minutes) was 3.5% favourable.
- YTD Network conversions were 16 ahead of the 1531 target.



Financials

Total Net Income (excl NSP) £m (Bonus)
Operating profit £m (Bonus)
Free cashflow £m
Crown Profit (Loss) £m (Bonus)

Non Financials

Queue time % < 5 minutes - Top 1k branches
Network Conversions (Mains & Locals) (Bonus)

Year to Date		
Act	Target	Var
144.5	148.8	(4.3)
7.6	14.0	(6.4)
262.4	205.3	57.1
(6.8)	(5.8)	(1.0)

78.0%	74.5%	3.5%
1531	1515	16

Profit & Loss Statement

May 2013

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£m	Current Month			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Current Forecast	Budget	Variance	Outturn
External Income	47.4	46.5	1.0	50.0	(2.6)	105.5	106.5	(1.1)	108.3	(2.9)	643.3	643.3	0.0	651.3
Interbusiness Income	26.4	27.3	(0.9)	25.5	0.9	58.6	61.5	(2.9)	65.2	(6.6)	368.9	368.9	0.0	372.3
TOTAL GROSS INCOME	73.8	73.8	0.1	75.5	(1.6)	164.0	168.1	(4.0)	173.5	(9.5)	1,012.2	1,012.2	0.0	1,023.6
Cost of Sales	(9.3)	(8.8)	(0.5)	(9.0)	(0.3)	(19.5)	(19.3)	(0.2)	(19.7)	0.2	(112.2)	(112.2)	0.0	(121.2)
TOTAL NET INCOME	64.5	64.9	(0.4)	66.4	(1.9)	144.5	148.8	(4.3)	153.8	(9.3)	900.0	900.0	0.0	902.4
Staff Costs	(21.3)	(20.6)	(0.7)	(20.4)	(0.8)	(44.8)	(44.1)	(0.6)	(43.0)	(1.8)	(256.1)	(256.1)	0.0	(257.4)
Agents Costs	(33.4)	(36.2)	2.8	(35.6)	2.2	(76.5)	(82.5)	6.0	(84.2)	7.7	(480.0)	(480.0)	0.0	(478.1)
Non-Staff Costs	(15.1)	(10.7)	(4.4)	(9.9)	(5.2)	(27.5)	(25.5)	(2.0)	(24.2)	(3.3)	(160.0)	(160.0)	0.0	(162.3)
Interbusiness Expenditure	(6.2)	(6.7)	0.5	(6.6)	0.4	(14.2)	(14.7)	0.5	(14.6)	0.4	(83.9)	(83.9)	0.0	(83.6)
Depreciation	(0.0)	(0.1)	0.1	0.0	(0.0)	(0.1)	(0.2)	0.1	(0.1)	(0.0)	(0.9)	(0.9)	0.0	(0.4)
Total Expenditure (pre P00C)	(76.1)	(74.3)	(1.8)	(72.6)	(3.5)	(163.1)	(167.0)	3.9	(166.2)	3.0	(980.8)	(980.8)	0.0	(981.8)
FRES - Share Of Operating Profits	2.2	2.6	(0.4)	3.3	(1.2)	4.6	5.2	(0.6)	5.3	(0.7)	31.5	31.5	0.0	31.9
EBIT Pre Overhead Allocations	(9.4)	(6.8)	(2.6)	(2.8)	(6.6)	(14.0)	(13.0)	(0.9)	(7.0)	(7.0)	(49.3)	(49.3)	0.0	(47.5)
Group Overhead allocations	(1.1)	(1.1)	0.0	(1.2)	0.1	(2.3)	(2.3)	0.0	(2.5)	0.2	(13.8)	(13.8)	0.0	(14.9)
EBIT - BAU	(10.5)	(7.9)	(2.6)	(4.0)	(6.5)	(16.3)	(15.3)	(0.9)	(9.5)	(6.8)	(63.0)	(63.0)	0.0	(62.4)
One off Project costs (P00C)	(3.3)	(1.3)	(2.0)	(3.4)	0.1	(10.7)	(5.3)	(5.4)	(8.3)	(2.4)	(35.0)	(35.0)	0.0	(53.4)
EBIT - Post Project Costs	(13.9)	(9.2)	(4.7)	(7.4)	(6.4)	(27.0)	(20.6)	(6.4)	(17.8)	(9.2)	(98.0)	(98.0)	0.0	(115.8)
Network Payment	15.4	15.4	0.0	15.8	(0.5)	34.6	34.6	0.0	35.7	(1.0)	200.0	200.0	0.0	210.0
EBIT pre exceptionals items	1.5	6.2	(4.7)	8.4	(6.9)	7.6	14.0	(6.4)	17.9	(10.2)	102.0	102.0	0.0	94.2
Interest	1.0	(1.0)	2.0	(0.7)	1.6	1.0	(1.0)	2.0	(0.6)	1.5	(5.0)	(5.0)	0.0	(0.8)
Impairment	(1.8)	(8.9)	7.1	(2.6)	0.8	(6.3)	(15.6)	9.3	(16.2)	9.9	(167.5)	(167.5)	0.0	(76.6)
Exceptionals & Redundancy & Severance Costs	(9.2)	(10.0)	0.8	(2.0)	(7.2)	(15.3)	(22.6)	7.3	(4.1)	(11.2)	(189.4)	(189.4)	0.0	(77.0)
Government Grant Utilisation	24.4	24.4	0.0	5.1	19.3	53.4	50.0	3.4	9.1	44.3	316.9	316.9	0.0	98.2
Profit/(Loss) On Asset Sale	2.5	0.0	2.5	0.0	2.5	2.5	0.0	2.5	0.0	2.5	0.0	0.0	0.0	(27.7)
Colleague Share/ Business Transformation Payments	0.7	0.0	0.7	0.0	0.7	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0	(3.3)
Total Profit/(Loss) Before Tax	19.1	10.7	8.5	8.3	10.8	43.6	24.8	18.8	6.1	36.7	57.0	57.0	0.0	7.0

Period vs. Budget

Operating profit (EBIT) of (£1.5m) was £4.7m adverse to budget.

BAU was £2.6m adverse:

- Lower income of £0.4m,
- Higher staff costs of £0.7m due to the £100 payments made which will be cleared against accruals next month, and
- Higher non staff costs of £4.4m mainly due increased IT fees, and timing of Microsoft Licence payments.

Offset by

- Lower Agents costs due to reduced income and
- Lower IB expenditure.

One-off variance of £2.0m adverse was due to:

- Higher project costs primarily relating to Brand and marketing.

Below EBIT

Impairments were favourable due to slower progress than plan on NTP. The profit on sale related to the lease surrender of Midway House.

YTD vs. Budget

Operating profit (EBIT) of £7.6m was £6.4m adverse to budget.

BAU variance of £0.9m was mainly due to:

- Lower income of £4.3m,
- Higher staff cost of £0.6m due to the £100 payments made which will be cleared against accruals next month,
- Higher non staff costs of £2.0m due to the timing of the charge for Microsoft licences taken in full but which will be reversed next month and spread over the life of the licences, and
- Lower JV income of £0.6m timing and not considered a concern at this stage.

Offset by

- Lower agents costs of £6.0m due to; £3m of this is related to lower sales income. The remainder is made of smaller variances related to some timing and recovered VAT from 2012/13 greater than accrued, and
- Lower IB and overhead allocations of £0.5m.

One-off variance of £5.4m adverse was all due to:

- Higher project costs, specifically Brand related costs delayed from 2012-13.

Below EBIT

The main variance were the slower pace of capital spend and operating exceptionals, including agents compensation, compared to budget. Government grant utilisation follows this trend, but also included utilisation against the remaining 2012/13 exceptional costs.

YTD vs. Prior Year

Operating profit (EBIT) of £7.6m was £10.2m adverse to prior year.

Like for like adverse variance of 6.8m was mainly due to:

- Lower net income of £9.3m primarily due Mails and Government Services,
 - Lower agents costs of £7.7m mainly due high stamp volumes prior to the 2013 price rise, reduced fixed pay and WHS incentives, and
 - Lower IB and overhead allocations of £0.6m due to separation.
- Offset by
- Higher staff cost of £1.8m due to £100 payments this year, increased pension payments and increased headcount,
 - Higher non staff costs of £3.3m due Microsoft payments this year and higher marketing costs, and
 - Lower income from JVs of £0.7m.

Non like for like adverse variance of £3.4m was due to:

- Higher Network payment of £1.0m, and
- Higher project costs of £2.4m.

Below EBIT

2012/13 capital expenditure included £11m property transfers from Group. NT exceptionals including compensation were ahead of the equivalent pace in 2012/13. 2013/14 grant utilisation includes £30m against 2012/13 exceptional costs not covered by the 2012/13 grant.

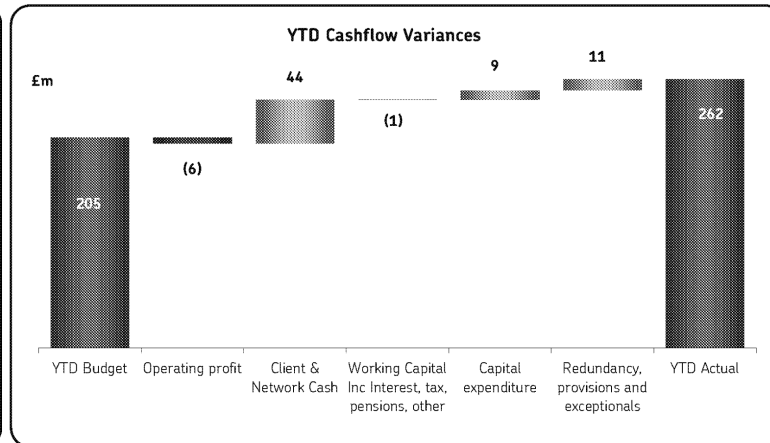
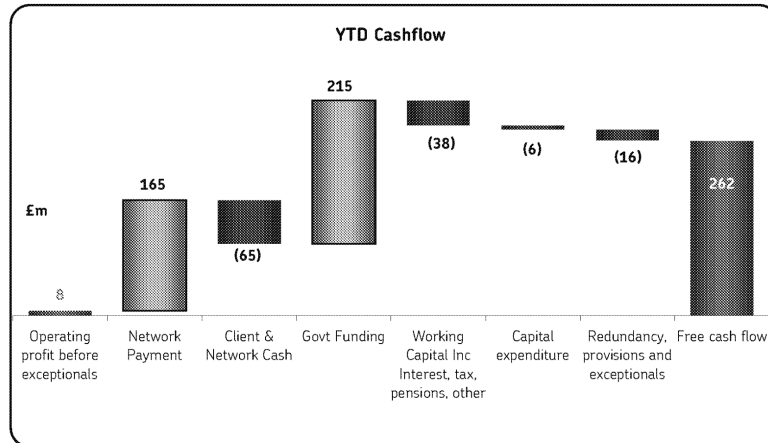
Cashflow Analysis & Balance Sheet Summary

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Cashflow to period 2 was a cash inflow of £262m versus a budget of £205m inflow resulting in a favourable variance of £57m.
This includes £415m received on 2 April for the Network Subsidy Payment and additional grant funding.



Balance Sheet		P2		
£m	Mar-13	Actual	Budget	Variance
Fixed Assets	71	76	76	0
Debtors	122	143	116	27
Cash	870	906	910	(4)
Client Balances	(288)	(259)	(219)	(40)
Trade Creditors	(362)	(673)	(665)	(8)
Pension (deficit)/surplus	97	97	72	25
Provisions	(26)	(26)	(21)	(5)
Investments, Funding	95	67	86	(19)
Loan	(291)	0	(77)	77
Net Assets	288	331	278	53

Reserves	Mar-13	Actual	Budget	Variance
Capital and Reserves	(288)	(331)	(278)	(53)
	(288)	(331)	(278)	(53)

Cash Management Table

£m	Prior Year	Mar-13	P2		
	P2	Opening	Actual	Budget	var
Retail, Cash Centres	560	650	713	723	10
Bureau	78	59	72	77	5
Cheques, debit cards	94	161	121	110	(11)
Network Cash	732	870	906	910	4

	Opening	P2
Headroom (£m)	862	861

Cashflow

The YTD cashflow was an inflow of £205m which was £57m favourable to the £205m budgeted.

The £57m variance was mainly due to:

- EBIT £6m adverse to budget.
- Client balances and Network Cash combined were £44m favourable chiefly attributable to the increased DVLA creditor resulting from proximity of accounting month end to calendar month end and new contract terms, which have increased the number of days to be settled.
- Capital expenditure is £9m favourable driven by lower than planned expenditure on NTP.
- Exceptionals are £11m favourable primarily due to lower than planned NTP and CTP expenditure.

Cash Management

- Retail and Cash Centre cash (manageable cost) - £10m favourable to budget. Versus prior year, the variance was £153m adverse. Of this variance, branches were £39m adverse due to holdings as a contingency for industrial action and cash centres were £114m favourable due to Treasury positioning.
- Bureau (manageable cost) - £5m favourable to budget, and £6m favourable to prior year.
- Cheques and debit cards (customer driven) - £11m adverse to budget and £27m adverse to prior year.

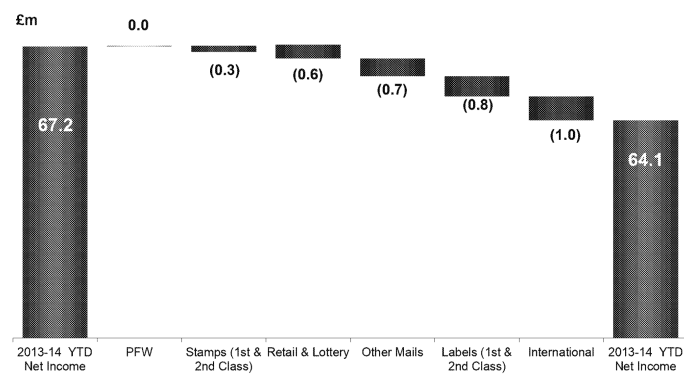
Net Income By Pillar vs Budget May 2013

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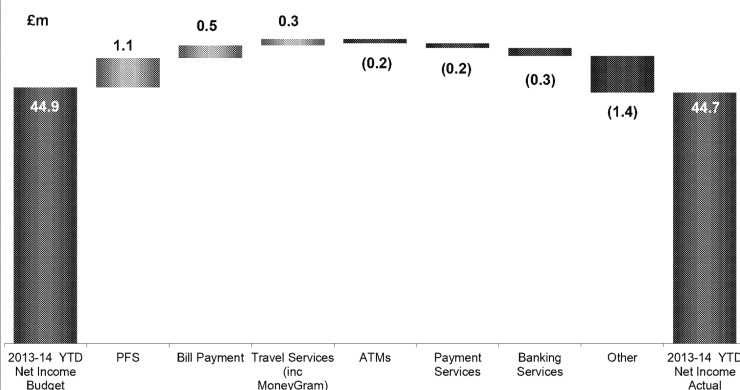


Net Income (£m)	Period			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Current Forecast	Budget	Variance	Outturn	Variance
Mails & Retail	28.4	28.1	0.2	28.4	(0.1)	64.1	67.2	(3.1)	71.5	(7.4)	414.6	414.6	0	404.0	10.7
Financial Services	20.1	19.9	0.1	20.7	(0.6)	44.7	44.9	(0.2)	42.9	1.7	277.4	277.4	0.0	279.6	(2.1)
Government Services	9.8	8.0	1.8	10.7	(0.9)	20.9	20.9	(0.0)	24.9	(4.0)	115.9	115.9	(0.0)	133.2	(17.4)
Telephony	3.6	5.6	(2.0)	3.5	0.1	8.9	8.8	0.1	7.3	1.6	50.4	50.4	0.0	45.0	5.4
Other	2.7	3.2	(0.6)	3.1	(0.4)	6.0	7.1	(1.1)	7.2	(1.2)	41.7	41.7	(0.0)	40.7	1.0
TOTAL NET INCOME	64.5	64.9	(0.4)	66.4	(1.9)	144.5	148.8	(4.3)	153.8	(9.3)	900.0	900.0	0.0	902.4	(2.4)

Mails & Retail Services



Financial Services



Pillar Performance vs YTD Budget

Mails & Retail Services - (£3.1m) Adv
International - £1.0 adv due partly to lower volumes and partly to the budget being stretching - £0.6m higher than prior.
1st and 2nd Class labels - £0.8m adv driven by lower 1st class volumes being down by 25%.
Other Mails - £0.7m adv due primarily to lower than planned volumes.
Lottery - £0.6m adv due primarily to lower than planned volumes. The income is higher than prior year, indicating a stretching target.

