

Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)**Meeting to be held at 8.45am on 30th April 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.

The meeting will be preceded by a Board photograph from 8.45am in the café area.

- | | | | |
|------|----|---|--|
| 0930 | 1 | Project Titan
Discussion on the approach to the lunch with Bank of Ireland | Nick Kennett/ Chris
Aujard |
| 1030 | 2 | Annual Report – Overall Approach | Chris Day/Mark
Davies/Sarah Hall |
| 1110 | 3 | Milestones to Mutualisation | Mark Davies |
| 1130 | 4 | Commercial Update – the Year Ahead (including a break):
<ul style="list-style-type: none"> • Mails • FS • Government • Home Services/Telephony | Martin George/ Nick
Kennett/
Kevin Gilliland |
| 1230 | | LUNCH to be joined by Des Crowley, Christopher Fisher & Richie Boucher, Bank of Ireland, and Nick Kennett | |
| 1330 | 5 | Network:
<ul style="list-style-type: none"> • NT Update • Crowns (including target exit run rate) • Access Points | Kevin Gilliland/Martin
George |
| 1400 | 6 | Horizon – Deloitte Report | Lesley Sewell/Chris
Aujard |
| 1430 | 7 | Chief Executive's Report | Paula Vennells |
| 1450 | 8 | Financial Performance Update | Chris Day |
| 1510 | 9 | Minutes of Previous Meeting and matters arising
Committee Minutes for noting
Status report update
Board Sub Committee updates | Alice Perkins

Sub Committee
Chairmen |
| 1530 | 10 | <u>Items for Noting</u>
<ul style="list-style-type: none"> • Separation Update • Head office relocation update • Analysis of the Post Office relationship with the Co-operative Group • Financial Services Sub-brand • Significant Litigation Report • Health and Safety Report • Cyber/Information Security Update • Sealings | Alwen Lyons |
| 1545 | 11 | Any other business

Date of next meeting: 21 st May 2014 | |
| 1600 | | CLOSE | |

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POST OFFICE LIMITED BOARD**Transforming the Insurance operating model - Project Titan****1. Purpose**

- 1.1. This paper updates the Board on the insurance transformation program. It follows papers supported by the Board in March and July 2013¹ which set out *inter alia* the insurance strategy, and a specific paper tabled to the Financial Services Committee (Committee) in April 2014.
- 1.2. At the April Committee meeting, members requested that, due to the nature of the proposal, the material be brought to the full Board. They also asked that further details be provided of the application process and implications of establishing a subsidiary which would be authorised by the Financial Conduct Authority (FCA).
- 1.3. The paper is tabled for noting and also seeks support to proceed to establish the MGA as a subsidiary as set out in Section 11 below.

2. Background

- 2.1. The insurance transformation program is targeted to increase Post Office's gross income from insurance activities from £18 million in 2013/14 to £138 million in 2020 and net income of £86 million. The core components of the change as set out in the July 2013 paper will be delivered in three discrete phases.
- 2.2. *Stage 1* - Project Titan: Post Office assumes greater involvement in, and concomitant value from, the business value chain. In particular Post Office will establish a specialist subsidiary (a Managing General Agent or MGA) that will direct and manage the interface between the customer and product delivery. Titan specifically focuses on developing this capability for Post Office's travel insurance business, providing the structure for other insurance products thereafter. It is due to deliver by January 2015.
- 2.3. The project will give Post Office the capability and structure to run a specialist broker business, delivering:
 - Direct control of customer management, policy conditions and pricing;
 - A structure to negotiate tailored agreements with underwriters;
 - A share in underwriting profits without taking underwriting risk; and
 - In time the MGA could take on risk through its own lines of business.
- 2.4. *Stage 2* (Hawk) is the acquisition of the Bank of Ireland (UK) plc (BoI) interests in insurance; the Eagle buy-option is available for two years from September 2014, although management is considering seeking to instigate this earlier.
- 2.5. *Stage 3* is the removal of Junction broker relationship.

3. Target Operating Model (TOM), Role and Structure of an MGA

- 3.1. To deliver the new structure, the project has completed four initial work streams to:
 - Extend the existing travel insurance arrangements with Aon to January 2015 to ensure customer continuity and protect revenues;
 - Build the new target operating model including the MGA operating model;
 - Understand the requirements, processes and timings that the MGA will need to meet regulatory requirements; and

¹ See papers POLB Papers FS Strategy 2020, 20 March 2013 Board Meeting and Financial Services Strategy Update, 16 July 2013 Board Meeting

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- Gain approval for an updated business case from POLIC in April 2014.
- 3.2. The project team has worked with four specialist consulting firms² to confirm the appropriateness and suitability of the strategy, assess the business model and assist build the detailed operating model. This work has confirmed that the proposed approach follows established market practice, and in particular that an MGA would enable the Post Office to develop a significant value (income and asset) within low risk parameters.
- 3.3. The design envisages that the MGA would carry out the following roles:
- Designing product, sourcing product capacity, managing underwriter relationships and ensuring products are managed in accordance with regulatory review frameworks. The new business will initially purchase certain services on commercial terms from Post Office (including people and systems, facilities, HR and finance) whilst a transition plan is implemented to create an independent organisation;
 - Administering products, through an outsourced contact centre, claims management (up to FNOL³) and quote and sales processes; and
 - Performing regulatory and financial management.
- 3.4. To deliver these functions and fully capture the target value, the MGA would:
- Be a Post Office subsidiary authorised by the FCA to conduct its business⁴;
 - Operate as a low cost, commercial organisation outside the constraints of a public body (including procurement). To support this, the project team recommends that Post Office provide the MGA a commercial-rate loan to cover initial project costs and working capital;
 - Be a lean and small organisation with a separate board and decision authority;
 - Hold the customer relationship with full marketing, brand and distribution rights agreed with Post Office, i.e. MGA acquires a brand licence from Post Office and in turn provides marketing and distribution rights to the Post Office;
 - Operate under a brand licence from Post Office, ensuring that it operates in accordance with the brand values of, and to the brand standards established by, the Post Office; and
 - Create an asset to Post Office that, based upon current market valuations, could be worth c£500m by 2020⁵, providing strategic options for Post Office.
- 3.5. The project team also recommended that the MGA Board comprises four directors - two Post Office executives and two NED's one from the Post Office Board (chair) and one independent with specialist market expertise. The latter is an important component of providing comfort to the FCA of the competence of the MGA Board.
- 3.6. The MGA will also be supported by Customer & Conduct Risk and Product Committees that will drive the business.

4. MGA regulation

- 4.1. As an insurance broker, an MGA requires authorisation from the FCA to conduct its business. The authorisation permissions will broadly cover:

² Peachtree (TOM and Program Management), Thistle (FCA authorisation and structure), Miller/Aon (Operating model)

³ First Notice of Loss – registering the customers claim and then passing through to underwriters to manage

⁴ If the MGA were run as a division within Post Office, rather than a subsidiary, Post Office would need to be authorised, which would be almost impossible due, in particular, to the inability to separate insurance and non-insurance risks.

⁵ Estimated ebitda of £70m, with valuation multiples of 8x (market currently pays between 8-10x)

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- Product design and management of insurance contracts;
 - Binding contracts of insurance to arrange insurance contracts within pre-determined parameters;
 - Marketing/selling of insurance products to consumers;
 - Arranging contracts of insurance on behalf of an insurer/underwriters;
 - Collection of insurance premiums from customers; and
 - Taking a margin and paying underwriters.
- 4.2. The MGA will not need permission to handle client money and so would not need to comply with the FCA's detailed rules in relation to client money.
- 4.3. This form of arrangement is standard in the insurance industry and consistent with the approach of a number of non-insurance businesses such as Saga, the AA and Age Concern for their insurance businesses.

5. Gaining FCA authorisation

- 5.1. In order to undertake regulated activities in the UK, the MGA will need to meet the FCA's threshold conditions, including confirming:
- The business model and location of offices;
 - That appropriate and suitable resources are deployed to run the business;
 - That effective supervision is in place; and
 - That the business is run and managed by individuals deemed 'Fit and Proper' by the FCA⁶.
- 5.2. The key submission in the application is the Business Plan, which must set out:
- Objectives, financial model, market analysis and target clients of the MGA;
 - Its governance, ethics and culture and compliance and financial structures, including systems, controls and financial reporting;
 - Key personnel (board, executives and senior management); and
 - "Conduct" risk processes (eg TCF, complaint handling etc).
- 5.3. The MGA will also need to have in place appropriate systems and controls to ensure on-going compliance with the FCA's rules and the terms of its delegated underwriting agreements with underwriters.
- 5.4. Significant progress has been made to complete these documents (with support from Post Office Legal), with completion on track in June.
- 5.5. The program will need to establish the regulatory model between the MGA and Post Office, with two options being considered:
- Option 1 - Post Office to become the Appointed Representative ("AR") of the MGA for selling and marketing travel insurance.
 - Option 2 - Post Office to remain the AR of Bol, as today
 - For either option, Post Office will need to reach agreement with Bol, given the wider relationship and the on-going position of Post Office as the AR for other regulated financial services products.
- 5.6. The conclusion of this matter will be brought to the Committee in June.

⁶ Prior to submission it will be necessary to complete a check on individuals that are candidates to become FCA Approved Persons to ensure that they pass fit and proper tests.

Confidential**6. Establishing the MGA as a Post Office subsidiary**

- 6.1. It is proposed to use an existing dormant company, Post Office Managed Services Ltd ("POMS"), to create the MGA's legal entity. POMS has not traded since it was formed in March 2013 and Post Office Finance has confirmed that there is no current intention to utilise POMS for any activities.
- 6.2. Subject to Board approval to proceed, the purpose of POMS will need change to that of an insurance broker, requiring a change to its articles of association⁷.
- 6.3. The project team is:
- Liaising with Company Secretary's to confirm the necessary process; and
 - Working with Finance to define the financial structure of POMS, including, initial funding by Post Office and optimum taxation structure.
- 6.4. It is critical that the relationship between Post Office and POMS is clearly set out, from a commercial, legal and regulatory position. This will be established through a series of intra-company contracts:
- As POMS will be a regulated company it will need to ensure that it has suppliers (eg Post Office) that meet the service standards and certainty of supply necessary for it to meet its regulatory obligations;
 - It is essential that POMS operates as a regulated business without undue influence from its non-regulated parent (Post Office). As part of the application process, Post Office will submit an "owner and influences" form to confirm that it is "fit and proper" and that it will not unduly influence the subsidiary⁸.
- 6.5. The intra-company agreements will need to cover:
- A parent-subsidiary agreement for funding and financial and management reporting.
 - A commercial service-provision agreement between Post Office and POMS, which is likely to include:
 - Financial systems and IT support and shared services (e.g., HR, security, property, finance).
 - Staff - POMS resourcing will need to be established and supported by either a seconded management team or a formal transfer of staff. The programme team will work with HR to create the most effective solution.
 - Intermediary commissions agreement between POMS and Post Office.
- 6.6. The project team and POL Legal are finalising the appropriate processes to conclude these agreements as effective "hands-off" commercial contracts.
- 6.7. As a regulated entity, the MGA will require a minimum level of regulatory capital. As the MGA will not hold client money, this would be at the level of 2.5 percent of the MGA's annual income. It will be a condition of FCA authorisation that sufficient capital is provided to the MGA to meet this requirement.

7. Regulatory and brand risk

Establishing POMS as an MGA will not result in Post Office becoming regulated by the FCA. However, this proposal does involve some additional administrative requirements on the Post Office:

⁷ It will also require notification to, and confirmation from, the Shareholder that it does not object.

⁸ If Post Office were found to be exercising "significant influence" over the activities of POMS then it could be regarded as unlawfully acting as approved persons without prior FCA approval. It is therefore important that POMS is operationally independent from other Post Office group companies.

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- Post Office will own a regulated firm for the first time. It will need to take an interest in the performance and regulatory compliance of its investment, including oversight from Group Compliance & Risk and Internal Audit;
 - As the MGA's infrastructure is likely to be provided by Post Office (albeit on an 'arm's length' basis as above), the regulator will be concerned to ensure that the capabilities and services provided are appropriate and fit for purpose;
 - Whilst Post Office owns 100 percent, as a separate legal entity, POMS will legally be solely responsible for its liabilities⁹;
 - POMS will be liable to the FCA for any regulatory breaches (and any fines);
 - Directors/senior managers of POMS who are approved persons could also incur personal liability. This contrasts with the current arrangements where regulatory risk resides with Bol (subject to Eagle liabilities agreements); and
 - Post Office's AR responsibilities and obligations do not change. (However, if Post Office is an AR of POMS, POMS takes regulatory responsibility for the acts and omissions of Post Office in relation to the regulated activities it carries out in that capacity. POMS would therefore need to ensure it had systems and controls in place to supervise Post Office effectively.)
- 7.2. The project team also believe that there is limited additional brand risk to Post Office from establishing the MGA for insurance services. The MGA will utilise underwriters of a similar quality and standing as those contracted today.

8. Key activities and governance

- 8.1. The programme team has created a comprehensive project plan to enable a complete application to be submitted to FCA in June 2014, including necessary company and stakeholder approvals and legal sign-off
- 8.2. An indicative timetable is set out below. This is realistic, but has little contingency:

KEY ACTIVITY	APPROVING BODY	TARGET DATE
POMS name and structure	ExCo	Early May 2014
AR status defined	ExCo	Early May 2014
AR approach	Bank of Ireland	Mid/late May 2014
Business Plan completed - Reviewed by Legal, Risk, HR and Finance	ExCo	Mid/late May 2014
Engagement with BIS on change of status of POMS	ShEx	Late May 2014
POMS Board and senior management team confirmed	ExCo	End May 2014
Commercial agreements & SLAs; drafted with Procurement and Legal	ExCo	End May 2014
FCA application	Post Office Board Financial Services Committee	Early June 2014
Submit FCA application ¹⁰	n/a	June 2014
Target launch of MGA		January 2015

⁹ The project team is proposing that the MGA does not have a guarantee from the Post Office, although it is unlikely that the Post Office would allow a subsidiary to fail.

¹⁰ The authorisation process takes up to six months but more typically is concluded within three-four months.

Confidential**9. Business case update and implication on other Post Office programs**

- 9.1. On 8th April 2014 POLIC approved an updated business case and project funding for 2014. The business case estimates an NPV of £27.3 million, IRR of 75% and payback after three years.
- 9.2. The update also confirmed that completing Titan has minimal impact on other strategic Post Office projects. The only anticipated reliance is on Horizon, which will be managed through a web service, and on Common Digital Platform; the project will support the single customer log-in initiative. There is no impact on Crown or Network Transformation.

