Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 9am on 25 September 2014
in the Boardroom at 148 Old Street, London EC1V 9HQ

Members of the Board will be asked to declare any interest that could give rise to conflict in relation to any item on the agenda at the beginning of the item in question. All interests so disclosed will be recorded in the minutes of the Board. If the Chairman of the meeting deems it appropriate, the member shall absent himself or herself from all or part of the Board's discussion of the matter.

09.00	1	CEO's report	Paula Vennells
09.45	2	FS plan	Nick Kennett
11.00		BREAK	
11.10	2	FS plan	Nick Kennett
11.45	3	Win in Mails including Network development	Martin George/Kevin Gilliland
12.45		LUNCH	
13.15	4	Business Transformation update	David Ryan
14.45	5	Financial Performance update	Chris Day
15.15		BREAK	
15.25	6	Sparrow update	Chris Aujard/Belinda Crowe
15.55	7	Insurance	Chris Day
16.10	8	Minutes of Previous Meeting and matters arising Committee Minutes for noting Status report update	Alice Perkins
16.15	9	Items for Noting • Update on Digital and SME • Audit Action Status Report Summary • Significant Litigation Report • Health and Safety Report • Sealings	Alwen Lyons
16.25	10	Any other business	
		• Delegated authority for software contracts	Chris Day
		• Authentication of the Company Seal	Alwen Lyons
		Date of next meeting: 29 October 2014	
16.30		**CLOSE**	

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CEO's Report – September 2014

1. Introduction to this month's Board and overall strategic priorities

Key issues for discussion at this Board:

- As we discussed before the summer, we have a critical window of opportunity to shape the business and put it on course towards commercial sustainability – "a defining 12 months" as I have described in recent staff communication events. The latest trading results set out in the performance report underline the need for us to act rapidly to address our competitive threats and reshape our cost base. Section 2 below outlines the short-term actions we are taking this year to drive improvements in profitability.
- In terms of the longer-term changes to the business, the first step is to finalise the blueprint for our overall turnaround across both our revenue and cost plans. As the table at Annex A sets out, the agendas for the next three Board meetings are designed to get us to this milestone by the end of the calendar year, starting with the following three items for discussion at this month's meeting:
    - **FS strategy** – as agreed at the June awayday, over the summer we have conducted a detailed review (supported by McKinsey) of our financial services strategy and the risks to our 2019/20 income projection. This has identified a risk adjusted projection of £508m in 2019/20 (versus the £538m envisaged in the strategic plan), with both downside risks and upside opportunities. This revised figure still represents rapid growth of 9% pa, and therefore the key question the Board needs to consider is whether we have identified the clear differentiating attributes which will make us a credible alternative to the incumbent banks and emerging challengers. Nick's paper highlights the importance of our trusted brand, our unparalleled convenience and accessibility (at a time when others are retreating from the high street) and our multiple touch points with a broad cross-section of the population. It also identifies the core capabilities needed to leverage these attributes, including improved data analytics and customer insight, stronger product propositions (moving up the value chain in certain areas like insurance), the upgrading of both our digital and face to face channels and investment in brand awareness. The next stage of work will be focused on ensuring the FS strategy is fully aligned with the target operating model (TOM) and underpinned by detailed delivery and financial plans for the next three years.
    - **'Win in Mails'** – this paper provides an update on the programme of work discussed at the June awayday to respond to our competitors in the parcels market by extending the network and simplifying product journeys. While the cross-functional team at Bishopsgate has made impressive progress over the summer in many respects and is expecting to open 176 new access points for Home Shopping Returns by the end of this month, overall the programme remains at critical risk at this stage because of the misalignment of commercial priorities with Royal Mail. The slide pack sets out our plan to address this and we will provide a further update on the latest position at the Board next week. However, it is clear that this is going to remain a pressing priority for the business over the next 6 months and will likely entail a significant renegotiation of the existing MDA.
    - **Business Transformation** – the first stage of the programme ('the current state assessment') concluded in July, identifying cost improvements of circa £100m pa which are expected to be delivered over the next 18 months. As the paper and

accompanying slide deck sets out, more radical levers will need to be pulled to close the remaining c.£200m gap to our EBITDAS target by 2019/20, such as restructuring the network, supply chain and branch support services, rebasing agents fees (with all these measures facilitated by the simplification and digitalisation of product journeys) and moving to a much smaller corporate centre. We would welcome the Board's initial views on these proposals at this meeting. We will then report back in November on the final proposed TOM and associated roadmap, also taking into account the discussion on risk appetite and capabilities at the October ARC and Board and the further work that is underway to align the network implications of our mails and FS strategies.

Assessing the overall implications for the business:

- There is no doubt that taken together our plans across FS, mails/network extension and Business Transformation represent a major undertaking for the business, and are at the riskier end of the spectrum in terms of corporate turnarounds (a view reiterated by McKinsey and PwC). Therefore a key judgment for us to discuss over this and the next two meetings is whether we are striking the right balance between ambition and deliverability, consistent with acceptable risk parameters.

- On the one hand there is clearly a real risk that we do not act quickly and boldly enough to tackle the competition and maintain our flight path to financial sustainability. But on the other hand there is also the risk that we seek to do too much over a relatively short period of time and thus stretch the business to breaking point. As we have discussed before, most businesses tend to focus on either the cost or revenue side rather than seeking to transform both at the same time.

- Even more so than other businesses, in addition to our capability to manage the change we will also need to make a candid assessment (informed by dialogue with our shareholder) about whether we are able to handle the overall level of stakeholder 'noise' that will inevitably be generated in response to our proposals. In particular, there are clear risks with the NFSP in relation to network extension and agents pay and with the unions in relation to job losses. These risks will materialise very quickly and we need to be ready to handle the disquiet.

- Getting the speed of implementation right is therefore a critical judgment, and this will be the major focus for the next stage of the Business Transformation Programme in pulling together the overall roadmap for our turnaround. We will need to take a realistic view of what is deliverable (and affordable within our investment constraints), prioritising the levers that will deliver the biggest financial impact.

- The roadmap will also need to be sufficiently flexible to respond to developments along the way: we are undertaking detailed risk and scenario planning (as the slide deck sets out), but it is impossible to predict with confidence how events will unfold and how all the various issues in play will interact with each other. We will therefore need to be ready to adapt our plans as they are implemented, accelerating or decelerating components as required.

Tracking and implementing the turnaround:

- While this dynamic approach is necessary, it also underlines the importance of having clear milestones and KPIs defined for each of major change programmes, linked to financial outcomes wherever possible. This will enable us to track the overall delivery of the turnaround and ensure that decisions to alter the pace of implementation one way or the other are taken consciously with a clear understanding of the financial impacts.

- The Board clearly has a critical role to play in this oversight process, and therefore from this month we are moving to a new format for the CEO's Report which is designed to provide greater visibility of progress against the milestones and KPIs for each of the major change programmes, and also to position these updates in the context of our overall strategy and wider developments in our external environment. It should be noted that the final portfolio of change programmes and supporting metrics will not be defined until we've reached the end of the design phase of Business Transformation in November, but in the interim period we will be reporting on the deliverables we have identified to date.
- The ten accelerators we discussed at July's Board have now been embedded across the business as a tool for articulating the key principles and priorities of our overall strategy. They were the central focus of our 'Team Talk Live' communications event on 24 July, which was attended by nearly 2,000 colleagues and sub-postmasters. According to pre and post surveys, the event resulted in a 22.6 percentage point increase (to 73%) in the number agreeing that "the senior management team communicates a clear vision" and a 11.8 percentage point increase (to 84%) in the number agreeing that they "support Post Office's strategy and direction". While the accelerators were designed as a communications rather than governance tool, they will be used to inform the final portfolio of change programmes which is defined in November.
- The successful delivery of our turnaround will of course be predicated on strengthening the organisation's capabilities in relation to risk management, a topic which we will be returning to in more detail at the October Board and ARC. My view is that, culturally, we are starting to make progress in this regard, as exhibited by the more mature approach to risk identification and horizon scanning in the papers on FS strategy, Win in Mails and Business Transformation[1], but there is still further to go as I will set out in October.

2. Commercial and business performance overview

- **Overall performance**: As the CFO's Performance Report sets out, trading conditions remained challenging in August. While the operating profit in the month was favourable to budget, this was largely driven by the VAT recovery which masked the continued underperformance on overall revenue. Income was £8m behind budget within the month (increasing the year to date shortfall to £15.2m), with half of this attributed to mails and retail, driven in particular by lower parcel volumes and slower than expected progress with RM and retailers in growing our collection and returns volumes. Government services and Homephone income is also behind budget, with Financial Services the only pillar tracking ahead of target over the year to date (with income up 4.6% over the year to date compared with the same period last year).
- We have established a monthly 'Sales Accelerator' meeting (which I chair) to oversee the options for closing this income gap over the remainder of this year, and this remains

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[1] It should be noted that we have started to adopt a standard terminology for describing the status of our risks in business papers, including for the Board. Risks are categorised as either 'controlled' i.e. management are happy that the existing actions and controls are sufficient to manage any risks, or 'inadequately controlled' where additional actions or plans are required to bring the risk back within acceptable levels.

the priority area of focus for the weekly Trading Meeting. Kevin Gilliland and Neil Hayward are also hosting a Sales Capability workshop on 18 September with senior level attendees from across the business which will look at both short-term actions and longer-term measures to increase sales performance.

- **Mails initiatives**: Our competitors have gained an additional 5 million parcels over the year to date, consuming all of the growth in the overall parcels market and also taking around 1 million items from us and RMG. This situation reinforces the importance of our programme of work to regain our position in the parcels market, the battleground for which will be won on both price and convenience as we discussed in June. The separate 'Win in Mails' paper provides a full update on our initiatives to tackle the latter imperative. On pricing, there is growing recognition within Royal Mail of the risks to their own market share, as demonstrated by the increases to the size of 1st and 2nd class parcels which they will introduce on 20th October. This is particularly important for our eBay tracked returns service, enabling us to capture a much higher percentage (85%) of eBay sellers within the small parcels category, which undercuts the competition. An additional promotion to price a 1-2kg 2nd class small parcel at the same size as a 0-1kg parcel will run from 20th October to 15th January, supporting our volumes over Christmas. Taken together we expect these pricing changes to recover around £2m of income over the remainder of this year.
- **In-year cost reductions**: even with the impact of these measures and other opportunities to mitigate the shortfalls in telecoms and government services, on current run rates we are likely to end the year significantly behind budget on overall income, as Chris Day will explain in his update. We are clear on the importance of delivering a year on year improvement in our underlying EBITDAS performance by March 2015, both to meet our short-term targets and to establish the momentum needed to drive forward the next stages of our turnaround.
- The delivery of in-year cost savings is therefore a top priority for the business, and we have revised our target to £60m (up from £46m in the original budget) in order to offset potential income shortfalls and protect our bottom line. In July we established a weekly ExCo sub-committee (the Cost Reduction Group), chaired by Chris and which I attend, to drive forward progress and agree the actions needed to deliver this target. The latest position is that we have confidence in £36.5m of savings, a further £9.9m of proposals are currently being validated leaving £13.6m still to find.
- To underline the importance of this work to the business, last week we communicated to colleagues a number of measures which will be taken to address both staff and non-staff costs, including:
    - a continued pay freeze for senior managers;
    - a clearer focus in the PDR process on the delivery of cost reduction targets;
    - the introduction of greater control on recruitment and the use of contractors, and on discretionary spend such as travel and catering; and
    - a process of engagement with key suppliers in order to negotiate better terms wherever possible.
- These activities are being managed as part of the Business Transformation Programme to ensure alignment with our longer-term cost reduction initiatives, and further detail on the process is set out in the separate update paper from David Ryan.

3. Update on key change programmes

As noted above, we will be reviewing our overall portfolio of change programmes (and supporting metrics) as part of the next stage of work to define the roadmap to our target operating model. This may result in some consolidation and restructuring of the programmes set out below from November. The implementation of our FS strategy will also be tracked as a distinct programme in future Board updates.

a) Crown Transformation Programme

Status overview: The Programme remains on track against the key targets within its direct control, including branch transformations completed, training, staff cost reductions, self-serve rollout, mergers and relocations. However, significant risks remain to the delivery of a breakeven run rate by year end due to the wider revenue challenges facing the business. An updated forecast for the Crown P&L will be produced for the October Board, alongside the identification of what further mitigating measures are available on either the cost or revenue side.

Programme KPIs:		**YTD**		**2014/15 FY**	
	Target	**Actual**	**Period**	**Target**	**Forecast**
P&L run rate	-£14.4m	-£15.4m	Q1	£0m	£0m
Number of branches transformed	220	223	P5	292	294
Number of branches franchised	30	26	P5	70	54 – 60
Customer satisfaction in transformed branches	85%	79%	P4	85%	85%
Queue time satisfaction	85%	81%	P4	85%	85%

Key milestones ahead:

Milestone	**Target date**	**Current status**
All retained branches transformed	By end Nov 14	On schedule (currently ahead of plan)
70 franchises live	By end Mar 15	Likely to be missed (16 currently at risk; mitigations being pursued)
518 Self Service Kiosks rolled out	By end Nov 14	On schedule

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b) Network Transformation Programme

Status overview: The programme is ahead of its key targets, including numbers of contracts signed, branch openings and additional opening hours. The forecast financial benefits are also higher than planned due to a greater number of locals being delivered to date, and customer satisfaction continues to be high in converted branches. The year-end outlook remains positive, however challenges remain to find suitable replacements for leavers and to manage the risk around the 'guided leavers' process. A pilot is underway to test this and has attracted no significant stakeholder reaction to date.

A key action for the programme is to define how we might use next year's 'cliff' in the context of the Network Development and the emerging Target Operating Model.

Programme KPIs	**YTD**		**2014/15 FY**	
	Target	**Actual**	**Target**	**Forecast**
Contract signed (cumulative)	3678	4029	4800	4800
Branches Open (cumulative)	2757	2952	3700	3700
Customer Satisfaction (all branches)	90%	97%	90%	96%
Average increase in opening hours	40%	68%	40%	66%
Cost reduction (in-year cumulative)	308.2k	577.3k	2,500k	3,359k

Key milestones ahead:

Milestone	**Target date**	**Current status**
4,800 contracts signed	End March 15	At risk, but mitigations in place
3,700 converted branches open	End March 15	On schedule
Complete first evaluation of guided leavers process	End Sept 14	On schedule
Start cliff preparation work	End Oct 14	On schedule

c) 'Win in Mails'

Status overview: The programme is established and focused on developing a compelling commercial proposition to inform the full programme business case and the 400 pilots we are planning to launch this financial year. Two new sites are now live offering home shopping returns, and we expect this figure to increase to around 176 by the end of September, exceeding our internal target of 135 by that date.

Risks to the programme have been identified and mitigations are in place. Of these, the greatest residual risk lies with Royal Mail where work is in hand to align commercial interests, agree product simplification and secure their support for the required IT integration. The NFSP also retains the potential to disrupt the progress of the programme.

A full update is provided in the separate paper on this programme. A full set of forward-looking KPIs will be developed as part of the finalisation of the programme business case.

Programme KPIs	**End September**		**2014/15 FY**	
	Target	**Forecast**	**Target**	**Forecast**
New access points	135	176	400	400

Key milestones ahead:

Milestone	**Target date**	**Current status**
135 access points live	End Sep 14	Milestone at risk – plans in place for 176 sites, but could be derailed by retailer delays or NFSP opposition
400 access points live	End Mar 15	Milestone at risk
Retailer tablet solution available in beta version	End Oct 14	Milestone at risk
SSK tablet solution available in beta version	End Mar 15	Milestone at risk

d) Business Transformation

Status overview: This programme is co-ordinating all cost reduction activities (both operational efficiency and existing cost reduction actions) and reporting to ExCo on a weekly basis. An assessment of 2014/15 change plan has been completed with recommendations being implemented (e.g. pausing certain projects and aligning others). Benefits are currently rated 'red' as the route to achieving savings not yet agreed.

A full update is provided in the separate paper on this programme.

Programme KPIs	**YTD (week 24)**		**2014/15 full year**	
	Target	**Actual**	**Target**	**Validated**
Delivery of in-year savings	£16.5m	£7.1m	£60.0m	£36.5m

Key milestones ahead:

Milestone	**Target date**	**Current status**
Current state assessment complete	End July 14	Complete
Draft Target Operating Model	End Sep 14	On schedule, Board discussion 25 Sep 14
Complete Transformation Blueprint	End Nov 14	On schedule
End design phase	End Nov 14	On schedule

e) Separation

Status overview: the programme reached an important milestone at the end of August with the launch of the new Core Finance System. As expected there have been a number of teething issues to work through but none of these are having a material impact on the business. The new system will be particularly valuable for generating more granular analysis of profitability at the level of individual products and branches.

An extension side letter is due to be agreed at the next MSA Board on the 24th September with revised separation dates and penalty arrangements for the remaining IT workstreams. The CSC contract supporting the separation of HR and Supply Chain (hosting and service elements) is due to be signed in late September.

Programme KPIs	**YTD**		**Full programme**	
	Target	**Actual**	**Target**	**Forecast**
Separation of IT systems	126	12.6	256	256
Separation of Business Services	120	114	131	131
Finance – headcount reduction	17.5	12.5	27.5	27.5

NB The team will also be monitoring the number of post-launch incidents for the newly separated systems such as Finance and HR.

Key milestones ahead:

Milestone	**Target date**	**Current status**
Facilities Management separation	1 Oct 14	On schedule
Grapevine separation	1 Oct 14	On schedule
HR Common Components separated	End Jan 15	On schedule
eBusiness Release 5 live	End Jan 15	On schedule
On boarding to ATOS helpdesk complete	End Feb 15	On schedule
Networks site migration end	End Feb 15	On schedule

f) IT transformation

Status overview: we will be announcing the preferred bidder for the End User Computing tower in the week commencing 22 September, and will update the Board on the outcome at next week's meeting. We will then be seeking formal approval from the Board to award the contract at the October meeting.

In terms of the overall IT transformation programme, the benefits and cost profile for 2014/15 remain on track. The milestones and financial impacts for future years are being reviewed as part of the Business Transformation roadmap, to ensure alignment with our target operating model and the capabilities needed to underpin our commercial strategies in FS and mails.

Programme KPIs	**YTD**		**Full programme**	
	Target	**Actual**	**Target**	**Forecast**
Towers Contracts Awarded	1	1	5	5
3rd parties transitioned to Service Integrator (SI)	90	90	96	96
SI operating model processes accepted	14	13	23	23
Financial savings	£0	£0	£25m	£25m

Updated programme milestones will be shared with the Board from November.

g) People and engagement

Status overview: The implementation plan for the people and engagement strategy will be presented to the October Board, aligned with the requirements for workforce change emerging from the Business Transformation Programme.

Key milestones ahead:

Milestone	**Target date**	**Current status**
P&E team ready to support large scale workforce change with toolkits, processes and support in place	End Sep 14	On schedule. Documentation in place, aligning plans to the timescales and plans needed to support Business Transformation and also the FS and mails strategies.
P&E strategy implementation plan in place and endorsed by the Board	October 14	On track for October Board meeting.
Build sales capability across the whole network	Jan 15	On schedule: • cross-business steering group in place; • focus over July and September has been on sales coaching for branches ahead of peak season; • Sept-Nov focused on review of sales capabilities including through cross-business workshops; • implementation plan will be ready for Jan ExCo/Board, including options for restructuring of sales capability.
Ensure the NFSP reconstitutes as a trade body	Mar 15	Positive engagement continuing, but clouded by short-term challenges related to network extension

Programme KPIs will be presented to the Board in October as part of the implementation plan.

4. Market, political and external developments

- **Continued progress of mails competitors**: In July Paypoint reported an additional 1.2 million Collect+ parcels volumes over the first quarter of 2014/15, a 43% increase compared with a year earlier (although to put this in perspective these additional volumes are equivalent to around 5 days trading of our 2nd class product). They also noted that "there has been a small decline in Collect+ sites by 67 to 5,515, whilst we have been planning the next stage of our network expansion, which will be in place ahead of the Christmas peak." Delivering its ambition to reach 7,500 branches during the current financial year is likely to be dependent on landing a deal with one or more of the major multiple retailers, reinforcing the urgency of our own plans.
- **But also signs of potential consolidation in the market:** Earlier this month it was reported that Local Letterbox - a start-up which was due to open 500 'parcelpods' across the UK in 2014 for posting, collecting and returning parcels - had ceased trading. This underlines how competitive this market is and also how tight the margins are, making it difficult for new entrants to secure a foothold without substantial financial backing and a cost effective fulfillment solution.
- **Click and collect growth**: a report this week from Verdict, a research firm, found that over two-thirds of shoppers in the UK have used a click and collect service, up from 51% in 2012. Verdict found that clothing and footwear accounted for over 50% of the value of goods ordered using click and collect services. The report predicts an 82% rise in the value of goods purchased via click and collect services to £6.5bn by 2019, but with much of this growth coming in the grocery sector.
- **Bank branch network consolidation**: building on the recent news flow about branch closures, a Deutsche Bank report last week claimed that the UK's six largest banks could close between 50% and 75% of their branches by 2024, leaving as few as 500 high street branches. This is obviously linked to the growing popularity of online and mobile banking, with research from EY and the BBA last month highlighting that nearly 15 million apps had been downloaded in 2014 so far, at a rate of 15,000 per day. However, the research also noted that high street outlets remain important for larger purchases such as mortgages. The implications of these themes are picked up in the FS strategy paper, including the importance of building our own digital capabilities but also the continued relevance of our physical network both for selling our own products and in providing a utility service to the rest of the banking sector.
- **Lloyds exploring identity market opportunities**: it was reported earlier this month that Lloyds Bank has been working with Cabinet Office to explore whether banks could play a role in verifying customers' digital identities for other organisations in both the public and private sectors. While this potentially represents a threat to our own position in this nascent market, it is not surprising to see the Government exploring options to diversify the number of potential providers and we never assumed that we would have a monopolistic position in the income projections for identity services included in our Strategic Plan. Of greater concern is the continued uncertainty about when the expected volumes from Government will actually materialise, representing a risk to our income figures in the next two years.
- **Scotland**: the political and media debate over the past few weeks has of course been dominated by the Scottish independence referendum on 18 September. I set out our broad approach to contingency planning in my email to the Board of 15 September, and depending on the result we can discuss this further at next week's meeting. Media

speculation earlier this summer also suggested that Jo Swinson may join the Cabinet as Secretary of State for Scotland following the referendum, although we do not have any specific intelligence to support this suggestion.

- **Party conference season approaching**: Labour will be holding their party conference from 21 to 24 September, the Conservatives from 28 September to 1 October and then the Liberal Democrats from 4 to 8 October. We will have a low key presence at each of these events, taking the opportunity to promote the our modernisation story and also keeping abreast of any emerging thinking on manifesto policies related to the Post Office.

5. Other issues and updates

- **Update on POCA**: discussions are continuing with DWP about signing a 7-year renewal of the POCA contract under the Front Office Counter Services Framework. We understand Ministers are keen to announce this extension by the end of September, although the finalisation of the deal is complicated by a number of material issues which could affect our in-year financial position related to the correction of service payments, with both sides trading competing claims for reimbursement of under or over payments. We are also looking to maximise our flexibility to alter the POca service after 2017 to enable us to offer a lower cost solution which reduces demand for cash in the network. We will provide an update on any developments in these discussions at the Board.
- **Industrial relations update:** We have resolved the dispute with our managers in Supply Chain following their acceptance of the pay deal we agreed with CMA Unite in August. The deal is similar to that approved by Crown managers and is fully funded. However, the situation with the CWU remains challenging. They are currently undertaking a consultative ballot with members to endorse the rejection of our formal pay offer for Supply Chain & Admin, the result of which will be declared on 1 October. We have suggested that we use Acas to conciliate a speedy resolution, although this has been met with resistance to date. Separately we are meeting the CWU next week to seek to agree new incentives schemes for counter staff and Financial Specialists. We will provide an update on the latest position at the Board.

Annex A: Autumn 2014 Board meetings: overview of the sequencing of discussions on key business strategy issues

Key agenda items	Description
25th September:	
FS Strategy	Review of the overall FS strategy with an assessment of the risks to the 2020 income target. This review will be based on the current operating model assumptions, but further analysis will be completed by October in light of any relevant proposals emerging from the Business Transformation Programme.
'Win in Mails'/network extension update	Update on the first phase of work agreed at the June awayday to simplify mails product journeys and extend our network with new access points.
Business Transformation	Update on the conclusions from the stage 1 'current state assessment' and the savings that have been identified through incremental reforms. Outline of the emerging hypotheses for the target operating model to gauge the Board's initial views on the major strategic trade-offs.
Digital and SMEs – noting papers	*Update on plans discussed at June awayday*
29th October: *NB risk items will also be discussed with October ARC – date tbc*	
Business risks – CEO's overview	Discussion on the organisation's capabilities and key risk exposures, taking into account the Kelly Report, the PWC review conclusions and the proposed overall transformation programme.
Risk appetite	Initial discussion with the Board to articulate the business's overall risk appetite (the discussion will reference the risk judgments being made as part of the proposed TOM and transitional roadmap).
People and engagement update	Update on the programme of work to implement the people & engagement strategy discussed at the June awayday, framed with reference to the Business Transformation Programme and our other key commercial priorities.
FS strategy (including update on Titan)	Update on the implementation of Project Titan and also a further update on the FS strategy review informed by the conclusions reached to date on Business Transformation.
26th November:	
Business Transformation	Recommended TOM (informed by the September Board discussion) and the proposed roadmap to implement it.
Plan B scenarios	Outline of the potential 'Plan B' overall business scenarios which would need to be considered if the key financial assumptions for Business Transformation, the 'Win in Mails' programme and the FS strategy do not materialise as envisaged.

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POST OFFICE LTD BOARD

Financial Services Strategy Update

1. Purpose

1.1 The Financial Services strategy to 2020 was presented to, and supported by, the Board in March 2013. This paper provides an update of the strategy and a risk assessment by McKinsey & Co of the 2019/2020 projected revenues. It should be read in conjunction with the accompanying presentation which provides full details of the matters raised.

1.2 It is tabled for noting and support.

2. Background

2.1 Financial Services is a key component of Post Office's business in a rapidly evolving competitive market; it has key strengths but will need to overcome various challenges to deliver its vision, strategy and profit.

2.2 Post Office Financial Services income has grown from £291 million in 2010/11 to £311 million in 2013/14 and is targeting £332 million in the current year[1]. This growth is despite falls of c£20 million per annum in revenue from the payments business (predominantly over-the-counter transaction services).

2.3 In achieving these results the business has built foundations for future growth consistent with the 2013 vision for 2020, including reducing the constraints from the Bank of Ireland (BoI) contract, building specialist product and sales teams, launching new products (including current accounts and MMR-compliant branch mortgages) and strengthening the partnership and working rhythm with BoI (e.g., on pricing, product development).

2.4 In 2014/15 Financial Services will generate 32 per cent of Post Office's gross income, with a 66 per cent direct product margin and EBITDAS of £92.6 million (including FRES profit share of £41m).

3. Proposed vision and sources of differentiation

3.1 The review has confirmed the thrust of the 2013 strategy and enabled the Financial Services vision[2]:

"**Post Office Money is the trusted choice for your finances and doing more in life, offering unparalleled convenience and value**".

3.2 This vision reinforces the revised Post Office vision, incorporates learnings from other challengers and anchors on elements that make it distinct from competitors and compelling to core customer segments (unparalleled convenience, trusted choice, access and proximity and value).

3.3 The vision and resulting strategy should enable Post Office to stand apart from incumbent banks and emerging challengers. It does that through a brand that is trusted, with wide access and multiple connect points with mass market

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[1] Including FRES profit share

[2] Final words being market tested

customers; this starts with the core payments business, and enables crossover into other products.

3.4 Critically the strategy facilitates a multi-layered distribution model that leverages Post Office's advantage in physical presence with a shift to on-line for simpler products. This reflects and supports the increasing digitisation of simpler products, while complex products are sold face-to-face.

3.5 Post Office Money's channel strategy comprises:

- Referrals and appointments captured in branches and on-line to create interview appointments (nb 40 per cent of mortgage interviews originate from an on-line enquiry) and leads for data analysis;
- Face-to-face sales of mortgages (through Mortgage Specialists – "MS") and other more complex products (eg current account and life assurance) via Financial Specialists ("FS") (and potentially "Protection" Specialists) located in hub branches or visiting spoke branches;
- Face-to-face "virtual" sales via web chat and video conferencing to centrally-based MS/FS with terminals in confidential rooms in selected branches (enabling remote selling of regulated and advice products);
- Counter sales will continue for travel insurance, travel money and pre-paid debit and applications fulfilment at a lower level including for savings and credit cards;
- On-line introduction, sale and servicing of products, with simpler products (eg credit cards and travel insurance), with motor insurance sold predominately on-line;
- Selected products (including motor insurance and credit cards) will increasingly utilise aggregator sites;
- Travel money (physical cash) will be increasingly sold on-line, but will continue to be delivered largely in branch;
- Customer analysis within segments will drive direct sales through assessing next likely product and "people who have one of those buy one of these" analysis. The analysis will prompt direct/electronic mailings and outbound calls of product offers/upgrades and/or introductions to an MS/FS;
- Sales processes will either focus on single product sales (eg to "capture" the customer) or cross sell from hook products (such as current account, pre-paid debit and mortgages);
- Integration of all Personal Lines and Travel and emerging payments products onto the Post Office Common Digital will enable a consistent application process on-line and with FS/MSs, feeding directly into the host application systems (Bank of Ireland etc); and
- Traditional payments and banking services (including the servicing of Post Office current account and savings) will continue to be delivered in branch.

3.6 Page 23 of the accompanying presentation provides the anticipated channel split of the Post Office Money by 2020.

3.7 The plan anticipates that the number of MSs and FSs will increase towards 2020 however in the case of FSs this will only occur from 2017 and once the sales performance has reached the target level.

3.8 This strategy represents an extension and speeding up of the current direction and will require increased support from Post Office IT. Financial Services and the CIO are assessing the strategic and cost implications.

4. Risk-based disaggregation of 2019/20 revenue

4.1 The 2013 strategy for 2020 envisaged gross revenues in 2020 for Financial Services of £538 million. This represents an increase of £227 million from the 2013/14 result of £311 million.

4.2 This increase, which is based on the current Post Office operating model, has been disaggregated by McKinsey & Co into five categories of increasing levels of risk, viz:

a) *Momentum growth* of core products (£56 million): - revenue growth from the existing core products;

b) *Binary outcome* (£76 million): - revenue hinging on the outcome of the negotiations to capture more of the insurance value chain (Hawk) and associated revenue;

c) *Material capability* or business model build (£26 million): - revenue from products sales (eg mortgages and current accounts) that requires a significant capability upgrade current (e.g., sales force effectiveness, linking POS data to CRM);

d) *Early concept stage* (£39 million): - revenue associated with propositions that could be compelling, but are yet to be fully designed and/or tested in the market (e.g., SME proposition, Investments);

e) *High execution risk* (£30 million): revenues deemed to have low achievability (e.g., gaining share in competitive markets and BoI balance sheet capacity).

4.3 Based on this risk assessment, one can see a path to revenues of £508 million in 2019/20 if Post Office successfully delivers on the risks and outcomes identified.

4.4 In addition, there are upside and incremental opportunities that have not yet been sized (eg prepaid debit accounts, personal loans, digital payments hub).

5. Delivering the vision

5.1 The delivery of this vision and associated plans will be achieved through four strategic building blocks, viz:

a) *Focussed customer segmentation with increased insight;* the customer strategy will be a combination of satisfying the needs of mass market customers that self-select, and targeting selected segments. This capitalises on the access and affinity we have with these customers through our distribution and brand, and very deliberately complements that with 3-4 priority segments where we seek to increase our share of wallet. For the priority segments, the approach is to lead with hook products (e.g., mortgages, current account and pre-paid debit) tied to a segment-specific product proposition. This customer strategy will be supported by a focussed analytical capability;

b) *Strong product propositions* to meet customers' needs; the product set will expand to support the customer strategy, and will be achieved by moving up the value chain (e.g., in insurance), digital extensions to existing products (e.g., e-postal orders) and new products (e.g., prepaid debit and investments);

c) *Customer-led physical and digital distribution strategy*, which includes a hub and spoke branch model, face-to-face sales of complex products, online and contact centre for simpler products, underpinned by data capture and referrals across the network; and

d) *Upgraded capabilities*, which includes a more visually distinct Post Office Money brand, supported by enhanced capability through people development, data analytics, straight through technology and marketing.

6. Key Risks

6.1 There are a number of risks to the delivery of the 2020 Strategy, including:

a) *Delivery of key programmes:* - the growth in insurance, both for sales and value chain improvements is dependent on Titan (travel insurance new business model) and Hawk (acquisition of BoI's insurance business);

b) *Sales capability* – there is a risk that the new sales model cannot deliver the required sales outcomes, particularly for Financial Specialists;

c) *Regulation and sales compliance* – Financial Services sales are heavily regulated with the industry facing an elevated conduct and prudential environment;

d) *BoI's ability* to support the strategic growth plans – there is a risk that BoI's balance sheet mix, capacity and operational capability is insufficient and cannot sustain the growth;

e) *Competitor reaction* – there is a risk that the strategy will provoke a direct competitor response. Paypoint is a threat, particularly in bill payments, with other players (typically digital) attacking sectors such as travel money, money transfer and prepaid debit.

f) *Target Operating Model* – the Financial Services and TOM teams are working together to understand the potential risks and opportunities from the emerging target operating model and inputting as the final model options are developed;

g) *Staff retention* – there is a near term risk of the loss of key executives, reflecting the current and prospective condition of Post Office and the buoyant financial services market.

6.2 The presentation sets out the mitigation actions to overcome/manage these risks.

7. Next steps

7.1 There are a number of areas of the strategy that are incomplete and will be assessed over the forthcoming weeks:

a) Further deep-dive on the payments strategy;

b) Further analysis of the inter-relationship to/of the TOM;

c) Assessment of the IT requirements of the 2020 strategy;

d) KPIs to track progress towards delivery of the plan;

e) Detailed investment requirements;

f) Detailed 3-5 year profit plan; and

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g) Potential for offering fee-based community oriented services.

8. Conclusion

8.1 The Financial Services strategy represents an opportunity for Post Office to build on the foundations established over the past two years and establish a significant and profitable financial services franchise. It is built on understanding customers' needs, leveraging Post Office's core strategic assets and shifting the operating model to reflect changing customers' requirements.

8.2 Successful implementation of the strategy will provide Post Office with a range of options ahead of the expiry of the BoI contract in 2023 (nb intended direction will need to have been decided by 2019).

8.3 There are, however a number of capabilities required to implement the strategy and risks relating to its execution.

9. Recommendations

8.1 The Board is asked to note and support the paper and accompanying materials.

Nicholas Kennett
Director, Financial Services

September 2014

POL00040271

Financial Services strategy

Board submission
September 2014

POST OFFICE® Money

Overview of materials tabled as part of Financial Services Strategy update

1.	Financial Services Strategy update paper	Separate document
2.	Supporting detail for Strategy paper	Slides 2-28
3.	Appendix materials	Slides 29-80
4.	Reading room	Separate document

FS comprises 4 inter-linked product categories

Income and DPC for 2014/15

Payments

- Bill Pay (inc. payouts)
- Postal Orders
- Moneygram
- PSP
- Money card
- Gift card

DPC[1]	Income
60.7%	£82.2m

Banking Services

- 3rd party cash-based services for customers of other banks (personal and business)
- ATMs[2]

DPC[1]	Income
47.8%	£82.7m

Travel

- Foreign exchange (includes FRES profit share)
- Travel Money card
- Travel insurance

DPC[1]	Income
63.6%	£71.6m

Personal Lines (Banking & Insurance)

- Banking: Savings, Current accounts, Investments & Cards
- Lending: Mortgages & Loans
- Insurance: Motor, Home, Life

DPC[1]	Income
85.9%	£86.8m

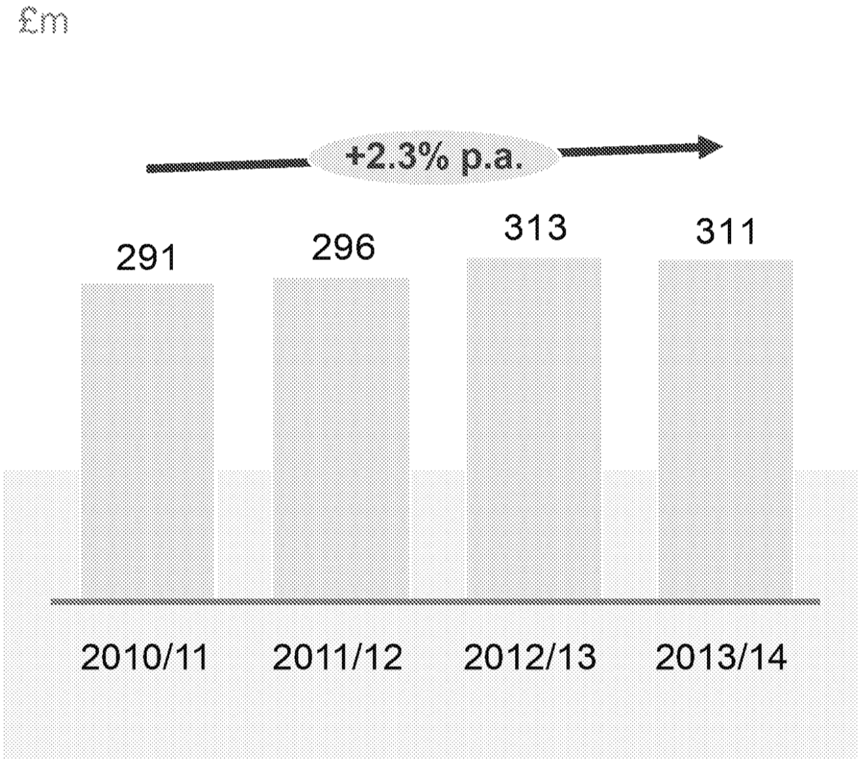
- Strong cross-over between Banking Services & Payments and between Payments & Travel customers
- Payments, Banking Services & Travel drive foot fall into branches
- Personal Lines, Travel (& potentially Payments) provide customer data

1 DPC = Direct Product Contribution
2 ATMs revenues based on original strategic plan; ongoing negotiations underway regarding POCA which could adjust these revenues
Numbers exclude Hawk of £2m and unassigned income target of £4.8m
Source: 2014/15 Budget

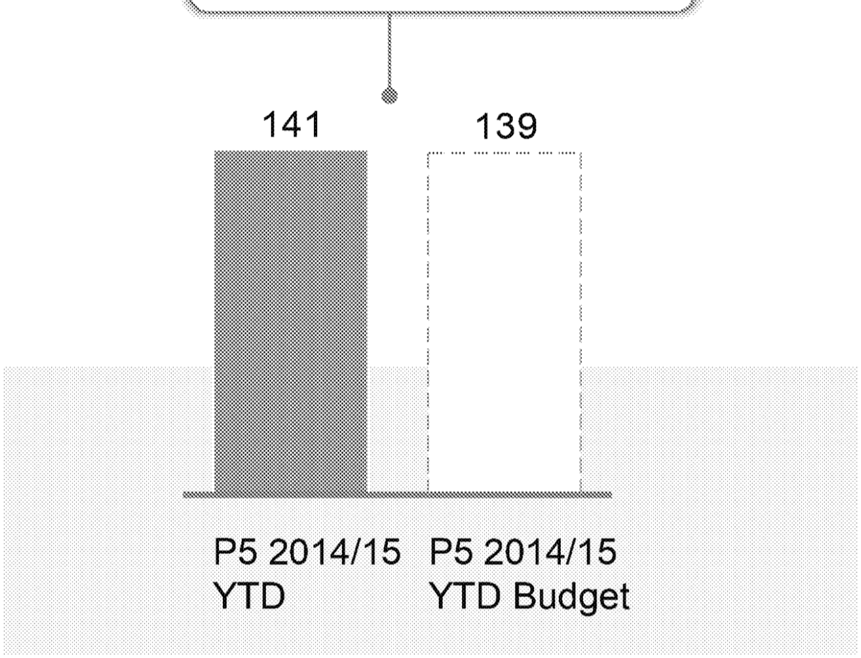
In 2013/14, FS delivered £311m in income at a 61% DPC and is on track to deliver FY 2014/15 at a higher margin

FS has consistently grown & delivered a 61% DPC[1] + 13% EBITDAS in FY 2013/14

It is on track to deliver 2014/15 revenue at a higher margin



YTD[2] was 65% DPC and 20% EBITDAS



1 DPC = Direct Product Contribution
2 Profitability reflects P3 YTD; assumption is that no material changes in past 2 months
All income figures include FRES
Source: Post Office Finance team

Over time, income mix has altered significantly, with growth in Personal Lines offsetting decline in traditional business areas

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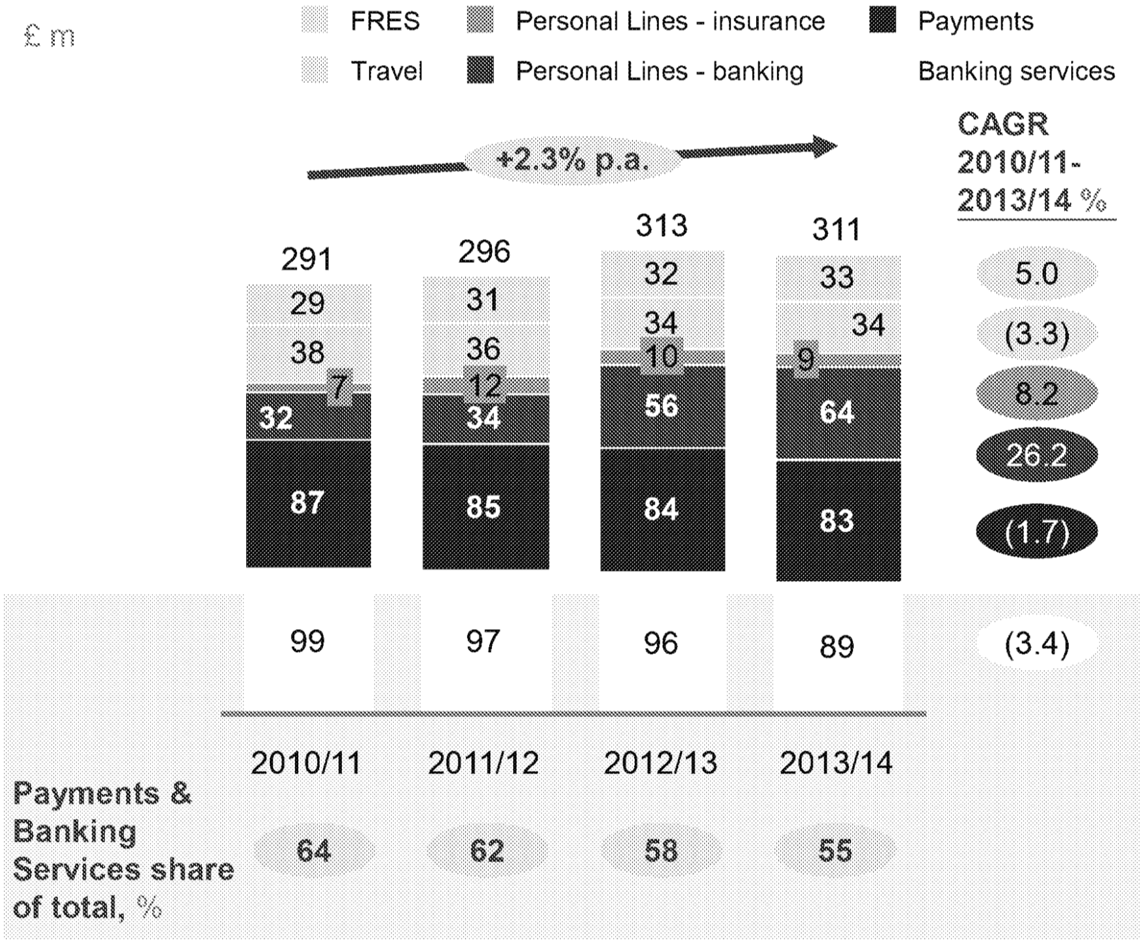
Post Office FS income change 2010/11-2013/14



Source: FS Finance team

Key insights

Mix has shifted towards growing personal lines products

- Traditional payments and banking services have continued to decline
- Mix has shifted away from these declining businesses towards personal lines banking products e.g., savings, loans, mortgages

Revenue growth has been further underpinned by successful contractual re-negotiations

- Revenue growth has been underpinned by improved terms the Eagle contract negotiation that came into force in 12/13
- Reduction in 13/14 as a result of contractual negotiations in NS&I & banking mostly offset by Eagle contract & new revenues in mortgages, ATM and insurance

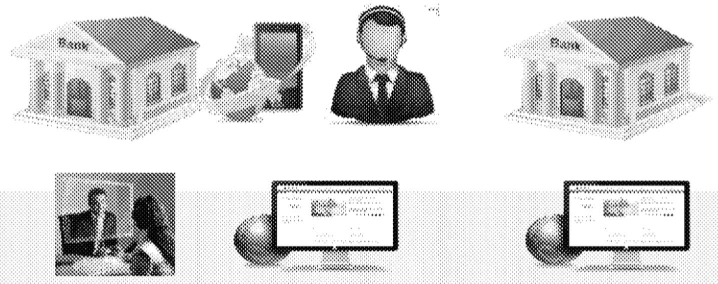
Post Office Financial Services is different from a traditional bank with high margin-based commissions

Different economics from a bank

	Bank	Post Office
Typical revenue drivers	• Large proportion of revenues stock-related • NIM • Fees	• Large proportion of revenues flow related (sales commission) • Some revenue share • Profit share (FRES insurance, credit cards)
RoE	c.12%	High relative to a Bank Low capital requirement Low balance sheet risk

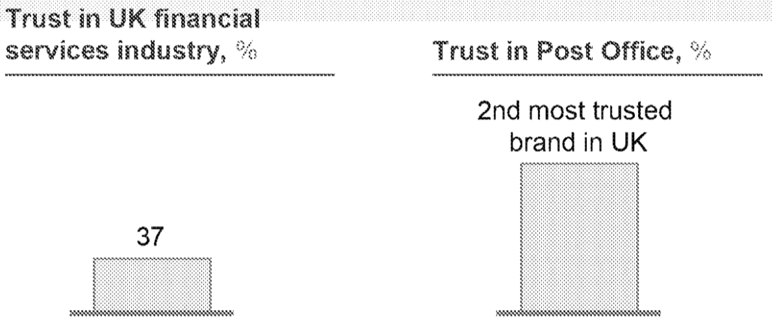
Typical Bank has manufacturing, distribution and balance sheet while post Office only has control over distribution

Bank **Post Office**



- Control over branch and online channels

Trusted brand



Different position in value chain

	Product design & pricing	Marketing & sales	Under-writing	Treasury & ALM	Customer Service	Cross-sell / retention
Bank	✓	✓	✓	✓	✓	✓
Post Office (standal one)	(✓)	✓			(✓)	(✓)

Source: POL FS management interviews; 2014 Edelman trust barometer – FS industry

Market – Payments: Post Office-specific payments products face challenges given declining demand & new technologies

Bill Payments

Products

- Growth in Pre-Pay customers of 4.3% CAGR from 2008-2011
- New products likely to be introduced that combine credit and pre-payment

Competitors

- Aggressive competition from PayPoint, with 80% of Pre-Pay & 54% of Post Pay markets
- Payzone exit creates opportunity to gain share where retailers want 2 providers

Customers

- Post-Pay volumes declining as utilities incentivise consumers to pay via DD to reduce costs to serve (e.g., DD & standing orders comprised 66% of regular payments in 2011 up from 50% in 2001)

Channels

- Govt. mandated smart meter roll-out may dis-intermediate physical top-ups, given focus on top-up via app / online

Postal Orders

- Post Office product constitutes entire market
- Product is a secure cash based payments offer

Lower customer demand

- Unbanked population shrinking rapidly (CAGR 2003-11 of -12%) with current base <3m (1.5% of UK population) due to growth in Basic bank accounts
- Product seen as old fashioned and has little appeal to younger generations[1]

Reducing use cases

- Digitisation of regulatory payments (e.g., visa, passport, DVLA) reduces use cases
- New technologies increasingly render non-mandatory use cases obsolete – e.g., gifting, mail order, donations

Additional threats to Payments caused by competitors, new technology & regulation re: Smart Meters & Basic Bank accounts

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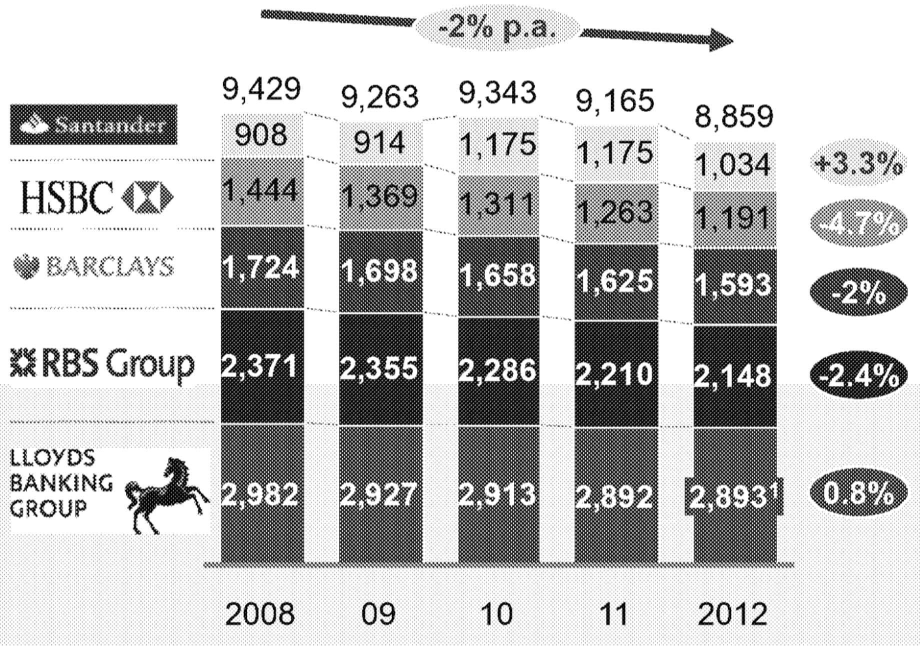
1 Skopos Research 2009

Source: UK Payments Council 'The Way we Pay'; Smart Metering Pre-Payment in Britain 2013 report

Market – Partner Banking: FS has an opportunity given large banks are scaling back their physical footprint

Big 5 are reducing their footprint

Evolution of branch footprint size, top 5 U.K. retail banks



Opportunities & challenges

Requirement for utility

- Exiting uneconomic locations has led to pressure for 'last branch in town'
- **Political appetite** for a provider of financial services to rural or other hard to serve locations

Competitive threats

- Other providers with large networks in particular **PayPoint** may leverage existing capabilities to provide banking services, either to individuals or to small businesses

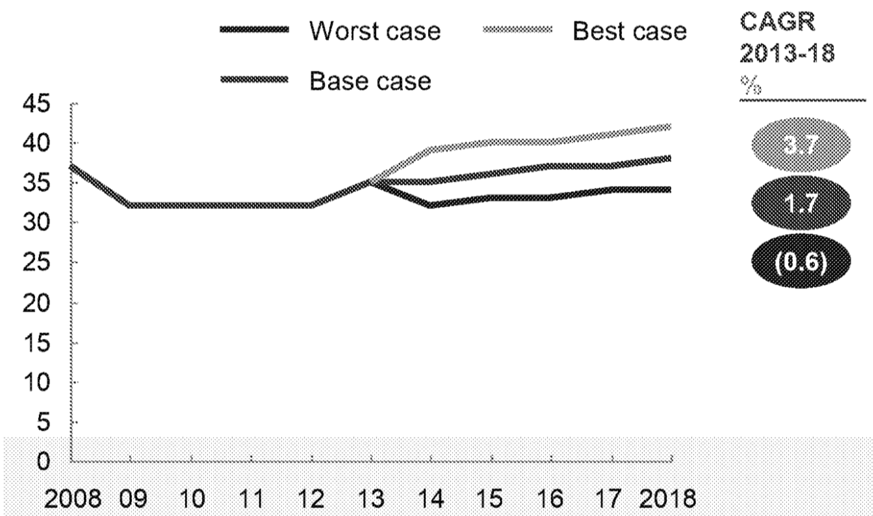
Potential for utility play as Big 5 look to further scale back branch presence; action required to offset competitive threats

Source: British Banking Association database

Market – Travel Money: Modest growth with increasing competitive pressures

Market size and Forecast

Annual spending abroad by UK residents, £bn



- Base case scenario implies **market contraction in real terms** at -1.8% CAGR 2013-18
- Forecast based on multiple factors including holiday destination and resident purchasing power due to currency appreciation

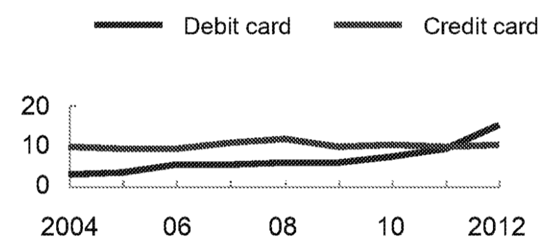
Overview of key dynamics

Increasing competition

- Post Office **leading player** with 26% of market[1]
- **Increasing competition** e.g., Asda's planned market entry, Sainsbury's £735k ad spend summer 2013/14 and growth in use of price comparison websites e.g., 31% of consumers check rates before purchase

Increasing comfort with using debit cards abroad

Value of purchases outside UK, £m



- Higher card usage likely to drive down Forex purchases

Rise of all inclusive holidays

- Rise in **all inclusive holidays** during recession given value for money & ability to control spending
- While independent travel market expected to recover, **potential for further growth** remains in all inclusive given 50% penetration and 23% of remaining being open to possibility

Pre-paid

- Opportunity given **low penetration** of pre-paid cards & clear misconceptions given fee concerns

2019/20 plan for Post Office Money Travel Money has below market growth; conservative approach sensible given trends

[1] Answer to question: 'Which of the following did you use to arrange your foreign currency for your holiday abroad over the last 12 months?'

