



Executive Briefing Note

Post Office 12/02/15

Business Overview

The Post Office operates the largest UK retail network with over 11,500 branches serving 18,000,000 customers a week and is going through a period of significant change: separation from Royal Mail Group, transition to a Towers model and restructuring the whole business around certain product groups.

Executive Summary

Post Office Ltd's Business Performance

- All top-lines results declined with exception of Financial Services in first half year of FY14/15.

People

- New CFO, Alasdair Cameron joined from Centrica. Meeting being scheduled with Michael Keegan and Steve Clayton in February.
- Lesley Sewell has taken on responsibility for Back Office functions in Chesterfield, broadening her role to include operations.
- Bill White appointed Head of Fujitsu Transition.
- Reorganisation of Head Office staff wave 2 commences with a further 300 redundancies targeted.
- Catherine Rowe and Nigel Shaw introduced to Post Office as Executive leads for Fujitsu

Strategy

- Tower model continues with accelerated focus:
- Front Office Tower contract award due May/June.
- Networks Tower award due May.
- Back Office Tower to recommence following KPMG recommendation to halt BPO plans.

Engagement

- Focus on closing tactical extensions and upgrades in year for POLSAP, Credence, Test Rigs and OBC. Circa £9m+ TCV in 8 weeks
- Shaping Horizon contract extension and Belfast Refresh for possible decision by Post Office in May-September when extension right expires.
- Customer engaging on HPBB 2 year extension negotiation.

FY 2014/2015 Post Office H1 Results

- Post Office remains state-owned. Interim results issued in November report "Post Office making further progress towards its ambition of commercial sustainability".
- Overall, revenue down to £475m (was £483m) for 6 months, impacted by market pressures, particularly in mails and as more government services migrate to digital channels.
- Paula has said the performance was "making further progress" in "increasingly volatile and competitive market conditions". Mails and retail revenue was broadly flat. Post Office are working with Royal Mail to drive revenue growth through innovations such as 'Drop and Go' and 'Click and Collect'.
- Financial services performed strongly, growing revenue by 5.8%, including Personal Finance Services revenue growth of 11%. Post Office have also rebranded and relaunched Post Office Money with a national advertising campaign including TV. Our over-the-counter access to cash and foreign currency businesses are also benefitting from enhanced opening hours - particularly notable at a time when traditional banks are closing branches.

Post Office Revenue & Profit snapshot

- Turnover down to 475m (down 1.7%)
- Operating profit fell to £23m (down 56.6%)
- Pre-tax profit slumped to £20m (down 89%)
- Overall turnover decline of 9% in Government and telecoms revenue
- Spoiling 5.7% growth in £147m financial services revenue.
- Mails and Retail revenue slip 0.5% year-on-year to £183m.

- Government Services revenue decreased by 9.3%, impacted by increased use of digital channels as government departments seek to reduce spending. However, the introduction of Identity Services and the 7 year deal to continue Post Office card account (POCA) provide some long term support.
- Telecoms: The Post Office is a significant player in the telecoms market with around 450,000 customers in HomePhone and Broadband and the largest network of mobile top-up terminals in the UK. Post Office have prepared to way for new products and promotions in this space. Revenues declined 9.2% in the period. Post Office has reduced its reliance on the Network Subsidy Payment from Government. This manifested itself in the first six months of the year with the planned £20 million reduction in the payment compared with the same period in the previous year.
- The operating profit before exceptional items reduced to £23 million (2013: £53 million) including this 20% reduction in the Network Subsidy Payment.

Recent News Snapshot

Post Office in the News

- BBC's One Show, Today Programme, Westminster Hall Adjournment Debate and various computer press continue to report on the Mediation process with Subpostmasters who have received heavy fines or jail terms for false accounting claims.
- Fujitsu have provide full responses to 1097 requests for 147 cases

Post Office new Product Launches

- Post Office Money launched with national TV coverage, providing banking services as more bank close branches across the country
- Home Phone and Broadband marketing campaigns have increased base but still below CAR Post Office looking to launch a mobile telephony offering
- Post Office Card Account re awarded to Post Office

Service and Project News

- Belfast Refresh project continues to track against plan and held as the exemplar program in Post Office
- Horizon CSAT scores – January result of 9.0 confirmed.
- Highest peak performance since contract began

Network news

- >2,000 sites now transformed to new format under network transformation with new variable pay contract

Towers Model

- The transition to ComputaCenter has commenced after the award of the EUC Tower.
- 'Change' continues to experience a material 'drag' following the transition to Atos and intense cost governance from Post Office. But Q4 should see £10m+ of orders sign

Royal Mail Exit

- Post Office are the largest customer on the Global Cloud, with 240 virtual instances taking RMG migrated systems

Executive Focus

CEO's Agenda

- **Paula Vennells** growing top line is major challenge
- The wholesale change of the Branch Network
- Justice For Sub Postmasters and the Mediation challenge is significant focus and distraction

CFO's Agenda

- **Chris Day's** departure has been announced and has been replaced by **Alasdair Cameron**, (CFO British Gas and MD British Gas Enterprises)

- New CFO will be focused on hole in P&L moving forward – Towers was supposed to have been let by September 2014
- Understanding business and plans within his first 90 days

Commercial Director's Agenda

- **Martin George**, ex-Bupa and British Airways, is focused on:
 - Home Phone and Broadband services and extension
 - Assessing all product lines and new business goals and an organization restructure
 - Innovation in branch format and is very keen on demonstrating exceptional service to customers. (Martin was responsible for kiosk check-in in airports.)
 - Post Offices Multi Channel Business

Strategy Director's Agenda

- **Sue Barton's** one year extension has expired – unclear whether she is coming back and in what capacity

CIO's Agenda

- **Lesley Sewell** is focused on:
 - Operational cost reduction, looking for 15% saving this year and 25% opex cost reduction ultimately.
 - Separation from Royal Mail
 - The Towers model procurement
 - Integrating and managing the implementation of the ATOS SISD service and the impact on staff
 - The Strategic IT Roadmap to support separation from RMG as well as product and business enabling
 - systems such as Horizon and the Web portal
 - Regulation and compliance
 - Towers and RMG separation projects have all slipped against published timelines
 - Taken on responsibility for Back Office functions in Chesterfield

Head of Fujitsu Transition Office's Agenda

- **Bill White**, ex-Ingeus, Capita and Tesco Bank, appointed in January, focused on:
 - Building relationship with Fujitsu
 - Making Tower Model transition work

Tower Model Insight

- SISD Live – Atos
- EUC goes live in April - CC – Fujitsu secured continued OBC and MAC work
- Back Office Tower – currently paused – KPMG performed a strategy review and recommended rejecting BPO approach and Tower procurement will recommence soon
- Front Office Tower – contract award scheduled for May/June
- Networks Tower – contract award scheduled for May/ June