10. Risks and Mitigation

- 10.1. The MGA places no regulatory risk on Post Office as the owner, with the MGA (and its board) being responsible for regulated compliance. Post Office's obligations to the FCA will consist of being a controller and having to notify the FCA of any changes in shareholder control of the MGA and/or of the Post Office itself.
- 10.2. FCA approval is not received within the target six month plan:
Mitigation - Thistle Initiatives, a firm specialising in FCA regulation, is providing support to establish a fit-for-purpose submission backed by best practice in regulatory oversight models. Furthermore Thistle can provide a principal status for the MGA, if required.
- 10.3. MGA fails to operate in compliant manner post-authorisation:
Mitigation – Using Thistle as the interim external compliance team ensures the transition into a regulated environment is managed closely. Thistle will assist in “bedding in” the MGA, including compliance and risk management.
- 10.4. Failure of the operating model to deliver the anticipated results and improved commerciality of the insurance business:
Mitigation – the MGA model has been subject to multiple reviews by Miller Insurance (Post Office's specialist insurance advisor), Aon and Peachtree; all believe the proposed model will deliver significant value to the Post Office. Operating this model for Travel Insurance first, enables it to be proven before further investment or significant business change occurs:
- 10.5. The revised budget and resources are insufficient to conclude the program.
Mitigation - Peachtree has reviewed the project plan and costs and has a high degree of confidence that all required activities are included.

11. Next steps and recommendation

- 11.1. The Board is asked to note the developments in the Titan project and give approval for management to:
- Utilise POMS to be the Post Office MGA;
 - Appoint directors to POMS, including identifying a specialist independent director (appointments would be brought to the Committee for agreement);
 - Proceed to complete the documentation for FCA authorisation for POMS;
 - Authorise management to transfer sufficient funds to POMS to enable it to complete the application process, as approved by Post Office Finance Committee; and
 - Conclude services agreements between POMS and Post Office and between POMS and third party suppliers, as required.

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- 11.2. In addition, the project seeks Board approval to authorise the Committee to review and give support (or otherwise) to the authorisation application, prior to submission.

**Nicholas Kennett,
Director, Financial Services**

**Chris Aujard
General Counsel**

April 2014

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POST OFFICE LTD BOARD

Publication of our Annual Report and Financial Statements**1. Background and Purpose**

- 1.1 The purpose of this paper is to set out plans for publication of the Post Office's Annual Report and Financial Statements for the financial year 2013-14. It deals with key messages and the overall suggested tone of the document and seeks Board agreement to this approach. It also proposes a timeline for clearance of the report and sets out proposals for the style and promotion of its publication.

2. Tone and key messages

- 2.1 The messages in the Report and Accounts will align with the key themes and messages detailed in our Strategy 2020 communications.
- 2.2 The theme 'Heart of the Community' is being used to create a strong narrative thread throughout the report, lead the design agency brief and shape the style of photography used throughout the report.
- 2.3 The report will follow the structure established in 2012-13, enabling a reader to follow the progress of the journey through a consistent layout and style. This format was well regarded, winning the Annual Report (public sector) category of the 2014 Business Finance Awards. A high level outline of the structure is given at Annex 2.
- 2.4 The tone of the report should therefore be one of:
- clear purpose and direction with the Strategy 2020 and public purpose.
 - good progress on modernisation – pleasing progress within the Network Transformation Programme and Crown performance which has improved year on year, despite on-going IR challenges.
 - a tough year but a solid profit performance - notwithstanding the decline in our revenue performance, we have delivered a solid profit result which shows positive growth year on year through strong cost management.
 - laying foundations for the future – investment both through the major programmes and in improvements such as roll-out of mortgage specialists.

- 2.5 Although there is freedom to deliver the messages we wish to, there are constraints within which we must work. The 'front half' must be consistent with the content of the financial statements and the text should be 'fair, balanced and understandable' as it describes our performance. Premium listed companies (those required to meet the UK's highest standards of regulation and corporate governance) are required under the new Corporate Governance Code to make the following statement:

"The board confirms that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the company."

The Post Office is not required to make this statement but has aspired to act as a listed company so is following these principles. Further information on this new requirement will be provided for the May ARC and Board meetings.

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- 2.6 A précis of the key content of the Chairman's and Chief Executive's reports is attached at Annex 3 together with a first draft of the Chief Financial Officer's Financial Review to give early sight of the tone and messages.

3. Timeline

- 3.1 An outline of the timetable is given at Annex 1. The intention is for the Board to approve the Annual Report in late May and for publication from mid-June.

4. Publication and promotion

- 4.1 We plan to produce our second annual report to build on our maiden report for 2012-13. It will support our communications strategy to promote our business, its strategy and its products and services and to protect the reputation of the business.
- 4.2 We propose that the primary delivery of the report is an interactive online version, supported by a pdf version to download and limited numbers of paper copies for sending to key stakeholders and placing in reception.
- 4.3 A full PR and stakeholder plan is being developed around the report which will depend on final results and will be subject to change depending on IR, product developments and network transformation.

5. Recommendation

- 5.1 The Board is asked to:
- Note and agree the proposed theme, tone and key messages;
 - Review and provide comments by 30 April on the structure and draft content attached at Annexes 2 and 3;
 - Note the proposed timetable and approach;

Mark Davies and Chris Day

April 2014

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Annex 1

Timetable showing key dates and meetings

Date	Activity
30 April	Board meeting – review of tone, key messages and initial content of the front half of the Annual Report
7 May	Draft Annual Report and Financial Statements circulated to ARC, Board members and ShEx and RM (word document format)
12 May	ARC and Board feedback – review and provide comments on ‘words and design’ of the front half of the Annual Report and back half Financial Statements.
15 May	ARC meeting - review of updated ‘words and design’ of the front half of the Annual Report incorporating Board comments. Review of back half Financial Statements.
15 May	Draft Annual Report and Financial Statements circulated to Board incorporating previous Board feedback (in final design format)
21 May	Board Meeting – presentation of full Annual Report and Financial Statements and – to approve the financial statements and delegate authority (i) to the sub-committee to undertake any further detailed review, as needed; and (ii) to a sub-committee of the Board to give final approval for publication
Early June	Announcement expected from RM
Early June	Board Sub-Committee – to give final approval for publication
Mid June	Announce results (subject to alignment and discussion with Royal Mail)

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Annex 2

High Level Outline of Report and Accounts structure

Overview

Who we are – *The Post Office in numbers*
Chairman's Statement
Chief Executive's Review
Strategy Review – *a more detailed look at 2020 plans*

Operational review

Business in detail - *Business area updates (FS, Mails, Telecoms, Gov)*
Branch network - *Modernising the Post Office branch network (NTP and CTP updates, a modern IT infrastructure, technology in Post Office branches*
Customer excellence – *our performance, case studies*

Performance review

Our people - *supporting and progressing our people, case studies*
Corporate responsibility – *focus on supporting colleagues and communities*
Financial review - *Financial numbers with general explanation of movements*
Business risk – *key business risks and how they are managed.*

Directors and advisers – biographies/pictures

Governance – covering

- Compliance Statement, making reference to the UK Corporate Governance Code
- Development of Processes
- Roles of Chairman, Chief Executive and Non-Executives and attendance at meetings
- Governance and Committee Structures
- Mutualisation developments
- Risk management /internal control overview

Directors' Remuneration Report

Directors' report - covering

- Principal activity, business review and employee engagement/CSR (cross ref to review section above) and standard Directors' report content (dividend, donations etc)

Post Office Group consolidated Financial Statements and notes
Post Office company Financial Statements and notes

Annex 3

Chairman's Foreword

Laying foundations for the future

- 2013/14 was a tough year in both our traditional and newer markets.
- Despite this our business has moved forward by increasing the momentum behind the investment, modernisation and innovation that will secure its future.
- This can be shown by the pace of modernisation within our branch network. We have now transformed over 2,000 of our agency branches and almost a third of the Crown network. Over 1,000 branches are now trading on a Sunday and as a result of our transformation programmes, we have added an additional 50,000 opening hours per week.

Revenue challenge

- But our revenue has not grown as we would have wished.
- We have improved the efficiency of our operations and improved profitability before exceptional items.
- We are progressing towards becoming a commercially sustainable business with a much reduced reliance on government subsidy.

Funding and building our business for the future

- Securing the Future allows us to use our unrivalled branch network to develop our financial services offer, consolidate our position as the number one mails retailer, continue to be a key partner for Government in the delivery of services and enter new markets.
- We will complement our unrivalled physical presence across the UK with online accessibility and convenience delivering key products and outstanding customer service.
- We are undertaking the business transformation of the decade. This Annual Report and Financial Statements shows the latest steps and the increasing pace. It displays the innovation, energy and forward thinking of Post Office people and, most importantly, their commitment to securing the future of the Post Office for the benefit of the communities that it serves.

Chief Executive's Review

Financial position

- 2013/14 represented a solid profit performance from the Post Office with an increase of £14 million on 2012/13. This has been achieved against a backdrop of falling revenue and the subsequent strong cost control.
- Our year on year revenue has fallen by 4.5%, in mails, telecoms and government services but we have put in place the fundamentals which will allow us to build and open up new revenue streams in the future.
- We are fast becoming the 'challenger' brand in the financial services market with a widening product portfolio that now, critically, includes current account and mortgage offers.
- Through improvements to the running of our Crown branches, the operating loss for these offices has reduced this year by £11 million to £26 million.

Modernisation

- The 2013-14 financial year saw the number of transformed branches exceed 2,000 delivering longer opening hours and brighter retail environments.
- These branches show our customers, subpostmasters and colleagues the continued commitment of this business to be at the heart of their communities, connecting people and providing access to key services into the future.
- But the maintenance and development of our physical network is just part of how the Post Office is developing as a business. We have an increased presence online, and we are investing in technology to ensure that we are easy to do business with. We are changing the way we work and we are listening to our people to ensure we continue to improve.
- Commercially, this has been a challenging year for us but I believe that we have met those challenges head on. We have accelerated our change and have continued to put in place the building blocks upon which our onward journey of transformation can be soundly based.

- Modernised branches and longer opening hours allow us to support the growth of new, innovative products. With Royal Mail we have announced the launch of the UK's largest Click & Collect network which will provide a greater choice of convenient parcel delivery options for online retailers and their customers.
- Over 21,000 small businesses have signed up for our Drop and Go service – allowing them to bring their packages into the Post Office and we do all the pricing /postage work, simply billing the firm on account – increasing efficiency and convenience for all concerned.
- The modernisation of the Post Office means more than simply enhancing our physical branch infrastructure. Investment in our mobile website, a Travel Money Card app and the next generation of Post and Go machines are just three examples of how we are creating a modern and dynamic Post Office.

Mutual ways of working

- We continue to develop new ways of working and engagement with our people and stakeholders. The Post Office has launched business and branch user forums, a branch improvement programme and the Post Office Advisory Council over the past 12 months. These bodies and schemes initiatives will all help us to learn as we develop our approach to work in a way which meets the challenge of mutual ways of working.

Concluding remarks

- But it is the progress and commitment to securing the future that is the most important result of the last year. The Post Office is a unique organisation with a unique role in national life. We will continue the drive for the change that will ensure it is both vibrant and secure into the future for the communities it serves.

Annex 3 (continued) Draft and in confidence**The Post Office**

2013/14 Annual Report and Accounts

Financial Review**Paving the way towards financial sustainability****Summary results**

The Post Office has faced a challenging year with decreases in turnover in each of the core product pillars. Despite this, operating cost savings have resulted in the operating profit before exceptional items increasing by £14 million to £108 million. The costs of transformational change in the year were significant as the network modernisation accelerated.

Profit and Loss Summary

	2014 £m	2013 £m	Variance £m	Variance %
Turnover	979	1,024	(45)	(4.4)
Network Subsidy Payment	200	210	(10)	(4.8)
Revenue	1,179	1,234	(55)	(4.5)
People costs	(254)	(259)	5	1.9
Other operating costs	(850)	(913)	63	6.9
Total costs	(1,104)	(1,172)	68	5.8
Share of profit from joint ventures and associates	33	32	1	3.1
Operating profit before exceptional items	108	94	14	14.9

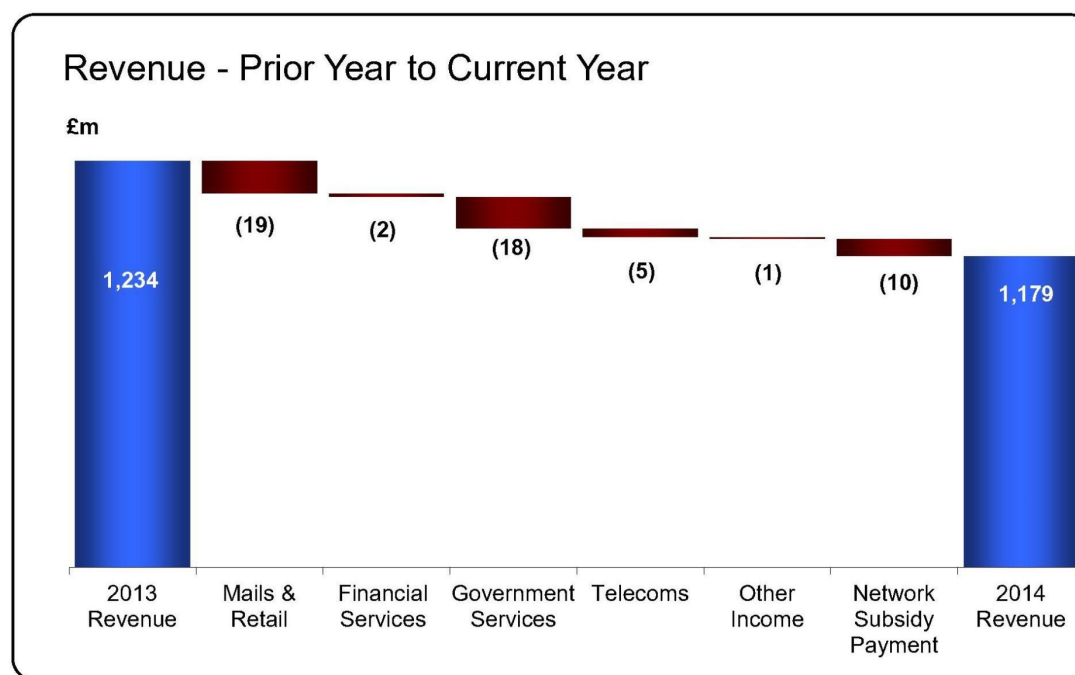
Revenue

The Post Office's revenue decreased by £55 million (4.5%) to £1,179 million including a decrease of £10 million in the Network Subsidy Payment from the government. The Post Office segments income into four pillars; Mails & Retail, Financial Services, Government Services and Telecoms. The pillars and their performance are detailed below:

	2014 £m	2013 £m	Variance £m	Variance %
Mails & Retail	390	409	(19)	(4.6)
Financial Services	279	281	(2)	(0.7)
Government Services	146	164	(18)	(11.0)

Annex 3 (continued) Draft and in confidence

Telecoms	124	129	(5)	(3.9)
Other income	40	41	(1)	(2.4)
Turnover	979	1,024	(45)	(4.4)
Network Subsidy Payment	200	210	(10)	(4.8)
Revenue	1,179	1,234	(55)	(4.5)

**Mails & Retail**

The Mails and Retail pillar includes all the services provided for Royal Mail and Parcelforce. It also includes Lottery and retail services such as sales of collectibles as well as packaging and stationery.