Source: Mintel 'Travel Money' report May 2014

Market – Personal Lines Banking: Several emerging challengers are seeking to make their mark

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Product/ segment focused

- **SME focused:** launch of SME focused banks; existing players increasing their branch footprint

aldermore
Handelsbanken SHAWBROOK

- **P2P lenders:** launch of multiple P2P and pay day lenders increasing competition in personal loan space

RateSetter
Funding Circle
wonga zopa

High street attackers

- **EC mandated:** divestment of Lloyds and RBS branches, launched as separate high-street brands, initial IPO

TSB
Williams & Glyn

- **Greenfield:** launch of 1st greenfield bank in UK in 100 years

ETRO BANK

Incumbents

- **Big 5:** focusing on cost reduction, efficiency and enhancing customer experience

LLOYDS BANKING GROUP RBS BARCLAYS HSBC Santander

- **Building societies:** strengthening market share for mortgages and savings

Nationwide Coventry Yorkshire

Disruptive attackers

- **Digital:** Atom bank, to be launched as Britain's first all-digital bank in 2015

Atom

- **Non banking players:** innovative payment solutions for both retail and business e.g., Google launched business credit cards for Adwords, Paypal launched working capital lending

amazon.com Google PayPal

Extending financial services proposition

- **Retailer banks:** became fully independent bank, enhanced distribution model

TESCO ASDA
Sainsbury's

- **Specialist attackers:** gained banking licence or acquired portfolio to strengthen presence, e.g., Paragon and Scoban gained banking licence

PARAGON
Virgin money
Scoban

Entrants typically product / segment focused or digital players – opportunity to play to existing strengths of distribution network (e.g., supermarket banks)

FS sits at heart of Post Office's strategic vision

① The most convenient Mails & parcels retailer

- We will be the number one e-commerce champion
- Our customers (both consumers and SMEs) will be able to access our services at an additional 15,000 - 20,000 access points
- Our customer journey will be seamlessly integrated with technology and online offerings
- Transactions will be simple, easy and fast

② The UK's leading challenger Financial Services provider

- We will be the leading challenger service provider
- We will provide a credible alternative to banks that have lost public support
- Our specialists will deliver trusted, quality sales advice on a wide range of financial products
- We will internalise a greater part of the value chain
- Lead generation & data capture via unrivalled branch network

Government Services

- Seize the opportunities from the Government transition to Digital
- Manage the decline of traditional Government income streams

Home Services

- We will become a major challenger to the larger providers in broadband, mobile, and energy

Source: June Board strategy update

The vision set out in 2013 for FS in 2020 remains relevant

5 MILLION
Personal FS customers

TOP 10
UK Mortgage lender

3.1%
Share in Savings

c.1%
Share of Current accounts

TOP 5
Personal lines insurance broker

2+
FS products per customer

Market-leading
Net Promoter Score in key customer segments

Branch access
within multi-channel distribution remains a USP, delivering complex sales and lead-generation

To deliver £538m income in 2020

- Investing in our **brand** to build customers' awareness of our FS offer and support consideration
- Using **CVPs and analytics** to understand customer needs and drive an increased share of wallet
- Ensuring our products are **simple, transparent, and offer value-for-money**
- Providing unrivalled **access** across the full range of channels with simple and easy customer journeys
- Improving our **sales model** to build customer relationships and loyalty, increasing average product holding
- Broaden our reach to customer **segments** through competitive and relevant products and services

FS updated vision

	Overview
Post Office vision (new)	*"The Post Office helps make the important things in life happen."*
Post Office Money vision	*Post Office Money is the trusted choice for your finances and doing more in life, offering **unparalleled convenience** and value*[1]
Post Office Money 'raison d'être'	***Post Office Money will differentiate by providing innovative propositions and an easier way for customers to manage their finances via a multi-channel, digital approach and unrivalled branch network***

Core elements of Vision

- **Customer**: Open to all, targeted at 3-4 selected segments (e.g., True Blue)
- **Product**: Hook products for target segments + digital extensions
- **Channel**: Branch remains a key differentiator with strong online / mobile presence
- **Capabilities**: Upgraded sales, data, IT, marketing and people model

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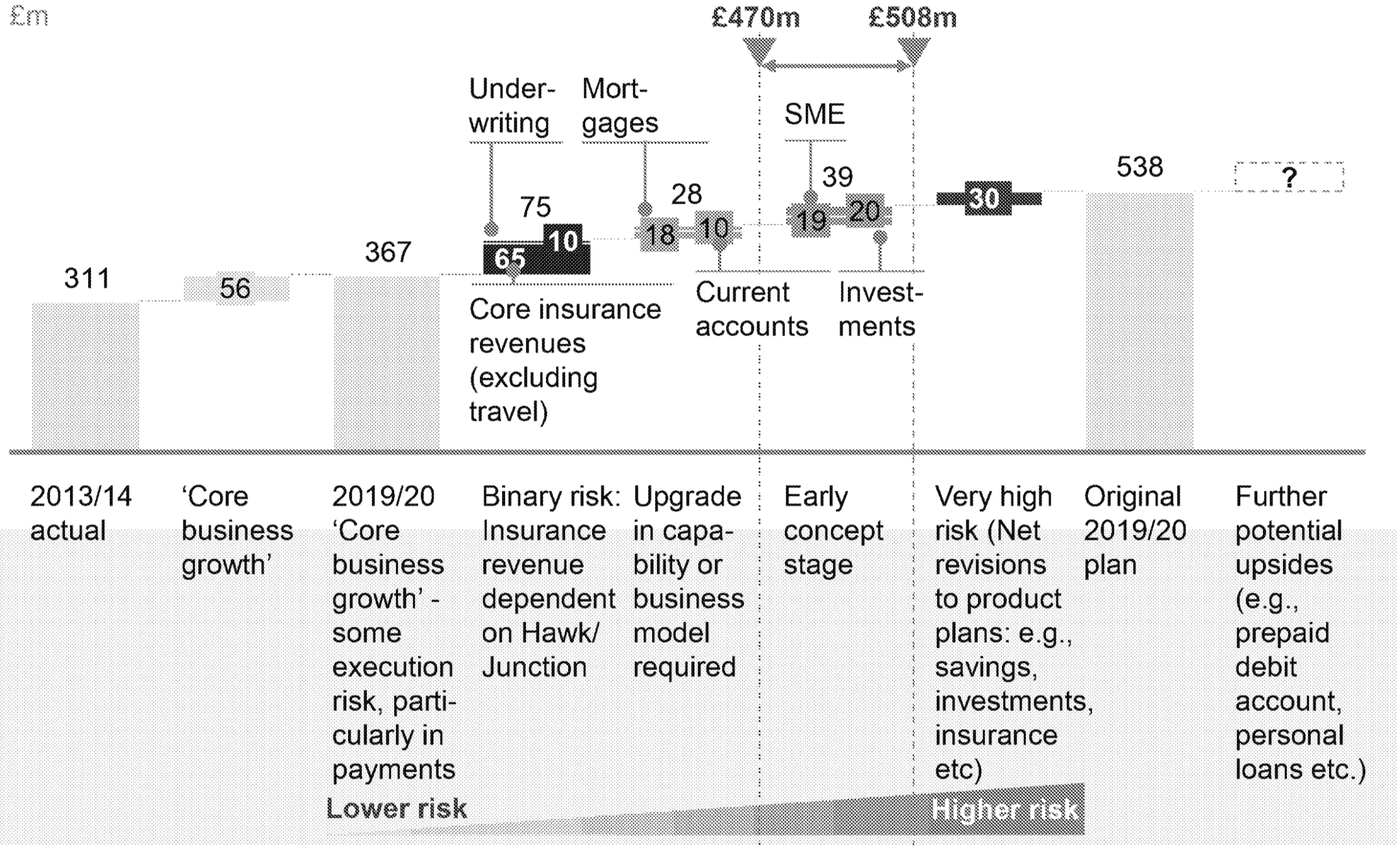
1 Final to be agreed

Financial Services has an aggressive income aspiration, which has been disaggregated based on risk

Post Office Money

Overview of Post Office FS income trajectory



Numbers may not add to rounding

Key observations

- FS is a growth business within Post Office, with a growth rate in line with a challenger business
- Assumes current operating model including:
  - Full branch network
  - F2F sales via specialists
  - POCA
- Plan is based on a measured and pragmatic approach to building capabilities e.g.
  - Ramp up of F2F advisors only occurs once current network of 223 advisors has hit break-even productivity

Detail on 2019/20 product revenues by risk level

▨ Downwards revision
▨ Upwards revision

Summary of changes to plan by product

	Products	Actual 2013/14	Original 2019/20 plan	Adjusted 2019/20 plan[1]	CAGR 2013/14-2019/20[2]	Category description
2019/20 'Core' business growth some execution risk, particularly in payments	Bill payments	37.8	29.5	32.4	-3%	• 2019/20 income is seen as part of core growth (rather than having significant risk of achievement attached)
	Postal orders	24.6	16.0	16.0	-7%	
	Other payment services	4.0	16.1	16.1	26%	
	ATMs	31.4	32.3	32.3	0%	
	Banking services	57.4	60.8	60.8	1%	
	Loans	0.2	5.0	3.6	61%	
	Travel insurance	9.7	19.7	27.9	19%	
	Moneygram	16.3	20.3	29.1	10%	
	Travel money	24.3	32.0	25.1	0%	
	Savings	56.7	76.6	64.5	2%	
	Cards	1.0	5.7	5.7	34%	
Binary risk[3]	Motor/Home insurance	2.2	65.9	51.5	69%	• Income number is dependent on a deal being executed, which in part depends on factors wholly outside the FS exec team's control
	Other insurance products	6.7	17.0	11.0	9%	
	Insurance underwriting income	-	10.0	10.0	N/A	
	New insurance products	-	25.7	15.1	N/A	
Upgrade in capability or business model	Mortgages	4.8	11.2	17.6	24%	• Income requires significant upgrade to capabilities to deliver target e.g., – Sales force effectiveness – Strong customer value proposition
	Current account	-	13.0	9.7	N/A	
Early concept stage	SME	-	20.0	20.0	N/A	• Income currently uncertain given idea still at very early stage of development • Typically reflects new/untested concepts
	Investments	0.8	20.3	19.3	69%	
FRES		33.0	41.0	41.0	4%	
Total		**311.0**	**538.2**	**508.8**	**9%**	

[1] Net of product revisions [2] Assuming adjusted plan revenues for 2019/20

[3] Note that total 'Binary risk' is higher on this page due to the fact ~£12m of low risk insurance revenue growth is included to show a full product view, but is split into the '2019/20 Core' bucket for the purposes of the previous page

FS 2020 aspiration has additional strategic upsides for opportunities not captured within the plan

	Description
Pre-paid debit account 	• Prepaid is the fastest growing payment method in USA and is projected to have double digit growth and Issuer revenues of $9.8 billion by 2016 • Traditional positioning of “when you can’t get a credit card” has given way to “the alternative to checking accounts” and is targeted at a much broader audience spanning the credit spectrum
Digital payments hub – digitised money[1]	• Single hub for depositing and payment needs – Top up through linking to bank/debit card or top up with cash at the Post Office – Send money to friends/family, withdraw cash from Post Office, pay bills and integrate other payments propositions e.g., MoneyGram • Potential to widen into digital wallet e.g., with driver’s license details also uploaded • Clear market precedent e.g., Moven
Expansion of loans for low income	• 1.1m UK low income households need credit but are unable to borrow; more generally real wages remain depressed vs. pre-crisis levels • Growing interest e.g., LBG offering smaller loan sizes for shorter repayment periods
Acquisitions	• Exploring opportunities to acquire good quality books of business, particularly in the General Insurance market to improve scale and associated margins • Post Office could seek to acquire BoI’s share in FRES which would allow Post Office to capture the entirety or the FRES dividend (c. £35m pa), make use of tax losses and unlock other corporate foreign exchange potential (Project Bounty)
Banking services utility play	• As banks continue to rationalise branches, Post Office is increasingly becoming the only branch access point for customers.

[1] Potential to expand on significant work already completed on digital postal orders (POGO)

Source: ‘Consumer credit and consumers in vulnerable circumstances’ FCA April 2014

The delivery of the FS strategy provides Post Office with a number of choices ahead of the current expiry of the BoI contract

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Near term focus

- Deliver FS strategy
- Build capabilities and bed down the operating model
- Achieve effective risk management and governance

Keeps strategic options open

Strategic options available

Post Office will need to decide in 2019 how it will proceed in 2023:

1. **Exit FS**
2. **Continue as is**
   a. With BoI (renew/extend contract in 2023)
   b. With a different bank partner
3. Form JV with banking partner, potentially with an option to buy partner's stake in a few years
4. Pivot to a purer distributor model with multiple partners
5. Increase ownership and control by building own balance sheet

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Achieving the 2020 Vision will require the delivery of four inter-related building blocks

	Overview
Customer	• **Mass market** customer base with natural affinity to low income, more branch-centric or older customers • **3-4 target customer segments** based on segment attractiveness (including value) and Post Office ability to meet their needs
Product	• Enhanced economics & deeper customer knowledge by **moving up value chain** in specific areas • **Product innovation** to partially offset decline of traditional business e.g., SME, PPD and to offer **compelling, customer-first propositions** • **Hook products** that support target customer segments (e.g., PPD, current account, mortgages) • **Integrated** propositions that link several products for cross-sales e.g., Travel, Home, Over 50's
Channel	• Digitised customer journeys across all channels • Shift from counter as sales channels to lead generator, with **in-branch F2F** sales with **specialist** advisors • New remote capabilities including **outbound calling, web-chat** • **Enhanced online capability**
Capabilities, dependencies and risks	• **Capabilities:** Data (i.e., front-line data capture, institutionalised capabilities, front-line tools), technology (i.e., tablet tool for F2F), marketing (e.g., sub-brand, market budget) and people (e.g., F2F productivity, incentivisation) • **Dependencies:** Network and capacity for Hub & Spoke sales model; **commercial** support e.g., Customer Management Roadmap; wider functional support e.g., product P&Ls • **Risks:** Partner, conduct and key programmes e.g., Hawk

Source: FS business team analysis

Customer: Key insights

POST OFFICE Money

Customer

Product

Channel

Capabilities, dependencies & risks

Overview of customer needs

- Historically broad based mass market offer, with strengths in older, low income and branch-loving segments e.g., **better performance in urban deprived and urban inner deprived areas**
- **Payments**: Traditional payments products target **un-banked and under-banked**
- **Travel**: Travel Money has targeted **younger segments**
- **Personal Lines**: Spike in **older** segments for some Personal Lines products; most loyal customers also tend to be older and less well off females by a significant margin. However, recently, new products have enabled FS to extend into **new segments**
  - Different customer profile for **mortgages** focused on price-driven, online savvy and younger customers
  - Online loan proposition has targeted **higher income** customers

Implications for Post Office Money

- Need for **mass market** coupled with **multi-segment approach**
- FS to **go deep on a portfolio** on **customer segments**, which are currently under-served or where FS has product specific aspirations e.g.,
  - **Over 50's** e.g. Silver Foxes, Lavender Scented, Ruby Weddings
  - **Women** e.g. Pink Fizz, Lavender Scented, Ruby Weddings
  - **Low income** e.g. Lavender scented, under banked/un banked
  - **Younger first time buyers** e.g., Golden Boys

BUILDING BLOCKS TO ACHIEVE 2020 VISION

EXAMPLE

Customer: Strategy is to adopt a mass approach, complemented with 3-4 target segments through hook products

Post Office® Money

Customer strategy

Mass market customers that self-select Post Office Money

\+

3-4 priority segments each with a hook product supported by a compelling segment-specific proposition

Overview of customer segments – EXAMPLE ONLY

Underway: Detailed design and GTM for segment-specific propositions

x Hook product's index relative to market

Example Products					
Current a/c					
Credit card (platinum)		173			
Loans					
Mortgage			154		
Savings	206				
Motor insurance					
Segment name[1]	Lavender scented	Silver Foxes	True Blue	....	....
Segment size in the UK, adults, m	6.9m	5.1m	6.2m	...	...

Mass market customers who self-select Post Office Money

- 3-4 focused segments
- Objective is to maximise FS share of wallet through segment specific hook products and tailored product propositions

Mass segments with natural affinity to Post Office brand and / or strong preference for key features e.g.,
- Access
- Convenience
- F2F

[1] Segment details are set out in the Reading Room

BUILDING BLOCKS TO ACHIEVE 2020 VISION

Product: Key insights

Customer

Product

Channel

Capabilities, dependencies & risks

Overview

- Each product category plays a **unique role** within the portfolio
  - **Payments** contribution to total income is **declining**; key requirement will be to guard share via improved convenience / opening hours (network extension) and building new capabilities in digital payments; business also **drives footfall** to branches
  - **Banking Services** has **lower EBITDAS margin** compared to other product lines, with profitability varying significantly by sub-segment; category also **drives footfall** to branches
  - **Personal Lines** is **core growth engine** for business, almost doubling share of total income going forward
- Within Personal Lines, **current product propositions require further development** terms of price or non-price dimensions e.g.,
  - Price: Competitive within panel but not vs. market leaders
  - Non-price: Products do not have clear differentiated features as recognised by independent ratings firms

Implications for Post Office Money

- In its **traditional business**, Post Office Money should continue to be a strong player and **selectively innovate**
- Create **digital extensions** of products (e.g., electronic postal orders) or **digitising** existing products
- **Develop compelling, customer-first propositions** (e.g., cards)
- Establish clear ‘hook’ products
- **Launch integrated propositions** for cross-sales
- Explore utility service offering for banks

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EXAMPLES – NOT COMPREHENSIVE

Product: Moving forward, Post Office will evolve its product in 3 different ways

Anticipated product innovation (examples only – not comprehensive)

Innovation in new products	**Prepaid debit**	• Prepaid is the fastest growing payment method in USA and is projected to have double digit growth and Issuer revenues of $9.8 billion by 2016 • Traditional positioning of "when you can't get a credit card" has given way to "the alternative to current accounts" and is targeted at a much broader audience spanning the credit spectrum
	Investments	• Investments market is under significant disruption since RDR made payment for financial advice mandatory, and regulation on annuities as default for pension schemes was scrapped • Aspiration to enter with a disruptive online platform proposition, focusing on addressing those left in the 'advice gap' or investing pension money without use of an IFA
Compelling propositions for existing products	**Credit card**	• Development of compelling, customer-first propositions (e.g., cards)
	Insurance	• Project Hawk will allow FS to claim a larger share of the current Junction JV profit to invest in strengthening its insurance proposition, and non-renewal of Junction contract will reduce administration costs and increase pricing power with underwriters (i.e., through ability to choose from a panel rather than being limited to those specified by Junction)
Digital extensions of existing products	**Digital payments hub**	• Single hub for depositing and payment needs – Top up through linking to bank/debit card or top up with cash at the Post Office – Send money to friends/family, withdraw cash from Post Office, pay bills and integrate other payments propositions e.g., MoneyGram • Potential to widen into digital wallet e.g., with driver's license details also uploaded
	Digital application forms	• Product applications and processes being put through CDP, with credit cards as the first example

Channel: Key insights

Customer
Product
Channel
Capabilities, dependencies & risks

Overview

- While FS is in line with market in that online is set to become increasingly important, **branches remain a critical channel** for driving sales at 58% of total income in 2019/20. The most significant **channel shifts** occur within the **Personal Lines** category
  - **Insurance**: Increasingly **digitising** with up to 80% of new sales online
  - **Banking**: Shift towards **branch** caused by new branch heavy products (e.g., Mortgages, current account); within the branch channel, these are largely delivered via F2F advisors and rely less on counter sales
- **New technologies** (e.g., VC) and **digital enablers** (e.g., data capture) to enhance customer experience, increase cross-sales & optimise sales processes; **online / mobile** also to become increasingly key sales channels
- The **F2F staff** are a critical component of the physical distribution and while today they do **not break even**, the business has a **plan** to helping them get there
  - MS: New hires at higher performance
  - FS: Achieving required productivity will involve a mix of performance management, training, data, lead generation, incentives & tools

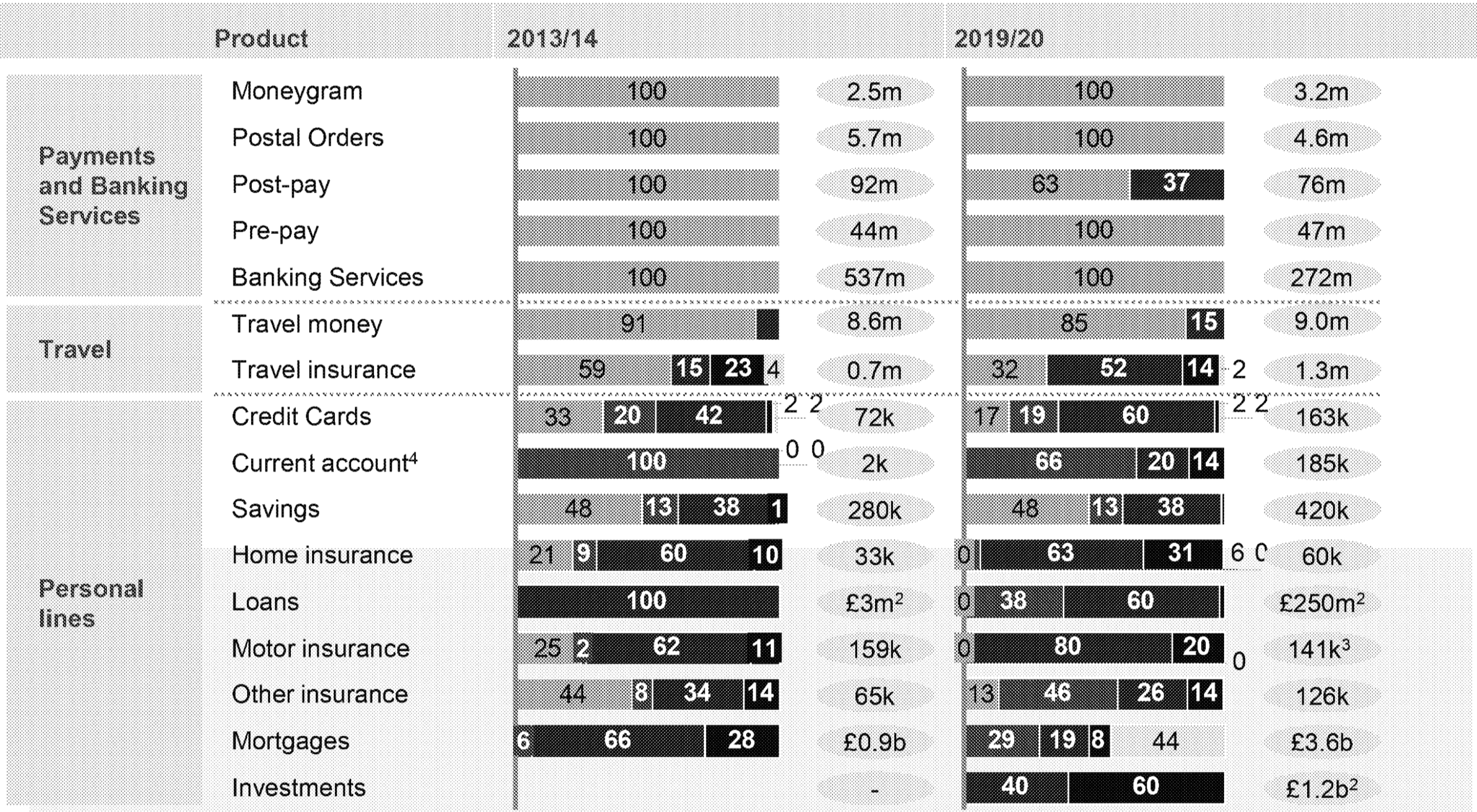
Implications for Post Office Money

- **Branches**: Aspiration is to move to a **hub & spoke distribution** model, where customers can access financial services advice even when a specialist is not located in their closest branch
- **Contact Centre**: Plan to create **outbound calling capability** driven by data capture in tail branches; also plan to manage more inbound calls to drive **cross-sales** (Titan)
- **Online**: Aggregators will remain the key channel for Post Office online sales in insurance, but ambition is to drive increasing traffic to our website and create optimised customer journeys to drive conversion

Channel: Insurance increasingly sold online but new Personal Lines products require greater F2F capability

POST OFFICE Money

Split of new sales volume by channel (% volume)[1] ▨ Counter[1] ▩ F2F ▩ Online ■ Contact centre ░ Other x # sales (volume)



	Product	2013/14		2019/20	
Payments and Banking Services	Moneygram	100	2.5m	100	3.2m
	Postal Orders	100	5.7m	100	4.6m
	Post-pay	100	92m	63 37	76m
	Pre-pay	100	44m	100	47m
	Banking Services	100	537m	100	272m
Travel	Travel money	91	8.6m	85 15	9.0m
	Travel insurance	59 15 23 4	0.7m	32 52 14 2	1.3m
Personal lines	Credit Cards	33 20 42 2 2	72k	17 19 60 2 2	163k
	Current account[4]	100 0 0	2k	66 20 14	185k
	Savings	48 13 38 1	280k	48 13 38	420k
	Home insurance	21 9 60 10	33k	0 63 31 6 0	60k
	Loans	100	£3m[2]	0 38 60	£250m[2]
	Motor insurance	25 2 62 11	159k	0 80 20 0	141k[3]
	Other insurance	44 8 34 14	65k	13 46 26 14	126k
	Mortgages	6 66 28	£0.9b	29 19 8 44	£3.6b
	Investments		-	40 60	£1.2b[2]

[1] Counter includes branch referred sales completed online/call centre where FAD code given by customer
[2] Front book value
[3] 2013/14 insurance sales were one off spike for Motor
[4] Conservative assumption as likely some current account applications processed at counter / CRMs

Channel: FS' channel strategy is evolving with changing customer needs while maintaining competitive advantage

Channel Income[1]	From	To
Branch counters **2014: £225m** **2020: £278m**	• Focused on processing payments for tradition business • Sales of simple products via paper applications + life insurance • Low rate of counter referrals to specialists (~13%)	• Front-line focused on data capture and referrals via simple tools to enable rapid form filling and/ or instant set-up via apps • Greater use of self-serve; limited use of paper applications • Fulfillment of some simple products (e.g., Savings), Travel Money and Travel Insurance
Branch specialists[2] **2014: £5m** **2020: £33m**	• Growth and stabilisation of new F2F network, with initial focus on delivering higher quality standards • Significant variance in sales performance between top and bottom performing sales staff • Performance based incentive systems partially implemented (completion subject to final Trade Union agreement)	• Improved FS productivity, closer to market average • Significant proportion of leads to specialist advisers driven through 'hub and spoke' model • FS to pair up with MS, where practical, to maximise x-sales • Incentive schemes embedded as a core element of a customer-oriented culture
Remote / Telephony **2014: £14m** **2020: £26m**	• Inbound telephony (~10-15% of insurance sales) with outbound pilot underway • Limited service to sales functionality given no ownership of inbound call centre • Videoconferencing trial underway	• Increased use of remote VC / web chat capabilities for sales of complex products e.g., mortgages, life • Outbound telephony for warm leads from counter & data analytics • Service-to-sales to drive cross-sales following move up value chain for insurance sales
Online / mobile **2014: £28m** **2020: £84m**	• Limited website functionality – e.g., not all products available online, room to improve customer journeys, especially cross-sell • Reliance on aggregators to drive volume for Personal Lines insurance products • Credit card process the sole example of a digital application process applied in branch	• Simple website tailored to customers based on browsing behaviour; full suite of products available for sale • PO Money homepage with single sign on; leads from main site • Full product details for insurance & investments. Simple digital customer journeys accessible through multiple channels (including F2F) with embedded cross-sell options • Selective use of aggregators to raise brand awareness and deliver volume targets; however, increased focus on own website

[1] Excludes Other Income: 2014: £39m; 2020: £87m (Mortgage intermediaries, FRES, insurance renewals); branch walk-through

[2] Excludes impact of leads generated by FS & MS but executed in order channels

Capabilities, dependencies and risks: Capabilities

Customer
Product
Channel
Capabilities, dependencies & risks

	Overview of key capability requirements to deliver plan
Data	• Improve front line data capture in branches of customer information • Institutionalise data analytical capability to profile customers, understand their needs and anticipate their next likely product • Use front-line sales tools • Present customer overview to FS / MS and provide next likely product prompts
Technology	• Implement tablet (or equivalent) sales tool to front line sales staff (FS & MS) with product applications through Common Digital Platform • Improve customer database capability
Marketing	• Launch a visually distinct PO Money brand • Support to build customer awareness • Establish an annual marketing budget
People	• Incentivise FSs, MSs to deliver effective (compliant) sales • Improve sales team productivity to drive personal lines banking products in particular through training and recruitment support (e.g., FS Academy) • Implement Agency commission structure to reward and encourage sales and service activities

Capabilities, dependencies and risks: Dependencies

Customer

Product

Channel

Capabilities, dependencies & risks

Overview of key Group dependencies

Network dependency

- Branch network to:
  - Support sales of complex products through the Hub & Spoke specialist model, targeting branches with the appropriate footfall/customer mix
  - Support POL's largely cash based payments and banking business
- Invest in online offering which will be central to simple sales and customer servicing

Ensure POL Group provides suitable functional support

Marketing

- Customer Management Roadmap, incl. Single Customer View
- Marketing investment & support, incl. test & learn new approaches, in addition to BoI & FRES marketing contribution

IT

- CDP: increased control, improved journeys, single customer sign-on Cross-functional product and marketing initiatives, in support of CVPs
- Development & execution of a Post Office FS IT delivery plan (including coordination with BoI)

Rest of the business

- Network: capacity and support for new products
- Finance: product P&Ls
- HR: recruitment support, in particular for Specialist roles and incentives

Capabilities, dependencies and risks: Delivery risks

Customer

Product

Channel

Capabilities, dependencies & risks

	Overview of key risks for POL to manage	Mitigation
Delivery of key programmes	• Growth in insurance business is dependent on: – Titan (travel insurance new business model) – Hawk (acquisition of BoI's share of insurance)	• Board mandate given – FCA application in progress – Negotiations underway with BoI
Sales Capability	• Ability of business to deliver increased output from sales people	• Plans in place to exit and replace non-performers and provide the tools, training and incentives to support them
Sales compliance	• Financial Services sales are heavily regulated and mis-selling presents a key risk	• With BoI, Post Office has a coordinated 3 lines of defence to manage conduct risk
BoI ability	• There is a risk that BoI's balance sheet mix, capacity and operational capability is insufficient and cannot sustain the growth required	• Negotiations progressing with BoI to establish medium-term targets and commissions
Competitor reaction	• There is a risk that the activities will provoke a direct response from our competitors	• Monitor key challengers and respond accordingly.
Target Operating Model	• Uncertainty on risks and opportunities from new TOM	• Working with TOM team to understand key levers and implications
Staff retention	• Near term risk of the loss of key executives, reflecting the condition of Post Office and the buoyant financial services market.	• Strategy being developed with HR

Activities to be finalised

POST OFFICE Money

- Further deep-dive on the payments strategy
- Potential for offering fee-based community oriented services
- 3 year profit projection
- Detailed investment requirements
- KPIs to track progress towards delivery of the Plan
- Further analysis of the implications on FS of the TOM

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FS is taking steps to enhance its business model

Improved commercial terms	• **Project Eagle** deal in 2012 to **renew partnership with BOI** thereby generating **higher income** for Post Office, through greater commissions and sale of POFS shares proceeds • Additional **savings** as a result of the reduction in Post Office obligations that included: – New, lower minimum Crown and FS headcount requirements with estimated benefits of (£8m & 15.9m pa respectively & cost avoidance of £16.7m) – £15m pa marketing fund – Significantly improved protection for Post Office if Bank gets into financial trouble
Upstream position in value chain	• **Project Titan**, to be executed in Jan 2015, will enable FS to manage and control the value chain for Travel Insurance via Post Office Managed Services (POMS) division. This will enable Post Office to offer more product propositions for customers including an aggregator proposition that will broaden reach for increased premiums/profitability, whilst increasing market share amongst the PO core customer base e.g. over 50's • **Project Hawk** to occur in 2014/15 and will entail **buying out the Insurance portfolio** from Bank of Ireland. Taken together with **expiry of Junction contract**, will give FS ability to drive cross-sell (via owned call centre) and establish a 'broker style model', thereby increasing pricing flexibility
Sub-brand	• Post Office Money **sub-brand** to be launched in Jan 2015 in order to change customer perception of Post Office as an FS provider
Improved customer journeys	• **Online customer journeys** being improved e.g., reduced question set, application completeness tool bar; credit card redesign has led to increased sales (from 93% to 215% of YTD target) • New journeys also being replicated for **in branch FS advisors** to offer live acceptance decision, lower error rates and facilitate a compliant sales process
Enhanced sales capabilities	• Investment in **sales training/Academy/tools** to boost FS productivity • **Capture customer data** to improve conversion • Introduce new **performance management** and change incentive structure • Drive **lead generation** through CRMs and online appointment booking, and investment in **Post Office Money brand**

Source: FS business team

Post Office currently has low awareness & FS credibility

		Aug -14	Target 2020
FS Measures	Awareness (FS)	10%	20%
	Consideration (FS)	12%	35%
	FS credibility	9%	50%
	Net Promoter Score	+24	Top Quartile (industry)
	Easy to do business with (CES)	71%	Top Quartile (industry)
Overall Brand	Net Promoter Score	-1[1]	40%
	Easy to do business with	27%[1]	57%

[1] 3 month rolling month average May – Jul-14

Respondents may give multiple responses; base: All arranging product in last 6 months

Source: Customer strategy team data

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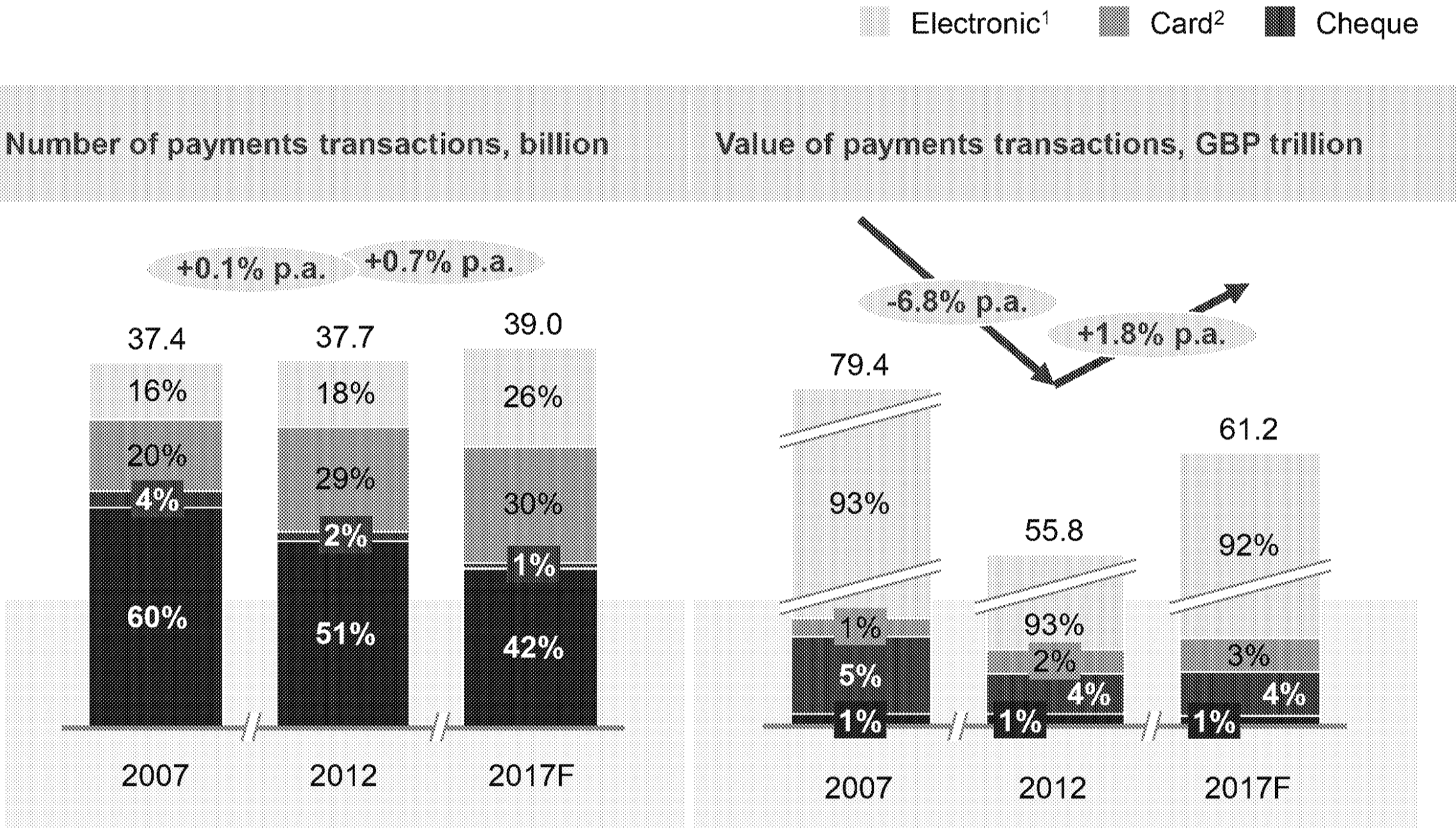
Market – Payments: The UK remains a cash-centric market but the importance of cash-based payments is declining

POST OFFICE Money



Number of payments transactions, billion

Value of payments transactions, GBP trillion

- Cash is dominant payment method, capturing 51% of volumes in 2012 & 42% by 2017; high share of cash driven by usage by small & micro merchants & P2P
- Electronic payments (CT/DD) expected to sharply increase share in volumes driven by account-based solutions targeting P2P payments (e.g., Faster payments, PingIt)

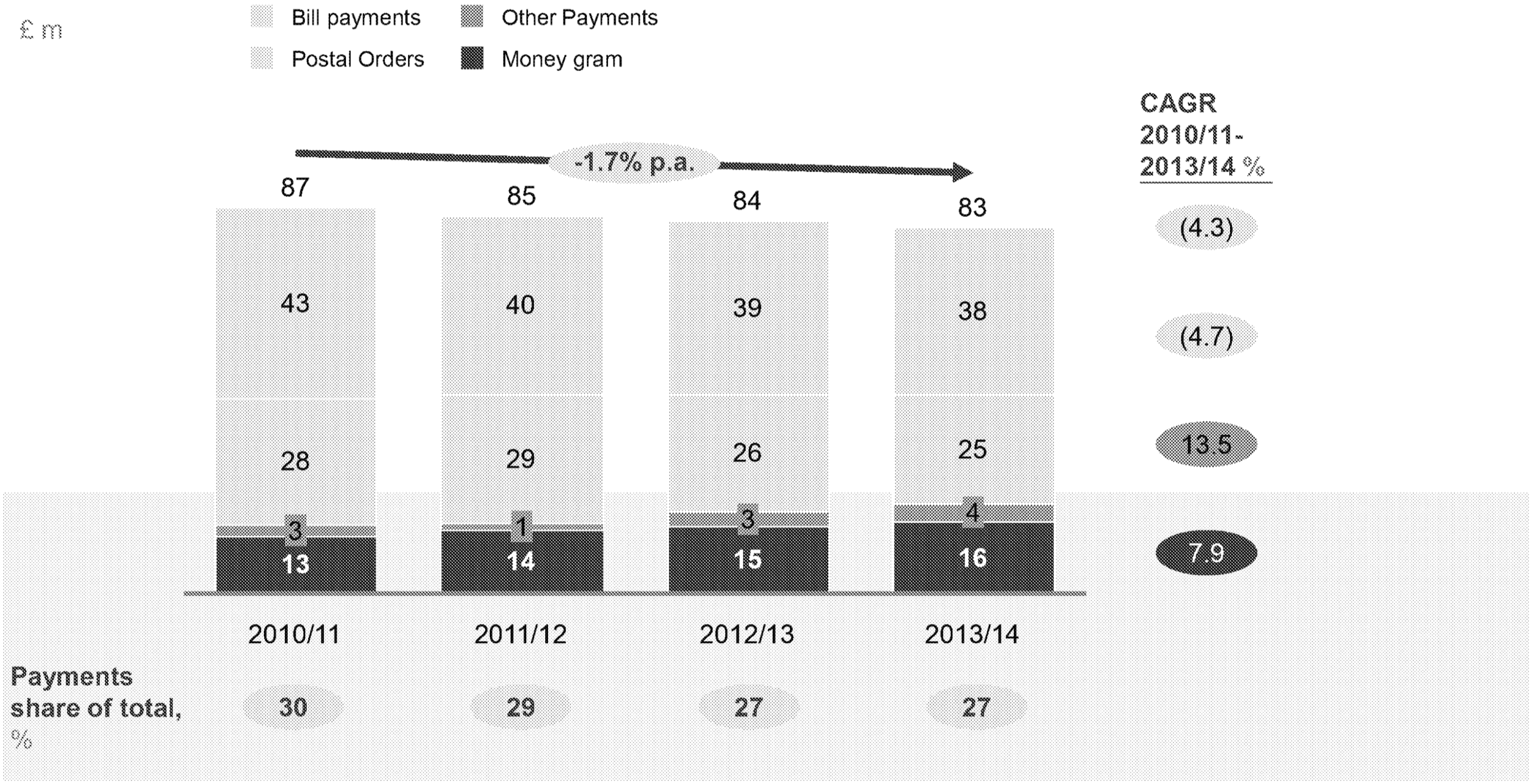
Traditional FS Payments business in decline given move away from cash

[1] Incl. credit transfers and direct debits; [2] Incl. prepaid, debit and pay-later card transactions

Source: McKinsey Global Payments Map

Starting position – Payments: Historic performance

Post Office Payments income change 2010/11-2013/14



Source: Finance

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- Starting position & market context – Product specific
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  - **Banking Services**
  - Travel
  - Personal Lines
- Vision / learnings from challenger strategies
- Building blocks to achieve 2020 Vision
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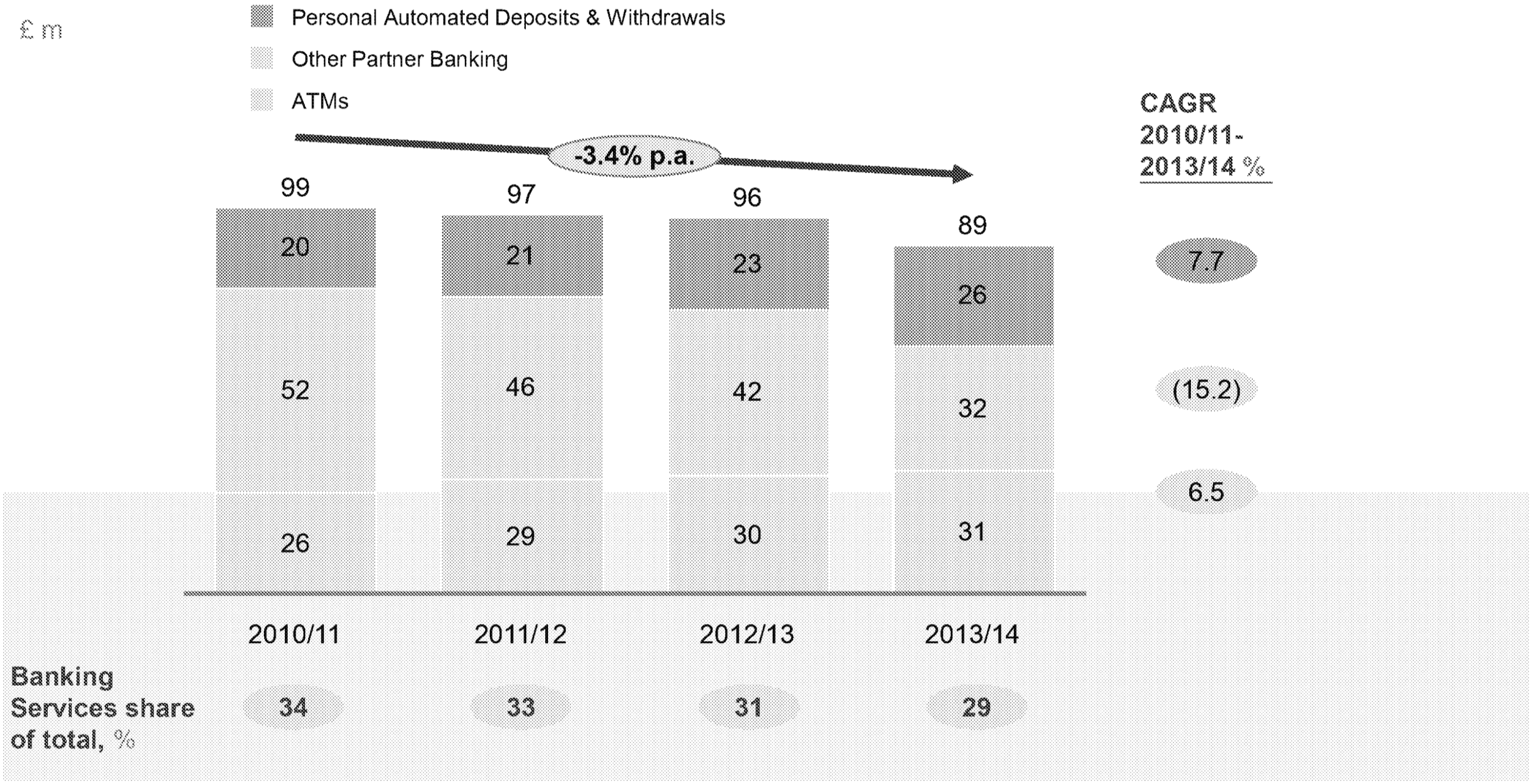
  - Product
  - Channel
- Next steps & milestones

Starting position – Banking Services: Historic performance

Post Office Banking Services income change 2010/11-2013/14



Source: Finance

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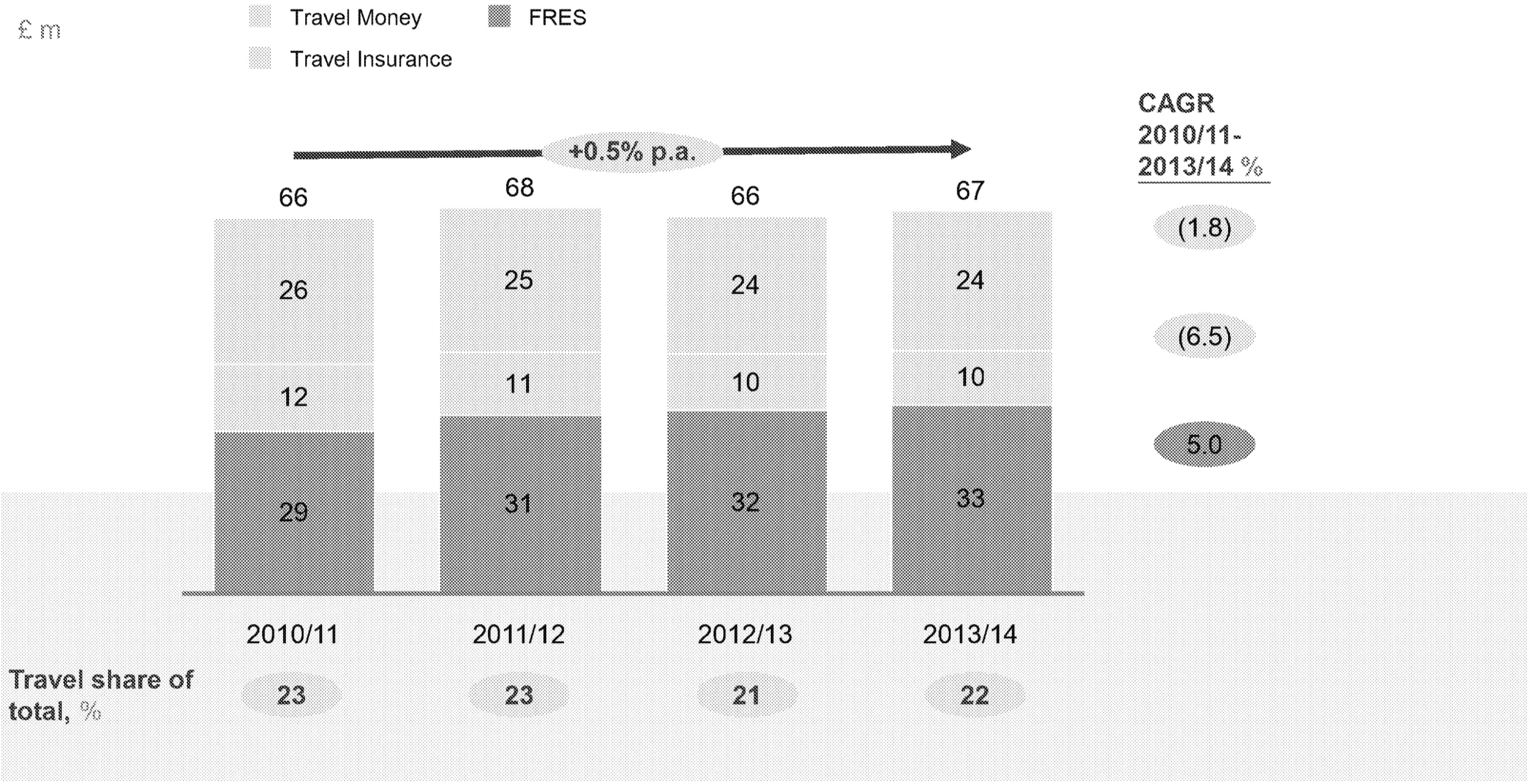
POST OFFICE Money

