



Group Executive Agenda

Date:	Monday 12 November 2018	Time	09.00 – 14.00	Location	1.19 Wakefield
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Present		Other Attendees		Apologies
<ul style="list-style-type: none"> • Paula Vennells (Chair) • Alisdair Cameron • Debbie Smith • Owen Woodley 	<ul style="list-style-type: none"> • Rob Houghton • Mo Kang • Mark Davies • Jane MacLeod 	<ul style="list-style-type: none"> • Sarah Koniarski • Micheal Passmore • Tom Moran • Martin Kearsley • Emma Springham 	<ul style="list-style-type: none"> • Chrysanthy Pispinis • Mick Mitchell • Martin Hopcroft • Martin Edwards 	<ul style="list-style-type: none"> • Veronica Branton
Agenda Item		Action Needed	Lead	Timings
1.	Finance Performance – Financial Results & Review of Business Scorecard	Discussion	Al Cameron / Micheal Passmore	09.00 – 09.20
2.	Retail Strategy (including Agent Remuneration)	Approval for Board	Debbie Smith / Tom Moran	09.20 – 10.00
3.	Future of Cash - Banking Framework 2		Debbie Smith / Martin Kearsley	10.00 – 10.30
4.	<u>Marketing Effectiveness, Efficiency and Relevancy</u>		Owen Woodley / Emma Springham	10.30 - 11.00
BREAK				11.00 – 11.10
5.	Bol Negotiations (Verbal)	Discussion	Owen Woodley / Chrysanthy Pispinis	11.10 – 11.25
6.	<u>IT Security Strategy</u>	Approval for Board	Rob Houghton / Mick Mitchell	11.25 – 11.45
7.	<u>Health and Safety Report</u> (including violence and robberies)		Al Cameron / Martin Hopcroft	11.45 -12.00
8.	Postmaster Litigation (verbal)	Discussion	Jane MacLeod	12.00 – 12.15
LUNCH				12.15 – 12.30
9.	Contract for Approval: <u>Digital Identity</u>	Approval for Board	Martin Edwards	12.30 – 13.15
10.	Compliance with PCI-DSS: Approval for an Interim Solution	Approval for Board	Debbie Smith / Rob Houghton	13.15 – 13.30
11.	Verbal Updates from Committees and Steering Groups	Discussion	GE Lead	13.30 – 13.40
12.	Review of <u>GE Minutes, Action Points</u> and Updates		Sarah Koniarski	
13.	<u>Investment Committee Terms of Reference</u>	Approval	Rob Houghton	13.40 – 13.50
14.	Items for Noting	Noting	Sarah Koniarski	
15.	14.1 <u>Forward Agendas</u> Any other Business		All	
BREAK				13.50 – 14.00
The GE meeting will be followed by the Annual Crisis Workshop facilitated by Tim Armit, Business Continuity Manager. (14.00-15.30)				

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DISCUSSION PAPER

October 2018 (P7) – Financial Performance

Author: Micheal Passmore

Sponsor: Alisdair Cameron

Meeting date: 12 November 2018

Executive Summary

Context

The purpose of this paper is to outline our financial performance in P7. A detailed slide-deck is attached.

How did we do in P7?

£m	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Retail	52.2	51.8	0.4	52.2	0.0	1%	324.2	322.0	2.2	0%
FS&T (incl. Insurance)	29.7	30.4	(0.7)	29.9	(0.3)	4%	190.3	196.7	(6.4)	4%
Telco overstatement	0.0	0.5	(0.5)	0.0	0.0	n/a	0.0	3.0	(3.0)	n/a
Identity	5.1	4.4	0.7	4.1	1.0	6%	34.8	30.3	4.4	11%
Supply Chain/Other	1.4	1.4	0.0	1.2	0.2	3%	7.8	8.4	(0.6)	-6%
Total Revenue	88.4	88.5	(0.1)	87.4	0.9	2%	557.2	560.5	(3.4)	2%
Cost Of Sales	(11.6)	(11.9)	0.3	(11.8)	0.2	3%	(74.3)	(75.1)	0.9	5%
Net Income	76.8	76.6	0.2	75.7	1.1	2%	482.9	485.4	(2.5)	2%
Agents Pay	(32.7)	(32.6)	(0.1)	(33.2)	0.4	-3%	(208.1)	(211.1)	3.1	-4%
Staff Cost	(16.7)	(16.1)	(0.6)	(15.8)	(0.9)	4%	(109.7)	(107.3)	(2.5)	3%
Non staff Cost	(21.1)	(24.0)	2.9	(21.6)	0.5	-21%	(167.1)	(175.2)	8.1	-1%
FRES	3.1	3.3	(0.2)	3.2	(0.0)	-9%	25.4	24.8	0.6	27%
Other Income	1.4	1.0	0.4	1.4	0.0	439%	8.3	7.2	1.1	327%
Trading Profit	10.9	8.2	2.7	9.7	1.2	309%	31.7	23.8	7.9	n/a
Network Subsidy Payment	5.8	5.8	0.0	5.8	0.0	-14%	35.8	35.8	0.0	-14%
EBITDA	16.6	13.9	2.7	15.4	1.2	77%	67.4	59.6	7.8	45%
Depreciation	(9.2)	(5.7)	(3.4)	(5.1)	(4.1)	n/a	(46.5)	(34.8)	(11.8)	n/a
Interest	(0.7)	(0.5)	(0.2)	(0.5)	(0.2)	31%	(4.9)	(3.6)	(1.3)	90%
Change Spend	(6.1)	(4.7)	(1.4)	(8.0)	1.9	4%	(59.1)	(50.1)	(9.1)	12%
Investment Funding	19.2	19.2	0.0	19.2	0.0	230%	109.2	109.2	0.0	168%
Profit On Asset Sale	1.7	0.0	1.7	0.0	1.7	n/a	3.0	0.0	3.0	-9%
Profit Before Tax	21.6	22.3	(0.7)	21.1	0.5	151%	69.1	80.4	(11.2)	104%

P7 revenue was £88.4m, £0.9m favourable to forecast in the month. This was driven by greater than expected Home Office volumes as well as a delay in the Verify price decrease being agreed with GDS. Overall, underlying revenue is £3.2m adverse to budget YTD, when you also exclude the Telco budget overstatement and one-offs.

P7 trading resulted in a profit of £10.9m, £1.2m better than forecast resulting from the Identity upside. YTD trading profit of £31.7m is £7.9m ahead of plan, despite the £3.0m telco budget error.

In Verify, LoA2 (Level of Assurance) volumes are on forecast, with the upside of £0.4m due to the new GDS pricing tiers going live on the 3rd week of October (rather than the 1st). Two identity providers (Royal Mail/GBG) dropped out of the Verify federation after the new call off which has led to an increase of market share, particularly for LoA1.

Resident permits (BRP) and paper passports are driving the strong performance in Home Office. BRP was driven by the tail end of the student surge period (Sept- Oct) and the early effects of Brexit leading to strong trading results (+£0.2m). YoY volumes are up by 18%. The contract is expiring this financial year and volumes will start to divert to the new supplier from P8. Volumes for Paper passports and Digital check and send are 20% higher than forecast.

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Telco customer numbers at end of the period were 500,531, down 313 on forecast, but increased by 2,307 customers since P6. Underlying ARPU is also down contributing to £0.5m adverse variance in period. We are working with Fujitsu to understand what has driven this.

MoneyGram underperformed by £0.2m in period as total volumes of 280k were 40k below forecast. Send volumes to Eastern Europe have specifically reduced as a potential impact of Brexit. Blended rate of £6.13 is in line with forecast.

Travel money is favourable £0.1m to forecast predominantly due to increased branch currency sales. Though Travel hub income remains below £0.1m, it was up on forecast in the period.

PO Insurance revenue is £0.1m favourable to forecast in the period resulting from stronger General insurance renewal performance on both volumes and income per policy.

Home Shopping Returns volumes are -0.3m to forecast, but remain up on budget and are expected to pick up again in P8. YoY growth remains strong at +25%. ATM volumes are slightly behind (-0.1m) and availability levels 1.4% less than forecast.

Staff costs are -£0.9m adverse to forecast due to an incorrectly forecasted recharge in FS&T (£0.2m), POI costs that did not meet capex criteria (£0.1m) and Identity project costs that will be transferred to change in P8 (£0.2m). The underlying staff cost projection for the remainder of the year is being assessed.

Depreciation charge for October includes YTD catch up of c. £4m which had been phased across the rest of the year in the forecast.

Profit on asset of sale relates to the sale of four properties which had been forecasted as Change spend reduction, but recognised in profit on disposal whilst the correct accounting treatment is agreed.

Network numbers (September) were 11,557, being 57 above the commitment and an increase of 10 compared to year end. Reduction of 9 from August driven by 50 temporary closures, 31 re-openings and 10 new network locations. New network locations are 27 behind budget YTD as at September.

Net funding position has decreased by £36m from prior period, helped by the receipt of Q2 investment funding from UKGI and significant work performed by supply chain team.

P7 Change spend (Capex and Exceptional) was £20.6m, £2.2m behind forecast. Underspend in period predominantly relates to timing of spend on Project Everest and Property programmes. Benefits are largely on track YTD against forecast.

Conclusion

Overall, we remain ahead of forecast in period and budget YTD, but expect a proportion of non-staff cost savings to reverse in future periods. There are also possible trading challenges from Telco to address, along with IT cost challenges.

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Period 7 FY18/19 Financial Performance Group Executive

12 November 2018



P7 Scorecard

Post Office Business Scorecard - FY18/19

	Period 7					RAG (FCST)	Trend	Year to Date				Full Year		
	Actual	Budget	Variance	Forecast	Variance			Actual	Budget	Variance	RAG	Budget	Forecast	
Deliver Profit														
Total Gross Income (excl NSP) £m	88.4	88.5	(0.1)	87.4	0.9	●	W	557.2	560.5	(3.4)	○	965.1	956.7	
Trading Profit £m	10.9	8.2	2.7	9.7	1.2	●	W	31.6	23.8	7.8	●	50.0	51.0	
Headroom £m (vs Board minimum limit)	380	200	180	200	180	●	W					> £200m	> £200m	
Change benefit delivery £m	0.9	3.6	(2.7)	1.7	(0.8)	●	W	17.8	19.3	(1.5)	●	40.2	36.4	
Mails - Total Labels Volume m	15.8	15.5	0.2	15.7	0.1	●	W	93.5	93.0	0.6	●	163.4	167.6	
Mails - Home Shopping Returns Volume m	4.2	4.1	0.1	4.5	(0.3)	●	W	27.9	24.6	3.3	●	45.0	50.7	
Banking Volume (m)	12.8	12.1	0.7	12.4	0.4	●	W	77.5	75.6	1.9	●	130.2	133.4	
Closing Telecoms Customer Base (#)	500,531	508,777	(8,246)	500,844	(313)	○	W					494,823	494,823	
Grow our Network - Customer														
Number of Branches (mth in arrears)	11,557	11,500	57	11,500	57	●	W					11,500	11,500	
New Network Branch	20	20	0	20	0	●	W	143	170	(27)	●	338	338	
Become the Partner of Choice - Customer														
Ease of Doing Business with (Effort)	83.5%	82.0%	1.5%	82.0%	1.5%	●	W	83.0%	82.0%	1.0%	●	82%	0%	
No. of Horizon Customer Sessions per week	10.2	10.0	0.2	10.0	0.2	●	W	10.0	10.0	0.0	●			
# of Sev1/Sev2 Incidents	13	8	(5)	8	(5)	●	W	81	56	(25)	●	< 96	< 96	
Number of failed SLA's (mth in arrears)	3	3	0	3	0	●	W	27	18	(9)	●	< 36	< 36	
Actual Incident Volumes	7,669	10,000	2,331	10,000	2,331	●	W	69,065	70,000	935	●	<120,000	<120,000	

#of Sev1/Sev2 incidents – 5 Computacenter incidents relating to user access to software, 4 Accenture back office issues relating to systems (e.g. MDM), also items with Genesys, Verizon, RMG and Centrica.

Actual incident volumes – reduction largely due to impact of Project Nelson.





P7 Scorecard

Post Office Business Scorecard - FY18/19

	Period 7					RAG (FCST)	Trend	Year to Date				Full Year	
	Actual	Budget	Variance	Forecast	Variance			Actual	Budget	Variance	RAG	Budget	Forecast
Digital Innovation - Customer													
Trading income from customer Hub (£m)	0.1	0.0	0.1	0.1	0.0	●	↘	0.2	0.6	(0.4)	●	1.2	0.2
# of Registered customers on app	31,290	27,726	3,564			●	↘	122,615	158,484	(35,869)	●	319,410	
# of All Product pages website visits	1,810,038	1,495,072	314,966	1,495,072	314,966	●	↘	14,053,917	12,556,818	1,497,099	●	20,168,137	20,168,137
Website Conversion ratio	11.4%	12.8%	(1.4%)	12.8%	(1.4%)	●	↘	10.0%	10.8%	(0.8%)	●	11.1%	11.1%
Care for our People													
Line Manager Index ¹	66%	62%	4%	62%	4%	●	↘					62%	
Female Representation in Senior Roles (3a & above)	42.7%	41.6%	1.1%	41.6%	1.1%	●	↘					43.0%	
BAME Representation in Senior Roles (3a & above)	9.5%	9.8%	(0.3%)	9.8%	(0.3%)	●	↘					11.1%	
Senior Vacancies filled by Internal Talent	42.9%	50.0%	(7.1%)	50.0%	(7.1%)	●	↘	44.9%	50.0%	(5.1%)	●	50.0%	
Absence	3.2%	3.3%	0.1%	3.3%	0.1%	●	↘	3.2%	3.3%	0.1%	●	3.3%	
Safety LTIFR	0.000	0.200	0.200	0.200	0.200	●	↘	0.143	0.200	0.057	●	0.200	

1. Line manager Index calculation is based on the weighted average results

2. Our ambition is to achieve 50% by 2020. Full year target of 43% is based on a linear increase over 3 years; this equates to replacing 16 Males with Females in Year 1 based on 460 population. Discussion to be held over changing Senior Roles to Level 4 and above (population would decrease 250 and female ratio would be 30%).

3. c.14% is the percentage of people in the UK who describe themselves as BAME. (Source: Most recent ONS Census, 2011). Our ambition is to achieve 14% by 2020. Full year target of 11.1% is based on a linear increase over 3 years; this equates to replacing 11 white to BAME in Year 1 based on 460 population. Discussion to be held over changing Senior Roles to Level 4 and above.

Absence – Monthly absence decreased in P7 to 3.19% from 3.38% in P6. Long Term sick absence is being reported lower than P7 in 2017/18. This year there are currently 109 absences open incurring 6746 hours reported by Success Factors. Additional focus and case management support is being provided by OH Assist to review and progress our longer term absences.

Safety LTIFR - There were 4 employee related accidents in Post Office during P7 compared to 2 during P7 in prior year. There were zero lost time accidents in P7 and there have been a total of 7 YTD against 12 YTD in FY17/18.



P7 Trading Profit +£1.2m v forecast; YTD +£7.9m v budget

£m	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Retail	52.2	51.8	0.4	52.2	0.0	1%	324.2	322.0	2.2	0%
FS&T (incl. Insurance)	29.7	30.4	(0.7)	29.9	(0.3)	4%	190.3	196.7	(6.4)	4%
Telco overstatement	0.0	0.5	(0.5)	0.0	0.0	n/a	0.0	3.0	(3.0)	n/a
Identity	5.1	4.4	0.7	4.1	1.0	6%	34.8	30.3	4.4	11%
Supply Chain/Other	1.4	1.4	0.0	1.2	0.2	3%	7.8	8.4	(0.6)	-6%
Total Revenue	88.4	88.5	(0.1)	87.4	0.9	2%	557.2	560.5	(3.4)	2%
Cost Of Sales	(11.6)	(11.9)	0.3	(11.8)	0.2	3%	(74.3)	(75.1)	0.9	5%
Net Income	76.8	76.6	0.2	75.7	1.1	2%	482.9	485.4	(2.5)	2%
Agents Pay	(32.7)	(32.6)	(0.1)	(33.2)	0.4	-3%	(208.1)	(211.1)	3.1	-4%
Staff Cost	(16.7)	(16.1)	(0.6)	(15.8)	(0.9)	4%	(109.7)	(107.3)	(2.5)	3%
Non staff Cost	(21.1)	(24.0)	2.9	(21.6)	0.5	-21%	(167.1)	(175.2)	8.1	-1%
FRES	3.1	3.3	(0.2)	3.2	(0.0)	-9%	25.4	24.8	0.6	27%
Other Income	1.4	1.0	0.4	1.4	0.0	439%	8.3	7.2	1.1	327%
Trading Profit	10.9	8.2	2.7	9.7	1.2	309%	31.7	23.8	7.9	n/a

Highlights:

- FS&T – underperformance in Telco and MoneyGram; Travel Money ahead of forecast
- Identity – delay in GDS price decrease hence additional unplanned Verify benefit
- Staff costs – increased costs across all areas, refer to slide 19



Retail Scorecard

Home shopping returns volume down; banking volumes up but revenue under forecast

	Period 7					RAG FCST	Year to Date				Full Year	Full Year
	Actual	Budget	Variance	Forecast	Variance		Actual	Budget	Variance	RAG	F07	Budget
Gross income £m	52.2	51.8	0.4	52.2	0.0	●	324.2	322.0	2.2	●	569.7	568.6
Trading Profit £m	12.6	11.7	0.9	12.2	0.3	●	75.3	68.2	7.2	●	134.3	128.2
Mails - Priority Volume m	1.0	1.1	(0.1)	0.9	0.1	●	5.8	6.5	(0.8)	●	10.1	11.6
Mails - Total Labels Volume m	15.8	15.5	0.2	15.7	0.1	●	93.5	93.0	0.6	●	167.6	163.4
Mails - Click & Collect Volume m	0.4	0.4	0.1	0.4	(0.0)	○	2.3	2.2	0.2	●	4.7	4.1
Mails - Home Shopping Returns Volume m	4.2	4.1	0.1	4.5	(0.3)	●	27.9	24.6	3.3	●	50.7	45.0
Banking Volume (m)	12.8	12.1	0.7	12.4	0.4	●	77.5	75.6	1.9	●	133.4	130.2
No. of Horizon Customer Sessions per week	10.2	10.0	0.2	10.0	0.2	●	10	10.0	0.0	●	0.0	0.0
No. of Retail Transactions per session	1.6	1.6	0.0	1.6	0.0	●				●	0.0	0.0
Ease of Doing Business with (Effort)	84%	82.0%	15%	82%	2%	●	83.0%	82.0%	1.0%	●	82.0%	82.0%
No. Complaints*	2,378	3,126	748	3,126	748	●	16,134	16,882	748	●	15,530	15,530
Number of Branches (mth in arrears)	11,557	11,500	57	11,500	57	●				●	11,500	11,500
New Network Branch	20	20	0	20	0	○	143	170	(27)	●	338	338
Branch standards - Losses Identified in Audit*	1	0	(0.5)	0.0	(0.5)	●	4.0	0.0	(4.0)	●	0.0	0.0

*month in arrears



Retail: P7 Trading Profit +£0.3m to forecast ; YTD +£7.1m to budget

Income trends continued at same trajectory

£m	Period 7						Year to Date				
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY	
Mails Trading	26.6	26.5	0.0	26.3	0.2	1	5%	159.6	160.2	(0.6)	4%
Mailwork	0.8	0.8	0.0	0.8	0.0		0%	5.8	5.8	(0.0)	0%
Mails Other	0.0	0.0	0.0	0.0	0.0		n/a	1.5	0.0	1.5	n/a
RM Annual Fee	4.5	4.3	0.1	4.5	0.0		-7%	27.7	26.8	0.9	-7%
Gift Cards	0.4	0.4	(0.0)	0.4	(0.0)		6%	2.3	2.5	(0.2)	11%
Lottery	3.0	2.6	0.4	2.9	0.1		-4%	18.2	16.3	2.0	-3%
POCa	2.6	2.5	0.1	2.6	0.0		-18%	18.1	18.4	(0.3)	-26%
Payment Services	2.2	2.4	(0.2)	2.3	(0.1)		-24%	14.1	14.7	(0.5)	-12%
ATMs	2.7	2.8	(0.1)	2.8	(0.1)	2	-4%	17.3	18.3	(1.1)	-6%
Banking Services	9.2	9.0	0.2	9.3	(0.1)	3	14%	57.6	56.4	1.2	14%
Other Retail	0.2	0.4	(0.2)	0.3	(0.1)		-70%	1.9	2.6	(0.7)	-61%
Total Revenue	52.2	51.8	0.4	52.2	0.0		1%	324.2	322.0	2.2	0%
Cost Of Sales	(1.7)	(1.7)	(0.0)	(1.8)	0.1		-8%	(12.6)	(12.6)	0.0	-21%
Net Income	50.5	50.1	0.4	50.4	0.1		1%	311.6	309.4	2.2	1%
Agents Pay	(28.3)	(28.163)	(0.1)	(28.6)	0.4	4	16%	(175.8)	(178.0)	2.3	-19%
Staff Costs	(7.5)	(7.1)	(0.4)	(7.5)	0.0		8%	(46.7)	(45.1)	(1.5)	6%
Staff & Agent Related Costs	(0.2)	(0.2)	(0.0)	(0.3)	0.0		31%	(1.3)	(1.4)	0.1	25%
Consultancy & Advisory Services	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)		-87%	(0.4)	(0.2)	(0.1)	-83%
IT infrastructure & IT Services	(0.6)	(0.2)	(0.4)	(0.2)	(0.4)	5	70%	(2.5)	(1.1)	(1.3)	-84%
Managed Services - Penalties	(0.4)	(0.4)	0.0	(0.4)	(0.0)		-100%	(2.8)	(2.8)	(0.0)	-100%
Postage	(0.5)	(0.5)	0.0	(0.3)	(0.2)		-26%	(3.7)	(3.7)	0.0	-55%
Finance & Losses	(1.0)	(1.3)	0.2	(1.3)	0.2		46%	(7.7)	(9.1)	1.4	10%
Change Opex	0.0	(0.5)	0.5	0.0	(0.0)		0%	0.0	(2.9)	2.9	0%
Other Opex	(0.6)	(1.0)	0.4	(0.9)	0.3		98%	(3.9)	(4.0)	0.1	-9%
Other Income	1.4	1.0	0.4	1.4	0.0		n/a	8.26	7.2	1.1	n/a
Trading Profit	12.6	11.7	0.9	12.2	0.3		n/a	75.3	68.2	7.1	n/a

① Remains a shift from 1c to 2c labels. Home shopping returns volumes down due to consumers waiting for Black Friday deals; therefore increased volumes expected in P8.

② ATM volumes slightly down on forecast (-0.1m) and availability levels 1.4% below forecast.

③ Banking services adverse to forecast in period but expected to over perform against full year budget.

④ Reduced agents pay predominantly relating to ATMs.

⑤ Timing of IT spend on mails. Expected to catch up in P8.