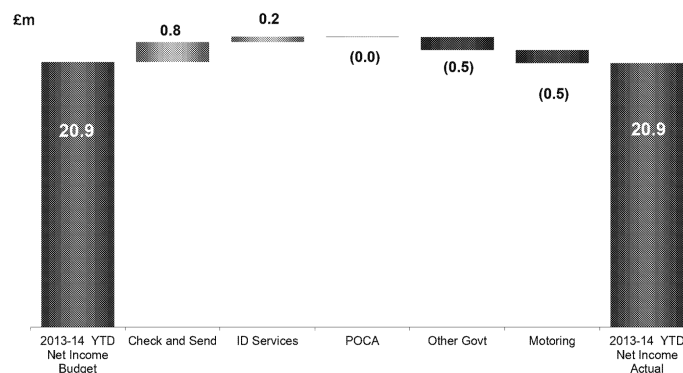
Financial Services - (£0.2m) Adv
Banking Services - £0.3m adv driven by lower volumes from banking services, both against budget and prior year.
Payment Services - £0.2m adv driven by lower Gift voucher volumes.
ATMs - £0.2m adv driven by lower volumes than planned, but higher than prior year.
Other - (£1.4m) adv due to unassigned income targets including Sales Effectiveness still to be allocated to products.
 Offset by:
PFS - £1.1m fav driven by savings products, specifically Growth bonds.
Bill Payment - £0.5m fav driven by lower decline than planned.
Travel - £0.3m fav due to increased higher Bureau and Travel insurance volumes than planned.

Government Services - Flat
Check & Send - £0.8m fav - Higher than planned volumes.
ID services - £0.2m fav - Higher than planned volumes.
 offset by:
Motoring - £0.5m adv - Higher than planned volumes.
Gov Services Other - £0.5m adv driven by smaller variances, including rod licences.

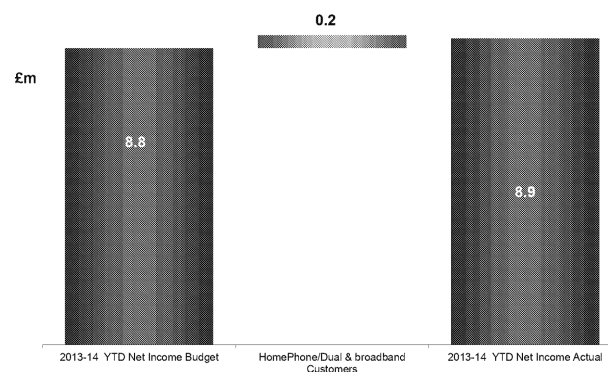
Telephony Services - £0.2m Fav
HomePhone - £0.2m fav - Current customer numbers stand at 474k, which is 5.1k higher than budget, driving the favourable variance.

Other - (£1.1m) Adv
 This relates to the unassigned income stretch.

Government Services



Telephony Services



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Net Income By Channel

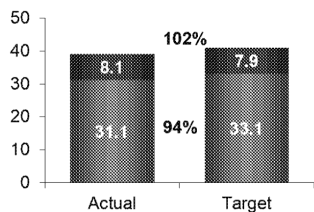
May 2013

Period 2 - Focus products were £1.0m favourable and Standard products were £3.9m adverse, with the Agency network driving both variances.

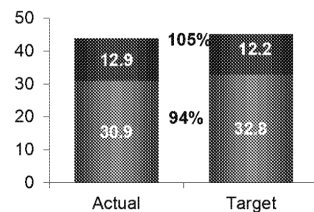


£m	Month			Year to date			Full Year
Targeted Income	Actual	Budget	Variance	Actual	Budget	Variance	Budget
Focus Products							
Crown Offices	2.8	3.0	(0.2)	6.4	6.6	(0.1)	39.0
WHS	0.5	0.5	0.0	1.2	1.2	0.1	6.7
Agents - Managed	5.7	5.5	0.1	12.9	12.2	0.7	74.0
Centrally Supported	3.4	3.6	(0.2)	8.1	7.9	0.1	49.6
Direct Sales	0.8	0.7	0.1	1.8	1.5	0.3	9.0
Central	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Focus Products Total	13.2	13.4	(0.2)	30.5	29.5	1.0	178.8
Standard Products							
Crown Offices	3.9	3.9	0.0	9.2	9.1	0.1	58.1
WHS	0.8	0.8	0.0	1.8	1.8	(0.0)	10.6
Agents - Managed	13.6	14.2	(0.5)	30.9	32.8	(1.9)	191.2
Centrally Supported	13.3	14.0	(0.6)	31.1	33.1	(2.0)	198.1
Direct Sales	0.3	0.3	0.0	0.8	0.8	(0.0)	6.5
Central	0.0	0.0	(0.0)	0.0	0.1	(0.0)	0.6
Standard Product Total	32.0	33.1	(1.1)	73.9	77.7	(3.9)	465.3
TOTAL TARGETED INCOME	45.2	46.5	(1.3)	104.4	107.2	(2.8)	644.0
Other Income							
Cash Services	1.7	1.7	(0.0)	3.6	3.7	(0.0)	22.0
Gamma	0.8	0.8	0.0	8.8	8.4	0.4	8.4
Fixed Income & Other	15.0	13.8	1.2	22.8	24.8	(1.9)	185.0
Retentions	1.8	2.1	(0.3)	4.9	4.7	0.2	40.6
TOTAL POL NET INCOME	64.5	64.9	(0.4)	144.5	148.8	(4.3)	900.0
Network Payment	15.4	15.4	0.0	34.6	34.6	0.0	200.0
TOTAL POL NET INCOME	79.9	80.3	(0.4)	179.2	183.4	(4.3)	1,100.0

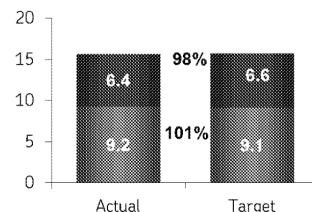
Centrally Supported Net
Income YTD (£m)



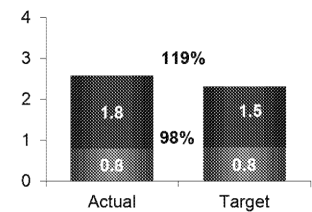
Account Mgd Net Income YTD
(£m)



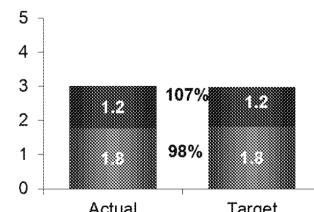
Crown Offices Net Income
YTD (£m)



Direct Sales Net Income YTD
(£m) *



WHS Net Income YTD
(£m)



* Both target and actual exclude lead generation income

Crown Profit & Loss Statement

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May 2013

£m	Period			Prior Year Period		Year To Date			Prior Year YTD		Full Year	Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Budget	Outturn
Income and Distributions												
Variable income												
- Mails	2.8	3.0	(0.2)	3.1	(0.3)	6.4	6.8	(0.4)	7.8	(1.4)	43.2	44.8
- Financial Services	2.1	2.3	(0.1)	2.4	(0.3)	4.8	4.9	(0.2)	5.2	(0.5)	29.6	30.4
- Government Services	1.8	1.6	0.2	2.0	(0.2)	4.3	3.8	0.6	4.5	(0.1)	19.9	26.4
- Telephony	0.1	0.1	(0.0)	0.1	(0.0)	0.2	0.2	(0.0)	0.3	(0.2)	1.3	1.3
Fixed income	2.0	1.9	0.1	2.1	(0.2)	4.4	4.1	0.2	4.9	(0.5)	24.8	28.2
Gamma/ Other	0.9	0.9	0.0	0.8	0.0	1.8	2.1	(0.3)	1.8	(0.0)	14.8	10.9
Renewals and Retentions	1.3	1.3	0.0	0.7	0.6	2.8	2.6	0.2	1.2	1.6	16.5	11.1
Total Income including Gamma/other	10.9	11.0	(0.0)	11.2	(0.3)	24.6	24.6	0.0	25.8	(1.1)	150.1	153.2
Direct Product Costs	(1.0)	(0.5)	(0.5)	(0.5)	(0.5)	(1.6)	(0.9)	(0.7)	(1.1)	(0.5)	(5.0)	(8.3)
Branch costs												
- Staff	(8.7)	(8.6)	(0.2)	(9.1)	0.4	(19.1)	(19.2)	0.0	(20.2)	1.1	(106.0)	(117.9)
- Property	(2.7)	(2.7)	(0.0)	(1.9)	(0.8)	(6.1)	(6.1)	(0.0)	(4.4)	(1.7)	(35.4)	(36.9)
- Other branch costs	(0.3)	(0.4)	0.1	(0.5)	0.2	(0.8)	(0.9)	0.1	(0.9)	0.1	(4.7)	(6.3)
Infrastructure costs	(1.7)	(1.4)	(0.4)	(1.7)	0.0	(3.3)	(3.0)	(0.3)	(3.7)	0.4	(22.9)	(22.5)
Allocated central costs	(0.7)	(0.7)	0.0	(0.8)	0.1	(1.7)	(1.7)	0.0	(1.7)	(0.1)	(8.4)	(7.7)
Total Expenditure	(15.2)	(14.3)	(0.9)	(14.5)	(0.7)	(32.7)	(31.9)	(0.8)	(32.1)	(0.6)	(182.2)	(199.7)
JV Share of Profits	0.6	0.8	(0.1)	0.9	(0.2)	1.3	1.5	(0.2)	1.4	(0.0)	9.1	9.6
Statutory PBIT	(3.6)	(2.6)	(1.0)	(2.4)	(1.2)	(6.8)	(5.8)	(1.0)	(5.0)	(1.8)	(23.0)	(37.0)

Summary

- Income is on target, both in period and YTD:
 - Pillar income is on budget. Main drivers of favourable Government income are UKBA and Passports, with £0.3m due to timing of targets for ID Services that will unwind next month. Adverse Mails performance has been impacted by a change in customer behaviour as a result of size based pricing. This has impacted on a number of products.
- Costs are £0.8m greater than plan:
 - Direct product costs are adverse by £0.7m as a result of Brand spend early in the year.
 - Staff costs - A small delay in CTP savings have been offset by industrial action savings.

Business Scorecard

May 2013

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Key Performance Indicators	Current Month			Year to Date			Prior Year	Full Year			2012-13 Outturn
	Act	Target	Var	Act	Target	Var		F'cast	Target	Var	
Growth											
Total Net Income (excl NSP) £m (Bonus)	64.5	64.9	(0.4)	144.5	148.8	(4.3)	153.8	900.0	900.0	0.0	902.4
Operating profit £m (Bonus)	1.5	6.2	(4.7)	7.6	14.0	(6.4)	17.9	102.0	102.0	0.0	94.2
Earnings before ITDA and Subsidy £m*	(13.8)	(9.1)	(4.7)	(26.9)	(20.4)	(6.5)	(17.7)	(97.2)	(97.2)	0.0	(115.4)
Free cashflow £m	(123.1)	(22.9)	(100.2)	262.4	205.3	57.1	431.7	(18.3)	(18.3)	0.0	132.2
Customer											
Customer Satisfaction**	87%	88%	(1)%	87%	88%	(1)%	87%	88%	88%	0%	87%
Easy to do business with (Bonus)**	45%	44%	1%	45%	44%	1%	N/A	44%	44%	0%	N/A
Net Promoter score**	(4)	5	(9)	0	5	(5)	N/A	5	5	0	N/A
Queue time % < 5 minutes - Top 1k branches	81.0%	76.0%	5.0%	78.0%	74.5%	3.5%	74.6%	81.0%	81.0%	0.0%	80.7%
Horizon availability	99.9%	99.7%	0.2%	99.9%	99.7%	0.2%	99.8%	99.7%	99.7%	0.0%	99.8%
Branch - Compliance (new basket)	100.0%	98.0%	2.0%	99.8%	98.0%	1.8%	96.8%	98.0%	98.0%	0.0%	97.8%
People											
Engagement Index % (Once a year) (Bonus)	55%	56%	(1)%	55%	56%	(1)%	55%	56%	56%	0%	55%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	17%	4%	13%	9%	4%	5%	N/A	4%	4%	0%	N/A
(No.) % of Female appointments over total recruits at senior leadership and senior manager	17%	40%	(23)%	55%	40%	15%	N/A	40%	40%	0%	N/A
Modernisation											
Crown Profit (Loss) £m (Bonus)	(3.6)	(2.6)	(1.0)	(6.8)	(5.8)	(1.0)	0.0	(23.0)	(23.0)	0.0	(37.0)
Network Conversions (Mains & Locals) (Bonus)	42	26	16	1,531	1,515	16	210	3,000	3,000	0	1,450

Bonus worthy metrics

* ITDA Interest, Tax, Depreciation, Amortisation

** Monthly = 3 month average. YTD = 12 month average

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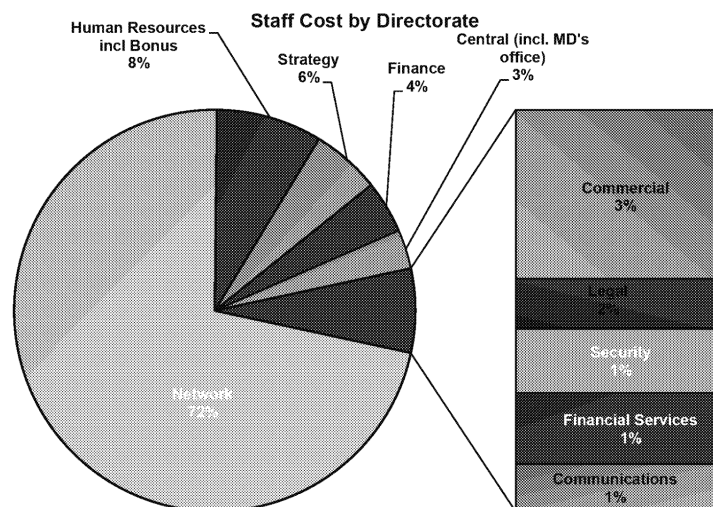
Cost Management Report

Staff Cost By Directorate May 2013

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£m	Year to Date			Prior Year YTD		Full Year	YTD Headcount		
Staff Cost by Directorate	Actual	Budget	Variance	Actual	Variance	Budget	Actual	Budget	Variance
Central (incl. MD's office)	(1.4)	(1.6)	0.2	(0.9)	(0.5)	(9.6)	12	15	3
Commercial	(1.3)	(1.2)	(0.0)	(1.0)	(0.3)	(7.4)	110	111	1
Communications	(0.4)	(0.4)	0.0	(0.3)	(0.1)	(2.3)	32	35	3
Human Resources	(0.8)	(0.8)	0.0	(0.9)	0.1	(4.8)	103	110	7
HR – Centrally Held Bonus Payments	(3.0)	(3.0)	(0.0)	(3.0)	(0.1)	(18.0)	-	-	-
Financial Services	(0.5)	(0.7)	0.2	(0.3)	(0.2)	(4.5)	63	70	7
Finance	(1.9)	(2.0)	0.1	(1.6)	(0.3)	(11.8)	242	264	22
Network	(32.1)	(31.2)	(0.9)	(32.3)	0.1	(178.5)	6,993	7,211	218
<i>Supply Chain</i>	<i>(9.9)</i>	<i>(9.6)</i>	<i>(0.2)</i>	<i>(9.4)</i>	<i>(0.4)</i>	<i>(55.1)</i>	<i>1,585</i>	<i>1,574</i>	<i>(11)</i>
<i>Crowns</i>	<i>(18.7)</i>	<i>(18.1)</i>	<i>(0.6)</i>	<i>(19.8)</i>	<i>1.1</i>	<i>(102.1)</i>	<i>4,511</i>	<i>4,497</i>	<i>(14)</i>
<i>Other Network</i>	<i>(3.6)</i>	<i>(3.5)</i>	<i>(0.1)</i>	<i>(3.1)</i>	<i>(0.6)</i>	<i>(21.3)</i>	<i>452</i>	<i>501</i>	<i>49</i>
CTP and NTP Heads (Costs in exceptionals)							<i>445</i>	<i>639</i>	<i>194</i>
Legal	(0.4)	(0.4)	0.0	(0.3)	(0.1)	(2.5)	28	30	2
Security	(0.5)	(0.4)	(0.0)	(0.4)	(0.0)	(2.7)	56	57	1
Strategy	(2.5)	(2.3)	(0.1)	(2.0)	(0.5)	(14.1)	247	239	(8)
Total Staff Costs	(44.8)	(44.1)	(0.6)	(43.0)	(1.8)	(256.1)	7,886	8,142	256
							PY Actual	7,837	
							PY Variance	(49)	



YTD Staff Costs are £0.6m adverse to budget.