Starting position – Travel: Historic performance

Post Office Travel Money income change 2010/11-2013/14



Source: Finance

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Market – Personal Lines Banking: Wide-ranging innovations in recent years have contributed to industry transformation

POST OFFICE® Money

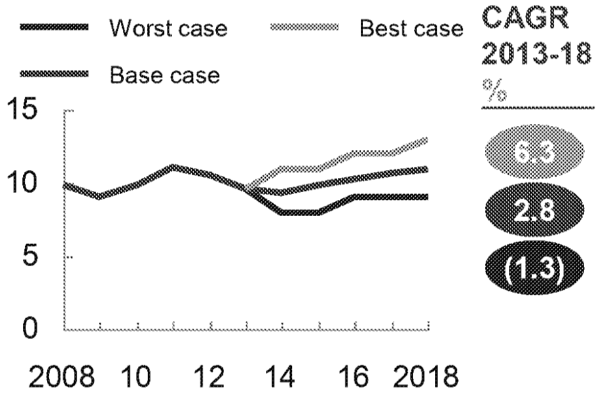
	Innovations	Examples
Product innovation	▪ Santander UK launched its '123' offering in March 2012 offering innovative rewards and interest rates ▪ Barclays Features store was introduced in 2012 to enable customers to personalize their current accounts online	123 CURRENT ACCOUNT
Social media	▪ Major banks like Barclays and HSBC have embraced social media to inform customers about new products, taking feedback and provide value added services	HSBC BARCLAYS
Business model	▪ Several P2P lenders have grown significantly in recent years relying on their innovative business model ▪ Wonga has emerged as the UK's biggest payday lender leveraging its unconventional business model	zopa Funding Circle % RateSetter

Market is seeing several forms of innovation and winning propositions have succeeded in gaining share

Market – Personal Lines Insurance: Markets returning to growth but pricing pressure remains with threat of commoditisation

Motor insurance

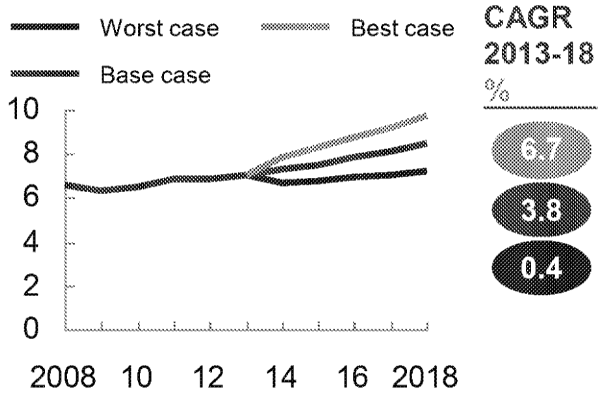
Gross Written Premiums, £b



- Extreme profitability challenges for most in the market
- Online increasingly critical; aggregator share has now over-taken direct internet leading to high levels of competition
- Drop in brand loyalty (3/4 of motorists shopping around for last renewal)
- Increasing regulatory scrutiny e.g., Govt. ban of referral fees, FCA fines for add-on aggressive selling
- Innovation based on telematics & apps

Home insurance

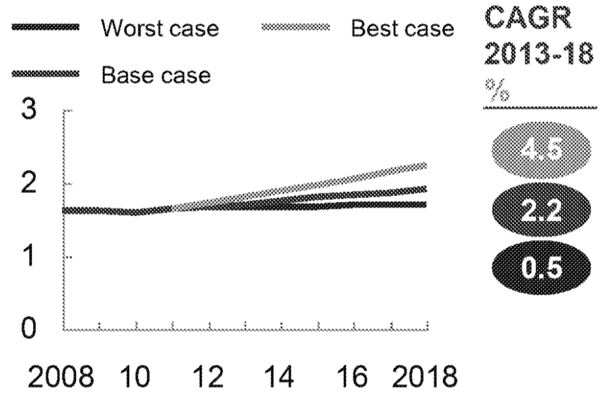
Gross Written Premiums, £b



- Market likely to pick up given improvements in economic performance and housing market
- Cost of cover cheaper in real terms than 20 yrs ago, measured by AA index
- High degree of price transparency with 65% of consumers using aggregators to research their policy and 41% using aggregators as channel of arrangement

Life insurance

Market Size excluding annuities, £b

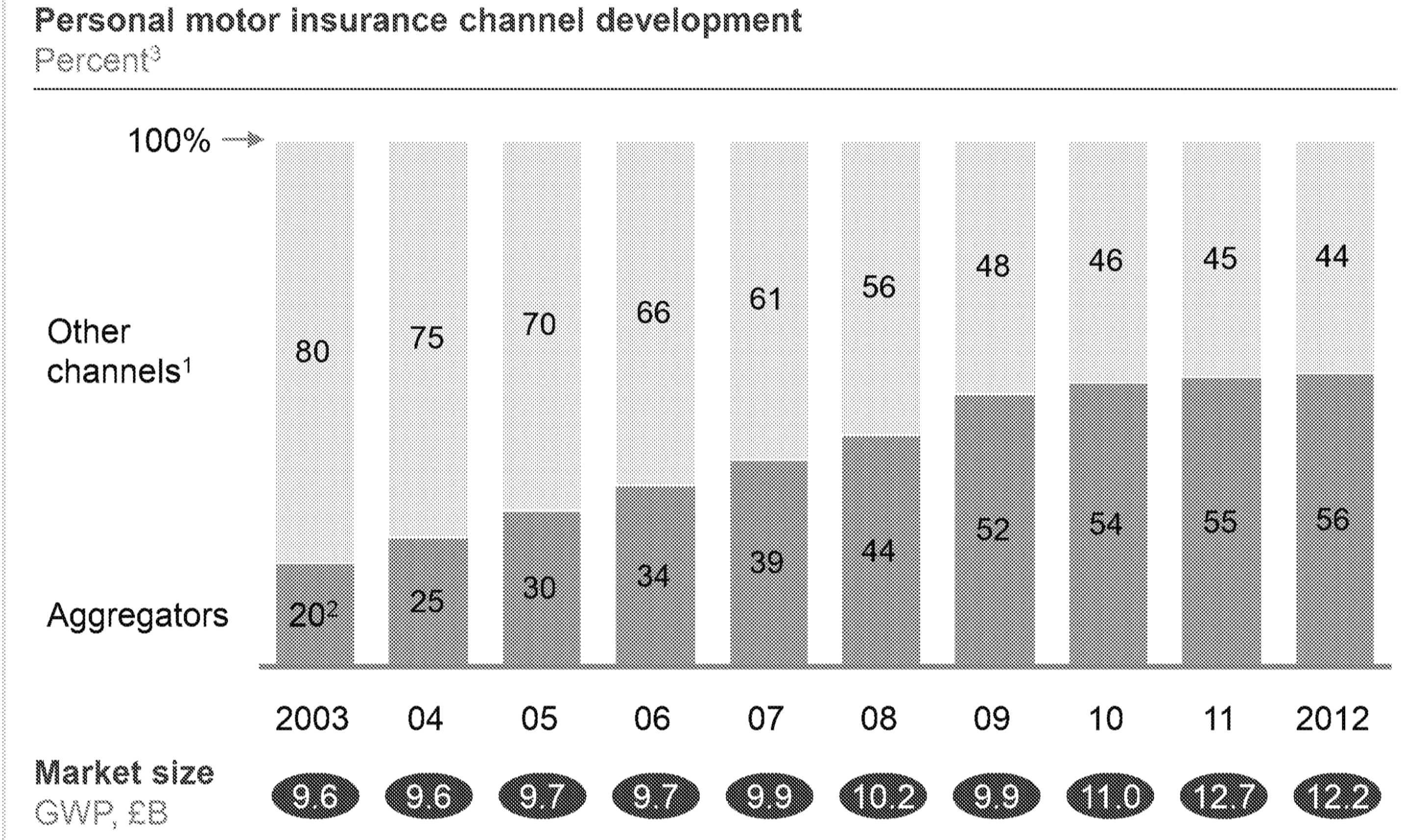


- Recent growth coming in from higher pension accumulation as a result of introduction of auto enrolment
- Typically purchased with some sort of advice (~68%), although the online segment is beginning to grow, with ~26% bought through online channel

Within insurance, very different dynamics for each product segment, with increasing impact of aggregators

Source: Mintel reports, McKinsey , AA insurance price index

Markets – Personal Lines Insurance: The aggregator channel experienced high growth from 2003-09 but this appears to be slowing



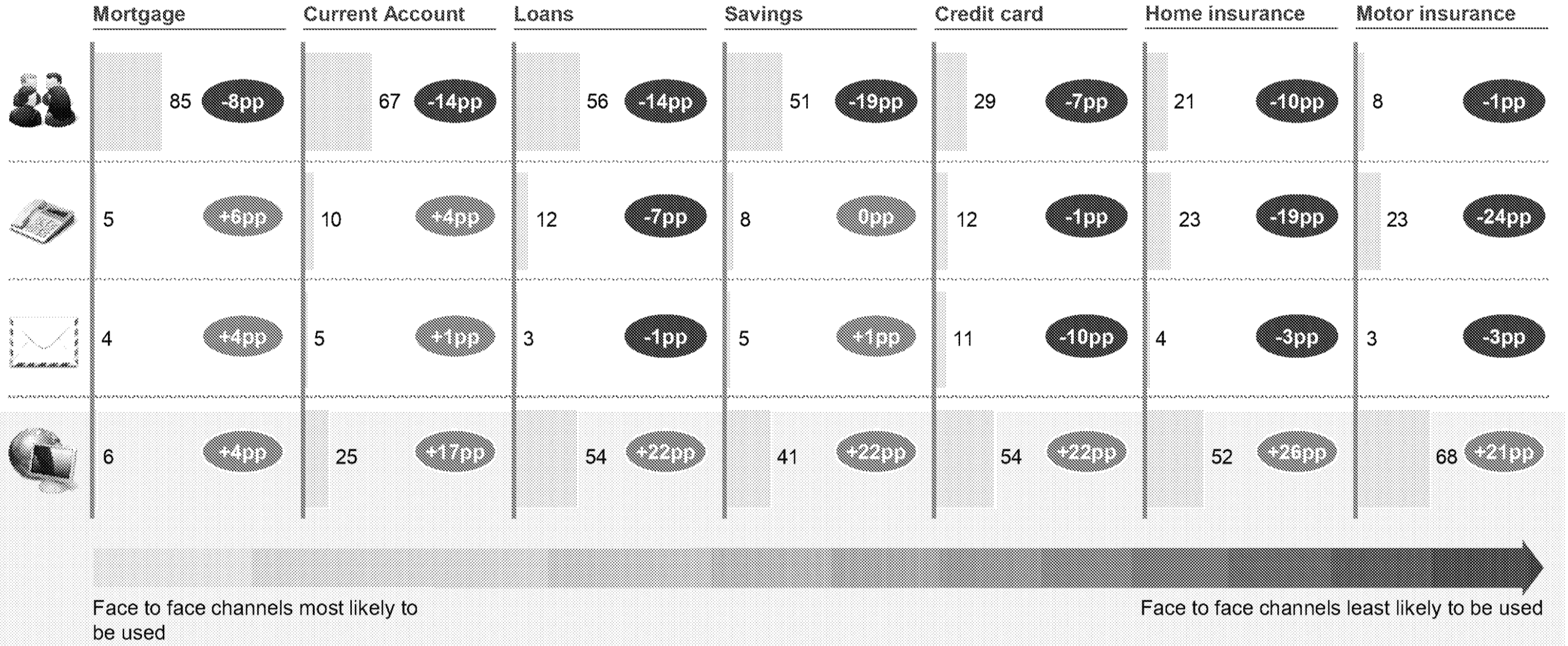
Aggregator share likely to stablise

1 Other channels include: Direct, Affinity groups, Brokers/IFAs etc.
2 Assumed first year penetration and assumed linear development to first actual observation in 2005
3 Datamonitor unit definition: Percent of new private motor GWP, validated as share of market with back-of-the-envelope calculations

SOURCE: Datamonitor (2012), ABI (July 2013), Team analysis

Market – Personal Lines: While Digital increasingly an important channel for sales, Branch remains key for specific products

Channel of arrangement[1], 2013H2



xx Absolute change since 2007

	Mortgage		Current Account		Loans		Savings		Credit card		Home insurance		Motor insurance	
👥	85	-8pp	67	-14pp	56	-14pp	51	-19pp	29	-7pp	21	-10pp	8	-1pp
☎	5	+6pp	10	+4pp	12	-7pp	8	0pp	12	-1pp	23	-19pp	23	-24pp
✉	4	+4pp	5	+1pp	3	-1pp	5	+1pp	11	-10pp	4	-3pp	3	-3pp
🖥	6	+4pp	25	+17pp	54	+22pp	41	+22pp	54	+22pp	52	+26pp	68	+21pp

Face to face channels most likely to be used

Face to face channels least likely to be used

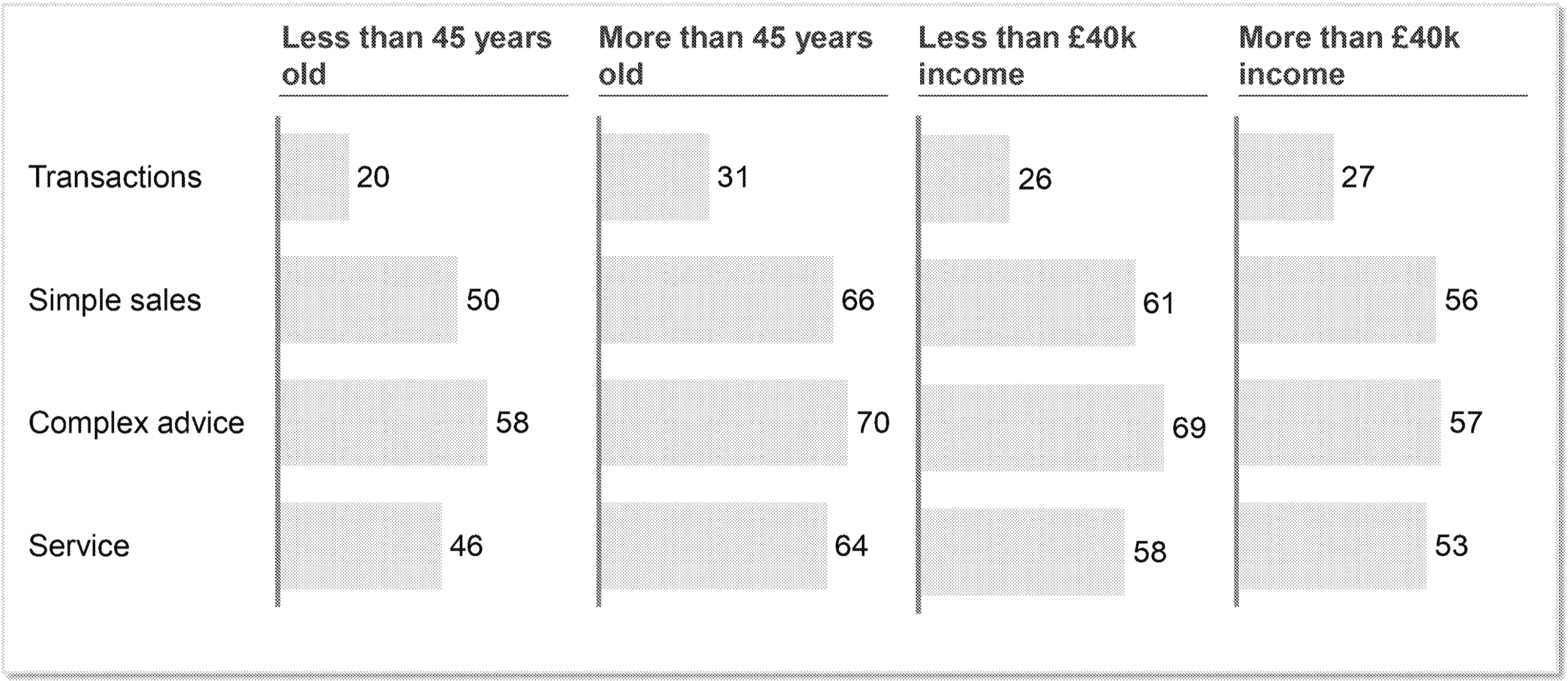
Current strategy to focus on online for Insurance and F2F sales for Current Account & Mortgages in line with market

1 Respondents may give multiple responses; base: All arranging product in last 6 months

Source: GFK Survey 2013; Mintel; expert analysis

Market – Personal Lines: Older & lower income demographics rely on branches more and branches remain key for affluent and for the younger generation, especially for advice

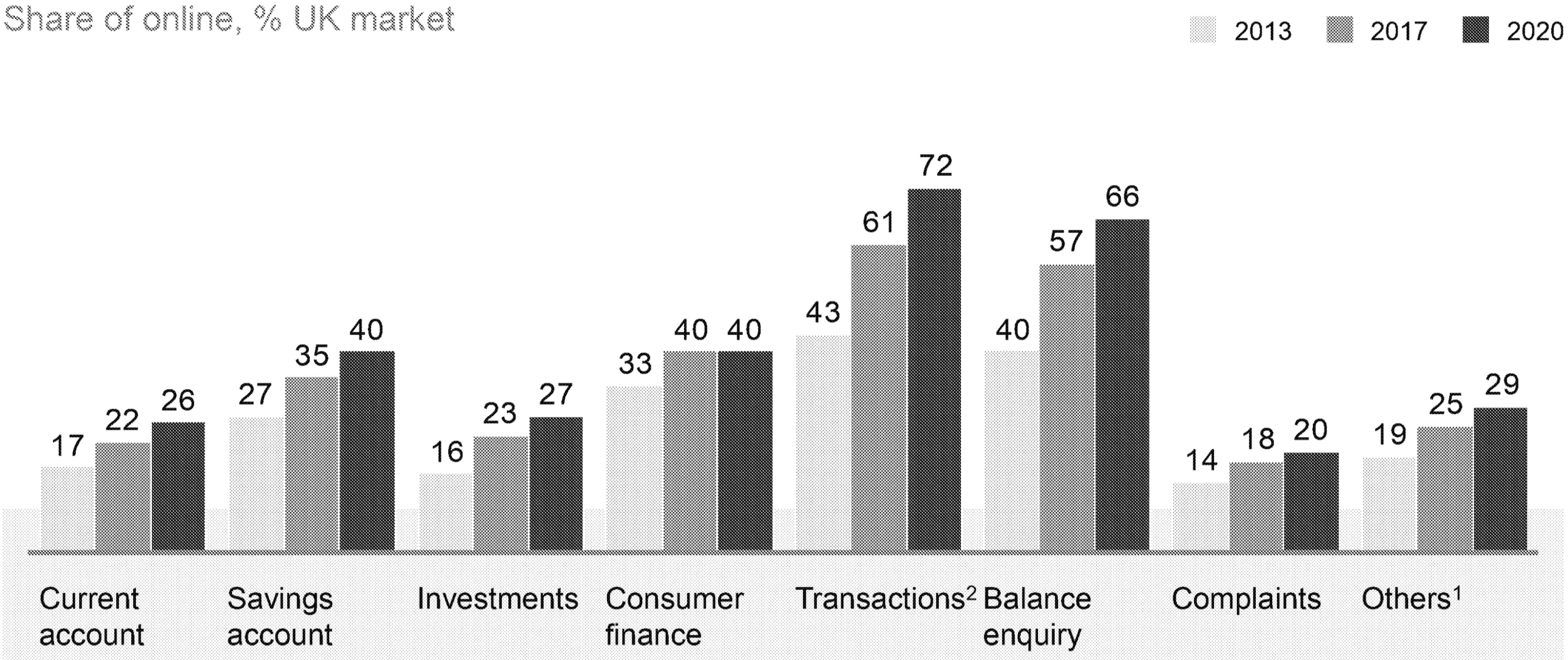
Share of customers preferring branch by activity type, %, 2013 UK



In the UK, >90% of all customers (including affluent, younger generation) still visit branches at least once a year

SOURCE: McKinsey Distribution Consumer Research 2013, Europe

Market – Personal Lines: Market data suggests share of online to rise but branches will continue to have a role



Share of online, % UK market

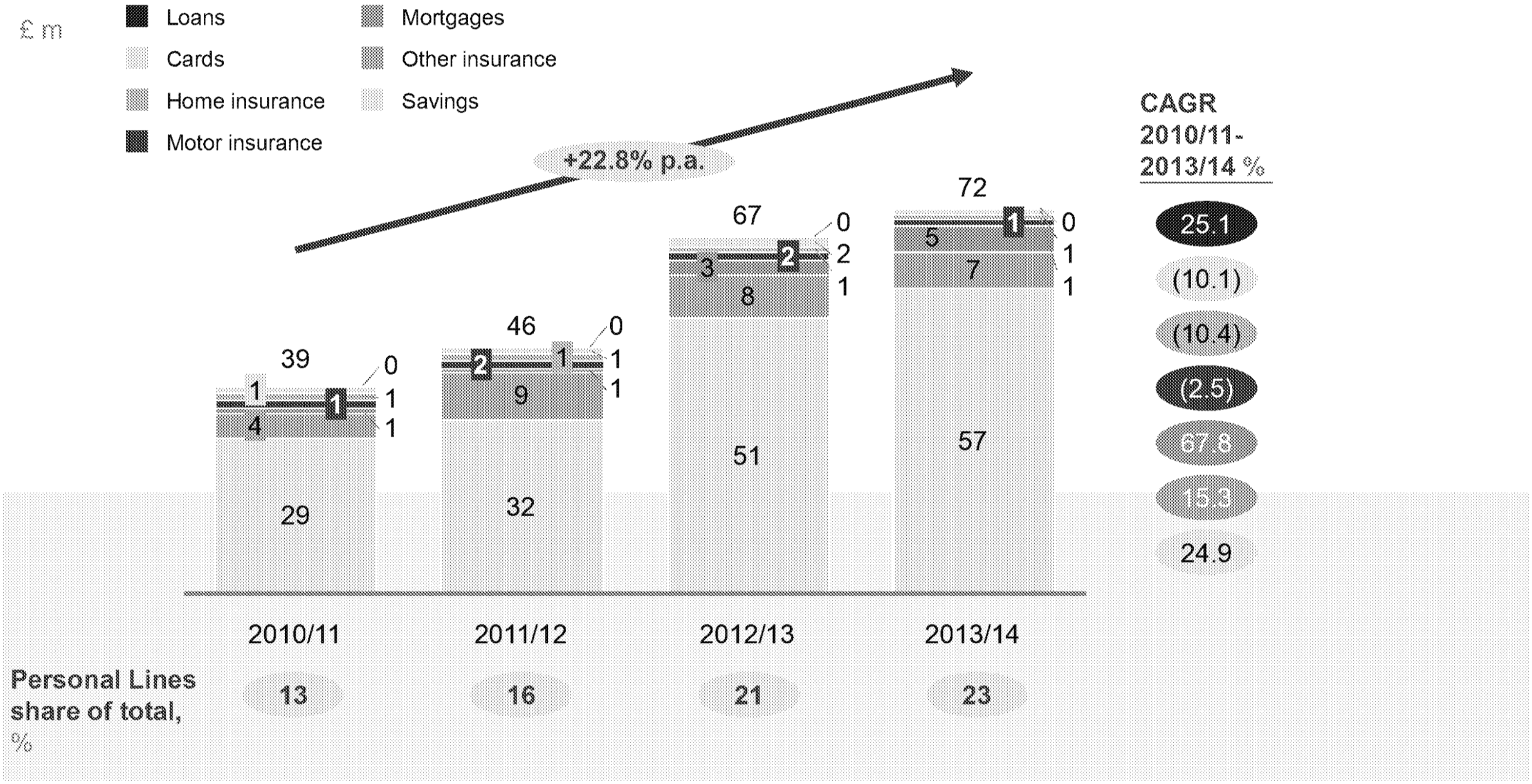
Branches remain important especially for advice or more complex sales

1 Includes resolving a problem, change account details
2 Transactions does not relate to Post Office Payments business but typical banking activities e.g., deposits

Source: McKinsey multichannel survey: regression model

Starting position – Personal Lines: Historic performance

Post Office Personal Lines income change 2010/11-2013/14



Source: Finance

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Post Office Money

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In updating the Vision, we have drawn upon learnings from challengers, in addition to FS context & market dynamics

Successful challengers don't initially go head-to-head with established players – instead they go in with simple 'non-relationship products' or target the un-served or under-served

Challengers keep it simple while offering clear points of difference and innovation vs. market

Challengers have clarity over their hook product and use this as a platform to cross-sell

Financial Services brand should build on parent brand for maximum advantage

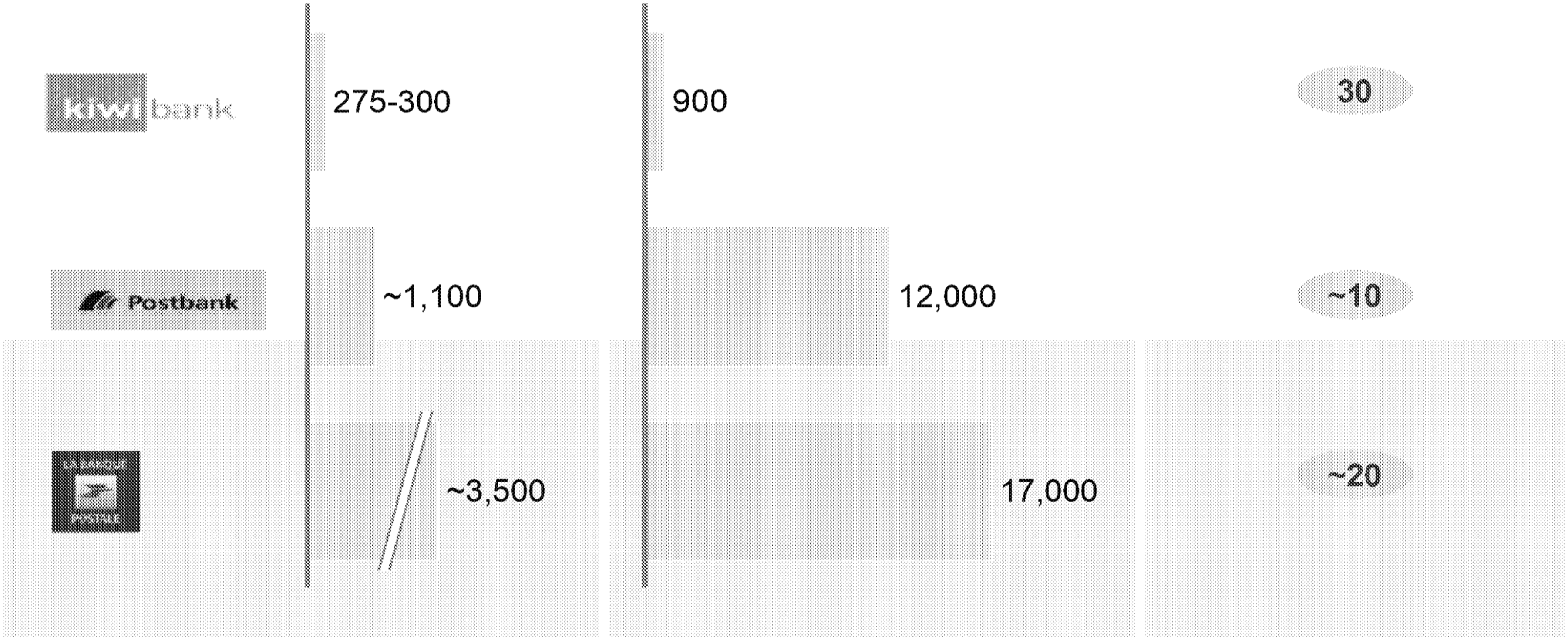
Many Post Bank and Retail challengers leverage their unique differentiator – i.e., their branch / store network…

… However, a compelling multi-channel offer is now just 'table stakes'

Postal banking players usually leverage large postal networks

Post Office Money

Post Office only has a limited number of fully dedicated branches



	Full Financial Services branches[1]	Total Post Network	FS branches as % of total Post Network
kiwibank	275-300	900	30
Postbank	~1,100	12,000	~10
LA BANQUE POSTALE	~3,500	17,000	~20

1 Defined as branches with complete offering and dedicated staff (e.g., FS Branch Managers, Sales Advisors, etc.)

NOTE: Most of the players rely on the wider Post Office network; for example, Postbank leverages ~4,500 Post Offices, JP Bank leverages ~24,000 outlets, etc.

SOURCE: Annual Reports

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This vision seeks to capitalise on Post Office Money's natural competitive advantages

Trusted brand	• 2nd most trusted brand in the UK with a loyal customer base • Similar levels of trust to other financial providers, including customers' own bank
Large distribution network	• Network size of 11,700 branches, with 99.7% of the UK population living within three miles of a branch
High branch footfall	• Over 95% of the UK population use Post Office services, with 18 million customers visiting branches every week
Loyal customer base	• Highly loyal customer base among the older generation, especially females

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Customer: FS tends to do well in less affluent areas

▩ Payments ■ Banking Services ▨ Travel ░ Personal Lines - banking ☐ Personal Lines - insurance

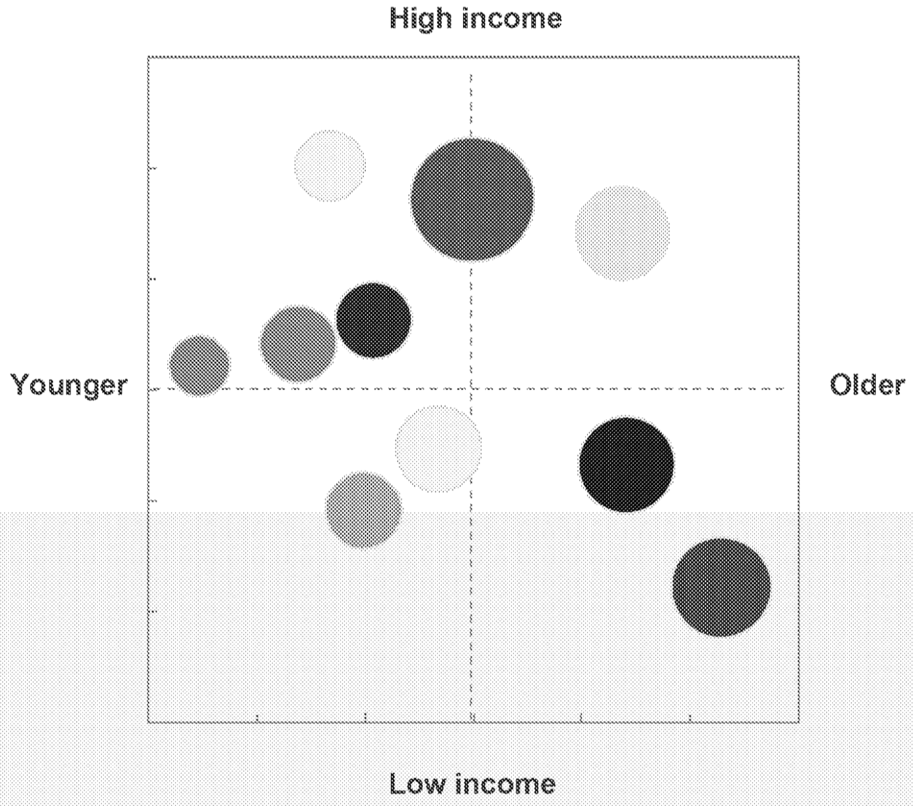
Volume of products by branch location[1]

	Number of branches	**Average footfall** (footfall/ week)	**Crown branches** (% of all stores)	**Average no. of specialists** (specialists/100 stores)
Rural	5726	602	0.3%	0.5
Urban Deprived Inner	706	1,607	7.1%	6.2
Urban	4083	1,446	5.4%	5.3
Urban Deprived	632	1,876	8.9%	10.4

1 Includes data on 11536 Branches 2 This is likely to be an underestimate, as it does not take into account income from previous 'back book' sales
Methodology: Income is calculated from volume numbers. The volume in each store is multiplied by a constant pound value estimate of the value of each transaction The value of each transaction is assumed to be the same across the different locations; testing suggests this holds to within ~10% for the three products we tested (Savings, Travel Insurance and Home Insurance)
Source: MI team

Customer – Personal Lines: FS has implemented a customer segmentation that reflects consumers' financial needs

Overview of segments



- **Green Shoots**: Under 25yrs; many single and living with parents; frequently use ATMs, many have student loans. 3.9 adults.
- **Pink Fizz**: 25-45, often single people, propensity to London; many have mortgages, borrow not save, use online banking. 5M adults.
- **Golden Boys**: Upwardly mobile men aged 25-45, high earners; majority have mortgages, manage finances remotely. 3.9M adults.
- **Red Brick**: Well-educated 25-45 year old women; mostly home owners with Mortgages and higher than average household incomes. 4.4M adults
- **True Blue**:45-55 year old couples and families. Incomes are usually over £75,000. 6.2M adults.
- **Grey Days**: Single or separated, typically aged 35-55. The incidence of unemployment, or people unable to work, is three times higher
- **Plain Vanilla**: 25-55 years, over half have no plans for their retirement or expect to rely on the state pension. 3.7 M adults.
- **Silver Foxes**: Over 55, majority are retired. Concentrated in London and the South East. Households earning over £100,000 is high. High levels of savings and investments. 5.1M adults
- **Ruby Wedding**: Older married people who have paid off their mortgage. Household income £20,000 to £30,000. 4.8M adults
- **Lavender Scented**: Older people often over 65. Often living alone. Income typically £10,000 pa. 6.9M adults.

Please note these segments are divided into 84 sub-segments

Source: CACI

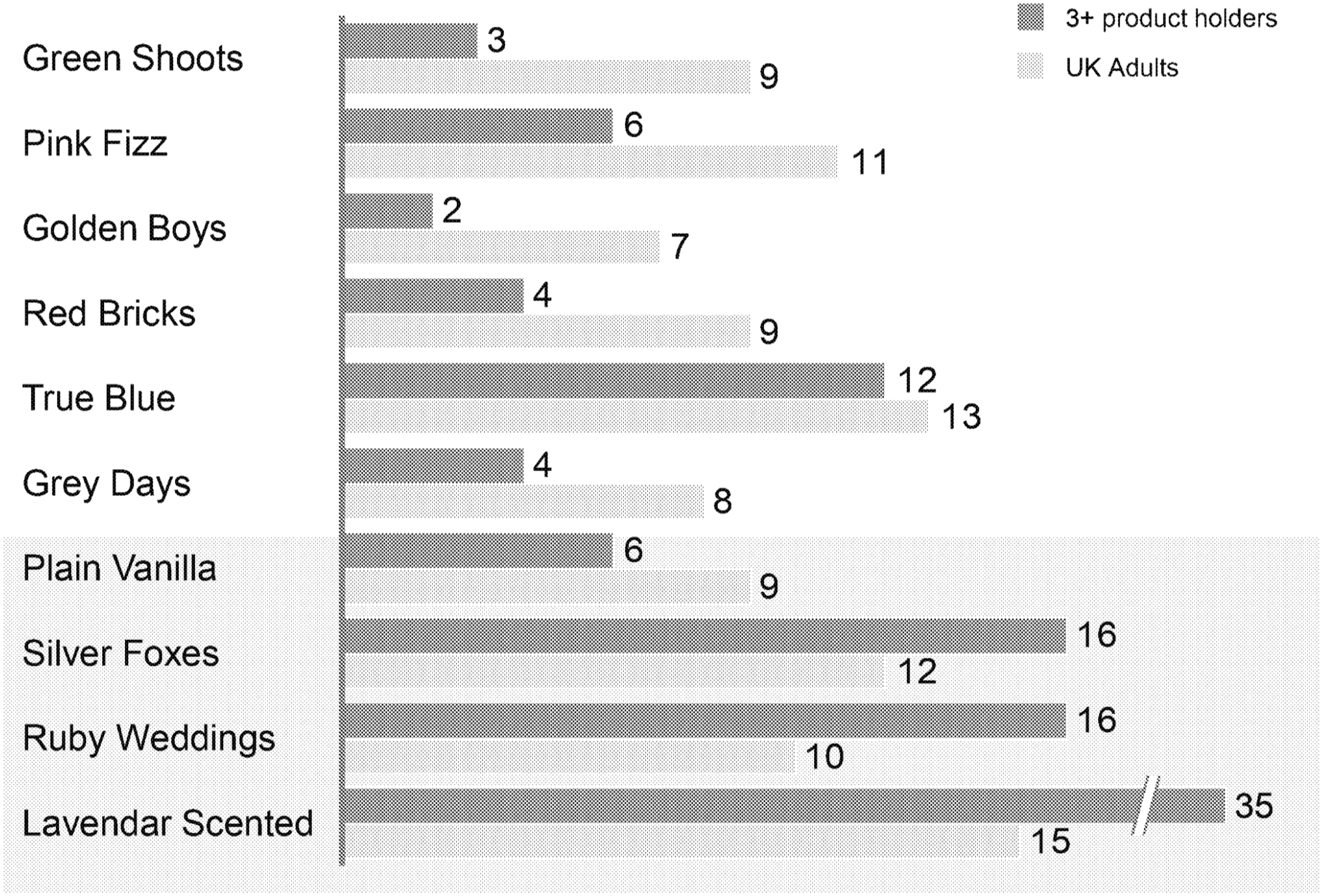
Customer – Personal Lines: Strengths in older branch loving segment but new products have attracted new segments e.g., Mortgages

Analysis of current customer base

	Savings			Mortgages		Credit card std		Car insurance		Loan	
Fresco Segment Description	Online Saver	Premier Cash ISA	Index	Distribution	Index	Distribution	Index	Distribu-tion	Index	Distribution	Index
(Missing)	3%	18%		4%		3%		10%		1%	
Green Shoots	3%	3%	100	2%	26	3%	37	2%	26	2%	23
Pink Fizz	13%	8%	61	18%	175	12%	114	9%	82	13%	124
Golden Boys	6%	3%	47	18%	223	4%	45	3%	36	8%	98
Red Brick	6%	4%	56	15%	158	8%	82	7%	72	13%	136
True Blue	21%	14%	68	20%	154	15%	112	15%	118	25%	187
Grey Days	3%	2%	78	2%	32	5%	72	5%	63	4%	52
Plain Vanilla	6%	4%	77	7%	91	10%	125	8%	104	11%	145
Silver Foxes	24%	21%	85	7%	67	14%	125	15%	134	11%	98
Ruby Weddings	10%	12%	122	3%	31	13%	126	13%	131	9%	88
Lavender Scented	6%	12%	206	3%	18	15%	104	14%	98	4%	29
	100%	100%		100%		100%				100%	

Customer – Personal Lines: Those with highest cross-product holdings tend to be older and less well off

Product holdings of Post Office Money customers vs. UK adults



Key takeaways

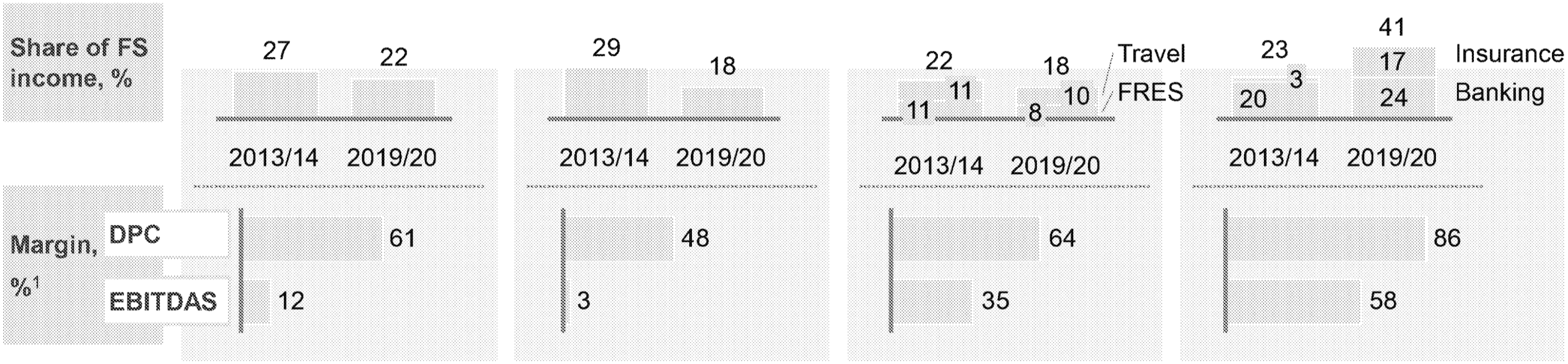
- Post Office Money is successful at cross sell to the older, female demographic in Lavender Scented, Silver Foxes and Ruby Weddings
- These three segments span low to high income groups, indicating that success is driven more by appeal to an age group as opposed to pure pricing
- Lack of cross sell for lower income segments like grey days and plain vanilla is particularly poor given the like-hood of multiple F2F touch-points in branches

Appendix – Contents

Product: FS has 4 major product categories , the fastest growing has the highest margin

Post Office Money

	Payments	Banking services	Travel	Personal Lines
Description	• Traditional business that is in decline (e.g., Bill Payments had a -4.3% CAGR from 2010/11-2013/14) • Growth of MoneyGram (particularly given newly negotiated terms) slows overall category decline	• 3rd party services for customers of other banks e.g., cash withdrawals, deposits • Personal banking growing to 2020 (e.g., 4% CAGR for personal banking, and general spend card launch) but business in decline (e.g., -13% CAGR for Change Giving)	• JV to provide travel money with FRES which includes both a commission and profit share • Solid ~25% market share expected to continue in a broadly flat market • Travel insurance	• Core growth engine for Post Office • Comprises of Banking (e.g., savings) in partnership with BoI and Insurance products (excl. Travel) • Project Hawk can allow Post Office to buy out BoI share and grow proposition significantly



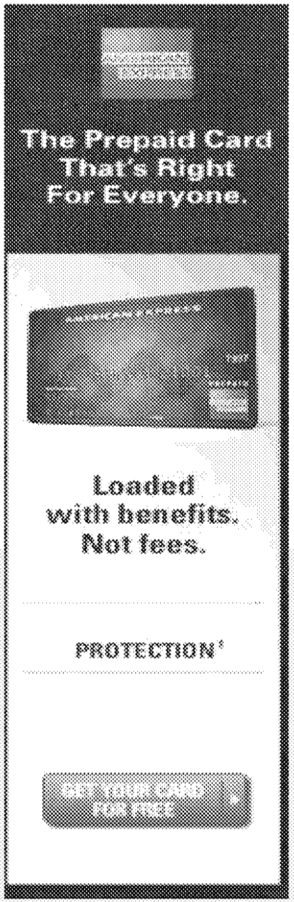
1 Based on 2014/15 full year budget

Source: Product P&L's Period 3; team analysis

Product – Prepaid card: In 2012, WalMart launched Bluebird, a nearly zero fee product and available online or via in-store terminals

Overview of Bluebird

- Targeted as a replacement to traditional checking offering all the benefits with less cost
  - Direct deposit
  - Free ATMs
  - No overdraft fees
  - Electronic bill pay
- Cutting edge technology that includes digital P2P transfers, mobile wallet, mobile app, sub account controls; appeals to the technology savvy un-banked or under-banked – a growing market given rising smartphone penetration of this segment
- Carries typical Amex credit card features
  - Purchase protection
  - Fraud protection
  - Card replacement
  - Roadside assistance
  - Global Assist services
- Sold via low cost labour model – i.e., terminals

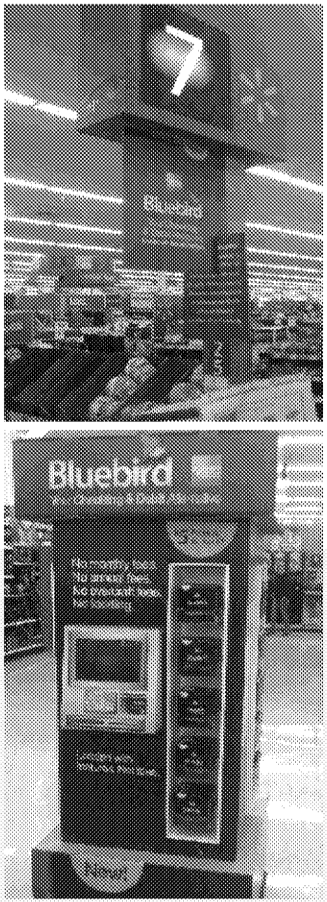


The Prepaid Card That's Right For Everyone.

Loaded with benefits. Not fees.