Mails and Retail revenue of £390 million decreased by £19 million (2012: £409 million). Of this, turnover in relation to Royal Mail products decreased by £16 million, driven primarily by a reduction in consumer parcel volumes and lower stamp sales. In addition, retail turnover decreased by £2 million due to the one-off increase in the prior year for collectibles relating to the Diamond Jubilee and the Olympics memorabilia. Revenue from sales of lottery tickets declined marginally by £1m.

Financial Services

The Financial Services pillar includes Post Office branded personal financial services products, ATMs and travel services as well as traditional services such as bill payment and over-the-counter banking transactions.

Annex 3 (continued) Draft and in confidence

Financial Services revenue in 2014 decreased by £2 million to £279 million (2013: £281 million).

Through an agreement with its long-term banking partner, Bank of Ireland (UK) plc, the Post Office continues to offer an increasing range of transparent, value-for-money financial products and services.

Personal Finance Services revenue rose by £15 million (14.5%) driven by strong growth in savings commissions (particularly Growth Bonds, Reward Saver and ISAs), insurance and new mortgage products. Revenue from traditional financial services products including bill payment services, business banking services and Postal Orders declined. This was due to the increasing shift from paper-based to electronically delivered products and the increasing use of alternative payment methods. In addition, the cessation of the Department of Work and Pensions contract for cash cheques (Green Giros) and the continued migration of NS&I products through their own direct channel have resulted in revenue decline.

Government Services

The Government Services pillar covers services provided under contract to government departments. This includes services in relation to the work of the Department for Work and Pensions (DWP), the Driver and Vehicle Licensing Agency (DVLA), Her Majesty's Passport Office (HMPO) and UK Visas and Immigration (UKVI).

Government Services revenue of £146 million decreased by £18 million (2013 - £164 million). Revenue from the Passport Check & Send service increased by £2 million in line with the growth in the overall market. However, revenue from the DVLA for car tax and ten year licence renewals decreased by £14 million due to lower volumes and a lower fee per transaction under the new contract effective from 1 April 2013. Revenue from the payment of benefits through the Post Office Card Account was £6 million lower, impacted by customers continuing to migrate to receiving benefits through bank accounts.

Telecoms

The Telecoms pillar includes the Post Office HomePhone and Broadband services as well as e-top up services and phonecards.

Telecoms revenue of £124 million (2013 - £129 million) decreased by £5 million. During the year, the Homephone and Broadband service was transitioned to a new provider and experienced operational issues initially which both the provider and Post Office resolved as quickly as possible. The revenue from HomePhone and Broadband decreased by £4 million primarily due to a reduction in customer numbers driven by reduced sales and marketing activity following the transition to the new supplier. Revenue from e-top ups was £1 million below prior year as more customers moved away from pre-pay and mobile networks reduced their transaction fees. However, the Post Office continues to be a significant provider in the top-up market and its share of the retail market has been maintained at approximately 5%.

Annex 3 (continued) Draft and in confidence**Other income**

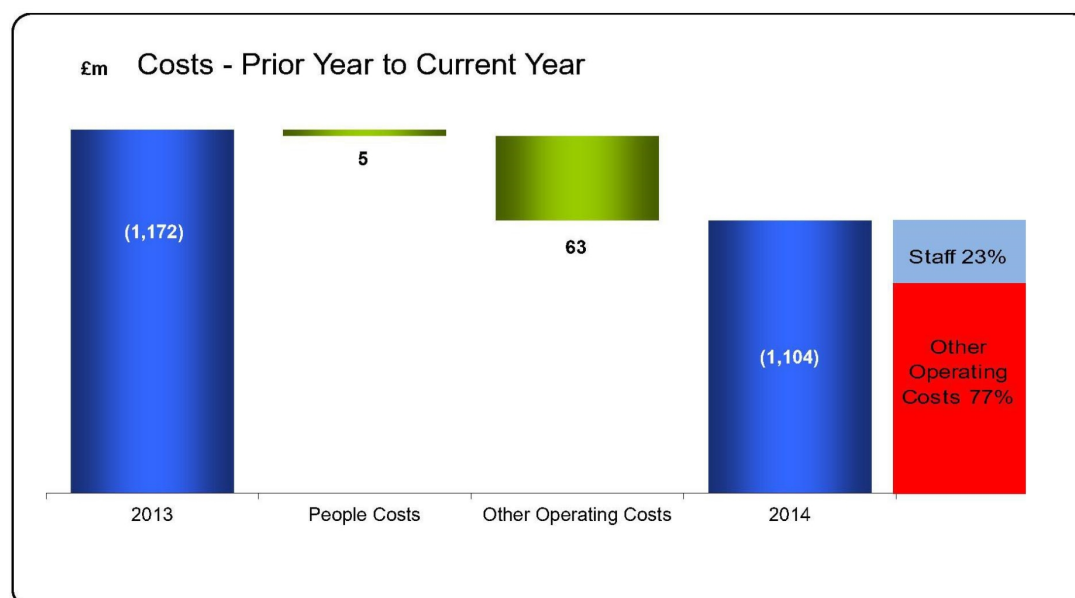
Other income is generated primarily from the Supply Chain business which manages and distributes cash for Post Offices and for third parties. It also offers warehousing services, mainly to Royal Mail. Other income decreased by £1 million to £40 million (2013: £41 million).

Network Subsidy Payment

The Network Subsidy Payment is government grant revenue towards the costs of maintaining the Post Office network. The payment decreased by £10 million in the year to £200 million; this will continue to reduce as set out in the current funding agreement with the government.

Costs

Total costs decreased by £68 million to £1,104 million (2013: £1,172 million).

**People costs**

People costs of £255 million (2013 - £259 million) decreased by £4 million reflecting efficiency savings, particularly in the Crown network, and lower performance-related bonuses, partly offset by some pay increases and higher pension costs.

Annex 3 (continued) Draft and in confidence**Other operating costs**

Other operating costs decreased by £63 million to £850 million (2013 - £913 million), driven largely by lower sales volumes resulting in lower subpostmasters' costs and cost of sales. There was also a decrease in investment in new products and services which had been particularly high during 2012-13.

Joint venture and associate

Share of operating profit from the joint venture (First Rate Exchange Services Limited) was £33 million, £1m higher than in 2013 when the result also included the associate (Midasgrange Ltd until its sale on 1 September 2012 (2013 - £32 million). First Rate Exchange Services Limited results improved mainly through delivering efficiencies in operating costs.

Exceptional Items

Exceptional items	2014 £m	2013 £m
Operating exceptional items:		
Restructuring costs including subpostmasters' compensation	(260)	(79)
Impairment of investment, property, plant and equipment	(114)	(66)
Amendment to the terms of RMPP	102	-
Government grant	317	98
Subtotal operating exceptional items	(45)	(47)
Non-operating exceptional items:		
Profit on disposal of property, plant and equipment	3	2
Loss on sale of associate	-	(30)
Net exceptional items	(42)	(75)

Restructuring costs

Restructuring costs include the costs of delivery of major change. Network transformation resulted in costs of £94 million for subpostmasters' compensation (2013: £12 million) and £107 million programme costs (2013: £40 million) with the increases in each reflecting the greater pace of transformation this year. Costs of £21 million relate to IT transformation (2013: £10 million) which will create the appropriate IT infrastructure for the future. Redundancy costs of £23 million were incurred during the year and mainly related to the Crown network (2013: £11 million). There were further business transformation payments charged in the year of £5 million (2013 - £4 million). Business transformation payments are payments that are periodically made to staff as an incentive in order to secure agreement for significant changes in working practices in order to improve business efficiency. In addition a gain of £102 million arose on the change to the terms of the Royal Mail Pension Plan (see page XX).

Annex 3 (continued) Draft and in confidence**Government Grant**

In addition to the Network Subsidy Payment to support the network, the Post Office also receives government grant funding towards the transformation programme. Government grant funding of £215 million was received in the year. The additional government grant funding is included within operating exceptional items to match the associated costs. £102 million of the 2012-13 grant also remained available for use in the year. The entire balance of £317 million of this government grant funding has been allocated (2013: £98 million) in accordance with the designation letters, dated 2 April 2012 and 27 March 2013, from the Department of Business, Innovation and Skills, to cover £114 million capital expenditure (2013: £66 million), £94 million network transformation related subpostmasters' compensation (2013: £12 million) and £109 million network and IT transformation programme costs (2013: £20 million).

Cash Flow and Net Debt

Post Office Limited operates a Treasury function and manages its own financial assets (including network cash) and financial liabilities (mainly government loans).

The Treasury function derives its authority from the Board and provides regular reports for Board review. It has the authority to undertake financial transactions relating to the management of the underlying business risks, however, it does not engage in speculative transactions and does not operate as a profit centre. The principal financial instruments utilised are deposits and borrowings.

The cash position of the business remains strong with cash and cash equivalents of £688 million (2013: £971 million). There was a net cash outflow during the year of £283 million (2013: inflow £151 million). The outflow was driven by the repayment of the opening loan balance of £291 million. Net debt (excluding cash in the Post Office network) decreased by £174 million year on year as shown in the table below:

	2014 £m
Net debt brought forward at 31 March 2013	(197)
Net cash inflow before financing activities (see page XX)	15
Add: Decrease in cash in the network included in net cash inflow	162
Finance costs paid	(3)
Total net debt carried forward at 30 March 2014	(23)

Post Office Limited's borrowing facility from the government and the associated Framework Agreement imposes constraints on the purposes for which the facility can be used and the availability of external borrowing. Post Office Limited's treasury policy is to minimise the amount drawn down on the loan in order to reduce its interest cost. The facility is limited to a maximum of £1.15 billion or the amount of security available (mainly network cash), whichever is the lower. The maximum drawn down under the facility during the year was

Annex 3 (continued) Draft and in confidence

£261 million on 19 and 20 December 2013 but there was no loan drawn down at 30 March 2014. The facility is available at two days' notice and has an end date of 31 March 2016.

Pensions

Post Office Limited is a participating employer within the Post Office Section of the Royal Mail Pension Plan (RMPP) and is a participating employer within the Royal Mail Defined Contribution Plan (RMDCP). Royal Mail Group Ltd is the principal employer of the Royal Mail Senior Executives' Pension Plan (RMSEPP) and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans.

On 1 April 2012 – after the granting of state aid by the European Commission on 21 March 2012 – almost all of the pension liabilities and pension assets of the Royal Mail Pension Plan (RMPP), built up until 31 March 2012, were transferred to HM Government. On this date, the RMPP was also sectionalised, with Royal Mail Group Ltd and Post Office Limited each responsible for their own sections in future. This pensions transfer left the RMPP fully funded on an actuarial basis in respect of historic liabilities at this date. During the year there was a consultation exercise with members of the defined benefit Royal Mail Pension Plan on proposed changes to the terms. These changes were agreed and implemented on 15 October 2013. The key change is to the definition of pensionable pay which broadly will increase in line with RPI (capped at 5%) in future regardless of actual pay growth. The changes resulted in a one-off exceptional gain of £102 million.

The balance sheet pension position moved from an asset of £97 million at March 2013 to an asset of £145 million at March 2014. The improvement in position is primarily due to the change in terms noted above offset by an actuarial loss mainly arising from lower than expected asset values.

Both defined benefit plans closed to new members in March 2008, and RMSEPP closed to future accrual on 31 December 2012. New employees are offered membership of the RMDCP.

Pension cash payments for all plans

The future funding of ongoing pension contributions into RMPP and deficit payments into RMSEPP was agreed with the respective pension trustees during the year and payments were made in accordance with the agreements.

	2014 £m	2013 £m
Regular pension contributions	(23)	(24)
Funding of the pension deficit – RMSEPP	(1)	(2)
Payments relating to redundancy	(1)	(2)
Net cash payments	(25)	(28)

Annex 3 (continued) Draft and in confidence

The regular future service contributions cash rate for RMPP expressed as a percentage of pensionable pay remained at 17.1% (2013 - 17.1%). The regular rate of employee contributions for the RMPP remains unchanged at 6%.

Events after the reporting period

In accordance with the funding agreement with government announced on 27 October 2010, for which State Aid approval was received on 28 March 2012, Post Office Limited received £330 million of funding on 1 April 2014.

Chris Day

Chief Financial Officer
Post Office Limited
XX June 2014

Boxout - to go near the beginning of the Financial Review**Key Financial Performance Indicators**

	2014	2013	Variance	Variance
	£m	£m	£m	%
Turnover	979	1,024	(46)	(4.4)
Operating profit before exceptional items	108	94	14	14.9
Operating loss before exceptional items and Network Subsidy Payment	(91)	(116)	25	21.6
Operating cashflow	15	151	(136)	(90.1)

Annex 3 (continued) Draft and in confidence**Business risk**

The information below details the key business risks, their impact and how the Post Office manages these risks.

Key risk	Impact	Mitigation
Changes in customer Preferences		
There is decline in the traditional Post Office income streams as customer preferences change. New income streams may fail to grow sufficiently to exceed the losses from traditional products in decline	The Post Office might not be able to reduce its reliance on government subsidy	We have introduced new services in growth areas and continue to refine and develop these product offerings. There is an active programme in place to deliver the growth trajectory. Progress is monitored rigorously and risks to the programme are actively managed.
Business transformation programmes		
We are managing a significant number of change programmes to modernise the Post Office and enable its processes to operate independently of those of Royal Mail Group. These include the network, Crown and IT transformation programmes. The success of the Post Office strategic plan depends on the successful realisation of benefits from these programmes.	Failure to implement the modernisation programme would leave the Post Office with an unsustainable cost base and a continued reliance on significant government subsidy.	There are detailed plans in place to manage the transformation and ensure it is delivered within budget and on time. The 2013/2014 objectives have been met. Delivery is tracked monthly by a Transformation Board made up of Executive Committee members which provides direction and oversight over the programmes' delivery.

Annex 3 (continued) Draft and in confidence

Engagement risk		
The support of our staff and subpostmasters and engagement with them during this significant time of change is key to the successful delivery of our strategy. Withdrawal or lack of support from our staff or subpostmasters in the network could cause delays in the Post Office transformation programmes and limit our ability to meet business objectives.	Lack of support from our staff and subpostmasters would jeopardise our ability to meet our strategic goals of growth, profitability and reduced reliance on government subsidy	We maintain a fluid and comprehensive engagement programme with unions, staff and subpostmasters. These include regular meetings with the National Federation of Subpostmasters (NFSP), the Communication Workers Union (CWU) and Unite; senior management briefings to staff and subpostmasters; and events to engage our people in our vision and strategy. We have a people plan aimed at addressing staff motivation and skill needs. This includes development of new leadership and reward frameworks and increased focus on recruitment and training.
Regulatory & compliance		
There is a risk of non-compliance with the changing regulatory environment. The Post Office operates under an extensive regulatory environment, including areas such as financial and postal services, procurement, competition law and data security.	Failure to comply with regulation could result in fines, adverse outcomes for our customers and significant damage to The Post Office brand.	Our legal and compliance team works closely with the relevant business owners in identifying new requirements and monitoring compliance against existing ones. Regular compliance tests are conducted across the entire branch network covering a broad range of regulatory requirements. The results are closely monitored and corrective action taken where required.