This variance relates to the £100 payments paid to employees that will be offset against year end accruals in P3.

Vs. Prior Year

The staff costs are £1.8m adverse due primarily to pay awards and also to increased use of staff, both temporary and permanent such as FOoG and the new communications directorate.

Headcount of 7,886 is 256 below plan and is due to vacancies with the Network directorate, of which the majority of vacancies are within the NTP followed by CTP. The adverse variance in Crowns is due to the delay to the duty reviews. Tight control of recruitment has partially mitigated this.

Vs. prior year headcount has increased by 49 primarily due to NTP.

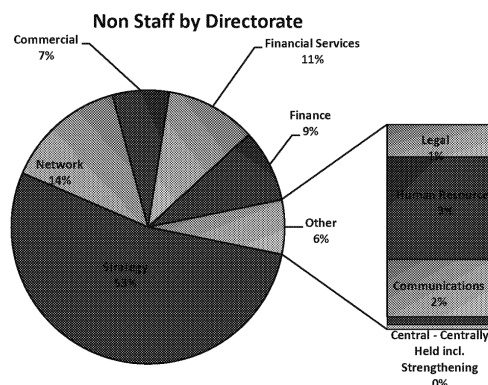
Non Staff Cost by Directorate & Type May 2013

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£m	Year to Date			Prior Year YTD		Full Year
Non- Staff Cost by Directorate	Actual	Budget	Variance	Actual	Variance	Budget
Central - Centrally Held incl. Strengthening	0.0	(1.1)	1.1	(1.2)	1.3	2.7
Commercial	(1.8)	(2.7)	0.8	(2.0)	0.2	(15.5)
Communications	(0.5)	(0.4)	(0.0)	(0.3)	(0.2)	(2.1)
Finance	(2.3)	(2.3)	(0.1)	(1.2)	(1.2)	(12.6)
Financial Services	(2.9)	(0.7)	(2.2)	(0.1)	(2.8)	(5.3)
Human Resources	(0.9)	(1.0)	0.1	(0.8)	(0.0)	(6.1)
Network	(3.9)	(4.8)	0.9	(5.4)	1.5	(27.7)
Supply Chain	(1.5)	(2.4)	1.0	(3.4)	1.9	(15.4)
Crowns	(0.4)	(0.6)	0.2	(0.5)	0.1	(3.3)
Other Network	(2.0)	(1.8)	(0.2)	(1.6)	(0.5)	(9.0)
Legal	(0.3)	(0.28)	0.0	(0.2)	(0.0)	(1.9)
Security	(0.5)	(0.33)	(0.2)	(0.4)	(0.1)	(2.5)
Programme costs	0.1	0.0	0.1	(0.2)	0.3	0.0
Strategy	(14.5)	(12.0)	(2.5)	(12.3)	(2.2)	(90.1)
Total Non Staff Costs	(27.5)	(25.5)	(2.0)	(24.2)	(3.3)	(161.1)

£m	Year to Date			Prior Year YTD		Full Year
Non- Staff Cost by Type	Actual	Budget	Variance	Actual	Variance	Budget
Computers & Telephones	(12.6)	(10.8)	(1.8)	(11.4)	(1.2)	(75.9)
Other Operating Costs	(2.5)	(2.5)	0.0	(3.8)	1.3	(16.8)
Consultancy, Marketing & Legal Fees	(4.7)	(5.1)	0.4	(3.4)	(1.3)	(29.5)
* Skills Group external contractors	(2.1)	(2.0)	(0.1)	(1.6)	(0.5)	(11.9)
Remainder	(2.6)	(3.1)	0.5	(1.8)	(0.8)	(17.6)
Finance	(5.2)	(3.7)	(1.5)	(2.6)	(2.6)	(17.2)
Property Facilities	(1.5)	(1.0)	(0.5)	(1.1)	(0.3)	(6.2)
Property Maintenance	(1.0)	(1.1)	0.1	(1.0)	(0.0)	(6.9)
Vehicles	(0.4)	(0.4)	0.0	(0.5)	0.1	(2.4)
Compensation	(0.1)	(0.4)	0.2	(0.3)	0.1	(2.6)
Collection, Delivery & Conveyance Charges	(0.1)	(0.1)	(0.0)	(0.2)	0.1	(0.3)
Staff & Agent Related Costs & Consumables	0.5	(0.5)	1.0	0.0	0.4	(3.4)
* Skills Group off-charges to projects	(0.3)	(0.9)	0.6	(1.0)	0.6	(5.4)
Remainder	0.8	0.4	0.4	1.0	(0.2)	2.0
Total Non Staff Costs	(27.5)	(25.5)	(2.0)	(24.2)	(3.3)	(161.1)



The Central directorate has a positive prior year actual which relates to the WHS TUPE transfer provision release.

Variance

YTD non people costs were £2.0m adverse to budget and £3.3m adverse to prior year.

By Directorate

Vs. Budget

Costs were £2.0m adverse to budget. The overspend is driven by a charge for Microsoft licences taken in full but which will be reversed next month and spread over the life of the licences.

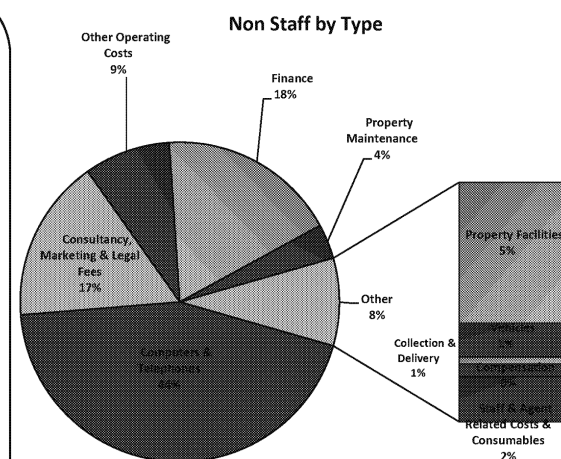
Vs Prior Year

Cost were £3.3m adverse to prior year. The increase is driven by the timing of the Microsoft licences expenditure and increased marketing expenditure.

By Type

YTD versus budget variance was driven by a payment to HRMS which was budgeted to be paid in P3.

Versus prior year it is the HMRC payment and increased marketing expenditure.



* Skills group is the internal 'consultancy' providing project resource made up of a mixture of employees topped up with contractors. If demand is high the contractor spend increases but this is offset by higher recharges to projects.

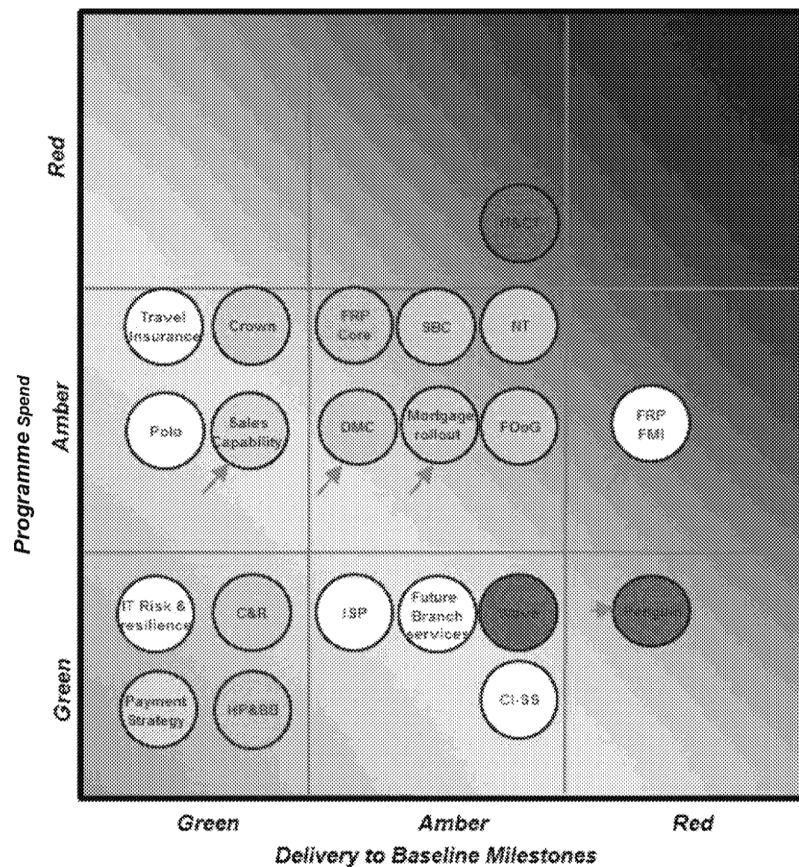
Transformation Delivery Heat-map

May 2013

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Highlights heatmap status of key transformation programmes, and points of escalation to Transformation Board on selected projects including resulting Transformation Board action / guidance.



- Colour of Circle reflects 13-14 financial benefits
→ Shows movement from last period

Key Points of Focus

F0oG - Identity assurance (IDA) Transformation Board (TB) discussion and agreement on revised approach to IDA market entry (i.e. buy service from established IDA supplier). Supplier engagement now commencing in support of this. Full business case requested for approval before contracting with Government Digital Services (due July to meet Government timelines). Service provision due to commence in October.

IT&CT - Systems Integrator /Service Delivery (SI/SD) procurement continues to plan with award date (along side End User Computing) in September however significant Transitional Support Services (TSS) negotiations continue to impact the scope and timing of the AI tower. Key decision on TSS options requested by programme and will be agreed by sub set of TB. Following from this a revised business case has been requested for review and for approval in the July Investment Committee.

Finance Roadmap - TB concerns about robustness of plans to deliver the core finance system by April 2014 especially regarding dependencies on RMG activity, the complexity of building and testing and the timelines currently planned for this. TB requested spotlight session on delivery plan two weeks to test assumptions.

Penguin - Decision taken to contract with FRES on agency basis to soft launch pre-paid card before Christmas, adding real-time loading in March 2014. TB discussion with programme sponsor and business lead on required actions against key lessons learnt from this project - requirements scope creep and the need for strong challenge by project board.

Digital Multi-Channel (DMC) - Common digital platform - TB challenge on value of DMC programme activity moving forward (post requirements definition) given range of questions over ability of Common Digital Platform delivery timings to support integrated delivery of key requirements (e-business, online mails etc.). TB requested further work across DMC business owners, IT and procurement to agree programme approach and present back as part of a spotlight session on the programme.

Mails (Small Business) - Development would allow SMEs to top-up and view detailed activity for Drop & Go accounts on-line and via mobile (the platform would also enable customers to undertake on-line parcel payment transactions allowing POL to compete in the postage market). Business Case agreement pending decision on approach to DMC (see above).

Network Transformation Scorecard

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May 2013

Reporting prior months data (i.e. one month in arrears)



Sample size is still small but provides a starting point to build on. All branches in the financial section have been operating for greater than 12 months to allow for steady state, and branches that had previously received overscale / one off payments have been removed to provide a clean baseline.

Key Performance Indicators	Actual	Target	Var	Actual Sample Size	Commentary
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MAINS

Converted > 12 months 6

POL	Finance Approved Investment per Mains £000	(39)	(39)	0	6
	Total Income: Post vs Pre Conversion				
	Branches live 12-24 months	14%	(1)%	15%	5
	Branches live 24-36 months	(5)%	TBA	-	1
	Focus Income: Post vs Pre Conversion				
	Branches live 12-24 months	18%	20%	(3)%	5
	Branches live 24-36 months	11%	TBA	-	1
Agent	Agents Remuneration: Post vs Pre Conversion	19%	(4)%	23%	5
	Operator Feedback on Retail Sales Performance	15%	9%	6%	25
Customer	Average Increase in Opening Hours	34%	20%	14%	163
	Customer Satisfaction	95%	90%	5%	601

Mains

Financial performance

Income - One branch has improved c40% due to a significant increase in lottery income. Exclusion of this branch results in a 6% improvement which still compares favourably to the target (control group).

Agents pay - Excluding the branch above the average increase is 9%. Branches in sample receive new Mains pay rates that are favourable to previous rates.

Non financial performance

Encouraging results against targets for retail sales performance, opening hours and customer satisfaction.

LOCALS

Converted > 12 Months 33

POL	Finance Approved Investment per Local £000	(11)	(11)	0	0
	Total Income: Post vs Pre Conversion				
	Branches live 12-24 months	(10)%	(2)%	(8)%	33
	Branches live 24-36 months	-	-	-	
	Annualised Agents Fixed Pay savings per conversion £000	10	10	0	0
Agent	Customer Sessions 12- 24 months	9%	(3)%	11%	33
	Customer Sessions 24- 36 months	-	-	-	-
	Operator Feedback on Retail Sales Performance	11%	9%	2%	63
Customer	Average Increase in Opening Hours	117%	80%	37%	317
	Customer Satisfaction	95%	90%	5%	523

Locals

Financial performance

Income - Branch performance ranges from -58% to +49% so there isn't a consistent pattern in this population. The Local model assumption was that income would reduce by c5% due to the removal of certain products. 17 branches are performing better than this and 16 are less favourable.

Agents pay fixed savings - Savings in line with strategic plan target.

Non financial performance

Customer sessions - Strong performance compared to income. Implies greater footfall but lower value transactions. Further analysis underway.

Financial targets reflect the equivalent performance of the control group (2967 Mains and 5030 Locals)

603 live branches within the 1489 contracts signed - April 2013

0-12 Months (May 12 - April 13) - 412

12-24 Months (May 11-April 12) - 116

> 24 Months (prior to May 2011) - 75

Note: The scorecard includes 38 branches of the 116 (12-24 months) and 1 branch of the 75 (24-36 months).

Branches with a break in customer session or branches that had previously received overscale payments have been excluded.

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Appendices

Network Transformation Scorecard Metric Definitions/ Rationale

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May 2013

Reporting Prior Months data (one month in arrears)

	Key Performance Indicators	Metric	Rationale
MAINS			
	Converted > 12 months	Source: NTP database	Source: NTP database
POL	Finance Approved Investment per Mains £000	Average investment spend approved for number of branches	Recognise investment spend
	Total Income: Post vs Pre Conversion		
	Branches live 12-24 months	Total Variable Income – Source: Credence*	Review impact on POL income as a result of converting to new models
	Branches live 24-36 months	Current month vs same period pre conversion	
Focus Income: Post vs Pre Conversion			
	Branches live 12-24 months	Total Focus Income – Source: Credence*	Review impact on POL focus income to assess the sales model post conversion
	Branches live 24-36 months	Current month vs same period pre conversion	
Agent	Agents Remuneration: Post vs Pre Conversion	Total agents remuneration excluding overscale and NI/VAT. Current month vs same period pre conversion	Assess the impact on income for our agents as a result of POL business
	Operator Feedback on Retail Sales Performance	Source: Operator survey issued to branches 2 months after opening starting in Aug 12	Indicative retail performance for Agents
Customer	Average Increase in Opening Hours	Based on systems data of open hours	Assess the impact of extended hours for our customers
	Customer Satisfaction	Exit interviews conducted by research company Brass at recently transformed branches	Indication of customer experience
LOCALS			
	Converted > 12 Months	Branches converted greater than 12 months	Branches converted greater than 12 months
POL	Finance Approved Investment per Local £000	Average investment spend approved for number of branches	Assessment of investment spend
	Total Income: Post vs Pre Conversion		
	Branches live 12-24 months	Total Variable Income – Source: Credence*	Review impact on POL income as a result of converting to new models
	Branches live 24-36 months	Current month vs same period pre conversion	
Annualised Agents Fixed Pay savings per conversion £000		Fixed pay saving per branch vs the strategic plan assumptions	Assess the savings to POL
Agent	Customer Sessions 12- 24 months	Source: MI Database	Measurement of footfall for an Agent
	Customer Sessions 24- 36 months		
	Operator Feedback on Retail Sales Performance	Source: Operator survey issued to branches 2 months after opening starting in Aug 12	Assess impact of increased revenue from retail
Customer	Average Increase in Opening Hours	Based on systems data of open hours	Assess the impact of extended hours for our customers
	Customer Satisfaction	Exit interviews conducted by research company Brass at recently transformed branches	Indication of customer experience

* Same income factor used for each year. Performance is impacted by sales and product mix.