PROTECTION¹

GET YOUR CARD FOR FREE



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Product – Credit card: In future, FS will develop product packages tailored to specific customer needs

Example: Developing an integrated credit card proposition

Customer and market research underpins a product strategy that caters to customer needs and leverages Post Office strengths

- Recognition that Post Office's current single product remains too broad to effectively target a heavily segmented market
- Multiple products developed to provide better coverage of the market, and target different Post Office customers

Matched: flexibility – **2in1 card**: Able to equip people with optics. They may not plan to borrow or spend but it's reassuring knowing they have a 0%there

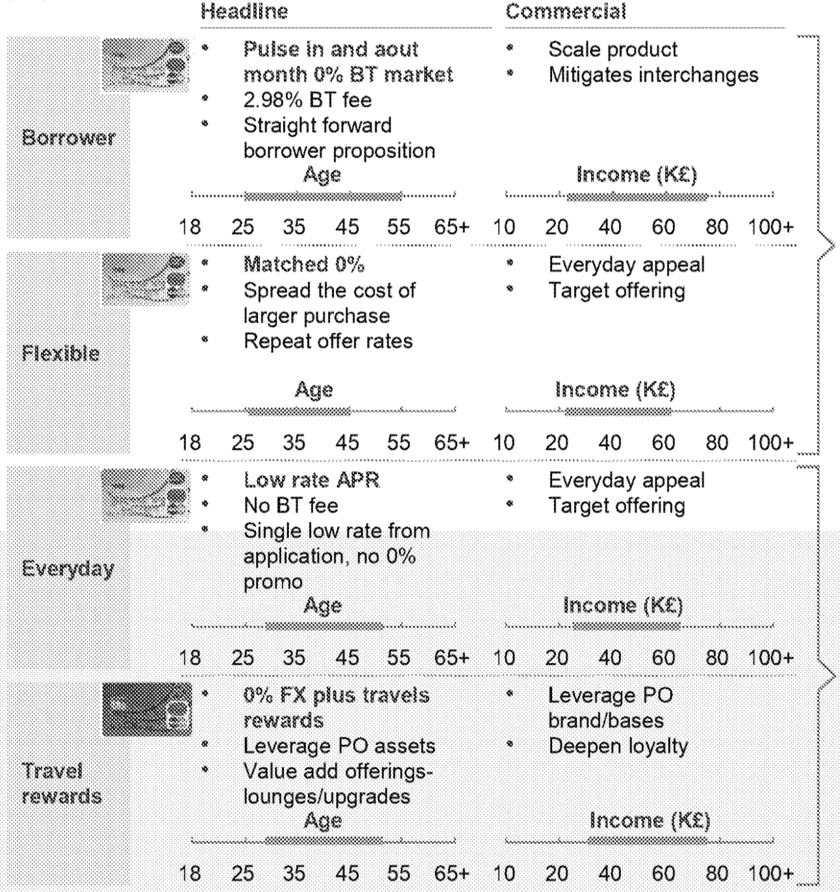
0% BT: Smart cost saving – **Balance transfer card**: A card that helps astute people save money as well as giving extra savings through 0% purchases

Rewards: Value-add – **Travellers reward card**: Enhanced travel product not just focussed on the spend abroad. Supplemented by rewards element to drive better everyday usage

Low rate: Simplicity & clarity – **Low rate everyday card**: In line with brand associations, the low rate product provides a peace of mind/confidence in a product that won't bite

- Products integrated with additional Post Office offerings that match wit customer outcomes where possible e.g., Travel Money, Savings etc

The resulting proposition has a clear target customer, and scope to leverage wider Post Office propositions



	Headline	Commercial
Borrower	• Pulse in and aout month 0% BT market • 2.98% BT fee • Straight forward borrower proposition	• Scale product • Mitigates interchanges
Flexible	• Matched 0% • Spread the cost of larger purchase • Repeat offer rates	• Everyday appeal • Target offering
Everyday	• Low rate APR • No BT fee • Single low rate from application, no 0% promo	• Everyday appeal • Target offering
Travel rewards	• 0% FX plus travels rewards • Leverage PO assets • Value add offerings-lounges/upgrades	• Leverage PO brand/bases • Deepen loyalty

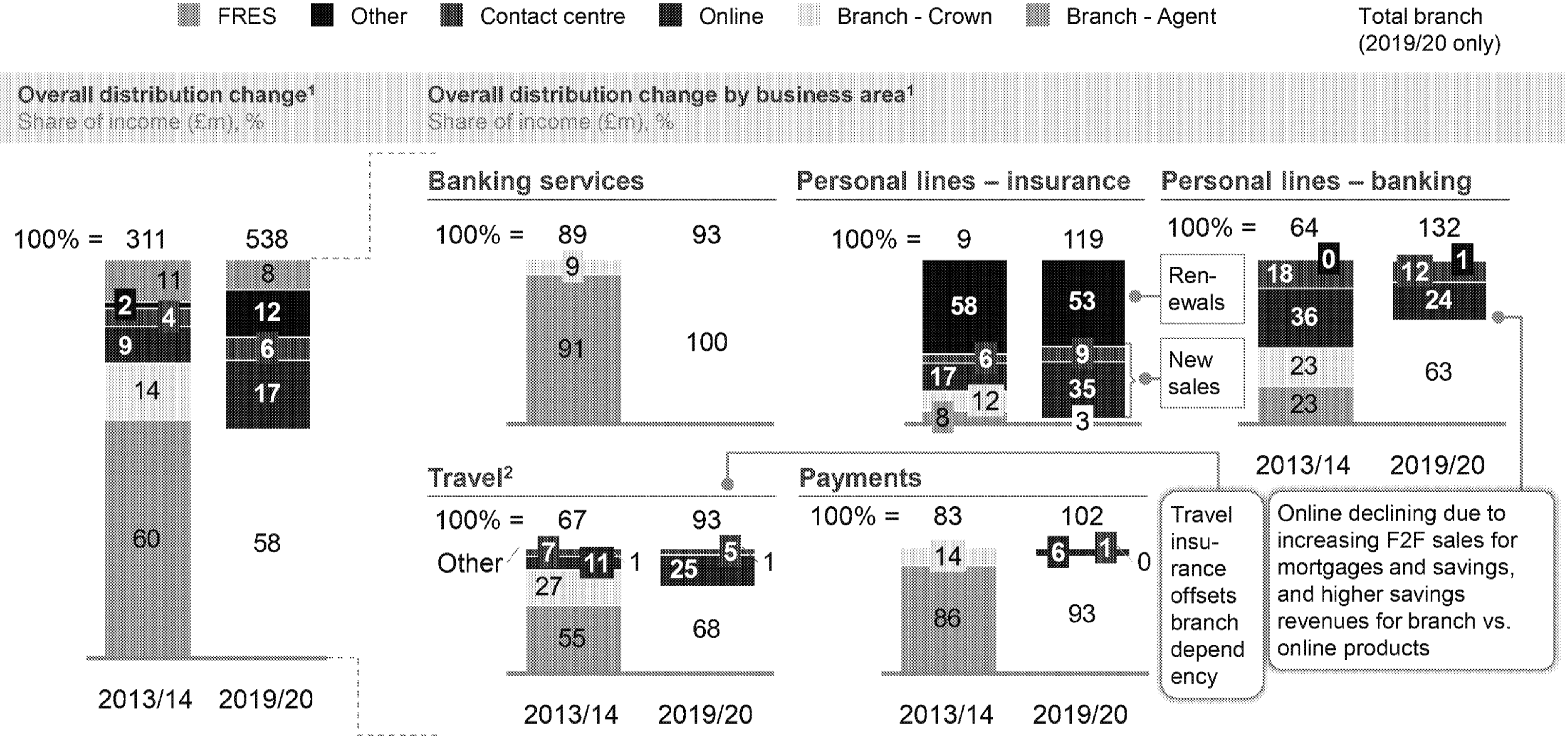
Card management approach
- Typical entry products, optimise via
- Spend stimulation
- Credit limit changes
- Promotional rates
- Back book / additional BTs
- Reprices

Targeted up-sell to more engaged products
- Deepen product and brand engagement
- Grow ATVs & category usage
- X-sell additional fee bundles
- Reprices

Source: Credit Cards: Market & Segment Approach 2014-18

Appendix – Contents

Channel: FS is line with where the market is headed; while share drops, branches remain central to approach



Overall distribution change[1]
Share of income (£m), %

Overall distribution change by business area[1]
Share of income (£m), %

Ren-ewals

New sales

Travel insurance offsets branch dependency

Online declining due to increasing F2F sales for mortgages and savings, and higher savings revenues for branch vs. online products

1 Shares calculated through excluding fixed revenue streams - refers only to revenue directly generated through channels
2 Shares based sales splits, total revenue includes FRES; includes travel insurance

Source: Financial Services Template v3b_entire business; updated distribution splits from product teams; POL 2020 strat plan; team analysis

Channel: Each channel will play a specific role across the customer decision journey

Main channel is bolded

	Lead generation	Customer conversation	Sales fulfilment	Post sales support
Current account	- **Branch used to generate awareness via leaflets** - Limited online advertising - CRMs[1]	- **FS** - Inbound calling - Web-chat - CRM[1]	- **FS** to remain primary sales channel - Online also plays a role - CRMs[1]	- Primarily via remote channels - Counter / ATM used for basic transactions
Mortgage	- **Price comparison tables and aggregators** - In-branch materials - CRMs[1]	- **MS** - Inbound calling	- **Online** - **MS (F2F or via VC)**	- Remote support
Loans	- **CRMs[1]** - Online aggregators - Counter staff	- **FS** - Inbound calling - Web-chat	- Primarily online - Small share of FS sales	- Remote support
Savings	- **CRMs[1]** - **Online aggregators** - Counter staff	- **FS** - Inbound calling - Web-chat - **CRM[1]**	- Primarily counters - Online and FS also key - CRMs[1]	- Remote support
Motor / home	- Price comparison tables and aggregators	- **Inbound calling** - Web-chat	- **Primarily online** - CRMs[1]/FS	- Via call centre and DM for renewals
Life insurance	- CRMs[1] - FS directly - Counter staff	- FS - MS	- **Primarily FS for life cover** - **Over 50s at counter**	- Via call centre and DM for renewals
Credit cards	- Price comparison tables and aggregators	- Web-chat - Inbound calling	- **Primarily online** - Some FS sales	- Via call centre
Travel Money	- ATL spend - In-branch materials - Counter staff	- **Counter staff**	- **Counter staff** - Some click and collect online	- Travel Money Card: Top-ups primarily online

Key principles

- FS to focus on higher value products e.g., life insurance, current accounts, savings accounts & loans
- MS to focus on mortgages but also related sales e.g., home /life insurance
- CRMs to play advisory role but will perform simple introductory sales where no guidance is needed

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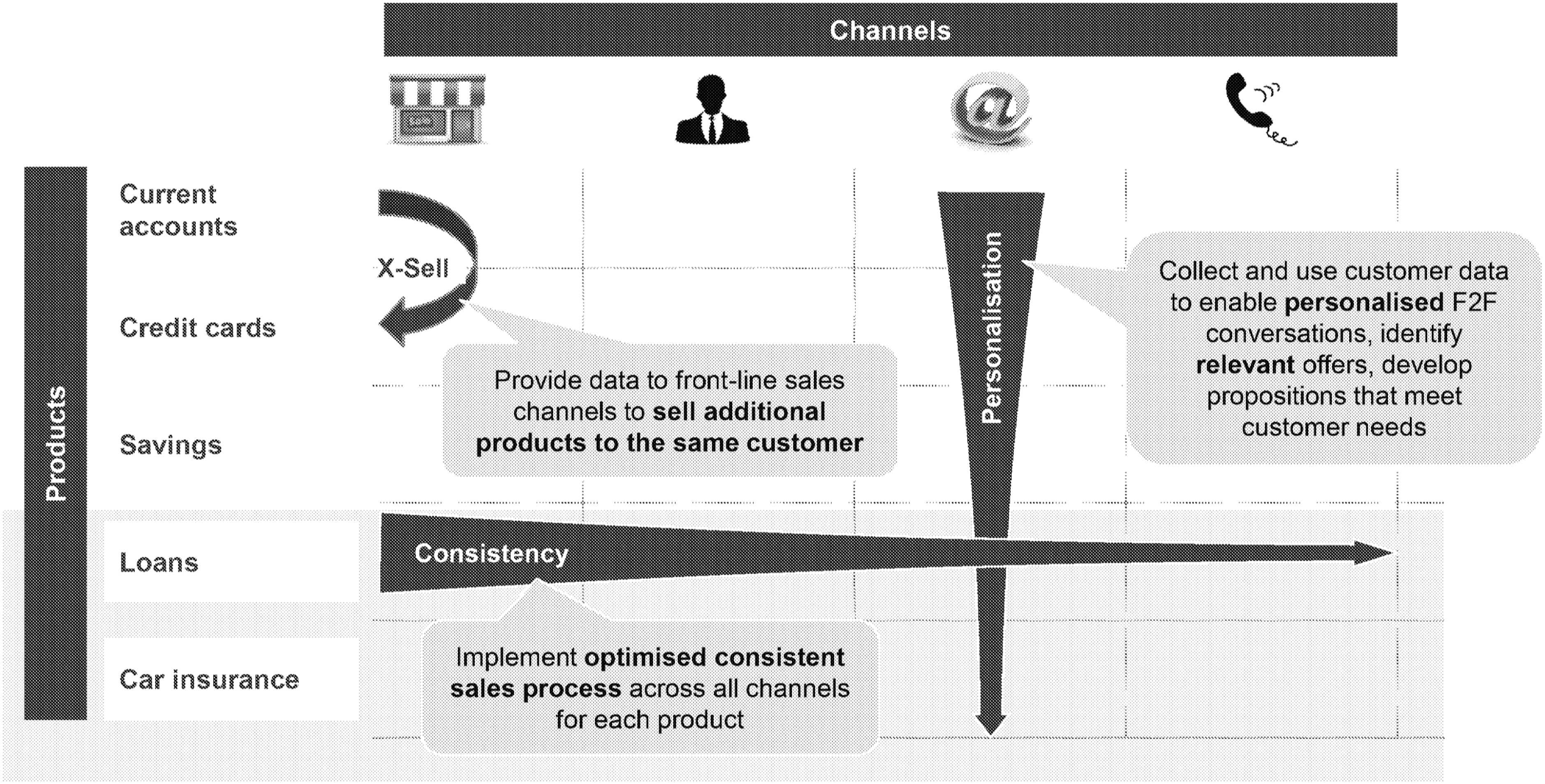
1 Customer Relationship Manager

Channel: Digital is critical enabler of a personalised sales experience and consistent cross-channel processes



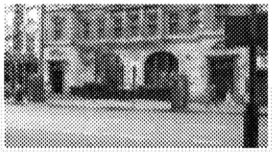
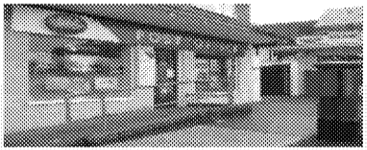
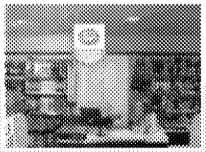
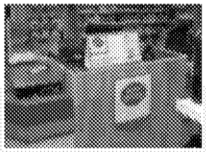
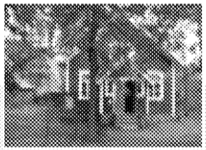
Provide data to front-line sales channels to **sell additional products to the same customer**

Collect and use customer data to enable **personalised** F2F conversations, identify **relevant** offers, develop propositions that meet customer needs

Implement **optimised consistent sales process** across all channels for each product

Channel – Branches: Overview of draft Post Office Money Hub & spoke model (1/2)

POST OFFICE Money

	Large Mains	Other Mains	Locals[1]	Access Points[2]	Community
					
Future Description	• 300-400 'flagship plus' branches acting as specialist advice 'hubs' in high footfall from attractive population segments • Total population of 400- 600 specialist advisers • Broader physical footprint where customers can access Specialists by video-conference or dedicated day in branch • Customer Relationship Managers in ~500 branches to perform simple sales and generate referrals to specialists sales • Enabling commission structures between Post Office and agency branches to ensure mutually reinforcing activities across model	• Data capture and appointment scheduling with FS specialists at counter • No CRMs in branch	• Primary role as marketing brochures, with data capture	• Payments focus via unmanned kiosks	• Data capture for outbound calling
Future products available	• Full Consumer FS, Travel and Payment product range	• All payments, and some simple products • Complex FS products may require scheduling appointment with 'hub' specialists	• Travel Money and Payments	• Payments only	• Payments only

1 Includes 'Locals' and 'Locals Light' 2 Includes 'Basic Mails +' and Self-Service points

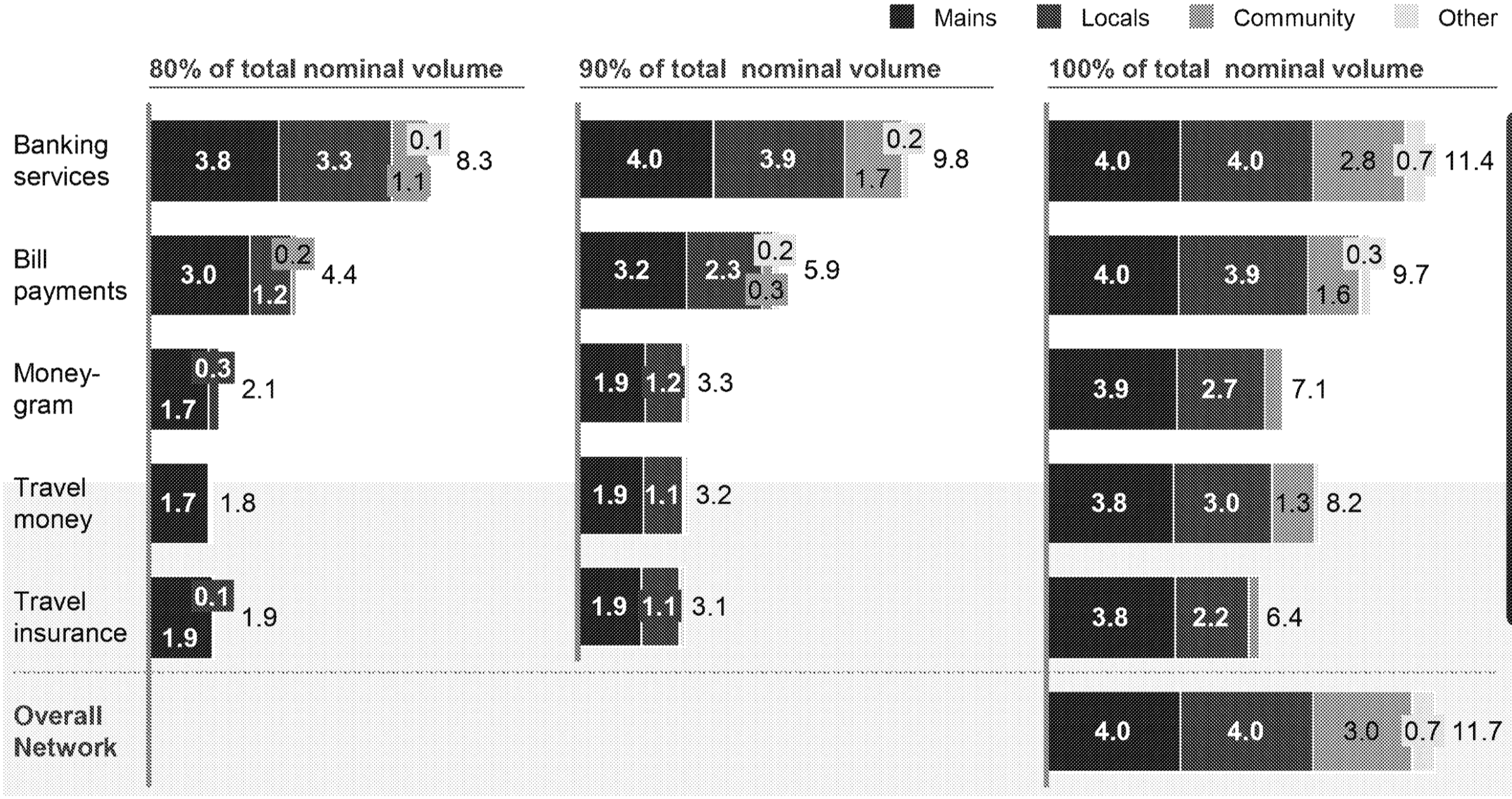
Channel – Branches: Overview of draft Post Office Money Hub & spoke model (2/2)

POST OFFICE® Money

Role type	Description	Products sold	Number in 2019/20	Target productivity
Financial Specialist (FS)	• Trained specialists employed and trained by Post Office	• Current accounts • Credit cards • Personal loans • Savings accounts • Life insurance • (Home/motor insurance)	400-600	• 14 per week
Mortgage Specialist (MS)	• Trained specialists employed and trained by Post Office	• Mortgages • (Home insurance) • (Life insurance)	100-200	• 4 per month (dependent on location)
Customer Relationship Manager (CRM)	• Dual role with branch management • Employed by agents but with some Post Office training	• Mainly lead generation • May sell simplest products (e.g., current/savings accounts; motor/home insurance)	~500	• 4-5 per week (not in numbers)

Channel – Branches: Counter products have different levels of sales concentration

Branches required to deliver, thousands



- While notionally, payments volume for most products is concentrated within the network, value to customer comes from being able to access accounts from multiple locations
- Scale of network is also a critical part of Post Office value proposition to FS partners

Methodology: For each product, plotted cumulative volume curve and counted the number of branches required to achieve 80%/90% of 2013/14 volume; Compared with required volume increase to achieve 2019/20 plan

Source: Branch data base

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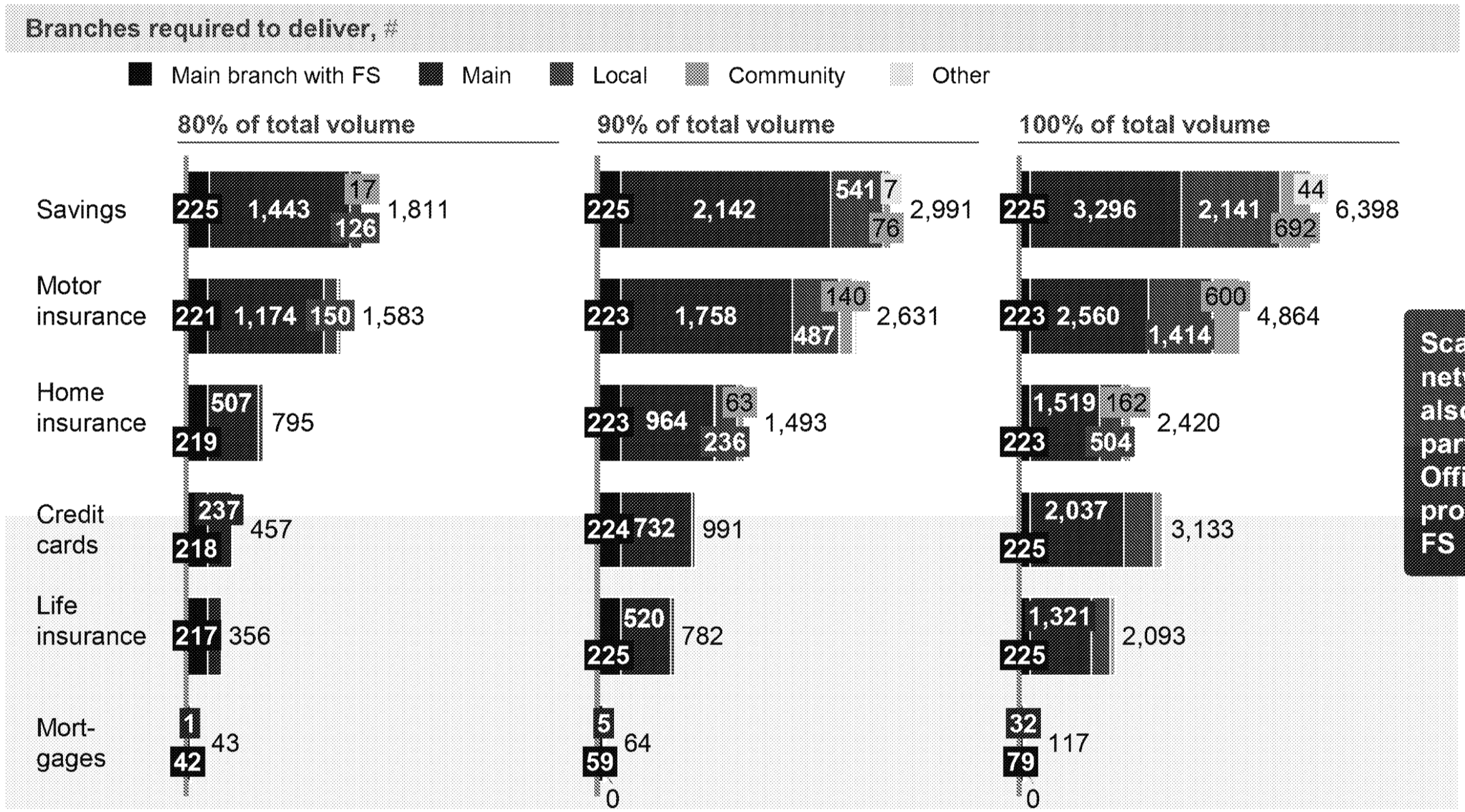
Channel – Branches: A number of personal lines products are sold across a broad proportion of the network



Branches required to deliver, #

Scale of network is also a critical part of Post Office value proposition to FS partners

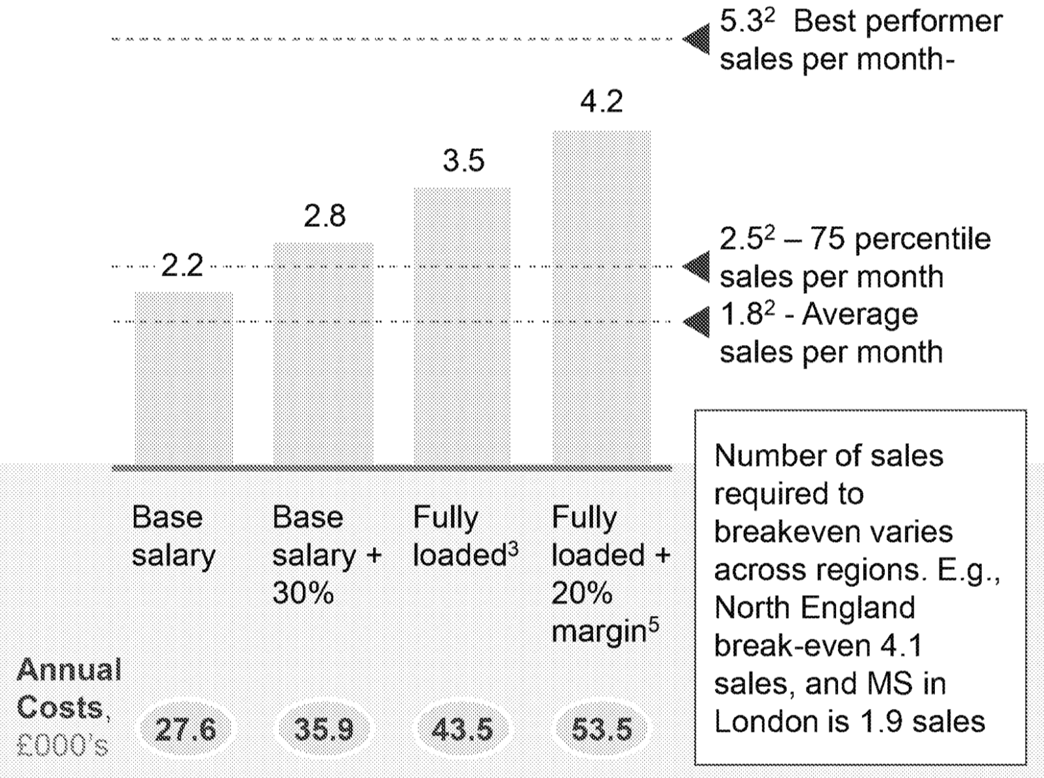
Note: Some FS works across more than one branch

Methodology: For each product, plotted cumulative volume curve and counted the number of branches required to achieve 80%/90% of 2013/14 volume; Compared with required volume increase to achieve 2019/20 plan

Source: Branch data base

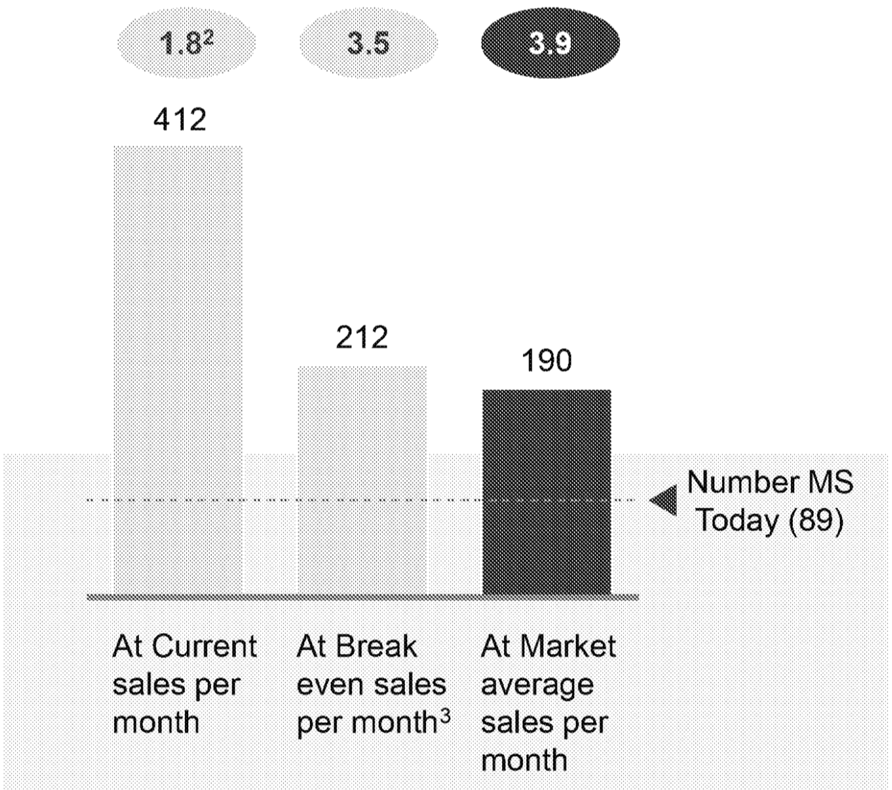
Channel – Branches: Post Office Money will likely need to both double number of mortgage specialists & drive productivity to reach mortgage targets

Break-even sales per MS specialist per month[1], #



Number of sales required to breakeven varies across regions. E.g., North England break-even 4.1 sales, and MS in London is 1.9 sales

Number of mortgage specialists required to meet 2019/20 target, based on their *monthly* productivity[4], #



[1] Average income per product is £1050 calculated at 60bps on average mortgage value of £175k

[2] Calculated for MS with >0 sales only. Assumes 80% of incomplete applications (marked 'AppSubmitted', 'AppRecieved' 'AppReferred' 'AppOffered') convert to completion since Jan 2013

[3] Assumes: MS specialist cost to company of £43,480 – average salary = £27600, Cost to company additional 30%, average rent per specialist £450per month, certification costs £2200 per year

[4] Includes 20% uplift given downtime for training, holiday and sick days

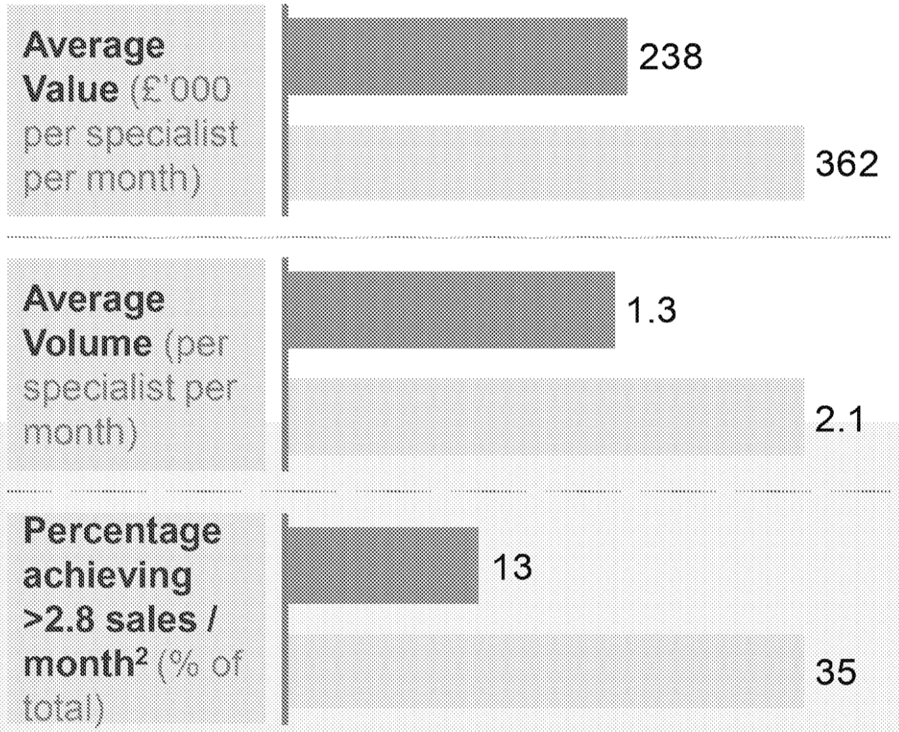
[5] Based on 2014/15 YTD EBITDAS margin

Source: Team analysis

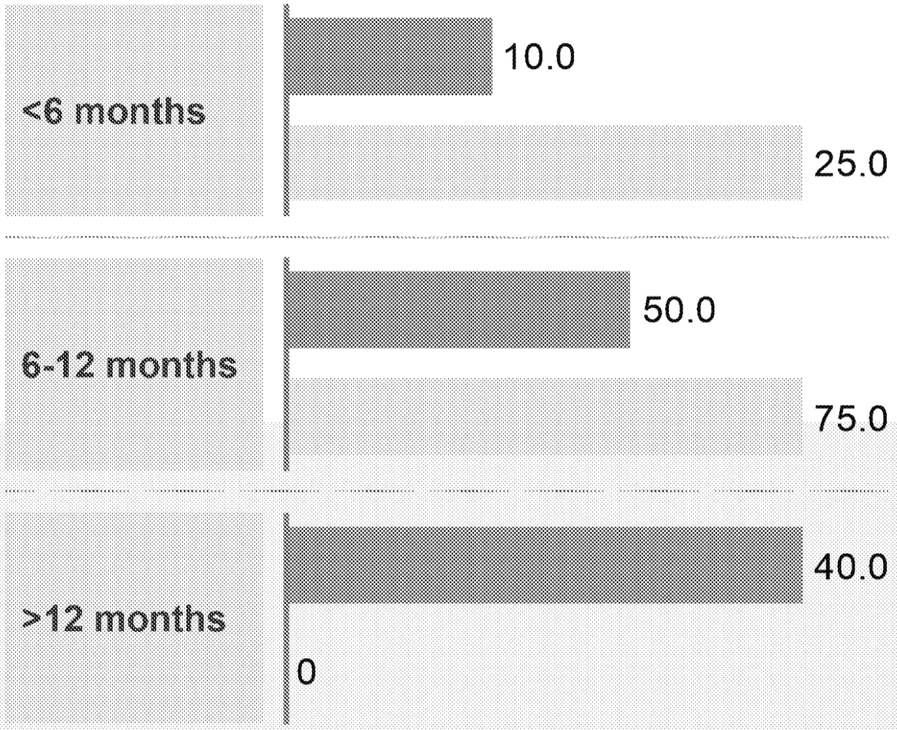
Channel – Branches: Recent external hires achieve a higher average value & volume than internal hires

▨ Internal hires ▨ External hires

Monthly mortgage applications (internal v. external hires)[1]



Tenure comparison between internal and external hires, %



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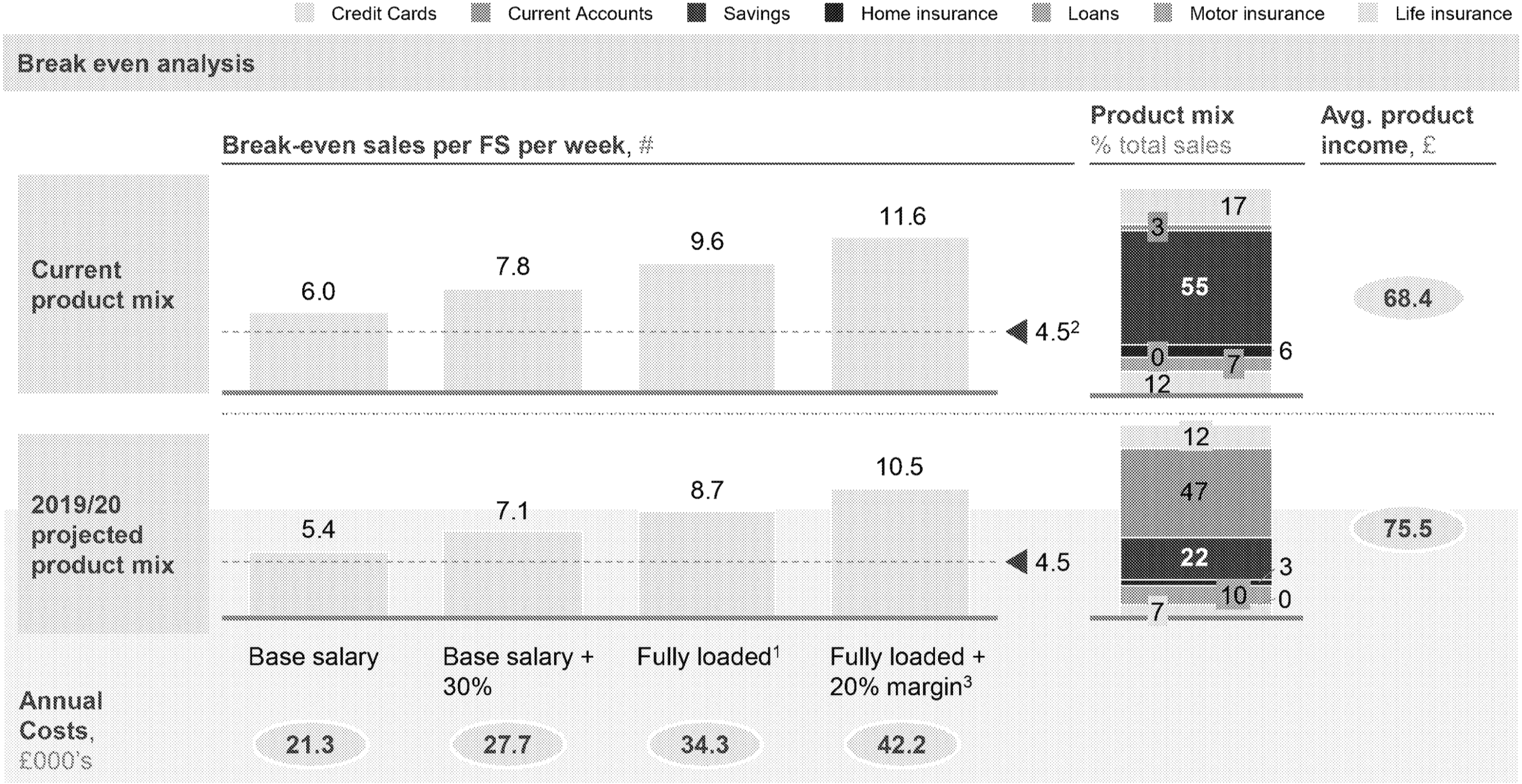
[1] All applications in progress that have not been declined or dropped are included here. AIPs (Agreements in principle) that have been referred are included

[2] Assumes: MS specialist cost to company of £43,480: average salary - £27600, cost to company - additional 30%, average rent per specialist - £450 per month, certification costs - £2200 per year. Commission on mortgages is 0.6% of value

Source: MI team

Channel – Branches: To recover direct costs, FS specialists need to complete ~9-10 transactions per week

Post Office Money



Note: excludes costs associated with driving higher FS productivity (e.g. Academy, SalesForce)

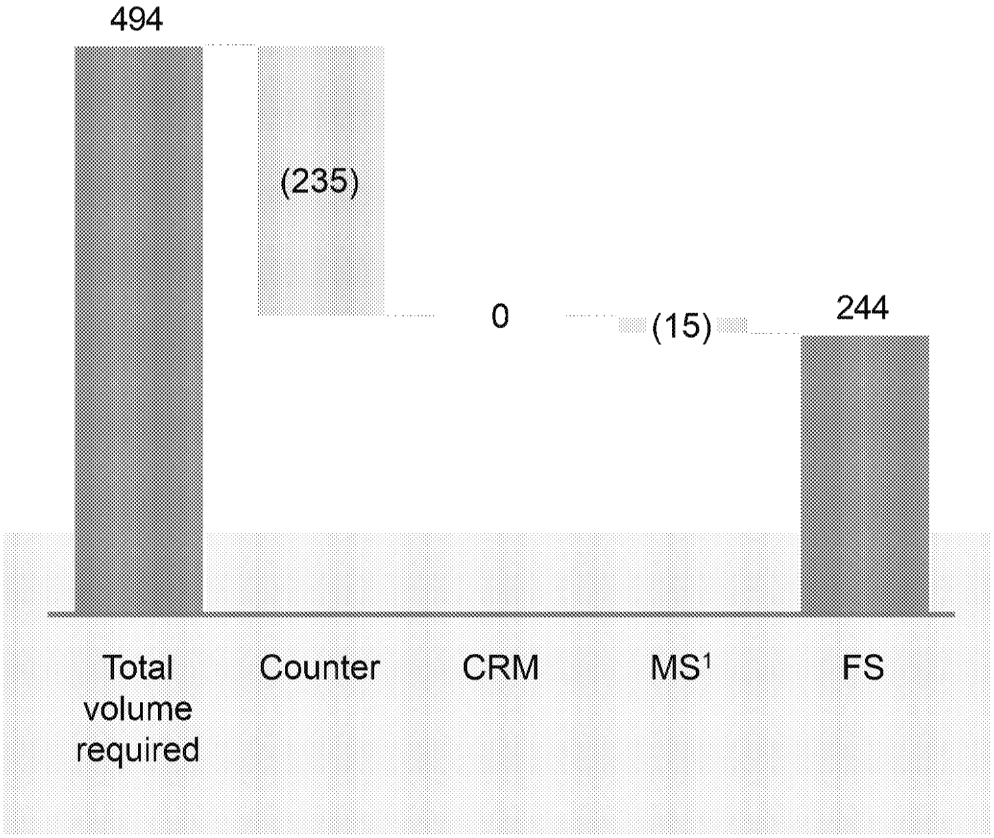
1 Fully Loaded costs include £21k base salary; 30% increase for pension, HR, NI; £1,200 annual sales licence and £450 p/m for real estate

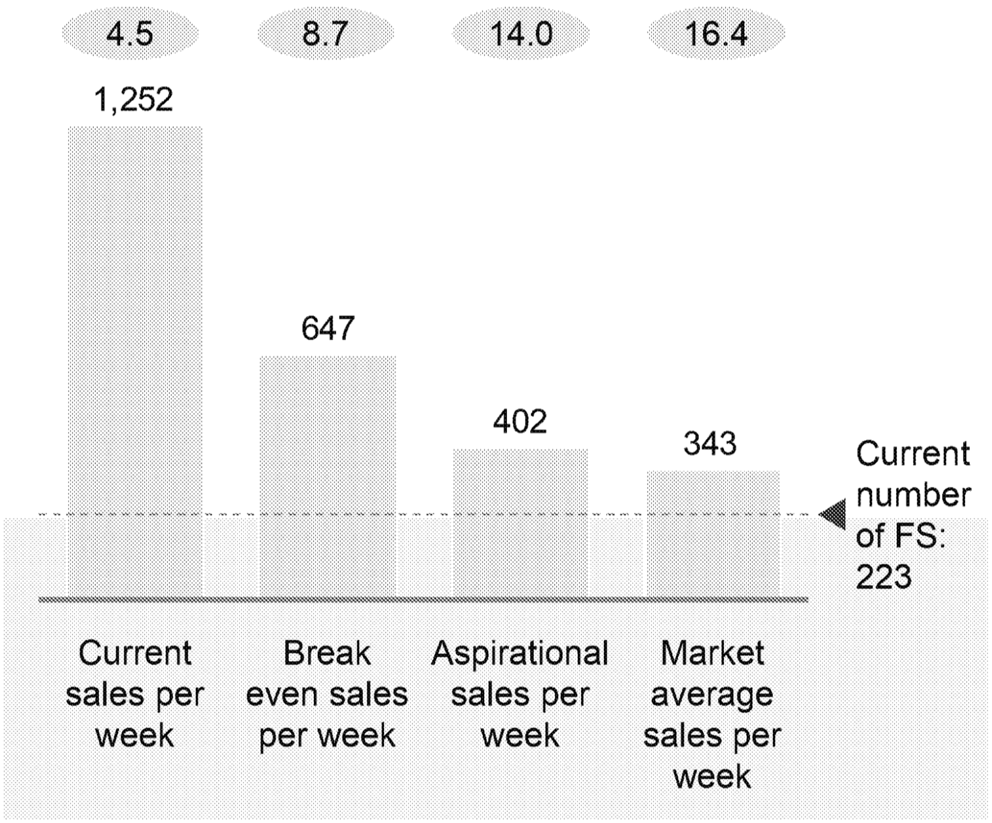
2 Average productivity per week for rolling twelve months; 3 Based on 2014/15 YTD EBITDAS margin

Channel – Branches: Achieving planned revenue targets in Personal Lines Banking requires an uplift both in absolute numbers of FS staff & their productivity

Required annual FS volume to achieve 2019/20 targets, thousands

Number of FS specialists required to meet target, based on their productivity[2]





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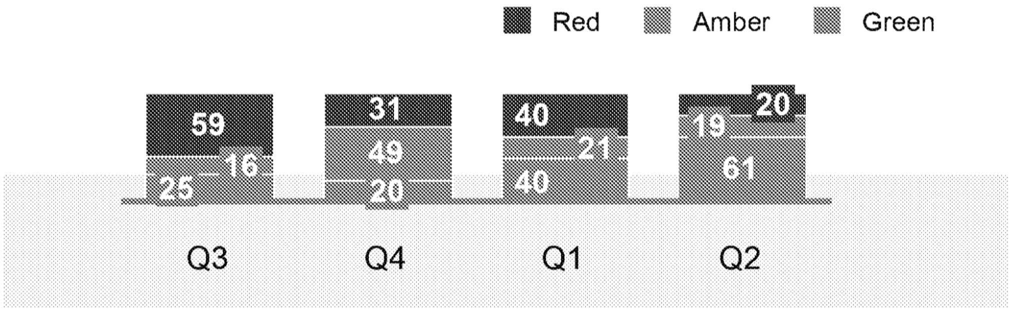
[1] Assumes no increase in FS sales from current 72 MS who also sale financial service products in 2019/20
[2] Includes 20% uplift given downtime for training, holiday and sick days
Source: Team analysis

Channel – Branches: While few FSs break even today, some positive signs exist

POST OFFICE® Money

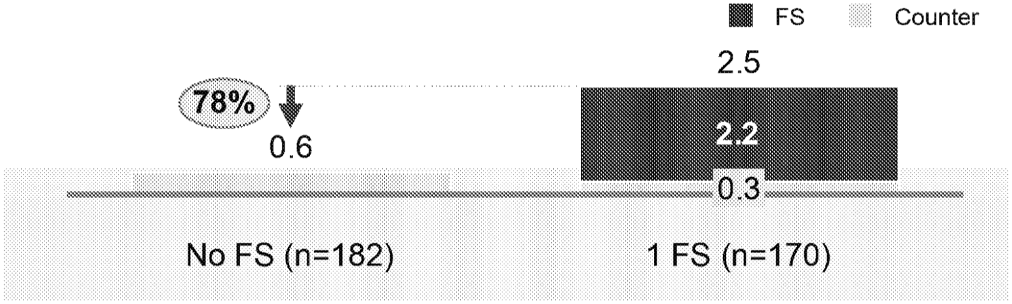
Quality (VMS) of sales performance continues to improve significantly

VMS ratings, % total shops visited[1]



A large proportion of FS sales are truly incremental, even for savings

Savings Sales per week, YTD 2014/2015; Crown branches only

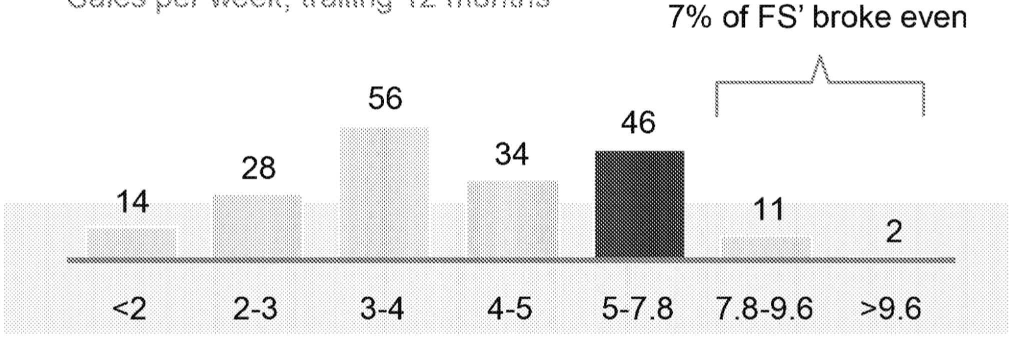


There are some indications of improving FS productivity

Best FS in best week ex. Savings[1]	**26.0 sales/ wk**
Avg. for Best FS[1]	**10.8 sales/ wk**
Avg. for top 1/3 of performers[1]	**6.6 sales/ wk**
% of FS who improved productivity by 2 or more products / week ex. savings[3]	**12%**

25% of our FS specialists are close to break-even, with 7% already there

Sales per week, trailing 12 months[2]

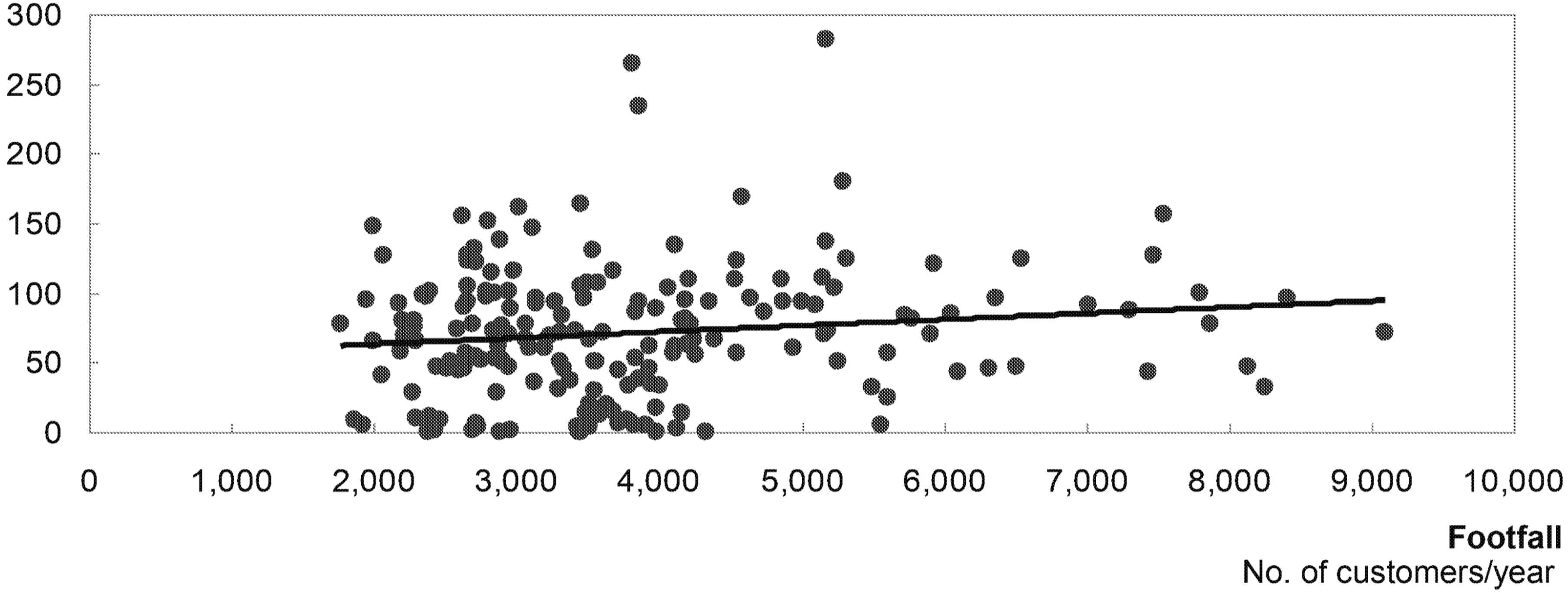


[1] Q2 data incomplete (first 2 months only); sample size of 74 shops
[2]. Calculated over the last 12 months (Aug 2013 to Aug 2014)
[3]. Last 30 weeks in 2013/14 v. first 20 weeks in 2014/15
Source: Video Mystery Shop; FS sales performance data

Channel – Branches: Performance of FS specialists does not correlate with store footfall implying that capability matters

Productivity of stores by footfall
Footfall vs. store wide transactions

Productivity per FTE (YTD 2014/15)
No. of transactions/ specialist/ year



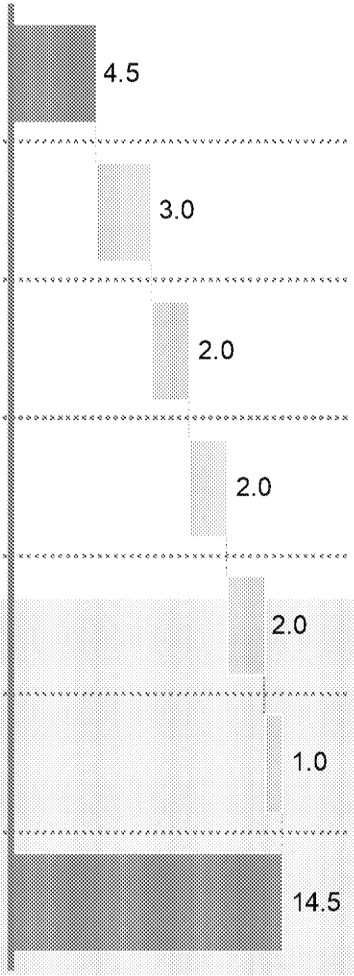
Source: MI team, team analysis

Channel – Branches: Investing over £4m to improve its sales capability, predominantly funded by 'Eagle fund'

Post Office Money

	Key actions
Current productivity	
Performance management	• Concerted effort to manage out underperformers faster • New formal PDR moderation exercise in place • New incentive scheme that compensates FS specialists for sales
Staff training /Academy/Sales tools	• £.2-.3m investment in Academy to develop/execute initial training and continuing professional development • Clarity on role requirements to attain/ maintain competence + interventions to support ongoing development • Creation of consistent processes for sales of each product • Investment of £.5m - £2m in SalesForce tool to support and digitise sales process
Customer data capture	• £2-4m investment in data systems that enables FS to identify — Next best product trigger for FS and Post Office customers — Cross-selling opportunities for customers who are planning to make an FS purchase — Knowledge of customer holdings to support relationship building
Increased lead generation	• £.1-.5m investment in new lead generation — Increasing tenure of FS allows them to establish deeper relationships with counter staff /customers — Role of CRMs and data capture in "spoke" branches to increase leads — Online enables customers to book in branch appointments
Post Office Money Brand	• £2m-4m investment in creation of Post Office Money brand and investment in in branch promotional material to increase awareness and consideration of Post Office for financial services products
Plan productivity	• £4.8-£10.8m total investment to increase FS productivity

Impact on productivity p/w



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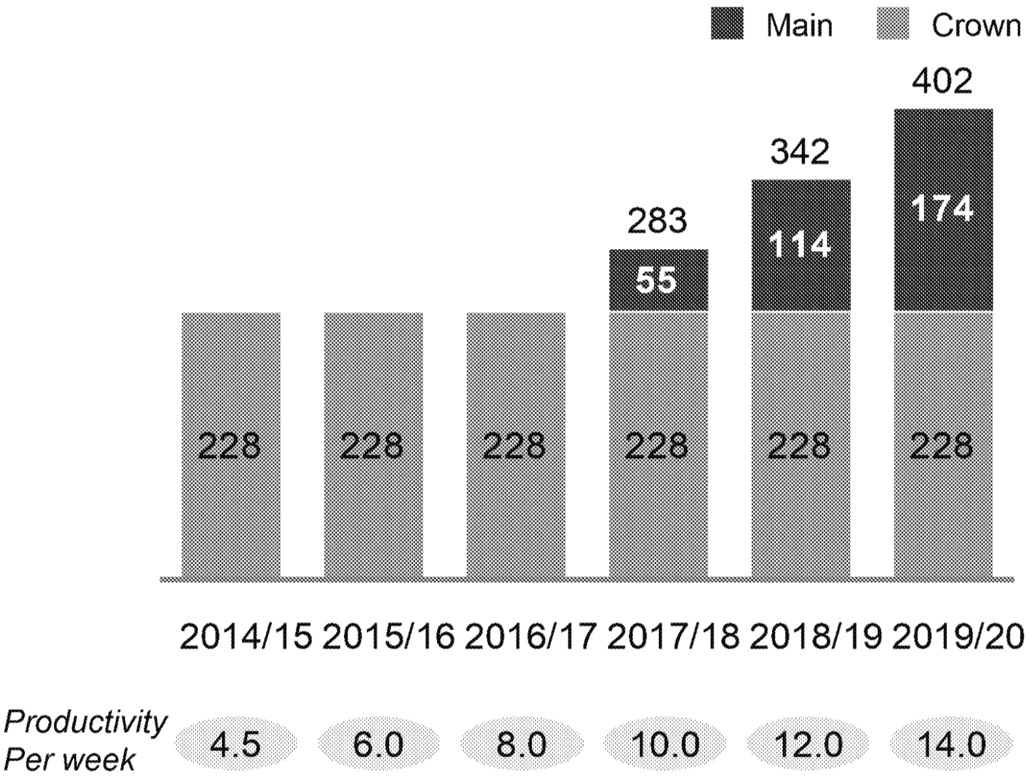
Channel – Branches: Plan anticipates growing FS revenues from 2017 & once higher productivity rates have been achieved

Principles for Financial Specialist roll out

- Critical to demonstrate improvement in FS productivity before (i.e. 75% of FS specialists above break-even) before further hiring can commence
- New Finance Specialists will likely be in non-owned branches
  - Saturation in current Crowns
  - Crowns likely to be repurposed
- FS can success in non-owned branches
  - Branch manager and FS specialist already have different reporting lines
  - In interests of agency to attract more people into branch through providing additional services
- Cost of FS in non-owned likely to be similar to crown given inclusion of £450 p/m real estate cost

Plan for Financial Specialist roll out



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Channel – Online: Substantial opportunities to improve our online channels to drive sales

Post Office Money

Key actions

Lead generation

1. **Increase brand awareness** of Post Office Money online offering (~only 24% of our customers are sure they can do business with us online, versus 53% for average bank)
2. Selective **use of online aggregators** to raise brand awareness and deliver volume targets, particularly for insurance and savings products
3. Develop **Post Office Money as an online destination** for FS products, in order to capture customer data, enable cross-selling opportunities, increase margins
   - **Full suite of products available** for sale, with full product details for insurance, investments and Forex; simple information (balances) to be available on BoI products with click through for transactional data
   - Invest in **simple website** tailored to customers based on browsing behaviour

Sales fulfilment

4. **Create consistent, optimised and simple online customer journeys** accessible through multiple channels to drive higher conversion rates (currently 2.6% for car insurance v. 6.6% industry average)
5. Convert higher proportion of visitors to Postoffice.co.uk for **non-FS related purposes**;
   - Post Office Money homepage with single sign on
   - Link from Post Office main site for lead generation (via cookies)
   - Build capability to make most relevant first offer

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Channel – Telephony: Contact centres will need to play an increasingly important role

Key roles

Outbound

1. Data capture allows for targeted outbound campaigns around event-based products, e.g. car/home insurance
2. In "tail" branches where "hub and spoke" is not fully present, counters agents to capture requests for specific products, not available in branch, and schedule outbound calls

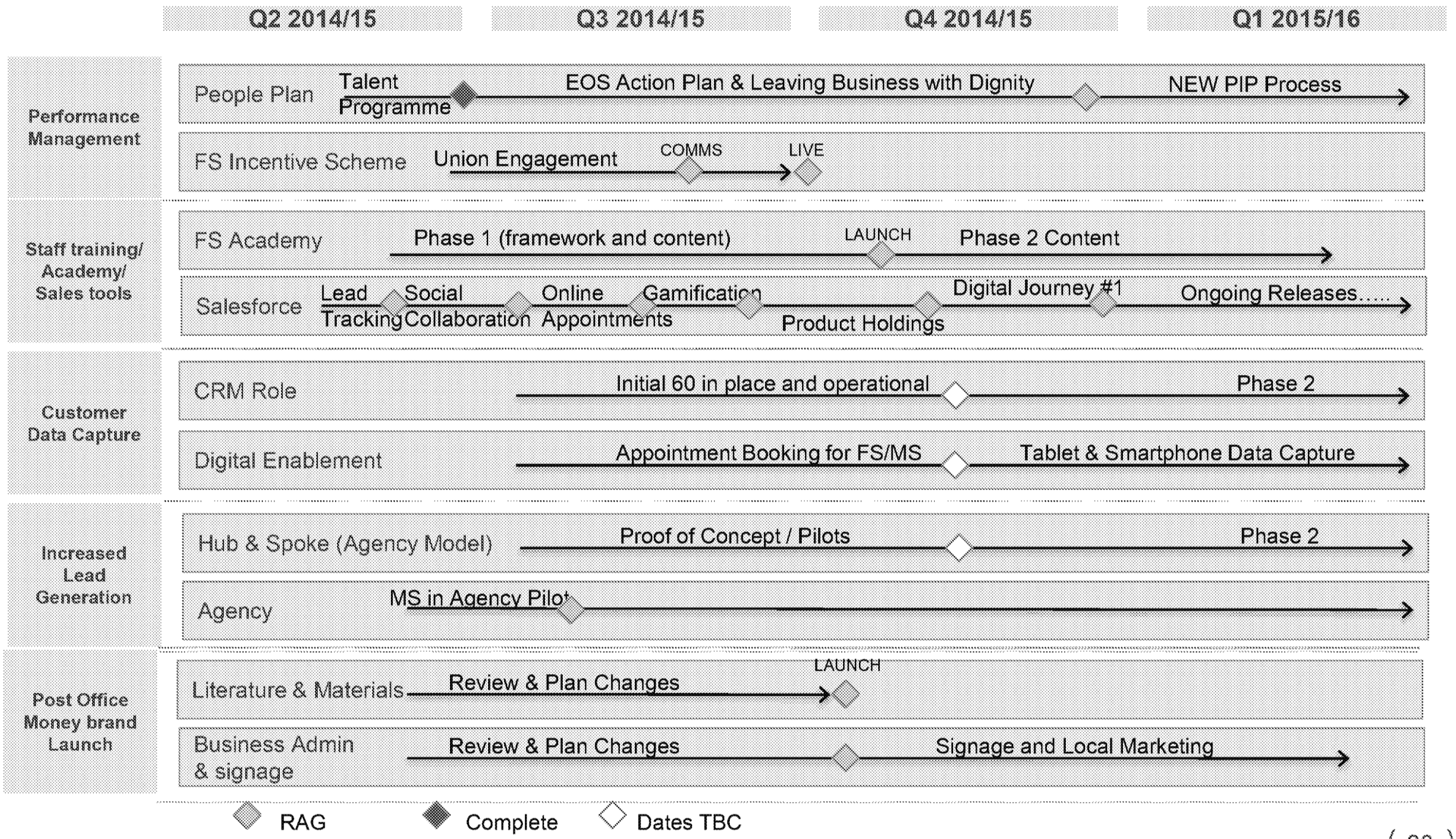
Inbound

1. Service inbound calls to be directed to partner call centres, in line with current model
2. Initially, inbound insurance sales calls to be directed to Titan call centre to create opportunities for cross-sell
3. Over time, additional products to be added to Titan call centre, with objective to handle all inbound sales calls from one Post Office controlled location
4. Post Office also to develop central "web chat" team, to support online sales

Appendix – Contents

- Starting position & market context – Product specific
  - Payments
  - Banking Services
  - Travel
  - Personal Lines
- Vision / learnings from challenger strategies
- Building blocks to achieve 2020 Vision
  - Customer
  - Product
  - Channel
- **Next steps & milestones**

FS Sales Capability Programme



Q2 2014/15 | Q3 2014/15 | Q4 2014/15 | Q1 2015/16

Performance Management
- People Plan: Talent Programme; EOS Action Plan & Leaving Business with Dignity; NEW PIP Process
- FS Incentive Scheme: Union Engagement; COMMS; LIVE

Staff training/ Academy/ Sales tools
- FS Academy: Phase 1 (framework and content); LAUNCH; Phase 2 Content
- Salesforce: Lead Tracking; Social Collaboration; Online Appointments; Gamification; Product Holdings; Digital Journey #1; Ongoing Releases…..