Annex 3 (continued) Draft and in confidence

Business Continuity		
<p>The Post Office has particular operational risks relating to disruption of its services. This includes adverse weather conditions, industrial action, systems breakdown and the failure of a critical supplier</p>	<p>Breakdowns in the network would reduce quality of service, increase costs and damage our reputation.</p>	<p>The Post Office brings together a wide range of business continuity arrangements throughout the company under one central policy and governance framework to ensure that the business is capable of withstanding any significant threat to its on-going operations. This includes contingency planning and training in the event of disruption such as industrial action or IT failure. Key suppliers' ability to continue to meet the Post Office's requirements is closely monitored.</p>

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POST OFFICE LTD BOARD

Milestones to mutualisation

1. Purpose

The purpose of this paper is to invite the Board to:

- 1.1 approve the publication of a document setting out the conditions which would need to be met to allow the opportunity to consider the mutualisation of Post Office Ltd;
- 1.2 approve the wording of the document as set out in ANNEX 2.

2. Background

- 2.1 In its 2010 policy document 'Securing the Post Office Network in the Digital Age', the Government made two key commitments on the long term ownership arrangements for the Post Office. Firstly it made clear that the Post Office would not be privatised. Secondly it set out an ambition to create the opportunity for Post Office Ltd to be mutualised (recognising that mutualisation would only be an option when the business is financially viable).
- 2.2 The Postal Services Act 2011 created the legal framework to create Post Office Ltd as a company separated from Royal Mail while it also enshrined in legislation the processes whereby Post Office Ltd could become a mutual.
- 2.3 Following a public consultation, Building a Mutual Post Office, launched in September 2011, and the Government's response in July 2012, Post Office Ltd established a Stakeholder Forum to help define the public purpose of the Post Office.
- 2.4 This purpose has now been defined and it is proposed that it is launched on in May 2014 (see final Purpose in ANNEX 1).
- 2.5 In our strategic plan, submitted to Government in November 2013, we committed to publishing a document in Q1 of 2014/15 setting out next steps towards mutualisation. Subject to Board approval we propose to publish this document alongside the purpose statement.

3. Activities/Current Situation

- 3.1 The document in ANNEX 2 has been agreed by ExCo and its approval is recommended to the Board. The announcement is proposed to take place ahead of the NFSP conference on 12 May.
- 3.2 The document underlines the ways in which the purpose definition and initiatives aim at delivering mutual ways of working are aligned with the milestones. It also seeks to achieve clarity about the core conditions which must be met in order to allow consideration of mutualisation, primarily the commercial sustainability of the business.

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- 3.3 The launch in May will be followed by a period of engagement with people across the business and network that will embed the Purpose in business decisions and actions.

4. Proposal

- 4.1 The document sets out four tests against which Post Office Ltd would measure progress towards creating the opportunity for a mutually owned business:

- Commercial sustainability must be achieved, building on the successful delivery of our new strategy. This will mean developing a business with a track record of revenue and profit growth and positive cashflow generation which is able to operate wholly independently.
- A clear funding relationship with Government will be defined and maintained, linked closely to Government policy for the post office network. Such funding will be materially lower than today and will provide the Post Office with improved long-term visibility as to its future.
- The purpose of the Post Office will need to be embedded in the approach to our stakeholders, employees and customers. The standards required by the purpose will need to be met, demonstrating our long-term commitment to this purpose and our shared vision.
- A culture of mutual engagement will need to be developed, demonstrated by strong performance in key engagement measures. This will help to encourage new behaviours that support a broad commitment across the business to mutual ways of working.

- 4.2 The document states that the key milestones are those of commercial sustainability and the related need for a fundamentally redefined relationship with Government. Specifically it sets out that the subsidy would fall to less than 10pc of the business' income base each year without threatening the size of the network.

- 4.3 It is proposed that progress against these tests will be set in the Annual Report and Accounts.

- 4.4 Following an assessment by the Post Office Ltd Board that the tests had been met, a detailed mutual proposition, with defined governance structures, would be prepared. This would be presented to the Secretary of State by the Post Office Board and then, as required by the Postal Services Act 2011, be put before Parliament for approval.

5. Key Risks/Mitigation

- 5.1 There is a risk that some stakeholders will believe this proposal fails to signal sufficient progress towards mutualisation, the mitigation against which must be to stress the imperative to achieve commercial sustainability, which is widely understood. The document, for the first time, provides a clear road map which

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could lead to a mutually-owned Post Office, but also sets out the challenges inherent in this ambition.

- 5.2 There is a further risk that the milestones obscure the commercial imperative: this is mitigated, as in the point above by the emphasis placed on the necessity to reach commercial sustainability through the delivery of the 2020 strategy.

6. Communications Impact

- 6.1 A clear statement around the milestones to mutualisation will be a useful communications tool which, combined with our purpose statement, will help to build understanding of our strategy internally and externally
- 6.2 The statement provides clarity about the potential journey to mutualisation while also ensuring the emphasis is firmly placed on commercial sustainability
- 6.3 It will therefore be a key building block in the development of the post office narrative over the years ahead, placing mutualisation in context
- 6.4 It will also support the development of mutual ways of working as an end in themselves rather than a factor only to be considered in the context of a change in ownership and governance.

7. Recommendations

- 7.1 The Board is asked to:
- approve the publication of a document setting out the conditions which would need to be met to allow the opportunity to consider the mutualisation of Post Office Ltd;
 - approve the wording of the document as set out in ANNEX 2.

Mark Davies
30 April 2014

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ANNEX 1

The Purpose of the Post Office

The Post Office is unique: a commercial business set apart by its public purpose. We believe in the importance of connecting communities and enhancing the powerful role they play in all our lives. We will stay true to this commitment by meeting customer needs through our unrivalled local presence across the UK.

To deliver our purpose we will run our organization by following four principles:

- Keep customers at the heart of everything we do
- Build relationships based on trust
- Treat everybody with fairness and honesty
- Make a positive social and economic contribution to all the communities in which we work

As an organisation we pledge to:

- Maintain ethical attitudes in our behaviours
- Invest in the organisation to secure the business for the future
- Listen with care to the views of customers, colleagues and others with an interest in the Post Office, and support their development.

Confidential**ANNEX 2****Milestones to Mutualisation Statement**

In its 2010 policy document 'Securing the Post Office Network in the Digital Age', the Government set out an ambition to create the opportunity for a mutually owned Post Office. Significant progress has been made in realising this ambition:

- Together with its stakeholders the Post Office has developed a clear definition of its purpose.
- Steps have been taken to embed mutual ways of working within the Post Office including revised engagement surveys, the establishment of branch user forums, closer integration of stakeholder groups into key change programmes and the creation of the Post Office Advisory Council.
- A new growth strategy has been developed that will enable the Post Office to achieve a position of commercial sustainability.
- A legal framework has been established that, for the first time, creates the opportunity for the mutualisation of the Post Office subject to the final approval of Parliament.

These steps have established a foundation upon which the Post Office and its stakeholders will be able to build a strong future. We will now be working closely with our stakeholders towards four key milestones that will need to be met in order to create the opportunity for mutualisation.

1. Commercial sustainability must be achieved, building on the successful delivery of our new strategy. This will mean developing a business with a track record of revenue and profit growth and positive cashflow generation which is able to operate wholly independently.
2. Linked to this, a clear funding relationship with Government will be defined and maintained. Such funding will be materially lower than today and will need to provide the Post Office with improved long-term certainty and visibility as to its future
3. The Post Office will deliver measurable success in embedding its purpose statement within the business and in meeting the standards it sets.
4. A culture of mutual engagement will need to be further developed, demonstrated by strong performance in key engagement measures. This will help to encourage new behaviours that support a broad commitment across the business to mutual ways of working.

The Post Office will work closely with its stakeholders to make progress towards these milestones, reporting on progress annually.

Once the Post Office Board is able to confirm that these milestones have been achieved it can progress with the final steps towards creating the opportunity for mutualisation. This includes:

- Developing appropriate organisational and governance structures learning from best practice in other mutual organisations
- Presenting these proposals for the endorsement of the Government and the approval of Parliament as required by the Postal Services Act 2011.

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POST OFFICE LTD BOARD

2014/15 Trading Outlook

1. Purpose

The purpose of this paper is to:

- 1.1. Update the Post Office Limited Board (Board) on the trading outlook for the financial year, 2014/15.

2. Background/context

- 2.1. The 2013/20 strategy sets out a revenue flight path based upon achieving sustainable growth throughout the plan period across all of the key products areas.
- 2.2. Final Commercial and Financial Services income outturn for 2013/14 was £826m; this represented a reduction of £35m on the previous year.
- 2.3. 2013/14 Q4 performance has been reviewed in detail by the Commercial Committee in order to inform plans and targets for 2014/15.
- 2.4. In order to return to the flight path required to remain on track with the strategic plan, Commercial and Financial Services income will need to grow to £898m in the current year 2014/15; this represents a growth of £72m on 2013/14.
- 2.5. In the remainder of this paper, we provide more detail on the growth required in each product area and the plans in place to deliver a return to the growth forecast within the strategic plan. Further information can be found in the Commercial and Financial Services Update paper which has been added to the Board reading room.

3. High level income profile

(£m) Net	Budget FY13/14	Outturn FY13/14	Budget FY 14/15	Required Growth	% Growth
Mails & Retail	415	386	424	38	9.8%
Financial Services (excluding FRES profit share)	277	278	295	17	6.1%
Government Services	116	116	117	1	0.9%
Telephony (including Home Services)	50	46	62	16	34.8%
Other	42	40	36		
Contingency			(9)		
Total	900	866	925	59	6.8%
FRES profit share	32	33	35	2	6.1%

4. FY 14/15 – delivering the target

- 4.1. It is clear that the business will face significant challenges in delivering the 2014/15 income targets particularly given the growth required in Mails following a disappointing outturn in 2013/14. The Commercial and Financial Services teams

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have been closely monitoring 2013/14 exit run rates and developing plans to deliver the required growth.

- In Mails and Retail the 2013/14 outturn was £30m below budget with Mails alone accounting for £21m of the deficit. However the Quarter 4 run rate following the introduction of the 'shoebox' in October 2013 demonstrates that this deficit would have been reduced by at least £13m with a full year impact; effectively reducing the growth required in 2014/15 from £39m to £26m. Other factors including increases in the fees charged to Royal Mail, product development, sales efficiency initiatives, collections and returns growth and dangerous goods payments are planned to close the remaining gap and deliver the 2014/15 target.
- In Government Services, we had a strong end to 2013/14 achieving the overall target. Modest growth is planned for 2014/15 although this masks the continued decline in some of the traditional products which is countered by growth in Passports, AEI and the initial entry into the identity market.
- In Telephony we had issues with the financial reporting from Fujitsu which resulted in a disappointing outturn in 2013/14. Despite these issues and the cancellation of the Quarter 4 marketing campaign we have ended the year with 450k customers as planned. This, combined with the price changes, Quarter 1 campaign and new colleague offer provide confidence that 2014/15 targets are achievable.
- In Home Services, the launch of our planned mobile service is scheduled for September 2014 and is progressing well.
- In Financial Services we ended 2013/14 strongly, finishing slightly ahead of target. Growth of £17m is required in 2014/15 but strong momentum in Personal Financial Services continues to overcome structural decline in Payments giving confidence that 2014/15 targets will remain within reach.

4.2. The key message is that the 2014/15 net revenue target of £925m appears challenging but achievable.

5. Next Steps

5.1. Over the next three months the Commercial Committee (comprising of Commercial, Network, Financial Services and Finance) will oversee:

- Progress on operating plans to ensure delivery of the strategic priorities required to deliver the income flight path set out in the 2013/20 plan.
- Delivery of the marketing plan required to maximise income through existing products and channels.

6. Recommendations

The Board is asked to:

6.1. Note the plans to deliver the 2014/15 income targets.

Martin George, Nick Kennett, Kevin Gilliland



Commercial and FS Update – The Year Ahead

April 2014



Contents

- Mails & Retail
 - Year end review
 - Outlook for the coming year
 - Key programmes and deliverables
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Mails & Retail – year end review

Product Area	13/14 Budget	13/14 Actual	Variance	Main reason for variance	14/15 Target
Premium Mails	£80.4m	£74.6m	(£5.8m)	Smaller standard mails base for upselling	£78.0m
Standard Mails	£164.5m	£150.6m	(£13.9m)	RM price/format changes	£179.0m
C & R	£13.4m	£11.2m	(£2.2m)	RM delay in on-boarding major retailers	£26.0m
Other Mails (incl. Mailwork etc.)	£102.0m	£104.4m	£2.4m	Dangerous Goods income not budgeted	£93.0m
Mails Subtotal	£360.2m	£340.8m	(£19.5m)		£376.0m
Retail	£5.5m	£4.8m	(£0.8m)	Reduced packaging sales as a result of mails volume decline	£5.4m
Lottery	£46.0m	£38.9m	(£7.1m)	Underperformance of Camelot games and new terminals.	£42.6m
Retail Subtotal	£51.5m	£43.7m	(£7.9m)		£48.0m
Total	£412.0m	£384.5m	(£27.5m)		£424.0m

Mails

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POL00414076

Income target
2014/15

£376m



Changes in the market

- Competitors growing volume and market share on collections & returns and fulfilment.
- Combined number of competitor outlets now at 13.5k. New third party C&C host models coming into play (Doddle).
- Consumer Parcels market becoming more competitive and prices reducing (race to the bottom).
- Retailers looking to cut out carriers and create new value chains.
- Customers becoming more price and service aware

Key Risks

- RMG account activity increases as POL and RMG growth objectives are not aligned i.e. growth in account volumes compared to consumer/retail volumes - £2-10m
- RMG do not on-board significant volume into C&R - £14m.
- Dangerous Goods - £8m.
- Sales efficiency does not deliver - £5-£10m.
- Failure to meet operational SLAs - £9.5m.
- Competitor threats e.g. My Hermes doubling volume - £3m.
- Online proposition does not deliver - £4m.
- Project Ivy does not deliver - TBC

Opportunities

- RMG funds sales efficiency programme - £5m.
- Increased opening hours to win back lost volume and increase Collections, Returns and acceptance - £2m.
- New product developments e.g. Drop & Go products, Same Day, POL courier, customer pick up - £1m.
- Enabling 1c and 2c parcels for Click & Collect - £0.5m.

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Retail

Income target
2014/15

£48m



Changes in the market

- Growth in e-commerce and multi-channel retailing.
- Tough trading year in 2013/14 for the lottery category impacting sales and customer buying habits.

Key Risks

- Reduced retail selling space in Crown network due to impacts of Crown transformation programme and franchising - £0.7m
- Reduced lottery branch distribution due to impacts of Network transformation and Camelot Sales Improvement Programme (SIP) - £3.2m
- Camelot EMOP not delivered - £1.5m
- Reduced distribution of new Camelot scratchcards only offer - £0.4m
- Mails decline affecting packaging sales - £0.4m

Opportunities (budgeted)

- Introduction of new seasonal promotions and impulse ranges into the Crown network - £0.6m
- Launch of new retail small business offer in Crown network - £0.3m
- Pro-active selling of lottery products in agency network - £1.5m
- Increased availability of Camelot scratchcards from 72% to 85% - £0.7m
- Sales of Commonwealth Games collectibles - £0.25m
- Retail buying club / symbol group for agency network - TBC (unbudgeted)
- Retail and Lottery benefits from sales efficiency - TBC



Lessons Learnt

Mails

- Mails customers are increasingly price and service sensitive and will not only switch to competitors but stop posting all together without the right price/proposition.
- POL must find ways of exerting more control over Mails products and services, either by influencing clients or controlling more levers (offers, service, added value etc.).
- With the combined number of competition outlets now at 13,500 there is additional pressure to react quickly to maintain market share on C&R and fulfilment.
- Retailers looking to cut out carriers and create new value chains.