Cashflow Statement

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May 2013

£m	YTD		
	Actual	Budget	Variance
Operating Profit	7.6	13.9	(6.3)
Depreciation	0.1	0.2	(0.1)
Working Capital	(36.6)	(31.5)	(5.1)
Client Balances	(28.9)	(68.4)	39.5
Network Cash	(36.4)	(40.4)	4.0
Dividends	(4.6)	(5.2)	0.6
Capital Expenditure	(6.3)	(15.6)	9.3
Government funding	215.0	215.0	0.0
NSP in advance	165.4	165.4	0.0
Exceptional Items	(16.3)	(27.6)	11.3
Pensions	0.7	0.4	0.3
Proceeds from asset sales	2.5	0.0	2.5
Free cashflow before interest, tax	262.2	206.2	56.0
Interest	0.1	(1.0)	1.1
Tax	0.0	0.0	0.0
Free Cashflow	262.3	205.2	57.1

Full Year		
Forecast	Budget	Variance
102.0	102.0	(102.0)
0.9	0.9	(0.9)
(40.9)	(40.9)	40.9
(44.4)	(44.4)	44.4
114.6	114.6	(114.6)
(4.5)	(4.5)	4.5
(167.5)	(167.5)	167.5
215.0	215.0	(215.0)
0.0	0.0	0.0
(198.8)	(198.8)	198.8
0.0	0.0	0.0
0.0	0.0	0.0
(23.6)	(23.6)	23.6
0.0		
(5.0)	(5.0)	5.0
10.3	10.3	(10.3)
(18.3)	(18.3)	18.3

Income By Product Groups & Pillar

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All close to budget, bar Mails which is £3.1m adverse.
Other income is £1.1m adverse and relates to the income challenge.



Net Income £m	Current Month			Prior Year		Year to date			Prior Year		Full Year			Prior Year
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)	Actuals	Budget	Variance	YTD Actual	YTD (Yr On Yr)	Current Forecast	Budget	Variance	2012/13 Outturn
Parcelforce	1.7	1.8	(0.1)	1.3	0.4	3.8	3.8	0.0	2.9	0.9	30.7	30.7	0	19.9
Special Delivery	4.0	3.7	0.3	4.1	(0.1)	8.9	8.5	0.3	9.0	(0.1)	50.0	50.0	0	53.2
International Priority & Standard	2.39	2.6	(0.3)	2.53	(0.13)	5.42	6.4	(1.0)	5.88	(0.46)	37.28	37.3	0	34.9
Stamps (1st & 2nd Class plus other stamps)	1.9	0.7	1.2	1.9	0.0	4.2	4.5	(0.3)	10.2	(5.9)	33.8	33.8	0	35.2
Labels (1st & 2nd Class)	7.15	7.2	(0.0)	7.63	(0.48)	16.06	16.9	(0.8)	17.66	(1.59)	99.99	100.0	0	100.2
RM Mail Fixed	4.3	4.3	0	3.8	0.5	9.7	9.7	0	9.8	(0.1)	56.0	56.0	0	57.9
Retail & Lottery	3.0	3.7	(0.7)	3.0	(0.0)	7.7	8.3	(0.6)	6.8	0.8	51.6	51.6	0	45.7
Mails Other	3.9	4.0	(0.1)	4.1	(0.2)	8.3	9.1	(0.7)	9.2	(0.9)	55.3	55.3	0	57.0
Total Mail Services	28.4	28.1	0.2	28.4	(0.1)	64.1	67.2	(3.1)	71.5	(7.4)	414.6	414.6	0	404.0
Total Telephony Services	3.6	5.6	(2.0)	3.5	0.1	8.9	8.8	0.1	7.3	1.6	50.4	50.4	0.0	45.0
Motoring Services	1.1	1.1	0.0	2.2	(1.1)	2.8	3.3	(0.5)	6.4	(3.6)	21.4	21.4	0	31.8
Card Account	5.3	3.9	1.4	5.5	(0.2)	10.4	10.4	(0.0)	11.8	(1.3)	59.4	59.4	0.0	65.8
Check and Send	2.3	2.0	0.3	2.2	0.1	5.3	4.5	0.8	4.5	0.8	20.4	20.4	0	21.4
AEI (DVLA & UKBA)	0.6	0.5	0.1	0.6	(0.0)	1.5	1.2	0.2	1.5	(0.0)	7.9	7.9	(0.0)	10.1
Other Government Services	0.6	0.6	0.0	0.2	0.3	0.9	1.5	(0.5)	0.8	0.1	6.7	6.7	(0.0)	4.2
Total Government Services	9.8	8.0	1.8	10.7	(0.9)	20.9	20.9	(0.0)	24.9	(4.0)	115.9	115.9	(0.0)	133.2
Bill Payment Services Direct	0.7	0.8	(0.1)	0.9	(0.2)	1.9	1.8	0.1	2.0	(0.1)	11.1	11.1	0	11.8
Bill Payment Services Reseller	1.9	1.9	(0.0)	2.33	(0.41)	4.55	4.19	0.36	4.8	(0.3)	24.9	24.9	0	27.6
Postal Orders	1.5	1.4	0.2	1.8	(0.2)	3.6	3.7	(0.0)	4.1	(0.4)	20.2	20.2	0	23.1
Payment Services	0.34	0.3	0.1	0.45	(0.12)	0.89	1.1	(0.2)	0.9	(0.0)	8.9	8.9	(0.0)	6.3
Personal Banking Clients	1.71	1.8	(0.1)	2.00	(0.29)	4.69	4.2	0.5	4.7	0.0	25.4	25.4	0.0	26.4
DWP Exceptions	(0.18)	0.1	(0.2)	0.34	(0.51)	0.02	0.1	(0.1)	0.8	(0.8)	0.1	0.1	0	3.9
Business Banking	2.01	1.9	0.1	2.77	(0.76)	3.75	4.6	(0.8)	6.0	(2.3)	26.6	26.6	0	34.8
ATM	2.46	2.2	0.3	2.59	(0.13)	5.31	5.5	(0.2)	5.1	0.2	33.2	33.2	0	30.2
PFS-Savings	3.97	3.7	0.2	1.04	2.93	8.22	7.5	0.7	2.1	6.1	50.5	50.5	0	40.6
PFS-Insurance	0.44	0.5	(0.0)	0.29	0.16	1.47	1.1	0.4	0.7	0.7	6.7	6.7	0	5.3
PFS-Lending	0.65	0.2	0.5	0.20	0.45	0.43	0.4	0.0	0.3	0.1	4.9	4.9	0	4.7
Bureau (excl profit share)	2.06	2.0	0.1	2.61	(0.55)	4.12	3.9	0.2	4.5	(0.4)	23.8	23.8	0	23.4
Travel Insurance	0.74	0.9	(0.2)	1.06	(0.32)	1.85	1.8	0.0	1.8	0.1	10.1	10.1	0	10.1
MoneyGram	1.19	1.2	(0.0)	1.14	0.05	2.70	2.7	0.0	2.4	0.3	16.6	16.6	0	15.4
NS&I	0.29	0.3	(0.0)	1.00	(0.71)	0.70	0.7	(0.0)	2.3	(1.6)	3.9	3.9	0	13.3
Other	0.21	0.8	(0.6)	0.21	0.0	0.42	1.8	(1.4)	0.4	0.0	10.4	10.4	0	2.5
Total Financial Services	20.1	19.9	0.1	20.7	(0.6)	44.7	44.9	(0.2)	42.9	1.7	277.4	277.4	0.0	279.6
Other Income	0.4	1.0	(0.6)	0.7	(0.3)	1.1	2.2	(1.1)	1.9	(0.8)	12.5	12.5	(0.0)	10.7
Supply Chain	2.3	2.3	(0.0)	2.4	(0.1)	4.9	4.9	(0.0)	5.3	(0.5)	29.2	29.2	0	30.0
Net Income	64.5	64.9	(0.4)	66.4	(1.9)	144.5	148.8	(4.3)	153.8	(9.3)	900.0	900.0	0.0	902.4

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POST OFFICE LTD BOARD**Chief Executive's Report****1. Crown Transformation Programme (CTP) and industrial relations**

- There have now been 7 strikes since the dispute with the CWU started just over 3 months ago, which compares with 13 strikes over a 5 month period during the last industrial action in 2007. The percentage of staff on strike continues to fall (61% for 20 June and 58% for 29 June, compared to a peak of 72%). We chose not to deploy managers on either occasion but did nonetheless manage to keep over half of Crown branches open. The strike action continues to garner very limited media coverage at the national level, with just 2 reports on 29 June and none on the 20 June.
- We are continuing to monitor the financial and service impacts of the strikes. While there is typically a dip in the levels of customer satisfaction with queuing times in the Crowns on strike days (from 83% to 63%), overall customer satisfaction levels have held up strongly at around 86%. The net financial impact is also positive in the short-term, with the reduction in Crown income more than offset by the wage savings and growth in nearby agency income. However, clearly we need to remain watchful of the potential for longer-term adverse income impacts which could undermine the breakeven target. We are also developing detailed contingency plans to ensure we are ready to cope with strikes during the summer (when resourcing would be stretched by staff holidays) and over the busy Christmas period, or alternatively if the supply chain also went out on strike. Our conclusion is that such scenarios are manageable but not without risk and some degree of customer detriment.
- Taking these considerations into account, our strategy at this stage remains focussed on implementing the CTP while redoubling our communications to employees to increase buy-in and counteract the CWU's messaging. However, given the risks of prolonged strike action, in parallel we are also reviewing the pros and cons of alternative options to resolve the dispute. The CWU have informally indicated that they would like to start negotiations afresh, and we have responded by saying that we would be open to discussing alternative approaches provided they are prepared to take their existing asks off the table which are incompatible with delivering the breakeven requirement. We will update the Board on the latest position next week.
- In relation to managers' pay, we resumed talks with the CMA on 3 July following a new counter proposal from Brian Scott, which would entail consolidating a proportion of the lump sum payments with effect from April 2015. While Brian is looking for us to make an unconditional commitment, clearly any offer of this kind would have to be consistent with the maintenance of profitability in the Crowns. We are currently modelling the costs and wider impacts ahead of a further meeting on 15 July, and will update the Board next week.
- In terms of the CTP itself, we have informed all 292 retained branches of when they will be visited as part of the modernisation programme. The aim is to have 45 branches completed before Christmas and 117 by the end of 2013/14. We have already started visiting the earliest waves of branches in order to consult staff on the proposed designs to seek their input. In parallel, the design and customer journey for the new self-service equipment ('Post & Go') are now finalised and ready for pilot later in 2013.

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- Our programme of 20 'Vision events' across the country is nearly complete. This is a crucial part of our engagement plans, involving staff from every branch in interactive sessions on topics such as the branch redesigns, our plans for financial services growth and the new Crown Leadership Excellence Programme for managers. Feedback so far has been extremely positive with 96% of attendees saying the event has given them a better understanding of the Post Office vision.
- We have received 305 expressions of interest covering 69 of the 70 branches advertised for franchising, which we are now evaluating to identify our preferred partners. Work is ongoing to find potential partners for the one remaining branch.

2. Network Transformation

- The programme has finished the first quarter 54 branches ahead of target at 1,600 contracts signed. Most of these additional branches have come from independent conversions to mains, illustrating the continuing appeal of the model to sub-postmasters. No multiple contracts were expected in the first quarter after the large batches signed at the very end of last year. New operator contracts are broadly in line with target. The programme remains on track to reach 3,000 contracts signed by March 2014.
- As set out in the paper discussed with the Board on 22 June, we are actively progressing branch openings for all of the contacts that have been signed, but it is taking time for agents to secure available builders and prepare for their works. The programme mid-point forecast remains 1,950 branches open by year end. 'Beat rates' are expected to remain fairly steady through July and August at just over 20 per week, with an increase in September to over 30 as the number of multiple openings increases, followed by further increases in Q4. We are confident that we have the capacity to open branches when all parties are ready, with 37 branches opened in the last week of June.

3. Mails

- We are currently pursuing two main strands of activity with RM to seek to recover the parcels volumes lost as a result of the April tariff change. Firstly we have proposed an extended shoe box sized template to replace the current cube shaped exception to the medium parcel template, which would increase the number of items accepted as small parcels and thereby substantially reduce the price (by up to 50%) for customers who fall into this bracket. RM have indicated that they should be in a position to approve this change within the next two weeks with a view to announcing it by the end of July. Secondly we are working with RM on a price discount of up to 20% on certain formats through the Drop & Go service, which we are aiming to implement alongside the roll-out of the service to the entire network on 29 July. We are also investigating with RM what changes could be made to Drop & Go to enable a franking style permanent discount, which would require regulatory approval and is therefore unlikely to be achievable until autumn 2013 at the earliest.
- Good progress is being made with RM in lining up retailers to use our new click and collect service. Of particular note is the fact that MetaPack (a widely used delivery management intermediary) is now close to completing the platform required to enable their clients to link up with the service, opening up access to a wide range of retailers with

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minimal integration work required on their part. Discussions are currently underway via RM with a number of major clients who we are aiming to sign-up over the coming months, including Wiggle, Asos, Avon, Talk Talk, River Island, Debenhams, Dixons, Pro direct soccer, Thorntons and Ideal Home Shopping. Others are looking more likely for a post-Christmas launch, including Marks and Spencer, eBay and Shop Direct Group. Discussions with Amazon are still ongoing, although we are unclear of their intentions at this stage as they are currently experimenting with their own delivery solutions and locker box locations.

- The latest results from June show that segregation performance has been clearly impacted by the NFSP action encouraging branches to stop segregating, with mixed bag down by 8.4 percentage points (ppt) to 46.8%, 1st class down 4.5 ppt to 68.3% and 2nd class down by 3.2% to 68.8% compared with the previous month. However, we have had more constructive discussions with the NFSP over recent weeks around the possible reinstatement of the incentive payment to sub-postmasters, with the NFSP now accepting the important principle that this needs to be directly linked to performance going forwards. Further work is underway with the aim of introducing a new scheme by October, dependent on the outputs of the joint RM/PO Segregation Working Group, which is defining the revised structure of segregation requirements and measurement. That group has now developed a simplified segregation proposal which is being trialled in July within two mail centre catchment areas. It is also looking at potential improvements to the sampling regime and mail bag handover process.

4. Government services

- We are continuing to engage DWP on options to extend the POca contract beyond 2015, and have now received a clearer signal that they accept that some continuation beyond that point will be necessary for both operational and political reasons. We are currently undertaking detailed customer research and segmentation analysis which will enable us to present well-developed and evidenced proposals to DWP in August. The ExCo discussed an early draft of these proposals in June, reaching the conclusion that while there are obvious downside risks the volumes and financial projections contained in our strategic plan remain credible as a planning assumption.
- In parallel we are also re-engaging with the DWP team leading the Universal Credit programme, in particular through the new Programme Director Howard Shiplee. He has accepted an invitation to visit the model office to see our identity management and assisted digital capabilities in operation.
- On 1 June we went live with the extended range of services for DVLA offering six new transaction types such as HGV taxation, changes of taxation class and issuing duplicate tax discs. On 3 July we also launched in 13 London Crown branches a new priority check and send service for passports which guarantees the passport will be issued within 7 days. This is the first new channel that HM Passport Office has introduced since 1992.