FS&T Scorecard

	Period 7				Year to Date				Full Year
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget
Value of Mortgage Applications (£m)	297	313	(16)	●	1,298	1,678	(381)	●	3,050
Value of Mortgage Completions (£m)	148	219	(71)	●	612	1,175	(563)	●	2,135
Total value of Savings balances (£m)	13,702	14,200	(498)	●	13,702	14,200	(498)	●	TBC
Number of new Credit Card applications	3,412	8,804	(5,392)	●	37,005	54,588	(17,583)	●	91,568
Credit Card application accept rate	74%	58%	16%	●	73%	58%	16%	●	58%
Number of new Loan applications	7,618	6,755	863	●	46,996	41,884	5,112	●	71,608
Loan application accept rate	53%	58%	(4%)	●	57%	58%	(1%)	●	58%
Number of MoneyGram Send transactions	249,537	285,567	(36,030)	●	1,607,382	1,670,435	(63,053)	●	2,895,484
Closing Telecoms Customer Base (#)	500,531	508,777	(8,246)	○	500,531	508,777	(8,246)	○	494,823
Telecoms ARPU	24.5	26.3	(1.8)	●	24.5	26.3	(1.8)	●	26.2
Telecoms Customer Churn	(1.8%)	(1.6%)	(0.2%)	●	(12.0%)	(10.3%)	(1.7%)	●	(17.8%)
Net Telecoms customer additions	2,307	(1,938)	4,245	●	(6,044)	9,364	(15,408)	●	(4,590)
Number of Postal Orders sold	282,700	286,165	(3,465)	●	1,713,825	1,741,929	(28,104)	●	2,800,000

Forecast KPIs not yet available so actuals measured to budget

FS&T: P7 Trading Profit (£0.1m) adverse to forecast; YTD (£2.0m) v budget

Telephony continues to underperform



£m	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
PO Money Products	4.1	4.0	0.1	4.0	0.1	9%	26.8	25.1	1.7	2%
Travel Money	2.8	2.7	0.1	2.6	0.1	20%	18.9	20.8	(1.9)	10%
MoneyGram	2.4	2.3	0.1	2.6	(0.2)	6%	15.5	15.0	0.5	-2%
Telephony	14.1	15.4	(1.4)	14.5	(0.5)	-4%	88.5	92.8	(4.2)	4%
Postal Orders	1.3	1.2	0.1	1.2	0.0	-12%	7.8	7.2	0.6	-14%
Telco Overstatement	0.0	0.5	(0.5)	(0.0)	0.0	n/a	0.0	3.3	(3.3)	n/a
Total Revenue	24.7	26.1	(1.4)	25.0	(0.3)	0%	157.4	164.1	(6.7)	3%
Cost Of Sales	(8.4)	(8.9)	0.5	(8.4)	0.0	5%	(52.0)	(54.2)	2.2	9%
Net Income	16.3	17.2	(0.9)	16.6	(0.3)	-2%	105.4	110.0	(4.6)	0%
Agents Pay	(3.7)	(3.9)	0.2	(3.9)	0.2	n/a	(26.7)	(27.7)	1.0	n/a
Staff Cost	(1.0)	(0.8)	(0.2)	(0.8)	(0.3)	-7%	(6.4)	(5.6)	(0.8)	-5%
Staff & Agent Related Costs	(0.1)	(0.0)	(0.1)	(0.0)	(0.1)	12%	(0.4)	(0.2)	(0.2)	19%
Brand & Marketing	(0.9)	(0.5)	(0.4)	(0.5)	(0.4)	-9%	(5.0)	(5.1)	0.2	12%
Consultancy & Advisory Services	(0.1)	(0.3)	0.2	(0.5)	0.4	68%	(1.2)	(2.4)	1.2	71%
IT Infrastructure & IT Services	(0.1)	(0.1)	(0.0)	(0.1)	(0.0)	-4%	(0.4)	(0.6)	0.2	-105%
Managed Services	(2.5)	(2.4)	(0.1)	(2.8)	0.3	16%	(15.4)	(16.2)	0.8	10%
Postage	(0.3)	(0.3)	(0.0)	(0.3)	(0.0)	-42%	(1.9)	(1.8)	(0.1)	-33%
Finance & Losses	(0.0)	(0.3)	0.3	(0.2)	0.2	-871%	(1.9)	(1.9)	0.0	-28%
Other	(0.0)	(0.0)	(0.0)	(0.0)	0.0	930%	(0.2)	0.1	(0.3)	11%
FRES	3.1	3.3	(0.2)	3.2	(0.0)	-9%	25.4	24.8	0.6	27%
Trading Profit	10.5	11.9	(1.4)	10.8	(0.1)	-4%	71.4	73.4	(2.0)	4%

- ① Travel hub revenue of £70k against forecast of £40k which relates to weekend true up. Remainder predominantly relates to increased branch currency sales.
- ② Actual volumes 280k v forecast volumes of 320k. Rate in line with forecast with blended rate of £6.13.
- ③ ARPU remains below forecast due to retention discounts offered in period and lower ARPU across all categories for part of the month. These rose back up in the first week of P8. We are working with Fujitsu to understand what has driven this. Customer numbers at end of P7 of 500,531 v forecast of 500,844.
- ④ Forecast included £0.2m credit for POI recharges which have been recharged below trading profit. Also action taken on contractors who rolled off programs in period.

- ⑤ Forecast for project opex spend in consultancy, of which £100k relating to database management has been spent in marketing. £100k forecasted for Eagle provision uplift but not required in P7 has spend on target for minimum commitment.
- ⑥ £200k forex gain in period



Telephony Analysis v forecast

Reduced customer gap from P6; similar ARPU gap

	P1	P2	P3	P4	P5	P6	P7
Actual							
end of period customer	502,996	501,222	499,367	498,429	497,707	498,224	500,531
Avg. customer	504,785	502,109	500,295	498,898	498,068	497,966	499,378
ARPU	25.7	23.7	25.0	24.5	25.2	24.4	25.1
Revenue	14,939,259	10,976,713	11,518,232	14,079,313	11,535,746	11,180,403	14,417,370
P1 impact (adjusted in P2, P4)	(754,000)	600,000	0	177,889	0	0	0
Accrued Income adjustment						300,000	0
Underlying Revenue	14,185,259	11,576,713	11,518,232	14,257,202	11,535,746	11,480,403	14,417,370
Underlying ARPU	24.4	25.0	25.0	24.8	25.2	25.0	25.1
Forecast							
end of period customer							500,844
Avg. customer							499,534
ARPU							26.0
Revenue							14,950,706
Impact in budget							
Restated Revenue							14,950,706
Restated ARPU							26.0
Underlying customer Gap							(312.7)
Underlying ARPU Gap							(0.9)
Underlying Revenue gap							(533,335)
o/w volume							(9,358)
o/w rate							(523,977)

P7 customer gap to forecast only 313 – c. £10k. This is a decrease from 12.5k customer gap to budget at P6.

Underlying ARPU gap of £0.9 slightly down from £1.1 gap v budget in P6.

We are working with Fujitsu to understand what has driven this.

There are a number of emerging risks and opportunities which broadly balance, but which we are working through to confirm.



PO Insurance Scorecard

	Period 7				Year to Date				Full Year
	Actual	Budget	Variance	RAG	Actual	Budget	Variance	RAG	Budget
Policies Sold: Post cooling off period (k)	77	74	3	●	709	727	(18)	○	997
Policies Renewed (k)	26	26	0	●	170	172	(2)	○	275
Policies In-Force "live" (k)	688	708	(20)*	○					684
Net Promotor Score (Post Office Insurance)	33	36	(3)	●					36

* Policies in-Force variance shows lower figure than total variances of policies sold and renewed as the policies cancelled mid-term is doing better than expected.



POI: P7 Trading Profit +£0.4m to forecast; YTD (£1.2m) v budget

Travel insurance in line with forecast; general insurance favourable; YoY net income +37% in P7, +13% YTD

£m	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Travel insurance	1.4	1.8	(0.4)	1.4	0.0	37%	12.9	16.3	(3.4)	21%
Car insurance	1.0	0.9	0.1	0.9	0.1	① -6%	6.5	6.1	0.4	-9%
Van insurance	0.2	0.2	0.0	0.2	0.0	7%	1.5	1.4	0.1	6%
Home insurance	1.0	1.0	(0.0)	0.9	0.1	3%	5.7	5.9	(0.2)	3%
Life - Over 50s	1.0	0.6	0.4	1.0	0.0	147%	4.5	4.3	0.2	57%
Life - SLI	0.3	0.3	0.0	0.4	(0.1)	② 107%	1.4	1.5	(0.1)	34%
Other insurance	0.1	0.0	0.0	0.0	0.0	-1%	0.4	0.1	0.3	1%
Total Revenue	5.0	4.8	0.2	4.9	0.1	29%	32.9	35.6	(2.7)	13%
Cost Of Sales	(0.8)	(0.8)	0.0	(0.9)	0.1	③ -4%	(5.9)	(5.3)	(0.6)	14%
Net Income	4.2	4.0	0.2	4.0	0.2	37%	27.1	30.4	(3.3)	13%
Staff Cost	(0.7)	(0.6)	(0.0)	(0.5)	(0.1)	④ 81%	(3.9)	(4.4)	0.5	68%
Brand & Marketing	(0.9)	(0.4)	(0.5)	(1.0)	0.2	⑤ 55%	(3.7)	(4.4)	0.7	67%
Consultancy & Advisory Services	(0.0)	(0.1)	0.0	(0.2)	0.1	⑥ 134%	(0.6)	(0.4)	(0.1)	36%
IT Infrastructure & IT Services	(0.1)	(0.2)	0.1	(0.1)	0.0	11%	(1.1)	(1.2)	0.1	3%
Managed Services	(0.7)	(0.8)	0.0	(0.7)	0.0	2%	(5.5)	(5.9)	0.4	-4%
Other	(0.1)	(0.2)	0.1	(0.1)	0.0	-23%	(0.7)	(1.2)	0.5	-22%
Trading Profit	1.7	1.8	(0.1)	1.3	0.4	32%	11.6	12.8	(1.2)	2%

① General Insurance (Car, Home & Van) £0.2m ahead due to stronger renewal performance on both volumes and income per policy

② Term Life £0.1m adverse due to lower sales volumes and delayed aggregator launch (have now launched)

③ £0.1m favourable due to true-up of Remark (Direct Mail) costs for Life Over 50s.

④ Adverse due to project staff costs not meeting capitalisation criteria.

⑤ £0.2m favourable primarily due to timing of activity and spend.

⑥ £0.1m favourable as no Disrupter or Nike spend in month.



Identity Scorecard

	Period 7						Year to Date				Full Year	Full Year
	Actual	Budget	Variance	Forecast	Variance	RAG	Actual	Budget	Variance	RAG	F07	Budget
IDENTITY												
Gross income £m	5.1	4.4	0.7	4.1	1.0	●	34.8	30.3	4.4	●	50.2	47.3
Trading Profit £m	3.1	2.7	0.4	2.4	0.7	●	20.8	17.7	3.2	●	0.0	0.0
Paper Passport Volumes	105,995	73,267	32,728	89,437	16,558	●	1,095,733	849,194	246,539	●	1,652,960	1,325,118
Paper Passport Market Share							30%	28%	2%	●	26%	26%
Digital Check & Send Volumes	1,287	18,571	(17,284)	100	1,187	●	1,287	128,523	(127,236)	●	55,980	0
UKVI Volumes	72,202	61,419	10,783	61,419	10,783	●	366,325	301,490	64,835	●	439,383	402,998
Secure Collect Volumes	51,375	45,610	5,765	47,958	3,417	●	225,353	213,665	11,688	●	300,099	301,080
DVLA												
Tax Renewal volumes	699,418	519,234	180,184	506,414	193,004	●	4,570,991	4,238,852	332,139	●	6,946,514	6,957,814
10yr Renewal Volumes	33,299	24,420	8,879	20,101	13,198	●	198,042	213,817	(15,775)	●	283,079	289,504
Service Penalties £	84,189	41,000	43,189	41,000	43,189	●	329,726	287,000	42,726	●	500,000	500,000
LoA2 Volumes	79,409	38,263	41,146	78,959	451	●	404,942	254,471	150,471	●	515,712	390,408
LoA2 Market Share	55%	50%	5%	50%	5%	●	53%	50%	3%	●	50%	50%
LoA2 Conversion rate	56%	55%	1%	55%	1%	●	54%	55%	-1%	●	55%	55%
LoA1 Volumes	10,193	18,593	(8,400)	7,102	3,091	●	48,810	92,449	(43,640)	●	68,346	180,211
LoA1 Market Share	37%	40%	(3%)	40%	(3%)	●	33%	40%	(7%)	●	40%	40%
LoA1 Conversion rate	75%	74%	1%	74%	1%	●	74%	74%	0%	●	74%	74%
Re-Registration Volumes	0	1,500	(1,500)	14,650	(14,650)	●	23,244	10,957	13,187	●	71,541	30,790
Services Live	18	20	(2)	20	(2)	●	18	20	(2)	●	20	20
VERIFY												

Identity - Over performance mainly driven from Home Office +£0.3m and Verify +£0.4m (Net Income).

Home Office - Paper passport and Digital Check and Send Volumes are up against P7 forecast by +20%. YoY volumes are down by (27%). PO market share has dropped YoY by (10%).

DVLA - Tax Vehicle volumes are up against forecast in P7 by +38% and 10yr Tax Renewals are up +66% (this is expected to reduce back down in P8).

Verify - LoA2 volumes are in line with forecast in P7. PO remains Market Leader with 55% market share and 56% conversion rate.





Identity: P7 Trading Profit +£0.7m to forecast; YTD +£3.2m v budget

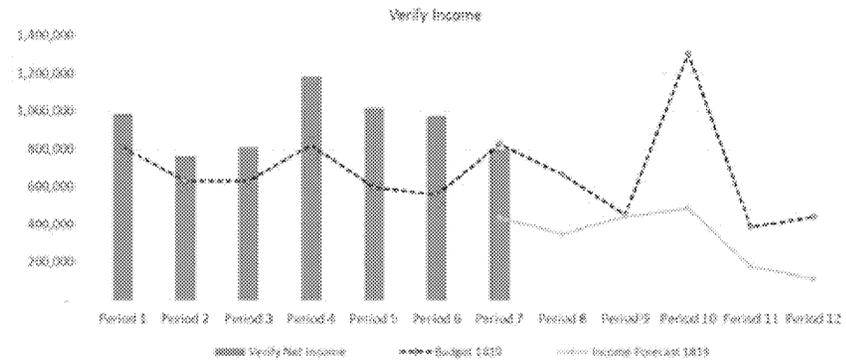
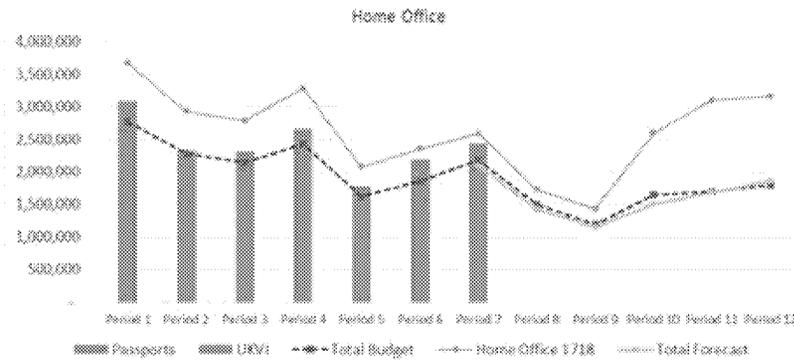
Delay in Verify price decrease provided unexpected benefit

£m	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Home Office	2.4	2.2	0.2	2.1	0.3	① -10%	16.6	15.3	1.3	-15%
DFT/DLA	0.6	0.5	0.1	0.5	0.1	-13%	4.2	4.0	0.2	-6%
Identity Services	0.6	0.4	0.2	0.5	0.1	44%	3.3	2.8	0.5	33%
Verify	1.5	1.3	0.2	1.1	0.4	② 86%	10.0	7.7	2.3	145%
Environment Agency	0.0	0.0	(0.0)	0.0	(0.0)	-97%	0.7	0.6	0.2	-9%
Total Revenue	5.1	4.4	0.7	4.1	1.0	6%	34.8	30.3	4.4	11%
Cost Of Sales	(0.7)	(0.5)	(0.2)	(0.7)	0.0	36%	(3.9)	(3.1)	(0.8)	64%
Net Income	4.4	3.9	0.5	3.5	1.0	3%	30.9	27.3	3.6	7%
Agents Pay	(0.7)	(0.6)	(0.1)	(0.6)	(0.1)	n/a	(5.7)	(5.4)	(0.3)	n/a
Staff Costs	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	③ n/a	(1.4)	(1.2)	(0.2)	n/a
Managed Services - Penalties	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	0%	(0.4)	(0.4)	0.1	0%
Postage	(0.3)	(0.3)	0.0	(0.3)	0.0	51%	(2.1)	(1.8)	(0.3)	-16%
Other	0.1	(0.1)	0.2	0.0	0.0	123%	(0.5)	(0.8)	0.3	-11%
Trading Profit	3.1	2.7	0.4	2.4	0.7	2%	20.8	17.7	3.2	8%

- ① BRP enrolments and Paper Passports are driving the Home Office strong performance (£0.3m). In P7 we see the tail end of the BRP surge period.
- Digital Check and Send has launched successfully with 2k+ completed transactions to date .
- ② Verify upside (£0.4m) is due to the new GDS pricing coming to effect from mid October rather than the beginning of the month.
- ③ Staff costs that are exceptional in nature will be re-classified in P8.



Identity: Home office & Verify



Home Office :

UKVI BRP was driven by the tail end of the student surge period (Sept- Oct) and the early effects of Brexit leading to strong trading results (£0.2m). YoY volumes are up by 18%. The contract is expiring this financial year and volumes will start to divert to the new supplier from P8

Volumes for Paper and Digital are 20% higher than forecast. YoY volumes have dropped by (27%). The price differentiation that Home Office implemented earlier this year to its Digital Channel has lifted its market share by 20% (YoY, YTD figure) whilst Post Office Paper channel has dropped by 10%.

Verify :

Although LoA 2 volumes were on forecast, the upside of £0.4m was due to the new GDS pricing tiers going live on the 3rd week of October (rather than the 1st). Two identity providers (Royal Mail/GBG) dropped out of the Verify federation after the new call off which has led to an increase of market share.





Finance & Operations: P7 Trading Profit in line with forecast; YTD (£0.9m) v budget

£m	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Revenue	1.1	1.1	0.0	1.1	0.0	5%	5.8	6.3	(0.5)	-7%
Cost Of Sales	0.0	0.0	0.0	0.0	0.0	n/a	0.1	0.0	0.1	n/a
Net Income	1.1	1.1	0.0	1.1	0.0	2%	5.9	6.3	(0.4)	1%
Staff Costs	(4.2)	(4.3)	0.1	(4.1)	(0.1)	① 6%	(29.9)	(29.9)	0.0	3%
Staff & Agent Related Costs	(0.3)	(0.2)	(0.1)	(0.2)	(0.1)	② 60%	(1.6)	(1.5)	(0.2)	11%
Property & Facilities Management	(3.1)	(3.2)	0.1	(3.2)	0.1	② -16%	(20.9)	(22.2)	1.3	-14%
Postage	(0.6)	(0.6)	(0.0)	(0.6)	(0.0)	-34%	(4.1)	(4.1)	(0.1)	5%
Stationery	(0.7)	(0.3)	(0.4)	(0.6)	(0.1)	46%	(3.4)	(2.1)	(1.3)	27%
Finance & Losses	(0.4)	(0.8)	0.4	(0.4)	(0.0)	③ 244%	(5.0)	(5.4)	0.4	7%
Vehicles	(0.3)	(0.3)	(0.1)	(0.3)	(0.1)	55%	(1.8)	(2.0)	0.2	2%
Other	0.1	(0.5)	0.6	(0.1)	0.3	④ 914%	(2.9)	(2.0)	(0.9)	-41%
Trading Profit	(8.3)	(9.0)	0.6	(8.4)	0.0	⑤ -20%	(63.8)	(62.9)	(0.9)	-2%

① Accrual for CWU pay award not included in forecast. Working through the full year implication on this but it's expected to be c £0.5m. This is partially offset by credits relating to prior year project spend showing in period.

② Rate refunds received and rent lease expiries not included in forecast. One off items not anticipated and we continue to work with BNP to better forecast these.

- ③ £0.2m robbery losses from 3 unusually high value robberies offset by reduced cost in former agent and other losses. The increase in successful robberies is starting to be a concern and we may be seeing a risk to forecast. A further £0.1m loss related to ATM attack in P8. Rolling out fogging kits etc. during H2 as a counter measure.
- ④ Credits from release of Croydon and other personal injury claims as Post Office deemed not liable. These high value cases have outlined that we don't have an adequate provision policy in place and we are currently working on developing this to avoid any potential future costs and credits impacting trading.
- ⑤ Overall in period costs are in line with forecast, but we are seeing some early risks & opportunities crystallising and netting out and do not see an overall risk to the forecast.



Operating expenses: IT

IT	Period 7						YTD			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	0.5	0.5	(0.0)	0.5	(0.0)	(23%)	3.4	3.5	0.1	(30%)
Staff & Agent Related Costs	0.1	0.0	(0.1)	0.1	(0.0)	(91%)	0.3	0.3	0.0	(85%)
IT Infrastructure & IT Services	5.5	7.0	1.4	5.6	0.1	39%	48.0	53.0	5.0	15%
Managed Services	0.2	0.2	(0.0)	0.3	0.0	50%	2.2	2.0	(0.2)	22%
Consultancy & Advisory Services	0.0	0.1	0.1	0.1	0.1	2147%	0.8	0.7	(0.1)	(65%)
Other	(0.8)	(1.2)	(0.4)	(0.9)	(0.1)	(101%)	(0.8)	(3.0)	(2.2)	(114%)
Total Operating Expenses	5.6	6.6	1.0	5.6	0.0 ^①	53%	54.0	56.6	2.6 ^②	13%

- ① P7 upside from £0.5m accrual releases from Computacenter incidents volumes as a result of agreed settlement Also lower ATOS volumetrics compared to re-forecast. Incidents being driven down by service team to below 9000 for last couple of months therefore release of £0.07m over accrual. Offset by security taking the full SOC cost catch up of £0.4m YTD.
- ② Full year out turn in forecast expected to be (£2.5m) adverse to budget. Expectation to minimise adverse variance to circa £2m.

Operating Expenses: HR, LRG, Communications, Group Change, Central

Timing of group change project recharges



① Timing of change spend being off charged to capex and exceptional projects. Therefore adjusted for in period in Central.