Customer Data Capture
- CRM Role: Initial 60 in place and operational; Phase 2
- Digital Enablement: Appointment Booking for FS/MS; Tablet & Smartphone Data Capture

Increased Lead Generation
- Hub & Spoke (Agency Model): Proof of Concept / Pilots; Phase 2
- Agency: MS in Agency Pilot

Post Office Money brand Launch
- Literature & Materials: Review & Plan Changes; LAUNCH
- Business Admin & signage: Review & Plan Changes; Signage and Local Marketing

◆ RAG ◆ Complete ◇ Dates TBC

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POST OFFICE LTD BOARD

Winning in Mails and Network Development Update

1. Purpose

The purpose of this paper is to:

1.1. Update the Board on the latest developments regarding Post Office Ltd (POL) plans to win in Mails, including Network Development.

2. Background

2.1. The threats we face in the Mails market from the likes of Collect+ and myHermes continue to grow. Collect+ posted its first year of profit (£1.8 million) for the 52 weeks ending March 2014, with record full year revenues of £34.1 million on a volume of 13.6 million parcels. Collect+'s parcel volumes have continued to grow in the first quarter of 2014/15, with an additional 1.2m parcels reported on the same period last year. If Collect+ continues to grow at last year's growth rates for the next three years, it will have profitable revenue of £240m and handle 74m items per year (equivalent to 30% of our parcels volumes today).

2.2. In June, the Board reviewed the planned POL response to this growing threat. These plans were centred on rapidly expanding the POL network through deploying low cost parcels access points. This would enable POL to win the battle for convenience which is developing in the consumer parcels market, evidenced by the rapid growth of our main competitors.

2.3. Since then, our need to transform is only reinforced by our Mails business performance. POL's year-to-date Mails income is down (at the end of Period 5) by £800k (0.6%) on last year and down by £10m (7%) on target. This performance is a result of lower than expected parcels market growth, (1-2% compared to 5%) and further losses (c.5m parcels year-to-date) to the main competitors.

3. What has been achieved to date

3.1. We have made progress against our September targets. We highlight a few here and a full brief is included in Annex 1: Winning in Mails (including Network Development).

3.2. Royal Mail Group (RMG) is integral to our success in Mails, including Network Development and we have established an ongoing collaboration with them. Five workstreams have been set up with specific objectives, outcomes, and jointly accountable individuals. These are: (i) pricing strategy and commercial alignment (including online) (ii) improving the customer journey and providing the right products (iii) network footprint (iv) branch metrics and market trends and (v) marketing levers.

3.3. On Network Development, we are now clearer on the customer and commercial requirements, and how to deliver them:

- Over half of POL's parcels customers now consist of 'returners', 'amateur sellers' and 'online hobbyists', who appreciate convenience. A competitive Mails product set that would serve their needs includes Home Shopping Returns, Click and

Collect, and 1st and 2nd class labels (with signed for). International and a tracked product would further differentiate our offering, with add-ons like bill pay and e-top up further strengthening our proposition. Customers would purchase products online and choose a conveniently located access point for pick up or drop off.

- We have designed four access point operating models to deliver this proposition. Each is operationally simple, with minimal training and requirements of retailer staff and store space. The in-branch footprint is light and the technology options evaluated include a Paystation solution (used for trials), a tablet solution or an electronic point of sale (EPOS) integrated solution, as well as a self-service option. To deliver this, we need RMG to collaborate, e.g., remove weighing and segregation, waive collection costs, etc.
- We are testing and refining these preliminary models by (i) testing with strategic partners and (ii) trials. We have shared our vision with 8 multiples, with 5 indicating strong interest. We have also spoken with independents (e.g., SPAR), and held informal conversations with many others. These discussions position us as a credible alternative to competitors and buy us time to refine our proposition and secure RMG collaboration. We have also secured agreement to launch 177 trials by the end of September, 2 of which are already live.
- Finally, we have developed a first view of the size and shape of the 2020 network and a ramp-up plan to reach it (informed by operational feasibility). While indicative at this stage, it envisions an expanded network of 27.5k locations, with no Crowns, 2.5k Mains, 9k Locals (including 4.5k 'Locals Light'), 3.5k Community branches and 12.5k access points. Based on this, the roll-out of the access point network is estimated to have a positive NPV over 10 years (c. £23m), with a run-rate EBITDA of £15m in 2020. It will incur one-off costs of c. £36m over the first 3 years, with payback within 6 years. However, this assumes a backdrop of stable market conditions, which we know not to be the case. Against a 'do-nothing' scenario (see section 5.1) which assumes loss of existing business to competitors and reduced scope for capturing growth areas, NPV is improved by c. £50m and payback is within 4 years. Broader benefits also accrue to the existing network, as we extend improvements (e.g., product simplification) to Mains and Locals, reducing transaction times and simplifying formats. Over the next months, we will evaluate this broader impact in more detail.

4. Assessment of current situation (including risks)

4.1. Success of our Winning in Mails strategy is predicated on a number of 'need to be true' assumptions. However, we cannot gain certainty of all these assumptions at this point. This constitutes material risk, of which RMG is foremost.

4.2. Commercial alignment with RMG has not yet been achieved. One key risk is failure to negotiate adequate payment for accept only in branch, as the market moves online. Others include failure to waive restrictive operational and cost requirements for large scale rollout. Until we do so, we will be proceeding at risk with retailer negotiations. To resolve this, we have agreed in principle to re-shape the Mails Distribution Agreement (MDA) to align commercial interests. If successful, this will rebalance commercials in such a way that makes a simplified product range and more convenient customer journeys commercially viable for POL and retail partners.

4.3. Another material risk is how Network Development will land with key stakeholders including the National Federation of Subpostmasters (NFSP). Failure to bring the NFSP onside could jeopardise on-going delivery of the Network Transformation programme and create significant political turbulence, thereby halting delivery of the strategic plan. Alignment with the NFSP has not yet been achieved, although the

POL team has embarked upon a significant engagement exercise. Initially, this has resulted in cautious NFSP support for limited trials and a clear understanding of the competitive threats that POL, as well as its existing agents, face (including a full understanding of the nature of the plan to respond to these threats). However, this remains a fluid situation, and to date, has not resulted in concrete support for trials. A verbal update will be given at the Board.

4.4. Finally, the economic case for Network Development is sensitive to market pressures. Transaction volumes may fail to materialise, and margins may be squeezed as service providers compete for retailer partnerships. We will mitigate this via phased rollouts, adjusting our roll-out plans based on actual performance.

5. Consequences of not delivering the plan

5.1. The economics of the access point network reaches run-rate only in 2020, and there is material delivery risk. However, we recognise that this is primarily a defensive play. As outlined in the June Board paper, if we do not do so, our parcels market share could decline from 96% today to 50%. We will also not capture the growth areas of Collections and Returns. By 2020 we could lose up to £86m of Mails income, which is the basis of the 'do nothing' scenario described in section 3.3. Post 2020, the loss could be greater if we fail to become the parcels retailer with the most convenient network. The consequence of this is that we will not be in a position of strength when the MDA ends in 2022.

5.2. Loss in Mails income could also have knock-on effects. Lower income will drive greater cost reduction, which could reduce network size. This in turn impacts other product areas, lowering income further and setting up a vicious cycle. In this scenario, we would be entering managed decline.

6. Conclusion

6.1. On balance, we remain confident that this is the right action to take to become commercially viable. We are aware of the risks as set out above and have plans to mitigate them. Roll-out will be considered, committing investment in stages, with clear decision points, so POL can be guided by learnings from trials (e.g., customer satisfaction, ease of operations, etc). The next major decision point will be in March 2015, when we aim to have alignment with RMG and learnings from the initial 177 trials.

7. Next steps

7.1. We will continue to execute our RMG engagement plan over the next few months, including a CEO meeting in September and a Chairman / CEO meeting in October. These meetings will help resolve short term issues to enable the roll-out of simplified product customer journeys and branch processes from November 2014, and set out a timetable for the parties to complete renegotiation of the MDA by April 2015.

7.2. We will work towards agreeing a position with the NFSP prior to their special conference in November. Ideally this will include agreement to proceed with the next wave of trials in January 2015 and subsequent roll-out through 2015/16.

7.3. We will continue to engage with retailers to ensure that we remain competitive. In parallel (subject to resolving key stakeholder challenges) we will refine our proposition to suit the needs of emerging strategic partners (e.g., McColl's).

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7.4. Finally, we will monitor and learn from initial trials and refine the commercial proposition accordingly.

8. Recommendations

8.1. The Board is asked to note the update and actions set out above.

Martin George and Kevin Gilliland

18th September 2014

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Annex 1: Winning in Mails (incl. Network Development)

Board update

18th September 2014

AS SHARED IN JUNE 2014 BOARD

At the Board meeting in June we set out our strategy to win in Mails

In June we highlighted the 7 key areas of activity to win in Mails:

■ Areas that we are drilling into today

① **Align relationship with Royal Mail** – Deepen and align our relationship with Royal Mail in order to facilitate the delivery of our accelerated Mails strategy

② **Large-scale Network Development**
A Post Office access point in the local convenience shop, the supermarket, the garage, the coffee shop [See Network Development section]

③ **Product simplification**
Simpler and quicker transactions for customers and agents, resulting in cost reduction

④ **Capturing Mails eCommerce**
The one-stop shop for e-commerce buyers and sellers, along each stage of the journey – from ordering, fulfillment, payment, financial services, collections, returns

⑤ **Becoming the leading SME service provider**
Drive sales by developing Drop & Go through prospecting and offering collections to local SMEs [See SME section for additional detail]

⑥ **Sales efficiency**
Prospecting, communication, conformance, penetration, cross-sell and up-sell, tiered selling effort

⑦ **Product rationalisation** – Evaluate the scope to rationalise the breadth of our product offering to improve overall profitability and reduce complexity

Today, we will update the Board on progress on Royal Mail, Network Development, and Product Simplification. The remaining areas are dependent on success on the first three areas of activity.

SEPTEMBER TARGETS AS SHARED IN JUNE 2014 BOARD

We have made progress against our September targets …

	By Sept 2014	Progress made
Mails	• Agree approach with RMG to Network Development and product simplification • Drive Sales Efficiency • Focus on winning big returns contracts (eBay) • Build on Click & Collect • Launch online Mails • Develop alternative Click & Collect proposition if required (Metapack)	• Established ongoing collaboration with RMG, with creation of 5 workstreams with specific objectives, outcomes and accountable individuals • Obtained RMG support for trials, e.g., no collection fee and weighing for returns • Launched large scale frontline training and engagement programme for 4,000 branches, up-skilling agents and Crown managers, with 500 branches completed • Launched Returns service with eBay • Completed online Mails prototype. Built pipeline for further partnerships with RMG • Commenced integration of Metapack, which will catalyse RMG collaboration on Click & Collect
Network Develop-ment	• Detailed economic impact analysis on existing branches and agents • Develop engagement process and narrative for key stakeholders (e.g., Government and NFSP) • C. 135 pilots of new branches	• Assessed profitability of access points and high level economics of Network Development • Engaged with NFSP, with initial support for trials. However, situation remains fluid (verbal update to be given at Board). Also engaged with SHEX. • Developed engagement strategy for key retail partners (independents and multiples) and initiated conversations with 8 multiples and several independents within the SPAR symbol group • On track to launch 177 pilots by end September, with 2 sites already live
Digital	• Launch digital Mails online service • Post Office WiFi, range of complementary services	• On track to launch online Mails for SMEs in October • Post Office WiFi capability installed in 17 branches, customer facing WiFi live by early October
SME	• Pilot SME proposition to test concept of packaged products • Develop business case for SME loyalty programme • Secure partnerships with key organisations such as Federation of Small Businesses (FSB), British Chambers of Commerce (BCC), eBay	• Segmented SME market, identified target customers and prioritised opportunities, initially focusing on core mails offering • Ongoing work to prioritise SME tactical activity, including business case for loyalty • Commenced deep dive on the opportunity areas (mails and FS) • Launched 15 pilots in June, resulting in direct sales and leads in Drop & Go, PSP, and van insurance • Ongoing planning with British Chamber of Commerce for a jointly marketed SME e-commerce white paper in November

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…however, risks remain, of which Royal Mail is foremost

Key risks	Description	Categorisation[1]
Royal Mail *(Stakeholder risk)*	Misalignment of commercial interests between RMG and POL, and / or lack of engagement at the right levels, result in negative impact on POL performance and strategic plans. These include – Failure to negotiate adequate payment for accept only in branch, as market moves online – Failure/delays to securing key agreements for Network Development, including: ▫ Expected pay rates from RMG to POL for products in access points ▫ Waiver of key operational costs, e.g., collection costs, cost of scales ▫ Enablers of operational simplicity, incl. IT integration, e.g., no need for parcel segregation, no need for multiple labels, product journey simplification, integration of track and trace etc.	Inadequately controlled
Commercial viability *(Market and operation risk)*	Unfavourable external factors (e.g., market changes, product pricing) lead to lower than expected transaction volumes, driving down profitability Lack of operational excellence and planning (e.g., location of access points, operational simplicity, etc.) lead to lower than expected transaction volumes or higher cost, driving down profitability Note that RMG collaboration is a key enabler of operational simplicity (see RMG stakeholder risk above)	Controlled
Stakeholder engagement *(Stakeholder and regulatory risk)*	Insufficient engagement with NFSP leads to lack of buy-in, resulting in disruptions to existing programmes (NT) Perceived threat of Network Development leads to lack of acceptance by agents and MPs, resulting in industrial action, reputational damage and negative publicity	Inadequately controlled
	Lack of timely engagement with SHEX and BIS result in delays to approval to deviate from 2020 plan, resulting in disruptions to plan timelines	Controlled
Retailer agreements *(Market and technology risk*	Insufficiently attractive propositions (either due to commercial terms or complexity of operational requirements), result in insufficient buy-in from retailers and / or consumers, delaying the programme	Controlled
	Operational simplicity dependent on timely completion of product simplification solution build, and agreement with Royal Mail	Inadequately controlled
	Increased competition leads to higher demands from retailers, reducing POL margins	Inadequately controlled
Competitor response *(Market risk)*	Market risk that competitors react to Network Development by moving more aggressively to secure position (e.g., by lowering prices, filing anti-competitive challenges against POL), resulting in delays and or cost increases to programme	Inadequately controlled

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1 A controlled risk is one where management believes the existing control framework is sufficient to mitigate; an inadequately controlled risk is one where the existing control framework is not sound and extensive work is required to reduce the current risk exposure, and further actions are planned

Progress update: Align relationship with Royal Mail

What we need to achieve

- Need to bring across the compelling rationale for RMG to support our Mails strategy (incl. Network Development), at all levels (incl. Board & CEO)
- Align commercial objectives with RMG and agree the value share for RMG and POL
- Full collaboration to simplify customer journeys and extend the Post Office network

What have we already achieved

- Established and held regular meetings at the most senior level
- Held multiple working group and weekly Trading meetings
- Identified high priority commercial issues to be resolved jointly as well as operational changes required for Network Development
- Obtained agreement to waive constraints for access point trials e.g.,
  - Weighing of Home Shopping Returns not required
  - CRB checks not required
  - Collections secured at no added cost
- Obtained agreement on reduced pricing offers to customers on small parcels
- Established priority programmes for 5 workstreams

What will we achieve in the next 3 months

- Align commercial interests both in short term (2014/15) and beyond, or understand need for alternative plan
- Obtain provisional agreement on top product priority issues (collections, segregation costs, barcodes)
- Agree and deploy a joined up customer experience across our on-line channels
- Deploy Network Development pilot sites with simplified products
- Ensure a great Christmas campaign to drive sales
- Share improved market and financial data to inform current and future decisions.
- Deploy pricing changes for our customers.

What will we achieve by the end of 2014/15

- Agree and put in place new commercial arrangement
- Commence roll-out of Network Development access points
- Commence preparation for price changes at the beginning of April 2015

Royal Mail remains integral to our plans for both Mails and Network Development

Areas where RMG is integral	Examples of collaboration required
Pricing strategy and commercial alignment (incl. online)	• Ensure commercial interests of RMG, POL and agents are fully understood and aligned, incl. – Remuneration structures where required to help drive desired behaviours and associated sales – Potential for pricing innovation
Improving the customer journey and providing the right products	• Ensure we jointly meet customers' needs by providing the right products through the right channels using best in class customer journeys. We will do this by – Identifying opportunities to re-engineer products and processes to deliver convenience – Sharing existing analyses of customer needs – Developing a single online journey, with aligned ownership – Optimising the user experience
Network footprint	• Align and agree on the future size and shape of the network to meet customers' needs, by – Sharing existing analysis on network coverage and any identified gaps – Agreeing principles for network expansion – Aligning on the optimal footprint for network expansion including services required
Branch metrics and market trends	• Understand dynamics of changing sales volumes by product, and co-develop solutions, incl. – Obtaining data required to analyse product performance accurately at branch level – Identifying key drivers for customer behaviour – Monitoring and tracking changes in the market to identify opportunities and agree priorities
Joint marketing levers	• Coordination of marketing activity to support sales strategy and to help maximise revenues, incl. focused activity for key products and services

Progress update: Large scale Network Development

What we need to achieve

- Stress test our strategic direction for large scale Network Development, e.g., by designing the solution, modeling the economics, and engaging with retailers, partner (RMG) and stakeholders
- Refine our commercial proposition and operating model based on trials and stakeholder engagement
- Make progress towards roll-out of additional 12.5k additional access points by 2020, initially via small-scale trials

What have we already achieved

- Set up a comprehensive programme to drive delivery, resourced with cross functional teams
- Designed 4 new operating models for access points and modeled future size and shape of entire network
- Developed detailed access point and network economics
- Identified priority retailers, developed messaging, and held over 8 formal sessions with multiples, with 5 indicating high interest[1]. Similarly interest from independents[2] Also held a range of informal conversations (e.g., with Lidl)
- On track to launch 177 access point trials on 22nd of September, with 2 sites already live
- Conducted qualitative customer research to ensure access points meet customer needs
- Engaged with NFSP and obtained initial support for 177 trials; however, situation is fluid (verbal update will be given at the Board)

What will we achieve in the next 3 months

- Agree commercial proposition outline for Network Development, incl. securing RMG collaboration
- Launch access point trials and monitor performance
- Conduct quantitative customer research
- Refine operating models and commercial proposition according to trials and customer research
- Reach agreement with NFSP on their position towards full Network Development

What will we achieve by the end of 2014/15

- Achieve a network of 12,000 locations (of which 400 access points)
- [Subject to NFSP agreement] Trial area flooding – area in SE London identified around 2 Crown franchises and field teams already briefed
- [Subject to agreeing commercial proposition outline with RMG] Secure contracts with 2-5 priority retailers, to meet FY15/16 roll-out aspirations
- [Subject to agreeing commercial proposition outline with RMG] Put in place detailed operational plan to roll-out c. 5000 access points in FY15/16

1 Morrisons, Waitrose, McColls, Eurogarages, OneStop
2 SPAR, Blakemore, Alfred Jones, ISS, Nisa etc

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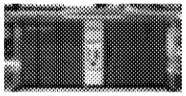
We have developed a range of new access point operating models, including a temporary model using Paystations for trials

	① RETURNS ON A PAYSTATION (IVY ONLY) 	② BASIC MAILS PLUS 	③ ASSISTED SELF-SERVICE 	④ SELF-SERVICE 
Mails	• Accept only	• Accept only in store	• Sale and accept in store	• Sale and accept
Purpose	• Quick roll-out for project IVY	• Large-scale roll-out for Network Development with product offering at least as good as competitors	• Supports extension in high volume locations with limited staff capacity (e.g. convenience stores with high staff costs)	• Supports extension in high volume locations with no staff requirement (e.g. large supermarkets with spare space)
Products[2]	• HSR only	• HSR • Click and collect • 1st/2nd with signed for • Tracked (exact product tbc) • Billpay • e-top up These two models can use similar technology, and have a similar cost base. The difference is how they are deployed in store, and the corresponding changes to the customer journey (i.e. in model 3, customer can take complete entire journey in store)	• HSR • Click and collect • 1st/2nd with signed for • Tracked (exact product tbc) • Billpay • e-top up	• HSR • Click and collect • 1st/2nd with signed for • Tracked (exact product tbc)
Customer need	• Online shoppers seeking quick drop off in convenience locations with extended opening hours	• Online shoppers and parcels senders seeking quick drop off in convenience locations with extended opening hours • Customers who want to do billpay and e-top up	• Convenience purchases at a more accessible location with extended opening hours	• Convenience purchases at a more accessible location with extended opening hours
Technology[4]	• Paystation and barcode scanner	• Tablet with integrated barcode scanner, weighing scales and printer • ePOS integration possible[3]	• Self-service tablet with integrated barcode scanner, weighing scales and printer	• Options include: – Self-service lockerbox – Customer-facing tablet, with intelligent drop box – SSK, with intelligent dropbox

These new access point models will make whole estate, multi-format (and product range) partnerships with POL more attractive for retailers

[1] A version of this operating model will be ready in Q3 on a tablet with a limited range of the products using the unsimplified existing customer journeys

[2] Not exhaustive

[3] ePOS integration is being examined as it is a key retailer requirement but costs are not yet confirmed. Assumption is higher development cost is balanced by lower per site hardware cost and maintenance

[4] All technology options for access points will be independent of the Horizon front end

① We are on track to trial 177 sites offering a reduced mails product set supported by Paystations; these will be branded 'mini Post Office'

POST OFFICE®

Retailer / Partner	Number of pilots
eg Euro Garages	79
one stop	66
Alfred Jones	10
ISS	6
a.f. blakemore & son ltd	3
Other independents	13
Total	**177**

Further details about trials

- Initially, all pilots will use a PayStation solution, until the end-state technology solution becomes available
- The product set will initially be limited to Home Shopping Returns
- Performance of trials will be monitored to inform the refinement of operating models
- Trial sites will be rolled out with a 'mini Post Office' sub-brand, to better distinguish it in consumer's minds from regular Post Offices

External window vinyl decal

Internal hanging sign

Internal floor decal

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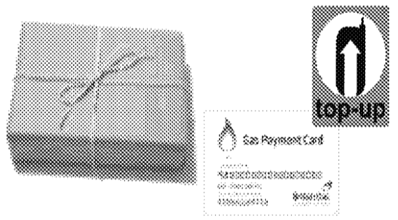
② Basic Mails Plus is the operating model we have developed in detail, which will support Network Development



Description

- Acceptance only model for sending and collection of parcels, alongside bill pay and e-top up
- Customer processes mails transaction online before dropping parcel(s) off at access point
- Access point simply scans the barcode, issues CoP and stores parcel for RMG collection
- Bill pay and e-top up allow significant scope for market share growth

Products

- Acceptance only for mails:
  - 1st/2nd class (with signed for add-on)
  - Home Shopping Returns
  - Click and collect
  - Tracked product (possibly special delivery, but without additional features, e.g., timed delivery, compensation cover, signature on delivery, etc)
  - International (Airmail)

- Essential non-mails services: bill pay and e-top up

Key elements

- **Technological solution**
  - Simple and low cost (one-off and on-going)
  - Low training requirement
  - Small in-store footprint; could be ePOS integrated
  - Easy to update software and open source
  - Minimum infrastructure requirements
  - Label printed in store (preliminary customer research suggests this could be a USP)
  - Low operational requirements
  - Retailer cash with direct reconciliation
  - Could be low cost tablet and / or hand held terminal
  - ePOS integration available for suitable major partners
- **Agent pay**
  - Fully variable
  - Market rate
  - Simple blended flat rate
  - POL should keep a higher percentage of retained margin relative to locals
- **Product set to be competitive**
- **Short in-store counter transaction time**

Key operational considerations

- **Collections**
  - RMG to collect
  - Most likely new access points will already be on existing collection routes
- **Segregation**
  - No segregation at point of acceptance
  - Segregation performed by RMG post-collection
- **Revenue protection**
  - No weighing or sizing performed at access point
  - RMG to perform spot checks at mail plants
- **Cash**
  - No cash required for mails as payment is taken online
  - Retailer cash for e-top up and bill pay

② On a run-rate basis, Basic Mails Plus will realise income of £5k, with net profit margin of 24% for POL

POL product revenues		Post Office	Retailer	Assumptions
Mails[1]	£ p.a.	**4,038**	**2,644**	• Total mails trans.: 148 p.w. (Collect+: 49, Locals: 181)
• A. Home Shopping Returns	£ p.a.	1,060	815	• 46 transactions per week per access point at 46p/trans.
• B. Collections	£ p.a.	356	231	• 13 transactions per week per access point at 54p/trans.
• C. 1st/2nd Class Labels (incl. signed for)	£ p.a.	2,295	1,501	• 60 transactions per week per access point at 66/43p
• D. Special Delivery	£ p.a.	178	32	• 2 transactions per week per access point at 196p
• E. International	£ p.a.	150	66	• 4 transactions per week per access point at 80p
Financial Services	£ p.a.	**1,049**	**349**	• Total FS transactions: 79 per week
• A. Billpay	£ p.a.	984	302	• 76 transactions per week per access point at 25p
• B. e-top up	£ p.a.	66	47	• 3 transactions per week per access point at 42p
Total Revenue	£ p.a.	**5,089**	**2,993**	
POL product agent fees				• Assumes 35p flat rate per parcel, POL Locals rates for billpay and e-top up
• Mails	£ p.a.	-2,644	-	
• Financial Services	£ p.a.	-349	-	
Total agent fees	£ p.a.	**-2,993**	**-**	
POL product operating costs				
• Labour	£ p.a.	-	-809	• 20s per standard mails transaction; 60s per special delivery transaction; 1.5 hrs training for 10 staff each year; £10/hr staff cost
— Retailer Wages	£ p.a.	-	-659	
— Ongoing Retailer Training	£ p.a.	-	-150	
• Hardware Maintenance/Support	£ p.a.	-176	-	• Assumes 2 yr lifetime for tablet (£100), 4 year lifetime for all other hardware
• Ongoing Operational Costs	£ p.a.	-436	-276	• £28 on consumables, £365 online transaction costs, £25 asset management costs, £18 user charging; £276 POL broadband cost (for retailer)
Total Operating Costs	£ p.a.	**-613**	**-1,085**	
POL PRODUCT PROFIT (LOSS)		**1,482**	**1,908**	
Retailer revenue uplift from footfall	£ p.a.	-	**7,304**	• 64% of customers are new to store, 50% make an in-store purchase; £3 average basket size; 25% gross profit margin for retail (assumptions in line with Collect+ public data on revenue uplift
Retailer Product Costs	£ p.a.	-	**-5,478**	
RETAILER PRODUCT PROFIT (LOSS)	£ p.a.	-	**1,826**	
TOTAL PROFIT (LOSS)	£ p.a.	**1,482**	**3,734**	
Upfront Investment				
• Hardware	£ p.a.	-672	-	
— Upfront cost	£ p.a.	-606	-	
• Tablet + secure docking station	£ p.a.	-300	-	• £200 for tablet, £100 for docking station
• Scanner & card reader	£ p.a.	-78	-	• £48 for scanner, £31 for card reader
• Label printer	£ p.a.	-227	-	• All hardware costs benchmarked to EUC
— Access point commissioning (delivery)	£ p.a.	-66	-	• Off-site commissioning costs
• One-off Operational Costs	£ p.a.	-495	-	• Signage (£295), leaflets (£200)
Total upfront investment	£ p.a.	**-1,167**	-	

[1] Assumes current MDA rates for Mails products, existing supplier rates for Billpay & e-top up Transaction. Volumes based on Network Gravity model accounting for 2020 Strategic Plan income

Does not include project cost , delivery team, shared services, central costs

NOT EXHAUSTIVE

However, delivery of these operating models requires RMG collaboration, reinforcing the risk highlighted earlier

Areas for collaboration	Proposed actions
Commercial alignment is required for RMG and POL to work together at pace to deliver Network Development	Work with RMG at the highest level to agree on shared strategic benefits of rolling out Network Development, and creating the right incentives for both organisations to work together at pace to deliver ND
Online mails solution. Customers will need a clear online channel to begin mails journeys. RM and POL must agree on which online solution (RM or POL) is right for customers	Agree online solution to be offered
Weighing and sizing items complicates and elongates the process for customers and operators. It also increases hardware / equipment	RM have agreed to remove the weighing requirement for Returns (for trial only). Use trials as a test bed for not weighing (monitor impact on RM revenue) to build case for removing this requirement longer term.. Investigate other methods e.g. revenue protection elsewhere (e.g. at hubs or by RM) and adopting a sampling approach
RM fee structures paid to POL do not drive the same behaviours. Fees paid to POL do not support shared objectives. Per transaction fees incentive POL to increase volume and RM to increase revenues per item	Renegotiate fee structures with Royal Mail Group.
Collecting parcels from new Post Office access points may incur additional costs for RM who will look to pass these on to POL	Map new locations against current RM collection points e.g. pillar boxes, business collections Allow sub-postmasters to collect from access points (hub and spoke model)
Track and Trace and labelling. Track and trace connectivity and barcode generation capabilities will need to be established to a specification that meets both businesses requirements. This will allow RM to reduce stock label costs and give customers and operators a simpler quicker transaction	Work with RMG to connect CDP to RM track and trace systems and enable barcode generation For Home Shopping Returns, track RM roadmap to ensure all these items include an embedded barcode
Remove /simplify back office processes. Back office processes e.g. printing paper despatch reports for secure mail handover is time-consuming for operators and may incur additional hardware costs.	Work with RM to understand underlying requirements and provide easier, lower cost, and less labour intensive solutions which meet underlying requirements
Segregating parcels takes up space and takes additional time for retailer	Segregation of parcels is performed post collection by Royal Mail or at Post Office hub.

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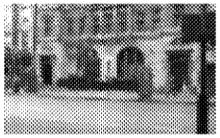
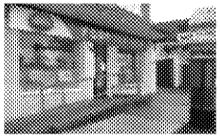
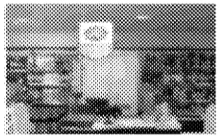
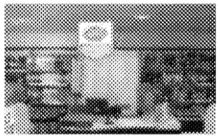
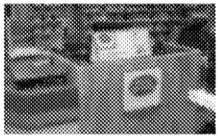
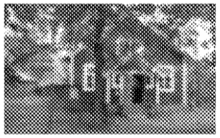
LARGE SCALE NETWORK DEVELOPMENT: FUTURE NETWORK SIZE AND SHAPE

With these new operating models, initial network gravity modeling suggests that we could have a 2020 network of 27.5k branches

	Crowns	Mains	Locals	Locals Light[3]	Access Points	Community	Total
							
Number of branches in 2014	373	3,627	4,600	-	-	3,200	11,800
Number branches in 2020	-	2,500	4,500	4,500	12,500	3,500	27,500
2020 net income (£m)					64		
2020 contribution margin[1] (%)					41%		
2020 net profit margin[2] (%)					24%		

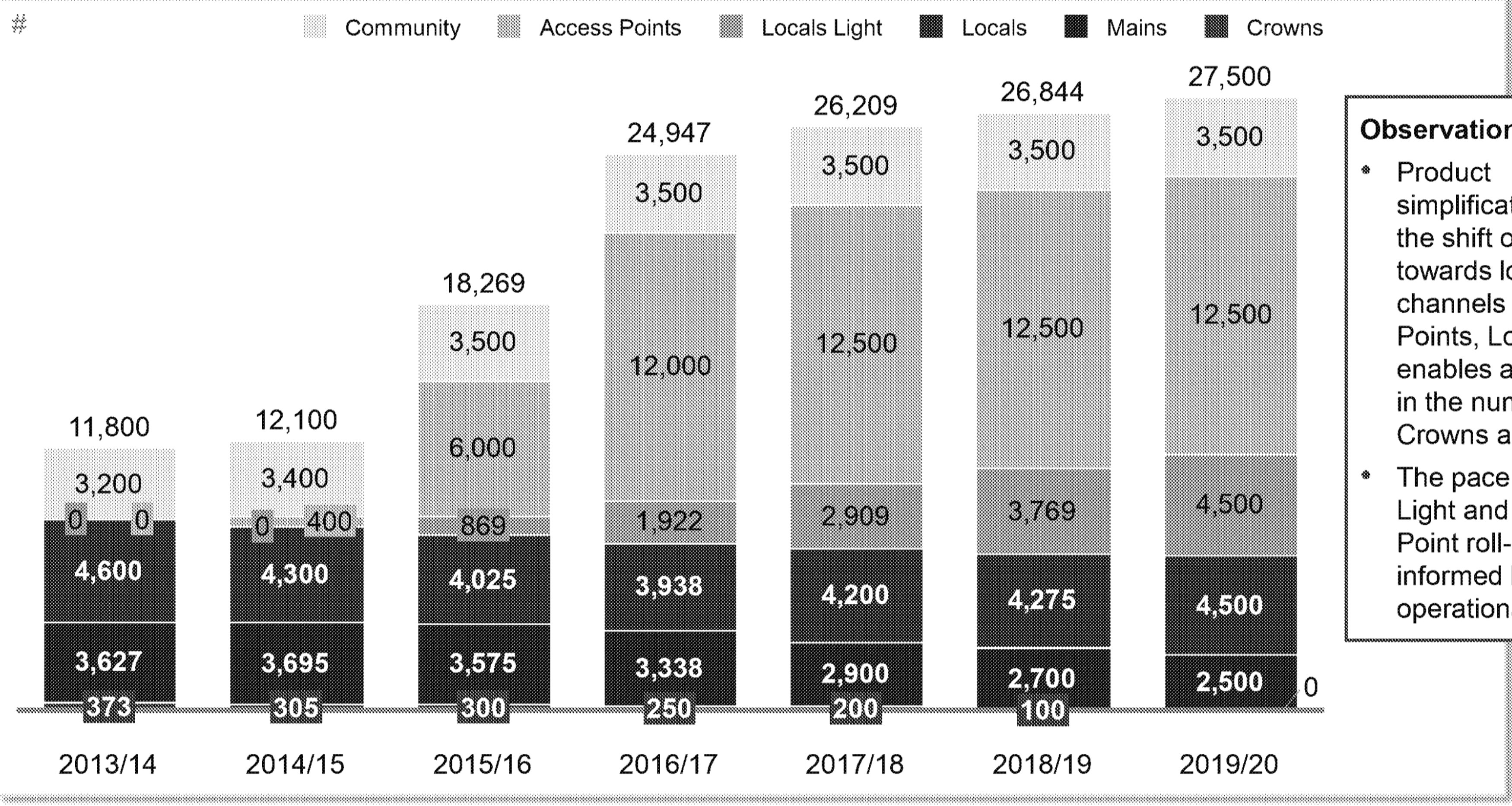
← Focus of this work

[1] Contribution = Income - Agent Fees
[2] Net Margin = Contribution – Direct operating costs, branch losses, branch churn costs, POL central support costs
[3] Locals Light will be a lower cost operating model relative to Locals, which will be SGEI compliant and extend our core network. It will have a reduced product set, and utilise many of the simplifications developed in Access Points. We will develop this model in more detail in the next phase

Source: Network Development economics; Post Office Channel P&L

Over time, the network could shift away from Crowns and Mains towards the new, lower cost models

Number of Post Office stores and access points

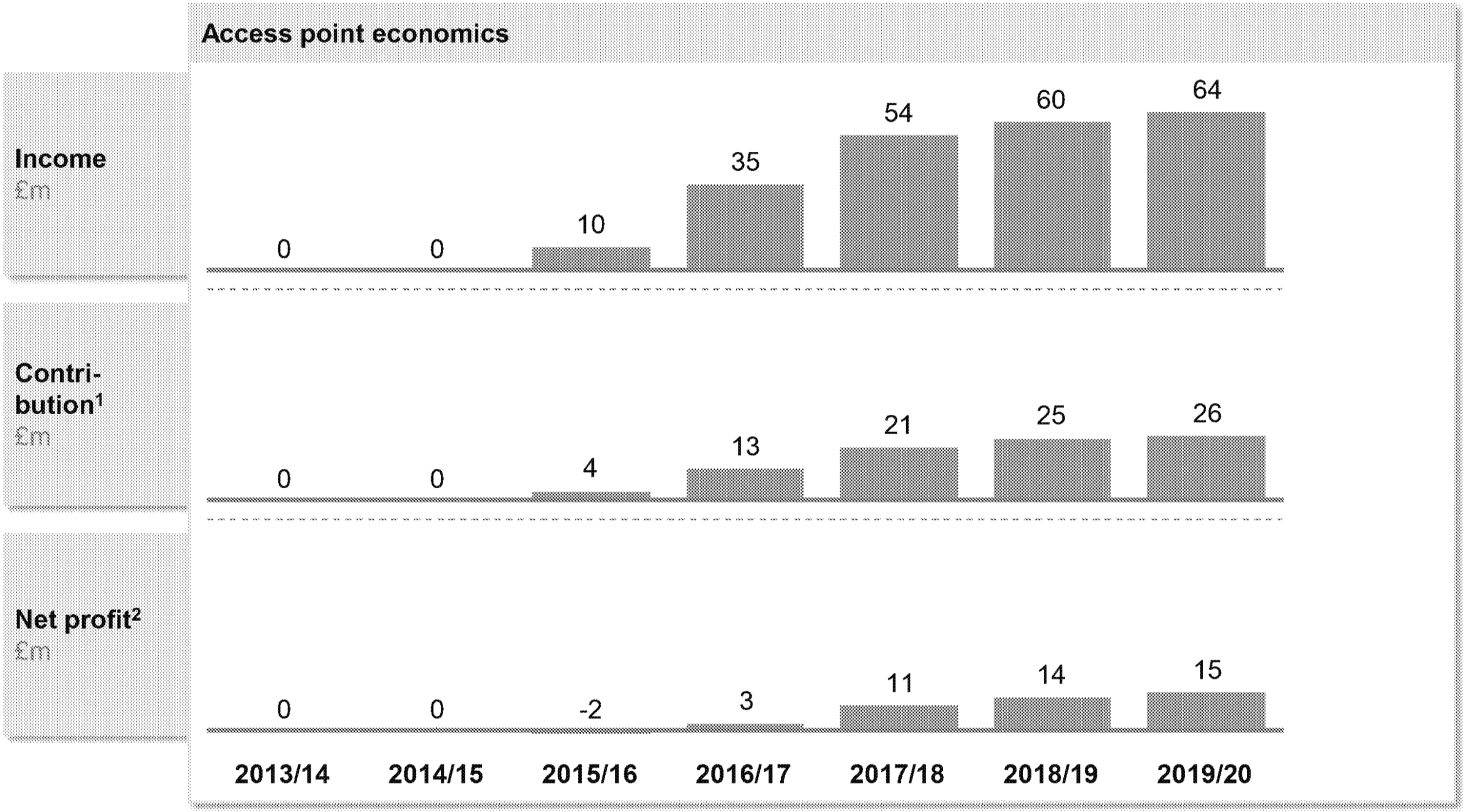


Observations

- Product simplification, and the shift of volumes towards lower cost channels (Access Points, Local Light) enables a reduction in the number of Crowns and Mains
- The pace of Locals Light and Access Point roll-out is informed by operational feasibility

Source: Network Development economics

Based on current estimates, access points could deliver c. £64m in income and £15m in net profit by 2020



Access point economics

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Income £m	0	0	10	35	54	60	64
Contribution[1] £m	0	0	4	13	21	25	26
Net profit[2] £m	0	0	-2	3	11	14	15

[1] Contribution = income minus agent pay

[2] Net profit= income minus agent pay, minus direct operating costs (single site direct operating costs, branch losses), minus support operating costs (10% churn cost, POL central support)

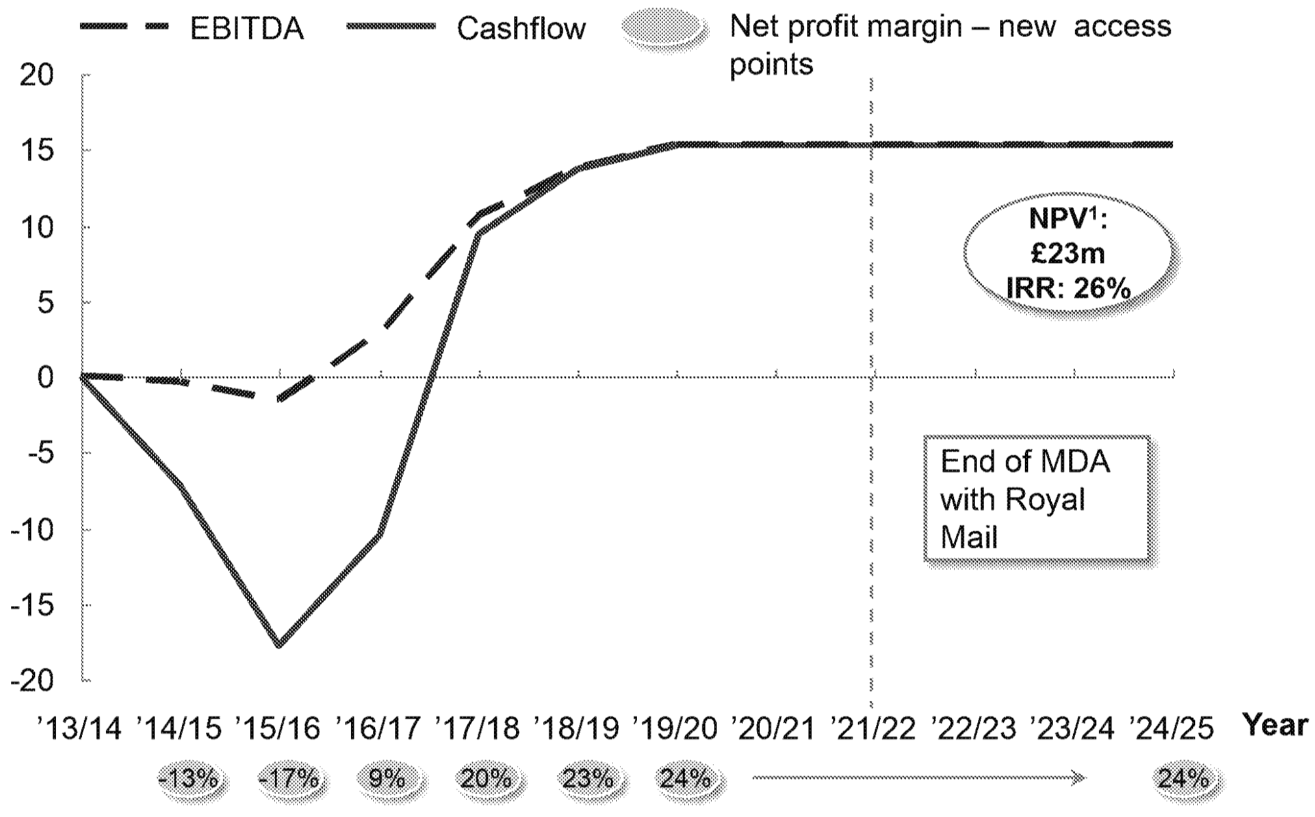
Source: Network Development economics

LARGE SCALE NETWORK DEVELOPMENT: ACCESS POINT COMMERCIALS

Roll-out of the access point network will have a positive NPV of £23m, with payback within 6 years; against a 'do-nothing' scenario, payback will be within 4 years

EBITDA , Cashflow for new access points (excl. Locals Light), £m

EBITDA, Cashflow



Observations:

- The roll-out of the access point network is NPV positive (c. £23m) over 10 years, with run-rate EBITDA of £15m in 2020. It requires one-off costs of c. £36m over the first 3 years, with payback within 6 years
- However, this assumes a backdrop of stable market conditions, which we know not to be the case. In a 'do-nothing' scenario, up to £86m of Mails income could be lost by 2020, as existing business migrates to competitors and we have reduced scope for capturing growth areas
- **Against this, NPV is improved by c. £50m and payback is within 4 years**
- Broader benefit will also accrue to the existing network as we extend improvements (e.g., product simplification) to Mains and Locals, reducing transaction times and simplifying formats

[1] NPV calculation assumes 12% discount rate, '14/15 to '24/25 cashflows, '19/20 cashflow of £15m constant until '24/25

Source: Network Development economics

LARGE SCALE NETWORK DEVELOPMENT: ACCESS POINT COMMERCIALS

The roll-out will incur one-off costs of c. £36m over the first 3 years of roll-out, but secure a run-rate profit of c. £15m p.a. by 2020

£m	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Assumptions
Income	-	0.16	9.15	32.31	51.92	59.91	64.03	• 12,500 access points by 2020, generating £5k each, with 6 month ramp up for branch to realise full run-rate income. 14/15 assumes no billpay & special delivery as product set not yet developed
Agents Pay	-	(0.10)	(5.39)	(19.00)	(30.57)	(35.31)	(37.86)	• 59% of POL income from RMG paid to agents, relative to 61% in Locals & 76% in Mains
Direct Operating costs	-	(0.25)	(3.68)	(7.35)	(7.66)	(7.66)	(7.66)	• £613 per branch, incl. hardware replacement (£176), online transaction costs,(£365), asset management (£25) consumables (£28), user charging (£18)
Direct Operating Profit	-	(0.18)	0.08	5.96	13.69	16.94	18.50	• Assumes 33% of revenue realised in year, with full cost
Churn costs	-	-	(1.18)	(2.36)	(2.46)	(2.46)	(2.46)	• 10% churn of branches at £1,969 per branch, including sales team costs (£781); branch setup investment (£1,167); equipment recovery from closed branch (£21) – does not account for equipment recycling
POL Support	-	(0.19)	(0.50)	(0.70)	(0.70)	(0.70)	(0.70)	• Ramp up to 18 FTE at £36k per FTE on average, split between contracts, payroll and contact centres
Net profit margin	-	(0.37)	(1.59)	**2.90**	**10.53**	**13.77**	**15.34**	
Branch Setup Investment	-	(0.47)	(6.53)	(7.00)	(0.58)	-	-	• £1,167 per branch inc. upfront hardware costs (£606); signage (£295); local mkting (£200); off-site commissioning (£66) (see single branch P&L)
Program Implementation Team	-	(1.08)	(1.67)	(1.57)	(0.01)	(0.01)	(0.01)	• Core team of 14 FTE[1] , deployment support team (3 to 15 FTE as needed), and non- resource cost of £1.1m[2] over time
Program Control	-	(0.52)	(0.60)	(0.25)	-	-	-	• £1.18m for 7 FTE PMO team[3] and £180k including office space until Jan 2015 and other non FTE expenses
Software development (Product Design)	-	(4.39)	(2.92)	-	-	-	-	• Cost to develop simplified product journeys through CDP software on tablets until July 2015. Products developed post-July not sold through access points
Sales team (multiples)	-	(0.11)	(0.40)	(0.20)	(0.20)	-	-	• 40% of access points in multiples (4,900 by 2020), 5 dedicated sales FTE until March 2016, 2.5 FTE to complete roll-out, at increased comp of £73k, with travel at £500 pp
Sales team (independ.)	-	-	(4.00)	(4.22)	(0.22)	-	-	• 60% of access points in independents (7,600 by 2020), ~11 visits to sign 1 branch (accounting for unsuccessful signups)[4] , at £30 per visit for travel, FTE cost of £48k
Network modelling	-	(0.05)	(0.10)	(0.10)	(0.05)	-	-	• 2 FTE resources required to support network modeling during roll-out
Customer research	-	(0.25)	-	-	-	-	-	• Customer research costs only, other marketing costs for in single branch P&L
Total one-off costs	-	(6.86)	(16.22)	(13.33)	(1.06)	(0.01)	(0.01)	
Total Cashflow	-	(7.2)	(17.8)	(10.4)	**9.5**	**13.76**	**15.33**	

[1] Procurement, leading Implementation, Communications, training, strategy, compliance, Marketing, legal internal, IT, Delivery Lead, In store usability, etc

[2] E.g., Legal advisory, tracking and MIS, travel and other expenses, upfront training module, contract support, etc

[3] Programme Manager, Programme Planner, financial Modeller, and 4 PMO Coordinators

[4] Assumes 12% success rate for access point evaluations and 3 visits per successful site: initial assesment, supp, online app., and signing contract.