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5. Home services

- The migration of our telecoms services from BT Wholesale to Fujitsu continues to progress according to plan. Testing and call centre training is well advanced and a number of live services are now in place in the new environment. New orders will start to be placed against the platform from 22 July and the migration of the existing base is scheduled to take place by the end of September.
- We are close to being in a position to enter into exclusive negotiations with our preferred supplier for mobile services and intend to enter into contractual negotiations in the next fortnight. The technical solution looks strong and provides us with the opportunity to deliver an integrated telecoms solution to support the development of attractive and cost effective strong customer value propositions.
- Work is also progressing on our plans to enter the energy market. ExCo reviewed the full range of market entry options in June reaching the conclusion that we should look to develop a white label branded energy solution in the short term as this provides the best strategic fit. This would allow us to enter the market quickly, at low cost and with limited risk. However we will be seeking a flexible agreement with our chosen partner that would allow the commercial model to evolve as we grew. We are now in a further phase of market engagement with the aim of identifying a preferred partner towards the end of the summer and launching the service in early 21014/15.

6. Marketing

- The latest brand metric results show two main performance themes. Following the positive progression over recent months, the net promoter score (NPS) has dropped from 7 to -7. This is overwhelmingly driven by the Royal Mail price increase, although could also be partly affected by the industrial action in the Crowns. Experience from previous years is that the NPS quickly returns to the pre-change levels, but nonetheless we are developing a marketing plan to address this drop in tandem with the product developments outlined in section 3 above. 'Easy to do business with' meanwhile shows strong performance with a 12 month rolling average at 46% (compared with 41% a year ago), driven in particular by the positive impact of the network and crown transformation programmes and the 'stress free' focus of the mortgage brand campaign.
- Since 20 June and throughout the summer period all of our marketing channels will be focussed on the Post Office Travel Essentials range, under the headline 'Get ready for your holiday at the Post Office'. The campaign is focused on Travel Money, Travel Insurance and Passport Check and Send but also incorporates the Credit Card travel proposition. Early indications are that the campaign is delivering strong response rates and performance in all of these product areas has been significantly above target at the start of these crucial weeks.

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7. Project Robin

- Formal consultation with employees on the proposed changes to the pension scheme was launched on 21 June and is due to close on 25 August. Discussions are ongoing in parallel with the CMA who have reviewed the proposals in significant detail, although at this stage their formal position is that they do not support the changes. We met with the CWU in June, although they have likewise stated that they do not support the proposals within either Post Office or the Royal Mail.
- The Regulator has now been informed by the Trustee of the delay to the valuation with a target date of 30 September. Assuming the proposal proceeds following consultation, the detailed implementation work such as systems configuration is on track to implement the changes from next April.

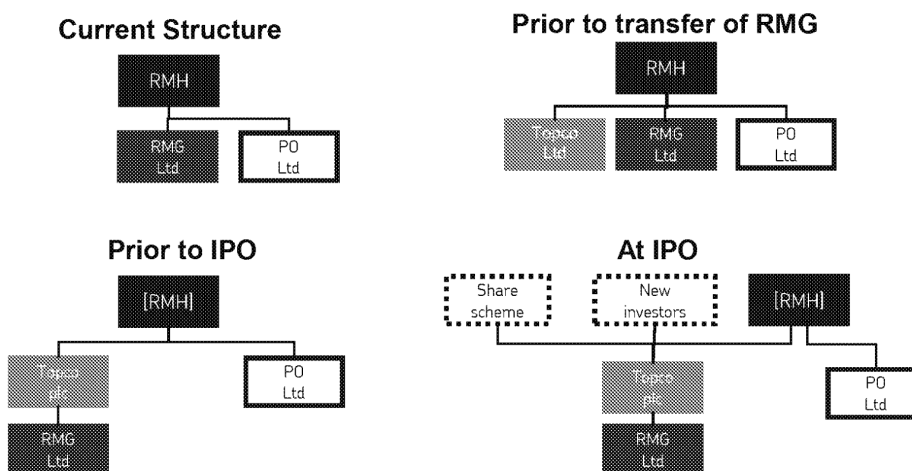
Strictly Confidential**POST OFFICE LTD BOARD****Group Structure****1. Purpose**

The purpose of this paper is to:

- 1.1 brief the Board on planned changes to the structure of the wider Group to facilitate an IPO of Royal Mail Group Ltd ("RMG");
- 1.2 brief the Board on the anticipated changes to the operation of Royal Mail Holdings plc ("RMH"); and
- 1.3 delegate authority (in the form set out in Appendix 1) to the Company Secretary and/or the HR & Corporate Services Director to approve and execute any documents necessary to remove the references to the RMG Special Share from the Company's Articles of Association.

2. Background**IPO Structure**

- 2.1 The intention is for the IPO listed group to have a non-trading holding company. ShEx have directed this will be a new non-trading entity ("Topco") inserted prior to listing between RMH and RMG. This is anticipated to occur during September.
- 2.2 Topco will be initially incorporated as a third direct subsidiary of RMH, alongside RMG and Post Office Limited. Subsequently RMG will be transferred from RMH to Topco. These changes are illustrated below, together with the consequential structures immediately prior to and at IPO. Note that RMH will be renamed in advance of IPO to remove the reference to "Royal Mail".



Note: For simplicity the special shares in RMG, RMH and POL held by HMG are not included in the diagrams above.

Strictly Confidential**RMH Board**

- 2.3 The RMH Board is comprised currently of two directors – Donald Brydon (RMG Chairman) and Alice Perkins (Post Office Limited Chairman) – with Jon Millidge as Company Secretary (also RMG Company Secretary).
- 2.4 September is viewed as the latest time for the composition of the RMH Board to change to remove common directorships with the listed group.
- 2.5 ShEx plans for the future RMH Board to be composed of BIS officials acting under direction of HMG, with this approach (i.e. acting under such direction) entrenched in revised Articles of Association.
- 2.6 ShEx does not plan for the function of the future RMH Board to change from now i.e. ShEx plans that it will continue to meet only as and when required to discharge its necessary duties.
- 2.7 The adoption of revised Articles of Association for RMH, as well as changes to the RMH Board, name, Company Secretary and registered office, are anticipated to occur at or around the same time (i.e. around September).

Post Office Limited Special Share

- 2.8 The Secretary of State currently holds a special share in RMH, RMG and POL. The rights attached to the special shares are set out in the respective Articles of Association. The RMG Special Share will be redeemed or cancelled as part of the steps to execute the insertion of Topco in advance of IPO.
- 2.9 The rights attached to the Post Office Limited Special Share include, for example, the requirement for prior written consent of the “Special Shareholder” for the “adoption of a Strategic Plan or any material variation or amendment of a Strategic Plan previously adopted”.
- 2.10 However, under the current Articles of Association, the rights attached to the Post Office Limited Special Share are “exercisable only for such time as the Special Shareholder beneficially owns” all three of the special shares. A similar provision exists in the Articles of Association for RMH and RMG.
- 2.11 Accordingly, an amendment is required to Post Office Limited’s Articles of Association in order for the current rights attached to the Post Office Limited Special Share to continue to be exercisable (the RMH articles will be similarly amended). There will no longer be a requirement for the Special Shareholder to beneficially own any of the other special shares in order to exercise the rights attached to the Post Office Limited Special Share. It is proposed to remove any other references to the RMG Special Share and the RMH Special Share at the same time.

VAT Group impacts

- 2.12 POL and RMG (along with a number of RMG’s wholly-owned subsidiaries) are currently constituent members of the VAT group of which RMH is the representative member. The sale of more than 50% of the shares in either entity would generally mean that the entity concerned would no longer fulfil the control requirements for VAT grouping and would therefore need to leave the VAT group (although there may be ways of retaining control and, thus, VAT grouping, through use of alternative shareholdings). It has been agreed between RMG and Post Office Limited that, for commercial and pragmatic reasons, RMG will retain

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the existing VAT group's registration should the current VAT group structure change.

- 2.13 To structure this change for VAT purposes, it is proposed TopCo will be incorporated under the ownership of RMH and included in the RMH VAT group. At the point when TopCo shares are sold, RMG and its subsidiaries within the VAT group will remain under the control of TopCo but will no longer be controlled by RMH. As a result, TopCo will then be considered to be the controlling body of the VAT group (incorporating RMG and its subsidiaries). Consequently, RMH and Post Office Limited will cease to qualify as members of the VAT group on the basis that the controlling body will not own 50% or more of the shares in either entity. RMH and Post Office Limited will therefore be required to register as a new VAT group.

RMH Support Services

- 2.14 It is understood that the intention is to ask Post Office Limited to manage the administration and accounting for RMH under the new structure. The following list has been compiled as services that RMG currently provides to RMH:
- company secretarial support
 - accounting services for consolidated management and statutory accounts (as ultimate parent company and a plc there are considerable statutory reporting obligations)
 - settlement of invoices to group companies or third parties
 - management of relationship with external auditors for statutory accounts and consolidation issues (currently Ernst & Young)
 - corporation tax returns, correspondence and support for payments
 - tax accounting
 - VAT filings
 - employment tax and related support and filings for other tax as required
 - provision of a senior accounting officer service
 - treasury function (organising payments, management of investment portfolio, ongoing banking and investment support services)
 - insurance - provision of insurance within existing policies, participation in current broker contract, management of the relationship with brokers, renewal process, responding to insurance queries, management of major loss claims
- 2.15 Whilst RMH is not a complex holding company, if Post Office Limited is asked to provide these services there will be a resource cost and systems implications which will need to be addressed. The scope of the Finance Roadmap Project to separate our accounting systems will increase with associated cost and potential delay.

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3. Recommendations

The Board is asked to:

- 3.1 note the planned changes to the structure of the wider Group to facilitate an IPO of Royal Mail Group Ltd ("RMG");
- 3.2 note the anticipated changes to the operation of Royal Mail Holdings plc ("RMH");
- 3.3 note the additional duties that are likely to become Post Office Limited responsibilities and that there will be additional cost as a result; and
- 3.4 approve delegation of authority to Alwen Lyons, the Company Secretary and/or Susan Crichton, the HR & Corporate Services Director (in the form set out in Appendix 1) to approve and execute any documents necessary to remove the references to the RMG Special Share and the RMH Special Share in the Company's Articles of Association and to do any act or thing required to be done by the Company to give full effect to, or in connection with, the actions outlined in this board paper.

Susan Crichton
July 2013

Strictly Confidential**Appendix 1 – Delegation of Authority**

The intention is to delegate authority to Alwen Lyons, the Company Secretary and/or Susan Crichton, the HR & Corporate Services Director to approve and execute any documents necessary to remove the references to the RMG Special Share from the Company's articles. In order to comply with Article 77 of the Company's articles (see below), such authority must be first delegated to a committee of one or more directors who have the power to sub delegate to non-directors.

The Board is therefore asked to:

1. Approve in accordance with Article 77 of the Company's Articles of Association, the delegation of authority to a committee comprising Chris Day, Chief Financial Officer, with the power to sub delegate, to approve and execute any documents which are required for, ancillary to, or desirable in connection with the removal of the references to the RMG Special Share and the RMH Special Share from the Company's Articles of Association, such approval in any case to be conclusively evidenced by the execution of the relevant document; and
2. Direct this committee of the Chief Financial Officer to meet and immediately sub delegate its authority, without the power to further sub delegate, to a committee comprising of the Company Secretary and/or the HR & Corporate Services Director.

The Board may wish to consider amending Article 77 at a future point.

Article 77 – Delegation of the Board's Powers

"The board may delegate any of its powers to any committee consisting of one or more directors with power to sub delegate. It may also delegate to any managing director or any director holding any other executive office such of its powers as it considers desirable to be exercised by him, Any such delegation may be made subject to any conditions the board may impose, and either collaterally with or to the exclusion of its own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee with two or more members shall be governed by the articles regulating the proceedings of the board so far as they are capable of applying."

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POLB 13(5th)
POLB 13/30-13/46

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held on 21 May 2013
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman	
Neil McCausland	Senior Independent Director	
Tim Franklin	Non-Executive Director	
Virginia Holmes	Non-Executive Director	
Alasdair Marnoch	Non-Executive Director	(items 13/30-13/37)
Susannah Storey	Non-Executive Director	(items 13/30-13/37)
Paula Vennells	Chief Executive Officer	(all items excluding 13/36-13/37)
Chris Day	Chief Financial Officer	(all items excluding 13/36-13/37)

In Attendance:

Alwen Lyons	Company Secretary	
Mark Davies	Communications Director	(item 13/31-13/32)
Sue Barton	Strategy Director	(item 13/31-13/35)
Kevin Gilliland	Network and Sales Director	(item 13/33-13/34)
Martin Moran	Commercial Director	(item 13/38)
Kevin Seller	Head of Government Services	(item 13/38)

POLB 13/30

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting.
- (b) The CEO updated the Board on the recent challenging NFSP conference at which she and the Minister had spoken and taken questions. She explained that it had been helpful to attend as the specific debate around the network model had challenged the business to produce different solutions for the 'small rural' and 'urban deprived' branches. The reception had also made it clear that the business needs to find a more constructive way to engage individual subpostmasters.

ACTION: Sue Barton

POLB 13/31

GOVERNMENT RESPONSE TO THE FUNDING AND STRATEGY PLAN

- (a) The Board agreed the strategy and funding update and the proposed delegated authorities for the Board's Funding Sub-Committee. It was agreed that delegated authority levels for mutualisation should be added.

ACTION: Sue Barton

Post Office Limited – Strictly Confidential

ACTION: CEO

- (b) The Board valued the weekly updates sent by the CEO and asked for them to continue.

POLB 13/32

GOVERNMENT/STAKEHOLDER INTERACTION PLAN 2013/14

**ACTION:
Mark Davies**

- (a) Mark Davies, Communications Director, presented a paper to the Board setting out the proposed approach for engaging with stakeholders around Post Office Limited's strategy for 2013-2020. The Chairman thanked Mark not only for the excellent media coverage for the new Current Account and the network transformation programme but also for managing the difficult messages around the current industrial action. Mark described it as a team effort and said that he would pass on the Board's thanks.

**ACTION:
Mark Davies**

- (b) The Board asked for a simple crib sheet of 4 or 5 communication points.
The Chairman asked Mark Davies to ensure that any statements were checked to ensure that they were future proof.

- (c) The Board endorsed the approach to stakeholder engagement.

POLB 13/33

NFSP & TRADE ASSOCIATION

**ACTION: Kevin
Gilliland**

- (a) The Board received a verbal update from Kevin Gilliland, Network and Sales Director, on the current relationship with the NFSP.
- (b) The Board discussed the advantages of direct engagement with individual subpostmasters and the CEO explained that the business would be introducing a subpostmaster engagement satisfaction measure this year. The Network and Sales Director was asked to present the detail to the Board when it was available with the timeline for introduction included in the mutual ways of working session at the Board awayday.

ACTION: Sue Barton

- (c) The CEO reported her recent positive experience of trade associations and her view that they could have a positive and challenging effect on the business. It was agreed that the proposal of a trade association would be included in the mutualisation options which would be presented to the Board at their awayday.

POLB 13/34

UPDATE ON CWU AND INDUSTRIAL ACTION

- (a) Kevin Gilliland, Network and Sales Director, updated the Board on the current situation in respect of the Crown Transformation Programme and the current industrial action.

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- (b) The Board acknowledged the sensitive nature of the current situation and agreed that it was at a finely balanced stage. They endorsed the strategy of maintaining a firm and consistent position with the CWU on the key points regarding consolidated pay, franchising and the need to make any pay deal conditional on co-operation in delivering transformation to the Crown Network.
- (c) The Board supported the view that face to face communication was the most effective way to get the business' messages across and increasing the 'super-briefers' role in the communication.
- (d) The Board also endorsed a controlled and strategic approach to sharing information with the CWU, and not supplying individual office P&L accounts whilst the dispute continues.

The Board endorsed proceeding with the practical next steps outlined in the Crown Network – Transformation Programme and Industrial Relations Paper.