HR	Period 7					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	1.6	1.5	(0.1)	1.5	(0.1)	(6%)
Staff & Agent Related Costs	0.6	0.6	0.0	0.5	(0.1)	(101%)
Finance & Losses	(0.2)	0.3	0.5	(0.2)	0.0	(420%)
Other	0.1	0.1	(0.0)	0.1	(0.0)	39%
Total Operating Expenses	2.1	2.5	0.4	1.9	(0.1)	15%

YTD			
Actual	Budget	Variance	YoY
10.8	10.3	(0.6)	(1%)
1.7	2.0	0.3	(27%)
1.4	1.8	0.5	29%
0.5	0.5	(0.0)	21%
14.3	14.5	0.2	(0%)

LRG	Period 7					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	0.6	0.6	(0.0)	0.6	(0.0)	(22%)
Staff & Agent Related Costs	0.0	0.0	0.0	0.0	0.0	(28%)
Consultancy & Advisory Services	(0.0)	0.1	0.1	0.0	0.1	(396%)
Legal Costs	0.2	0.1	(0.0)	0.0	(0.1)	(24%)
Other	(0.0)	(0.0)	0.0	0.0	0.1	(213%)
Total Operating Expenses	0.7	0.8	0.1	0.7	(0.0)	2%

YTD			
Actual	Budget	Variance	YoY
4.1	4.0	(0.1)	(16%)
0.1	0.4	0.3	46%
0.4	0.5	0.1	39%
0.7	1.0	0.2	177%
0.3	0.4	0.1	0%
5.6	6.2	0.6	15%

Communications	Period 7					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	0.1	0.2	0.0	0.2	0.0	7%
Staff & Agent Related Costs	0.0	0.0	(0.0)	0.0	(0.0)	(87%)
Brand & Marketing	(0.2)	0.1	0.3	0.1	0.3	(389%)
Other	(0.0)	(0.0)	(0.2)	0.0	0.0	(506%)
Total Operating Expenses	0.2	0.3	0.1	0.3	0.1	294%

YTD			
Actual	Budget	Variance	YoY
1.2	1.1	(0.1)	(23%)
0.1	0.0	(0.1)	23%
1.4	2.1	0.7	37%
0.1	(0.4)	(0.5)	(65%)
2.9	2.8	(0.0)	7%

Group Change	Period 7					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	0.3	(0.0)	(0.3)	(0.2)	(0.4)	① (40%)
Other	0.0	0.0	0.0	(0.0)	(0.0)	(58%)
Total Operating Expenses	0.3	0.0	(0.3)	(0.2)	(0.5)	(42%)

YTD			
Actual	Budget	Variance	YoY
0.5	(0.2)	(0.6)	(62%)
0.1	0.2	0.0	(52%)
0.6	0.0	(0.6)	(60%)

Central	Period 7					
	Actual	Budget	Variance	Forecast	Variance	YoY
Staff Costs	(0.3)	0.3	0.6	0.2	0.5	① (79%)
Finance & Losses	(0.1)	0.0	0.1	(0.4)	(0.2)	282%
Growth Fund	0.8	0.8	0.0	0.8	0.0	35%
Brand & Marketing	(0.1)	0.0	0.1	(0.1)	0.0	
Other	(0.2)	0.0	0.2	(0.2)	0.0	191%
Total Operating Expenses	0.1	1.1	1.0	0.3	0.2	(149%)

YTD			
Actual	Budget	Variance	YoY
1.6	2.2	0.6	(19%)
(1.0)	(1.0)	(0.1)	12%
5.6	5.5	(0.0)	(81%)
0.9	0.5	(0.5)	(43%)
1.2	0.1	(1.1)	243%
8.4	7.3	(1.1)	(27%)



Operating Expenses: Summary

	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Retail	11.0	11.3	0.2	10.9	(0.1)	6%	68.9	70.4	1.5	-5%
FS&T	5.2	4.7	(0.5)	5.2	0.1	-2%	32.7	33.6	0.9	-4%
PO Insurance	2.5	2.2	(0.3)	2.7	0.2	① -41%	15.5	17.6	2.1	-22%
Identity	0.7	0.6	(0.0)	0.5	(0.2)	② 210%	4.3	4.2	(0.1)	-40%
F&O	9.4	10.0	0.6	9.4	(0.0)	17%	69.7	69.2	(0.5)	2%
IT	5.6	6.6	1.0	5.6	0.0	35%	54.0	56.6	2.6	93%
HR	2.1	2.5	0.4	1.9	(0.1)	13%	14.3	14.5	0.2	70%
LRG	0.7	0.8	0.1	0.7	(0.0)	2%	5.6	6.2	0.6	33%
Communications	0.2	0.3	0.1	0.3	0.1	75%	2.9	2.8	(0.0)	-42%
Central	0.1	1.1	1.0	0.3	0.2	303%	8.4	7.3	(1.1)	29%
SPO	0.3	0.0	(0.3)	(0.2)	(0.5)	③ -71%	0.6	0.0	(0.6)	-1748%
TOTAL	37.7	40.1	2.3	37.4	(0.3)	12%	276.8	282.5	5.7	-1%

	Period 7						Year to Date			
	Actual	Budget	Variance	Forecast	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	16.7	16.1	(0.6)	15.8	(0.9)	④ -3%	109.9	107.3	(2.7)	-3%
Staff & Agent Related Costs	1.4	1.2	(0.2)	1.2	(0.2)	-168%	5.8	6.3	0.5	3%
IT Infrastructure & IT Services	6.3	7.5	1.2	6.0	(0.3)	23%	53.1	57.0	3.9	10%
Property & Facilities Management	3.0	3.2	0.2	3.2	0.2	16%	21.2	22.5	1.3	12%
Managed Services	3.8	3.9	0.1	3.8	0.0	-5%	27.4	27.3	(0.0)	-9%
Postage	1.6	1.6	(0.0)	1.5	(0.2)	17%	11.8	11.3	(0.5)	-12%
Brand & Marketing	2.9	3.0	0.1	3.4	0.5	27%	13.1	14.7	1.7	-55%
Consultancy & Advisory Services	0.4	0.8	0.3	0.9	0.5	-15%	4.5	5.0	0.5	-56%
Legal Costs	0.2	0.2	0.0	0.1	(0.1)	27%	1.3	1.7	0.4	49%
Finance & Losses	1.1	2.7	1.6	1.4	0.2	66%	15.5	17.9	2.4	8%
Other Operating Costs	0.2	(0.2)	(0.4)	0.1	(0.1)	68%	13.4	11.5	(1.9)	17%
TOTAL	37.7	40.1	2.3	37.4	(0.3)	12%	276.8	282.5	5.7	-1%

- ① Timing of marketing spend and activity.
- ② Staff costs that will be charged to change project in P8.
- ③ Group change spend which will be off charged to projects in future periods.
- ④ See slide 19 for detailed analysis of P7 staff costs.





Operating Expenses: P7 Staff Costs v forecast

	Period 7			Year to Date		
	Actual	Forecast	Variance	Actual	Budget	Variance
Retail	7.5	7.5	0.0	46.7	45.1	(1.5)
FS&T	1.0	0.8	(0.3) ①	6.4	5.6	(0.8)
PO Insurance	0.7	0.5	(0.1) ②	3.9	4.4	0.5
Identity	0.4	0.2	(0.2) ③	1.4	1.2	(0.2)
F&O	4.2	4.1	(0.1) ④	29.9	29.9	0.0
IT	0.5	0.5	(0.0)	3.4	3.5	0.1
HR	1.6	1.5	(0.1)	10.8	10.3	(0.6)
LRG	0.6	0.6	(0.0)	4.1	4.0	(0.1)
Communications	0.1	0.2	0.0	1.0	1.1	0.1
Central	(0.3)	0.2	0.5 ⑤	1.6	2.2	0.6
Group Change	0.3	(0.2)	(0.4) ⑤	0.5	(0.2)	(0.6)
TOTAL	16.7	15.8	(0.9)	109.7	107.3	(2.5)

- ① Forecast included £0.2m credit for POI recharges which have been recharged below trading profit.
- ② Relates to contractor resource working on various POI projects which were expected to be capitalised (hence not in forecast). No material future risk deemed for remainder of year.
- ③ Digital Identity project exceptional costs which will be offcharged to project in P8 hence no risk to trading profit.
- ④ Accrual for CWU pay award which has not been included in forecast.
- ⑤ Timing of change spend being off charged to capex and exceptional projects. Therefore adjusted for in period in Central.



Change Spend

YTD spend is overall on track with latest forecast, but with key variances in individual projects in Retail, F&O & IT.

	Period 7			YTD			Benefits				
	Actual	Forecast 6+6	Vs Forecast	Actual	Forecast 6+6	Vs Forecast	YTD Actual	YTD Forecast	Vs Forecast	Forecast FY 1819	Budget FY 1819
Retail	5.9	5.8	0.1	49.4	49.3	0.1	5.7	5.7	0.0	10.3	12.3
Mails Programmes	0.1	0.6	(0.5)	0.5	1.0	(0.5)	-	-	-	-	-
Cash & Banking Services	-	-	-	-	-	-	-	-	-	-	-
Bill Payments Projects	0.5	0.5	(0.1)	2.5	2.6	(0.1)	-	-	-	-	-
Automation	0.3	0.3	(0.0)	1.7	1.7	(0.0)	-	-	-	0.1	0.1
DMB	1.4	1.1	0.3	23.1	22.9	0.3	4.7	4.7	0.0	8.3	9.7
Network Development	1.9	1.8	0.1	9.0	8.9	0.1	1.0	1.0	-	2.0	2.0
Network Transformation	1.5	1.2	0.3	8.8	8.5	0.3	-	-	-	-	-
Other Retail	0.3	0.4	(0.0)	3.8	3.7	(0.0)	-	-	-	-	0.5
Financial Services & Telecoms	1.9	2.3	(0.5)	13.5	13.9	(0.5)	8.4	8.4	(0.0)	13.4	12.5
Eagle	0.3	0.4	(0.1)	0.8	0.9	(0.1)	-	-	-	-	-
Telecoms	0.3	0.5	(0.2)	5.4	5.5	(0.1)	8.5	8.5	(0.0)	13.7	11.6
Other	1.3	1.5	(0.2)	7.3	7.5	(0.2)	(0.1)	(0.1)	0.0	(0.3)	0.9
POI	0.3	0.2	0.1	5.5	5.5	0.1	0.0	-	0.0	2.9	4.6
Identity	0.5	0.1	0.4	1.4	1.1	0.4	-	-	-	-	-
IT & Digital	8.8	9.7	(0.9)	55.4	56.3	(0.9)	1.6	2.4	(0.8)	6.2	7.3
EUC Branch Deployment	0.5	1.6	(1.2)	11.5	12.6	(1.2)	0.5	0.5	-	1.0	0.6
IT Back Office	2.1	2.5	(0.3)	13.4	13.7	(0.3)	-	-	-	0.4	0.5
IT Networks	(0.2)	-	(0.2)	(0.7)	(0.5)	(0.2)	-	-	-	-	-
Other IT	2.4	1.3	1.1	7.2	6.1	1.1	0.2	0.2	-	1.0	1.3
Project Everest	0.8	2.3	(1.5)	6.0	7.5	(1.5)	0.5	1.3	(0.8)	3.1	4.0
R&R	0.9	0.5	0.4	6.7	6.3	0.4	-	-	-	-	-
Replacement of Counter Receipt Slip Printers	1.3	0.8	0.5	6.1	5.5	0.5	0.4	0.4	-	0.7	0.5
Solar	1.0	0.7	0.3	5.2	4.9	0.3	-	-	-	-	0.4
Finance & Ops	0.9	2.3	(1.3)	3.9	5.3	(1.3)	-	-	-	-	-
Finance	0.2	0.3	(0.1)	1.3	1.4	(0.1)	-	-	-	-	-
Operations	0.2	0.4	(0.2)	1.2	1.4	(0.2)	-	-	-	-	-
Property	0.2	1.5	(1.3)	1.2	2.5	(1.3)	-	-	-	-	-
Supply Chain	0.3	0.0	0.3	0.2	(0.1)	0.3	-	-	-	-	-
Human Resources	0.4	0.0	0.3	2.1	1.8	0.3	2.1	2.1	-	3.5	3.5
Legal Risk & Governance	1.8	1.8	(0.0)	10.9	10.9	(0.0)	-	-	-	-	-
Central	0.2	0.5	(0.3)	0.9	1.3	(0.3)	-	-	-	-	-
Grand Total	20.6	22.8	(2.2)	143.0	145.2	(2.2)	17.8	18.6	(0.8)	36.4	40.2
Anticipated savings or slippages to FY19/20	-	-	-	-	-	-	-	-	-	-	-
Total Change FY 2018/19	20.6	22.8	(2.2)	143.0	145.2	(2.2)	17.8	18.6	(0.8)	36.4	40.2
o/w											
Capex	14.4	14.7	(0.3)	83.9	84.2	(0.3)	-	-	-	-	-
Exceptional	6.1	8.0	(1.9)	59.1	61.0	(1.9)	-	-	-	-	-

Key Variances

1	Variance combines two attributes: £1.3m adverse in Onerous contract provision due to successful sublet of branch, as well as a change of accounting treatment for three vacant leases. Offset by £1.6m of property sales as forecasted but not yet recognised as correct accounting treatment is being agreed.
2	Project has been completed. Final cost will be recognised upon cost reconciliation with suppliers in November.
3	Overspend due to AEI payment for earlier than forecast completion of Central Infrastructure upgrade.
4	Cloud dual run costs being pushed lower than forecast by combining build and maintenance 3rd party costs.
5	Underspend caused due to delay in business case approvals related to security systems upgrade projects.
6	Delay in recognition of Everest restructuring credit whilst accounting treatment is finalised (timing).

YTD Benefits are £1.5m adverse to budget, mainly attributable to PO Insurance delay in benefit realisation.



Cash Holding Position

£m	Prior Year	Year End	Prior Period	Reporting Period	Variances		
	Period 7 FY-17/18	Period 12 FY-17/18	Period 6 FY-18/19	Period 7 FY-18/19	vs Prior Year	vs Year End	vs Prior Period
Network Cash Inventory (before Demonet.)							
Branch							
£ Cash Holdings	525.1	543.2	483.5	471.4 ¹	(53.7)	(71.8)	(12.1)
FX Cash Holdings	83.2	60.0	82.0	69.7	(13.5)	9.7	(12.3)
Total in Branch	608.3	603.2	565.5	541.1	(67.2)	(62.1)	(24.4)
Cash Centres							
Inward Rems	72.1	21.2	53.1	49.9	(22.2)	28.7	(3.2)
Outward Rems in Transit	36.2	55.2	28.9	40.8	4.6	(14.4)	11.9
Machine Room - Awaiting Processing	25.4	35.4	14.4	4.8	(20.6)	(30.6)	(9.6)
Old £1 Coins	4.6	1.1	0.4	0.4	(4.2)	(0.7)	-
Total in Cash Centres	138.3	112.9	96.8	95.9	(42.4)	(17.0)	(0.9)
Total - Buffer (Cash Centres)	108.2	134.5	65.5	52.3	(55.9)	(82.2)	(13.2)
Total - Other	28.5	31.2	27.4	29.5	1.0	(1.7)	2.1
Network Cash (before Demonet.)	883.3	881.8	755.2	718.8	(164.5)	(163.0)	(36.4)
Funding Position							
- Cash Available to Treasury	0.7	0.4	0.6	1.4	0.7	1.0	0.8
- Government Loan	(588.0)	(623.0)	(692.0)	(570.0) ²	18.0	53.0	122.0
- NRF Usage	(234.7)	(237.6)	(156.6)	(164.6)	70.1	73.0	(8.0)
- WC Funding Network Cash Inventory	(61.3)	(21.6)	92.8	14.4	75.7	36.0	(78.4)
Net Funding Position	(883.3)	(881.8)	(755.2)	(718.8) ³	164.5	163.0	36.4

- ① Branch cash holdings remain under £500m.
- ② Government loan reduction of £122m from prior period as received Q2 investment funding in P7.
- ③ Net funding position has reduced by £164.5m from P7 in prior year.



Balance Sheet & Headroom

Balance Sheet

£m	Period 7	Period 6	v P6	P12 FY17	v P12	Period 7 FY17	v PY
Fixed Assets	524	531	(7)	478	46	451	73
Debtors	354	365	(10)	336	18	315	40
Cash	573	618	(45)	655	(82)	661	(87)
Creditors	(561)	(520)	(41)	(589)	28	(583)	22
Pension Surplus	3	3	-	3	0	1	2
Provisions	(60)	(62)	3	(66)	6	(65)	6
Other	11	10	0	9	1	8	2
Loan	(570)	(692)	122	(623)	53	(588)	18
Net Assets / (Liabilities)	274	253	22	204	71	200	75

Balance Sheet Headroom

£m	Period 7	Period 6	v P6	P12 FY17	v P12	Period 7 FY17	v PY
Government Loan - Available Amount	950	950	-	950	-	950	-
Government Loan - Drawn Amount	(570)	(692)	122	(623)	53	(588)	18
Headroom	380	258	122	327	53	362	18
Target Minimum Headroom	200	200	-	200	-	200	-
Headroom Above/(Below) Target	180	58	122	127	53	162	18

Balance sheet headroom of £180m, £53m increase from P12 and £18m up from P7 in prior year.

Security Headroom

£m	Period 7	Period 6	v P6	P12 FY17	v P12	Period 7 FY17	v PY
Network Cash	554	599	(44)	644	(90)	649	(94)
Cash at Bank - POL	1	1	0	0	1	0	1
Client Debtors	146	133	13	132	14	141	5
Trade & Other Debtors - Business Debtors	205	229	(23)	188	17	170	35
Total Security	907	961	(54)	964	(58)	960	(53)
Government Loan	(570)	(692)	122	(623)	53	(588)	18
Santander	(95)	(94)	(1)	(100)	5	(104)	8
Total Obligations	(665)	(786)	121	(723)	58	(692)	26
Headroom	242	176	66	241	1	269	(27)

Retail Strategy Progress Update

Author: Ed Tucker & Tom Moran Sponsor: Debbie Smith Meeting date: 27 November 2018

Executive Summary

Context

The Board approved our customer-focused Retail Strategy in June 2018. It used customer, agent and market analysis to demonstrate why we need to focus on three key areas: new, segmented formats; better franchise relationships; and being best in class in our core markets through automation and digitisation. This paper updates on progress in implementing our strategy. It also provides context for the Retail Strategy funding request of £12.8m.

This paper does not cover topics which are critical to delivering our Retail Strategy but have been covered elsewhere, notably the acquisition of Payzone, negotiations with RMG, the new Banking Framework, and our ongoing franchising of the DMB network including the recent deal with WH Smiths.

Questions addressed in this report

1. What is the challenge and opportunity?
2. What progress have we made since June?
3. What difference will the Retail Strategy make to our customer, postmasters and business performance?
4. What approach are we taking to implementation and what funding do we need?

Conclusions

1. Our Retail Strategy called out a significant risk to our sustainability due to our proposition not being attractive to retailers. It also set out a unique opportunity to be even more relevant to customers, and commercially sustainable for Post Office and agents.
2. We have been developing our new formats, trialling elements of them and reviewing and developing our franchise support model as well as investing in automation and digitisation to become best in class in our core markets.
3. We believe our planned initiatives will improve our Retail Value Proposition, better meet the needs of our customers whilst making us more attractive to agents, and create a more sustainable business for the future, delivering an incremental £5m EBITDAS from the Retail Business Unit by 2021.
4. The implementation is split into two tranches: Strengthening the current retail proposition to be more relevant to customers and better for agents now ensuring we deliver our 11,500 branch commitment to government to 2021; and Building our new retail proposition that will significantly improve our proposition for agents,

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customers and Post Office. We are rolling out these initiatives as they become ready and will be trialling new formats over the next year. This will cost £12.8m.

Input Sought

To note the progress and approve the funding request in the linked Business Case.

Input Received

The Retail Lead team as well as colleagues from FS&T, Finance, Operations.

What is the challenge and opportunity?

1. Changing customer behaviour and rising wage costs which directly affect Post Office viability for agents is seeing churn increasing and conversion rates for new postmasters drop. It is increasingly difficult to maintain our network of 11,500 branches. On our current trajectory, by 2021 we will have an additional 840 Outreaches & 440 temporary managed branches than today. This will cost an additional ~£21m p/a by 2020/21 from higher agent pay and lower sales, plus the cost of churn. This EBITDAS gap is a symptom of this challenge.
2. However, we have a number of key strengths that will help us – a profitable business and strong brand recognition. We are confident we can seize the opportunity to be more relevant to customers if we are willing to be sufficiently radical, embracing new formats, transforming to a 'more traditional' franchise business and investing in the digitisation and automation which customers and agents now expect from any retailer. Increasing our Retail EBITDAS from £127m today to £132m in 2020/21.

What progress have we made since June?¹

New, segmented customer-led formats:

3. We have simplified our proposed formats to four: Post Office Plus; Post Office (New) Local; Post Office Express; and Payzone. We have discounted a stand-alone 'SSK' as a format following further modelling which showed that it would be economically unviable:
 1. *Plus*: Complete Post Office product range. Highly automated customer journeys with open-plan counters and removal of combi-till;
 2. *New Local*: Focus on core offering mails, bill pay, banking & travel. Introduction of 'catalogue' products based on local customer need and automation for larger Locals.

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3. **Express:** Delivering convenient, low-cost access to collections/returns and an option to add a bill pay proposition. We are targeting a delivery cost of under £500, as Deutsche Post have already achieved this in Germany. We see Express as being core to building a future sustainable network and have therefore prioritised Express and digitisation of Mails with the aim of launching Q2 2019.
 4. **Payzone:** bill payments and limited non-RMG mails collections & returns.
4. We have trialled key aspects of our new approach to formats, notably:
- **New branches in urban locations:** 14 new Locals in London have now been running for 6 months, showing high (1000+ per week) customer sessions without any discernible impact on nearby existing branches (typically just 2-3%), generating an additional £63k profit to POL (£4.5k per branch p.a.). This increased volume is, in part, coming from our competitors and demonstrates that we should continue to prioritise urban expansion without fear of cannibalising our existing branches (in urban areas).
 - **'Catalogue' products and Field Team support:** 11 London branches now have on-demand travel money with dedicated field team support – these branches have seen a 26% increase in demand and a 50% increase in transaction value, compared to a similar size control group that didn't receive field team support. 5 of the branches also have Parcelforce International 2kg+ (a 'catalogue' product that is usually not sold in Locals). This has delivered an additional 2% remuneration for the agents and a new service for customers. It has demonstrated to us the value of how a customer / demographic approach, supported by field teams, will increase value for agent and Post Office.
 - **Developing the BluePrint:** The BluePrint provides a plan for every branch (close/relocate/change format/leave as-is). It will enable us to pro-actively manage our network to better meet customer needs as banking and mails volumes change. This comprehensive view will allow us to reshape our network post-2021 to be more convenient for customers and more efficient for us.
 - **Mains to Locals (initial roll-out):** We are targeting transitioning ~1,800 Mains to Locals. This will provide POL with up to £18m cost saving, as we save ~£10k per branch p/a by moving Mains to a Locals with reduced pay rates. We are in discussions with various Multiple retailer partners around transitioning some of their Mains to Locals. We have found the Mains run by independents are more difficult to transition to Locals. However, we believe we now have a more compelling proposition for agents, by using automation and giving back retail space we can reduce their operating costs and increase convenience sales.
5. We have concluded a joint FS&T-Retail review of FS&T sales through the Retail channel and will be recommending the following:
- In the current network we will continue selling MoneyGram, Travel Money, Travel Insurance, Postal Orders and Phonecards.

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- Restrict selling of Insurance (excluding Travel) and Homephone & Broadband to Mains only. This will benefit 2/3s of the network by removing compliance and training requirements and has a minimal P&L impact (£51K DPC over 3 years).
 - As we develop our new network (Plus/New Locals/Express) we will focus on Mails, Cash, Bill Payment and Travel, not FS&T products. MoneyGram, Travel Money and Travel Insurance would be offered in all Plus branches and in appropriate Locals, based on location and customer demand. Express will not have any FS&T products. These changes will not materially impact P&L during 3-year funding period.
 - All the above to be underpinned by significant improvement in our ability to generate leads effectively in branch.
6. **Digitisation & Automation:** Automation, Digitisation and HIH are key enablers of these formats:
- **Automation:** There are currently 30 self-service machines deployed in our agency network. We will start to move them onto commercial terms, where the agent will realise ~£4k - £7k staff cost savings (net of the £5k p.a. SSK rental fee). We are also procuring the next generation of significantly lower cost next generation SSKs and have already secured proof of concept machines to inform our procurement, which will complete in November 2019 following an OJEU process, with plans to deploy 20 SSKs per month from January 2020.
 - **Digitisation:** Digitisation, particularly in Mails, will increase customer convenience and drive significant mails volume growth through the Express format. We have already completed the advisory function of a customer app and are working towards a full launch in March 2019, which will include the ability to buy postage online. This is subject to technical and commercial agreement with RMG.
 - **Horizon Integration Hub (HIH):** This is the platform that allows us to be agnostic, enabling us to make changes to our network quicker and at lower cost. We have re-prioritised the stack to do the Mails products first and thus enabling us to deliver Post Office Express earlier.