Retail

- POL needs to understand what the optimum retail offer should be for it's customer base and how to maximise retail selling space effectively within the Crown estate.
- POL must take a pro-active approach with the selling of lottery products in order to protect and grow market share.
- Growth in e-commerce and multi-channel retailing has lead to a tough trading year with impacts on sales and customer buying habits.

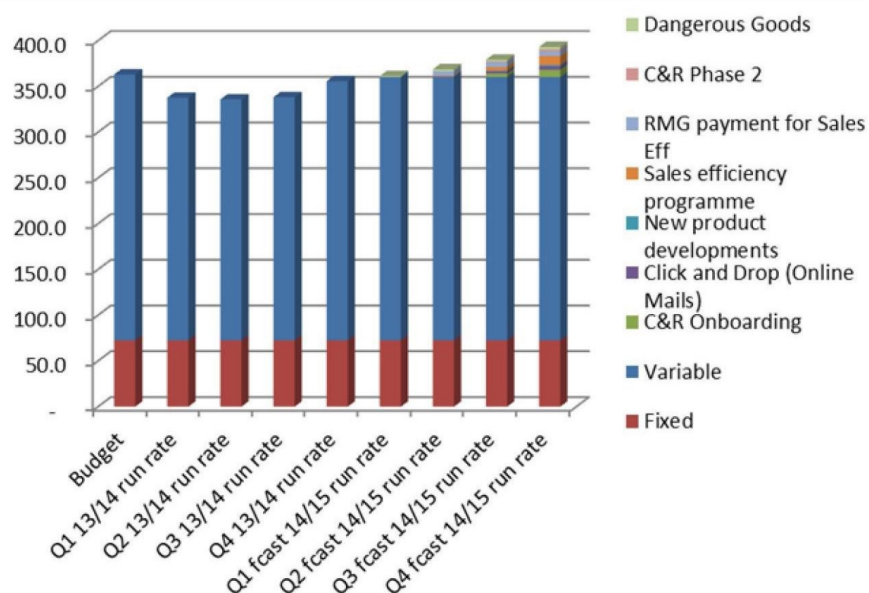


Mails – Key programmes and deliverables

Programme	Key Deliverables	Benefits - Income £m	Income benefits over Strategic Plan
Collections and Returns Phase 2	Enable 1c and 2c parcels, fix conformance, enable PFW failed delivery, eBay returns, conduct customer research to build inform enhancements and new solutions.	£2m	£36m (2015/16 – 2016/17 inclusive)
Click and Drop (Online Mails)	Online functionality for Drop & Go customers (improved account management, transaction history, online top-ups). Everyday customers can “purchase” parcel postage online Branches can serve customers in queues using mobile devices.	£4.4m	£54.5m (2015/16 – 2018/19 inclusive)
Drop and Go enhancements & SME prospecting	Continued campaigns to increase quality sign-ups Improve branch MI to improve advocacy Better, bespoke, customer journeys, including value-based service	Retained income £1.75m	£20m retained income (2015/16 – 2018/19 inclusive)
Sales efficiency	Conformance, increasing up-sell ratios, re-engineered transactions	TBC	TBC
New Products	Sameday service, POL to POL product etc.	TBC	TBC



2013/14 Mails performance and how the target will be achieved



£'m	Budget	Q1 13/14 run rate	Q2 13/14 run rate	Q3 13/14 run rate	Q4 13/14 run rate	Q1 fcast 14/15 run rate	Q2 fcast 14/15 run rate	Q3 fcast 14/15 run rate	Q4 fcast 14/15 run rate
Variable	290.6	265.1	263.2	265.7	283.2	287.7	287.7	287.7	287.7
Fixed	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5	72.5
C&R Onboarding								4.0	8.0
Click and Drop (Online Mails)							0.5	2.5	4.0
New product developments								0.5	1.0
Sales efficiency programme							1.0	4.0	10.0
RMG payment for Sales Eff							5.0	5.0	5.0
C&R Phase 2								1.0	2.0
Dangerous Goods						1.0	2.0	2.0	3.0
Total	363.0	337.5	335.7	338.1	355.7	361.2	368.7	379.2	393.2

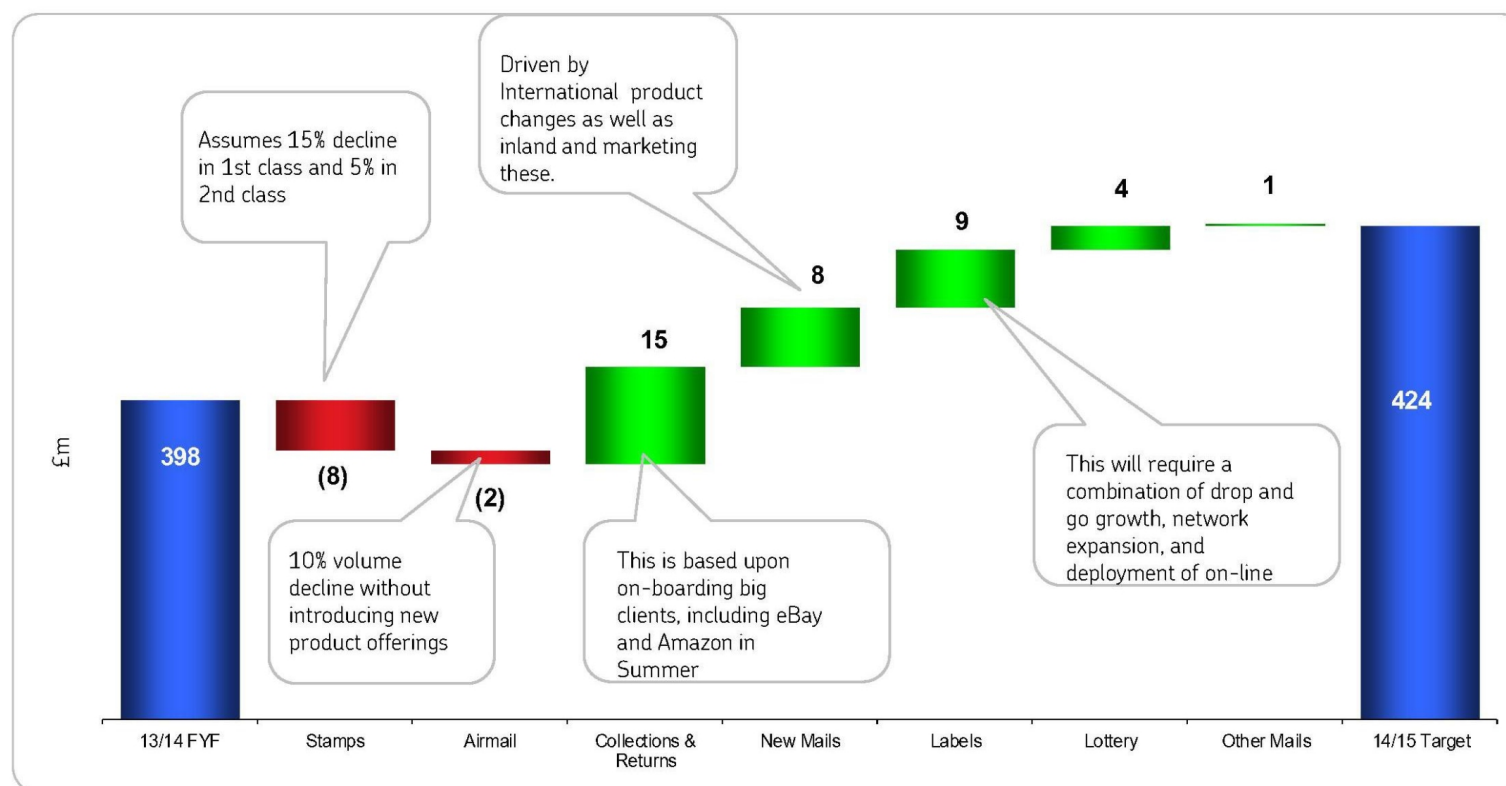
This table shows the planned delivery dates and associated benefits of key Mails programmes

- The run rate drop in Q1 and Q2 relates to the introduction of RM's sized based pricing model – customers switched to competitors or stopped trading
- The run rate increase in Q3 and Q4 relates to the introduction of the “shoe box” template – meaning additional items could be priced at the lower small parcel rate – customers returned to Post Office
- The run rate increase in Q1 14/15 relates to the RPI -1% increased income rates Post Office receives per item versus the previous year



Mails & Retail Pillar

Income growth of £27m required to deliver 14-15 target with reliance on winning Click and Collect volume and introducing new product propositions whilst maintaining parcel volumes both over and under 2kg





Government Services – year end review

Product Area	2013/14 Budget	2013/14 Actual	Variance	Main reason for variance	2014/15 Target
Motoring	£21.4m	£19.9m	(£1.5m)	Known volume risk	£15.2m
POca	£59.4m	£59.2m	(£0.2m)	Additional balance income and controlled CoS offset lower number of accounts	£60.0m
Passports	£20.4m	£23.0m	£2.6m	Increased demand for passports	£25.8m
AEI DVLA	£3.6m	£3.1m	(£0.5m)	DVLA delayed mailing off set in part by POL marketing	£3.6m
AEI UKBA	£4.3m	£5.3m	£1.0m	Backlog being cleared by UKVI gave early uplift	£5.2m
Other	£6.8m	£5.7m	(£1.1m)	Known risks of brand marketing stretch and withdrawing from local authorities	£6.8m
Total	£115.9m	£116.1m	£0.2m	-	£117.0m

Government Services:

Income target
2014/15L

£117m



Changes in the market

- Government may close Poca to all new applicants from 2015 (post election) and seek to migrate working age customers to bank accounts – this is unlikely to have a material impact on 2014/15 numbers
- The removal of tax disc and introduction of direct debit payment represent a significant change in the car tax market
- DVLA AEI – The DVLA will now accept passport photos up to 10 years old if the customer is making an on line application to renew their photo card counterpart

Key Risks

- Passports are not automated this financial year – net risk of £3m
- We do not press DWP for payment for extra ring fenced customers – £6m
- IDA does not generate the anticipated volume – £1m
- No increase in LIBOR – £1.5m

Opportunities

- Cost of Sale reduction on Poca – £2m
- DVLA change controls and upside on motoring volume £3m
- DVLA AEI promotion £1m
- DVLA release backlog of Ten Year renewal reminders £2m
- Price increase on DVLA AEI – £0.5m – £1m
- Price increase for passport check and send – £1.5m (this will help offset the risk of HMPO not automating)



Lessons Learnt

- The intended DVLA commitment to invest in Ten Year Renewal Marketing Campaign did not materialise, therefore POL undertook its own Marketing campaigns resulting in over target performance. This is our “Case Study” to showcase what is truly achievable; wherever possible we should look for the opportunity to repeat such activities on other Departments
- Despite Cabinet Office using agile development, timescales for implementation still tend to slip
- Our greatest strength in dealing with Government is understanding our customers – Account Teams (HO, DWP, CO and DVLA) will optimise further investment in Customer Insight during 14/15
- Government procurement timescales inevitably slip e.g. Assisted Digital was due to be March 2014, is now expected to be summer 2014 and may be further delayed



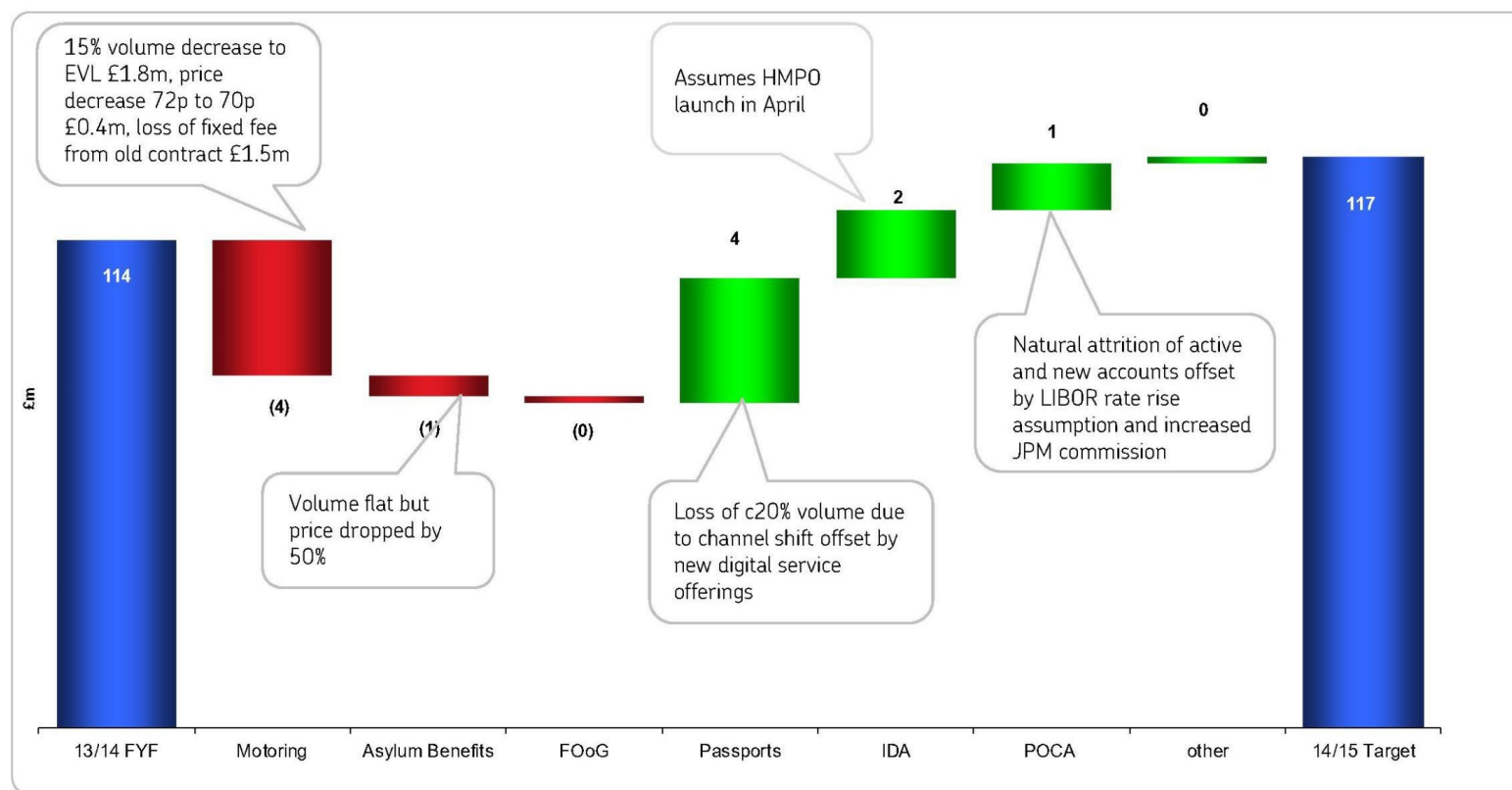
Government Services – Key programmes and deliverables