POLB 13/35

ANNUAL REPORT AND ACCOUNTS/RESULTS OF EXTERNAL AUDIT

- (a) The Board received the Annual Report and Financial Statements for the 2012-13 financial year and ancillary documents. Alasdair Marnoch, Chairman of the Audit, Risk and Compliance Committee, reported very positive feedback from the auditors who were complimentary about the controls in place and management capability.
- (b) With due regard to their individual duties and liabilities, the Board:
 - Approved the approach to Going Concern and agreed the Going Concern status for Post Office Limited at the full year;
 - Agreed that it was appropriate for the Directors of Post Office Limited to make the undertakings and statements in the financial statements;
 - Confirmed that, as individual directors, so far as they were aware, there was no relevant audit information of which the auditor was unaware and that each director had taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor was aware of that information;
 - Approved the financial statements;
 - Delegated authority for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to comprise any three of Alice Perkins,

ACTION: Mark Davies

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Paula Vennells, Chris Day and Alasdair Marnoch. The Board asked that a final paper copy of the full report be circulated to the Board before completion, the Board agreed to review within 24 hours;

- Authorised Alwen Lyons to sign the Directors' Report and Chris Day and Paula Vennells (or, in either's absence, Alice Perkins) to sign the balance sheet, each acting on behalf of the Board; and
- Approved the Letter of Representation to the auditor and authorise Paula Vennells or Chris Day to sign and issue it on behalf of the Board.

The Board agreed the process and timeline for production of the Report & Accounts as set out in the papers:

(c)

- A copy would be sent to BIS on the 21st May
- A copy to the designers on the 22nd May
- Sign off by sub-committee and the Chairman by 24th May
- Revised version circulated to the Board approx. 10th June (paper copy)
- Response by 11th June
- Report published 3rd July

The CEO and CFO left the Meeting

POLB 13/36

**BONUS PAYMENTS FOR THE YEAR 2012/13
(RECOMMENDATION FROM REMUNERATION COMMITTEE)**

- (a) Neil McCausland, Chairman of the Remuneration Committee informed the Board of the outturn of the 2012/2013 scorecard measures for the Short Term Incentive Plan (STIP) and the Long Term Incentive Plan (LTIP).
- (b) The Board noted the outturn of the STIP against the scorecard targets and approved the recommendation of the Remuneration Committee for the STIP payments for the CEO and CFO.
- (c) The Board noted the outturn of the LTIP against the performance conditions and approved the recommendation for the LTIP payment for the CEO.

**ACTION: Company
Secretary**

- (d) The Board asked the Company Secretary to seek consent for these payments from the Shareholder Executive as required by the Company's Articles of Association.

POLB 13/37

**LONG TERM INCENTIVE PLAN (LTIP) AND SHORT TERM
INCENTIVE PLAN (STIP) BONUS SCORECARD MEASURES**

- (a) Neil McCausland, Chairman of the Remuneration Committee, presented the Board with the Scorecard measures for 2013/2014 for the Short Term Incentive Plan (STIP). He recommended the

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adoption of a new STIP design for the Chief Financial Officer (CFO) for 2013/2014, to align it with the design of that of the Chief Executive Officer (CEO), albeit with a lower potential.

- (b) He also informed the Board of the Long Term Incentive Plan (LTIP) performance conditions for the award dated April 2013. He brought to the Board's attention the fact that the framework of the STIP and LTIP design and measures for the CEO and CFO required Special Shareholder approval which would now be sought.
- (c) The Board discussed the recommendations and noted that the performance measures had hardened with the threshold collar tightening towards the target and the stretch cap becoming more stretching. They discussed the likely outturn and which was thought to be between target and stretch.
- (d) They were assured that these bonus scorecard measures would be replicated down through the ExCo and throughout the business.
- (e) The Board:
 - Accepted the Remuneration Committee's recommendations for the Scorecard Measures subject to STIP for 2013/2014;
 - Approved the change to the STIP design for the CFO;
 - Accepted the Remuneration Committee's recommendation for the LTIP performance conditions for the award dated April 2013; and
 - Noted that the framework for the STIP and LTIP design and measures for the CEO and CFO require Special Shareholder approval.

Sarah Storey and Alasdair Marnoch left the meeting.

Paula Vennells and Chris Day rejoined the meeting.

POLB 13/38

FRONT OFFICE OF GOVERNMENT PROGRAMME (FOOG)

- (a) Martin Moran, Commercial Director, updated the Board on the current position of the Front Office for Government (FOoG) Business and the revised FOoG strategy.
- (b) The Board supported the scaling back to focus on real prospects but emphasised the need remain alert to wider opportunities especially if they could be positioned as helping government departments during the current funding round.
- (c) Kevin Seller, Head of Government Services explained that the Government could make better use of the DVLA framework contract and he suggested updating the stakeholder plan to that effect. This would then be shared with the Chairman and CEO to agree how the Board could support the stakeholder engagement.

**ACTION: Kevin
Seller**

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- (d) The Board noted the revised income forecasts and progress to date and the changes in the FOoG strategy.

POLB 13/39

MINUTES OF PREVIOUS BOARD MEETINGS

- (a) The minutes of the Board meeting held on 20 March 2013 were approved for signature by the Chairman.
- (b) The minutes of the Board meeting held on 9 April 2013 were approved for signature by the Chairman.

POLB 13/40

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of the Audit, Risk and Compliance Committee meeting held on 13 February 2013.
- (b) The Board also noted the minutes of the Nominations Committee meeting held on 5 February 2013.
- (c) The Board noted the minutes of the Pensions Committee meetings held on 4 March and 8 April 2013.
- (d) The Board also noted the minutes of the Remuneration Committee meeting held on 13 March 2013.
- (e) It was noted that the minutes of each of the above Committee meetings, provided for information, had been formally approved by the relevant Committee.

POLB 13/41

MATTERS ARISING STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.

POLB 13/42

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the Chief Executive's report and discussed the following specific items:
- (b) Parcels Tariff
The new Parcel prices were already affecting the sales in branch and the Mails team are discussing this with RMG to try to negotiate a price discount for drop and go small business customers. The Chairman also reported that this had been a topic at her meeting with Donald Brydon, RMG Chairman, which had been very positive.
- (c) Current Account
The CEO reported a successful first week with the number of accounts opened ahead of target.

**ACTION: Nick
Kennett**

The Board asked for a note explaining the success criteria on which the pilot will be evaluated. They also asked if they could have the opportunity to open their own accounts.

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**ACTION: Susan
Crichton**

- (d) Horizon
The Board asked for a note to update on the Horizon position with the Second Sight review

POLB 13/43

ITEMS FOR NOTING

- (a) The Board noted the update on various Financial Services matters, including Bank of Ireland (UK) plc capital & liquidity.
- (b) The Board noted the Health and Safety report.
- (c) The Board noted the Significant Litigation report.
- (d) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 865 to 1039 inclusive in the seal register was hereby confirmed.

POLB 13/44

ANY OTHER BUSINESS

Financial Update

- (a) The CFO reported that period 1 reports showed a positive EBIT variance after adjustments mainly driven by lower staff and agent costs. The one off project costs were 25% above target and he assured the Board that he would monitor these closely over the following period.
- (b) The next full financial update would be available at the July Board with PIR and benefits realisation work reporting to the ARC on the 5th June 2013

POLB 13/45

DATE OF NEXT MEETING

The Board away day would take place on the 18th & 19th June 2013.

The next full Board would take place on the 16th July 2013.

POLB13/46

CLOSE

There being no further business the meeting was declared closed

Notes of the discussions and Actions from the Board Awayday on the 18th and 19th June 2013

Mutualisation overview

- Twin track approach discussed, needs to be without onerous costs or governance
- Concept of a council similar to a building society 'members' council' supported by user-groups was a preferred approach.
- The nature of the debate has changed and we need to tell the Minister what we can do, what can be announced to show a positive move to more mutual ways of working, without compromising the governance.
- **ACTION** The Board asked that the updated Rothschild report be circulated.

CD

- **ACTION** Check that the strategic plan refers to commercial sustainability and not mutualisation and change of ownership
- Do not assume that change of Ownership has gone from the Govt. agenda. So we need to stress the positive things we can commit to especially over the next 2 years
- All agree that aiming for sustainability is the goal and that focussing on new ways of working makes business sense irrespective of ownership model.

SB

New ways of working

- Direct communication to staff, subpostmasters and multiples are the top priority, using the appropriate channel.
- The approach will cost time and money with possible deployment of super briefer into the subpostmaster network. **ACTION** Suggestion that we ask franchise partners what they do to engage branches
- Concerns that POL and NFSP have very different ideas of how a Trade Association relationship would work.
- Support to drive forward as quickly as possible with the ways of working but take the Trade Association/ NFSP approach more carefully to give time to explore
- **ACTION** Agreed that we would look at introducing a 'members' council of 20-30 people, with unions/staff/ subpostmasters and customers all represented. Return to the Board with a full proposal in line with the agreed timeline
- **ACTION** The Board agreed the outline of the WoW timeline. Final proposal to be circulated, excluding Trade Association (although recognised that this may be necessary, so SB to develop a TA proposal but off the page for now)
- The Board were uncomfortable with anyone but the shareholder 'holding them to account'. **ACTION** Check where the term 'hold the business to account' is used, and come back with options for taking this forward without introducing additional governance.
- Agreed that a 'share scheme', meaning 'sharing in success not giving away shares would be a possible approach but not until the Business ceased to be loss making.

MD/KG

SB

SB

SB

This could be included in the pay principles in the long term strategy aligned with WoW.

People

- Structure means business focusing more on the customer, supported by a transactional service delivery function (with work which could be outsourced), and a very small corp. function (which should also include HR and IT architecture for thought leadership).
- **ACTION** Show how many people as a % in each areas **SC/CD**
- Need to isolate Customer functions from the 'glue' that stops the business delivering at pace. Need a 'heavyweight HR and Commercial Director. Commercial Director seen as a successor for the CEO who needs to challenge the organisation.
- **ACTION** Business to consider whether POCA should sit within FS in the new structure **PV**
- Discussion about moving to one Customer Director now. But too much going on in Retail and FS to risk a new person straight away covering three big roles. Could possibly put FS and marketing together, decided to leave three as a transition.
- Service Delivery is also a key job, as it needs to drive out costs and move to an outsourced model. The Business had three possible internal candidates but was asked also to search the market for possible external candidates **PV/SC**
- If an internal candidate was chosen they would need short term external support to drive the programme.
- **ACTION** The Board asked to see the proposed structure charts for the final and interim stages. **SC**
- The ExCo would now meet weekly for an hour or two to drive pace in the big programmes (NT,CTP, FS and IT) and monthly for a full performance review, with smaller Sub Group called for specific tasks.
- The top 30 chosen for talent would receive more development and the top 150 would meet quarterly for business performance which they would then cascade and development.
- **ACTION** ExCo succession plan to return to RemCom **SC**
- **ACTION** Outstanding questions to return to NomCom **SC**

Outsourcing

- Discussed the different options for outsourcing and the different skill required. It is not always necessary to sort out the business processes before OS, as long as the business produces clear requirements; clear rules and then manages the relationship. **CD/SB**
- Cost is only one aspect of the arrangement also about expertise and leveraging the outsource skills
- The Business has aggressive cost reduction in the plan but does not have an OS strategy, although it does have 3rd party arrangements. The IT strategy was

discussed and whether the SI was taking enough accountability for the Towers.

ACTION Sue Barton/ Lesley Sewell to meet Tim to revisit the SI Terms of Reference and the relationship with the Towers. Neil McCausland was unsure that the Board should be revisiting a decision it had already made. **SB**

- Discussed Call centre outsourcing to drive costs and service, expect improvements from day 1.
- Need to decide what is Core to the business and look to outsource the rest. Possibly partner with an independent 3rd party to look at the core and help with the procurement.
- **ACTION** Chris to send a note to the Board before the next meeting setting out a timeline for the next steps including: defining core; defining requirements; procurement; the effects of separation; and management information. **CD**
- **ACTION** Return to the November Board with the plan and milestones, showing direction of travel and the prize, having consulted TF & AM **CD/SB**
- Heavy hitting external programme manager needed to deliver, which could possibly be the Transformation Director (COO).

Lunchtime discussions

Bricks & Mortar surviving as people move to digital

- Need to change how you work with the customer. Promotions on the web and mobile drive customers into store
- Click & Collect – onestop partner with My Hermes meeting customer demands
- Need a distinctive High St. People can do the boring stuff on line
- Focus on communications, don't be parochial add value globally
- Use retail localities as the linchpin of communities
- How could you combine with other CAB/ Libraries
- Strategy makes sense to have branches alongside, inside convenience stores
- Things opening up on line, online will be the growth, but face 2 face as the fulfilment if it works

PO as a challenger FS brand

- Huge gap in basic bank accounts – banks not trusted
- Short term credit – credit unions are not working
- PO has tried this 3 times but could not get critical mass
- Clarity about products is missing, don't always have to be the cheapest, but be clear and fair
- Needs to be simple to operate for the branch

- Gillian called out two conversations were going on, opportunities for the future along with constraints of the present

Engaging our people

- Don't confuse leadership with control
- Different people want different things, ask them, some people just want support and to know they are doing the right thing.
- Onestop run monthly regional meetings with staff and managers 20 people, viewpoint survey twice a year, letters on the internet, pull not push
- Leadership team in shop 2 days a week
- PO comms too long and confusing onestop rewrite
- NFSP send branch circulars, magazine, GT meets 1000 spmr a year
- Spmr feel voice less heard since independence
- Recent improvement in how business communicate
- British Youth council – national members day, on line voting on issues but want debate and engagement as well. Possible role for younger people as spmr, help them with a framework for starting a business, offer a bridge, mentoring, knowledge transfer
- Be careful about consensus. Democracy and over consensus can cause paralysis. Be clear about what is non-negotiable.

The Board agreed that these would be strong candidates for any advisory council

Mails

- The Business are recruiting for a Head of SME, the SME 'hit squad' meet every week, the most important thing to deliver is the expansion of Drop & Go and the Click & Collect customers
- Expanding to the whole network, now part of the sales focus, targets and weekly review in place, discounts for Drop & Go customers, qtr 4 improve the online capability to include hybrid to pay on line and drop of in branch.
- Click & Collect goes live in 10500 branches next month, 4500 with extended opening hours, several big retailers close to signing up.
- Board asked if anything could be done to accelerate
- **ACTION** Investigate options to incentivise quicker growth **PB**
- **ACTION** Spend time in branch to understand the barriers in the sales process and make it as easy as possible for people **PB**
- **ACTION** Once we have a story to communicate make sure we do so loudly! **PB**

- No substantial issues with RMG privatisation. **ACTION** Think radically about how we would respond to changes in the USO. Are there any opportunities for us **PB/MM/SB**

Board meeting to be called for Monday 24th June

The Board meeting would include:

- An update on the NTP conversion information, with clarity the run rate for conversions
- Update on conversations with the Minister
- Proposed changes to the planned strategy being presented to BiS.
- Clear cost implications of those changes
- The Board will need to sign off any changes outside the delegated authorities

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REMCOM
13/20-13/31

POST OFFICE LTD

REMUNERATION COMMITTEE

**Minutes of a meeting of the Remuneration Committee of the Board
held at 148 Old Street, London EC1V 9HQ on Wednesday 1 May 2013**

Present: Neil McCausland (Committee Chairman)
Virginia Holmes
Alice Perkins

In Attendance: Paula Vennells (PV) CEO (from minute 13/25)
Chris Day CFO (minutes 13/26-13/28)
Susan Crichton (SC) HR and Corporate Services Director
(minutes 13/20 – 13/28)
Karen Hamer (KH) Reward Manager
Fay Healey (FH) Chief HR Officer
Jonathan Hutchings (JH) New Bridge Street
Alwen Lyons Company Secretary

REMCOM
13/20

OPENING OF MEETING AND CONSTITUTION OF COMMITTEE

- (a) A quorum of two directors being present, the Chairman of the Committee opened the meeting and welcomed those attending.

REMCOM
13/21

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the meeting held on 13 March 2013 were approved for signature by the Chairman of the Committee.
- (b) The Chairman asked if a communication had been sent to the participants explaining the new LTIP measures. SC explained that knowledge of possible changes in the 2015 Network Transformation targets and the current Industrial Relations environment had delayed the correspondence but that she was reluctant to delay any longer. The Chairman asked SC to discuss and decide on the approach with the CEO, letting the Committee know their decisions.

ACTION:
Susan
Crichton

REMCOM
13/22

SHORT TERM INCENTIVE PLAN (STIP) – OUTTURN AND PAYMENTS FOR 2012/2013

- (a) The Committee received an update from FH on the internal audit review of the outturn of the 2012/2013 scorecard measures completed on 30 April 2013. FH explained that the outturn had been capped in line with the rules.
- (b) Alice Perkins reported to the Committee that the CEO had achieved 80% of her personal objectives which were attributed to 20% of her bonus,

ACTION:

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**Alice
Perkins**

and that in light of this the total STiP payment awarded to the CEO for 2012/2013 should be £157,936. Alice Perkins undertook to inform the CEO of this result.