Source: Network Development economics

Progress update: Product simplification

What we need to achieve

- Simplification of key product journeys to increase both customer and operator convenience, allowing POL to offer a compelling customer and operator experience compared to other parcel providers.

What have we already achieved

- Prioritised a list of products for simplification, which will be delivered through low cost, portable hardware e.g. tablet using the Common Digital Platform
- Mapped product journeys – meeting current constraints and ideal end-state – and developed mockups (wireframes)
- Started developing tablet solution
  - Android and Windows tablet with connected peripherals e.g. scales, scanner, printer
- Begun investigation of ePOS integration options
- Resolved some key design issues (e.g. solution for postage label printing)

What will we achieve in the next 3 months

- Build and complete tablet prototype, offering a limited range of mails products:
- Home Shopping Returns
  - Click and Collect
  - 1st and 2nd Class with/without Signed For (purchased using Click & Drop)
  - Special Delivery by 1pm (purchase using Click & Drop)
- Technical and user testing of tablet
- Begin live roll-out of tablet solution as a trial (end October 2014) and validate simplified journeys with customers

What will we achieve by the end of 2014/15

- Further simplification of selected mails journeys – a radical simplification for customer and operator in collaboration with Royal Mail e.g. removal of weighing in access points
- Develop online journey to rival competitors'
- Simplify the bill pay and e-top up product journeys for customers and operators (those products to be included in access points)

We are making good progress delivering simpler and quicker transactions for our operators and customers

Priority products for simplification

- Home Shopping Returns
- Click and Collect
- Purchased via RMG online journey:
  - 1st and 2nd Class with / without Signed For
  - Special Delivery

The new customer journey

At home

- Customer chooses their postage online using online portal (for sending products)
- Customer is given a unique code per basket (not item)
- Customer is emailed payment receipt triggered by drop off

At access point

- Customer takes their parcel to the retail partner new access point
- Retail partner takes code, checks weight and size, prints label and CoP

Today, we will have a demonstration of the products that we have already simplified.
Ongoing simplification is dependent on outcome of Royal Mail discussions on alignment of RM and POL online journey

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POST OFFICE LIMITED

Performance Report

August 2014

Produced By : Financial Control

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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August 2014

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Headlines

Operating profit before exceptional items in the month was £9.2m, £4.5m favourable to budget , narrowing the YTD shortfall versus budget to £4.1m (£13.4m adverse year on year, including NSP decrease of £16.9m).

Net income in P5 is adverse to budget by £8.0m. This reflects the continuing shortfall in Mails and Retail (mainly labels and delayed rollout of ebay returns) of £4.0m although the performance was only £0.8m (3%) lower than last year. Telecoms continued its adverse trend due to lower customer numbers and lower average revenue per customer. Government Services was £2.0m behind budget mainly due to POCA, but also Passport Check & Send volumes.

Net income year to date has worsened to £15.2m behind budget and £2.1m worse than this time last year (excluding NSP).

Total expenditure (before project costs) in the month was £12.1m favourable to budget including £8.1m of VAT recovery upside reflecting the impact of the Post Office leaving the RM VAT group and the successful conclusion of negotiations with HMRC.

Total expenditure (before project costs) year to date was £15.1m favourable to budget, including £16.5m of VAT recovery upside (underlying variance adverse by £1.4m). The £16.5m VAT upside (£11m relates to the prior year) was recognised in subpostmasters' costs (£2.3m) and Non Staff costs (£14.2m). The £53m savings task remains challenging with £11m still to be underpinned and a further £10m still in the 'hopper' to be validated. Work is underway on this as set out on page 7.

- Subpostmasters' costs are favourable by £11.8m reflecting lower sales volumes.
- Staff costs are adverse by £2.8m reflecting under delivery of savings tasks primarily in Supply Chain and Commercial.
- Underlying Non Staff costs, excluding the VAT upside, are adverse by £8.2m driven by shortfall in savings delivery and the mails segregation penalty accrued in the year to date of £2.5m.
- Project One Off Costs adverse to budget reflecting unanticipated spend for Sparrow, the Journey to 2020 strategy work, and Business Transformation (spend is subject to review of accounting treatment).

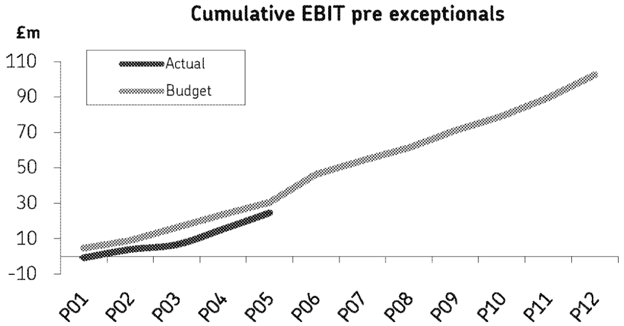
The Commercial Committee supported by the weekly Trading Meeting is focusing on actions to drive income. The weekly Cost Reduction Group is working to accelerate current year cost savings delivery, including the adoption of a series of policy decisions to constrain H2 spend.

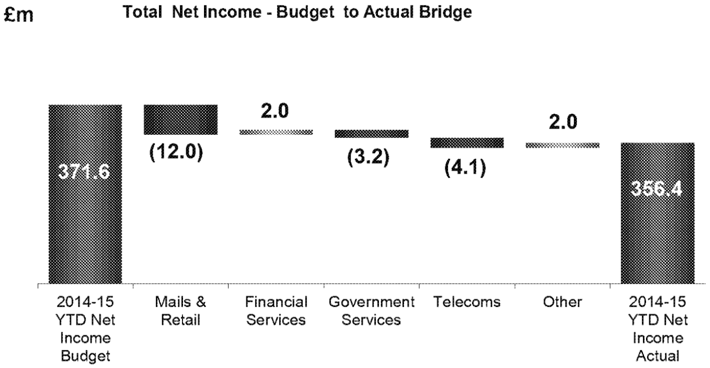
Cashflow

The YTD cashflow was an outflow of £42m which is £32m favourable to the budget of £74m outflow.
The favourable variance is driven by lower than planned expenditure on NT and CT programmes.

Crown Profit

Crown profit is £2.8m adverse driven by lower Mails income and higher property costs due to the delayed savings for the new Facilities Management contract as shown on page 6. A reforecast will be provided after the half year.





	Year to Date		
Financials	**Act**	**Target**	**Var**
Total Net Income (excl NSP) £m (Bonus 20%)	356.4	371.6	(15.2)
Operating profit £m (Bonus 25%)	24.5	28.6	(4.1)
Free cashflow £m	(42.4)	(74.4)	32.0
Crown Profit (Loss) £m (Bonus 12.5%)	(10.5)	(7.7)	(2.8)
Non Financials			
Queue time % < 5 minutes - Top 1k branches	76.8%	81.4%	(4.6%)
NT Branches Transformed In Year (Bonus 12.5%)	894	699	195

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Profit & Loss Statement

August 2014

	Current Month			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year
£m	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	Outturn
TOTAL GROSS INCOME	**70.7**	**78.4**	**(7.7)**	**72.2**	**(1.6)**	**401.1**	**415.6**	**(14.5)**	**404.8**	**(3.7)**	**1,031.9**	**1,031.9**	**0.0**	**979.4**
Cost of Sales	(8.7)	(8.3)	(0.3)	(7.9)	(0.8)	(44.7)	(44.0)	(0.7)	(46.3)	1.6	(106.8)	(106.8)	0.0	(112.7)
TOTAL NET INCOME	**62.0**	**70.0**	**(8.0)**	**64.3**	**(2.3)**	**356.4**	**371.6**	**(15.2)**	**358.5**	**(2.1)**	**925.1**	**925.1**	**0.0**	**866.7**
Staff Costs	(20.1)	(19.6)	(0.5)	(22.1)	2.0	(106.2)	(103.4)	(2.8)	(110.6)	4.4	(238.7)	(238.7)	0.0	(253.9)
Subpostmaster Costs	(35.2)	(38.0)	2.8	(34.1)	(1.1)	(189.3)	(201.0)	11.8	(189.8)	0.5	(491.0)	(491.0)	0.0	(447.6)
Non-Staff Costs	(12.9)	(22.7)	9.8	(23.3)	10.4	(111.8)	(117.8)	6.0	(108.9)	(2.9)	(273.5)	(273.5)	0.0	(264.8)
Depreciation	(0.0)	(0.1)	0.0	(0.0)	(0.0)	(0.2)	(0.3)	0.1	(0.2)	(0.0)	(0.6)	(0.6)	0.0	(0.4)
Total Expenditure (pre POOC)	**(68.2)**	**(80.4)**	**12.1**	**(79.5)**	**11.3**	**(407.5)**	**(422.5)**	**15.1**	**(409.5)**	**2.0**	**(1,003.8)**	**(1,003.8)**	**0.0**	**(966.6)**
FRES - Share Of Operating Profits	4.7	4.7	0.1	4.7	0.1	19.8	19.7	0.1	18.8	0.9	35.0	35.0	0.0	33.1
EBIT - BAU	**(1.5)**	**(5.7)**	**4.2**	**(10.5)**	**9.0**	**(31.3)**	**(31.2)**	**(0.0)**	**(32.2)**	**0.9**	**(43.7)**	**(43.7)**	**0.0**	**(66.9)**
One off Project costs (POOC)	(1.6)	(2.0)	0.4	(1.4)	(0.2)	(11.9)	(7.8)	(4.0)	(14.5)	2.6	(17.3)	(17.3)	0.0	(26.0)
EBIT - Post Project Costs	**(3.1)**	**(7.7)**	**4.5**	**(11.9)**	**8.8**	**(43.1)**	**(39.1)**	**(4.1)**	**(46.7)**	**3.5**	**(61.0)**	**(61.0)**	**0.0**	**(92.9)**
Network Payment	12.3	12.3	0.0	15.4	(3.1)	67.7	67.7	0.0	84.6	(16.9)	160.0	160.0	0.0	200.0
EBIT pre exceptionals items	**9.2**	**4.7**	**4.5**	**3.5**	**5.7**	**24.5**	**28.6**	**(4.1)**	**37.9**	**(13.4)**	**99.0**	**99.0**	**0.0**	**107.1**
Interest	0.4	(0.2)	0.6	0.4	0.0	2.8	(0.7)	3.5	1.5	1.3	(3.0)	(3.0)	0.0	3.1
Impairment	(11.7)	(17.6)	5.9	(4.3)	(7.4)	(57.5)	(95.6)	38.1	(28.2)	(29.2)	(205.2)	(205.2)	0.0	(115.6)
Exceptionals & Redundancy & Severance Costs	(10.5)	(18.7)	8.2	(12.2)	1.7	(81.2)	(101.8)	20.6	(41.6)	(39.6)	(216.1)	(216.1)	0.0	(152.2)
Government Grant Utilisation	0.0	0.0	0.0	15.2	(15.2)	170.0	170.0	0.0	99.0	71.0	170.0	170.0	0.0	316.8
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	(2.5)	0.0	0.0	0.0	3.4
Colleague Share/ Business Transformation Payments	(1.1)	0.0	(1.1)	0.0	(1.1)	(1.1)	0.0	(1.1)	0.0	0.0	0.0	0.0	0.0	(4.8)
Total Profit/(Loss) Before Tax	**(13.7)**	**(31.8)**	**18.1**	**2.6**	**(16.3)**	**57.5**	**0.5**	**57.0**	**71.1**	**(12.4)**	**(155.3)**	**(155.3)**	**0.0**	**157.6**

Period vs. Budget

Operating profit (EBIT) of £9.2m was £4.5m favourable to budget.

BAU was £4.2m favourable:

- **Lower non staff costs of £9.8m**, driven by the VAT recovery in the period.
- **Lower Subpostmaster costs of £2.8m** due primarily to lower sales and product mix.

Offset by:

- **Lower net income of £8.0m** due primarily to lower Mails, POCA and Telecoms income.
- **Higher staff costs of £0.5m** in the month. This is mainly due to the savings task not being achieved.

One-off Project Costs variance of £0.4m favourable due to timing.

Below EBIT

The exceptionals favourable variance is mainly driven by lower than budgeted subpostmaster compensation.

YTD vs. Budget

Operating profit (EBIT) of £24.5m was £4.1m adverse to budget. (Excluding the £11m VAT upside relating to prior year, this would be £15.1m adverse).

BAU was flat with budget:

- **Lower net income of £15.2m** due primarily to the continuing adverse income trend; Mails (£12m), specifically labels and Lottery, Telecoms (£4m), Government Services (£3m), mainly POCA, offset by favourable FS income (£2m), specifically banking, Premium Bonds and MoneyGram.
- **Higher staff costs of £2.8m** mainly due to the savings task not being achieved (£1.9m from Supply Chain and £0.5m from Commercial) and the Crown pay deal.

Offset by:

- **Lower non staff costs of £6.0m**, driven by the improved VAT recovery of £14.2m (£11m relates to the prior year). The underlying variance exluding all of the VAT upside would be £8.2m adverse driven by the impact of the centrally held savings task of £2.9m not being achived and £2.5m accrued for Mails Segregation Penalty payment.
- **Lower Subpostmaster costs of £11.8m** due primarily to lower income and sales mix (£7.9m), VAT recovery (£2.3m) and other small variances including CTP budget opportunity.

One-off Project Costs variance of £4.0m adverse. This is mainly due to unbudgeted costs; £2.0m relates to unbudgeted Business Transformation costs to date (FYF c. £7m - spend is subject to review of accounting treatment), £1.4m relates to unbudgeted project Sparrow (FYF c. £7m) and £0.8m relates to unbudgeted strategy consultancy costs.

Below EBIT

Both impairment and exceptionals are under budget due to underspends in NT, CT and IT& Change. Although lower than budget, these are both twice last year's spend. The exceptionals budget also includes £8m ATOS contract set up payment incurred in 2013-14 but budgeted for 2014-15.Government grants have now been fully utilised.

YTD vs. Prior Year

Operating profit (EBIT) of £24.5m was £13.4m adverse to prior year.

Like for like BAU favourable variance of £0.9m was mainly due to:

- **Lower Staff cost of £4.4m** driven primarily by Crown savings.
- **Lower Subpostmaster costs of £0.5m** driven by improved VAT recovery.

Offset by:

- **Lower net income of £2.1m**. The variance versus prior year is driven primarily by lower Government Services income, mainly POCA and Telecoms offset by higher Financial Services (Moneygram, Mortgages, Savings and Insurance) revenue.
- **Higher non staff costs of £2.9m** due to increased IT costs (mainly Horizon and ATOS), marketing spend moving from POOC and VAT on RM costs, offset by VAT recovery received this year.

Non like for like adverse variance of £14.3m was due to:

- Lower Network payment of £16.9m, offset by
- Lower project costs of £2.6m.

Below EBIT

Included in grant utilisation this year is £77m of 2013-14 exceptional spend for which there was insufficient grant last year.

CFO High Level Profit Outlook At Period 5

August 2014

£'m	Income	JV Income	Staff Costs	Agents Costs	Non-staff	POOC	Costs	NSP	EBIT	Comments
Budget	**925**	**35**	**(239)**	**(491)**	**(274)**	**(17)**	**(1,021)**	**160**	**99**	
Mails and Retail										
Mails	(22.0)			13.9			13.9		(8.1)	FYF of £354m. Deterioration from P4 of £8m based on run rate and delay
Lottery and retail	(4.0)			2.5			2.5		(1.5)	Camelot volumes £3.2m; Health lottery fixed fee £0.4m; Retail £0.4m
Mails segregation penalty					(3.0)		(3.0)		(3.0)	Max penalty under MDA of £6m, assume negotiate down as in 13/14
Government Services										
POCA	(0.5)						0.0		(0.5)	Assumes £10m one-off from DWP
DVLA	2.3			(0.4)			(0.4)		1.9	Volume upsides on tax discs and AEI £1.3m; one-off change control for EV
IDA	(1.0)			0.5			0.5		(0.5)	Delayed launch. Still reliant on Cabinet Office committing to volumes
Passports	(2.2)			0.9	0.5		1.4		(0.8)	Digital passports delay, partially offset by paper passports volumes and pric
Telephony										
Homephone	(5.0)			0.3	0.9		1.2		(3.8)	Lower customer numbers and ARPU's, higher wholesale costs; campaign costs
Mobile	(1.0)			0.5			0.5		(0.5)	Launch delayed and budget included 'stretch' volumes
Energy	(3.0)			1.5			1.5		(1.5)	Proposition not being launched this year
Financial Services										
Premium Bonds	6.3			(2.5)			(2.5)		3.8	Reflects max capped income under new NS&I contract
Banking and Payments	2.4			(1.2)			(1.2)		1.2	Trading upsides
Postal Orders	3.3			(0.5)			(0.5)		2.8	One-off adjustment to uncashed PO's 24 months to 12 months £2.3m; Tra
Mortgages	0.9						0.0		0.9	Trading and back book
Credit cards	1.3			(0.5)			(0.5)		0.8	Trading and profit share
Moneygram	2.0			(0.8)			(0.8)		1.2	Improved contract
Client funding	1.3						0.0		1.3	
Life Insurance	(3.0)						0.0		(3.0)	Sales volumes £0.5m; additional commissions £2.5m
New product launches/trading	(5.6)			2.0			2.0		(3.6)	Investments £1.6m; Loans £1.3m; PSP £1.2m; PPDC £0.8m; National Exp
Stretch target	(6.9)			3.5			3.5		(3.5)	Covered by opportunities above
Staff Costs										
Commercial staff costs			(1.8)				(1.8)		(1.8)	New Commercial structure does not deliver budgeted savings task
Supply Chain staff costs			(2.0)				(2.0)		(2.0)	£2m savings budgeted. IR delayed implementation of new ways of working
Non-staff cost savings										
Additional non-staff savings identified					8.0		8.0		8.0	Now included in the £53m of identified savings
Official Mail					(3.0)		(3.0)		(3.0)	Cheque pouches not budgeted £2m; Passports check and send volumes £1
Central										
Release of contingencies	9.0			2.0			2.0		11.0	Release all of income contingency
	(25.4)	0.0	(3.8)	21.6	3.4	0.0	21.2	0.0	(4.2)	
Trading forecast at P5	**900**	**35**	**(243)**	**(469)**	**(271)**	**(17)**	**(1,000)**	**160**	**95**	

Crown Profit & Loss Statement

Strictly Confidential

August 2014

	Period			Prior Year Period		YTD			Prior Year YTD		Full Year			Prior Year
£m	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Q1 Forecast**	**Budget**	**Variance**	**Outturn**
Income and Distributions														
Variable income														
- Mails	2.5	2.9	(0.4)	2.8	(0.3)	14.4	15.7	(1.3)	15.7	(1.3)	39.2	39.2	0.0	39.6
- Financial Services	2.6	2.8	(0.2)	2.3	0.3	13.8	14.3	(0.4)	12.5	1.3	32.0	32.0	0.0	28.2
- Government Services	1.4	1.4	(0.1)	1.5	(0.1)	9.1	8.4	0.7	9.6	(0.5)	18.1	18.1	0.0	21.9
- Telecoms	0.1	0.1	(0.0)	0.0	0.0	0.4	0.7	(0.3)	0.3	0.1	1.3	1.3	0.0	0.8
Fixed income	1.7	1.8	(0.0)	1.6	0.1	9.1	9.4	(0.3)	10.1	(1.0)	21.9	21.9	0.0	25.2
Gamma/ Other	0.3	0.6	(0.4)	0.9	(0.6)	2.0	2.7	(0.7)	4.2	(2.1)	9.3	9.3	0.0	12.8
Renewals and Retentions	2.0	1.9	0.1	1.7	0.3	7.7	7.8	(0.1)	8.5	(0.8)	17.5	17.5	0.0	16.9
Total Income including Gamma/other	**10.4**	**11.5**	**(1.1)**	**10.8**	**(0.4)**	**56.5**	**58.8**	**(2.3)**	**61.0**	**(4.5)**	**139.5**	**139.5**	**0.0**	**145.4**
Branch costs														
- Staff	(7.3)	(7.5)	0.2	(9.0)	1.7	(41.9)	(41.9)	0.1	(45.9)	4.0	(90.0)	(90.0)	0.0	(106.0)
- Property	(2.6)	(2.4)	(0.3)	(2.7)	0.1	(14.1)	(13.3)	(0.8)	(14.8)	0.7	(30.1)	(30.1)	0.0	(34.4)
- Other branch costs	(0.1)	(0.2)	0.1	(0.6)	0.5	(0.8)	(1.1)	0.3	(1.8)	1.0	(2.4)	(2.4)	0.0	(4.3)
Infrastructure costs	(1.9)	(1.8)	(0.0)	(1.8)	(0.1)	(9.8)	(9.6)	(0.2)	(9.0)	(0.8)	(20.6)	(20.6)	0.0	(21.9)
Allocated central costs	(0.6)	(1.1)	0.6	(0.9)	0.3	(5.9)	(6.0)	0.2	(6.5)	0.6	(14.2)	(14.2)	0.0	(14.0)
Total Expenditure	**(12.4)**	**(13.1)**	**0.6**	**(14.9)**	**2.5**	**(72.4)**	**(71.9)**	**(0.5)**	**(78.0)**	**5.6**	**(157.3)**	**(157.3)**	**0.0**	**(180.6)**
JV Share of Profits	1.3	1.3	0.0	1.4	(0.1)	5.3	5.3	0.0	5.5	(0.1)	9.0	9.0	0.0	9.6
Statutory PBIT	**(0.8)**	**(0.3)**	**(0.5)**	**(2.8)**	**2.0**	**(10.5)**	**(7.7)**	**(2.8)**	**(11.5)**	**1.0**	**(8.9)**	**(8.9)**	**0.0**	**(25.7)**

Summary

Income:

Income is £2.3m less than plan.

Variable sales income is £1.3m less than plan principally due to (i) Mails - Lower parcel volumes, Retail sales and Home Shopping returns, (ii) Financial Services – shortfall from Life Insurance, Home Insurance and variable sales of Savings products. There is a corresponding upside in savings retention income due to the income guarantee with Bank of Ireland. Premium Bonds and Mortgages are performing above target although the Premium Bonds upside impacts on Other Income due to the income cap with NS&I. This is offset by (iii) Government Services – predominantly due to higher Passport check & send transactions. However, the variance in 'Other Income' that partially offsets this due to an element of the Passports target being held centrally.

Fixed income is adverse due to lower than planned LIBOR rates for Card Account commissions.

Retention income is adverse due to a lower customer base and Averaged Revenue Per User for HomePhone, partially offset by favourable Savings retention income.

Other income is adverse due to the delay or phasing of new products, predominantly Energy. Passport Check & Send and Premium Bonds (actual income in variable sales) is the other key driver.

Costs:

Costs are £0.5m higher than plan.

Staff costs £0.1m favourable primarily due to vacancies, mainly Financial and Mortgage Specialist, partially offset by the impact of the pay review settlement where associated efficiencies will be achieved in future months.

Other branch costs lower than plan due to losses being lower than expected although these are expected to reverse in the coming months.

Property costs £0.8m adverse due to the delayed savings for the new Facilities Management contract, now due to commence from October 2014.

Central Costs are £0.2m favourable due to improved VAT recovery partially offset by business wide efficiency savings still to be delivered.

Cost Management update

August 2014

Progress since P4 update

Value and confidence

Following the introduction of a Cost Reduction Group (CRG) and an assesment of new opportunities, the gap between the in-year delivery of "line of sight" initiatives and the total cost reduction challenge has reduced to £21m (from P4 report of £26.9m).

Original Cost Management Programme	£34.2m
Additional Cost Challenge to achieve budget	£ 6.0m
Central Stretch to achieve budget	£ 5.9m
Total Budget Cost Challenge	**£46.1m**
Additional Challenge from Q1 EBITDAS gap	£ 7.0m
Total Current Cost Challenge	**£53.1m**
Current "Line of Sight" forecast	£32.1m
Gap to £53.1m	£21.0m

Delivery and governance

Governance of FY14/15 cost reduction initiatives has now been brought into the overall Business Transformation programme and work is underway with the various initiative owners to address the shortfalls versus budget and identify new opportunities.

Regular 121 meetings have been established and "deep dive" meetings will be carried out with each business function during September to drive out further in-year opportunities to close the gap. These opportunities are added to a "hopper" of high level ideas, which currently stands at £10.1m of in-year value.

Strategic initiatives for FY15/16 and beyond

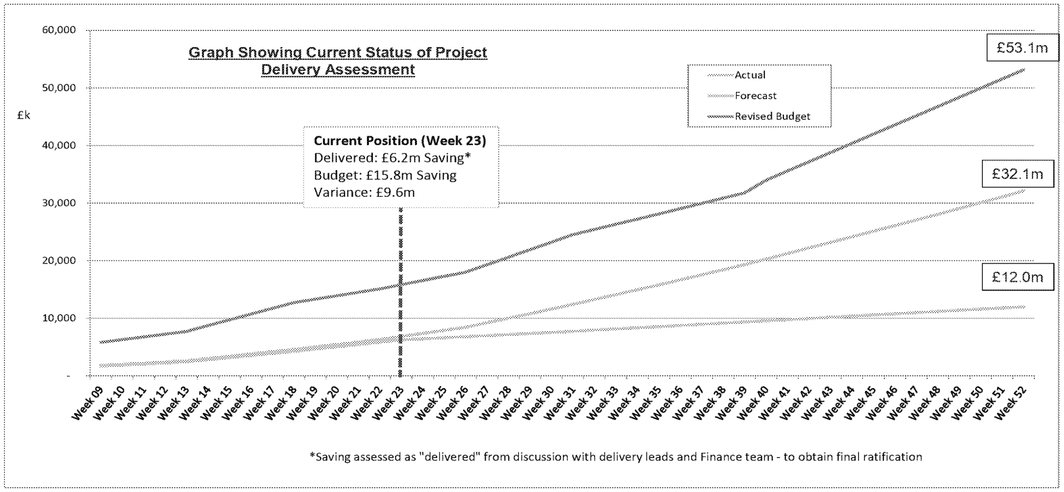
The overall Programme is now progresssing through Stage 2, designing the target operating model (TOM).

Work is ongoing to;

1) Identify a portfolio of incremental cost saving opportunities to achieve the £53.1m in-year improvement target placing all the cost saving initiatives under the scrutiny of the programme to ensure the expected improvement has the requisite effect on the 2014/15 EBITDAS outturn.

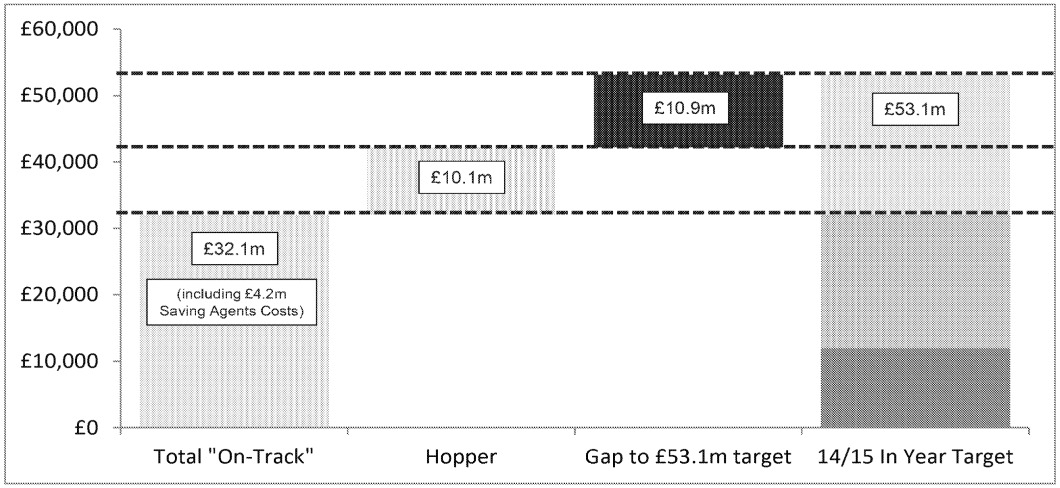
2) Design the target operating model that will ensure the cost efficiency targets for the programme (to 2019/20) are realised;

3) Craft design principles and develop business model scenarios in order to build a compelling business case for the Business Transformation programme.



Current Position (Week 23)
Delivered: £6.2m Saving*
Budget: £15.8m Saving
Variance: £9.6m

*Saving assessed as "delivered" from discussion with delivery leads and Finance team - to obtain final ratification



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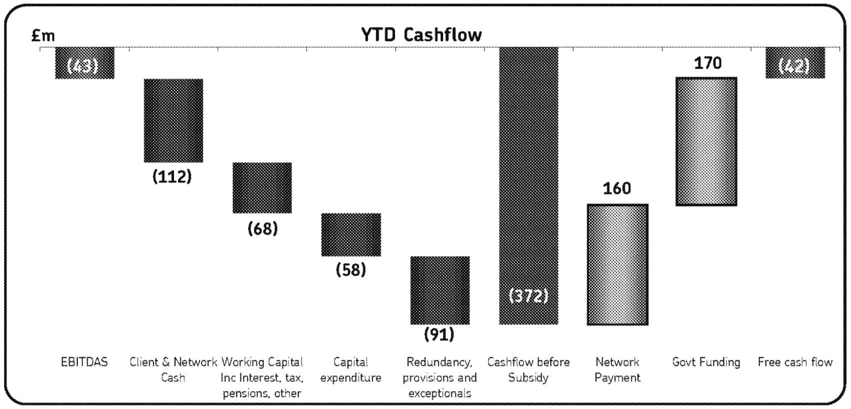
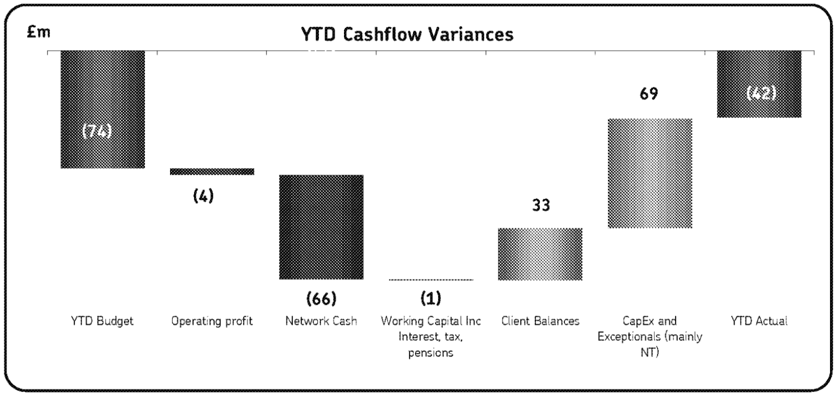
Cashflow Analysis

August 2014





Network Cash

£m	Prior Year	Mar-14 Opening	P5 Actual	P5 Budget	P5 var
Retail, Cash Centres	624	522	622	590	(32)
Bureau	95	58	80	86	6
Cheques, debit cards	121	129	172	131	(41)
Network Cash	**840**	**708**	**874**	**807**	**(67)**

	Opening	P5
Headroom (£m)	**854**	**975**

Cashflow

The £330m of government grant was received on 1st April which is the last payment of the 2010 funding agreement with BIS.

P5 cash outflow of £42.4m is £32m favourable to budget of £74.4m outflow.

The favourable variance is mainly due to:

- Capital and exceptionals continue to be favourable (capital £38m and exceptionals £31m) due to lower than planned NT, CT and IT spend.
- Client balances are £33m favourable. £24m of this is driven by higher Premium Bond (NS&I) sales due to premium bond personal limits rising from £30k to £40k.
- Working capital was close to budget.

Offset by:

- Network Cash was £67m adverse mainly due to higher volumes in cash centres (£44m adverse). The other adverse variances is in cheque and debit cards (£41m adverse) are offset by the favourable NS&I client variance.
- Operating profit is £4m adverse to budget.

£m	YTD Actual	YTD Budget	YTD Variance	Full Year Budget
EBIT	**(43.1)**	**(39.1)**	**(4.1)**	**(61.0)**
Working Capital	(60.9)	(59.8)	(1.1)	27.0
Client Balances	52.2	19.0	33.2	17.0
Network Cash	(164.5)	(98.6)	(65.9)	(57.6)
Capital Expenditure	(57.6)	(95.6)	38.0	(205.2)
Government funding	330.0	330.0	0.0	330.0
Exceptional Items	(91.1)	(121.9)	30.8	(240.3)
Other (including interest and tax)	(7.3)	(8.4)	1.1	(9.9)
Free cashflow before interest, tax	**(42.4)**	**(74.4)**	**32.0**	**(200.0)**

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Business Scorecard

August 2014

Key Performance Indicators	Current Month			YTD			YTD	Full Year	2013-14
	Act	Target	Var	Act	Target	Var	Prior Year	Target	Outturn
Growth									
Total Net Income (excl NSP) £m (Bonus 20%)	62.0	70.0	(8.0)	356.4	371.6	(15.2)	358.5	925.1	866.7
Operating profit £m (Bonus 25%)	9.2	4.7	4.5	24.5	28.6	(4.1)	37.9	99.0	107.1
Earnings before ITDA and Subsidy £m*	(3.1)	(7.7)	4.6	(43.0)	(38.8)	(4.2)	(46.5)	(60.4)	(92.5)
Free cashflow £m	(51.2)	(67.5)	16.2	(42.4)	(74.4)	32.0	233.1	(200.0)	179.7
Customer									
Customer Satisfaction**	86.7%	89.0%	(2.3)%	87.6%	89.0%	(1.4)%	87.9%	89.0%	87%
Easy to do business with (Bonus 15%)**	25%	47%	(22)%	27%	47%	(20)%	44.7%	47%	41%
Net Promoter score**	1	2	(1)	0	2	(2)	-1	2	(4)
Queue time % < 5 minutes - Top 1k branches	81.8%	84.0%	(2.2)%	76.8%	81.4%	(4.6)%	82.5%	81.2%	82.1%
Branch Compliance - Financial Services - basket of 11 measures	70	<=60	A	84	<=60	A	N/A	<=60	N/A
Branch Compliance - Inland Dangerous Goods **** ^	64.6%	80.0%	(15.4)%	64.6%	80.0%	(15.4)%	TBC	80.0%	TBC
Branch Compliance - International Dangerous Goods **** ^	86.7%	85.0%	1.7%	86.7%	85.0%	1.7%	TBC	85.0%	TBC
People									
Engagement Index % (Once a year April) (Bonus 15%)^^	57%	58%	(1)%	57%	58%	(1)%	55%	58%	57%
Subpostmaster Engagement Index % (Once a year)^^	45%	48%	(3)%	45%	48%	(3)%	N/A	48%	45%
Post Office Values the diversity of the workforce (Once a year April)^^	52%	66%	(14)%	52%	66%	(14)%	N/A	66%	52%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	14%	7%	7%	10%	7%	3%	9.5%	7%	11%
(No.) % of Female appointments over total recruits at senior leadership and senior manager	14%	45%	(31)%	44%	45%	(1)%	52.3%	45%	46%
Modernisation									
Crown Profit (Loss) £m	(0.8)	(0.3)	(0.5)	(10.5)	(7.7)	(2.8)	(11.5)	(8.9)	(25.7)
Crown Profit (Loss) Run Rate £m (Bonus 12.5%)^	N/A	N/A	N/A	(15.4)	(14.4)	(1.0)	N/A	0.0	N/A
NT Transformations - contract signatures ***	206	122	84	4,029	3,678	351	1,759	4,800	3,246
NT Branches Transformed In Year (Bonus 12.5%)	172	139	33	894	699	195	187	1,650	1,551

Bonus worthy metrics
* ITDA Interest, Tax, Depreciation, Amortisation.
** Monthly = 3 month average. YTD = 12 month average.
*** YTD and FY = cumulative including prior years.
**** POL are looking to hit 100%, and these target have been set for 2014-15 in recognition that marked improvement is required to reach 100%.
^ Target is the year end exit rate.
^^ Measured annually with some additional 'Pulse surveys'.

Network Transformation Scorecard - Mains

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August 2014 Reporting prior months data (i.e. one month in arrears)

		Current Month %			Ave £'s per branch	
	Key Performance Indicators	**Actual**	**Control Group**	**Var**	**Var**	**Actual Sample Size**
POL	Finance Approved Investment per Mains £000	(42)	(42)	0	0	
	Total Income: Post vs Pre Conversion					
	Branches live 6-12 months	5%	(0)%	6%	522	466
	Branches live 12-24 months	1%	(4)%	4%	435	401
	Focus Income: Post vs Pre Conversion					
Agent	**Agents Remuneration: Post vs Pre Conversion**					
	Branches live 6-12 months	6%	(4)%	10%	673	466
	Branches live 12-24 months	6%	(5)%	11%	845	401
	Customer Sessions					
	Branches live 6-12 months	3%	(2)%	5%		466
	Branches live 12-24 months	(1)%	(5)%	4%		401
	Operator Feedback on Retail Sales Performance	7%				146
	Operator Satisfaction	82%				93

		Actual	**Target**	**Var**	**Actual Sample Size**
Customer	Average Increase in Opening Hours	40%	20%	20%	1,458
	Customer Satisfaction	98%	90%	8%	30
	Queuing Times	1m 25s	< 5 mins	3m 35s	246

Mains

Branches that have been converted to a Mains model for more than 6 months have consistently out-performed the control group in delivering POL income. These agents receive a dedicated package and a renewed focus on sales targeting and performance at the point of conversion. This is having a significant impact on focus income for many branches.

The following products are performing particularly well:

- Travel insurance
- Passport check and send
- Cash withdrawals
- Growth bonds
- Insurance products

In addition, these agents have increased their POL earnings due to the improved sales and enhanced Mains pay rates.

Note: the control group is based on those branches of similar size that have not yet converted.

Customer

Customer Satisfaction, extended opening hours and queue times all remain positive.

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Network Transformation Scorecard - Locals

August 2014 Reporting prior months data (i.e. one month in arrears)

		Current Month %			Ave £'s per branch	
	Key Performance Indicators	**Actual**	**Control Group**	**Var**	**Var**	**Actual Sample Size**
	LOCALS					
POL	Finance Approved Investment per Local £000	(11)	(11)	0	0	
	Total Net Impact: Post vs Pre Conversion					
	Branches live 6-12 months					
	Income	(4)%	(5)%	1%	29	130
	Actual Fixed pay savings				869	
	Actual Net impact				899	
	Branches live 12-24 months					
	Income	(10)%	(9)%	(1)%	(26)	191
	Actual Fixed pay savings				910	
	Actual Net impact				883	
Agent	Customer Sessions					
	Branches live 6-12 months	10%	(2)%	12%		130
	Branches live 12-24 months	7%	(3)%	11%		190
	Operator Feedback on Retail Sales Performance	16%				52
	Operator Satisfaction	79%				61
		Actual	**Target**	**Var**		**Actual Sample Size**
Customer	Average Increase in Opening Hours	110%	80%	30%		1029
	Customer Satisfaction	95%	90%	5%		30
	Queuing Times	53s	< 5 mins	4m 7s		258

Locals

At the point of conversion there is an initial decline in performance; as the branches settle and embeds the operational changes. However this improves month on month and as they near the exit of the 6-12 month category the run rate of performance is now higher than the control group. This is partially as a result of the activities that have been put in place to limit the drop off in income and drive performance. The control group has actually benefited from the increase in Premium Bond personal limits over the past 2 months where as the local operating model excludes products that require payment by cheque. Without this impact the converted branches would have outperformed the control group by a greater margin.

The 12-24 month category is still being impacted by branches where there was a steeper decline at the point of conversion.

Customer sessions/footfall continues to be strong so this should support the agents retail growth.

Note: the control group is based on those branches of similar size that have not yet converted less 5% to reflect lost products.

POL
- Products such as bill payments, etop ups, cash withdrawals and moneygram have delivered growth for these branches – with associated footfall. This has been offset in income terms by poorer performance on more complicated products.
- Fixed pay has been reduced to zero for all converted branches, in line with the strategic plan.
- On average Lottery income has reduced by c. £60k p.a in these branches. Corrective action on how we minimise future risk is now being looked at, principally by improving the sales messages and focus of the Field Change Advisor's when signing up the retailer as well as the Locals Regional Manager's focussing on these messages for those already converted

Agent
- Customer sessions indicate that retailers are benefiting from greater footfall that should support their retail growth.
- The footfall is delivering quicker but lower value Post Office sales which in turn should allow the retailer to utilise their staff in different ways or reduce their staff costs.

Customer
- Customer Satisfaction, extended opening hours and queue times all remain positive.

Transformation Overview

August 2014

Strictly Confidential

- RAG, cost and benefits based on full programme life
- RAG in brackets indicates programmes view

Programme	Time	Cost	Benefit	Quality	Comment / Areas for Discussion
Network Transformation	A	A £956M	G £TBC	G	Contracts signed, openings and current quality measures ahead of target, though model profitability KPI to be agreed via revised business case which is now due for completion in September. Guided Leavers pilot underway with no significant negative stakeholder reaction, with continued roll out of next stages agreed at programme Steering Group. Key action for the programme is to define clearly, discuss and agree the 'cliff', aligning to business strategies being presented to Board in September.
Crown Transformation	G	G £125M	R P&L Break even	A	The programme continues to deliver in line with targets across branch transformations, training, staff cost reductions, SSK rollout, mergers and relocations - though P&L run rate £1M adverse at end of Q1 (due to income and business wide cost savings behind plan). Therefore an over achievement in last 3 quarters is required to achieve target. More focused income call to action required at Trading Board to address Crown income shortfall. Customer satisfaction (queue times and transformed branches) both behind target but at P5 variance from target improving. 16 of the 70 Franchise branches are at risk with the programme investigating options for alternative ways to franchise or find further savings to cover the shortfall. Programme to produce a series of options, for October Transformation Committee, to achieve Crown break even run rate by March 2015 (including close alignment with Network Development).
Branch Support	A	G	A £3M P/A	G	Programme continuing, rather than pause or integrate into Business Transformation to allow early savings to be realised and improve efficiency of existing operation. This will create a more stable platform for any Target Operating Model (TOM) changes to be made. The programme is investigating accelerating activity to bring forward benefits from 2015-16 into this year (potential additional £500K benefits). Specific questions within Agent engagement index are proposed to measure Quality of the programme output.
Separation	A	A £44M	N/A (G)	G	Core Finance System implementation and cut over successfully achieved to plan. Extension side letter due to be agreed at the next MSA Board on the 24th Sept and includes incentives to separation dates for the remaining IT workstreams. The CSC contract supporting the separation of HR and Supply Chain (hosting and service elements) due to be signed in late September.
IT Transformation	A	A £53M	A (G) £25M P/A	TBC	Alignment between IT Transformation and Business Transformation programmes continues. Revised business case produced but not yet submitted to Finance Committee, benefits and 2014-15 cost profile remain on track, though there is a risk to the programme costs beyond 2014/15.
IT Enablers	A	G £56M	N/A (G)	G	Network Development has significant dependencies on Common Digital Platform and Branch Counter Refresh with appropriate ATOS and Accenture resource working within the Network Development programme. As a result of pausing the POL SAP upgrade a risk has risen regarding Fujitsu's willingness to continue supporting POL SAP on the existing infrastructure until March 2016 – discussions have started with Fujitsu. Transformation Committee agreed alternative governance reporting for IT Enablers portfolio.
Business Transformation	A (G)	A £7.5M 14/15	R £200M P/A	G	TOM recommendations discussed at ExCo in preparation for Post Office Board meeting on 25th September. A review of the impact of the TOM on existing programmes to be undertaken prior to Board meeting. Programme co-ordinating all cost reduction activities (both operational efficiency and existing cost reduction actions) and reporting to ExCo on weekly basis. An assessment of 2014/15 change plan has been completed with recommendations being implemented (e.g. pausing certain projects and aligning others). Benefits red as route to achieving savings not yet agreed.
Network Development	A	G £4M (to Sept)	R	R	Programme fully operational with focus on recommendations for September Post Office Board, a compelling commercial proposition to inform the full programme business case and Ivy pilots (that are under development). A major risk for the programme is being able to develop a commercially viable business case. Dependencies exist with Business Transformation for 2020 product lists and CDP to enable separation from legacy technology. Future Network design underway and will need to consider impacts on other programmes particularly Network Transformation

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POST OFFICE LTD BOARD

Initial Complaints Review and Mediation Scheme (“the Scheme”): Update Paper

1. Purpose

1.1. The purpose of this paper is to update the Board on progress on the Scheme. It supplements the updates the Board has had relating to the media reports surrounding Second Sight's Part Two report.

2. Overall position

2.1. Cases have continued to progress through the Scheme over the summer and, apart from the issue of the Part Two report there was little other significant activity relating to the Scheme over the holiday period. This was mainly due to the absence of the Chair and his desire to keep Working Group calls to a minimum and reduce possibility of contentious or substantive matters being raised until the Working Group could meet face to face, which it did on 16 September. Unsurprisingly, therefore, that meeting was significant in a number of ways as summarised in paragraph 4 below.

3. Case progress

3.1. In line with our undertaking to keep the Board updated on the ‘mechanics’ of case progression through the Scheme, the headline position is:

- There are now 124 cases remaining in the Scheme.
- 12 cases have been resolved outside of mediation.
- All outstanding case questionnaires have now been received.
- Post Office has completed its investigation of 73 cases, with a further 69 cases under active investigation.
- 37 cases are with Second Sight to review and produce a case report.
- Second Sight have produced 19 final case reports (which form the basis of a decision on whether the cases should be mediated).
- Six cases are with CEDR to arrange mediation meetings.
- Three cases have been mediated (one settled, two not).

3.2. This progress has put us in a strong position to be more directive and assertive in our approach with Second Sight, JFSA and at Working Group more generally. This has been helped by the fact that we have found nothing in the 73 cases investigated which has raised concerns about faults with the Horizon system, the safety of convictions or Post Office’s liability for the losses being claimed by applicants.

4. Face to face Working Group Meeting (16 September)

4.1. Overall the meeting was broadly successful as far as Post Office was concerned although it is clear that the Chair was doing all he could to avoid a situation which might cause the Working Group to fracture. To this end he closed down discussion of any matters that were not absolutely relevant to the matter in hand to avoid confrontation where possible.

4.2. The substantive discussions centred on the nine reports completed by Second Sight which required a decision of the Working Group on whether cases should be mediated. We used this opportunity to get on the record some key points relating to our approach to certain types of cases. In particular that:

- Overturning a criminal conviction is a matter for the Courts and not mediation. Our approach to consequential loss claims will be informed by reference to legal principles.
- We will agree, in relation to the two 'old' cases considered (i.e. cases where there is very little information available in our view to form the basis of a mediation discussion), to ½ day mediation but with a view to assessing the value of mediating such cases to inform decisions in the future.

4.3. Asserting our position on these points unsurprisingly provoked a response from other members of the Working Group and JFSA announced that they would leave the meeting at two points but, in the end, did not do so. However, notwithstanding JFSA's dissatisfaction with the positions we are adopting, we are confident that they are the right ones, they are in line with the steer agreed with the Board and are defensible should JFSA decide to make our position public. Indeed in asserting our position we are being transparent and taking reasonable steps to manage expectations.

5. Second Sight Engagement and Remuneration

5.1. As the Board is aware, a key issue we have been addressing is ensuring we regularise Post Office's engagement of Second Sight, which we did earlier in the year by agreeing and signing a letter of engagement. We have subsequently turned our attention to addressing with them our concerns about their productivity, costs, quality of work and general engagement with Post Office. We have already done this privately but we took the opportunity at the Working Group meeting to expose and express more publicly our concerns at Second Sight's unacceptably low productivity levels which, despite repeatedly assuring the Working Group has been three cases a week, has in fact been less than half that.

5.2. We are now following this up more formally with a letter setting out our concerns in detail and demanding a meeting to discuss the improvements we require. Second Sight has already responded positively to our attempts to manage costs with a proposal which links payment to productivity. We will discuss this with them when we meet.