Programme	Key Deliverables	Year 1 benefits – Income	Lifetime (contract) value – Income
Passport automation	Use of AEI to support on line passport applications	£3m	£70m
Identity Assurance	Launch of service	£2m	£200m
POca	Reach agreement with DWP	-	£350m (est)
Assisted Digital	Test and launch of concepts	-	£124m
DVLA	Re-negotiation of terms of contract to return to profit	-	£40m (est)



Government Services Pillar

Income growth of £3m relies on delivery of new Digital services for DVLA and HMPO to recover volume loss through channel shift





Telecoms – year end review

Product Area	2013/14 Budget	2013/14 Actual	Variance	Main reason for variance	2014/15 Target
HomePhone Revenue	£121.2m	£118.8m	(£2.5m)	Issues with Fujitsu financial reporting Lower customers than planned	£124.4m
HomePhone Cost of sales	(£76.9m)	(£78.3m)	(£1.4m)		(£71.5m)
HomePhone Net Income	£44.3m	£40.5m	(£3.8m)		£52.9m
Mobile Top-up	£4.7m	£5.0m	£0.4m	Average commission received higher than budget	£4.0m
Phonecards	£0.6m	£0.4m	(£0.2m)	Market declining more rapidly than planned	£0.3m
Mobile	£0.8m	0	(£0.8m)	Mobile launch delayed to 14/15	£1.5m
Total	£50.4m	£45.9m	(£4.4m)		£58.8m

Telecoms: 2013/14 has been a tough year but we now have the platform to grow the business

Income target
2014/15L

£61.8m



Changes in the market

- Fixed Line market continues to consolidate and is dominated by big 4 (BT, Virgin, Sky & TalkTalk)
- Increased focus from Big 4 on provision of content particularly BT's acquiring rights to Premier League and Champions League
- Increased focus of MNO's on 4G and high value customers to detriment of pre-pay and low data using customers. Cheap smartphones coming to market.

Key Risks

- The acquisition targets for 14/15 are stretching and maintaining branch engagement is going to be critical to hitting these targets – risk c. £1m
- Customers data usage continues to increase exponentially and is putting pressure on our cost of sale – risk c. £3m
- Wholesale regulatory pricing may not progress as anticipated and lead to increased cost of sale – risk c. £3m
- Mobile development timeframes are aggressive and require whole business focus to deliver – risk c. £1m

Opportunities

- Develop affinity deals with third parties such as Cancer Research UK to increase distribution – £0.5m
- Possibility to look at acquiring small scale ISP's to grow customer base – TBC
- Possibility to target c. 1m customers who use our branches to pay their phone bills – £1m+
- Pre-paid mobile customer disengaged and passively loyal to current providers. Huge opportunity to disrupt customer behaviour and gain significant market share – limited in year.



Lessons Learnt

- Whilst there was significant focus on the telecoms network and data migrations, we needed to have greater focus on the call centre as this was the area where we experienced greatest issues
- We need to ensure that contract exit plans are agreed early in the contract lifecycle to get the best possible position for Post Office
- We must invest in experienced programme and project managers who have delivered the same type of project in the past and get them in as early as possible
- We need to ensure that all parties in the supply chain have aligned objectives to ensure our customers get the best possible service
- Following the decision to delay billing after the issues in the call centre, further pro-active monitoring of the impact on financial management information should have been undertaken to ensure that reports remained robust



Telecoms

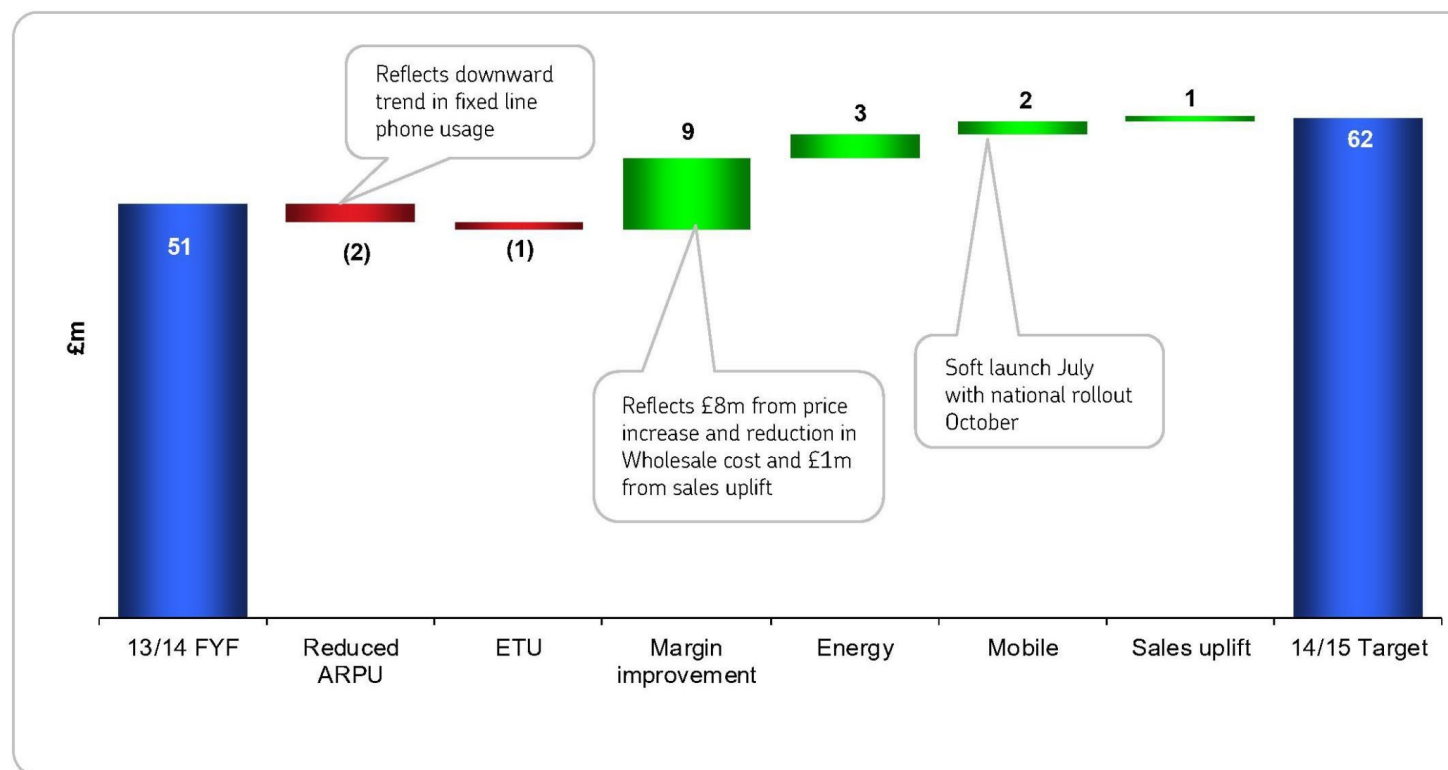
– Key programmes and deliverables

Programme	Key Deliverables	In year benefits – Income £m	Income benefits over Strategic Plan
Service Stabilisation	<ul style="list-style-type: none"> Improved call centre quality Right first-time 	-	-
Q1 Campaign & Price Changes	<ul style="list-style-type: none"> 40K new customer acquisitions New rates implemented 	£8m	c. £50m
Mobile	<ul style="list-style-type: none"> Pre-pay pilot – September 2014 Pre-pay launch – November 2014 Post-pay launch – April 2015 	£1.5m	£110m
SME / Fibre	<ul style="list-style-type: none"> Simple small business proposition pilot Fibre broadband product available for customers 	TBC	TBC
Q4 Campaign	<ul style="list-style-type: none"> 45K new customer acquisitions 	£250K (significant impact on 15/16 income)	c. £10m



Telephony Services Pillar

Income increases by £11m from improved margins on HomePhone and launch of Energy and Mobile propositions



Financial Services delivered 2013/14 targets and ended year with strong business trajectory

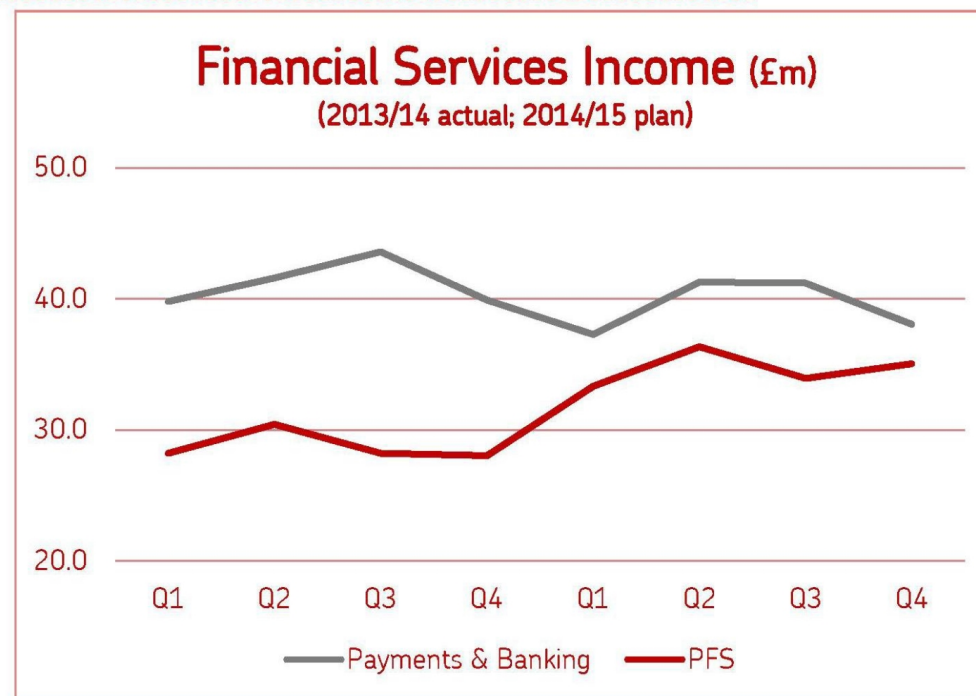


Product Area	2013/14 Budget	2013/14 Actual	Variance	Comment	2014/15 Budget
Banking, Payments & ATMs	£150.0m	£154.0m	£4.0m	Higher volumes than anticipated in Personal & Business Banking and Housing balanced by significant ATM shortfall	£150.0m
Travel & Insurance Services	£41.0m	£42.0m	£1.0m	Improved commercials through new Junction deal, balanced by poor life sales	£51.0m
Savings	£54.0m	£56.0m	£2.0m	Bring forward of premium bond income following near completion of tranche	£56.0m
Mortgage & Transaction Services	£22.0m	£23.0m	£1.0m	Mortgage back book income	£31.0m
Other	£10.0m	£3.0m	(£7.0m)	Sales effectiveness 'unallocated' delivered through product areas	£7.0m
Total	£277.0m	£278.0m	£1.0m		£295.0m
FRES Profit share	£32.0m	£33.0m	£1.0m		£35.0m



2014/15 plan balances strong growth in PFS overcoming continued structural decline in payments

- 2014/15 target income of £295 million plus FRES profit share of £35 million, on track to deliver the Strategic Plan
- 2014/15 net income grows £18m or 6% on 2013/14:
 - -2% decline in Banking & Payments (especially bill payment, postal orders and Santander)
 - +19% increase in travel & insurance
 - +21% increase in international money transfer
 - +44% increase in mortgages

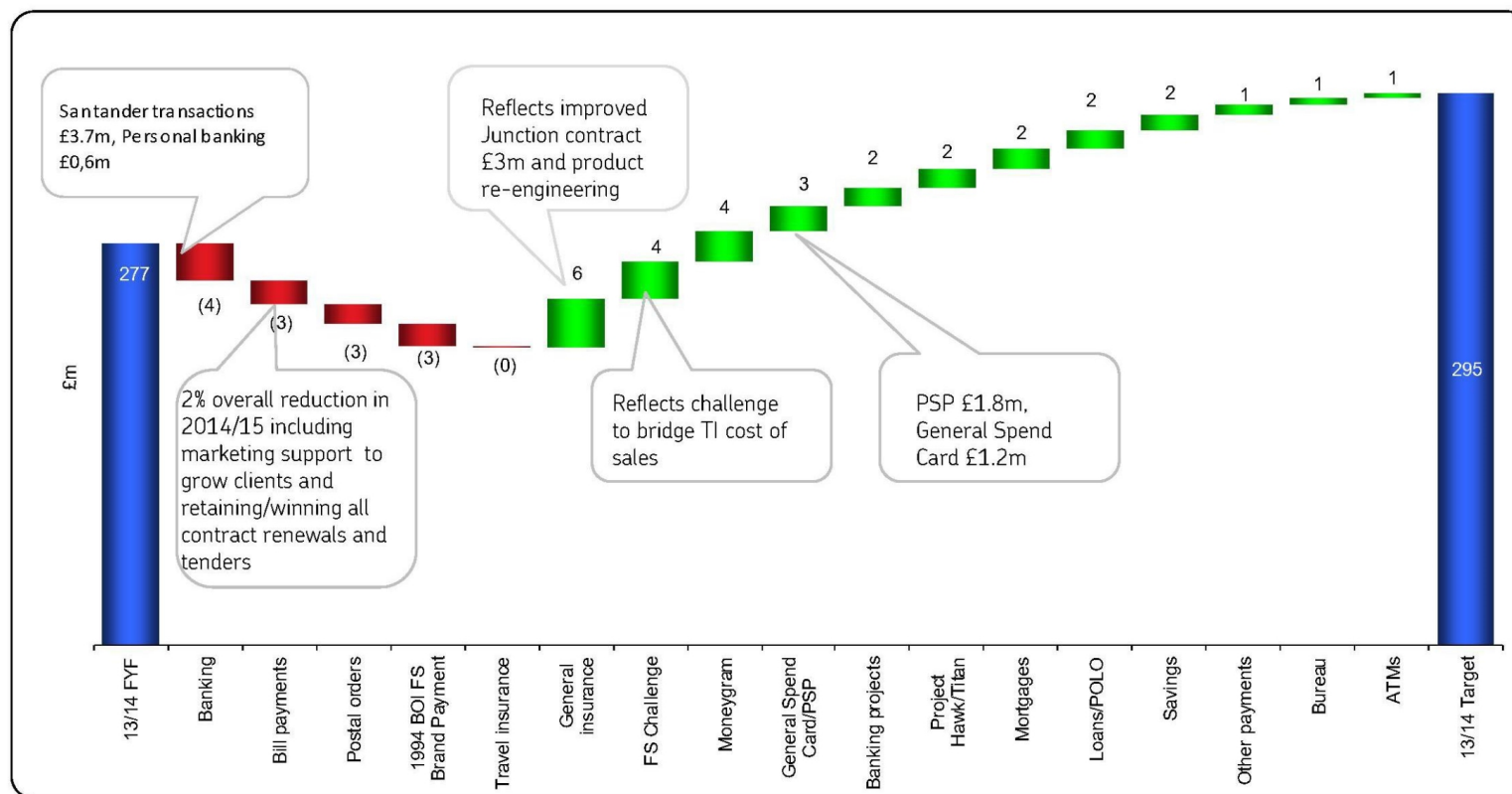


Note: 2014/15 sales stretch split between P&B and PFS
Premium Bond income has been flatlined