**ACTION:
Paula
Vennells**

- (c) It was noted that the CFO had received a 4 marking Performance Review and the Committee were comfortable with the effect this would have on his bonus. It was agreed that the STiP payment for the Chief Financial Officer should be £129,053. The CEO would be asked to inform the CFO.
- (d) The Committee noted the outturn of the Post Office scorecard 2012/2013 and the percentages to be applied to STiP payments for the Executive Committee, Remco and SLP populations. It was noted that the STiP would be paid in June 2013 in accordance with the plan rules.

**REMCOM
13/23**

LONG TERM INCENTIVE PLAN (LTIP) OUTTURN AND PAYMENTS 2012/2013

- (a) The Committee received an update from FH on the outturn of the 2010/2013 LTIP performance conditions and considered a proposal for payments under the Long Term Incentive Plan (LTiP) 2012/2013.
- (b) The Committee approved the LTiP payment for the Chief Executive as detailed in appendix 1 of the LTiP Outturn and Payments for 2012/2013 paper and noted the outturn of the LTiP for the Executive Committee, Remco and SLP populations. The LTiP would be paid in June 2013 in accordance with the plan rules.

**ACTION:
Karen
Hamer**

The Committee asked KH to produce a table comparing the CEOs total remuneration package in 2011/12 to that of 2012/13, for circulation to the Committee.

**REMCOM
13/24**

CLAWBACK FOR SCHEME RULES

- (a) The Committee considered the proposals to enhance the Clawback clause in the LTiP rules and to include a Clawback clause in the terms and conditions of the STiP for the Chief Executive (CEO), Chief Financial Officer (CFO), Executive Committee, Remco and SLP.
- (b) JH (NBS) informed the Committee that 3 years' clawback would be the longest he would expect to see in the market. FH explained that this would require a change in the scheme rules which people would have to sign up to if they were to be eligible for the LTiP.
- (c) The Committee approved:
 - i. the change in the LTiP rules, effective from April 2013, to enhance the Clawback clause as detailed in appendix 1 of the Clawback Clause Paper; and
 - ii. the change in the terms and conditions of the STiP, effective from April 2013, to include the Clawback clause as detailed in appendix 2 of the Clawback Clause Paper for the following employee grades: CEO, CFO, Executive Committee, Remco and SLP.

The CEO joined the meeting.

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REMCOM
13/25**SHORT TERM INCENTIVE PLAN (STIP) DESIGN FOR THE CHIEF FINANCIAL OFFICER**

- (a) The Committee considered the proposal to change the design of the Short Term Incentive Plan (STiP) for the role of Chief Financial Officer (CFO) to align it with the STiP of the Chief Executive.
- (b) JH (NBS) had supported the proposed increase of potential percentage range of 40% on target and 67% for stretch and reported that the changed gearing aligned with the market benchmark. The Chairman noted that this was a significant reduction in maximum potential bonus and asked the CEO if she thought the CFO would accept the changes. The CEO was hopeful that the CFO would accept.
- (c) The Committee approved the STiP design and increase in on-target percentage for the CFO and agreed that the proposal should be presented to the Shareholder Executive (ShEx) to review on behalf of the Special Shareholder. KH was asked to produce a draft paper for review by the Chairman setting out the proposal for ShEx.

ACTION:
Karen
HamerREMCOM
13/26**SHORT TERM INCENTIVE PLAN (STIP) MEASURES 2013/2014**

The CFO joined the meeting

- (a) The Committee considered the proposed Post Office Scorecard for 2013/2014 with particular reference to those measures which form the Short Term Incentive Plan (STiP).
- (b) FH clarified that ExCo was considering changing from the current PDR multiplier to a more flexible approach but that no decision had yet been reached.
- (c) The CFO explained the trajectory to Crown breakeven in 2015 from the outturn of a loss of (£37m) in 2012/13, and that the target for 2013/15 was likely to be a loss of (£23m).
- (d) The CFO explained that the Network Conversions target was to be set at 1550 contracts signed in the year, bringing the cumulative target by the end of 2013/14 to 3000. He recognised that this would be contentious as it was 600 less than the current strategic plan but assured the Committee it was still a very stretching target. The Committee discussed the problem of changing a target during the year if the strategy changed, but agreed that the network measure should have a footnote to explain the assumption that if the strategy changed the targets would need to change too.
- (e) The Committee agreed the ranges in the Growth, Profit and Easy to Do Business With measures but asked that Plan target be referred to as Threshold.
- (f) The Crown Profit (loss) would be set at Threshold (£23m), Target (£23m) and stretch (£21m).
- (g) The CFO was asked to email the final scorecard to the Committee and then present the proposal to the full Board.

ACTION:
CFO

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ACTION: (h) JH explained to the Board that they should bear in mind the disclosure requirements for the Report & Accounts and it was decided to report the KPIs as categories of Growth, Customer, People and Modernisation.
Karen Hamer

ACTION: (i) The Committee approved the Post Office Scorecard with particular reference to those measures which form part of the STiP for Executive Directors and agreed that the proposal should be presented to the Board and then the Shareholder Executive to review on behalf of the Special Shareholder.
CFO

REMCOM 13/27 **LONG TERM INCENTIVE PLAN (LTIP) AWARD DATE APRIL 2013**

(a) The Committee received a proposal on the performance conditions for the Long Term Incentive Plan (LTiP), award date April 2013, payment date March 2016, and performance conditions to be tested in the financial year 2015/2016.

(b) The Committee discussed the structure of the proposal with Access Criteria as the gateway and EBITDAS and EBITDAS/turnover as two separate measures. It was recognised that the EBITDAS measure would focus on driving the Business back to profit and that the artificial measure of EBITDAS/turnover did not add any value.

ACTION: (c) The quantum awards presented in the paper at para 2.4 were not correct and a replacement paper would be filed with correct stretch percentages.
Karen Hamer

(d) The Committee approved the design of the LTiP, award date April 2013, and resolved that the performance conditions should be: a gateway of Access Criteria; and a measure Earnings Before Interest and Tax, Depreciation, Amortisation and Subsidy (EBITDAS).

REMCOM 13/28 **DISCLOSURE**

(a) The latest draft of the Directors' Remuneration Report (DRR) was considered.

(b) JH (NBS) explained that usually the DRR was presented in the structure of a letter from the Chair of the Remcom showing the context for the report; an explanation of remuneration strategy for the current and future years and a look back at the year of the accounts.

ACTION: (c) Alice Perkins asked the Business to ensure that the DRR was aligned with the rest of the R&A.
Karen Hamer

(d) The Committee agreed that the key messages should be:
There are a constrained set of circumstances, we are in a turnaround business
Trying to keep people motivated with no flexibility on pay
Are open about pay
We benchmarked our remuneration and people are underpaid
Every decision taken is subject to agreement with the shareholder
We have inherited the schemes we are currently using, they were put in place by a different organisation, without this Board or Remcom

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ACTION: The CFO explained that the internal team were working on the R&A document this week and they would ensure that they took advice from NBS as well as the input from the Committee to redraft the DRR.
Karen Hamer

REMCOM
13/29

EXCO SALARIES

- (a) The CFO and Susan Crichton left the meeting.

The Committee having received and noted the refined Executive Committee benchmarking data considered the proposal to increase the salaries of Susan Crichton, HR and Corporate Services Director, and Mark Davies, Communications Director.

- (b) JH (NBS) reported that Susan Crichton was well within the benchmark for a General Counsel role without her other responsibilities and similarly Mark Davies was at 62% of the market median for a Director of Communications.
- (c) The Committee approved:
- i. an increase in salary for Susan Crichton to £185,000 in respect of additional accountabilities, taking effect from 1 September 2012 when responsibility for the Human Resources function was transferred; and
 - ii. an increase in salary for Mark Davies to £125,000 in respect of progression in role following appointment in July 2012, taking effect from 1 April 2013.

REMCOM
13/30

ANY OTHER BUSINESS AND DATE OF NEXT MEETING

- (a) The next meeting of the Committee was scheduled for Thursday 4 July 2013.

REMCOM
13/31

CLOSE

There being no further business, the meeting was then closed.

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POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Network Transformation and Crown Offices		
1a	January 2013 POLB 13/03(h)	Idea of high profile event suggested for early adopters being planned.	Mark Davies	Ongoing
		2. Finance		
2a	January 2013 POLB 13/07(c)	To check with ShEx what has to be reported to Brussels. CFO to email the Board regarding actions being taken.	Chris Day/ Susan Crichton	The funding for Post Office is based on cumulative performance over 3 years up to March 2015 – so an underspend in the first year is not an issue in itself. Post Office Finance has checked with ShEx who have confirmed that there is no need to report the current financial position of Post Office to Brussels. Post Office does have to provide a report to BIS, independently verified by Deloitte, later this year which compares last year's performance against the calculation agreed with Brussels for SGEI costs. This report has been shared with the Board.
2b	November 2012 POLB12/122(c)	CFO would produce a project spend benefits realisation analysis for ARC to give more detail on project spend against forecast.	Chris Day	Completed. Approved by ARC on 5 June 2013.
		3. Strategy		
3a	January 2013 POLB 13/04(e)	A Champion on ExCo for the Digital Programme to be nominated. Implementation of Digital Programme to proceed with all urgency, working in alignment with the strategic plan. Updates on progress to be brought back to the Board.	Martin Moran	Martin Moran is the nominated Champion.

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3b	November 2012 Strategy Evening	"Point person" to be identified for SME's, across pillars	Martin Moran	Interviews for a new Head of SME are to commence in July.
3c	March 2013 POLB13/15(c)	Business to consider fully whether running Travel insurance 'in-house' was a core competence for the business. To be reviewed at sign-off for phase 1.	Nick Kennett	To July Board.
3d	March 2013 POLB13/15(d)	Business to hold early exploratory discussions with Bank of Ireland regarding possible buy-out of insurance, using KPMG to establish possible value.	Nick Kennett	To July Board.
3e	March 2013 POLB13/15(e)	Paper to be prepared on IT Architecture and Customer Database Development, with particular focus on future FS requirements.	Sue Barton/ Lesley Sewell/ Nick Kennett	See Appendix A. To July Board.
3g	March 2013 POLB13/15(i)	Business to prepare Board paper on investment requirement for the FS strategy, including any effect on self-funding and state aid. Seven year P&L to also be produced showing the investment milestones.	Chris Day	CFO to provide update at July Board.
3h	May 2013 POLB 13/31	Continue to send Strategy and Funding weekly updates to the Board.	Paula Vennells	Ongoing
3i	May 2013 POLB 13/32	Prepare simple crib sheet of 4-5 communication points to be used for engaging with stakeholders around Post Office's strategy for 2013-2020. To ensure that any statements used left room for manoeuvre in case circumstances changed in the future.	Mark Davies	
3j	May 2013 POLB 13/38	Update Stakeholder Plan to make better use of DVLA framework contract. To be shared with CEO and CFO to agree how the Board can support the Stakeholder engagement.	Kevin Seller	
3k	May 2013 POLB 13/42	Prepare note for the Board explaining the success criteria on which the Current Account pilot will be evaluated.	Nick Kennett	Noting paper going to July Board.
3l	May 2013 POLB 13/42	Board asked for opportunity to open their own Current Accounts.	Nick Kennett	
4. People and Remuneration				
4a	November 2012 POLB 12/116 (h)	The Board requested an update on the people and performance management framework at the February Board meeting.	Susan Crichton	The People Plan was presented as part of the June Strategy day.
4b	May 2013 POLB 13/36	Seek consent from ShEx for STIP payments for CEO and CFO, and LTIP payment for CEO.	Alwen Lyons	Completed – notification sent 13 June 2013.
5. Personal Injury Referral Fees				
5a		Post Office Insurance will work with BGL to evaluate the impact on the business model (including income and incentives) and management proposes to update the board later in 2013 of any changes.	Nick Kennett	I have evaluated the position and with the regulatory changes having being implemented only in April it is

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				rather early to have seen the impact - I suggest that this would be better presented back to the Board in the autumn when we will have seen both a better understanding of the market impact and how BGL has responded.
		6. Mutualisation		
6a	March 2013 POLB13/16(d)	Business to ask Rothschilds to update Mutualisation report to include the new strategy, and get their view on sustainability and balance sheet requirements in the light of this, within a tightly managed set of Terms of Reference and budget.	Chris Day	Verbal update to May Board.
6b	March 2013 POLB13/16(f)	Board to have sufficient time to consider proposed Public Purpose statement during the Summer.	Alwen Lyons	To be considered at July Mutualisation Sub Committee.
6c	March 2013 POLB13/16(g)	Business to consider its future stakeholder engagement and the most effective meeting structure to be put in place.	Sue Barton/Alwen Lyons	Completed. Presented at June Board in Ways of Working paper.
6d	May 2013 POLB 13/31	Add delegated authority levels for Mutualisation Committee.	Sue Barton	Completed.
6e	May 2013 POLB 13/33	Proposal of a trade association to be included in the mutualisation options to be presented at the Board awayday.	Sue Barton	Completed. Proposal presented at June Board meeting.
		7. NFSP & Trade Association		
7a	May 2013 POLB 13/33	Present the detail of the subpostmaster engagement satisfaction measure when available.	Kevin Gilliland	
7b	May 2013 POLB 13/33	Include timeline for introduction in the mutual ways of working session at the Board awayday.	Kevin Gilliland	Completed.
		8. Information Security		
8a	May 2013 POLB 13/42	Provide update to the Board on the Horizon position with the Second Sight review.	Susan Crichton	Update to July's Board.
		9. Other Actions		
9a	January 2013 POLB 13/05(b)	Business to reassess the Click and Collect and Failed Deliveries services (including escalation and looking again at the MDA as necessary).	Martin Moran	Closed - see CEO Report.
9b	November 2012 POLB12/120 (c)	A plan to be presented to enable members of the Board and ExCo to have greater exposure to the people involved in the Stakeholder Forum.	Sue Barton/ Alwen Lyons	Completed. Board met Members of Stakeholder

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				Forum at June Board Dinner.
9c	March 2013 POLB13/23(a)	Organise Board awayday for 18-19 June.	Alwen Lyons	Completed
9d	May 2013 POLB 13/30	The business was asked to develop a more constructive way to engage with individual subpostmasters.	Sue Barton	Completed. Included in Mutualisation Paper and Timeline presented at June Board.
9e	May 2013 POLB 13/35	Circulate final paper of copy of the full Annual Report and Financial Statements to the Board, for comments within 24 hours, before being reviewed by the Annual Report sub-committee.	Mark Davies/All	Circulated 11 June 2013

APPENDIX AMarch 2013 POLB13/15(e)

There are a number of activities, detailed below, which are currently underway and by October we will have a view of the business and technology roadmap to support our strategic aspirations, at which point a paper will be placed in the Board reading room.

All of the activities support the 15 – 20 Strategy, and include the capabilities to deliver the FS income growth and have been included in our IT plans and funding. We are currently defining our Customer Management Strategy and subsequently the technology roadmap. Javelin have supported the definition of the strategic digital requirements which has included customer, complemented by a project to define our customer management strategy by the end of June led by Nick Fox in Marketing, supported by Berkeley. We will take a pragmatic and incremental approach to how we will deliver our customer management capability.

In addition, for Financial Services we are working with BOI to pilot a more detailed analysis/segmentation exercise to identify cross/up-sell opportunities at a very granular level. The outcome is to generate targeted campaigns to fewer customers. This is a pilot and will inform our strategic approach.