6. Conclusion

6.1. The Board is invited to note this update and that we will provide a more detailed oral update on 25 September.

Chris Aujard

Belinda Crowe

17 September 2014

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POST OFFICE LTD BOARD

Corporate Insurance Programme 2014/15

1. Purpose

The purpose of this paper is to:

1.1 Share the output of a review of the insurance position and recommend the basis for insurance renewal for the period 1 October 2014 to 30 September 2015; and

1.2 Update on the appointment of an in-house insurance and risk management professional to manage the insurance programme, in light of the current cost reduction programme.

2. Background

2.1 This is the third anniversary of the PO stand-alone Insurance Programme following the split from the RMG insurance programme in September 2012.

2.2 PO has worked with insurers on the largest risks (Crime, General Liability and Motor) in order to keep Insurance costs to a minimum whilst enjoying appropriate cover to meet our risks.

2.3 An insurance review has been undertaken by Miller to ensure that key risks are insured and to identify whether any enhancements to cover or premium savings can be achieved now we have improved risk and claims information.

2.4 PO has had no major claims in the last 24 months (for reasons previously discussed, the particular circumstances of Sparrow are highly unlikely to support a claim under any of our existing policies). This has enabled us to be more proactive with Insurers over pricing and coverage.

2.5 PO has built up discrete claims data over the past two years. Historically this was an issue because it was not possible to separate PO from RM's data.

3. Key Insurance policies

3.1 The key corporate insurances currently in place are (more detail at Annex 3):

- Crime
- Directors and Officers Liability
- Property Damage/Increased Cost of Working
- Terrorism
- Employers Liability
- Public Liability
- Motor Fleet (Commercial and Private)
- Cyber Liability (specific Government Contracts only)
- Professional Indemnity (Government Contracts only)
- Personal Accident/Travel
- Special Contingency

4. Claims

4.1 This has been the second strong year for PO with regards to claims, with far fewer claims notified than envisaged in the last 12 months.

4.2 It should be noted that PO now has clear claims procedures in place, with QBE handling all liability and motor claims. This has led to a substantial drop in amounts paid out in claims since RMG managed the process (see Annex 2).

5. Summary of Insurance Review

5.1 A review has been undertaken of all the major risks and relevant insurance policies. Full details are contained in Appendix 1, however in summary, the main findings of the review are:

- Our insurances are fit for purpose
- The cover must be suitable for POMS as well
- Some policies will not be renewed (Contractors All Risks)
- Looking at reducing deductibles where there is no impact on premium
- Leveraging our risk and claims data to reduce premium where possible
- We are obtaining quotations for Professional Indemnity Insurance across POL

6. "In-House" Insurance Resource

6.1 As our risk profile changes it is important that, where possible, our insurances are aligned to our risks. Whilst our insurance advisers and insurers provide support to us with our day to day requirements, consideration has been given to investing in a full time "in house" Risk and Insurance Manager.

6.2 A strong candidate has been identified but as the cost would be c.£100k pa it is recommended that this decision is incorporated within Business Transformation, because the identifiable benefits are considered to be lower than this cost. Whilst, in theory, lower broker costs (currently c.£70k pa) could partially offset this cost, the relatively complex nature of our cover (crime in particular) would require us to retain most if not all of the broker's services.

7. Recommendation

The Board is asked to agree:

7.1 Renewal of insurance policies as set out in Annex 1.

7.2 Future renewal authority is delegated to the Audit & Risk Committee.

7.3 That the decision of recruiting dedicated insurance resource is incorporated within Business Transformation.

Chris Day
September 2014

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POST OFFICE LTD - INSURANCE REVIEW - AUGUST 2014

APPENDIX 1

RISK (currently insured)	Insurer/ Premium	Covering	Deductible	Additional Comments/Recommendations	Recommendation
PROPERTY DAMAGE	ZURICH £134,620	All loss or physical damage to POL properties as declared including Buildings and machinery, stock and contents and Increase cost of working (ICOW).	GBP1m each and every loss	Property risks have been strongly managed historically with no claims recorded. POL have worked with Insurers to upgrade Swindon's risk protection to help mitigate risk and bring into line with market standards. The coverage is essentially now catastrophe cover for POL's larger locations. Continuing with this insurance should be set against POL's risk appetite to meet a total loss of a large location (e.g.: Swindon).	Renewal negotiations with holding Insurer Zurich continue and we anticipate a 6 % reduction in premium on expiring terms (circa 15% reduction against original 2013 premium). *Recommendation is to continue at lowest premium.*
TERRORISM	POOL RE £52,821	This provides the "buy back" coverage to loss or damage to POL properties as a result of terrorism. (This is excluded under the standard property policies)	GBP1m each and every loss	POL could have a legitimate exposure through its parcel handling in branch, as well as being seen as a Government/high profile target. Consideration should be given as to whether this coverage is required across the POL insured estate (Crown Offices).	The premium for Terrorism is based on a pure formula of our sum insured (values). We are obtaining an alternative quotation from Lloyds which enables us to select the properties we wish to insure for Terrorism. *Recommendation is to only insure our locations above GBP5m in value (large offices and Cash centres). We are anticipating that we could achieve at least a 10% reduction in premium against 2013 premium.*
CONTRACTORS ALL RISKS	ZURICH £6,478			It is debatable whether POL need this coverage, which is historic. Typically when refurbishment or construction work is carried out, the Contractor would purchase the coverage on behalf of the Employer (in this case POL).	*Recommendation is to NOT renew the policy this year.*
EMPLOYERS LIABILITY	QBE £251,750	Liability to employees for injury or disease arising out of, or in the course of, their employment	GBP250k each and every loss	This is a statutory requirement. There is a GBP50 million limit of indemnity.	PO are entering year two of a two year "Long Term Agreement" with insurer QBE. Whilst this would typically mean that the rates would remain unchanged, we have persuaded QBE to reconsider. *Recommendation is to continue at lowest premium.*
PUBLIC/PRODUCTS LIABILITY	QBE included above	Legal liability (loss injury or damage) to Third Parties arising out of business activities	GBP250k each and every loss	This policy has a GBP50 million limit of Indemnity. Whilst there have been few claims, it is important that coverage is maintained as it is felt that POL do have an exposure (and there is a requirement in a number of existing contracts that POL has this insurance).	As above
MOTOR FLEET	QBE £484,632	Legal liability for loss, damage, injury or death to third parties	GBP250k each and every loss	This is a statutory Insurance. Current policy is "Third Party" coverage only.	As above
CRIME	LLOYDS £808,780	Infidelity of Employees, all Property (as in financial instruments) of POL or any Third Party whilst in any POL premises or in transit. Forgery and alteration, counterfeit currency, damage to cash carrying vehicles, offices and contents, forged securities and interest receivable and or payable	GBP1m each and every loss	This is POL's largest Insurance spend and one that is managed carefully. This is a bespoke insurance that provides both First party (POL loss) and Third party Insurance for all cash and financial Instruments. The Bank of England treat POL in a unique way in that POL are required to purchase insurance to the FULL VALUE of the bank notes in circulation. Reduction in Limit to GBP400m (from GBP600m) is appropriate for renewal 2014.	We have reviewed our Insurance requirements with Supply Chain, who have agreed that a reduction in limit to GBP400m is acceptable operationally and meets our risk exposure. This has been agreed with the CFO. Given the nature of the insurance, this reduction does not provide an equivalent saving on the premium. It is anticipated that we would achieve a 5% reduction in premium spend for reducing the limit and *recommendation is to renew at that premium* .
DIRECTORS AND OFFICERS LIABILITY	QBE £68,900	Covers the cost of compensation claims made against POL's directors and key managers (officers) for alleged wrongful acts.		This is a key risk and one that has been in place as a stand alone coverage since 2013 (previously with RMG).	We anticipate that renewal will be flat in terms of premium. Last year we had no retroactive coverage, however this year we have one year, meaning that this "tail" will negate a discount. We continue to negotiate with insurers however it should be noted that any discount would be below 5%. *Recommendation is to renew at that premium.*

RISK (currently insured)	Insurer/ Premium	Covering	Deductible	Additional Comments/Recommendations	Recommendation
DIRECTORS AND OFFICERS LIABILITY	QBE £68,900	Covers the cost of compensation claims made against POL's directors and key managers (officers) for alleged wrongful acts.		This is a key risk and one that has been in place as a stand alone coverage since 2013 (previously with RMG).	We anticipate that renewal will be flat in terms of premium. Last year we had no retroactive coverage, however this year we have one year, meaning that this "tail" will negate a discount. We continue to negotiate with insurers however it should be noted that any discount would be below 5%. *Recommendation is to renew at that premium.*
PROFESSIONAL INDEMNITY (GOV CONTRACTS)	QBE £36,362	Legal Liability arising out of any negligent act error or omission in the course of business activities. **This insurance provides cover for GOVERNMENT CONTRACTS ONLY**	GBP250k each and every loss	To be reviewed against a POL wide policy. This is a contractual requirement. Was NOT purchased under RMG.	Negotiations have led to a quote from a Lloyds syndicate for c£200k for cover for Post Office inc POMS with a £100k excess up to £10m. It is recommended that this cover is put in place.
PERSONAL ACCIDENT/TRAVEL	CHUBB £4,038	This policy provides Personal Accident and Business Travelcover, and extends to include sub postmasters and their substitutes and those who work under a franchise contract		This is standard coverage but has an extension that provides a payment to Sub Postmasters if they are injured or permanently disabled as a result of a hold up.	This is a small coverage within the portfolio and are anticipating a flat renewal. This is a minimal insurance spend against the benefit that is provided. *Recommendation is to renew at current premium.*
CYBER LIABILITY	LIBERTY £95,400	Cyber liability insurance covers both POL and contract partners against loss or damage caused by hackers, viruses and data theft. This insurance provides cover for the DVLA and Border Control contracts only		This coverage is purchased exclusively for the DVLA and Border Control Government contracts.	This coverage does not renew until April 2015.
SPECIAL CONTINGENCY	LIBERTY £11,872	Kidnap and ransom.		This is a historic insurance, confidential in its nature but it is considered that POL has a great enough risk to warrant the purchase.	We are reviewing the possibility of including this coverage within the CRIME policy as well as looking at alternative stand alone quotations. Discussions are ongoing. Unlikely to be any premium reductions on this separate policy as we are at minimum premium level for the risk.

RISK (not currently insured)		Covering		Additional Comments/Recommendations	Recommendation
BUSINESS INTERRUPTION		Business interruption insurance covers the loss of income that a business suffers after a major Property loss		We do not believe that POL have an exposure at this time, however recommend that this be tested (Major loss scenario test) to identify if there any gaps/exposures.	*Recommendation is risk retained by PO.*
PROFESSIONAL INDEMNITY - POL WIDE		Legal Liability arising out of any negligent act error or omission in the course of business activities.		As PO's structure and business model changes, this coverage becomes more relevant, both commercially and contractually. With the arrival of POMS and replacement of BOI, there will be a perceived increase in risk around the financial products.	We have had preliminary discussions with the Market who have indicated that a GBP 10 million policy with a GBP1m deductible each and every loss would cost between GBP250-300k (However, PO would save GBP35K premium by "rolling in" the existing PI coverage within this). *Recommendation is risk retained by PO.*
EMPLOYMENT PRACTICES LIABILITY		Employment practices liability insurance covers wrongful acts arising from the employment process (e.g.: typical claims covered under an EPL policy would include: wrongful termination, discrimination, sexual harassment, and retaliation).		This coverage should be considered if there are any major staff or structural changes identified in the future as part of your long term sstrategy. Whilst there may not be a risk at this time, it is one to keep on the radar. This risk would not be picked up under any other PO insurance programme.	Whilst we have not approached the Market for a formal quotation, as a guide, we are advised that a GBP 5 million policy with a GBP150k deducible each and every loss would cost circa GBP75k. *Recommendation is risk retained by PO.*
CYBER LIABILITY - POL WIDE		Cyber liability insurance covers both POL and contract partners against loss or damage caused by hackers, viruses and data theft.		We believe that Data security and Data integrity is a key risk for PO. Whilst there are robust internal controls to manage this risk, serious consideration should be given to purchasing some level of Insurance protection in the event of a major data breach or "cyber" related incident.	We are seeking an "indication" from PO's existing Cyber insurers for a POL wide policy. Initially, we are looking at a quotation for a minimum GBP10m limit of indemnity. The premium should be balanced against the risk PO have within the business. Recommendation to insure if premium not materially higher than existing cover.
PROPERTY DAMAGE (assets below GBP1m)		All loss or physical damage to POL properties including Buildings and machinery, stock and contents and additional cost of working (ACOW).		Losses of any PO property below GBP1m not perceived to be business critical with enough capacity within the network to use alternative sites in the event of a loss. However, the aforementioned major loss scenario test would identify the robust nature of this strategy.	Recommendation is risk retained by PO.

APPENDIX 2

Claims recorded under the POL insurance programme are as follows: All other policies are claims free

Motor Fleet - Claims Summary

Policy Year	Number of Claims	Number of open claims	Number of closed claims	Total Reserve	Paid including fees	Total
2012	206	29	177	£96,980.94	£179,319.19	£276,300.13
2013	304	121	183	£265,148.92	£123,561.55	£388,710.47
Grand Total	510	150	360	£362,129.86	£302,880.74	£665,010.60

Employers/Public Liability Claims Summary

Policy Year	Policy Class	Number of Claims	Total Paid	Recoveries	Gross Incurred	Net Incurred
2012	**Employers' Liability**	7	£8,200	£0	£46,146	£46,146
	General Liability	17	£33,961	£0	£140,539	£140,539
	Total	24	£42,161	£0	£186,685	£186,685
2013	**Employers' Liability**	2	£360	£0	£20,394	£20,394
	General Liability	10	£10,352	£0	£43,252	£43,252
	Total	12	£10,712	£0	£63,646	£63,646
Total	Total	36	£52,873	£0	£250,331	£250,331

APPENDIX 3

Brief synopsis of Insurance cover

1. Crime Insurance

1.1 PO historically has one of the largest stand-alone Crime policies in the UK insurance market, insuring to a limit of £600m, and is a requirement for membership of the Bank of England's Note Circulation Scheme. The policy covers all risk of crime including theft by employees. The policy carries a £1m excess and is insured by QBE and others. This is PO's largest external premium spend. Following a review with Supply Chain, we are able to reduce this limit to £400m for the forthcoming year saving a potential 5% of premium.

2. Property Damage/Increased Cost of Working/Terrorism.

2.1 PO has a Property Damage policy, insuring the full value of properties valued at above £1m. There is a £10m increased cost of working limit. There have been no claims.

2.2 Zurich is the insurer and there is a £1m excess on the policy. Pool Re insures the Terrorism which mirrors the Property Damage policy.

2.3 We have obtained alternative quotations from several Insurers, the most proactive being Travelers who spent a day at PO Swindon and subsequently offered wider coverage, a training programme for PO staff at our insured sites and a saving of 15% over the original 2013 premium. Our existing insurers Zurich have subsequently offered a 11% rebate to reflect the risk improvement activity at Swindon to close the premium gap. We are anticipating a further 6% reduction at renewal. We are also looking at whether we are able to reduce the £1m deductible without cost and introduce an aggregate limit to cap PO exposure.

3. Combined Liability Insurance (Employers/Public Liability)

3.1 PO has a combined Liability programme from QBE, providing £50m of coverage on both Employers Liability and Public Liability. This carries a £250k excess. QBE handle the claims below the excess and is reimbursed by PO on a quarterly basis. This is a relationship that works well.

4. Motor Fleet Insurance

4.1 PO has two motor fleets (Commercial vehicles and Private Cars) both insured via QBE.

4.2 The policy is placed in the same way as the Combined liability (namely, with a £250k excess with claims below the excess paid by QBE and reimbursed by PO on a quarterly basis).

5. Directors and Officers Liability

5.1 This policy provides full cover for PO directors and officers where they are sued as a result of a wrongful act, resulting from something that they are alleged to have done while acting as a manager of PO.

5.2 In addition, the policy will respond if there is an investigation into an act that they are alleged to have committed.

5.3 The policy currently has a limit of £60m. The insurance review looked at whether reducing this limit to £40m (saving approx. £20,000 in premium) was viable. As a large organisation, it is felt that the current limit of £60m is the minimum level that PO should have and therefore should be retained.

6. Professional Indemnity

6.1 This policy was purchased to meet the Government Service Contracts contractual requirements. The policy has a £10m limit and covers a breach of professional duty by PO resulting in a third party loss. The policy covers Civil liability, defence costs and expenses, libel and slander (committed by PO or any person employed by PO). The policy has a £250k excess. QBE are the lead insurer.

6.2 Our strategy, particularly in relation to our FI products, and the increased risks this brings to the organisation, means that we should consider purchasing Professional Indemnity insurance for the whole organisation. The review is underway and insurers have spent some time with PO assessing the exposures.

7. Cyber Liability

7.1 This insurance is purchased as a specific requirement for the DVLA and Border Agency contracts and is a broad cover, extending to breach of privacy, extortion, network security, as well as breach of data. This policy renews in April 2015

7.2 One of our key strategic risks relates to data protection and data integrity. The Insurance review has identified that consideration should be given to purchasing Cyber Liability across PO which would offer us a level of protection in the event of a significant loss.

Post Office Limited – Strictly Confidential

POLB 14(7th)
POLB 14/87-14/102

POST OFFICE LIMITED

(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held on 16 July 2014
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Neil McCausland	Non-Executive Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Richard Callard	Non-Executive Director
Paula Vennells	Chief Executive
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Sir Charlie Mayfield	Chairman & CEO John Lewis Partnership (minutes 14/87-88)
David Ryan	Business Transformation Director (minute 14/89)
Chris Aujard	General Counsel (minute 14/90)
Martin George	Chief Marketing and Commercial Officer (minute 14/90)
Kevin Gilliland	Network & Sales Director (minute 14/90)
Neil Hayward	Group People Director (minute 14/90)
Nick Kennett	Director, Financial Services (minutes 14/90-91)

POLB 14/87 INTRODUCTION

(a) A quorum being present, the Chairman opened the meeting and welcomed Sir Charlie Mayfield, Chairman and CEO John Lewis Partnership.

POLB 14/88 SIR CHARLIE MAYFIELD

(a) Sir Charlie Mayfield explained the governance structure within John Lewis Partnership and its effect on decision making and people engagement.

(b) The Board thanked Sir Charlie Mayfield for an excellent session.

(c) Sir Charlie Mayfield left the meeting.

POLB 14/89 STRATEGIC AWAY DAY FOLLOW UP ON OPERATING MODEL AND STRATEGIC COST REDUCTION

(a) The Board welcomed David Ryan, Business Transformation Director, to the meeting.

(b) The CEO reported that since the Board Away Day the Business had taken the SLT population through a similar market analysis and review of the mails strategy. The SLT now understood how the market was changing and the challenges which the Business faced. The CEO was pleased with their feedback and recognition that the Business had less than a year to respond to this challenge with agility and pace. The next stage of this cascade into the Business would take place on the 24th July when 2500 colleagues would hear the same message face to face around the country, with the CEO key note speech transmitted from London.

ACTION: David Ryan

(c) The CEO shared the 10 accelerators which the Business had produced to cascade the strategy. She explained that the actions to support the accelerators had been finalised and targets with timelines would be agreed by the end of July. The Board would be updated on the progress being made on: channel extension; mails; Business Transformation and People at the September meeting. The Board recommended that the Business focus on 4 or 5 areas and make the actions specific with commercial measures.

(d) The CEO promise, as part of her report, to review performance and actions against the accelerators at each Board meeting starting in September.

(e) David Ryan explained the actions being taken to deliver the cost reduction target, the enterprise wide business and operating model (TOM) and the 2014/15 incremental cost saving initiatives.

(f) David Ryan reported that the in-year cost reduction challenge, which had increased from £46m to £53m, was being managed by identifying specific initiatives with an ExCo member who was accountable. Weekly tracking and trend information would be available by the beginning of August. It was recognised that the Business needed to protect the costs which deliver revenue and accelerate these where possible.

(g) David Ryan recognised the need to increase the cost reduction target to help mitigate the likely shortfall in 2014/15 revenue and to that end was planning to deliver a stretch target of £100m, within the next 12 to 18 months. The CFO and Board supported this approach and emphasised the need to maintain and hit the EBITDAS target and to ensure that the savings are sustainable.

(h) The Board discussed the work underway in the design phase for the enterprise wide business and operating model, and debated the key questions being considered by the Business. David Ryan explained that the emerging model had three layers:

- a light corporate centre;
- a middle core of operating companies; and
- an utility provider for HR, Finance Customer contact etc.

Once the model was established it would be clearer which work could be outsourced or done with a partner.

(i) David Ryan assured the Board that nothing had emerged in the work to date which should be put on hold whilst the TOM is finalised.

ACTION: David Ryan

(j) The Board had some questions about the emerging model and the creation of separate operating companies and asked the Business to ensure it considered the opportunities and risks of such a model, including the risk that the interdependencies between the different businesses might receive too little focus. The Board discussed the Public Purpose and how it could relate to the different operating companies and it was suggested that the POAC could be used to input into this debate.

(k) The Board questioned whether the Business had the specific capability to deliver the design. David Ryan explained that the Business recognised the need to build its capability and to change the organisation to deliver the change. PwC were commissioned to help with this diagnosis and the change capability would be enhanced before October.

(l) The Board recognised the significant challenge to deliver the Business Transformation alongside the 2014/15 scorecard targets. David Ryan was asked to give the Board early warning if he saw evidence that driving the transformation was putting the performance delivery at risk.

(m) The CEO explained David Ryan had two separate teams running in parallel to drive in year savings and drive business transformation.

ACTION: David Ryan/ Company Secretary

(n) The Board thanked David Ryan for the work to date and asked for an update on the Business Transformation work at the September Board. An early draft of this update should be shared with Board members in with the offer of individual or group sessions to discuss the detail before the Board.

(o) David Ryan left the meeting.

(p) The CEO explained that David Ryan's contract ended in November and that the Business was considering the right approach for the delivery phase of the programme. The Board supported the Business if it decided to extend his contact for an additional six months, recognising that he was an expensive resource.

POLB 14/90 KELLY REPORT DISCUSSION

(a) The Board welcomed Chris Aujard, General Counsel, Martin George, Chief Marketing and Commercial Officer, Kevin Gilliland, Network & Sales Director, Neil Hayward, Group People Director, and Nick Kennett, Director, Financial Services, to the meeting.

(b) The CEO introduced the discussion by explaining the process that the Business had undertaken to consider the lessons learned in the Kelly report with particular focus on risk management, culture and governance. It was noted by the CEO that a great deal of work had been undertaken over the past year to put in place appropriate systems and structures for managing risk. The CEO highlighted aspects of this work but recognised that further work was required, especially in developing a risk appetite statement.

(c) The meeting considered the outcome of the ExCo discussion and agreed that the areas highlighted were the right ones on which to focus.

(d) Neil Hayward, Group People Director, described his view of the culture within the Business and its effect on how risk is managed. He believed that, compared with other organisations, the Business: did not lack realism; was beginning to focus on the right risks as viewed through the Transformation Committee; was encouraging bad news to be brought forward (again at the same forum); but did not always close risks down effectively and did have some skills gaps.

(e) It was recognised that in some areas of the Business there was a significant focus on delivery risk but that this is not consistent. There was agreement that the risk appetite should vary depending on the issue being considered.

ACTION:
General Counsel/ Neil Hayward/ Company Secretary

(f) In this connection, the General Counsel reported that, as part of a wider exercise currently being undertaken by PwC, work was about to re- commence on developing an articulated risk appetite statement; it was also reported that PwC would be assessing and benchmarking the quality of risk assurance activities across the Business. It was anticipated that PwC's initial report would be available by mid – September, following which decisions would be made as to the areas in which the assurance and risk framework would need bolstering.

ACTION:
General Counsel

(g) The Board was concerned that there seemed to be number of other areas where further quick progress needed to be made. After some discussion, it was agreed that it would be helpful for the Business to consider its top 3 or 4 risk and assurance priorities categorised by reference to the lessons learned from the Kelly Report and the headings Culture, Capability and Governance. These would be presented back to the Board in September. It was anticipated that risk appetite would feature amongst this priority list, as would training and formal clarity over delegated authorities and decision making.

ACTION:
General counsel

(h) The ARC was also asked to review of the Risk Management process.

(i) Chris Aujard, Martin George, Kevin Gilliland and Neil Hayward left the meeting.

POLB 14/91 **PROJECT HAWK**

(a) Virginia Holmes, Chairman of the Board FS Sub Committee, (FSSC) introduced the paper and explained that the FSSC had discussed the Hawk mandate at a meeting on the 15th July and recommended it to the Board.

(b) Nick Kennett reminded the Board of the 3 stages involved in the insurance strategy. Hawk, the buyout of the Bank of Ireland (BoI) was the second stage and this mandate was to enable the negotiation to start.

(c) The Board considered the proposal and the possible scenarios, including the likely approach by an Independent Expert.

(d) Virginia Holmes stressed that the final decision to agree a value would revert to the Board.

(e) The Board
   (i) Noted the update and the actions as set out in the paper;
   (ii) Approved the requested mandate, and authorised management to negotiate a buy-out of BOI's share of Post Office Insurance business at a cost not exceeding £40m; and
   (iii) Noted that any agreement will be subject to Board approval.

(f) The Board wished Nick Kennett good luck for the negotiation.

(g) Whilst Nick Kennett was in the meeting the Board discussed the travel Insurance issue raised in the CEO report.

ACTION:
Nick Kennett

(h) Nick Kennett explained that a problem in the travel insurance technical sales process had led to customers being provided with the wrong policy. The Board were concerned by the delay in informing the FCA. The Board asked for a note explaining what had gone wrong, along with assurance that the BoI had informed the FCA and that a stakeholder and media plan was in place to manage the situation.

(i) Nick Kennett left the meeting

POLB 14/92 **FINANCIAL PERFORMANCE UPDATE**

(a) The Board received the quarterly report from the CFO. He explained that the full year revenue forecast was now more pessimistic than budget with a £15m gap emerging. He still remained confident of hitting the EBITDAS target but believed the Business needed to deliver more cost savings in order to make this achievable.

(b) The Board discussed the Mails forecast and whether enough was being done to accelerate the new initiatives. The CEO recognised the need to move quickly and explained that there were three areas of focus.
   1. The new sales initiatives discussed at the Board away day.
   2. The effect of pricing which Royal Mail now recognised as an issue and one over which they were willing to approach the regulator, albeit in the autumn. In the meantime the Post Office would extend the customer discount until September.
   3. The structural changes in the market and the need to respond through product simplification and network extension

(c) The Government Services income shortfall was mainly due to POca. The CFO explained that negotiations were still underway to try and resolve the position and that following a meeting with the Pensions Minister (Steve Webb) and further meetings with HM Treasury, the business believe DWP has accepted this offer (including the £10m for ring-fenced customers). However, late in the day, HM Treasury have decided they would like to take a portion of the POca overnight balances (50% or c£1bn) into the Government Banking Service. This has delayed formal acceptance of the business' offer and a subsequent announcement by the Minister. The Business has a way forward but DWP and HM Treasury need to agree how the additional risk and any subsequent increase in price following the new HM Treasury approach is budgeted within Government.

ACTION: Martin George

(d) The CFO explained that the Telephony gap was driven by lower customer numbers and higher broadband usage, which was proving to be an issue in the new contract. The Board asked for a note explaining the lessons learned, which the CEO said would be available after the Risk & Compliance Committee had considered the issue.

ACTION: CFO/ Company Secretary

(e) The Board supported the Business' approach to a prudent revenue forecast but were disappointed that a £15m risk had emerged so early in the year. The Board asked the Business to continue to aim for £925m revenue but to increase its cost reduction target to mitigate the £15m revenue gap and to provide a full update at the September Board, inviting Martin George, Nick Kennett and Kevin Gilliland into the Board for the debate.

ACTION: Nick Kennett

(f) The CFO presented the Crown P&L and explained the effect of the reduced revenue on the Crowns. The Board discussed the importance of hitting the breakeven target and the initiatives in place to deliver this target. The Board recognised the importance of FS growth to this channel and asked for a note to update them on the FS incentive scheme.

ACTION: CFO

(g) The Business was asked to look at the accuracy of the cash flow forecasting.

(h) The Board were disappointed by the scorecard results at the end of quarter 1 and encouraged the Business to focus on the few things which will have the greatest impact in getting performance back on target.

POLB 14/93 **CHIEF EXECUTIVE REPORT**

ACTION: Richard Callard

(a) Tim Franklin, Chairman of POAC reported on a very successful meeting on the 1st July. Richard Callard agreed to discuss with Jo Swinson her attendance at a future meeting.

(b) The CEO informed the Board that the Supply Chain Managers' pay had been agreed with the CMA, but that the CWU had learned no lessons from the Crown negotiation and the Business were now considering going to ACAS, and/or looking at whether it would be possible to impose a pay deal, to prevent another protracted pay negotiation. It was recognised that, although contingencies were already in place, a supply chain dispute would be more disruptive and difficult to manage than the Crowns.

(c) Sparrow was progressing with two cases now through mediation, one of which had been resolved but the other where no agreement was reached. The Business was taking opportunities to make things clear to the working group, the first being that no consequential loss would be paid.

POLB 14/94 **MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING**

(a) The minutes of the Board meetings held on 21 May and 10 June 2014 were approved for signature by the Chairman.

POLB 14/95 **COMMITTEE MEETING MINUTES FOR NOTING**

(a) The Board noted the minutes of:

- the Board Away Day held on 11 June 2014;
- the Annual Report and Financial Statements Sub-Committee held on 18 June 2014;
- the Audit, Risk and Compliance Committee meeting held on 15 May 2014;
- the Financial Services Sub-Committee meetings held on 2 April and 10 June 2014;
- the Sparrow Sub-Committee meetings held on 30 April and 6 June 2014; and
- the Remuneration Committee meeting held on 13 May 2014;

POLB 14/96 **STATUS REPORT**

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

POLB 14/97 **3MCOGENT CONTRACT EXTENSION**

(a) The Board considered the request to extend the 3MCogent Contract for the Application, Enrolment and Identification (AEI) infrastructure.

ACTION:
Martin George
(b) The Board felt that the business case presented a very optimistic view of volumes and price and asked for an email explaining the case to be circulated to the Board before the contract was signed.

POLB 14/98 **PENSIONS COMMITTEE TERMS OF REFERENCE**

(a) The Board approved the proposed revised Terms of Reference for the Pensions Committee.

POLB 14/99 **PROPOSED BOARD DATES FOR 2015**

ACTION:
Company Secretary
(a) The Board asked for the proposed Board dates for 2015, to be circulated along with the forward agenda items, and they would then confirm their availability to the Company Secretary.

POLB 14/100 **ITEMS FOR NOTING**

(a) The Board noted the Significant Litigation report.

ACTION:
Lesley Sewell
(b) The Board noted the update on Cyber Security and Information Assurance paper and asked for more granularity on issues and risks.

(c) The Board noted the Health & Safety report.

(d) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1168 to 1191 inclusive in the seal register was hereby confirmed.

(e) The Board noted the current status of colleague offers.

(f) The Board noted the current status of the End User Compute procurement as part of the new Towers based IT supply chain.

ACTION: Malcolm Zack

(g) The Board noted the Internal Audit Action Status report and asked for future reports to include a commentary on any outstanding actions.

POLB 14/101 **ANY OTHER BUSINESS**

(a) The Chairman reported that the Board had received consent from the Shareholder for the 2014/15 STiP and the 2014/17 LTiP schemes.

(b) The Board congratulated the CFO and Business on the publication of the Report & Accounts.

ACTION: Company Secretary

(c) The Company Secretary was asked to arrange a cyber-security guest speaker to attend a future Board meeting.

ACTION: Martin George

(d) It was agreed that the October Board meeting would be held at the Post Office Design Lab at the Southbank University.

POLB 14/102 **DATES OF NEXT MEETINGS**

(a) It was noted that the next Board meeting would be held on 25 September 2014.

FS 14/37-14/39

POST OFFICE LTD

FINANCIAL SERVICES SUB-COMMITTEE

Minutes of a meeting of the Financial Services Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Tuesday 15 July 2014

Present:	Virginia Holmes (VH)	Chair
	Tim Franklin (TF)	Non-Executive Director
	Chris Day (CD)	CFO
In Attendance:	Paula Vennells (PV)	CEO (by telephone)
	Chris Aujard (CA)	General Counsel
	Nick Kennett (NK)	Financial Services Director
	Jonathan Hill (JH)	Head of Risk, Banking Regulation & Strategy
	Charles Colquhoun (CC)	Head of Corporate Finance
	Paul Havenhand (PH)	Head of Insurance and Travel
	Mark Flenner (MF)	KPMG
	Alwen Lyons	Company Secretary
	Gill Catcheside	Secretariat

FS 14/37 OPENING OF MEETING

A quorum being present, VH welcomed everyone and opened the meeting of the Financial Services Sub-Committee ("FS Committee").

FS 14/38 PROJECT HAWK

(a) The FS Committee considered a proposal to enter into negotiations to exercise Post Office's contractual option to acquire Bank of Ireland UK plc's (BOI) share of Post Office's insurance business (POI) with an acquisition value of up to £40 million.

(b) NK advised that the Insurance Transformation programme comprised three phases – Phase 1 was Project Titan, Phase 2 was the exercise buyout option as set out in Eagle (Project Hawk), and Phase 3 was the migration of other insurance businesses as contracts expire. It was noted that the Business was seeking a mandate to start negotiations with BOI for Phase 2.

(c) NK reported that there were eight products within POI, as set out in the paper, which were forecast to make a circa £14million profit in 2014/15 plus sales commissions of circa £10million.

(d) The FS Committee was informed that the contractual option to acquire BOI's share of POI, as set out in the Eagle contract, could be exercised within a two year window commencing in September 2014. It was noted that Post Office initiated the option process by submitting a market value offer to BOI.

(e) If agreement was not reached following negotiation, Post Office could escalate the process to an Independent Expert (IE) who was jointly appointed and paid for. NK advised that the Eagle contract set out a clear escalation process to be followed, and that while the IE's review of value and terminal values would be very formulaic, the review of income flows and discount rates would be areas for debate.

(f) Once the IE had concluded his investigation, a valuation of the POI would be tabled to both parties; this valuation would be binding on BOI, who were not able to decline to sell, whilst Post Office had the option to either accept the valuation or not. If Post Office decided not to accept the valuation, the option to buy POI would fall away, and could not be used at any other time – a “once only option”.

(g) NK reported that as part of Project Hawk, Post Office would acquire the Contracts of Insurance, predominantly from Aviva and Junction, and 19 staff would transfer under TUPE regulations. It was noted that these 19 staff, for which Post Office paid 50% of their costs, were currently based at BOI Bow Bells House.

(h) NK outlined the three scenarios based on different profit and loss projections for POI for the period 2014/5 to 2019/20, as set out in the paper. Scenario 1 was based on the budgeted performance of POI over the next 12 months with incremental growth at a steady state extended out to 2023. Scenario 2 was BOI’s five year plan which had not been accepted by Post Office. NK advised that although the plan had been tabled at the Joint Insurance Committee, Post Office had provided no comment on, nor acknowledged any findings contained within, the plan but had only noted it. It was noted that BOI’s five year plan contained aggressive growth expectations. Scenario 3 was a “common sense” view of BOI’s five year plan.

(i) MF advised that the IE would probably apply a significant discount on deliverability of new products, and would look at comparable deals in the marketplace when reviewing market pricing. It was noted that other products had a finite duration, with no value into perpetuity, and so would be discounted at different rates accordingly. The methodology used by Post Office would be clearly understandable to the IE.

(j) The FS Committee considered the financial projections, including sales capability and volume drivers. It was noted that in Scenario 2 Motor and Home volumes were projected to double, and Life volumes to triple. NK advised that Motor policies were increasingly moving to an online platform, and that sales in branches were becoming more of a challenge. It was noted that branches would be used for data capture purposes for use by the call centres.

(k) It was noted that Scenario 3 could be used as a basis of agreement between Post Office and BOI. The FS Committee was advised that Scenario 3 excluded those products that Post Office did not consider to be part of POI’s responsibilities with a higher discount rate applied to growth forecasts and new products. PV noted that the Business needed to be confident that it was going to hit the volumes contained within Scenario 3.

(l) NK advised that Scenario 1 was being used for positioning purposes. Post Office would open negotiations with Scenario 1 while BOI would start at the Scenario 2 level – these were considered to be the “book-ends”. It was agreed it would be useful to work up a Scenario 1(a) to arrive at a value of circa £35million, which would help with negotiations and give tactical support.

ACTION: NK/CD

(m) It was noted that Post Office had £20m of budgeted capital expenditure for 2014/15, and that if a deal was reached at a level of around £30-£35million this would be affordable for the Business.

(n) It was noted that a request for approval of a mandate for negotiations would be submitted to the Board on 16 July 2014. Subject to the mandate be approved, the Business would prepare an offer letter to BOI based on Scenario 1. The FS Committee agreed that as the Board was being asked to approve a mandate for negotiations, at this stage the detailed figures would not be circulated unless requested.

(o) CD noted that the Business was focussed on concluding Project Hawk by 31 March 2015. Once agreement had been reached with BOI on a value, a full acquisition paper would be submitted to the Executive Committee, and then the Board, for approval. This submission would include detailed figures.

(p) NK advised that Project Hawk was a standalone right for Post Office under the Eagle contract. It was noted that other areas of strategy being discussed with BOI included BOI's balance sheet, commission around the balance sheet, commitment to grow the business, the role of investments, product capability and current accounts.

(q) The FS Committee noted that BOI is likely to be keen to continue to act as principal for Post Office to maintain the relationship and continue its close involvement with Post Office. NK advised that the combination of Projects Hawk and Titan would result in a large "box" of product, pricing, capability and delivery, and that a positioning paper on strategic intent would be prepared for discussion with BOI. It was noted that BOI had shown a surprising slowdown in its aspiration of growth for mortgages. It was considered that BOI might be thinking of investing in other areas to lessen its' reliance on Post Office business as part of its risk strategy.

(r) The FS Committee:
    (i) Noted the update and actions as set out in the paper; and
    (ii) Agreed to recommend to the Board the proposed mandate to exercise on a once-only basis the option to buy-out BOI's share of POI at a cost of up to £40million, with final agreement subject to Board approval.

FS 14/39 **CLOSE**

There being no further business, the meeting closed.

Strictly Confidential

PC 14/16-14/27

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Wednesday 25 June 2014

Present:	Virginia Holmes (VH)	Chair
	Chris Day (CD)	CFO
In Attendance:	Neil Hayward (NH)	Group People Director
	Natasha Wilson (NW)	Head of Reward and Pensions
	Harpreet Singh (HS)	Pensions Adviser
	Tim Giles (TG)	Aon Hewitt (for items 14/19-14/20)
	Ross Mitchell (RM)	Aon Hewitt (for items 14/19-14/20)
	Ian McKnight (IM)	RMPTL (for item 14/20)
	Chris Hogg (CH)	RMPTL (for item 14/20)
	Alwen Lyons (AL)	Company Secretary
	Gill Catcheside (GC)	Secretariat

PC 14/16 OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 14/17 MEETING WITH JOANNA MATTHEWS

VH gave a verbal update of her recent meeting with Joanna Matthews, Chair of RMPTL. At that meeting VH had expressed the Committee's concerns regarding the delay in aligning the Plan's investments with the Statement of Investment Principles and the cost of this in return terms to the POL section. VH advised that Chris Hogg, Chief Executive RMPTL would attend today's meeting to address the issues raised.

PC 14/18 COMMITTEE MEMBERS

It was noted that Susannah Storey had resigned from the Committee on 26 March 2014, following her resignation from the Board of the Post Office on the same day.

ACTION: NH/CD NH/CD would discuss future executive membership of the Pensions Committee outside of the meeting.

PC14/19 REVIEW OF INVESTMENT POSITION

TG and RM joined the meeting.

The Committee considered Aon Hewitt's overview of the Investment Report.

TG reported on the asset allocation for the POL Section as at 31 March 2014. It was noted that the Section remained underweight in Property and Private Debt as these were in the process of being drawn down, and overweight in Liability-hedging assets, derivatives & collateral (LHA). This position may lead to the Section underperforming significantly during periods where risk assets outperform.

TG advised that action had been taken in June to reduce the cash exposure by moving funds into Investment Grade Credit (IGC) and some hedge funds. TG highlighted that an investment in IGC would not yield much more than Cash.

TG reported on a conference call with the RMPTL executive and Mercer to discuss the use of a Diversified Growth Fund (DGF) to invest some of the Section's large cash holdings in growth assets pending draw downs, a proposal which would meet the SIP criteria and which AON supported. RMPTL and Mercer had yet to respond.

TG reported that the investment managers and the funds selected appeared to be of good quality, but that the growth assets had not delivered a high enough return, and that this would not be improved by investing in IGC.

The Committee was concerned with the execution lag in aligning with the SIP and the perception that RMPTL was not proactively taking advantage of market conditions when timing investments, and therefore missing opportunities to pick up much needed return for the Section's assets. TG advised that the RMPTL reporting did not show the execution lag and its effects and that if this were reported it would help highlight the issue.

The Committee discussed the lack of a tactical overlay to the strategic implementation. It was agreed it would be useful to have a formal metric to monitor the execution lag with the Dollar effect stripped out, within the Quarterly Investment Report (QIR). RM advised that were the Section to have been fully invested in line with its strategic benchmark this it would have seen a monetary benefit of £1-1.5m versus the actual position. It was noted that the delay in investing in the Emerging Markets had worked in the POL Section's favour.

The Committee discussed the Plan's exposure to currency fluctuation and agreed there was a need to protect the Absolute Return through Dollar hedging. TG agreed and noted that the Dollar was currently undervalued. The Chairman stressed that the date of entry into the hedging market should be carefully managed. TG clarified that the Lazards mandate for Emerging Markets should remain in local currency.

It was reported that CD would be attending all future RMPP Investment Sub Committee (ISC) meetings, which would provide the Committee with greater insight into how investment decisions were implemented. CD would provide an update of the ISC meeting that he was due to attend on 18 September 2014 at the next Committee meeting.

ACTION: CD

TG discussed attendance at a meeting held between the Post Office Pensions team, AON, Chris Hogg and MN Services. TG explained that MN Services had been retained by RMPTL to provide management information (MI) on investments and the funding levels. The information output that would be provided should provide greater clarity to the investments and the information would be more up to date. However, it was noted that although there were some improvements in the reporting and execution capability, these would not be fully effective until the necessary infrastructure had been put in place. The Committee remained concerned about RMPTL's ability to respond in a crisis or actively manage market fluctuations. There was also concern whether they had robust mechanisms in place to take decisions quickly.

It was noted that the POL Section's investment strategy included greater risk appetite which RMPTL continued to be slow to implement.

VH thanked TG and RM for their report.

PC 14/20 **INVESTMENTS**

Chris Hogg and Ian McKnight of RMPTL joined the meeting.

IM presented the QIR as at 31 March 2014 which was considered by the Committee. The Section's assets returned 3.6% in Q4, underperforming the liability benchmark by -0.8% and the strategic benchmark by -0.9%. Of this, the return seeking assets delivered 0.3% and the liability hedging assets 3.3%. Over the last 12 months the return was 0.7%, an outperformance of 3.1% versus the liability benchmark and 2.6% versus the strategic benchmark.

VH explained that the Committee was interested in isolating the impact of currency on the performance of the investments. TG suggested that the easiest way to understand the effect would be to evaluate the performance for the last two quarters of 2013/14 excluding the exchange rate effect.

IM advised that assets were converted to Sterling where underlying investments were in Dollars and that Dollar exposure had not been beneficial to the Plan over the year. It was noted that the negative impact of not hedging currency over the previous quarters had been substantial, especially in the Absolute Return funds. IM advised that following a risk impact analysis, the ISC had agreed to hedge currency exposure with effect from 1 July 2014.

The Committee supported the decision to hedge against currency exposure but were disappointed it had taken so long to achieve as it was first discussed last year. VH was keen to understand how the ISC worked to reach this 'in principle decision' and how it would ensure that the tactical entry points into the market of 1 July were effective. It was felt that the process was onerous rather than mobile. CH advised that the ISC believed the strategic decision to hedge currency was marginal, and that Black Rock had not offered a definitive view. The Committee was disappointed that the ISC seemed unaware of its conviction with regard to currency hedging.

CH recognised the importance of the market entry point. He explained that there were no parameters currently set which would trigger a re-evaluation of the decision to enter the market on the 1st July. However, if there was a major economic event, CH assured the Committee the strategy would be re-assessed and the ISC would be contacted by circulation for a quick decision. The importance of market entry points in fulfilling investment beliefs was recognised.

The Committee expressed its concerns that RMPTL was implementing strategic decisions, but not proactively managing its tactical decisions. It was highlighted that the Post Office considered RMPTL to be an active in-house fiduciary manager for the Plan's assets and as such would therefore expect it to be highly responsive to market movements as necessary.

VH advised CH/IM that the Post Office had concerns that Post Office Section's assets were not being actively and forcefully managed as the position at 31 March 2014 was similar to the position on 31 March 2012, and that decisions needed to be taken and implemented more quickly.

IM tabled a report of the rebalancing that had been carried out in June 2014. It was noted that Cash had been reduced, and that the underweight in Property and Private debt was due to the staggered draw down of funds. The Committee noted that the overweight in Cash had been reduced after being out of alignment with the SIP over the last 24 months, but was disappointed that the funds had been invested in IGC which was considered little better than Cash for returns. VH highlighted that the Committee had previously requested that Cash be placed in a DGF. IM reported that the ISC had rejected this request as the allocation into a DGF would have breached the Plan's risk budget for the Post Office Section. The ISC's view had been that the only way of keeping within the risk budget, and provide the liquidity required, was to invest in IGC. IM advised that the funds in the IGC would be mainly drawn down by the end of 2014.

ACTION: IM
ACTION: IM
ACTION: CD/TG

IM would circulate the paper on investing into a DGF which had been submitted to the ISC. IM will also provide the reasoning behind the ISC's decision. CD/TG would reconsider the DGF proposal, and resubmit it to the ISC if they felt funds should be invested in a DGF.

ACTION: CH

The Committee expressed the view that the Section's assets were not earning high enough returns from its portfolio. CH would involve TG in discussions regarding the risk budget over the next few months.

CH updated the Committee on a number of issues:
(i) A shared MI project was underway to enable better and more up-to-date reporting on the investments and funding position and also to provide greater transparency of the data the Trustee and the Employers;
(ii) Following the announcement in the 2014 Government Budget with regards to how Defined Contribution pension benefits can be taken from April 2015, the Trustees of the Royal Mail Defined Contribution Plan (RMDCP) are looking to provide suitable communications to the members about how the changes will affect the members and the choices that they will have. The Trustees will be looking to start this process in the Autumn.
(iii) The Government has announced that they will be reviewing the services at the Pension Service Centre for the administration of the RMSPS. This will involve the services going out to tender under the public procurement process. The project should be completed in 2017.

CH and IM left the meeting.

ACTION: HS

The Committee agreed that there was an urgent need to understand RMPTL's processes, priorities, and its governance structure. HS would ask CH for RMPTL's Committee structure, terms of reference, and attendees. This information would also include details of the feedback process to Employers.

The complex asset structure of the Section's assets was discussed, it was noted that due to the connection with Royal Mail and their Section of the RMPP it allowed Post Office to have access to funds and investment managers that would normally be excluded for pension schemes the size of the Post Office Section of the RMPP. However, it was noted that the overall governance costs for such a complicated investment strategy could become prohibitive in the future.

ACTION: VH It was agreed that VH would draft a note to Joanna Matthews detailing the meeting's discussions and outcomes and initially forward it to CD for review. The letter would be copied to IM/CH and all meeting attendees when sent to Joanna Matthews.

TG and RM left the meeting

PC 14/21 MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

The minutes of the meeting held on 5 March 2014 were approved for signature by VH.

The actions list as at June 2014 was noted.

PC 14/22 COMMITTEE TERMS OF REFERENCE

The Committee received a proposal to revise its Terms of Reference (TOR). AL advised that the Board had reviewed the TOR of all committees, and the Pensions Committee had been asked to reconsider its delegated authority within the TOR.

The Committee discussed the proposed level of delegated authority. NH advised that the mind-set of the Business was to delegate authority wherever appropriate and that he considered the Committee should have confidence in the Business' Pensions team and be able to make the decisions and Board recommendations as proposed in the new delegated authorities

The Committee agreed the revised TOR as set out in the paper for recommendation to the Board.

PC 14/23 DEFINED CONTRIBUTION PENSION ARRANGEMENTS – SETTING OF PRINCIPLES AND ASSUMPTIONS

The Committee received a report on the proposed principles and assumptions for the new Defined Contribution Pension Plan.

The Committee discussed the paper and the different types of arrangements available. It was noted that the key assumption for cost efficiencies should be balanced with that of a good member experience. The importance of ensuring that all employees were helped to understand the benefits of the new pension arrangement and how their investment worked was highlighted. NW advised that one of the criteria a new provider will be measured on is their online resources to provide this kind of education. HS also reported that Post Office has been working on a pensions' educational programme that will be provided to all employees.

It was noted that currently the unions were not formally aware of the possibility of a new Defined Contribution pension arrangement.

ACTION: NW
ACTION: NH

The Committee tested the proposed timescale which looked challenging. NW reported that the Pensions Team has already engaged with the IT project team as the system changes were the area of most concern. NH asked NW to review internal resources to ensure there was sufficient budget/headcount to implement the new scheme. NH would raise the visibility of the project with David Ryan, Business Transformation Director, and at the Business Transformation Committee.

ACTION: GC

It was noted that ad-hoc Pension Committee meetings would be required for decisions on the type of Scheme w/c 21 July 2014, and Pension Provider w/c 15 December 2014, which GC would organise.

ACTION: NW

NW would provide regular updates at future Committee meetings.

The Committee expressed concern of the risk of no pension arrangement being in place by 1 April 2015. HS stated that Post Office would be able to continue in the RMDCP if no arrangement was in place. However there would be a cost associated with remaining in the RMDCP as Royal Mail are intending to change the default contribution level for new members of the RMDCP. Post Office would have to make the same change if they continued to participate. An employee salary sacrifice option was discussed, NW stated that this option was yet to be agreed by the Business, but once agreed the project would run concurrently with the introduction of the new pension arrangement as it would provide cost efficiencies.

The Committee was advised that NH was the Executive Committee (ExCo) sponsor for the project, and that a paper was being submitted to ExCo for information on 8 July 2014.

The Committee:-
(i) Agreed the principles and assumptions for the new Defined Contribution Pension Plan as outlined in the paper noting the discussion on key principles; and
(ii) Noted the timescales outlined in Appendix 1 to the paper.

PC 14/24 DEFINED CONTRIBUTION PENSION ARRANGEMENTS – SELECTION OF PENSIONS ADVISER

The Committee noted the update on the appointment of Mazars to advise the Post Office on selecting a new pension provider and to assist with the setting up of a new Defined Contribution Pension Plan.

PC 14/25 PROFESSIONAL FEES UPDATE

The Committee noted the professional fees incurred to date for the Scheme, and discussed the proposed fees for the next six months.

The Committee asked Sarah Hall to ensure that the Plan was getting value for money on fees.

It was agreed that the fees proposed in the paper be approved.

PC14/26 **NEXT MEETING**

It was noted that the next Pensions Committee meeting would be held on 8 October 2014 at 148 Old Street starting at 10am.