Strengthening & Transforming our franchise relationships

7. **Agent Remuneration:** Over the medium-term we will reduce the agents pay cost by transitioning Mains, Community and Legacy branches to our lower/variable cost formats such as New Locals and Express. However, we need to make a targeted investment in agent pay now, in order to ensure stability in our network, retain agents and motivate postmasters to sell and offer products & services, notably banking.
8. An across-the-board agent pay increase would have minimal impact, as the benefits would be spread too thinly. Instead, we need to target increases in

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remuneration which, when combined with other measures, will reduce churn, retain Multiples, and increase conversions to Locals.

9. From external benchmarking there are three potential areas of focus in order to best target the agent pay increases, more work is needed to agree these:
 - *Rewarding retailers that host more post offices*; following analysis we propose to pay retailers an additional fixed payment of ~£10k per 25 post offices they run. This incentivises multiples and symbols who tend to be more sustainable.
 - *Reward achievement of customer and operational standards*, such as: Branch Standards; Customer Service; Conformance; Online Tests completed in advance of deadlines; Mails Segmentation; and Attendance at training events. If branches hit the requisite standards they would receive a 5% bonus.
 - *Reward sales growth, above expected levels, through increased share of profits*, rewarding our most entrepreneurial agents of all sizes. So for instance, this might increase commissions for bill payments above a certain level. This could drive agents to switch from utilising their Post Office AND PayPoint terminals to just using the Post Office.
 - Complementing these changes, we are also increasing the remuneration to agents from banking.

We have made the following progress on the other 5 aspects of our franchise relationship:

10. **Recruitment:** We will simplify and digitise the application process for agents from April, to reduce the 46% drop-out rate.
11. **On-boarding & Training:** We will digitise the induction training, adding video content to make this more accessible to new agents and their assistants. An agile project will run from November to June to implement these changes.
12. **Field team structure:** We will re-structure and strengthen our field sales team to support all postmasters as currently only a third receive support. We will create a localised structure and the number of front line field team will flex within each area dependent on the mix of formats within a geography e.g. higher density of low support PO Express formats will require less support. We will implement the new structure in April 2019.
13. **Engagement & Comms:** Our Agent Portal will be introduced in November, initially to log and follow-up on IT issues, but with plans to add essential support such as cash, coin and stock tracking and order management, chat bots for common questions and essential information and support for branches. This is expected to replace the need to contact the NBSC, significantly driving down the current c.30k calls per period and giving branches instant access to help in a visual way.

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14. **Branch Performance:** We have created a Branch Insight Tool which provides field teams with Case Management data, so that local support teams can address issues and offer support in a targeted way. In addition, we are creating a scorecard measuring the key elements of a stable branch network, such as resignations, audit closures, branch dissatisfaction, etc.
15. As we trial Post Office Express and others we will adopt the above franchise model new ways of working.

What difference will the Retail Strategy make to our customer, postmasters and business performance??

16. **For the agent:** The changes we are making to pay, formats and digitisation & automation will undoubtedly make our proposition more attractive to retailers by increasing their income and reducing their costs. Much of this has yet to be proved on the ground and we are moving fast to test and learn this over the next six months so that we can rapidly move to full deployment.
17. The table below shows the improvement in agent profitability as a result of the Retail Strategy (excluding retail cross-sell benefit). To take an example of a large Local with £30k of retail sales per year (the red box in table below): The agent goes from a ~£6k loss to break-even. This is achieved by a combination of increased agents pay and use of automation to reduce their staff costs. Retailers of this size tend to be vibrant and sustainable Multiples and Symbols and are an appealing segment for Post Office.

Figure 1: Agent Profitability for running a Local, pre and post Retail Strategy

Retail Turnover £ per week	CURRENT							INCREMENTAL IMPROVEMENTS POST RETAIL STRATEGY						
	2,000	5,000	10,000	20,000	30,000	50,000	100,000	2,000	5,000	10,000	20,000	30,000	50,000	100,000
DIRECT AGENT PROFIT FROM RUNNING A LOCAL (£ P.A.) DOES NOT INCLUDE FOOTFALL BENEFIT														
Very small (300 CS)	3,000	3,000	3,000	(2,000)	(4,000)	(6,000)	(6,000)	0	0	0	0	1,000	3,000	0
Small (500 CS)	5,000	5,000	5,000	(2,000)	(5,000)	(7,000)	(8,000)	0	0	0	0	1,000	1,000	0
Medium (600 CS)	9,000	9,000	9,000	(2,000)	(6,000)	(10,000)	(10,000)	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Large (1,000 CS)	10,000	10,000	1,000	(3,000)	(6,000)	(12,000)	(12,000)	(1,000)	(1,000)	3,000	4,000	6,000	6,000	5,000
XL (1,600 CS)	12,000	10,000	(4,000)	(3,000)	(7,000)	(15,000)	(15,000)	0	1,000	6,000	5,000	7,000	7,000	6,000

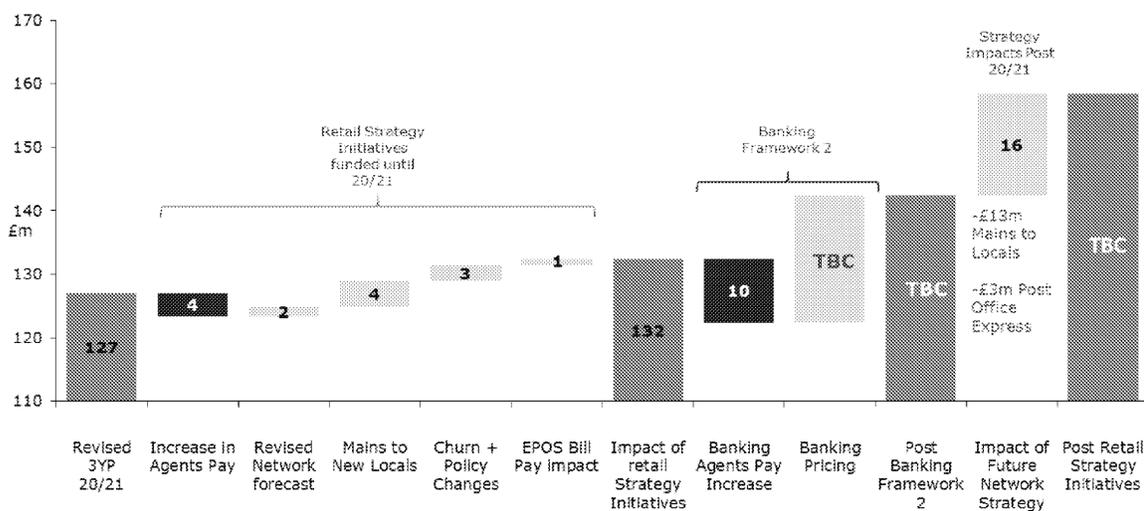
18. You will notice that we have not increased agent profitability across the board:
- For example, running a post office for very large retailers (£50k+ retail sales) will improve by £1k p.a. but will remain unprofitable, as it's too costly to make them profitable.

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- Smaller turn-over retailers that host a post office will receive minimal improvements in agent profitability, as we have relative strength with this segment already.
- Plus and (existing Mains) operators will benefit from Automation and Digitisation. As such, we won't be providing additional pay increases or 'Standards' payments for them.

19. For Post Office: The Retail Strategy initiatives will drive £5m incremental EBITDAS benefits by 20/21, with significantly more benefits post-2021.

Figure 2: Modelled impact on Post Office EBITDAS of Retail Strategy Update



20. The Retail Strategy initiatives will deliver:

- £2m EBITDAS improvement from 'Revised Network forecast'. The outturn looks more favourable than June forecast with 70 more NNLs vs June Forecast and a more favourable churn trajectory. Each NNL saves POL £15k per annum versus an Outreach.
- £4m improvement in EBITDAS from 'Mains to Locals'. The shift from small Mains to Locals, enables us to receive £5k income on Automation per branch and reduce pay by £6k from the lower Locals rates. Agents will also be £9k better off due to reduced staffing costs.
- £3m improvement in EBITDAS from 'Churn and Policy changes', as the improved franchise Model, On-boarding and Field support will lead to reduction in churn (~90 in temps and outreach), in addition to more post offices in urban locations.
- There is a £4m EBITDAS drag from the targeted increase in Agents Pay.

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- Once we're in full roll-out mode (post-2020/21), we are confident that the initiatives we're implementing will deliver a further £16m EBITDAS improvement.

21. For Customers: The Retail Strategy proposals will respond specifically to customer feedback.

- More locations providing increased convenience for customers and greater choice.
- Express and automation enabling customers to more easily and quickly complete their transactions
- Digitisation enabling customers (particularly younger customers) to more conveniently complete their transactions
- Better franchise relationships will result in better customer experience

22. by having more locations providing increased convenience for customers and the proposition, particularly for Mails Collections and Returns will be quicker, simpler and easier. where deliver a Post Office that is more accessible to our customers with an additional ~15k locations than today. Many of these locations will be in urban and sub-urban locations, where our customers live and work. In addition, the majority of our locations will be open extended hours, offering even greater access than today. The increased access for Home Shopping Returns and Collections, combined with digitisation and automation, will specifically appeal to younger customers.

What approach are we taking to implementation and what funding do we need?

23. We have developed a twin-track approach to transitioning: The first tranche is focused on improving and strengthening our current network in order to maintain our 11,500 branches over the 3YP, without excessive reliance on Outreaches and temporary managed branches. We identified and evaluated 14 potential activities to deliver the £7m EBITDAS improvement. This produced four key activities: Small Mains to Locals; SSKs into Mains; SSKs into existing busy Locals; More Locals in city centres. We plan on progressing with these as quickly as possible, but without causing disproportionate 'noise' amongst our stakeholders.

24. The second focuses on transforming the business for the future developing the new models, new technology and new franchise relationships that will allow us to increase our network size through new formats post-2021. The latter requires us to develop and secure government endorsement for new, customer-focused definitions of a 'Post Office' with government, we will start that discussion shortly. We also need to set out our proposal for a post-Network Subsidy Payment – maintaining our Community network will cost Post Office c£50m p.a. (or roughly halve our projected profit) by 2020/21.

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25. We are prioritising the following three areas: Mains to Locals (which will generate financial headroom); Express (to build a larger, more accessible network) and maintaining the existing network (creating a more sustainable network and reducing the cost of churn). To ensure agent support during this key test and learn phase we are proposing some incentivisation to encourage agents to work with us.
26. Subject to funding approval, we are mobilising cross-functional teams covering technology, network, brand, operations and products.
27. Consistent with transformation methodology we are deploying test and learn focused trials. In particular we have targeted an area from Milton Keynes to Nottingham consisting of 160 branches. This area is representative of the UK as a whole.
28. Our work over the past 6 months has helped crystallise a clear way forward for the implementation phase of the Retail Strategy (see roadmap below). There are some areas where we are ready to roll-out improved solutions to our customers and agents, for example around sales & service support and Agent's Pay. However, the pace of roll-out in some areas is constrained by the c18 months it will take to procure and test the next generation SSKs. As the new SSKs are a key enabler of areas such as New Locals and Small Mains to Locals.

Figure 3: Retail Strategy Activity Plan

	2019/20				2020-21	2021-22
	Q1	Q2	Q3	Q4		
Customer	Mails digitisation live – integrated end-to-end journey with quicker experience in-branch	Increased number of locations in which Collect & Returns can be completed (via Express)		Customers benefiting from more convenient journeys via SSKs	New Plus format provides more streamlined, segmented in-branch journey	More modern and convenient experience, both in-branch and digitally
Agents	Provided with increased support including field support and Agents portal Benefiting from increased Banking Agents Pay	New Agents benefiting from Post Office Express Advocates for Small Mains to Locals and SSKs New Local format Increasing income via catalogue products	Realising financial benefits from increased Agent support Improved proposition for Multiples via roll-out of RPOS	Improved proposition in busy locals (e.g. reduced staff costs) enabled via SSKs	Improved Multiples proposition via targeted Agents Pay Improvements Incremental effect of improvements increases attractiveness of proposition and reduces churn	See Post Office as Partner of choice
Post Office		Post Office Express roll-out begins – Increased footprint Format and SSK trials complete EBITDAS boost via catalogue products	First tranche of new generation SSKs deployment Financial benefits from increased Agent support starting to be realised RPOS increases income through displacement of PayPoint	EBITDAS boosted by converting Small Mains to Locals and SSK rental (c.£10k per branch)	Ramp-up of roll-out generating a full year of EBITDAS benefits Financial improvements increasing via reduced churn	Improved proposition means we partner with only the best Agents Removal of limitations (branch numbers etc.) enables more pro-active development of network

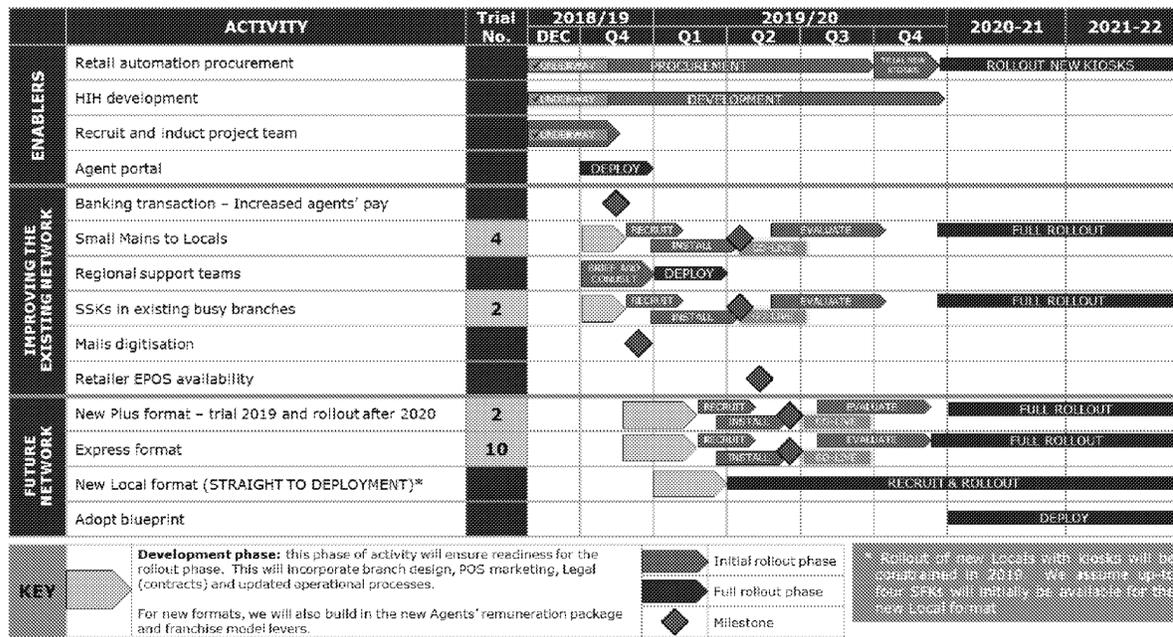
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Funding request

29. We are requesting £12.8m until the end of March 2020 to: develop roll-out new formats, continue Sales Support, Onboarding and Franchise improvements, procure next generation of SSK.

Appendix

Figure 4: Retail Strategy Implementation Plan



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COVER SHEET ONLY

Marketing Effectiveness, Efficiency and Relevancy

Author: Emma Springham

Sponsor: Owen Woodley

Meeting date: 12th November 2018

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Executive Summary

Context

The new CMO Emma Springham joined the Post Office on the 4th September. The purpose of this paper is to present to the GE and POL Board fresh-eyed thinking on our marketing effectiveness, efficiency and relevancy.

Challenges today:

- Product driven structure leading to low cross sales – 4.3 million active customers with only one product holding (85% of the active marketing database).
- Slow to market, duplication of tasks and lack of ownership across the team.
- We urgently need a brand strategy and guidelines for Apps, web and the network.
- Our website (shop window) is broken, under-invested and under-resourced leading to reduced conversion.
- 'Campaign-driven' rather than 'always-on' marketing strategy.
- Currently we only report on digital marketing performance and have limited end-to-end management information/tagging/tools in place to fully report on performance.
- Brand, Insight and Social is managed outside of the Group Marketing function which is leading to competing priorities.

What we are trying to achieve:

- Massively increase our marketing maturity, capability and pace of delivery.
- Remove duplication of activity and drive much greater consistency for customers.
- Raise the bar significantly around the quality of the customer/user experience.
- Ensure a joined up approach to management information, customer data and the development of customer journeys.
- Improve the efficiency of our marketing spend.
- Start moving the focus away from product stovepipes and towards customer-led propositions and interactions.
- Move to disruptive and relevance marketing strategies to make impact in a crowded market.
- Channel budget ownership to increase response to market conditions.
- Greater spend on SEO and content marketing to reduce dependency on affiliate, aggregator and paid search.

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Questions this paper addresses

1. Are we delivering best in class marketing effectiveness?
2. How efficient is our marketing activities?
3. Is the Post Office brand relevant today?
4. How do we differentiate our brand in a crowded market coupled with competitor spend far outreaching the Post Office?
5. Can Insurance meet their growth targets through marketing?

4

Conclusion

1. Marketing Effectiveness

The central marketing data ecosystem is complex, manual and time consuming. Marketing and sales management information is misaligned. We only measure paid digital data.

Highest spend is in affiliates, aggregators and paid search (53% of total YTD media spend) which often attracts short term customers. Post Office has a small investment in natural search (SEO) and 121/on-boarding customer communications.

Channels	Media Spend 18/19 (YTD)
Paid Search	£2m
Out-of-Home	£2.1m
Affiliates	£2.1m
Aggregators	£2.1m
Display	£1.5m
Press	£1.0m
Partnerships	£0.4m
VOD	£0.2m
Radio	£0.1m
Social	£0.1m
Total Media	£11.6m

2. Marketing Efficiency

Our current segmentation model does not go far enough and we push solo product messages to customers. We need to build on our current segmentation to expand our relevancy and grow our audience:

- Propensity
- Lookalike
- 121 Marketing

Changes in circumstances are the biggest trigger to purchase. Using insurance – what are the life moments that increase propensity to purchase.

- Child aged 0-4
- Brought a home
- Brought a car
- Divorced
- Lost a loved one
- Starting a business
- Entered retirement

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3. Post Office Relevancy

Post Office is one of the most trusted brands in the UK and there is public outcry when a branch is closed, but only **51%** of consumers agree Post Office products and services are relevant to them. The Post Office is struggling with salience:

- **8%** Mortgages
- **14%** Broadband
- **23%** Financial Services
- **31%** Travel Insurance

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Between 2014 and 2017, only one in ten brands grew.

- **37%** think Post Office is modern and up to date
- **57%** think Post Office is a brand I feel no duty to support
- **33%** of millennials consider Post Office is a brand for me
- **43%** think Post Office is a brand for me
- **33%** think the Post Office is easy to do business with

“If we don’t change the way we think, we will lose a whole generation of customers.”
– Nicholas Cooper, VP IKEA.

4. Create disruption in the market

Marketing blends into the market often using price and incentives to drive demand.



With competitor marketing and media budgets much higher than ours (BT £93 million v £12 million Post Office annual media spend), the Post Office needs to be disruptive and look at new channels to make an impact.

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5. Can Post Office meet insurance growth targets?

POI are currently behind target (ambitious growth targets yoy):

Insurance Performance

Products	Digital Income YTD: 18/19 Actuals	Vs. Digital Income Target 18/19	Digital Income YTD: 18/19 vs 17/18	Digital Income Targets: 18/19 vs 17/18
Travel Insurance	£5.7 m	-14%	+38%	+66%
Term Life Insurance	£0.4 m	-22%	+464%	+73%
O50s Life Insurance	£0.3 m	-35%	+233%	-4%
Motor Insurance	£0.7 m	-22%	-24%	+31%
Home Insurance	£0.8 m	-21%	-12%	+14%

4

Rationale for under-performance vs target:

Travel insurance contributes to 70% of the POI Digital Income therefore its underperformance impacts POI business unit as a whole.

Travel Insurance down vs target due to lower market demand (-10%) and pulling back on investment due to lack of confidence in media agency strategy.

Term Life marketing investment was re-phased due to lack of confidence in media agency strategy and prioritisation of Travel CVM activity over Life.

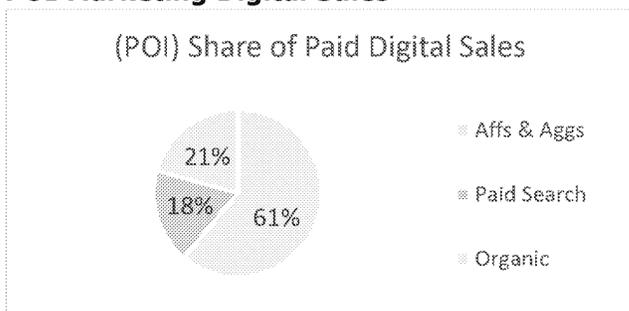
Over 50s Life down due to response from DRTV being below previous expectations due to competitor brand bidding in paid search, decline in competitiveness of incentive and offline taking a higher proportion of responses than planned.

Motor and Home insurance investment scaled back to drive in-year efficiencies.

Travel Insurance annual policy renewals are at 17% highlighting the opportunity to focus on renewals.

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POI Marketing Digital Sales



Marketing spend is currently focused on:

- Short term lead generation activities to drive volume - Affiliates, Aggregators and Paid Search. Only 21% of sales are driven organically.
- Support by DRTV for the over 50's life insurance.
- Press and outdoor to support travel insurance.

Marketing Support

- Insurance marketing FTE is limited and based on short term contractors.
- There is CVM/CRM functionality but it is only used for the quote stage of the buying process.
- New entrants into the market are using disruptive marketing to create stand out, for example Dead Happy – www.deadhappy.com
- The insurance website needs investment to support lead conversion. This should not be done isolation to the central marketing team. Mortgages used an external agency and performance has been affected.

MORTGAGE EXAMPLE	OLD MORTGAGE JOURNEY Oct 2017	NEW MORTGAGE JOURNEY Oct 2018	DIFFERENCE %	KEY NEXT STEPS
EXIT RATE	49.9%	59.8%	+19.8%	Short term: Created an a/b test strategy to deliver a number of quick wins Long term: relook at the end to end journey and optimise
BOUNCE RATE	17.2%	43.4%	+152%	

Opportunities and considerations

- Increasing investments in SEO and content to grow awareness of products and reduce reliance on paid channels.
- Focus on CVM to drive retention, cross-sell and upsell of products (current Travel Insurance annual policy renewals are at 17%).
- Ongoing conversion funnel optimisations (to address 60%-70% drop out at quote stages)
- Product considerations: considerations around product competitiveness especially with regards to Travel Insurance.