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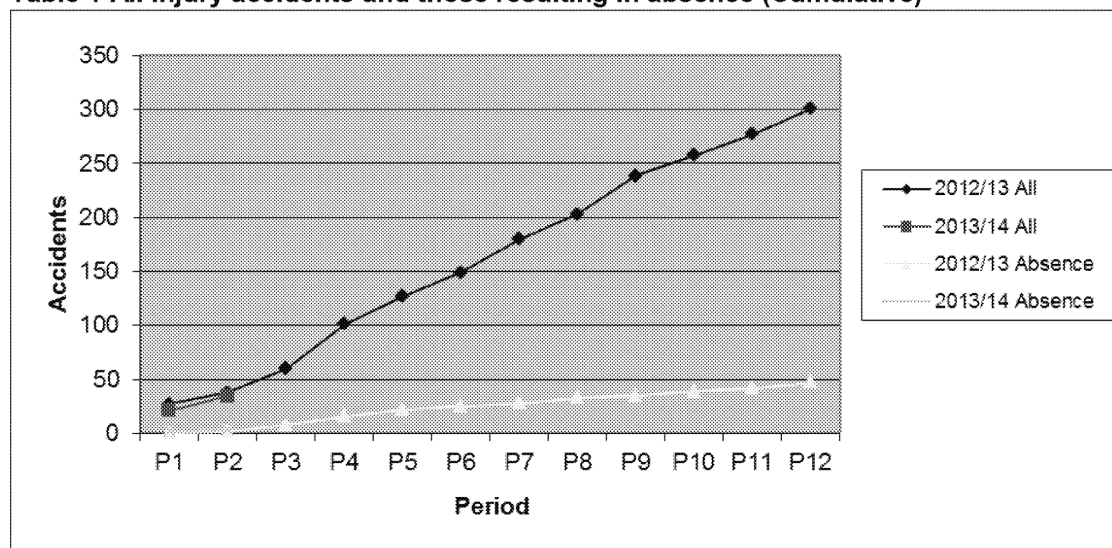
POST OFFICE LTD BOARD**Health & Safety Report****1. Purpose**

The purpose of this paper is to:

- 1.1 Provide an update on safety performance.
- 1.2 Outline risk reduction activities.

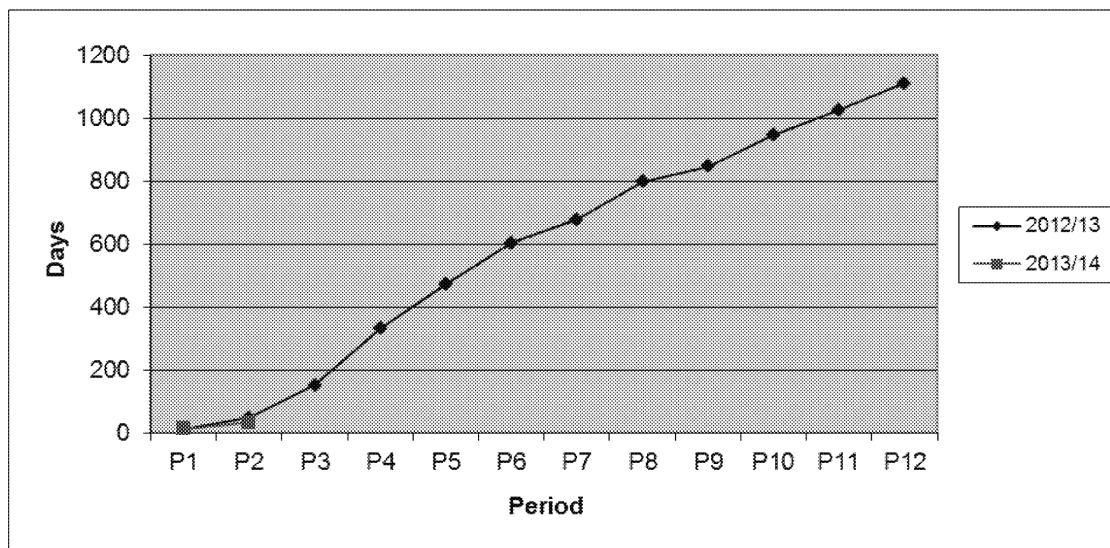
2. Current Situation

- 2.1 Injury accidents, up to period 2, are showing a positive trend against last year, and against the target reduction of 5%. Accidents involving absence have increased from two to three compared to the same period last year but minor monthly fluctuations are not unusual. The "per 1000 staff in post" comparison indicator, which takes account of head count fluctuation year on year, is showing a slightly more favourable trend for 'all accidents'.

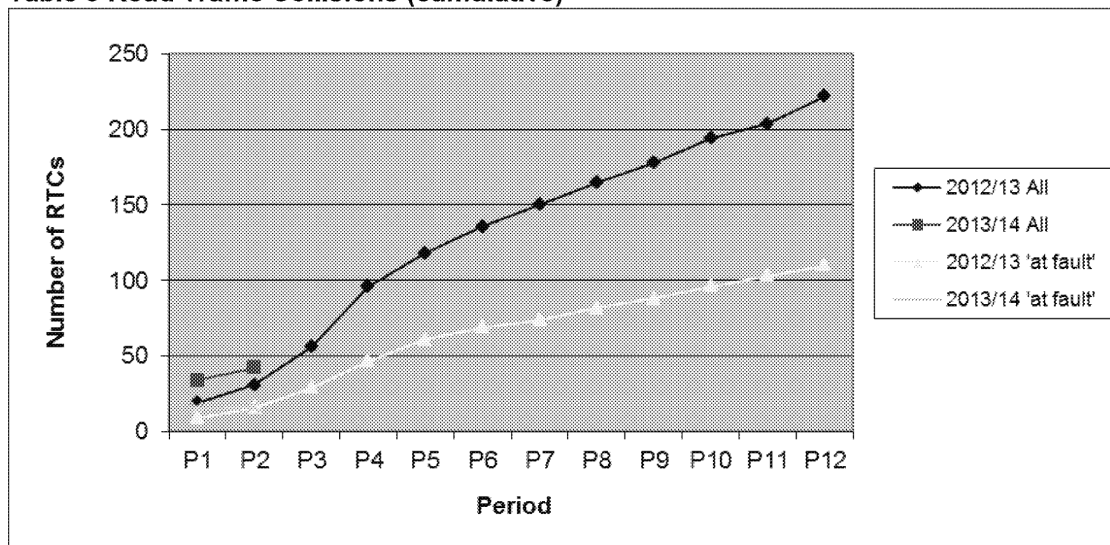
Table 1 All Injury accidents and those resulting in absence (Cumulative)

- 2.2 The number of days lost due to accidents is showing a positive trend compared to last year and against a target reduction of 5%. (Table 2) Indicating that there is a positive trend on frequency along with a reduction in severity of those accidents.

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Table 2 Days lost resulting from injury accidents (Cumulative)

- 2.3 The number of road traffic collisions (RTCs) during the first two periods has increased significantly compared to the same period last year although the trend during period 2 is more in line with expected monthly performance and 'at fault' incidents are running at the same level as last year. Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Injuries as a result of road traffic collisions are infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss.

Table 3 Road Traffic Collisions (cumulative)

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- 2.4 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions. .
- 2.5 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are at the same level as last year at 7 cumulative for the first two months. Physical injuries during robberies, of which there have been 2, the same as last year, remain relatively minor in severity. Two of the seven robberies were enabled by the presence and/or threat of use of fire arms however the firearms were not discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.6 Robberies and attempted robberies on the Post Office network, cumulative to period 2, are significantly lower than last year – 11 compared to 18. The ratio of successful robberies has reduced from 78% to 54%. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers)

Burglaries and attempted burglaries (which do not involve personal attack) have reduced from 13 to 8 compared to the same two month period last year.

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities
- Analysis of effectiveness of face to face training given to top 50 high risk drivers has indicated that accidents amongst this community have reduced significantly following the refresher training
- Eye sight checks for operational drivers are in place
- Technical accident reduction interventions on new vehicles e.g. Reversing aids
- Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
- Introduction of coloured 'high visibility' seat belts on new vehicles
- Safety team input and concurrence for vehicle specification and changes
- Safe driver of the year award
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. Smartwater – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas

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- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Programme of visits to all Post Office sites to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing
- Plans in place to re-visit all Post Office Crown Branches and Supply Chain sites within 18 months
- Health and wellbeing 'Team Talk' modules
- Health and wellbeing poster themed campaigns
- Online wellbeing monitoring tool to support health check initiative
- Enhanced Occupational health service provision from January 2013

4. Residual Risks

- 4.1 Driving activities have the potential for high impact/loss and remain a significant residual risk. However, the actions identified above are aimed at mitigating that risk and improving performance.

5. Recommendation

The Post Office Ltd Board is asked to:

- 5.1 Note the overall safety performance
- 5.2 Note the risk reduction activities.

Susan Crichton
July 2013

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Appendix 1

Significant Incidents (Period 2)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
Friday 24/05/2013. Skelmanthorpe Huddersfield HD8 9AA	£17,000	Two masked males, one with a shotgun demanded cash. They demanded the safe was opened and made customers (5) lie on the floor.	None	6 arrests have been made following the robbery and 2 have been charged.
Supply Chain (Cash, delivery and collection)				
Wednesday 22/05/13 South Lambeth, London.	None	Guard was just removing pouch from Ibox when attacker calmly approached the counter as if to inquire about a service. At the point of transferring the pouch to the Postmaster, the observant post master pushed the offender and snatched the pouch, securing the parcel hatch. The offender left the office and was chased by two staff, who were then threatened with a knife.	None	
Thursday 23/05/13 Portland Road SPSO. London. SE25	£26,000	Trip 2 of 3, pouch passed to the counter staff when two assailants entered the office. One stood by the door with a hand gun covering the office and outside. The other assailant went up to the counter where the custodian was stood and demanded that the crew hand over the money. The crew explained that his box was empty and suggested to the counter staff that he pass the money back over, this he did and the assailant grabbed the pouch and they both made a getaway. Shotgun and handgun used as a threat.	None	

POST OFFICE LIMITED BOARD

Sealings 15 May – 9 July 2013 inclusive

Register of Sealings

The Directors are invited to consider the seal register and approve the affixing of the Common Seal of the Company to the documents set out against items numbered 1040 to 1058 inclusive in the seal register.

“The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1040 to 1058 inclusive in the seal register is hereby confirmed.”

Alwen Lyons
Company Secretary
16 July 2013

POST OFFICE LIMITEDDate
09/07/2013**Register of Sealings**Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1040	20/05/2013	15/05/2013	Lease between POL and Archrise Limited of premises at 59/61 Grange Road Middlesborough TS1 SAT	Alwen Lyons	Jean Reynolds
1041	20/05/2013	15/05/2013	Licence for alterations between POL and Archrise Limited.	Alwen Lyons	Jean Reynolds
1042	20/05/2013	20/05/2013	Counterpart underlease relating to Unit 1 Babington Court, Gower Street, Derby, DE1 1JU between POL, Babington Court Commercial Limited, Babington Management Company Limited and Hugh McGill, Leonard McGill, Shane McGill and Victor Costello.	Alwen Lyons	Jean Reynolds
1043	24/05/2013	24/05/2013	Agreement for Surrender relating to Unit 1, Southside Shopping Centre, Wandsworth between POL, Metro Nominees (Wandsworth) (No 1) Ltd and Metro Nominees (Wandsworth) (No 2) Ltd	Paula Vennells	Jean Reynolds
1044	24/05/2013	24/05/2013	TR1 relating to Unit 1, Southside Shopping Centre, Wandsworth	Paula Vennells	Jean Reynolds
1045	04/06/2013	04/06/2013	Lease between POL and Real Estate Investors plc relating to 6 - 8 Alcester Road South, Kings Heath, Birmingham B14 7PU	Alwen Lyons	Jean Reynolds
1046	04/06/2013	04/06/2013	POL and Primeco Limited - TR1 relating to 41 - 43 Market Place, Chippenham SN15 3HR	Alwen Lyons	Jean Reynolds
1047	04/06/2013	04/06/2013	Deed of Settlement between POL and Primeco Limited relating to 41 - 43 Market Place, Chippenham, SN15 3HR	Alwen Lyons	Jean Reynolds
1048	17/06/2013	14/06/2013	Deed of surrender relating to 35 Broadgate Circle, Central Square, London EC2 between POL, BLCT (PHC 2) Limited and Broadgate (PCH 2) Limited	Alwen Lyons	Jean Reynolds
1049	17/06/2013	14/06/2013	Service Tenancy Agreement (Temporary SPM Appointment) of the Post Office being part of 18 John Street, Llanelli, Carmarthenshire, SA15 1AA between POL and Mary Stewart	Alwen Lyons	Jean Reynolds
1050	20/06/2013	20/02/2013	Licence to carry out works relating to 3rd and part 4th Floors, 120 Bark Street, Bolton between POL and Gordon Neville Moon	Gill Catcheside	Jean Reynolds
1051	20/06/2013	20/06/2013	Lease of floor of office 3rd Floor and part 4th Floor, 120 Bark Street, Bolton between POL and Gordon Neville Moon.	Gill Catcheside	Jean Reynolds

POST OFFICE LIMITEDDate
09/07/2013

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1052	28/06/2013	27/06/2013	Deed of Settlement for Bristol Cannon Street FPO, 8 Cannon Street, Bristol, BS3 1BL between POL and Primeco Limited	Alwen Lyons	Jean Reynolds
1053	28/06/2013	27/06/2013	TR1 for Bristol Cannon Street FPO, 8 Cannon Street, Bristol, BS3 1BL between POL and Primeco Limited	Alwen Lyons	Jean Reynolds
1054	04/07/2013	04/07/2013	Underlease of 238-242 Essex Road, London between Post Office Limited, Mazat Limited and Syed Mehdi Abbas Razavi and Sayyada Razavi.	Gill Catcheside	Jean Reynolds
1055	04/07/2013	04/07/2013	Tenancy Agreement for Unit 124 North Mall Southside Shopping Centre, Wandsworth between Post Office Limited and Metro Nominees (Wandsworth) (no. 1) limited and Metro Nominees (Wandsworth) (No. 2) Limited.	Gill Catcheside	Jean Reynolds
1056	04/07/2013	04/07/2013	Licence for Alterations relating to Unit 124 Southside Shopping Centre, Wandsworth between Post Office Limited and Metro Nominees (Wandsworth) (No. 1) Limited and Metro Nominees (Wandsworth) (No. 2) Limited.	Gill Catcheside	Jean Reynolds
1057	05/07/2013	05/07/2013	Lease of Ground Floor 119 Wandsworth High Street London SW18 4HY between POL and Husseyin Arif, Aysel Arif and Gengiz Arif.	Susan Crichton	Jean Reynolds
1058	05/07/2013	05/07/2013	Licence to Carry Out Works relating to Ground Floor at 119 Wandsworth High Street London SW18 4HY between POL and Husseyin Arif, Aysel Arif and Gengiz Arif.	Susan Crichton	Jean Reynolds

Post Office Limited Board and Audit, Risk and Compliance Committee Dates 2014 and Q1 2015

Meeting	Date of Meeting	Time of meeting	Location
Possible Board Dinner	20 January 2014	Board dinner, evening only	TBC
Board	21 January 2014	9am - 1 pm	Boardroom
Mutualisation Committee	21 January 2014	1.30pm - 4pm	Boardroom
Audit, Risk and Compliance Committee	12 February 2014	2pm - 4pm	Boardroom
Board Breakfast	26 February 2014	8.15am - 9.15am	TBC
Board	26 February 2014	9.30am - 1.30pm	Boardroom
Audit, Risk and Compliance Committee	19 March 2014	2pm - 4pm	TBC
Board	26 March 2014	9am - 4pm	Boardroom
Board	30 April 2014	9am - 4pm	TBC
Audit, Risk and Compliance Committee	15 May 2014	2pm - 4pm	TBC
Board	21 May 2014	9am - 4pm	TBC
Board Strategy Awayday	17/18 June 2014	TBC	TBC
Board	16 July 2014	9am - 4pm	TBC
Audit, Risk and Compliance Committee	10 September 2014	2pm - 4pm	TBC
Board	24 September 2014	9am - 4pm	TBC
Board	29 October 2014	9am - 4pm	TBC
Audit, Risk and Compliance Committee	12 November 2014	2pm - 4pm	TBC
Board	26 November 2014	9am - 4pm	TBC
Board	28 January 2015	9am - 4pm	TBC
Audit, Risk and Compliance Committee	11 February 2015	2pm - 4pm	TBC

Board	25 February 2015	9am - 4pm	TBC
Audit, Risk and Compliance Committee	18 March 2015	2pm - 4pm	TBC
Board	25 March 2015	9am - 4pm	TBC