NB: £18m against Budget, £17m against actual



Net income growth of £18m delivered through sales effectiveness, proposition enhancement and new products



NB: £18m against Budget, £17m against actual



FS is well placed to deliver 2014/15 Q1 and Q2 income

- Benefits from new insurance and money transfer contracts locked-into 2014/15
- Strong momentum in mortgages (£260m pipeline) & savings into Q1 2014/15
- Full complement of Mortgage Specialists in place & MMR ready
- New sales model being rolled out, supported by lead generation improvements
- Data analytics lessons learned and gearing up
- FS sub-brand on track for September 2014 launch; FS supported by 'always-on' marketing
- Q4 growth will require delivery of product and change initiatives in H1 2014/15

2014/15 plan is tight, with a number of risks, especially in Q4

Net Income target
2014/15
£295m & £35m
profit share



Lessons Learned from 2013/14

- Network focus & engagement, incl. supporting better training for Network (e.g. PSP)
- More emphasis on lead generation, in particular for Mortgages & Current accounts
- Impact of CTP and NTP on ATM income
- Inability to deliver FS incentive scheme due to CWU action

Key Risks

- Annuity & Investment projects under threat after budget: High, (£2m)
- PSP & PPD sales below target due to focus on Mails: Med-High (£3m)
- ATM transactions hit by removals during CTP/NTP: Med-High, (£3m)
- Hawk acquisition is not agreed with Bol: Med-High, (£2m)
- Banking & Payments decline at a faster rate; Santander business declines; POL is unable to retain business: Med, (£2-3m)
- Sales performance is not delivered: Low-Med, (£<3m)
- CWU focuses action on FS product sales

Opportunities

- Extension of NS&I contract for Premium Bonds: High, £2.4m
- Premium Bond sales uplift as limit increases: Med-High, £1m+
- Payments & Banking: Med, £1m
- Launch of Post Office Money brand



FS markets & sectors are characterised by increased regulatory changes, with additional risk & compliance requirements

Savings

- Reduced demand for retail liabilities (increasing availability of securitisation capacity) and ultra-low base rates
- Customer rates continue to decline, resulting in low demand
- Significant regulatory changes: New ISA (NISA) introduction, with increased limits; Pensioner's Bond creation; fundamental changes to pension annuity rules, with removal of annuity requirement
- BOI continues to restructure its balance sheet, reducing their demand

Mortgages, Credit Cards & Current Account

- Incredibly competitive mortgage market, with new intermediaries expected; CML predicting growth in 2014
- 'Current Account Switch Guarantee' has driven lower volumes than anticipated
- Credit card consolidation, with decline in outstanding balances; market expected to remain flat in 2014/15 and increasingly competitive, with surge in approval rates
- Significant regulatory changes, e.g. credit card interchange, current account

Insurance & Travel

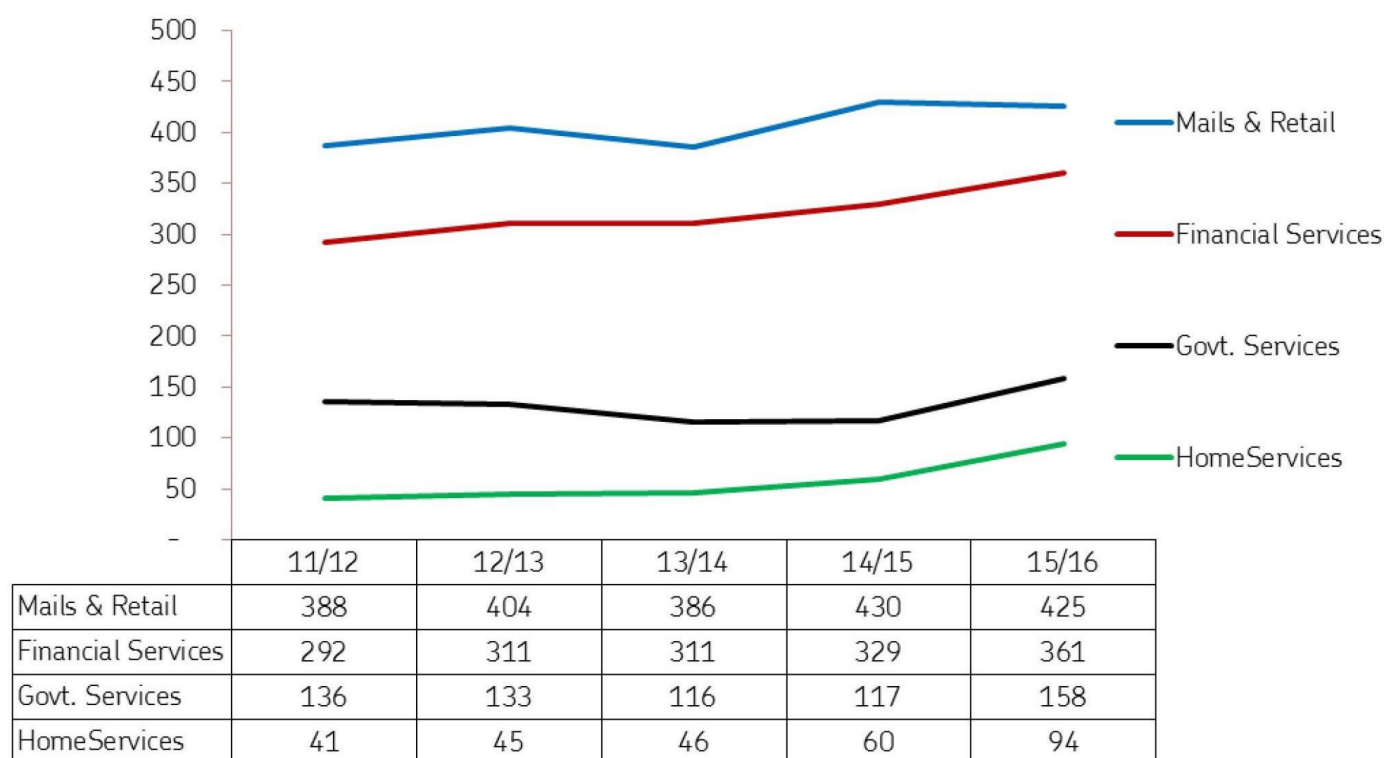
- Motor insurance regulatory changes and increased competition have driven premium reduction, expected to be extended by 'My Licence'
- Over-50s life growing faster than anticipated
- Banks losing share in travel money, to the benefit of supermarkets
- Travel market picking up

Payments, Banking & ATMs

- Higher than expected transaction volumes in some banking categories, partly driven by bank branch closures and migration of transactions to local post office
- Co-op Bank plans being monitored
- Risk from VOA change to business rates



Summary Income Position 2011/12 – 2015/16



Net income – £m

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POST OFFICE LTD BOARD**Network & Sales****1. Purpose**

- 1.1 To update the Post Office Board on progress with Network Transformation, discussions with the NFSP and Crown Transformation.

2. Network Transformation – converting Mains and Locals

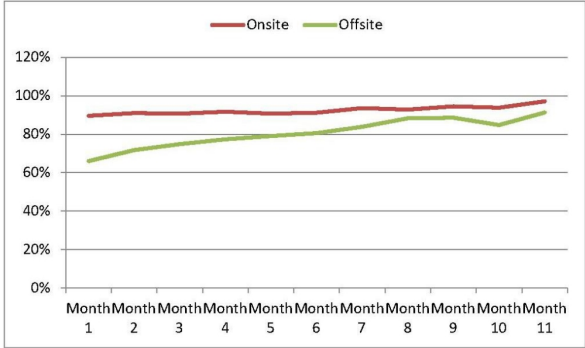
- 2.1 The programme reached the end of financial year 13/14 ahead of the original contracts signed and opening targets. The contracts target of 3,000 was met with two weeks to spare, while the opening target of 1,950 was met in the last week. The final outturn was 3,246 contracts signed (2,021 Mains and 1,225 Locals) and 2,058 branches open (1,325 Mains and 733 Locals).
- 2.2 The programme continues at pace into the new financial year. Targets have been agreed for this financial year of 4,800 contracts signed and branches open at 3,600 minimum/ 3,700 stretch. The outlook for Q1 targets is good, based upon pipeline and forecasts from the field teams.
- 2.3 There are a number of levers open to us for the 'cliff' to be implemented from September 2015. We will refine our approach to these options depending on progress this year and how the stakeholder and external environment develops. Options include: extending compulsory exit or conversion to Locals with good retail, or to Mains; incentivising conversion or exit by imposing reductions in fixed pay or announcing future reductions in compensation or investment. Further discussions are planned in the second half of this financial year.
- 2.4 There has been little adverse publicity surrounding the launch of the new phase of NT and increased noise is most likely to occur at the point when the compulsory exit process starts. Our approach to compulsory exits (guided leavers) is currently being refined with the NFSP and a pilot group of 50 branches is planned to start in May. Pilot branches will be visited by managers to discuss options, including the possibility of improving retail to enable conversion to a Local. The aim is to lead the subpostmaster to reach their own conclusion on the best solution for them and their branch. The pilot will test ways of working for Post Office, the NFSP's role in the process and the agent and stakeholder response, while containing the potential fallout to a limited number of branches. Lessons learnt from the pilot will influence the nature and speed of the subsequent roll-out to around a further 500 branches, starting not before July.

3. Network Transformation – performance of the new models

[To be read in conjunction with NTP P12 Scorecard]

- 3.1 The Mains model continues to perform well. Mains open for more than 6 months have consistently out-performed the control group: the latest scorecard shows 4% higher than control group in total income and 7% higher in focus income. Customer sessions are up 5% against control group.
- 3.2 Mains open 12-24 months are also performing favourably against the control group albeit less well than the 6-12 month group in terms of customer sessions. As these are different groups of offices, the performance difference is due to the nature of the offices in each group (including a smaller sample and a larger proportion of offsite conversions in the 12-24 month group), rather than a function of the time they have been open; analysis of offices over time does not suggest that performance drops off after 12 months

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- 3.3 The Local model continues to deliver P&L improvements to Post Office, although not currently to the level expected. With fixed pay savings of £931 and monthly income on average down £254, POL is net £677 better off this month per Local conversion. However, whilst income is expected to reduce on conversion to the Local model (on average by 5% / £125 due to the reduced product set for Locals), income in the converted Locals is also lower than the control group which is down £250 (after adjusting for the reduced product set).
- 3.4 As described in 3.3, sales performance in the Local model this month is lower (2%) than expected and field work continues through the new team established to help Locals make the most of the Local model. The monthly scorecard measures the changing sample of Locals that have been open 6-12 months. Analysis of particular branches over time – rather than the changing cohort – shows that income is improving in converted Locals over the first 12 months after opening.
- 3.5 In particular, the model performs well in branches that have converted onsite. Across months 6-12, the average is 97% of the level pre-conversion – 2% higher than the expected 5% drop from lost products. Branches that are relocated offsite are also showing continued improvement after conversion, but their performance drops further initially (as branch moves do even without model change) and therefore takes longer to get back to the expected level. Across months 6-12, average income is 90% of pre-conversion – 5% below the expected 5% drop.
- 
- | Month | Onsite (%) | Offsite (%) |
|-------|------------|-------------|
| 1 | 90 | 65 |
| 2 | 91 | 70 |
| 3 | 91 | 75 |
| 4 | 91 | 78 |
| 5 | 91 | 80 |
| 6 | 91 | 82 |
| 7 | 92 | 85 |
| 8 | 93 | 88 |
| 9 | 94 | 90 |
| 10 | 95 | 92 |
| 11 | 97 | 90 |
- 3.6 We feel that there is potential for the model to improve further, both in the initial 12 month period following conversion and beyond. We are developing and trialling a range of initiatives e.g. improved customer communication, product mix, signage.

4. Long term relationship with the NFSP

- 4.1 NFSP continue to show the commitment they made to Network Transformation – both publicly and via the monthly joint meetings we have in place to look at NT developments. We are also now meeting regularly to discuss the growth agenda with Commercial and Financial Services in order to build George's confidence and his support for the income plans.
- 4.2 The draft (unsigned) MOU is now functioning as an agreed (by both parties) set of principles from which the framework document will be developed. We are working with NFSP over the course of the next 2 to 3 months to develop the detailed agreement including elements relating to the Dispute Resolution Process, payment mechanisms and communications approach. Our thinking remains that this will be launched in the summer.
- 4.3 NFSP are currently developing the relevant framework that will ensure that their legal status is fit for purpose in light of their de-listing as a Trade Union. No agreement will be signed or further payments made until this has been clarified but will be in advance of their transition to a new organisation design.
- 4.4 Our current assumptions are that their new organisation design will be completed by the autumn, endorsed by their Executive Council pre-Christmas and authorised by a Special Conference in early 2015.

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5. Crown Transformation

- 5.1 The Crown P&L for FY13/14 out-turned at a £25.7m loss versus our target of a £23m loss. The principal reason for this has been income where performance was lower than projected for the financial year.
- 5.2 The £23m target was dependent on an increase in income of £2m, whereas a decrease in income of c£3m was experienced. This resulted in a net gap of c£5m against our start of year target.
- 5.3 On staff costs and franchising, there have been a number of movements on and off from the start of year plan including delays to in-year staff savings due to the industrial relations position, which were mitigated by other cost saving activities.
- 5.4 The draft Crown P&L budget for 14/15 is £8.5m loss. This is still subject to change whilst audit and review checks are being completed. Achieving this target and delivering the planned activities during the year will deliver a breakeven exit run rate at March 2015 (Appendix A).
- 5.5 The activities that have underpinned the achievements in FY13/14 and those planned for FY14/15 are covered below:
- 5.6 The full programme of branch transformations began in September 2013 and by the end of FY13/14, 122 completed transformations, against a target of 117, had been delivered. Transformation works continue with the aim to have transformed all 294 retained branches by November.
- 5.7 By the end of March 2014, over 1,200 staff in transformed branches had been trained to support the transition to new ways of working. Transformed branches are showing year on year income performance that is 2.5% better than that of non-transformed Crown branches over the same period (December-March). Financial services (FS) performance over the same period is 7% better in transformed branches versus non-transformed. Given the reliance on growth in Financial Services (FS) income in the plan to return to breakeven, this is especially encouraging.
- 5.8 Customer satisfaction has also been positively impacted. Voice of the Customer (VoC) scores have been 2% better in transformed branches with FS customers reacting very positively to the new private consultation rooms and scoring 21% higher when questioned regarding privacy to conduct confidential discussions. Feedback from staff and the unions on the content of the training has been positive. Staff satisfaction with the training has scored over 90%. Staff engagement scores will also be monitored as a metric through which to measure the impact of the training.
- 5.9 Significant progress has been made to deliver staff cost savings required in the retained Crown branches. To date Voluntary Redundancy (VR) acceptances combined with unfilled vacancy removal have secured 462 FTE of staff savings against a plan of 503 FTE (92% achieved). This equates to c.£12m of staff savings (full year effect) secured against a plan of £12.7m. The first tranche of VR exits took place w/c 21st April with 150 CSC staff (122 FTE) leaving the business, delivering a full year effect saving of c.£3.9m. Following this, staff will continue to be released in accordance with the branch transformation date and the rollout of the Self Service Kiosks (SSK).
- 5.10 Progress is also being made in pursuit of £3.3m of cost savings from management grades in the network. A series of meetings with the CMA have taken place where potential options for a future management structure were discussed. A proposal has been worked up which once formally approved will progress to formal consultation and a VR preference exercise undertaken.