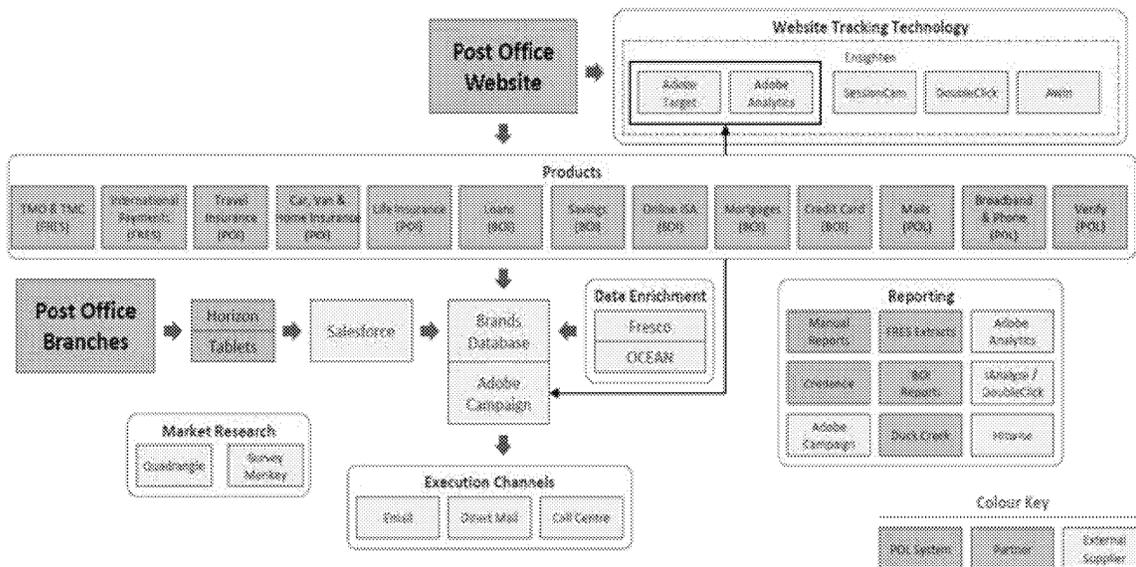
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Appendix

1. Data Eco System is complex and manual

The central marketing data eco system is complex, manual and time consuming. Marketing and sales management information is misaligned. We only measure paid digital data:

4



2. Presentation for GE – Available in the Reading Room

Security Strategy

Author: Bryan Littlefair (external)

Sponsor: Rob Houghton/Mick Mitchell

Meeting date: 12 November 2018

Executive Summary

Context

Since 2016 we have invested a total of £3.5m in our IT security capability to move us further towards risk appetite and respond to internal and external security assessments. We have closed 33 issues from the original 37 that were identified in the 2016 Deloitte Risk Audit. The outstanding actions are all due to be completed by Q1 2019. The business is investing heavily into digital transformation which requires increased security capabilities. We have held detailed security workshops with our strategic partners and this paper outlines the required people, process and technology investments that make up the next phase of security maturity.

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Questions addressed in this report

1. What capability has the £3.5m level of investment delivered – are we now within risk appetite and fulfilled Deloitte's risk audit?
2. What's our target capability and why?
3. What are the activities, options and investment required to get to target capability?
4. Do we have the capabilities to close the gap?

Conclusion

1. We have significantly improved the risk posture of Post Office (PO). We have created our internal security operations centre to collate all of the technical security information from PO and our partners, and closed our greatest risk areas. We have closed 33 out of 37 audit issues but more still needs to be done given the accelerating demands.
2. Our target capability is to achieve a pragmatic but effective security posture across PO, which aligns with our North Star to introduce new technology and digitise the PO. Pragmatism, investment and risk appetite needs to be carefully balanced.
3. We have investigated the various options from "remaining as is" to achieving the benchmark state of others in our sector. We have held detailed workshops with our strategic partners, who have ratified our approach. We have also conducted ethical hacking exercises on PO which has further highlighted the requirements to increase focus and capability on security.
4. The recommended approach is to harmonise the existing security teams currently spread across five different functions within the business and create a single security function under one CISO (Chief Information Security Officer) and to achieve the minimum security baseline in regards to people, process and technology requirements in Post Office which is in line to the benchmark state of similar companies to ourselves. This approach will be prudently managed but will require further incremental investment to attain this parity.

Input Sought

The GE is asked to note and endorse the direction set out in this document to present to the board. A paper will be presented to CAG requesting seed funding to provide the full details for the provision of the costs for both process security changes and technology changes from our suppliers. However, there are key initiatives that PO needs to own and drive such as embedding a security culture into the organisation. Progress will be reported to the GE and board in six months' time.

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The Report

What capability has the £3.5m level of investment delivered – are we now within risk appetite and fulfilled Deloitte’s risk audit?

1. Previously conducted external assesments of our security posture by Deloitte and the findings of these assesments have been embedded into our current secuity transformation project and good progress has been made on the remediation. Figure 1.0 demonstrates the areas of the Deloitte audit where progress has been made. Progress has been slower than planned or anticipated. This is largely due to the complexity of the supplier mix within our domain and the hugely outsourced nature of the organisation coupled with PCR restrictions.

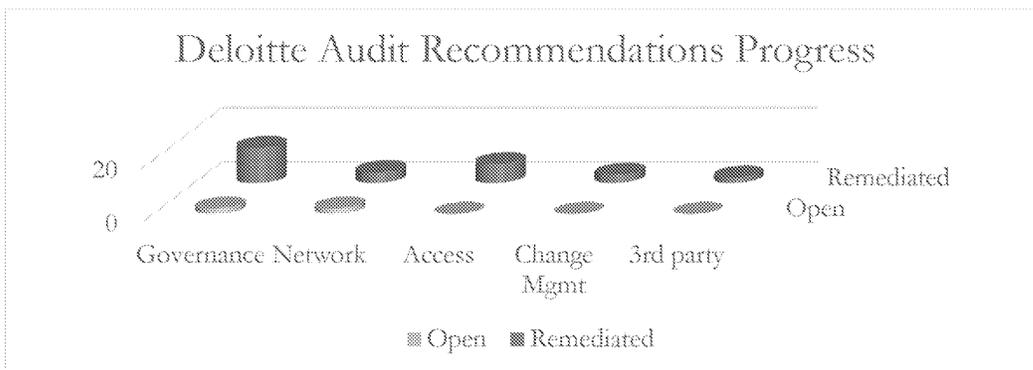
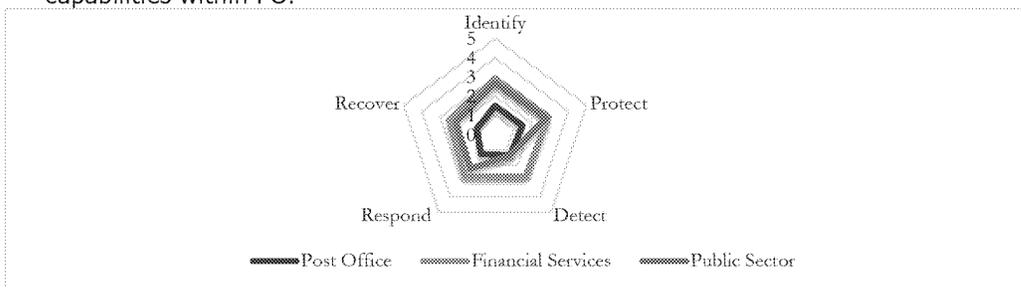


Figure 1.0 Deloitte Audit Recommendations Progress

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2. A risk based approach was taken to identify which audit findings would be a priority for remediation.
3. We have made strategic investments in our Advanced Security Operations Centre (ASOC) which is intended to be the internal brain in relation to security. The system collates the information flowing from the technology systems within our network and systems, including those managed by our third parties in order to effectively detect and manage security incidents in line with the PO security policies. We have locked down access to our O365 environment from mobile devices and work is in progress to extend this to locking down access from all non-corporate laptops.
4. Our initial approach was to close the basic security concerns identified by Deloitte's. We have now matured this by benchamrking ourselves agaisnt The National Institute of Standards and Technology (NIST) security and standards framework. This is internationally recognised and provides a useful context to benchmark our current capabilities across the NIST 5 security domains and core risk areas which are - Identify, Protect, Detect, Respond and Recover.
5. We have used the framework and the publicly available material on the average CMMI Maturity scores across the financial services sector and the public sector and mapped on the current capabilities within PO.



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Figure 2.0 NIST Benchmarking¹

6. With the investment to date we have effectively lifted ourselves to the point that we are covering the basic hygiene factors of information security. The challenge is that this is not sufficient for our ambitious plans on identity and digital transformation.

What's our target capability and why?

7. The new security strategy outlines a low maturity environment that needs further improvement. Its important to understand security in the context of the Post Office and how it operates as a business:
 - a. The document refers to our Administration estate - the branch network is separated from the administration network and is secure – we have no information to suggest it isn't; the risk of a branch terminal or Horizon being compromised remains very low.
 - b. Our data assets are distributed and outsourced – we do not retain many critical data assets within "our infrastructure" (infrastructure being used here to describe all our applications, servers and processes) – therefore our main role is the third party contract management and assurance (which are equally important). For instance:
 - i. Our digital identity service is outsourced to Digidentity which has to comply to the highest level of protection.
 - ii. Our banking data is managed by BOI which is highly regulated to ensure compliance.
 - iii. BRANDS which holds customer data is also outsourced.
 - c. Thus the main objective of the strategy is to IDENTIFY and PROTECT the critical data assets that a compromise of our administration estate within our immediate control would affect WHILST strengthening significantly our third party management to ensure they are able to DETECT an incident and RESPOND to it in an appropriate timeframe before it has a negative impact on Post Office.
8. The strategy is based on industry best practice and aligned with the NIST standard and the best practice released by the National Cyber Security Centre (NCSC). The NIST standard compliments the existing COBIT 5 IT Controls framework. PO are prioritising our approach for maximum risk reduction using the internationally recognised CIS controls framework which is a risk-prioritised version of the NIST 20 key controls that an organisation should follow in sequence to improve its Cyber Security posture in a risk aware manner.
9. Our recommended approach focuses around 5 core risk areas – Identify, Protect, Detect, Respond and Recover² - aligned to the NIST standard.
10. Figure 3.0 shows the PO Target Security Capability against the NIST framework/CMMI Maturity Scale.

¹ The definitions for each level of maturity can be found in Appendix A: NIST Maturity levels definitions.

² The definitions of the 5 core risk areas can be found in the Appendix B: Definition of the 5 core risk areas aligned to NIST

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What are the activities, options and investment required to get to target capability?

13. We have investigated and analysed the various different options available to PO
 - a. Remain in current situation and perform risk acceptance on the widening security gap
 - b. Define the minimum security baseline that all PO functions and suppliers will adhere to
 - c. Effectively resource cyber security to achieve the target security capability

Each option has its own set of challenges. Option A is unsustainable from a security perspective as the risk gap and inability to effectively secure PO is already a challenge. The minimum security baseline will give us the bare minimum components in terms of process and technology across the business and partners, but it will not enable PO to meet changing demands. Option C will enable achieving risk tolerance and effectively manage PO from a cyber security perspective.

14. To ensure the new security strategy is set up for success, we recommend the creation of a Chief Information Security Officer (CISO) function. Based on the fact that the organisation is going through a significant digitisation and technology transformation drive, the proposal is that the function reports into the Chief Information Officer. This new function will combine the current security teams (IT Security and Information Security) to ensure accountability for the end to end security within PO. This would align us with industry best practice and deliver the synergies, removing the overlaps and complex processes in the current model, as well as presenting a simple interface point to the business for security.

15. We need to achieve compliance across the board including in our third-party suppliers. We also have a mixed capability in terms of technology and compliance across our supplier environment. This needs to be standardised to ensure the core capabilities in terms of technology, policy and process are present in all of our environments to provide holistic protection. We have held detailed security workshops with our strategic suppliers. We have sense checked PO security policy and strategy with our suppliers and performed a gap analysis. There are significant areas of non-compliance to our current policy with our strategic partners and this position is likely to be present with our other suppliers due to lack of effective 3rd party security governance

16. The minimum security baseline has been created to effectively underpin and support the North Star business strategy. With extra focus on digitisation and technology, we need to invest in new security technology capability to ensure our new services are secure by design and remain under effective security management. In the table below you can see today that the majority of our capability has Partial (P) coverage. This means that we do not have Holistic (H) coverage of the process or technology across PO and our suppliers and therefore a security gap exists. The minimum security standard takes the essential security components and ensures they are deployed holistically across our infrastructure.

	Today	Minimum Security Baseline	Recommended Target
Technology			
Security Operations Centre	P	H	H
Security Proxy	P	H	H
DDOS Protection	P	H	H
Intrusion Prevention System	P		H
Firewalls	P	H	H
Intrusion Detection System	P		H
Network Data Loss Prevention			H
Anti-Spam / Phishing	P	H	H
Cloud Security	P	H	H
Server Anti Virus	P	H	H
Control and Compliance Suite			H
Database Activity Monitoring			H
Server Firewalls	P	H	H
Secure Coding Suite		H	H
Web Application Firewalls			H
Encryption	P	H	H
Information Classification		H	H

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Information Asset Register		H	
Data Loss Prevention	P	H	H
Anti Virus Protection	P	H	H
Host Based Firewall	P	H	H
Forensics Suite			H
Process			
3rd Party Supplier Management	P	H	H
Security Governance	P	H	H
Security Reporting	P	H	H
Information Risk Mitigation and Reporting	P	H	H
Security Culture Change	P	H	H
Information Protection in Change		H	H
Physical Security	P	H	H
Incident Management Process			H
Crisis Management			H
Business Continuity	P	H	H



- The most critical activity by the business will be to ensure the appropriate tiered access to our data has been implemented. Given that any device can be compromised with enough time and effort, we need to be certain that any data that could be accessed is secure. We also need to ensure that our existing Information Security classifications of SENSITIVE, CONFIDENTIAL, PUBLIC are actually applied throughout our environment and different controls are enforced before access is granted to the data. For example – anyone with access to SENSITIVE data would need to undergo increased user education training, may operate within a physically contained environment and would require advanced protection software on their laptop. The IDENTIFICATION of users with access to SENSITIVE data within our estate and then the DIFFERENTIATED controls for those users is an immediate action.

Do we have the capabilities to close the gap?

- We have made progress on closing the gaps identified in the latest external assessment on our security capability, conducted by Deloitte in 2016, these include assigning security consultants to each business area to ensure the necessary controls are being implemented, ASOC for visibility of security incidents, improved governance, centralised tracking of firewall changes and improved penetration testing. This has closed the risk tolerance gap for the previous business model. However, with the new business model North Star, the risk exposure to the business has increased with extra digitisation and reliance on technology, even after closing all of the findings we will remain in an adverse risk position.
- Recent pro-active security testing engaged by PO has shown that an external internet based attacker can compromise our estate via social engineering and phishing, maintain a persistent connection to our environment for over a week whilst scanning and navigating around our network. This activity generated zero security alerts into the central security function from PO teams or our strategic suppliers.
- We need to work with our partners in a risk based manner, investing in people process and technology to provide a holistic security capability that can effectively underpin the business strategy, further investigation is required with the business partners to fully understand the level of investments required in each areas and the seed funding request to CAG will enable this to happen
- The recommended approach is to conduct a target operating model exercise that clearly defines the target structure for the new security function, combining all of the existing security teams into a single function. We would clearly map out the organisational structure, roles and responsibilities of each area ensuring broad areas of accountabilities as well as the process and service ownership for each of the teams.
- We will also focus on embedding the resource available to us as part of the tower partners framework agreement to operate as a combined virtual team with everyone working towards a common goal, regardless of the supplier.

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Appendix A: NIST Maturity levels definitions

Score	Level	Definition
0	Absent	Absent or partially present
1	Initial	Inconsistent approach; Ad-hoc; Undocumented procedures
2	Managed	Formally resourced; Objectives are defined; Procedures are defined but are applied inconsistently
3	Defined	Formally resourced; Objectives are defined; Procedures are defined but are applied inconsistently
4	Quantitatively Managed	Consistent and robust application; Activities are increasingly automated; Processes and tools are integrated
5	Optimised	Processes are well managed and governed; Improvements are actively sought; Monitoring captures metric to measure performance

Appendix B: Definition of the 5 core risk areas aligned to NIST

Identify – The identify stream ensures an organisation wide understanding and management of cyber security risks in relation to people, assets, data and capabilities.

- a. Identifying all sources and repositories of sensitive or critical data and ensuring appropriate protection is in place against loss or misuse.
- b. Ensuring we can correctly identify and authorise all infrastructure and software assets on our estate.
- c. Ensuring all asset vulnerabilities are identified and remediated in line with policies and standards.
- d. Identifying and managing all risks posed to PO by our existing and new third party relationships.
- e. Effectively using threat intelligence feeds to deliver actionable security intelligence into our operations and security programmes.
- f. Ensuring appropriate governance and reporting over information security activities.

Protect – Ensures appropriate safeguards to ensure the delivery of critical services to our customers.

- a. Ensuring effective Identity Management and access control with an effective joiner, movers, leaver's process as well as enhanced governance over the IT administrator community – a community which stretches across all our suppliers of IT systems.
- b. Empowering our employees to self-manage their cyber security posture with effective security awareness and training ensuring a security aware culture across PO, our third party suppliers, and our partners.
- c. Establishing and embedding appropriate data security protection, consistent with our risk strategy.
- d. Ensuring that there are appropriate security processes and procedures, both within the security teams, and across the business as a whole.
- e. Deploy document classification to ensure that we can effectively structure our data in terms of confidentiality and sensitivity and enable effective data loss protection.
- f. Ensure that effective protective technology is in place and have plans for the evolving nature of such protective technology.

Detect – Defines the appropriate activities to identify a cyber security incident.

- a. Ensuring anomalous events are detected effectively on our infrastructure, channelled appropriately to the Advanced Security Operations Centre (ASOC), triaged effectively and presented to an analyst for appropriate action.
- b. Implementing 24x7 protection holistically across the estate in a risk-based manner.

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- c. Deploying defence in depth security technology across the estate focusing on protecting sensitive data.
- d. Ensuring the threat intelligence from our external providers is analysed for root cause and embedded into our cultural training.
- e. Working closely with our outsourced partners to ensure security is a critical success factor and key performance indicator.

Respond – supports the ability to effectively respond to detected security incidents in a timely manner.

- a. Ensuring appropriate incident management and response processes are embedded and tested within the organisation at all levels.
- b. Ensuring appropriate communications about incidents and threats across the business and high risk third party suppliers.
- c. Mitigation and control to prevent expansion of a security event and to effectively resolve the incident end to end.
- d. Ensuring lessons learned is conducted on each detection / response activities constantly improving the security processes.

Recover – maintains the resilience of PO security and works with the IT operations teams to recover and restore normal business operations that were impaired as part of a security incident.

- a. Ensuring effective and appropriate business continuity plans across all critical business systems and processes.
- b. Ensuring holistic configuration management databases are maintained across the estate to facilitate the system and application recovery process.
- c. Maintaining a 'green book' of pre-prepared internal and external communications for different types of security incidents that may affect PO, negating the need for them to be created from scratch during an incident.



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GROUP EXECUTIVE

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Performance Review – Health & Safety

Authors: Martin Hopcroft

Sponsor: Al Cameron

Meeting date: 12th Nov 2018

Executive Summary

Context

Keeping our employees healthy and safe is our legal responsibility and is fundamental to our success.

Our Health & Safety performance has improved significantly over the past 6 years. We have a rolling 3-year plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents (LTIFR); days lost; and personal injury claims.

Our H&S reporting and safety management system is measured against the externally recognised standard, OHSAS 18001 and performance is reported monthly to the Group Executive and at each Board meeting.

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Questions addressed in this report

1. What patterns are emerging in violent activity, is it getting better or worse, what are we doing about it?
2. How are we performing in 2018/19 and what are the current activities and priorities?

Conclusion

The prevention of accidents has improved materially year in year. Whilst we have seen a reduction in robbery and CViT incidents during September and October, a spike in August and a recent increase in violent robberies and ATM rip-outs raised our concerns.

Post Office robberies are currently showing an overall 35% decrease from last year (50 vs 77). Retail robberies show a 24% reduction (37 vs 49). Injuries, however, show a 33% increase on the same point last year, (8 vs 6), all relatively minor with punches, kicks and cuts. There has also been a 35% decrease in weapons carried during robberies on the same point last year (41 vs 63). Included within this figure, the number of blades being carried has seen a 55% reduction (17 vs 38). Security equipment that has been installed to tackle branch robberies in higher risk branches is clearly having a positive impact with a number of foiled incidents to date (see Report for additional information).

Post Office CViT robberies are showing an overall 15% decrease, (11 vs 13), and £111k losses (18/19) vs £221k losses (17/18). Chester CViT has experienced 6 (55%) of 11 crimes, however, we are beginning to see positive results as mitigation is stepped up.

ATM attacks are currently showing an overall 88% increase year on year, (15 vs 8). We have developed an ATM risk model, based on similar underlying trends and analysis as the Burglary and Robbery Risk model, showing 707 of 2545 as high risk. Various

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discussions are taking place to consider options such as glue, dye, foam and pyrotechnics along with new anchoring plate technology to tackle the recent brute force attacks. Temporary IP cameras with automatic aggression detection in response to abuse and aggressive behaviour will be made on a case by case basis going forward. Engagement with the wider community is already progressing with the BRC, and we will widen this to BSIA. To mitigate risk further, we have approved £3m spend on rolling fogging and IP cameras out to 1200 high risk branches.

Whilst formal feedback received from the HSL audit was good, a number of areas can still be strengthened. An action plan has been developed covering 6 main areas ie. H&S competence across the business, online training tools, recognition and visibility through 121s, a hearts and minds safety culture and greater awareness of the harassment by customer policy and support. 20 sub actions have been agreed and will be tracked to conclusion by Safety Board with 33% completed to date and all completed by year end.

There has been a decrease in accidents reported in October P7 (4), 1 incident in DMBs and 3 in Supply Chain, with no new lost time incidents reported. There has been a 28% reduction in accidents reported YTD to P7 (Oct) compared to 2017/18 (50 v 69) mainly due to a 43% decrease in Supply Chain (23 v 40 YTD). Accidents per 1000 employees have reduced by 25% with Supply Chain reducing to 28 from 49 (-43%). Lost time accidents have also reduced and the P7 YTD LTIFR is 0.143 v 0.260 in 2017/18. Total lost days are 110 compared to 331 in 17/18, a reduction of 67%.

The Supply Chain safety plan is progressing well with the introduction of safety champions, safety forums, a review of local risk assessments and safe systems of work. External IOSH training courses have been completed. Health & Safety training workshops are being provided to Network Operations teams in November and progressed across the business.

We are beginning to see further improvement and reduction of road risk through the introduction in Telemetry in Supply Chain. The Road Risk Policy has been approved by Safety Board and we will work to strengthen a number of areas including driver safety training, guidance on how to alleviate fatigue whilst driving and the introduction of Alcolock (breathalyser integration with key management).

The overall risk for property statutory compliance remains low at 96.28%. The external Fire Risk Assessment inspections have been completed for 2018 with over 90% actions closed out and therefore the risk profile has reduced significantly. We have confirmed our signage inspection policy meets the national signage consortium best practices. We have also confirmed POL are liable to inspect c.3800 local agency signs, mainly low risk lozenges. This will commence 18/19 starting with signs over 3 years old and those located in harsh weather areas. 98.67% waste was diverted from landfill in September.