PC 14/27 **CLOSE**

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

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PC 14/28-14/32

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Tuesday 22 July 2014

Present:	Virginia Holmes (VH)	Chair
	Chris Day (CD)	CFO
In Attendance:	Neil Hayward (NH)	Group People Director
	Natasha Wilson (NW)	Head of Reward and Pensions
	Keith Murdoch (KM)	Head of Reward and Pensions designate
	Harpreet Singh (HS)	Pensions Manager
	Phil Daniels (PD)	Senior Client Manager, Mazars (part PC14/30-32)
	Howard Finch (HF)	Director, Mazars (part PC14/30-32)
	David Baker (DB)	Chief Investment Officer, Mazars (part PC14/30-32)
	Alwen Lyons (AL)	Company Secretary
	Gill Catcheside (GC)	Secretariat

PC 14/28 OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 14/29 COMMUNICATION WITH JOANNA MATTHEWS

VH advised that the letter sent to Joanna Matthews, following the Pensions Committee meeting held on 25 June detailing the meeting's discussions and outcomes, had been well received. It was noted that VH had been invited to attend the ISC meetings as well as CD. HS reported that the IWG meetings were becoming more informative, and that the quality of the information being received was improving.

The Committee was encouraged to note that the development of more formal channels of communication was resulting in a higher standard of information being provided to the Post Office.

PC 14/30 DEFINED CONTRIBUTION PENSION ARRANGEMENTS – SUMMARY RECOMMENDATIONS ON PENSION TYPE SUITABILITY

The Committee received a report containing summary recommendations on Pension Type Suitability for a new Defined Contribution Pension Arrangement, together with a Defined Contribution Pension Scheme Assessment Report.

NW advised that Mazars had been chosen as the Pensions Adviser following a formal procurement process, in which they had prevailed on both quality and quantity of work at considerably lower fees.

It was noted that Mazars had recommended the setting up of a Group Personal Pension Plan (GPPP). The Committee asked that whichever type of plan was agreed upon it took into consideration both employer and employees' needs.

HF, DB and PD of Mazars joined the meeting.

The different types of Defined Contribution (DC) schemes, Master Trusts, GPPP, and Occupational DC arrangements were discussed and HF provided an overview of what was happening in the marketplace and the impact of auto-enrolment. It was noted that a move to contract based schemes (GPPPs), with no formal requirements for Trustees/governance structures, was currently the most popular choice for companies. HF advised that should Post Office wish to be involved in the governance of the new arrangement this could be fulfilled through the Pensions Committee.

HF explained that contract based scheme providers were investing in technology to be able to improve their offering for online access and administration. This improvement would be beneficial to Post Office as it geared up for auto-enrolment responsibilities in 2017. It was noted that online access was a way of getting members more engaged with their pension arrangements with the availability of webinars and provider intranet sites that were easy to use.

PD outlined the reasoning behind the recommendation for a GPPP. It was noted that GPPPs give more flexibility with setting contribution rates, allow for the introduction of salary sacrifice schemes, greater investment choice, and can be more flexible when it comes to taking retirement benefits. PD advised that the flexibility enhanced the feeling that individuals had more responsibility and control over their own pension.

The Committee discussed the benefits of a GPPP from an employee perspective. HF highlighted that the concept of a GPPP was a long term saving plan, which was portable (not linked to a particular employer) and offered flexible retirement benefits (accessible between the ages of 55-75). Online access would empower individuals with the ability to access resources to increase their pensions knowledge and access to learning material that would enable the member to understand their investment choices.

It was reported that Master Trusts and Occupational DCs were not portable and individuals could not continue to make contributions once they had left employment.

HF advised the Committee that the current GPPP market was competitive and that, with the potential transfer value, Mazars could negotiate very good terms, with at least the same if not lower Annual Management Charge (AMC) than currently charged by Zurich.

It was noted that the transfer from an Occupational DC to a GPPP was a member choice and the assets could not be automatically be transferred to the new arrangement, member consent would be required. HF recommended that a communications programme be carried out to enable individuals to make this decision. It was noted that financial advice could not be given, but members would be given detailed information, including a comparison of the existing and proposed arrangements, on which to be able to make an informed choice. Members would be given around 3-4 months to make a decision and would need to submit a written request to transfer.

PD stated that providers of GPPP would price new arrangements on an expected transfer rate of 50-65%.

The Committee discussed the transfer process and whether there would be one bulk transfer or a series of smaller transfers. The Committee also discussed the possible exposure to market risk. It was agreed that the criteria for transfers should be included in the tender document and that out of market risk was minimised.

AMCs for internal and external funds, passively or actively managed, were discussed. Investment strategy with regards to life styling and target date funds were also discussed. DB advised that investment platforms with target date funds were limited. However, as long as a lifestyle strategy had a number of small steps over a number of years the strategy could be similar to target dated funds and achieve something similar, although this could increase the costs.

It was a noted that with a GPPP alternative default investment plans could be offered with descriptions of what the fund covered and who it might be suitable for. More complex investment choices would not be included in standard literature but would be available on request.

The level of communication with plan members was discussed. PD highlighted that GPPP providers have to provide an annual statement and suggested that providing an annual communication to members at the same time explaining their statement would be useful.

The Committee reviewed the Governance structure required for a GPPP. It was noted that the employer would need to retain a degree of control to ensure that employees did not feel discarded. This would be considered as part of the implementation planning process.

HF advised that Master Trusts were popular mainly due to low charges/fixed AMC and were set up by employers who had been required to provide a pension arrangement for its employees under auto-enrolment. However, Master Trusts were generally of a fixed design and could have Rules that are not beneficial to Post Office, for example they may prohibit transfers in or out.

The Committee discussed the current approach of The Pensions Regulator (TPR) to GPPP. It was noted that as a general principle the TPR was encouraging better governance practice, similar to the Code of Practice set for Occupational Trust based DC arrangements.

The potential risks involved with moving away from the RMDCP to a new DC arrangement were noted.

Mazars's DC Pension Scheme Assessment Report was noted.

The Committee agreed that Post Office should proceed with the setting up of a GPPP arrangement for employees.

PC14/31 **NEXT MEETING**

It was noted that the next Pensions Committee meeting would be held on 8 October 2014 at 148 Old Street starting at 10am.

PC 14/32 **CLOSE**

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

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POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Strategy		
1a	May 2014 POLB 14/65(f)	Draft necessary amendments to the Remuneration Committee Terms of Reference to enable it to make recommendations to the Post Office Board on appointments to the POMs Board.	**Company Secretary**	In progress
1b	May 2014 POLB 14/69(e)	Deliver a separate and accurate P&L account and balance sheet for the Supply Chain Business.	**CFO**	In progress, subject to management review in October
1c	July 2014 POLB 14/89(c)	The Board to be updated on the progress being made on: channel extension; mails; Business Transformation and People at the September meeting.	**David Ryan/Martin George/Neil Hayward**	Update: September Board - for FS, BT & Mails October Board – for People
1d	July 2014 POLB 14/89(j)	Consider using POAC to input into the debate as to how the Public Purpose could relate to the different operating companies. **UPDATE 17/9/14: The programme communication and stakeholder management plan will solicit views from a range of stakeholder groups (including POCA) to build support and commitment for the changes being proposed as we move to implementation.**	**David Ryan**	UPDATE PROVIDED
1e	July 2014 POLB 14/89(n)	An update on the Business Transformation work to go to the September Board. An early draft of this update should be shared with Board members, with the offer of individual or group sessions to discuss the detail before the Board.	**David Ryan/Company Secretary**	September Board
		2. Risk		
2a	July 2014 POLB 14/90(f)	Make decisions as to the areas in which the assurance and risk framework would need bolstering in light of the results of PwC's initial report.	**General Counsel/ Neil Hayward/ Company Secretary**	PV will provide a risk update at October Board
2b	July 2014 POLB 14/90(g)	Consider the Business's top 3 or 4 risk and assurance priorities categorised by reference to the lessons learned from the Kelly Report and the headings Culture, Capability and Governance. Priorities are anticipated to include risk appetite, training and formal clarity over	**General Counsel**	October ARC and Board

		delegated authorities and decision making.		
2c	July 2014 POLB 14/90(h)	The ARC to review the Risk Management framework. **UPDATE 17/9/14: Presenting to the Sept RCC. An adapted framework to meet the changing requirements of the business with a view to deploying by Dec 2014. This will be discussed at Oct ARC.**	**General Counsel**	To Oct ARC.
		3. Finance		
3a	July 2014 POLB 14/92(d)	Provide a note on the lessons learned from the lower customer numbers and higher broadband usage under the new telephony contract after the Risk & Compliance Committee has considered the issue. **UPDATE 17/9/14 The original assumptions on broadband usage were based upon using historical data, and did not account for rapidly changing consumer behaviour. Broadband usage has increased exponentially due to increased consumption of streaming video including I player and You Tube, as a consequence the usage triggered from the lower charging band to the next highest. There was some evidence that this would occur during last year's budget process, but it was not clear-cut, and as a result a more optimistic projection was used.** **In terms of customer numbers, the assumption was that the migration would be smooth with little or no customer experience problems. As a result the budget assumed, stable churn, and continued sales growth through the branch network. In reality the migration, and call centre volume issues, not only generated higher churn, but more importantly reduced confidence within the branch network resulting in a substantial drop in new business sales. The fundamental lesson to be learned is to estimate realistic volume assumptions and have a disaster recover plan in place.** **The common factor in both these assumptions was an over optimistic budget view of the complexities of change within the business.**	**Martin George**	UPDATE PROVIDED

3b	July 2014 POLB 14/92(e)	Increase the cost reduction target to mitigate the £15m revenue gap and provide a full update at the September Board, inviting Martin George, Nick Kennett and Kevin Gilliland into the Board for the debate.	**CFO/Company Secretary**	Action to adjust cost reduction targets for top line underperformance ongoing – see Financial Performance update.
3c	July 2014 POLB 14/92(g)	Look at the accuracy of the cash flow forecasting.	**CFO**	In progress
		4. Financial Services		
4a	April 2014 POLB 14/49(b)	Provide more detail of the financial impacts of the proposed model for Project Titan.	**Nick Kennett**	This will be covered in a paper to the Board/FS Sub-Committee to Q3
4b	May 2014 POLB 14/65(k)	The Business to submit a further paper in Q3 2014-2015 for ratification, prior to any market launch of the MGA services.	**Nick Kennett**	This will be covered in a paper to the Board/FS Sub-Committee to Q3
		5. Miscellaneous		
5a	April 2014 POLB 14/51(e)	CFO to share the outcome of the Thomson Reuters report (on the current position and a proposed approach to the Business' relationship with the Co-operative Group) and the actions he decides to take with Alasdair Marnoch, Chairman of the Audit Committee and the General Counsel.	**CFO**	The business' commercial response to the Thomson Reuters report will be taken to the next ARC meeting.
5b	May 2014 POLB 14/71(b)	An update note to be sent to the Board once the Facilities Management and Grapevine contracts were signed.	**CFO**	Awaiting final completion of the Grapevine contract, after which a confirmation note will be provided to the Board.
5c	May 2014 POLB 14/76(e)	Ascertain if the BBC Documentary broadcast could be timed for after the election.	**Mark Davies**	The documentary will not be broadcast during purdah
5d	July 2014 POLB 14/93(a)	Richard Callard to discuss with Jo Swinson her attendance at a future POAC meeting.	**Richard Callard**	Arrangements are being made for Jo Swinson to attend the March meeting.
5i	July 2014 POLB 14/101(c)	Arrange a cyber-security guest speaker to attend a future Board meeting.	**Company Secretary**	Arrangements are being made for a speaker to attend the November meeting.
5j	July 2014 POLB 14/101(d)	A Board meeting to be held at the Post Office Design Lab at the Southbank University.	**Company Secretary/Martin George**	November Board

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POST OFFICE LTD BOARD

SME Proposition Strategy Update

1. Purpose

The purpose of this paper is to:

1.1 Update the Board on progress since June.

1.2 Provide timelines for delivery and content for November Board.

2. Background

2.1 Post Office has an estimated 2 million (40% of total market) SME's visiting the branch network on a weekly basis and this customer group contribute 15% of total revenue.

2.2 SME revenue is primarily driven through mails services, though limited customer data is held due to the proportion of these customers registering for Drop & Go.

2.3 Other products and services are available for SME's but have not historically been launched based on customer/market need. As a result, Post Office does not have a cohesive and relevant proposition for this market and are not currently seen as a credible business services provider.

2.4 Given the size of opportunity and scope that Post Office has to win in this market, a project was started in May consisting of four phases and follows a proven and highly iterative framework to confidently deliver a proposition set; based on customer needs, market opportunity, internal/partner capability and commercial value.

2.5 In June we presented to the Board a hypothesis for our SME strategy based on early stage insight along with the forecast commercial value for this segment from 2014 - 2020.

3. Activities/Current Situation

3.1 The process we are following is highly iterative, keeping the customer at the heart of our development. Below is a summary of the four phases of the project, associated timings and what has been completed to date -

3.2 **Phase 1 (complete)** – the aim of this phase is to segment the SME market and understand who our target market is, gather customer and market insight and identify prioritised opportunities for the Post Office. Outputs of this phase are detailed below and within the attached executive summary deck:

- We will be targeting micro-businesses (<10 employees)
- Specifically focus on start-up, lifestyle and growth segments, with a particular focus on the e-commerce vertical
- High level insight told us that SME's do not see the Post Office as a credible business service provider and that we must focus on getting our

core mails offering fit for purpose before being considered for wider products and services, meaning that pricing, engagement, acquisition and servicing in mails must be the focus for 2014/15

- This will give us the platform and portfolio of customers to credibly deliver a Financial Services proposition to the market
- Based on depth interviews with SME's, market opportunity and internal ideation, Mails and Financial Services were the areas prioritised

3.3 **Phase 2 (complete)** – The aim of this phase is to deep dive on the opportunity areas (mails and FS), validating them from a customer and commercial perspective and identifying concepts that can be tested with customers. Components of this phase are detailed below:

- Deep dive customer research on mails and FS with over 30 SME's
- Proposition co-creation sessions with over 20 SME's
- Identify commercial opportunity for each area
- Generate ideas and testing with customers to inform proposition design
- **Completion date – 12th September (debrief to follow)**

3.4 **Phase 3** – this phase will explore the concepts identified further, to design the proposition features and benefits, define the customer experience and build a business case. Outputs of this phase are detailed below:

- Stretch and build initial concepts and convert them to a detailed proposition set in collaboration with Bank of Ireland and Royal Mail
- Bring the proposition to life through customer experience design
- Deliver a working prototype of the propositions using a combination of visual storyboards, clickable wireframes and collateral mock ups to test with customers
- Identify commercial implications and capability gaps (internally and partners)
- Build a business case and identify cost drivers
- **Completion date – 3rd October**

3.5 **Phase 4** – this phase will build a more detailed prototype to validate with customers, produce a detailed go to market plan and detailed business case outlining investment requirements. Outputs of this phase are detailed below:

- Identification of minimal viable proposition and detailed roll out plan
- Go to market plan and implementation roadmap
- Defined customer marketing, channel and distribution strategies
- Fully functioning prototypes for the user experience and user interface which will be fully tested and enhanced through multiple rounds of customer testing in collaboration with Bank of Ireland and Royal Mail
- 5 year commercial case, including investment requirements
- **Project completion date – 31st October**

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4. Commercial Impact/Costs

4.1 The proposition framework used for this project will be embedded into the Post Office, removing the need to work with an external consultancy firm on future proposition development and avoid any associated costs.

4.2 Detailed commercial impact and development costs will be determined through the process and will form part of the final output at the end of October.

5. Key Risks/Mitigation

5.1 To be determined through the process and detailed in final output.

6. Recommendations & Next Steps

6.1 The SME proposition strategy work will be presented at the November Board session for final approval.

6.2 The presentation in November will clearly articulate the SME proposition strategy, the 5 year commercial impact, risks and dependencies, go to market plan, delivery roadmap and fully functioning prototypes to bring the propositions to life.

Martin George
3rd September 2014

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POST OFFICE LTD BOARD

Digital update - September 2014

1. Purpose

1.1 The purpose of this paper is to give a brief update on progress against the digital initiatives shared at the June board meeting.

2. Summary

2.1 **Common Digital Platform:** All activities aligned to ebusiness/RMG separation **on track**.

2.2 Digital trials in support of branch of the future concepts mobilising Sept/Oct.

2.3 **Design Lab** at Southbank University opened.

2.4 Digital strategy work being scoped to **align** with key business transformation programmes.

3. Activities completed

Update on key initiatives completed.

Initiative	Status	Next steps
CDP Release 2 – Integration of new content management system. Delivery of core architecture. CDP elements of mails online.	Completed in July.	N/A
CDP Release 3 - Full, production ready platform released.	Completed in August.	N/A
Southbank University Design Lab	Opened in July and hosting stakeholders including Board members, ExCo, BIS, business teams.	Fully operationalise Design Lab to act as working prototype branch of the future.

4. Activities/Current Situation

Update on key initiatives in progress.

Initiative	Status	Next steps
Mails Online / Click and Drop	Final changes being made from further customer testing.	Soft launch to model office Sept 15. Live to customers Oct, subject to Royal Mail agreement.
CDP Release 3.1 - Separation of Rod Fishing Licences.	On track for go live 08/10/2014.	Completion of testing and business readiness steps.

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CDP Release 4 - Use of www.postoffice.co.uk on the Accenture platform before final separation date from Royal Mail.	Agreed with Royal Mail and on track for delivery as part of CDP Release 4 at end October.	Joint management by Post Office/Royal Mail Separation team to engage Capgemini and Accenture to implement.
CDP Release 4 - redevelopment and rehosting of Post Office content and standalone website tools on CDP.	Content migration on track.	Completion of development ready for testing. Completion of business readiness plan ready for go live.
CDP Release 4 – redevelopment and rehosting of Branch Finder on Accenture platform.	Development on track. Some challenges re. fixing issues with existing implementation.	Assessment of underlying data structures to ensure accurate opening hours can be displayed.
Wi-fi in branches	Installation of Wi-Fi capability completed across 17 branches. Not yet live to customers.	Customer facing Wi-Fi live by early October. Agree additional 8 locations (including Supply Chain).
In branch queue management	Trail to be limited to Hitchin branch in first instance.	Implement into Hitchin by mid-October.
Network Development	Prototyping under way to support extension and new access points.	Working prototype due end September.

New Initiatives	**Status**	**Next steps**
Completion of digital/omni-channel strategy	Replanning to ensure alignment with Business Transformation and Network development work streams and mobilise late September.	Align with Business Transformation and Network development work streams and mobilise late September.
Website and product application optimisation	Proposals being put together to improve conversion rates of online application forms	Target to begin work mid-late September to drive in year benefit.
Queue Sensing in-branch (2 suppliers)	Proposals currently being agreed	Install into 20 branches by end of October

5. Recommendation

5.1 No approvals needed.

5.2 A full update will be given at November board

Martin George
16 September 2014

Overall Summary as at August 31st 2014

	Total	Red	Amber	Green
Total actions outstanding bfwd as at 30th June 2014	43	9	20	14
Implemented by Mgt - to August 2014	(14)	(1)	(7)	(6)
Actions added (audits and advisory)	15	1	11	3
Superceeded/amended	(1)		(2)	1
Carried Forward as at August 31st	43	9	22	12

Analysis of Carried forward

	Total	Red	Amber	Green
Overdue - yet to start	0			
Overdue - Work in progress	37	9	17	11
Not yet due	6	0	5	1
	43	9	22	12

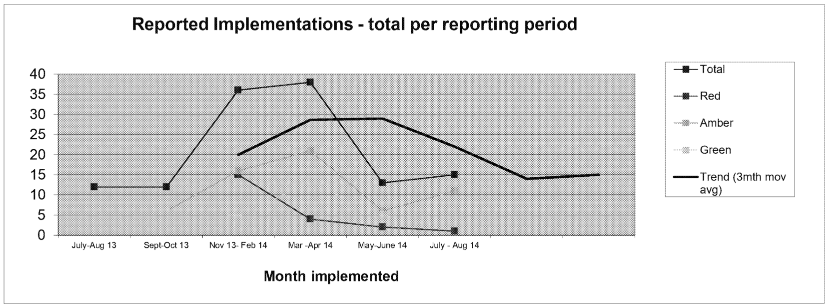
IA Activity has been focused on on going project assurance work mainly in the new finance system, and the IT Risk work, so number of actual recommendations agreed for the specific period is reduced.

The IT Risk Advisory work conducted with PwC is not included in these numbers

A full report will be provided as normal for the ARC.

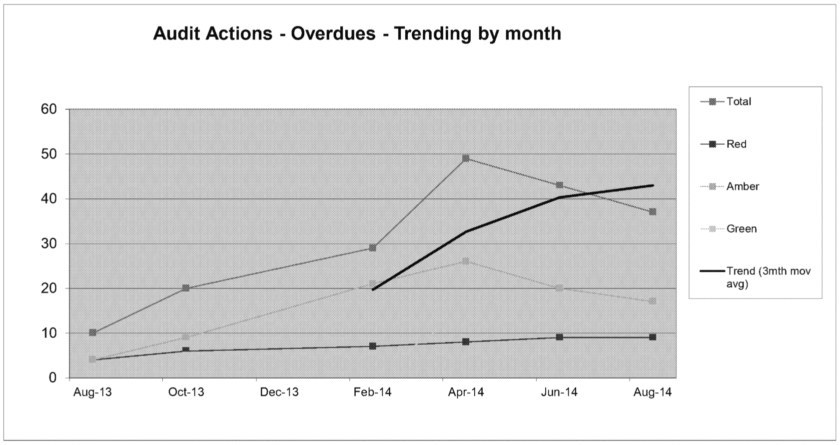
AS REPORTED AT THE JULY BOARD SUMMARY: - All of the red items relate to IT actions that were rebased by IT in May 2014 to accommodate changes in dates for the SISD and Towers. Most of these have a late 2014 to spring 2015 revised target date and relate to identity & access management and software liscening issues now dependent on new organisation.

Trends



Reported Implementations	**Total**	**Red**	**Amber**	**Green**
July-Aug 13	12		6	6
Sept-Oct 13	12		6	6
Nov 13- Feb 14	36	15	16	5
Mar -Apr 14	38	4	21	13
May-June 14	13	2	6	5
July - Aug 14	15	1	11	3
Cumulative	126	22	66	38

Implementation rates are steady with previous period which reflects that most IA work has been focused on ongoing higher risk project asssurance work.

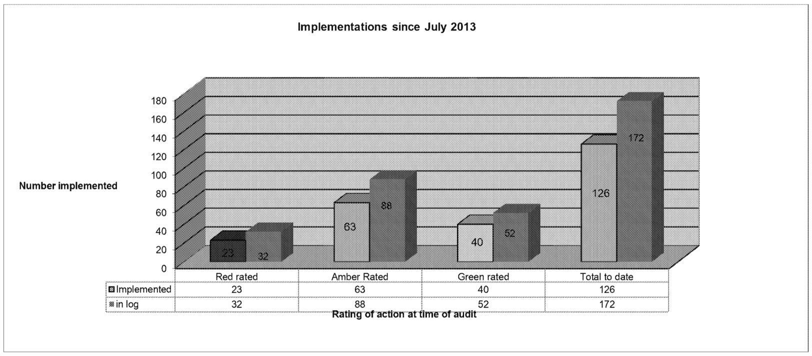


Overdue as at	**Total**	**Red**	**Amber**	**Green**
31-Aug-13	10	4	4	2
31-Oct-13	20	6	9	5
20-Feb-14	29	7	21	1
30-Apr-14	49	8	26	15
30-Jun-14	43	9	20	14
31-Aug-14	37	9	17	11

NOTE - IT ACTIONS HAVE BEEN REBASED WITH NEW TARGET DATES LATE 2014 and into 2015 to reflect changes in expected implementations of towers

The IA recommendations log still retains the ORIGINAL target date so that the business is fully aware it is still aware of the risks identified in the audit and these are still in place.

Most of these are in the following areas:
LAN and Identity Access Management -revised dates Sept 14 to March 15
Software Licensing - Items presented but not considered complete enough yet for IA closure. Management agreed to finalise. The Governance and Controls Manager in IT left the business in July 2014, IT have transferred ownership to a senior member of the IT team.
IMPLEMENTATIONS in July August 2014.
Main implementations were; More formalised review of FX forecast accuracy by Treasury, review of banking tokens and pin pads by Treasury, completion of various governance actions by the FRP project team as part of the new Finance system. Improved testing of the controls in User Acceptance Testing



	Red rated	Amber Rated	Green rated	Total to date
Implemented	23	63	40	126
in log	32	88	52	172

Implementations achieved (from June 2013)

	Implemented	Total in log	%
Red rated	23	32	72%
Amber Rated	63	88	72%
Green rated	40	52	77%
Total to date	126	172	73%

IA logs the total actions agreed with the business and tracks implementations since the final
transition from Royal Mail IA in June 2013

The total implementation rate is above 70% for the second successive period which is in line with expectations.

September 2014

POST OFFICE LIMITED MATTERS – DISPUTE RESOLUTION
PRIVILEGED AND CONFIDENTIAL – CLAIMS OVER £500K OR THOSE OF A SENSITIVE NATURE

PART (A) – CIVIL LITIGATION

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims (aka "Project Sparrow")	POL/RW	Belinda Crowe / Angela van den Bogerd	POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made by the "Justice for Subpostmasters Alliance" (JFSA) and advanced through SPMs' MPs. Following discussions with James Arbuthnot MP and JFSA, independent investigator Second Sight Support Services Ltd (Second Sight) was appointed in July 2012 to carry out a review into these allegations. On 08.07.13, Second Sight published a Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself. Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme (Scheme) aimed at resolving individual complaints made about Horizon.	This matter will be the subject of a separate update to ExCo. The Scheme received 150 applications, which are being progressed under the direction of a Working Group comprising retired Court of Appeal Judge Sir Anthony Hooper (as Chair), POL, Second Sight, and JFSA. Mediations have now been held for the first three applications. The POL project team continue to handle the applications in line with the Board's direction to take a firmer position, informed by its legal position and tighter control over timescales and costs. To date, no claim has been made against POL in the civil courts, and no appeal has been made against any conviction in the criminal courts, following Second Sight's Report.	Bond Dickinson

Employment	POL/NM	Colin Stretch	Employment Tribunal has held a sub-postmaster to be an 'employee' at a Preliminary Hearing.	A former SPM has brought a whistleblowing and unfair dismissal claim against POL. On 17.06.14, the Tribunal held that the SPM was an employee of POL between 24.08.12 and 12.07.13, even though she had signed a Temporary Sub-Postmaster (T-SPM) Contract. The Tribunal's finding can be confined to the specific facts of this case, in particular to specific pre-contract oral negotiations, without which the Tribunal acknowledges there would be no employment relationship. As an "employee", the SPM can now continue with her claim that POL dismissed her for whistleblowing. The Tribunal has not yet determined whether or not the SPM was in fact unfairly dismissed. POL's position is that her T-SPM Contract was properly terminated because of substantial rent arrears. External Counsel Eversheds are representing POL at the substantive Tribunal Hearing currently listed for November. In the interim, Eversheds has been instructed to try to settle the matter, however POL's financial offers (the latest being £15,000) have so far been rejected. The SPM is active on social media and has been making comments about the litigation.	Eversheds

				This is being monitored and POL's Communications team is engaged.	
Employment	POL/NM	Colin Stretch	In addition to the claim noted above, there are two claims against POL proceeding before the Employment Tribunals. Claims allege unfair dismissal and disability discrimination. The cases are being considered by External Counsel and have yet to be valued.	Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress. POL's Communications team is engaged in the event these claims are of interest to the media.	Weightmans

PART (B) – CRIMINAL LITIGATION

PROSECUTION CASES

There are number of cases which could have been prosecuted (e.g. those with full and frank admissions to theft /fraud), but prosecutions were not commenced to avoid adverse judicial comment.
Several cases have also been terminated while POL obtains an independent expert report on the Horizon branch accounting system (see below).
There are currently 14 cases which are being kept under review as to whether a prosecution (supported by an expert report) can be commenced.

EXPERT REPORT

New experts from Imperial College London have prepared a scope of work on which formal instructions and a protocol for requesting and receiving information will be based.
Appropriate individual confidentiality agreements will be prepared for both for the experts and POL employees involved in preparing the report.
It is envisaged that meeting/s to progress the report will take place with the experts, POL and Fujitsu in September and October 2014.

PROSECUTION POLICY

Former First Senior Treasury Counsel Brian Altman QC has drafted a proposed prosecution policy for POL.
Comments from POL stakeholders will now be sent to Brian Altman for review.

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

The purpose of this paper is to:

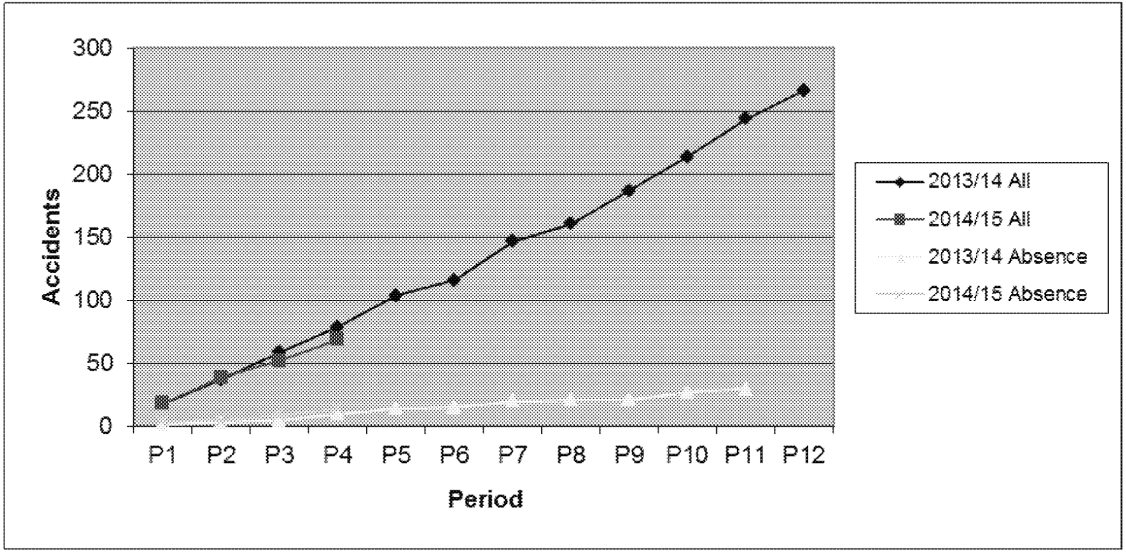
1.1 Provide an update on safety performance.
1.2 Outline risk reduction activities.

2. Current Situation

2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are higher frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.

2.2 All safety KPIs for 2013/14 were met or exceeded for the fifth year running. Performance during the first four months of 2014/15 indicates that at this early stage of the year and despite the slight adverse performance in absence accidents and days lost there is no current cause for concern that further reductions by year end are achievable and in line with the 5% year on year reduction target.

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



2.3 Personal injury compensation claims are falling in line with the reduction in accidents that result in sick absence. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower in both public and employer's liability and of those claims the 'denial' or 'defence' rate is significantly higher.

2.4 The number of days lost due to accidents is marginally adverse against target however it is anticipated that the year on year reduction target of 5% will be achieved. (Table 2 below refers)

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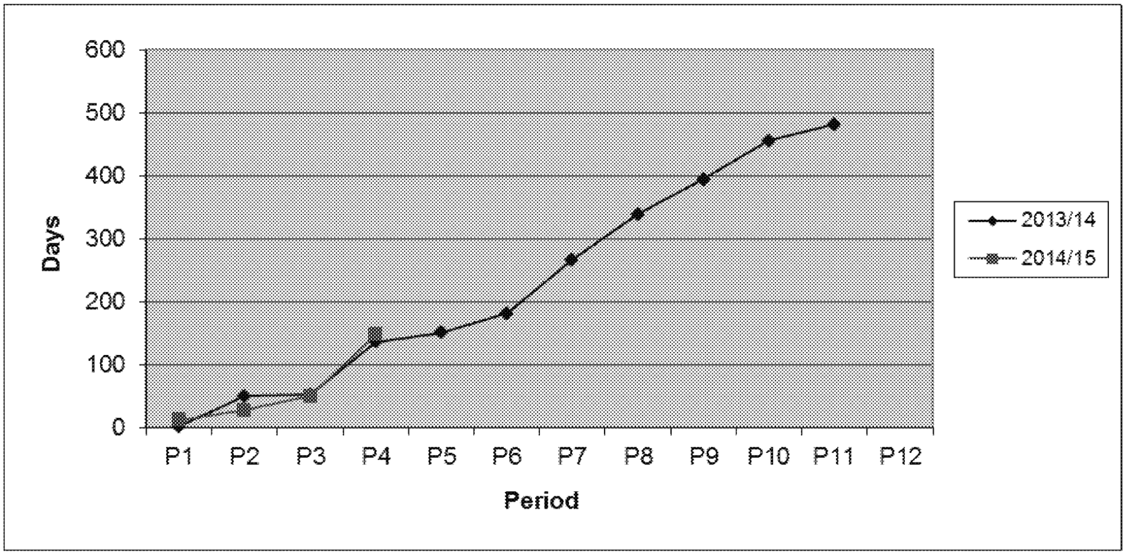
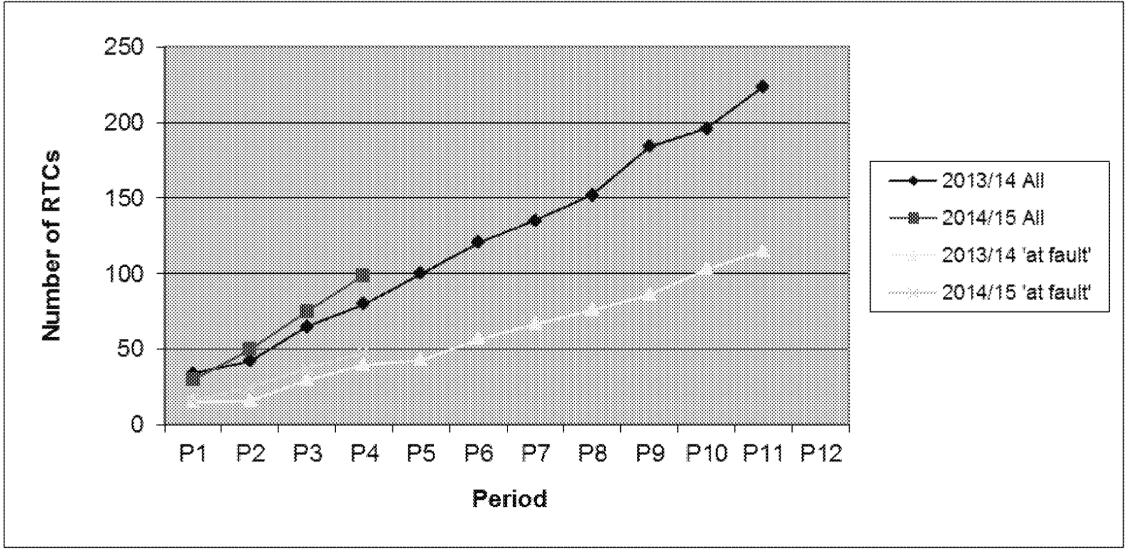
Table 2 Days lost resulting from injury accidents (Cumulative)



2.5 The total number of road traffic collisions (RTCs) for the first 4 months is up 19 on last year. While this is of concern it is believed that there continues to be a more robust approach to the reporting of incidents, irrespective of severity, and what appears to be an increase in minor damage incidents e.g. broken mirrors and minor scrapes The number of incidents where the Post Office driver is 'at fault' is also up compared to last year. (Table 3 refers) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents are currently a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are extremely infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss. Currently the majority of incidents involve low speed – less than 25mph.

Table 3 Road Traffic Collisions (cumulative)



2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down one on last year from 14 to 13 for the past 4 months. Physical injuries during robberies, of which there have been 4, 2 more than last year for the same period, remain relatively minor in severity. The level of use of firearms remains consistent with last year with 2 of the 13 robberies enabled by the presence and/or threat of use of fire arms and on no occasions were the firearms discharged. Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)

2.7 Robberies and attempted robberies on the Post Office network, for the first four months, are the same as last year – 29 – just over 62% were successful. Injuries sustained during robberies are down from 5 to 1. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities with guidance from insurer's risk management division.
- Review of policy and guidance for non-operational drivers e.g. business car drivers to ensure transparent reporting of accidents and driving behaviours interventions
- Analysis and deployment of interventions for reversing incidents to mitigate the increased incidence rates
- Technical accident reduction interventions on new vehicles e.g. Reversing aids to reduce accidents
- Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
- Safe driver of the year award to encourage responsible driving
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. DNA taggant – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas
- Increased use of crime alert communication techniques to Post Offices
- Piloting new point of transfer arrangements to reduce exposure
- Fogging technology
- Safe time locks
- Increased use of surveillance vehicles

- A three month 'Crime stopper' campaign in the West Midlands is in place, aimed at reducing cash in transit robberies

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Second phase of visits to all Post Office sites to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing. First phase of programme delivered 3681 health checks (Crowns 2486, Admin. 553 and Supply Chain 662). The anonymised data will be used to develop future health and wellbeing campaigns.
- Health and wellbeing 'Team Talk' modules
- Health and wellbeing poster themed campaigns
- Online wellbeing monitoring tool to support health check initiative
- Roll out of mental health awareness programme

3.4 Safety

The Post Office occupational health and safety management system (OHSMS) is certified by external auditors to the standards required by British Standard OHSAS 18001.

3.5 Asbestos Management

Transfer of the ownership of asbestos management following separation has led to a programme of actions to ensure that up-to-date surveys are available, defined responsibilities post-split are clear and that an asbestos management 'action plan' is in place to ensure that these issues can be managed effectively and in line with legislation. Legal Services have been engaged to advise on responsibilities, particularly in relation to the agency network, and to ensure arrangements for on-going management of asbestos are robust and risks mitigated.

4. Residual Risks

4.1 Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions identified in 3.1 above are aimed at mitigating that risk and improving performance.

5. Recommendation

The Board is asked to:

5.1 Note the overall safety performance
5.2 Note the risk reduction activities.
5.3 Note the residual risks

Neil Hayward
September 2014

Appendix 1

Significant Incidents (Period 4)				
Crowns and Network				
Location	**Loss**	**Circumstances**	**Physical Injuries**	**Any further details**
Filton SPSO, 2-3 Church View, Filton, BS34 7BT.	£4,605	Thu 17/7/2014 12:20 Two men armed with a knife and large sticks entered the PO and forced all 4 staff into the fortress area, using large knives the flip top till drawers were forced open, all staff ok.	None	No previous incidents
Lower Broughton MSPO, 21 Mocha Parade, Manchester, M7 1QE	£5,390	Fri 18/7/2014 10:00. Five men broke in to the rear of the building, the branch was open and the counter assistant who was working alone was punched and kicked and required medical attention for a broken nose. Working cash was taken from the counter drawer.	Broken nose	There have been four previous incidents. 1 burglary September 2011. 3 attempted robberies, CViT August 2008, April 2011, branch April 2012.
Bloomfield SPSO, 323 Beersbridge Road, Belfast, BT5 5DY	£396	Fri 18/07/2014, 20:54. Two males, one armed with a gun came in and threatened the clerk. She was forced to hand over cash which was a mixture of PO and shop money. It is believed there could have been a possible 3rd male outside the branch and they fled on bikes.	None	Three previous incidents, other burglary in March 2006, PO attempted robbery in April 2010 and a retail armed robbery in April 2014.
Supply Chain				
Belle Vale SPSO, 125 Belle Vale Road, Liverpool L25 2PE	£25,000	Fri 04/07/2014. Crew member was in the PO when 2 male assailants jumped over a wall and ran in to the PO. The Crew member was pushed to the floor and the cross pavement protection box snatched. Crew member bruised by the fall.	Bruising	

POST OFFICE LIMITED BOARD

Sealings 10 July 2014 – 17 September 2014 inclusive

Register of Sealings

The Directors are invited to consider the seal register and approve the affixing of the Common Seal of the Company to the documents set out against items numbered 1192 to 1222 inclusive in the seal register.

"The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1192 to 1222 inclusive in the seal register is hereby confirmed."

Alwen Lyons
Company Secretary
17 September 2014

POST OFFICE LIMITED

Date
17/09/2014

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1192	15/07/2014	14/07/2014	TR1 relating to 38 North Street Taunton TA1 1AB and land adjoining 38 North Street Taunton TA1 1AB between POL and Primeco Limited	Gill Catcheside	Jean Reynolds
1193	15/07/2014	14/07/2014	Deed of Settlement relating to 38 North Street, Taunton, TA1 1AB between POL and Primeco Limited	Gill Catcheside	Jean Reynolds
1194	15/07/2014	14/07/2014	TR1 relating to 12 Quay Street Haverfordwest Dyfed Wales SA61 1AA between POL and Primeco Limited	Gill Catcheside	Jean Reynolds
1195	15/07/2014	14/07/2014	Deed of Settlement relating to 12 Quay Street, Haverford West, Dyfed, SA61 1AA between POL and Primeco Limited	Gill Catcheside	Jean Reynolds
1196	15/07/2014	14/07/2014	TR1 relating to land on the south side of St. Loyes Street, Bedford now known as 2 Dane Street, Bedford, MK40 1AB between POL and Primeco Limited	Gill Catcheside	Jean Reynolds
1197	15/07/2014	14/07/2014	Deed of Settlement relating to 2 Dane Street, Bedford, MK40 1AB between POL and Primeco Limited	Gill Catcheside	Jean Reynolds
1198	16/07/2014	16/07/2014	Deed of variation of fulfilment service contract between POL and Bank of Ireland (UK) plc	Alwen Lyons	John Willcock
1199	21/07/2014	20/07/2014	Deed of settlement relating to 9 Bridge Street, Newport, Gwent, between POL and Peter John Welborn and Elaine Miriam Tooke of c/o Knight Frank LLP, 55 Baker Street, London, W1U 8AN for and on behalf of the landlords, Hatton Park Properties 1 Limited and Hatton Park Properties 2 Limited both in administration	Alwen Lyons	Jean Reynolds
1200	23/07/2014	21/07/2014	Licence to carry out works relating to Units 51-53 Bennett Precinct, Longton Exchange, Longton between Cougar (Longton) Limited in liquidation acting by the Receivers and POL	Gill Catcheside	Jean Reynolds
1201	25/07/2014	25/07/2014	Licence to carry out works relating to Post Office Ground Floor, 15 Carfax, Horsham, West Sussex, RH12 1ER between Bernard John Mullen and POL	Alwen Lyons	Jean Reynolds
1202	29/07/2014	25/07/2014	Counterpart Licence to Underlet relating to 30 Rectory	Alwen Lyons	Jean Reynolds

POST OFFICE LIMITED

Register of Sealings

Date
17/09/2014

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			Grove, Leigh on Sea, Essex, SS9 2HE between RSJ Finance Company Limited, POL and Matthew Fillary		
1203	29/07/2014	25/07/2014	Underlease of premises at 30 Rectory Grove, Leigh on Sea, Essex, SS9 2HE between POL and Matthew Fillary	Alwen Lyons	Jean Reynolds
1204	29/07/2014	25/07/2014	Rent Deposit Deed relating to premises at 30 Rectory Grove, Leigh on Sea, Essex, SS9 2HE	Alwen Lyons	Jean Reynolds
1205	30/07/2014	30/07/2014	Licence to assign premises at The Post Office forming part of the premises known as Cheadle MSPO, 2 Rectory Gardens, Cheadle, SK8 1BY between POL, Alan White and Andrew Phipson	Alwen Lyons	Jean Reynolds
1206	30/07/2014	30/07/2014	Rent Deposit Deed relating to premises at The Post Office forming part of the premises known as Cheadle MSPO, 2 Old Rectory Gardens, Cheadle, SK8 1BY between POL and Andrew Phipson	Alwen Lyons	Jean Reynolds
1207	01/08/2014	01/08/2014	Licence to make alterations relating to premises known as 101 East Street, Sudbury, Suffolk between Joyfax Properties Limited and Post Office Limited	Alwen Lyons	Jean Reynolds
1208	11/08/2014	08/08/2014	Sub-Under Lease between Ritchie Investments Lux SARL and POL relating to U% and U6, Princes Mall Shopping Centre, 3 Waverley Bridge, Edinburgh	Alwen Lyons	Jean Reynolds
1209	11/08/2014	08/08/2014	Lease of Ground Floor and First Floor premises at 3 Henley Street, Stratford upon Avon, Warwickshire, CV37 6PT between POL and Toni and Guy North Limited	Alwen Lyons	Jean Reynolds
1210	13/08/2014	12/08/2014	Counterpart deed of variation relating to Lease of Units 3,4 and 5 Cassaton House, 45-48 Fawcett Street, Sunderland between Halcyon Property Holdings Limited and POL	Alwen Lyons	Jean Reynolds
1211	13/08/2014	12/08/2014	Licence for alterations relating to the Post Office branch being part of 67, 69 & 71 Victoria, Grimsby, between Corncrake Properties Limited, Argos Limited and POL	Alwen Lyons	Jean Reynolds
1212	14/08/2014	14/08/2014	Lease by reference for premises at 79 Hampstead High Street, London, NW3 1QL between POL and Seraphine	Alwen Lyons	Jean Reynolds

POST OFFICE LIMITED

Date
17/09/2014

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
			Limited		
1213	18/08/2014	15/08/2014	Licence to Occupy relating to the branch forming part of the premises known as Whitechapel DO/MSP/IND/OFF, 206 Whitechapel Road, London, E1 1AA between Royal Mail Estates Limited and POL	Alwen Lyons	Jean Reynolds
1214	29/08/2014	29/08/2014	Escrow agreement between Royal Mail Group Limited, POL and BNP Paribas	Alwen Lyons	Jean Reynolds
1215	08/09/2014	08/09/2014	Tenancy at Will of premises at Great Portland Street, London between Post Office Limited and LRK Associates (London) Limited	Piero D'Agostino	Jean Reynolds
1216	08/09/2014	08/09/2014	Licence to occupy and carry out works at Andover DO/CO, 32 Bridge Street, Andover SP10 1AA between Royal Mail Estates Limited and Post Office Limited.	Piero D'Agostino	To Jean Reynolds
1217	08/09/2014	08/09/2014	Lease relating to The Post Office and The Market Hall Building, Market Place, Wells, Somerset BA5 2RA between Wells City Council and Post Office Limited.	Piero D'Agostino	To Jean Reynolds
1219	11/09/2014	11/09/2014	Agreement for the Provision of Goods and Services relating to Soft FM Services - Lot 1 between Post Office Limited and Servest Group Limited.	Gill Catcheside	Jacqueline Scott
1220	11/09/2014	11/09/2014	Agreement for the provision of Services relating to FM Catering Services - Lot 4 between Post Office Limited and Servest Group Limited	Gill Catcheside	Jacqueline Scott
1221	15/09/2014	15/09/2014	Licence for alterations relating to premises at 33 High Street, Shepperton, TW17 9AB between Cisto Limited, POL and Tom O'Connor	Piero D'Agostino	Jean Reynolds
1222	15/09/2014	15/09/2014	Agreement for the provision of goods and services relating to Hard FM Services - Lot 2 between Post Office Limited and Norland Managed Services Limited	Piero D'Agostino	Jacqueline Scott

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POST OFFICE LTD BOARD MEETING

Delegating authority for software licence purchases – September 2014

1. Purpose

The purpose of this paper is to:

1.1 Request approval for the Board to delegate its authority to approve software licence purchases and associated support contracts containing uncapped liability to a group consisting of the CFO (Chris Day), General Counsel (Chris Aujard) and CIO (Lesley Sewell).

1.2 Software licence agreements and associated support contracts will be signed by an authorised signatory under the 'Post Office Procurement Delegated Authorities' once the contract has been approved by the CFO, CIO and General Counsel.

2. Background

2.1 The Board has delegated their authority to enter contractual commitments on its behalf. This process is managed via the contract approval procedures and the Contract Approval Form ("CAF").

2.2 Any contracts with unlimited liabilities for Post Office must be approved by the Post Office Limited Board.

2.3 It is standard industry practice for software agreements for "off the shelf" proprietary products from large software vendors, such as Microsoft and SAP, to contain uncapped liability clauses. Negotiation options with these suppliers are limited.

2.4 Requesting Board approval for each licence agreement with an uncapped liability will burden the Board and add limited value, as these are market standard positions. This will also add time to the process of getting the relevant licences in place.

2.5 Delays in seeking Board approval may result in cost increases if negotiated discounts are time boxed by vendors.

2.6 In separating the software licence estate from Royal Mail Group, there is a large number of "off the shelf" software licences that will need to be signed in the name of Post Office Limited. There are 62 known software vendors whose products are in use and new licence agreements will need to be signed.

2.7 This recommendation will result in software licence agreements being added to the current list[1] of market standard, uncapped liabilities that have been delegated for approval, as documented in the guideline document that accompanies the CAF.

3. Activities/Current Situation

3.1 Negotiations are currently underway and nearing completion with the large vendors such as Microsoft, Oracle, SAP and Adobe. Each of their contracts contains, or will contain either an uncapped liability clause or the contract will be silent as to any cap on Post Office's liability.

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[1] *Category B Contractual Liabilities as documented in the Delegated Authority Guidelines.*

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4. Proposal

4.1 All agreed licence terms and associated support contracts with software vendors are:

- reviewed by internal and/or external legal counsel
- approved by Post Office Limited CIO, CFO and General Legal Counsel through the signing of a CAF (including countersignature by Company Secretariat)
- signed by an authorised signatory within Post Office Procurement

4.2 Copies of the agreement(s) and CAF will be kept by Company Secretariat and a summary of the contract(s) signed through this route are sent to Board for noting.

5. Commercial Impact/Costs

5.1 There is limited commercial impact in delegation of authority. In many instances Post Office are already using these products through Royal Mail agreements.

6. Key Risks/Mitigation

6.1 There is a contractual risk that the delegated EXCO members may approve uncapped liability positions that the Board would view as an unacceptable risk profile. This is a controlled risk, mitigated through the need to secure the approval of three nominated EXCO members and reported retrospectively to the Board.

7. Long term considerations

7.1 Software Asset Management will be implemented and managed via Atos as part of the transition to the IT Towers. This will allow Post Office to optimise the use of these assets and minimise risk of future liabilities arising from unlicensed software.

8. Communications Impact

8.1 There are no communication impacts beyond the IT procurement team who are already aware of this proposal.

9. Conclusion

9.1 Delegated authority to approve software licence agreements containing uncapped liability will not introduce any new material risks to Post Office Limited.

10. Recommendations

The Board is asked to approve:

10.1 A request to delegate authority to sign software licence agreements containing uncapped liabilities to the CIO, CFO and General Counsel.

Chris Day/Chris Aujard/Lesley Sewell
16th September 2014

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POST OFFICE LTD BOARD

Authentication of the Post Office Limited Company Seal

1. Purpose

The purpose of this paper is to seek the Board's approval to revise those persons with delegated authority to authenticate the fixing of the Company's seal.

2. Current Situation

2.1 The company seal is principally used to execute documents as deeds (most commonly property documents). The Board receives and confirms the list of documents executed by the company seal at each Board meeting.

2.2 On 31 October 2013 the Board approved that the affixing of the company seal may be authenticated by any one of the following: a current Director of the Company; the Company Secretary; the Assistant Company Secretary; the General Counsel; and Piero D'Agostino.

3. Proposal

In light of changes to the Business and to meet the Business' needs going forward, it is requested that the Assistant Company Secretary is removed from the list of persons authorised to authenticate the company seal and that the Deputy Company Secretary is added.

4. Recommendations

The Board is asked to approve that the affixing of the company seal may be authenticated by any one of the following: a current Director of the Company; the Company Secretary; the Deputy Company Secretary; the General Counsel; and Piero D'Agostino.

Alwen Lyons
Company Secretary
September 2014