Input Sought

The Group Executive are requested to note the current health safety performance and content of this report and input to discussion at the meeting.

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Report

Our current risk modelling identifies 1200 branches at high risk from Burglary and Robbery and 707 ATM's at high risk from Gas Attack or Ram Raid. So far this year 22% of Robberies have occurred in these identified branches and 67% of ATM crime has occurred in the identified branches. Given the difficulty in identifying future criminal attacks, we can be confident that our statistical modelling is as accurate as we can make it at this time. There are c.1200 high risk branches in the network (accounting for around 10%) and around 200 branches move between medium and high risk in any given year. It was a concern that the level of violence increased in August P5 and the presence of firearms (not discharged) has also increased, however, incidents returned to normal levels in September P6.

Mitigation included drafting an article on Security Ops Manual, 36 Torch visits conducted in numerous areas, many at branches in close proximity to robbery targets. There were 16 DMB visits undertaken and full security reviews incorporated, meetings held with Staffordshire and Hampshire Police to discuss closer links and future strategies. Security presentations were delivered at regional NFSP meetings and to franchise partners.

Post Office CViT robberies are currently showing an overall 15% decrease, 11 incidents (2018/19) vs 13 (2017/18) last year, and £111k losses (2018/19) vs £221k losses (2017/18). 6 Chester (£71k), 4 Birmingham (£30k), 1 Manchester (£10k). 1 reported injury (bruising), no injuries caused by weapons. There was zero CViT incidents reported in Sep and no incidents in October. There were no incidents of violence nor injuries reported.

Current mitigating activity:

- Work well underway to deliver Crimestoppers campaign in October in West Midlands following a number of CViT (and branch) robberies during the calendar year.
- Police meeting with Police Scotland at Glasgow Depot included walk through for greater clarity and understanding of operation.
- 204 Cross Pavement Observations (CPOs) undertaken by Security Managers during period, including 34 on Merseyside by local Security Manager.
- Security Manager also working closely with Merseyside Police to cover off as many deliveries in high risk areas as possible between them at present.
- Working to ensure most up to date equipment is deployed as quickly and comprehensively as possible on high risk Liverpool routes.

ATM attacks at period 6, Sept 18/19, are currently showing an overall 88% increase, 15 (2018/19) vs 8 (2017/18). We have developed an ATM Risk model, based on similar underlying trends and analysis as the Burglary and Robbery Risk model, showing 707 of 2545 as high risk. Currently 67% of all ATM crime this year has occurred in the high risk bracket. The chance of a crime occurring in this bracket is 2.8% compared to 0.7% in the medium risk bracket. There was also an attempted ATM gas attack where the suppression system prevented any build-up of gas. The 3G and Pinhole cameras have also resulted in 3 arrests to date.

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The Next Six Months

Further planning for upgrades has been undertaken, branches have been profiled and a roll out plan prepared. There have been a number of successes following installation of mitigating upgrade equipment. For example, of the 90 fogging kits installed in 2017/18, only one branch suffered a robbery which was prevented when the fog was activated by the post master. To mitigate risk further, we have approved £3m spend on rolling fogging and IP cameras out to 1200 high risk branches.

- The fogging and IP camera upgrade programme will improve the outlook against violence and robbery against Post Office. The programme will start Nov 18 with an install rate of between 30 and 40 per week reaching 1200 when completed.
- Additional budget has also been requested to respond to risk profile changes. BAU installs will also continue as part of post-robbery events.
- The security team continue to engage the British Retail Consortium, and have attended a recent retailer crime event. Input has been provided to help shape the 2018 BRC Annual Security Survey by the Physical Security team.

ATM

ATM incidents are becoming the next major problem, with almost double the level of attacks over the previous year. A newly developed ATM Risk model has enabled a more accurate measure of those deemed to be higher risk, 707 from 2545 ATM's.

Various discussions are currently taking place to consider options such as glue, dye, foam and pyrotechnics, along with new anchoring plate technology to support the recent brute force attacks. The Police and Safercash both report a national increase in ram raids against retail and ATMs because they believe criminals will receive a far less sentence than gas attacks and being non-person facing, it is tantamount to theft. There is anecdotal suggestion, CVIT criminals are testing the ATM arena for this very reason.

CVIT

Whilst CVIT crime at periods 6 and 7 appears to be on a positive turn, work will continue mitigating against existing threats. The security team will engage further with BSIA over the forthcoming months. There is currently a programme to obtain 100 more bodycams, and as with ATM's, there is work ongoing to investigate new technologies to destroy the cash beyond the existing ink technologies. A number of initiatives have been agreed for Chester CVIT, following the recent increase in violence, including CVIT vehicles 'wrapped' to identify live streaming, Ibox construction review including means of destruction, hot spot area route changes and the Serious Crime Group NW Police to attend Chester to address crew and management. We are scoping a man guarding initiative in the Liverpool area. 4 escorts will be used across two routes at cost of £28k.

ABUSE & AGGRESSIVE BEHAVIOUR

A process is now in place to tackle abuse and aggressive behaviour. Volumes remain static, and analysis of the past year show no repeat branches. Rather than install a temporary IP Camera with aggression detection based on 2 or more incidents in a 6

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week period (which would have meant zero installs to date), Grapevine will make a judgement on each and every incident.

Crime Profiling and Intervention

POL utilises risk models and crime mapping already provided under KIS (Kings Intelligence Services). There is a minimum security equipment standard for every branch format. Ordinarily, these will include safes, safe time locks, monitored alarms and cash funding units (if open plan), as a minimum. The table below highlights a number of the security equipment upgrades either as preventative, or upgrades following an incident to prevent a repeat attack.

	Fogging	IP Camera	Pinhole Camera	3G Camera	Gas Suppress	Tracker	DNA Packs	DNA Spray
Robbery	98	39						370
H Risk	98	13						169
M Risk	0	26						199
L Risk	0	0						2
Burglary	193							
H Risk	134							
M Risk	59							
L Risk	0							
ATM			30	46	13	10	103	17
H Risk			24	23	11	5	76	9
M Risk			6	23	2	5	27	8
L Risk			0	0	0	0	0	0

(Note: H Risk = High Risk, M Risk = Medium Risk, L Risk = Low Risk)



	Body Cam	Vehicle CCTV streaming	IBox Trackers
Robbery			
Chester	5	6	12
Birmingham	5	11	8
Manchester	7	7	
Hemel	5		

Further planning for upgrades has been undertaken, branches have been profiled and a roll out plan prepared. There have been a number of successes following installation of mitigating upgrade equipment. For example, of the 90 fogging kits installed in 2017/18, only one branch suffered a robbery which was prevented when the fog was activated by the post master.

Whilst CVIT crime at periods 6 and 7 appears to be on a positive turn, work will continue mitigating against existing threats. The security team will engage further with BSIA over the forth coming months.

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POST OFFICE LIMITED
GROUP EXECUTIVEPAGE 1 OF 4
DECISION PAPER

Digidentity contract extension

Sponsor: Martin Edwards

Authors: Martin Edwards, Chris Hoyle

Meeting date: 12th November 2018

Executive Summary

Context

Our current contract with Digidentity is due to expire at the end of the November, but we have the option of up to two further 12-month extensions to maintain continuity of our Verify service and enable a rapid route to market for delivering our broader digital identity MVP.

Questions addressed in this report

1. What do we propose to do with Digidentity in the short term?
2. How will we review our medium-term supplier options for digital identity?
3. What are the key broader developments in Identity Services since the GE update last month?

Conclusions

1. Digidentity has been a strong partner for the Post Office to date, delivering the market leading technical solution under Verify with the best conversion rates. We successfully re-negotiated our payments to them last month to maintain favourable margins for the Post Office in response to the reduced pricing from Government. They also have the technical capabilities required to deliver the MVP for our proposed new digital identity product. For these reasons we recommend extending the Digidentity contract for a further 12 months. In practice there are no other credible options in the short term.
2. However, we also propose to undertake a wider market engagement exercise early in 2019 to ensure that we have the right technology supply chain in place to support our long-term ambitions in identity, procured through a PCR compliant mechanism.
3. A brief update on our wider product development and client engagement activities is set out at the end of this paper.

Input requested

The GE is asked to approve a further 12-month extension with Digidentity, which will be subject to Board sign-off as the contract value is above £5m.

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The Report

Digidentity contract extension

1. Digidentity have been delivering our Verify service since March 2016. The initial contract term expired in November 2017, but we have the discretion to extend for three 12-month periods up to 30 November 2020. We are now approaching the end of the first of these 12-month extensions.
2. The Contract Change Note (CCN) we signed with Cabinet Office last month extends our Verify service to 23 March 2020. While as explained below we propose to engage the market next year to assess alternative supplier options, to maintain continuity of our service in the short term we recommend that we invoke the next 12-month extension with Digidentity to 30 November 2019. They have been a strong partner to us over the last 3 years, consistently helping us to deliver the best conversion rates of all the 7 Verify providers (beating identity specialists like Experian and GBG). Moreover, we successfully negotiated new pricing with them last month which enables us to maintain a 29% average gross margin against the significantly reduced pricing from Government. Informal testing with potential alternative suppliers confirmed that they would be unable to improve on these terms. There is therefore no obvious reason to seek to migrate to another supplier at this stage.
3. This extension will be on largely the same terms as the existing contract, with the exception that we are also seeking to flow down some new liabilities to Digidentity. The new contract with Cabinet Office signed last month provides the flexibility for us to use Verify identities with private sector clients. However, alongside this new flexibility the Cabinet Office has introduced an unlimited indemnity to cover any losses to Government arising from a breach of our obligations under these new terms.
4. We are therefore seeking to flow down these indemnities and other associated restrictions as part of the contract extension with Digidentity. At the time of writing discussions are still ongoing but are progressing constructively and we are therefore anticipating a satisfactory outcome.
5. Pinsent Masons will prepare a risk note on the extension once these discussions are finalised, which we will share with Jane. It should be noted that the original contract with Digidentity was awarded following a competitive but non-compliant tendering process, although the risk of a challenge under PCR was assessed to be low when we extended the contract a year ago. Furthermore, we will seek to mitigate this risk in the way we approach the market engagement exercise proposed for next year (explained below).
6. As the anticipated contract value over the next 12 months is £5.9m (based on current Verify forecasts), the extension will require Board approval.

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7. As discussed with Investment Committee and GE last month, we will also be using Digidentity to deliver the MVP for our broader digital identity product beyond Verify, which is targeted for launch in Q1 of 2019/20. The anticipated build costs for this are around £1.5m, including the development of APIs which will enable other Customer Hub apps and other Post Office channels to consume identity services from Digidentity's backend. We will negotiate a separate change notice to the main Digidentity contract to cover this work, once the first stage of joint planning work has been completed during November.

Reviewing our medium-term supplier options

8. While Digidentity remain a strong partner to support our near term priorities in digital identity, over the medium term (2020 and beyond) there are a range of credible alternative suppliers we could use, particularly if we are prepared to disaggregate the fully managed service they provide (which integrates all of the required capabilities such as authentication, identity proofing, secure data storage and customer support). This would require us to establish a new SI capability, most likely through a partner, capable of bringing together multiple providers for each sub-component. The advantage of such an approach is that it would provide us with greater flexibility to access best-in-class technologies, together with reduced dependence on a sole supplier. The potential downside is that it may come with increased cost (both set-up and run) and integration risks.
9. Given the technology landscape for identity has evolved significantly since Digidentity was selected in 2015, and our ambitions are also expanding beyond Verify, we believe the time is right to conduct a review of these alternative options and suppliers. This process will be jointly sponsored by Martin, Rob and Jeff, to ensure appropriate alignment to the wider Group IT strategy and to ensure that any new platform can also meet the identity requirements for Post Office's own products and services.
10. Given other priorities before Christmas we propose to conduct the majority of this review early in the new year, reaching recommendations on the way forwards by March following engagement with the market. At this stage we are assuming that we will then need to commence a full OJEU process, although we are assessing the suitability of existing frameworks such as Digital Outcomes and Specialists (DOS). We will also maintain a dialogue with the Project LEO team on the procurement implications of the proposed corporate restructuring.
11. We will require some additional technical support to conduct this review, the funding request for which will be taken through CAG.

Update on other developments

12. Since the last GE update 3 weeks ago we have continued to progress our product development plans and engage with prospective new clients and partners for digital identity. Key highlights are set out below.

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13. Our new Digital Check & Send (DC&S) service for adult passport renewals was rolled out to all 725 AEI branches on 29th October. To date we have processed over 3,500 applications with a 98.3% success rate (the failed applications are mostly due to HMPO caseworkers rejecting some photos). This compares very favourably with the c.92% success rate that HMPO achieve with their own online channel, underlining the value of our service to customers. We have a workshop with senior HMPO stakeholders on 13th November to discuss both the extension of DC&S to other application types (such as first-time applicants and child renewals) and our proposed digital identity supported journey.
14. Preparations for the February launch of our International Driving Permits service remain on track. The contract with DVLA was signed last week, which was an important milestone politically for DfT given the NAO's recent criticisms of the Government's Brexit preparations. The service will be launched initially in 2,500 branches, although we would consider extending this to 4,000 branches in the event of a high volume 'no deal' scenario.
15. Following IC funding approval last month work is now underway to develop our new digital identity product to open up the use cases beyond Government. The first phase of UX prototype development will be complete by the third week of November. In parallel we are progressing more detailed joint planning with Digidentity for the build phase, with the aim of being ready to launch the first iteration of the new product by the start of the new financial year followed by further releases over the subsequent months.
16. The first two revenue-generating use cases targeted for the new product are passport applications and employment vetting. The latter will be supported through a channel partnership with GBG (who already have a significant presence in this market), with detailed technical and commercial discussions planned during the second half of November. We are also engaging directly with prospective clients such as Uber and the NHS to inform the development of the vetting product, and are working with Sean Leahy and David Gemmell to agree how this will be integrated into the Post Office's own vetting processes from early 2019/20.
17. We are meeting with the Treasury and FCA this week to discuss how our digital identity product can be used to meet banks' AML requirements. We will be pressing the case to ensure that Verify grade identities are explicitly recognised in the UK implementation of the 5th Money Laundering Directive (due by the end of 2019) and will also be asking for their support to progress some pilot projects with engaged banks (such as HSBC) prior to that regulatory change.
18. Discussions are also continuing with MasterCard about the potential for us to be the first UK partner for their planned launch of a global digital identity scheme. Our next working session with them is scheduled for the afternoon of 12th November and so will provide an update to the GE after that.

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GROUP EXECUTIVE

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PCI Compliance

Author: Ian Robertson

Sponsor: Rob Houghton / Debbie Smith

Meeting date: 12 November 2018

Executive Summary

Context

1. Post Office has been unable to obtain Payment Card Industry (PCI) compliance.
2. Without a Record of Compliance (RoC) Post Office is in breach of contractual arrangements with banking and payment partners.
3. In the event of a data breach Post Office would be subject to regulatory investigation and significant financial penalties.
4. There is a risk of severe reputational damage to our brand if a breach occurred.
5. There is therefore a clear imperative for Post Office to be PCI compliant as the ability to process card payment is at the core of our retail business.

Questions addressed in this report

6. What is the need or opportunity and why now?
7. What do we propose to do and why?
8. What do we need to do next to progress?

Conclusion

9. The PO PCI-DSS estate is increasing in complexity over time (the Post Office Data Gateway (PODG) is now in scope, Customer Hub and Panther), although some of these will be covered by separate certifications, not linked with our current PCI-DSS audit. This adds to the complexity of achieving RoC status, with Fujitsu, in particular, struggling to keep up with this increasingly complex scope.
10. PO have been working through a methodical approach of considering a number of tactical and strategic options to understand how best to achieve RoC status in the most expedient manner (See Appendix 2).
11. The current status of working through the above options indicate:
 - a. Option 1 (pursue gaining compliance via legal/commercial mechanisms swiftly) is highly unlikely to succeed.
 - b. Option 2 (look to gain a moderated RoC by asking FJ and CC to confirm Attestation of Compliance statements) would cost in the region of £9.5-16.5M and take between 12-18 months to achieve. This is unlikely to succeed in gaining in a swift resolution.
 - c. Option 3 (go to a more strategic encrypted message state either aligned to new devices or using payzone devices) is unlikely to succeed as no new device solutions have entered the market yet and the payzone solution is unproven.

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- d. Option 4 (move to an encrypted design and updating the existing pinpad estate) would cost in the region of £8-10M and could be completed in 9-15 months. This currently looks the most likely option to guarantee achieving RoC status in the medium term but has the disadvantage of having to replace the pinpad estate within 4 years due to obsolescence.
12. Based on current analysis, it is recommended that Option 4 is progressed starting with the smaller counters. We will continue to monitor the progress made on the strategic approach and regularly review the possibility of moving to the new solution. The advantage with options 3 and 4 is that they reduce our exposure on relying on our suppliers to maintain our PCI-DSS certification.
 13. We will continue to ensure all new solutions are RoC compliant and aligned with the strategic direction of not holding card data on devices (e.g. Customer Hub has achieved RoC status).
 14. The next steps are to: -
 - e. Obtain funding approval for £2.175 Million to initiate the project.
 - f. Submit Change Requests to FJ and CC to obtain detailed costs for refreshing the current PIN Pads, enabling P2PE, and updating the Horizon infrastructure.
 - g. Return circa 2,000 PIN Pads from the existing spares pool to Ingenico to kick off the refurbishment process.
 - h. Test and then deploy PIN Pads to smaller branches and kick off the productionised refresh process
 - i. Build and test the revisions to the Horizon Infrastructure.
 15. Whilst Point-to-Point encryption is delivered, we will continue to discuss the future, strategic options with our vendors, including Ingenico. With Ingenico, the aim will be to explore if they would be willing to offset the cost of the Point-to-Point rollout against a future strategic device purchase.

Input Sought

16.The Group Executive is asked to: -

- (i) Approve the approach to compliance with PCI-DSS and the business case pertaining to Option 4: move to an encrypted design and update the existing pin pad estate;
- (ii) Recommend the funding request of £10.821m over three years as set out in the business case for onward submission to the Board subject to prior CAG and Investment Committee approval; and
- (iii) Request the Board to delegate authority to the CE, Retail to oversee operational deployment and approve drawdowns.

Input Received

17.The options have been reviewed by:-

- (i) The IT Leadership Team
- (ii) Post Office's in-house legal team endorsed by our external legal team.
- (iii) The third party compliance resource
- (iv) Our external Qualified Security Assessor (QSA)
- (v) Options were reviewed at ARC and proposed recommended option endorsed.
- (vi) CAG review was on the 6th of November and conditional approval given.
- (vii) This business case is being circulated for formal approval prior to GE on the 12th.
- (viii) GE submission will be for 12th November.
- (ix) IC submission is scheduled for 15th November

The Report

What is the need or opportunity and why now?

- 18.The latest version of the PCI Standard includes updated and much more detailed guidance that mandates how an audit is carried out. As a result the QSAs that audit businesses are becoming more forensic in their approach. The company that carried out the audit in 2017 discovered that the Post Office PCI scope was significantly larger than had been declared.
- 19.Our QSA identified that CC's Data centres were now in scope as HNGA is supplied and managed by CC. Although there is a contractual obligation for CC to be PCI compliant on our behalf the requirement has not been met.
- 20.Closer scrutiny of FJ's estate identified multiple systems that are in-scope which had not previously been audited.
- 21.The most effective way to obtain a RoC is to move as much of the estate out of Scope of PCI and this can be achieved by having Point to Point Encryption and Network Segmentation as this removes all of CC's data Centres and much of the Horizon Network from the scope allowing us to securely manage a smaller estate with very robust controls.
- 22.As well as the Acquiring Bank being directly informed of our current status we are now receiving enquiries from other payment services customers and banks about

the current status of Post Office's RoC. We are currently informing those concerned that we have a secure private network but are not currently compliant.

23. Post Office must progress obtaining a RoC in as short a time as is reasonably possible in order to meet our contractual commitments and protect our business.

What do we propose to do and why?

The proposal

24. The proposal is to update the existing PIN Pads to a version which supports P2PE and roll these out to the branch estate. The existing Branch Deployment Centre will be retained although as a smaller unit, to manage the appointments and ByBox will be engaged through CC to deliver the refreshed PIN Pads under Chain of Custody to the estate.
25. Fujitsu will update the Horizon infrastructure so that the P2PE tunnel terminates with Ingenico and they will forward all requests for payments to Global Pay returning a token and authorisation to the branch terminal allowing us to track the payments.
26. Ingenico will pass Banking Framework Services, POCA transactions, and third party payment services transactions back to Fujitsu through a secure tunnel. FJ will segment the Horizon network and contain the servers that remain in scope for PCI in a secure hosting environment.
27. Client Contract Review
- a. Our external counsel, CMS, has completed a legal review of all the major POL client contracts to identify specific statements that make express or implied obligations to be PCI compliant.
 - b. A cross-functional Working Group, which includes CMS, has been formed. The remit of the Working Group is to liaise with our internal client relationship owners and to manage the communications with our clients - ensuring that all communications regarding our PCI compliance status are handled in a consistent, appropriate and timely manner.
28. Whilst Point-to-Point encryption is delivered, we will continue to discuss the future, strategic options with our vendors, including Ingenico. With Ingenico, the aim will be to explore if they would be willing to offset the cost of the Point-to-Point rollout against a future strategic device purchase.

The business case

29. Post Office is required to ensure it is routinely operating in a compliant state in order to maintain revenue.
30. We need to work with customers and we need to be part of a PCI compliant chain with our business partners.

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FUNDING OVERVIEW

£m	Existing Approval		New Request			Total New Request	Total Project
	Prior Years	FY18/19	Total Approved	FY18/19	FY19/20		
Opex	0.000	0.000	0.000	0.054	0.334	0.334	0.722
Exceptional	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capex	0.000	0.000	0.000	2.120	7.978	0.000	10.099
Total Funding	0.000	0.000	0.000	2.175	8.312	0.334	10.821

BUSINESS CASE FINANCIALS

£m	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	0.000							
Cost of Sales		0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total Direct Contribution	0.000							
Operating Expenses (OpEx)	0.000	0.054	0.334	0.334	0.334	0.334	0.334	1.724
Trading Profit	0.000	0.054	0.334	0.334	0.334	0.334	0.334	1.724
Trading Profit [%]	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capital Expenditure (CapEx)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Exceptional	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Net Cash Flow	0.000	0.054	0.334	0.334	0.334	0.334	0.334	1.724

	With Intangible benefits	With tangible benefits
Discount Rate [%]	12.0%	12.0%
NPV / Net Present Value (5 years)	1.3	1.3
IRR / Internal Rate of Return [%]	N/A	N/A
PBP / Payback Period [years]	1.0	7.2

Risks & mitigations

31. The primary risks are:

- a. Our clients reject our mitigation plan, seek greater indemnity protection, or worse case, terminate/sue for breach of contract. The risk as low and an extensive Comms program in place to keep clients informed of our progress
- b. Post Office is subject to a data breach. The mitigation is that we are actively reviewing our network security and carrying out BAU activity to ensure we meet Industry Best Practice security standards.
- c. Ingenico are unable to refurbish the PIN Pads at a rate commensurate with our rollout schedule. The mitigation is that we will send as many of our spares pool as are available to start building a buffer stock and liaise with Ingenico to ramp up production.

What do we need to do next to progress?

What is required to progress the preferred option?

32. The following steps are required: -

- c. Engage with FJ to review detailed plan and approach and re-validate proposals.
- d. Establish Ingenico's capacity to refurbish PIN Pads and engage ByBox to prepare a distribution plan

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- e. Raise a change request to CC to deploy the PIN Pads (via ByBox at cost plus agreed margin)
- f. Engage with FJ to start segmentation of the network and updating the systems to provide tokenised transaction data.

What resources are required? Will any further approvals be required?

33. Please see appendix 3.

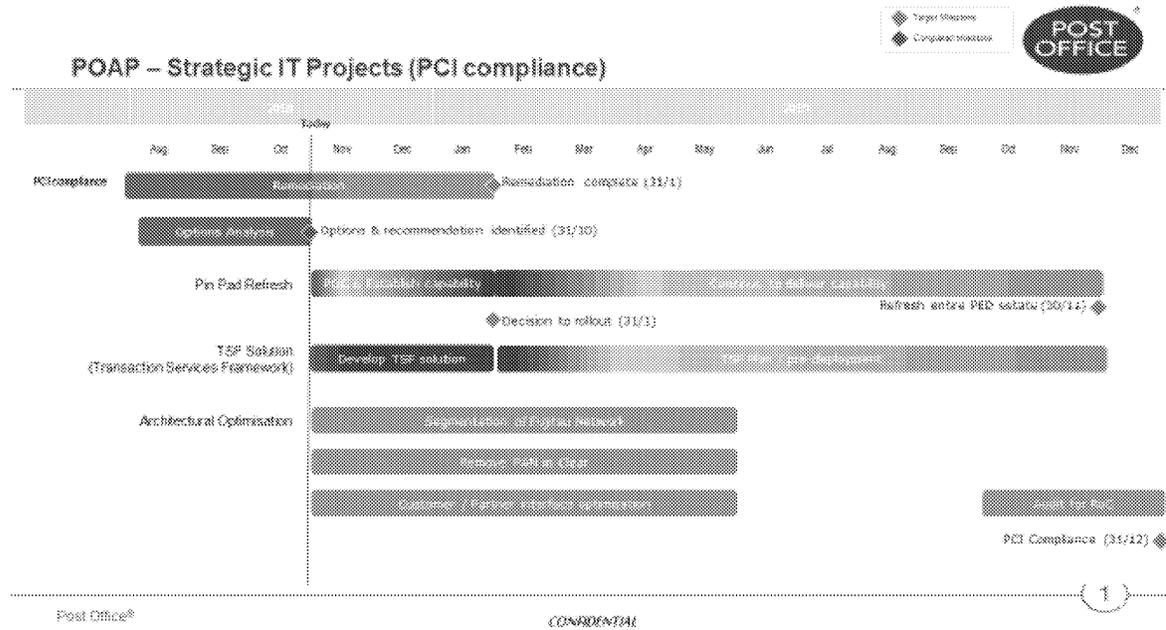
What would the impact be of delaying or rejecting the decision to progress?

34. Post Office would be at risk of increased transaction charges or lose the ability to transact card payments to the detriment of our business.

Appendix

1. Appendix item 1 – Plan on a Page
2. Appendix item 2 – Options Considered
3. Appendix item 3 – Resource requirements
4. Appendix item 4 – Org Chart

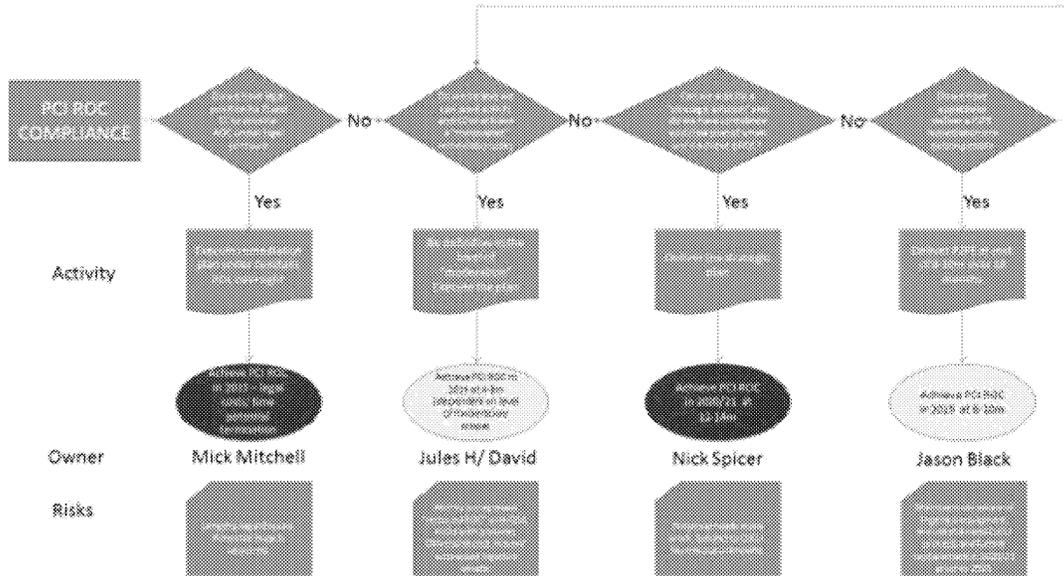
1. Plan on a Page



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2. Options Considered



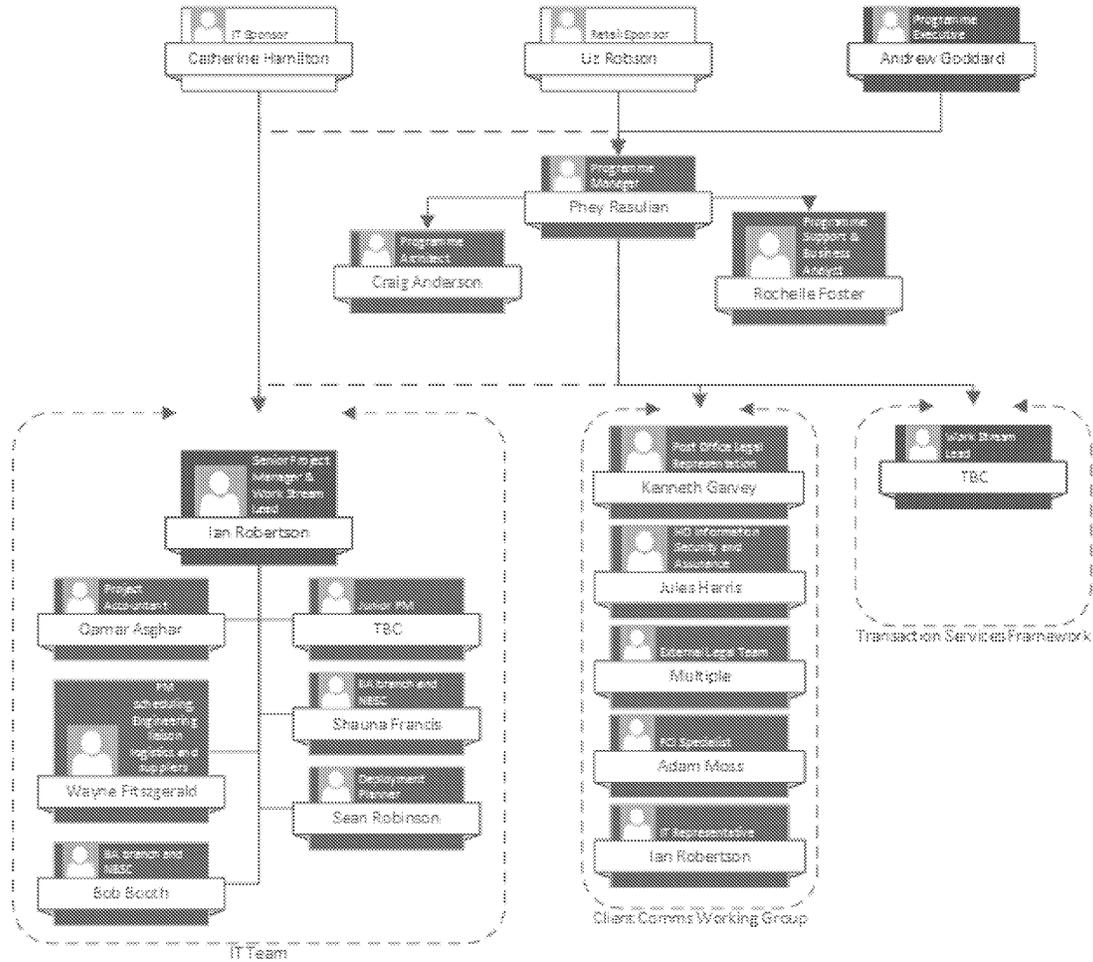
3. Resource requirements

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Title	Name	FTE
PM	Ian Robertson	FT
Junior PM	TBC	FT
PMO	Shauna Francis	FT
	Wayne Fitzgerald	FT
		FT
BDC	3 x call centre resources	FT
		FT
		FT
Project Architect	Bob Booth	PT
Project Accountant	Qamar Asghar	PT
Contracts Manager (1)	Isabel Christophers	0.2
Contracts Manager (2)	Gareth Coles	0.2
ATOS Resource	James Brett (Atos)	
Programme Director	Catherine Hamilton	0.2
Project Planner	Sean Robinson	0.2

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4. Org Chart





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POST OFFICE LIMITED GROUP EXECUTIVE

Minutes of a meeting held at
Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
On 17 October 2018 at 9.30 am

Present:

Paula Vennells (Chair) (PV)	Chief Executive
Alisdair Cameron (AC)	Chief Financial and Operating Officer
Mark Davies (MD)	Group Director of Communications, Brand and Corporate Affairs
Mo Kang (MK)	Group HR Director
Rob Houghton (RH)	Chief Information Officer
Jane MacLeod (JM)	Group Director Legal, Risk and Governance
Debbie Smith (DS)	CEO – Retail
Owen Woodley (OW)	CEO – Financial Services & Telecoms

In Attendance:

Veronica Branton (VB)	Head of Secretariat
Cem Oztoprak (CO)	Head of Business Performance (item 1 to 3)
Cathy Mayor (CM)	Finance Director – Retail (item 4)
David Gemmell (DG)	Programme Director – LRG and HR Change Portfolio (item 5)
Tom Moran (TM)	Network Development Director (item 6)
Tracy Marshall (TrM)	Programme Manager – DMB (item 6)
Martin Edwards (ME)	MD – Digital Identity (item 8)
Elinor Hull (EH)	Chief Operation Officer - Digital Identity (item 8)
Brian Kelly (BK)	Finance Director – Digital Identity (item 8)
Emma Springham (ES)	Chief Marketing Officer (item 9)
Chrysanthy Pispinis (CP)	Director – PO Money (item 10)

Apologies: None

1. Performance – Financial Results & Review of Business Scorecard**Action**

- a) Al Cameron and Cem Oztoprak introduced the report and highlighted a number of issues:
- the P6 results had been strong overall with a £0.4 m trading profit upside, driven predominantly by Mails. POca and lottery figures were also ahead of plan. PO Insurance was running behind plan. Verify was significantly ahead of plan but the fee cut would feed through from next month. Non staff costs were significantly under in the month, partly driven by closing down a number of old purchase orders. Branch numbers were better than expected. The position with cash had been challenging during the period
 - The 6 + 6 plan figures were estimating a trading profit of around £51 m (including a reserve of £1 m against the PO Insurance plan). The growth plan and Christmas trading could affect these figures by a few million pounds.
- b) A number of points were raised, including:
- Network numbers. Should 66 above target be amber rather than green?
 - PO Insurance – we were through the peak travel period and there was less risk of our underperforming against plan for the next period. PV requested a realistic assessment of the insurance opportunities for the rest of the financial year
 - TelCo – customer numbers had been below target for some time
 - Whether we should focus on the 6 + 6 figures at Board rather than retail performance?

OW**2. UKGI Quarterly Report (6+6 Change Forecast Review)**

- a) AC reported that CO had circulated the latest version of the 6 + 6 change forecast the previous evening. More had been spent on projects but the benefits from these had reduced. We had spent money on fixing the infrastructure (DMB franchising. Back office transformation). It was noted that the Mails commercial

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project had only ever been a place holder as we knew that we would have to look to market circumstances, including our deal with RM, and there had been no trigger for us to proceed.

RH and AI had a meeting with UKGI on 18 October 2018 to go through change spend, explaining each of the projects.

- b) A number of points were raised, including:
- that while we were unlikely to get significant benefits coming through from the Travel app for some time we had to develop a digital offering to remain relevant. We were re-cutting the Customer Hub business case but some of the other verticals would be a lot more difficult to deliver. It was noted that this fed into the McKinsey work on the future shape of the organisation. We were in an unusual position because some of our customer initiatives should be coming from our core partners
 - that there was no placeholder for what we wanted to do with the mails strategy during the next period
 - we needed to work on our translation from Strategy into deliverable benefits
 - we were making a huge investment in the network and would need to look at the long-term shape of the network after banks have closed and cash requirements were diminishing.
- c) GE approved the submission of the paper to the Board subject to any changes which needed to be made following the meeting with UKGI.

3. 2019/20 Financial Planning

- a) AC introduced the 2019/20 Financial Planning discussion and the slide deck to accompany this:
- Slide 5 – we had received Government funding to invest in our infrastructure. This had been a once in a generation shift and that investment funding was nearing an end. The Network subsidy funding ought to continue at a rate of around £50m a year. The business had to deliver trading profits that would turn into cash flow
 - Slide 6 – set out how we said we would achieve our ambition to deliver increased trading profits. There had been areas with significantly higher returns (e.g. the banking framework) and others significantly lower (e.g. insurance). We had said we would take £30 m out of staff costs. We were broadly on-track to deliver our plan but the pattern and picture were different. This illustrated that we were in a very fast moving environment and our plans would adapt and change
 - Slide 7 – sets out our £66m trading profit target for 2019/2020
 - We were re-thinking our approach to the simplification of pay for agents because some cannot reduce their cost base. Pay would be reduced if there was a strategic change that led to a significant reduction in the time required from an agent but not reductions on a piecemeal basis. Agents had to be able to realise the benefits of simplification
 - Mails income would reduce at some point. Our projections were based on what we were seeing in the market
 - Slide 11 showed that the budget had been different to the 3 year plan
 - Slide 12 illustrated that change spend was a mechanism to deliver trading benefits and that we had invested in areas that were delivering profit. £40m of this year's profit has been delivered by change budgets
 - Slide 13 showed a list of benefits from next year's programmes but was not compelling and needed to be reviewed. Some of items were incremental BAU rather than change. We needed real focus on where we wanted to spend our change money given our limited investment funds. It was **AGREED** that this slide for Board needed to show top five things we were going to do
 - we had been borrowing out of the working capital facility but would not be able to continue doing so because we risked running out of headroom. We needed to prioritise more as we would have less to spend. Our surplus will then go into the working cash facility
 - there was a gap of broadly £20m at the moment. We needed to look again at the cost base and the Finance Directors were working on ways of taking cost out of the business. A project on failure demand had been initiated
 - Slide 20 set out the timetable. There would be a GE discussion in December 2018 and an initial discussion at the January 2019 Board meeting. The process was drawn out and there was a risk that the situation would have changed significantly in that time period. There would be hard choices to make

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To do:
AC/ CO



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and there was no point playing games with budgets; however, £66 m EBITDA was still viewed as achievable for 2019/20

- we would consider investment prioritisation in January 2019
- CO would issue the targets as early as possible and then get GE feedback on what the exceptions would be.

b) A number of points were raised, including:

- whether the PO Insurance Board was monitoring the delivery of the Insurance Plan. OW reported that there had been a discussion about whether the plan was deliverable. PV requested a piece of work to provide a balanced view of where we were against the plan and what realistic figures were for the end of the financial year as there appeared to be a disconnect between the original plan and our current position
- that BAU costs should be included in BAU, not in change
- the review MK was leading on capability and structure was discussed. There were a large number of people in our support functions and over 600 people in London (n.b. many of these were change contractors). There was a longer term issue about numbers and locations. We needed to consider where there was scope to automate work and where it could be moved online. We also needed to consider whether we were doing too much staff training at one time. There was a mixture of short and long term issues. We were not setting a cost reduction target but did need to monitor head count issues to reduce our costs in the short term. MK and AC would be producing a strawman including the controls for next year's budget. We also needed to avoid being overly reliant on consultants. More attention would also need to be paid to non-staff costs. A single structure for communications with branches was going to be introduced next year. MK reported that he was getting a group together to look at our current structure and identify some "quick wins". The longer term piece of work also needed to start and GE would be considering the first outputs from McKinsey on 5 November 2018. GE would need to discuss this work at some point in November.
- what could we do differently to drive performance? It was agreed that keeping costs under control would be a clear focus but we could also drive performance through the marketing plan. It was agreed that Emma Springham should be invited to attend a slot at GE once a quarter and as part of that, DS and OW would feed in the initiatives taking place in their areas (e.g. pricing, benefits coming through from change activity). GE would not expect a paper to be produced for these sessions but would ask the key people to come in and talk us through the plans. CO could also pull together a slide for the financial performance report summarising sales increases in product areas and the drivers for these. These initiatives would also be good topics for the Leadership huddles.

OW

To do:
OW/
DS/ VBTo do:
AC/CO

4. Performance Report - Retail

a) Cathy Mayor joined the meeting, introduced the paper and invited questions. Agents' pay and trading figures had increased.

b) A number of points were raised, including:

- Payzone's performance to date. It was reported that performance was broadly on track. Work on the day 1 plan had intensified over the past few weeks and confirmation of the CMA approval was expected on 19 October 2018. The first day for NewCo was likely to be 25 October 2018 but a SteerCo was taking place next week to look at operational due diligence
- it would be helpful to see the split between retail products as network sessions were reported to be falling year-on-year. It was reported that we also wanted to get better data for different geographical areas
- we would need to revisit the wider high street / retail environment in the November Retail Strategy session
- the report looked at retail as a distribution channel but did not cover insurance as a distribution channel. It was agreed that joint quarterly reviews for Retail and FS&T would be produced from January 2019 and for Board meetings in-between we would update on areas of current concern and focus
- the customer satisfaction figures remained very high and we had included incentives for customer service in our agreement with WHSmith. An explanation of how the voice of the customer figures were compiled was requested.

To do:
DS/OW

CM/ DS

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c) GE approved the submission of the paper to the Board.

5) **Legal Enterprise Optimisation (LEO)**

- a) David Gemmell joined the meeting and JM introduced the paper. A number of issues were highlighted:
- the proposal to create a HoldCo was to support the financial services strategy. We would need to set up Peregrine entities and PO Insurance entities up as sister companies to HoldCo
 - a significant amount of work had taken place to look at the implications of changing the corporate structure and whether there were any “red lines”
 - a timetable was included and sectioned into phases
 - the establishment of a financial services subsidiary and ServCo were linked to execution of the Peregrine strategy which envisaged PO selling financial services products from a range of providers and not just Bol
 - the next phase of the project was likely to run for 4 to 5 months.

b) A number of points were raised, including:

- that we needed to make sure we did not replicate the POI governance structure and the costs associated with this. We needed to avoid complexity. It was noted that the Reading room included a pro-forma governance structure. Our premise had been that we should only make a change to the current structure where there was an imperative to do so and to make the governance structure as lean and simple as possible. It was requested that we include simplification of POI governance within the LEO project. It was noted that the Articles for subsidiaries would stipulate direction from the group, except where there is a regulatory requirement for the subsidiary to direct
- is this an imperative and do we need to do it now? It was reported that as we began to do more work with other financial service companies the current model would cease to be feasible as agreement would be required from all of the principals. The alternative to setting up subsidiaries would be that PO Limited became regulated by the FCA and/ or that the FCA would not be prepared to regulate PO Limited and would require us to set up subsidiaries. The FCA would not approve an unregulated parent directing a regulated subsidiary. Setting up a HoldCo and subsidiaries was to future proof Post Office and to recognise the timelines for FCA approval of regulated entities. The PO Insurance acquisition and seeking an alternative provider for credit cards were immediate drivers. Our negotiations with potential providers on credit cards could be conducted on the basis of this function sitting in a regulated entity in due course. It was agreed that there was a need to tie the paper back to the events which are occurring
- why could we not have one subsidiary for financial services and insurance? It was reported that it would be more complex to have one subsidiary than two because of the different regulations that applied to insurance and financial services
- the VAT regime needed to be undisturbed and tax losses need to be protected. It was noted that any separate entity we created would not be able to benefit from historic tax losses so we needed to be clear that our financial services strategy took account of this. DG and AC would put time in the diary to discuss the tax and VAT issues fully.

DG/ JM

To do:
DC/ AC

6. **DMB Implementation Strategy (Verbal)**

- a) Tom Moran and Tracy Marshall joined the meeting and provided an overview of the DMB Implementation Strategy:
- the Edgware project would have concluded by Q1. 77 DMBs were going to be exited in 2019/20. Activity was taking place to keep the momentum going, including extending the interim operator approach where a permanent operator could not be identified. An interim operator was running the St Leonards branch so we had been able to test and learn from this experience. Ten interim operators were going to be placed in Q4 and we had had expressions of interest from a number of interim operators.
- b) A number of points were raised, including:
- whether we had thought about making larger deals with a few interim operators? It was reported that there had been discussions but we had not sought to do a deal. One issue for us with interim operators was that we carried the property overheads. We did not view interim operators as a long-term solution and the larger interim providers were unlikely to want to go down the franchise route. Interim

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operators were appointed for up to 18 months but we did have the ability to extend if we had not found a franchisee

- whether we could give the interim operator an incentive to find a permanent franchisee?
- what was needed to accelerate the programme? It was reported that we needed more field team time ring-fenced for DMBs. It was noted that the approach would need to be consistent across all the field teams and we would need to consider how this impacted on the teams' other responsibilities
- that it would be helpful to see the costs and benefits associated with different approaches
- was there an additional option to open our own branches where we needed to? It could be a franchise branch but with our person running it.

It was **AGREED** that a proposal on DMB implementation strategy should be included on the November Board agenda. We wanted to avoid a long-term interim solution.

To do:
DS/TM
/VB

7) Communications

a) Mark Davies introduced the Communications paper and highlighted a number of issues:

- agents and network as well as employees fell within the internal communications remit
- recruitment for a director of internal communications was underway
- we were looking at how to engage with agents in a retail environment with our colleagues in retail
- we needed to be better at news gathering and sharing good news
- our communications for agents and employees need to be distinguished better
- the organisation was not always clear about what it wanted from communications and feedback on this would be helpful.

b) A number of points were raised, including:

- our approach to communicating with agents needed to be radical. We needed to be clear why we were communicating. Too much content which was insufficiently focussed on purpose was unhelpful and sometimes we only needed to land one sentence. The relationship would take years to build and needed to be joined up with the supply chain
- there was general agreement with the messages in the paper, including that there were too many communications. Sometimes the format was old fashioned, sometimes the messages were not read and sometimes our advice was not trusted. We needed more agent to agent advice, more peer to peer learning and development as well as different formats
- that we needed to get "under the skin" of how our colleagues wanted to share/ receive information. It was reported that colleague feedback was being analysed at the moment
- that we were overwhelmed with information at the moment. Agent Portal would be the best way to share information with agents. RH would be happy to come up with some ideas on how we deliver content for colleagues
- that there were too many channels and it was difficult to keep track of where the information had been seen. We needed to be clear what we were using the different channels for
- face-to-face communications remained critical and "huddles" were generally working well.

To do:
RH

8. Digital Identity

a) Martin Edwards, Elinor Hull and Brian Kelly joined the meeting and provided an overview of performance and developments in Digital Identity:

- the performance on Verify had been strong but the price reduction would start to impact the figures. Nevertheless, we expected to be around £1m ahead of plan by year end. RM and GBG had dropped out as Verify providers. Customers needed to positively consent to moving across to the PO platform on Verify so we were thinking about how we could maximise this potential
- Passport office had been pleased with progress on developing a digital passport processing service. We were looking at pricing this service at £9 with a 50/50 revenue share. HMPO was keen to launch this with their own digital platform
- the investment case for the creation of a digital platform and APIs, labelled as an NVP, was approved at the Investment Committee on 16 October 2018

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- the original 3 year plan for digital identity had not factored in the price drop for Verify as we had been advised that this would not apply until later
- Uber had expressed interest in the scope for us to provide them with a digital identity service
- a handout with the top ten partner and client conversations was circulated. It was noted that it often made sense for us to talk to the top tier channel providers. One of these was MasterCard/ Samsung – who wanted to own the back end of the structure and wanted us to provide the service to them exclusively within this market. Further discussion would be needed, especially on the exclusivity point. A quid pro quo could be a requirement for them to get rapid traction in the UK market. However, we were not close to making a recommendation and issues such as the potential alternative alliances to MasterCard/ Samsung would need to be considered
- the next steps were digital passport work with HMPO; building APIs with Digidentity; and, work on International driving permits
- formal approval of a 12 month contract extension with Digidentity would need to come back to GE and Board next month as the value would be over £5m.

To do:
ME/ VB

b) A number of points were raised, including:

- that offering digital for vetting was not viable if we could not provide the service for ourselves. We needed to work out our contractual position with our current provider
- whether the Digital Identity team had the right people resource within the wider infrastructure? It was reported that the team was working with Ben Foat and Zoe Brauer from the legal team as well as Pinsent Masons. The team had also been working with Emma Springham about the connectivity of our brand with potential clients and with Joanne Leahy on a brand risk assessment. It was noted that this was a strategic question and that Emma Springham would lead on considerations of who we should partner with from a brand perspective. Brand assessment, the commercials, the opportunity and the cost of choosing not to work with a particular partner, were all part of that equation.

9. Customer Value Management

- a) Emma Springham joined the meeting and provided an overview of the Customer Value Management approach and how we would seek to implement this. The purpose of the paper was to make sure that GE Members were comfortable with the approach.

We could start testing the approach and it was proposed to do so with four key financial products. Currently, the customer experience was fragmented and product led. We wanted to understand our customers, how we cross sell to them, how we could communicate through the right channels and create a story about the range of services we provided. The product phase was scheduled for February 2019 but we would accelerate this if possible.

The initial test for the approach was with some FS products because the work was already part progressed. However, we wanted to drive loyalty in the branch network and build a group wide capability in marketing.

10. Bank of Ireland Negotiations

- a) Chrysanthy Pispinis joined the meeting and provided an update on where we had reached in the negotiations with Bol, the key positions of each party and the next steps. There had been a number of useful share sessions during September 2018 and these aligned with Bol's market announcements in June 2018. However, Bol had claimed that:

- the FSJVA was loss making
- if we couldn't agree a new FSJVA package they would seek to exit mortgages as they were seeking to shrink their balance sheet aggressively
- they wanted to exit the credit card market in the UK.

Some of the information provided had been contradictory.

They needed deposits for some of their other lending (e.g. for their Bristol & West back book which it would not be easy to exit), though it was possible that they would seek to sell their B&W back book if we agreed to an "amicable divorce"; however, that would not align with their June 2018 statement to the market.

We had updated some of the scenarios and included them for comparative purposes. A new deal looked slightly less attractive than it had done a few months ago. An "amicable divorce" scenario had been added

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Group Executive – Strictly Confidential

in case our direction in FS and that of Bol could not be aligned. The terms of our contract meant that we could not “sound out” the market at the moment and would not know if there were credible players in the market until we asked the question.

The Group CEO conversations were critical at this point. PV had sent a note to Francesca McDonagh to position the discussions about whether our strategies were aligned.

We were still hoping to be able to conclude negotiations by the end of November 2018. The contract ended in 2023 but we had options to extend. Termination of the contract was required two years in advance and were this to be decided we would be able to go to market in March 2021.

It was agreed that a separate item would not be included on the October Board agenda but a paragraph would be included in the CEO report and a verbal update provided at the meeting.

To do:
OW/
VB

11. Contracts for Approval

Media Buying Contract

- a) It was reported that we were moving provider because we secured our media buying services through the government framework which had switched provider. We were not committed to £71 m of spend and there were potential cost savings.

Approval would be sought from the Board by written resolution.

12. Christmas branding

The new brand creative for Christmas would be in branches by 22nd/ 23rd of November 2018. It was noted that Black Friday was a great opportunity for digital. We were stripping back to basics on posters so the text could be read from a distance. The Marketing Team was updating the top five pages and would then refresh the underlying pages. We would also look at creating videos and whether any of the material was good enough to go to the press. Repetition was critical. We needed to be sure that we had brand recognition where we needed it.

13. Postmaster Litigation – confidential and subject to legal privilege

- a) JM provided a verbal update on the Postmaster Litigation.

14. Items for Noting

a) *Health and Safety Report*

The report was **NOTED**.

b) *Belfast Exit Plan Business Case*

The Business Case was **NOTED**.

c) *Forward Agendas*

The draft forward agendas for the Board meetings on 30 October 2018 and 27 November 2018 as well as the GE meeting on 12 September 2018 were **NOTED**.

RH would review whether the IT Strategy paper was needed.

Retail Strategy had been included on the November GE agenda but needed to be added to the November Board agenda.

To do:
RH
To do:
VB

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d) *Conflicts of Interest Policy*

The report was **NOTED**.

e) *Armed Forces Deed of Covenant*

The paper was **NOTED**. We would be signing the Arms Forces Deed of Covenant in early November and were confident that we could honour the commitments.



Group Executive – Strictly Confidential

15. Review of GE Minutes, Action Points and Updates

The GE minutes of the meeting held on 12 September were **APPROVED**. The actions as shown on the action log were **NOTED**.

Performance Management (action 18/07/18)

MK reported that Lisa Cherry was going to speak to each GE member to make sure objectives had been set and that we had a process people understood. The current rating system and two reviews a year would be maintained for now. Aspiration for a better developed performance management system made sense but that would be a journey over the next 2-3 years and Lisa would be setting this out. We were not far from being able to demonstrate a solution for Success Factors.

It was agreed that we needed to be able to advise colleagues early about bonus payment dates moving to August. We should also consider the number of 4s and 5s awarded last year as we needed to move the bell curve to the left and be rigorous about how ratings were awarded. We needed to do more on talent management and would be having a GE conversation about this and development and training in November. MK would circulate the MBA list. We needed to focus the right resources on the right individuals and recognise that there may only be a small number of people who could progress to GE level.

**To do:
MK****16. Any other Business****a) PCI compliance**

RH described the bills payment transaction process and what we needed to do to comply with PCI requirements. At the moment around 100 people had access to our PCI data.

A South African firm provided the remote control computer service, which was a technical a breach of our GDPR requirements because the provider was outside the EEA. It was noted that Azure was managed partly from India and we would be using this for Agent Portal. A remote computer operator would be able to access PCI data if the client had not shut down that data before allowing their system to be accessed remotely. A mitigation of this risk would be to require the remote computer operator to get confirmation from the client that they had shut down any PCI data prior to remote accessing the computer. However, our key concerns were about contractual breach risk rather than data breach risk

If we were completely risk averse we would have to introduce locked rooms. We needed to understand our contractual obligations properly before signing contracts. We also needed to consider our risk appetite.

Return certification on PCI compliance was required to deliver our contractual obligations so we needed to obtain this. This was a continued trading benefit rather than an upside benefit.

We needed to encrypt data coming through the pin pads and would have to replace the pin pads and in doing so start to reduce our risks incrementally. RH had commissioned three data audits into Accenture, Fujitsu and Computacenter. We needed to have consistent approaches for how we treated this data. RH was working through the compensating controls with Nettitude and would be pulling together our recommended approach for the ARC meeting on 30 October 2018.

b) A number of points were raised, including:

- that there was an increasing amount of sensitivity about card data and we should focus on this
- the timeline for introducing new pin pads. It was reported that we needed to have sufficient compensating controls in place even while we acquired the new pin pads. It was noted that compensating controls would never be enough from a compliance perspective even though it might be from a security risk perspective
- the key risks? Third party objections were a primary concern. QSA could usually work with a company if it had a remediation plan and could show how it was going to execute the plan. Reputational risk was also a concern

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- who was accountable for PCI? It was split out because of the different relationships with those we were providing different services to e.g. bills payment; banking framework.



Post Office Limited Group Executive Action Log
Updated: 05.11.18

ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed	
GE on 21 Feb 2018					
1.	ATOS Proposal				
	Produce an integration plan for moving calls to NBSC and a communication plan to explain the changes.	Rob Houghton / Catherine Hamilton	Oct-18 Nov-18 Dec 18	The next phase of the IT supplier strategy is included on the 12 December 2018 GE agenda.	Open
GE on 18 July 2018					
2.	Performance Management and Bonus				
a)	Bonus proposals should be produced for each cohort of colleagues, working with the managers in each cohort to determine what would work best in each instance; recommendations should be brought back to GE and could be sent via GE Meeting Team Site.	Natasha Wilson Mo Kang	September 2018	NW Update: To meet the challenge of implementing a tactical change in this financial year, a number of options have been produced. Financing is being agreed and will be brought back to the GE in September. A table showing the current cohort of colleagues is included on the GE site. MK Update: GE on 08.10.18: Lisa Cherry would lead on Performance Management project. MK Update: GE on 17.10.18: Lisa Cherry would liaise with each GE member to ensure objectives had been set and the process was understood. The current rating system and two reviews a year would be maintained for now. Lisa would progress the wider ambition for a better developed performance management system but this would be a journey over the next 2 -3 years.	To close
b)	The second piece of work should look at the mechanism of the bonus scheme. It should be as simple as possible, underpinned by company performance but linked to PDR ratings. We would need a lot of rigour around objective setting at a more local level if we were to give junior managers discretion over part of the pot.	Natasha Wilson Mo Kang	October 2018	NW Update: With the arrival of the GHRD, we are looking at long term viable solutions around rewarding our people for their performance measured against the contribution and impact they make as well as how they behaved (the what and how). MK Update: GE on 08.10.18: Consideration should be given to the number of 4s and 5s awarded last year, as we need to move the bell curve to the left and be rigorous about how ratings are awarded. We need to do more on talent management and will have a GE conversation about this and development and training in November.	To close



Post Office Limited Group Executive Action Log
Updated: 05.11.18

ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed	
GE on 16 August 2018					
1. Performance - Financial Results and Review of Business Scorecard					
e)	Paper template to be reviewed to include a prompt to consider how the paper linked to North Star and to include relevant financial information.	Veronica Branton	Nov-18	CoSec has developed new paper templates which include the relevant prompts. The drafts are being tested with key users.	Open
2 Telecommunications					
	Provide a short analysis for GE of the potential adverse impacts of the initiatives proposed in the telecoms service, particularly those that would affect customers. For example, the potential impact on complaint levels, potential loss of customers, whether we could demonstrate our ability to expedite faults notified to us by vulnerable customers quickly enough if customer service levels changed and the cumulative impact of the changes proposed.	Meredith Sharples / Owen Woodley	Nov-18 Jan-19	Update received 24.08.18: Detailed analysis into the customer impact of changing fault repair service level (from business to consumer levels) underway, made complicated as majority of current faults are resolved within SLA (which would continue with new longer SLAs).	Open
GE on 12 September 2018					
7. Any other Business					
a)	An item on SMEs to be included on the January 2019 GE agenda.	Veronica Branton	January 2019	Added to the January agenda.	To close
GE on 17 October 2018					
1. Performance – Financial Results and Review of Business Scorecard					
	PV requested a realistic assessment of the insurance opportunities for the rest of the financial year, which would provide a balanced view of where we were against the plan.	Owen Woodley	October 2018	OW confirmed that PV has briefed as requested.	To close
4. Performance Management – Retail					
	The customer satisfaction figures remained very high and we had included incentives for customer service in our agreement with WH Smith. An explanation of how the voice of the customer figures were compiled was requested.	Debbie Smith / Cathy Mayor	November 2018	Update received from Cathy Mayor which is to be circulated.	Open



Post Office Limited Group Executive Action Log
Updated: 05.11.18

	ACTION	Action Owner (GE Member)	Due Date	STATUS	Open / Closed
5.	Legal Enterprise Optimisation (LEO)				
	It was requested that we include simplification of POI governance within the LEO project.	David Gemmell / Jane MacLeod	October 2018	Simplification of PO Insurance governance was included as part of the paper that went to Board and was approved on 30 October 2018.	To close

INVESTMENT COMMITTEE TERMS OF REFERENCE

1. Purpose

The purpose of the Investment Committee is to ensure that the investment provided by UKGI is used to deliver the agreed strategic objectives, as detailed within the North Star. As part of its scope, the Investment Committee will review demand and approve funding for new initiatives, approve changes to in-flight initiatives and also provide intervention \ support for resolution of any escalated issues.

Its responsibilities and delegated authorities are as set out its terms of reference, changes to which must be approved by the Group Executive

2. Responsibilities

(a) The IC, has the following responsibilities :

- **Setting the portfolio of change initiatives across the business**
 - Prioritising the discretionary portfolio based on strategic alignment, complexity and financial return
 - Reviewing a rolling 12-18 month view of the portfolio including relevance to strategic goals, setting of portfolio goals and ensuring a balanced and deliverable portfolio
- **Review major proposed projects in the demand pipeline:**
 - Ensuring alignment with agreed strategic objectives
 - Assessing proposed activity within overall portfolio prioritisation
 - Ensure projects:
 - meets financial hurdles or
 - are a legal, regulatory or contractual requirement or
 - are mitigating a material risk
 - Consider the opportunity cost of the initiative
 - Approve new projects to become part of the agreed portfolio of change, approve business cases and sanction funding for projects and programmes with total spend of between £2m to £5m
- **Major in-flight project escalations** (“major” based on cost, benefit, strategic relevance and complexity risk) for:
 - Actions to be taken to reduce risks - review escalations and commission corrective actions and consider risks arising through inter project dependencies
 - Sanction additional requests for funds from projects and programmes that are outside of the existing business case tolerances (business cases over £2m)
 - Stop projects that are failing, not delivering value or that no longer meet strategic goals
- **Review and approve the quarterly management report** that is sent to UKGI and the Board, to detail Post Office’s progress against government targets. These reports will be sent to GE for information prior to submission to Board.

INVESTMENT COMMITTEE TERMS OF REFERENCE

(b) IC members will be expected to:

- Attend all IC meetings or arrange appropriate representation if absence is unavoidable
- Review all material circulated to IC members and clarify as necessary their own understanding of key issues
- Work collaboratively to achieve the agreed key objectives
- Raise matters of concern or difficulty with fellow IC members and seek their input with the aim of resolving difficulties at an early stage
- Provide constructive challenge to other members of the IC on matters on the agenda
- Complete actions within the timescales set by the IC Chair.

3. Authority

- The Investment Committee will focus on the most material projects and programmes (currently classified as Gold and Platinum projects)
- In-flight project reviews should focus on Red projects
- The Investment Committee is not responsible for assurance for all projects – projects of lower materiality will be delegated to the appropriate forums. These will include Bronze and Silver projects and funding for strategic thinking and commercial negotiations. Although the Investment Committee do not have responsibility for these activities it will approve funding at a consolidated level and be kept up to date on progress.
- The Chair of the Investment Committee has delegated authority to authorise change spend up to £5m.
- Funding requests for change activity totalling over £5m should be reviewed by the IC and recommendations passed to the Board for ratification. This applies to both new projects and also additional requests for funding of existing projects that would take total project spending above the £5m limit. Funding requests over the IC delegated authority will be sent to GE, prior to Board submission, for information not authorisation.

4. Composition

- A quorum is four members, one of whom is the Chair (or their deputy) and one other GE member.

5. Meetings

- The IC will be held at least once per month.
- Notice of each meeting shall be given to all those entitled to attend and notice of the matters for discussion shall usually be given at least 24 hours before each meeting but notice need not be given in writing. Papers are expected to be issued to IC members 48 hours in advance of the meeting.
- The Secretary will keep a log of decisions and actions which will be reviewed at each meeting
- The IC will meet in person, with attendance by telephone by exception.
- Inputs are as follows:

INVESTMENT COMMITTEE TERMS OF REFERENCE

INPUTS	SUPPLIED BY
1. Change Requests	Business Owners
2. Business Cases	Business Owners
3. Cost & Benefit reports	Finance
4. Programme Performance reports	Strategic Portfolio Office
5. Capacity planning reports	Strategic Portfolio Office
6. Actions from last meeting	Strategic Portfolio Office
7. Progress of projects through Gates	Strategic Portfolio Office

6. Reporting

- The IC will ensure timely and appropriate reporting to the Board and UKGI
- The Strategic Portfolio Office will lead on reporting in to the IC.
- Outputs from the meeting are as follows:

OUTPUTS
1. Decisions made on business case approvals and change requests over £2m and below £5m
2. Recommendations made to Board for funding requests for new projects over £5m in size or in-flight projects where additional spend takes them over £5m.
3. Updated list of agreed projects that form the change portfolio
4. Actions and minutes
5. Monthly update report to Group Executive for information (not authorisation)

7. Risk Management

- The IC will ensure that all issues discussed will highlight the risks to the business and mitigating actions.

8. Members

- Attendees are as follows:

IC MEMBERS	ROLE
Rob Houghton	Change Director & Group Chief Information Officer (Chair)
Alisdair Cameron	Chief Finance and Operations Officer (Deputy Chair)
Martin Edwards	Managing Director of Identity Services
Tim White	Director Strategic Portfolio Office
Owen Woodley	CEO – FS&T

INVESTMENT COMMITTEE TERMS OF REFERENCE

Cathy Mayor Alistair Roman Cem Oztoprak Tom Moran	Finance Director – Retail Finance Director, IT, IT Finance Finance Lead (Change) Head of Strategy
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- Empowered deputies are expected to attend if the CEO for FS&T or Managing Director of Identity cannot attend
- Other GE members will attend as required
- Portfolio Leads and project/programme managers may attend on an adhoc basis as requested.
- Secretariat will be provided by the Strategic Portfolio Office

Post Office Board Agenda



Date	
27 November 2018	
Start Time	Finish Time
11.45 hrs	[16.50 hrs]
Location	
1.19 Wakefield	

Present		In Attendance	
<ul style="list-style-type: none"> • Tim Parker (Chairman) • Paula Vennells • Ken McCall • Alisdair Cameron 	<ul style="list-style-type: none"> • Tom Cooper • Tim Franklin • Shirine Khoury-Haq • Carla Stent 	<ul style="list-style-type: none"> • Jane MacLeod (Company Secretary) • Veronica Branton (Head of Secretariat) • Debbie Smith (CEO – Retail) • Owen Woodley (CEO – FS&T) 	<ul style="list-style-type: none"> • Emma Springham, (Chief Marketing Officer) • Chrysanthy Pispinis (Director PO Money) • Martin Kearsley (Banking Director) • Tom Moran (Network Development Director)

Agenda Item	Action Needed	Purpose	Lead	Timings
1. Welcome and conflicts of interest	Noting	To note any new declarations of conflicts of interest.	Chairman	11.45 – 11.50
2. Minutes of previous Board and Committee meetings including Status Report	Approval	Minutes formally agreed.	Jane MacLeod	
3. CEO Report	Noting and Input	CEO to update the Board on the report.	CEO	11.50 – 12.10
4. Financial Performance Report	Noting and Input	CFOO to update the Board on the report.	CFOO	12.10 – 12.30
5. IT Security Strategy	Noting and Input	To update the Board on the organisation's approach to Cyber Security.	Rob Houghton	12.30 – 13.00
Lunch				13.00 – 13.15
6. Future of Cash - Banking Framework 2	Approval	To approve the plan for Banking Framework 2.	Debbie Smith/ Martin Kearsley	13.15 – 13.45
7. ATM Partner	Noting and Input	To update the Board on progress in moving away from our current ATM Partner.	Debbie Smith / Martin Kearsley	13.45 – 14.00
8. Retail Strategy	Approval	To present the Retail Strategy to the Board for approval.	Debbie Smith / Tom Moran	14.00 – 14.45
9. DMB Implementation Strategy	Noting and Input	To update the Board on the proposal on DMB Strategy	Debbie Smith / Tom Moran	14.45 – 15.00
10. Postmaster Litigation	Noting and Input	To update the Board on the Postmaster Litigation, including contingency planning.	Jane MacLeod	15.00 – 15.15



Post Office Board Agenda

11.	Bol Negotiations	Noting and Input	To update the Board on the negotiations with Bol.	Owen Woodley/ Chrysanthy Pispinis	15.15 – 15.45
12.	Marketing Effectiveness & Customer Insight	Noting and Input	To update the Board on marketing effectiveness and customer insight, including the PO Insurance growth strategy.	Owen Woodley/ Emma Springham	15.45 – 16.15
13.	Health & Safety report (including violence and robberies)	Noting and Input	To update the Board on health and safety performance, including a review of robbery risk and violence in PO's and PO's approach to mitigating these risks.	Al Cameron	16.15 – 16.30
14.	Compliance with PCI-DSS	Approval		Rob Houghton	16.30 – 16.35
15.	Contracts 14.1 – Digidentity	Approval	To seek the Board's approval on the contract extension for Digidentity.	Martin Edwards	16.35 – 16.50
16.	Items for Noting				
	16.1. Sealings	Noting	For the Board to be aware of the affixing of the Seal.	Jane MacLeod	
	16.2. Future Meeting Dates	Noting	For the Board to note the future meeting dates for 2018.	Jane MacLeod	
	16.3. Forward Agendas	Noting	For Board to note.	Jane MacLeod	
17.	Any Other Business				
CLOSE					



Group Executive Agenda

Date:	Monday 12 December 2018	Time	09.00 – 11.00	Location	1.19 Wakefield
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Present		Other Attendees		Apologies
<ul style="list-style-type: none"> • Paula Vennells (Chair) • Alisdair Cameron • Debbie Smith • Owen Woodley 		<ul style="list-style-type: none"> • Rob Houghton • Mo Kang • Mark Davies • Jane MacLeod 		<ul style="list-style-type: none"> • Veronica Branton • Micheal Passmore • Catherine Hamilton • Meredith Sharples
Agenda Item		Action Needed	Lead	Timings
1.	Finance Performance – Financial Results & Review of Business Scorecard	Discussion	Al Cameron / Micheal Passmore	09.00 – 09.20
2.	Telco Strategy	Approval	Owen Woodley / Meredith Sharples	09.20 – 10.00
3.	IT Service Supplier Strategy)		Rob Houghton / Catherine Hamilton	10.00 – 10.30
4.	Postmaster Litigation (verbal)	Discussion	Jane MacLeod	10.30 – 10.45
5.	Verbal Updates from Committees and Steering Groups	Discussion		10.45 – 11.00
6.	Review of GE Minutes, Action Points and Updates		Veronica Branton	
7.	Contracts for Approval	Approval for Board		
8.	Items for Noting 15.1 Health and Safety Report Forward Agenda	Noting		
9.	Any other Business		All	
10.	Review the agenda items and the effectiveness of the sessions			