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- 5.11 A large proportion of the staff saving benefit is linked to the rollout of c.500 new NCR SSKs which will replace the existing Wincor Post & Go machines. The first kiosks began operating in Harpenden branch in February 2014 to enable testing in a 'real life' environment. No significant defects were identified and wider rollout in the network is now underway. By w/c 21st April, 100 kiosks had been installed across 42 branches, with the rollout synchronised with branch transformations and staff exits across the remaining life of the programme.
- 5.12 Work to progress branch mergers, two into ones and relocations is ongoing. Whilst the relationship with Consumer Futures has proved testing, to date in each case all of their objections have been addressed in advance of a decision being announced.
- 5.13 By the end of FY13/14 the franchising of 22 of the 70 branches in scope had occurred. WHSmith took 19 franchises with 3 more moving to independents – providing a full year positive P&L impact of c.£2m. Of the remainder, 15 branches have progressed into the selection and application stage of which decisions on 3 have been announced, with two branches (Keighley & Burnley) due to go live in April. Performance from the first wave of franchised branches has been encouraging. The target migration of income is 90%. The branches are currently achieving 80% with week on week improvements; this is 10% better than during the last round of WHS franchising. We have a number of applicants where the lack of suitable property for their business is the inhibitor. The programme has engaged BNP Paribas to conduct property searches in those areas where potential partners cannot locate suitable premises. Additionally, the programme is actively pursuing an option whereby an independent operator runs a Post Office within the premises of a 3rd party retailer.
- 5.14 Whilst performance this year has been below the desired P&L target the flowthrough into FY14/15 from a number of cost reduction activities will be strong, especially staff cost savings which account for a large part of the programme's savings target. Property is also expected to meet targets for 2014/15.
- 5.15 The key risks (*with mitigations*) to delivery of a run rate break even P&L position for next year are:

Income - A shortfall in income delivery against target would materially impact the ability of the Crown network to reach a break even run rate. *The Post Office Commercial Committee is monitoring progress against income targets and the impact on the Crown run rate. Income growth in Crowns remains a business priority and, although high risk, the plan is considered achievable*

Franchising - The programme fails to franchise the remaining 48 branches that are within scope, negatively impacting the programme's ability to reach the run rate breakeven P&L. *A raft of approaches are being taken to support the successful franchising of branches including: using BNP Paribas (Post Office's Estates Management partner) to assist potential partners locate suitable premises; the hosting of franchise operators within 3rd party retailers; and continuing dialogue with existing multiple and independent partners. In the event that any branches are not successfully franchised and are retained within the network then all efforts will be made to reduce their P&L loss through BAU staff savings delivery; the introduction of SSKs and property cost reductions. We are also working with the CWU on 5 branches to identify potential changes to ways of working to support returning these specific branches to breakeven.*

Kevin Gilliland
April 2014

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Appendix A

Crown P&L position (draft) for 14/15 and through to breakeven

DRAFT CROWN P&L					
	13/14 Actuals	14/15 Change	14/15 Budget	14/15 Flow through	Year End run rate
Retained branches:	£m	£m	£m	£m	£m
Income	126.6	5.3	131.9	1.2	133.1
Staff Costs	-89.8	6.7	-83.1	4.1	-79.0
Property Costs	-28.9	2.0	-26.9	0.0	-26.9
Other Costs	-26.2	-1.0	-27.2	0.0	-27.2
PBIT - retained branches	-18.3	13.1	-5.3	5.3	0.0
70 franchise branches:					
PBIT -franchised branches	-7.4	4.2	-3.2	3.2	0.0
PBIT TOTAL	-25.7	17.2	-8.5	8.5	0.0

What must happen to achieve the breakeven position at the end of 14/15:

- Business must achieve POL 14/15 income budgets
- Business must be on trajectory for POL 15/16 strategic plan income
- Full programme benefits delivered on franchising
- Full programme benefits delivered on staff savings
- Full programme benefits delivered on property savings

Risk level

High
High
Med
Low
Low

14/15 Flowthrough

The precise calculation is being tested and will then be formalised but will be based on an annualised Crown P&L derived from the 2014-15 exit position.

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POST OFFICE LTD BOARD

Network Development (Project Ivy)

1. Purpose

- 1.1. The purpose of this paper is to update the Post Office Ltd Board (Board) on progress with Post Office Ltd (POL) Network Development (Project Ivy).

2. Background

- 2.1. The 2020 strategy outlines plans to extend the current network size by at least an additional 2,000 access points. These plans are predominantly aimed at countering the increasing activity of competitors in the UK retail parcels market.
- 2.2. Additionally POL has committed to the Shareholder Executive (ShEx) that it will seek to demonstrate progress against these plans by opening enough new access points to ensure that the total network size exceeds 12,000 outlets by March 2015. This commitment is subject to certain agreed caveats to avoid adverse impact on Network Transformation and ensure the achievement of commercial sustainability.
- 2.3. POL has created Project Ivy to deliver both the short term imperative to reach 12,000 access points by March 2015 and produce plans for network expansion which will meet the threat from competitors.

3. The competitive environment

- 3.1. In recent months there has been a rapid expansion of competitor access points in the UK retail parcels market. The main competitors are Collect+ and My Hermes who between them now have in excess of 8,000 outlets. These parcel shops typically offer basic consumer parcels combined with click and collect collection and home shopping returns.
- 3.2. The vast majority of business derived in these competitor outlets is from the consumer parcels and home shopping returns products; this is a market where POL has been traditionally competitive.
- 3.3. In addition to these competitors there are smaller players who are targeting specific locations such as Network Rail and London Underground stations with parcel shops such as Doddle and ByBox. Other players are launching stand-alone locker boxes for collections and returns these include InPost and Amazon.
- 3.4. POL must ensure that it keeps pace with these developments if it is to protect its market share and continue to be customer's preferred choice for consumer parcels in the UK. This may require POL to expand far beyond the proposed 2,000 access points in the 2020 strategy.
- 3.5. The total optimum size of the network is being considered within the work which the POL Strategy team is currently leading to establish a greater level of detail behind the delivery of the 2020 strategy.

Confidential**4. Progress to date**

- 4.1. The Project Ivy team has identified a number of potential models for the expansion of POL access points; these include full service branches, parcel shops, extended parcel shops with a range of simple core services (bill payments), automated parcel shops and dedicated travel money kiosks.
- 4.2. Following an initial evaluation workshop it has been decided to prioritise parcel shops, both automated and extended, for the purposes of achieving some early trials. Annex 1 provides an overview of the models currently being developed for taking to a trial.
- 4.3. This decision is based upon the clear competitive threat from the expansion of a number of competitors in this market, in particular Collect+ and My Hermes, and the potential speed to market of installing self-service technology and or Horizon capability with a host retailer. Parcels products also account for the majority of revenue currently derived in existing POL Locals branches.
- 4.4. The initial trial opportunities include partnering with Transport for London utilising tube station ticket office sites (initial trial expected by the end of June 2014), Tesco for placing self-service kiosks in prime locations (first trial expected to go live in Lincoln in June 2014), Royal Mail Group for placing self-service kiosks in Parcelforce Worldwide and Royal Mail enquiry offices (first trial expected in July 2014).
- 4.5. The team has been working on a pipeline of opportunities (Annexes 2 and 3 provides an overview of the opportunities) for both the initial trials mentioned above and the longer term objective of ensuring that POL maintains its parcels market share.

5. Risks and mitigations

- 5.1. The National Federation of Sub-postmasters (NFSP) has historically been opposed to the concept of Network Expansion and may react negatively and publicly to any POL plans to make this a reality. This reaction will be based around fears of cannibalisation of volume from the existing network. POL is seeking to mitigate this risk by considering the following activities:
 - The Project Ivy team will engage with the NFSP to fully explain the rationale behind Network expansion and outline the competitive threat in the parcels market. In short if POL does not expand then competitors will and the volume will be lost from the existing network in any case.
 - POL will target locations for Network Expansion where its current market penetration is low or where competitor activity is high. This will be with the intention of winning competitor volume rather than simply migrating existing POL volume around the estate.
 - POL will look at a number of potential ownership models which allow local agents to benefit from the new access points. This may include hub and spoke access points or minimum income guarantees.

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5.2 Models for new access points interfere with POL's ability to deliver Network Transformation because they may be seen as more attractive to potential retail partners than existing models or because current agents will not sign up to new contracts due to fear of cannibalisation increasing the risk of losing their fixed pay. The Project Ivy team will work closely with the Network Transformation programme to ensure that the models are complimentary. This will include looking at ways to grow and protect income so that it can be shared appropriately to sustain the entire network.

6. Next Steps

- 6.1. Finalise the customer and client propositions, as well as stakeholder communication plans, and conduct the initial trials. The Board will be informed of the detail of the proposed first trials in May 2014.
- 6.2. Identify successful models and partnerships to take forward into the longer term strategy for access point expansion.

Martin George
April 2014

Confidential**Annex 1 – Ivy Concepts**

The table below highlights initial concepts to be developed and trialled

Concept	Brief Description	Technology	Status
Assisted self-service	<ul style="list-style-type: none"> Offers convenient opening hours and locations for sending mails and parcels using self-service kiosks. Additional services to be developed could include bill pay; information point; cashless/NFC; eTopup. Longer term developments to include an intelligent drop box and a move to a fully automated solution. 	<ul style="list-style-type: none"> Post and Go (POGO machines –for tactical use) Self-Service Kiosks (SSKs) 	Quick win trials already identified to test concept with retail partners.
Parcel Shop	<ul style="list-style-type: none"> Offer simple mails products to ensure that we have a clear / easily understood proposition for customers. Located in convenient locations, i.e. offers coverage/scale. This model is a build on 1) Self -Service and incorporates parcel collection. There is a potential to build other relevant core products e.g. volumetric, bill payment etc and channels e.g. 'pop up' shops. 	<ul style="list-style-type: none"> Post and Go (POGO machines –for tactical use) Self-Service Kiosks (SSKs) Horizon (as appropriate) Tablet (potential longer-term) 	Potential trial sites to be identified. .
Cut down Local model	<ul style="list-style-type: none"> Any combination of products / services, however does not meet network access criteria. 	<ul style="list-style-type: none"> Horizon Terminal 	Investigate potential of testing other potential models via e.g. POL property that isn't currently in use.
Parcel Lockers	<ul style="list-style-type: none"> Offer convenience, longer opening hours and coverage (i.e. scale). The first choice for failed delivery. New technology could enable selling of various POL products. Further innovations e.g. allow pre-order products to be sold through partnerships. 	<ul style="list-style-type: none"> Intelligent dropbox Parcel locker 	Commercial and operational viability to be investigated as a standalone solution or in conjunction with the Mails and Parcel Shops.

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Annex 2 – Opportunities in train

The table below provides a high-level overview of each of the live opportunities we are actively pursuing to commence small scale trials

Opportunity	Concept to be trialed	Potential Scale	Timescale	Next Steps
Tesco - keen to explore different models with POL including Self Service.	Assisted self-service	239 Tesco Extra	Trial 2 x SSKs in Lincoln by June 2014 and Cambridge (timescales tbc)	<ul style="list-style-type: none"> Securing SSKs for the Tesco pilots
Transport for London exploring locating a Crown in TfL as well as other potential options, including ticket offices. POL is keen to get a foothold with TfL.	<ul style="list-style-type: none"> parcel shop Cut-down Local model 	240 ticket offices + x other locations	tbc	<ul style="list-style-type: none"> Site evaluation to identify potential pilot sites
Thomas Cook Group : a. POL access points in TCG premises b. TCG access points in POL premises c. Consolidation / transfer of TCG locations to POL	tbc	500-900 sites	tbc	<ul style="list-style-type: none"> Concept development workshop arranged for May. Site evaluation to identify potential pilot sites
Argos - Working through a reciprocal approach i.e. locating Argos terminals in POL and POL concepts in Argos.	Assisted self-service	120 sites	Trial SSKs in 5-6 Argos locations – timescale tbc	<ul style="list-style-type: none"> Sites for potential trials using SSKs have been identified.
Self Service kiosks in Royal Mail Delivery Offices and Parcelforce depots as part of RM's Enquiry Office of the future strategy,	Assisted self-service	c1,250	<ul style="list-style-type: none"> Trial by end Q1 Roll out from Q3 (tbc) 	<ul style="list-style-type: none"> Meeting on 10th April to scope opportunity and agree next steps for trials. Currently assessing options for using decommissioned POGOs for trials.

Confidential**Annex 3 – Other potential opportunities**

In addition to the live opportunities being actively pursued, a number of opportunities have been identified and will be developed in the coming weeks to the point which will enable us to actively pursue additional trials

Opportunity / Idea	Potential Scale
Use empty / surplus properties ranging from the Lyceum to small PO with temp SPM. Sit within HC's POL property portfolio as a cost.	120 sites
Use 26 Crown offices which don't have a franchise.	26 sites
Extra stops on mobile PO	tbc
Network Rail / Duddle – opportunity to be scoped	2,500
As a satellite to new Locals or Mails via NTP (subject to discussions with NTP team to identify areas of synergy)	tbc
Pop-up shops to cover peak periods during the year (e.g. Christmas)	tbc

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POST OFFICE LTD BOARD
Chief Executive's Report**1. Digital and multi-channel Programme**

- We are now commencing the roll-out in around 50 Crown and agency branches of the following technologies designed to modernise the way we serve our customers:
 - Wi-fi will be deployed to enable branch staff to use mobile devices that can access and manage appointment and queue data; at a later stage the wi-fi will also be made available to customers to access the internet in branch via a 'landing page', facilitating light touch data acquisition and targeted sales messages.
 - An online appointment booking service will be tested, initially for AEI services but at a later point this can be extended to other areas such as FS as appropriate.
 - We will also be testing a virtual queue management service that alerts customers via SMS or email to where they are in the queue, allowing them to get on with other activities in the area while they are waiting for their slot. The trial will enable us to assess the impact on branch workflow, sales and customer data capture.
- The plan for extending these technologies to the wider network will be finalised in light of our evaluation of this initial trial, although we have provisionally budgeted for around 1,000 branches to be covered in the current financial year.
- Next month we will also be opening a new digital concept branch at London South Bank University. It will not have traditional counters, instead serving customers through a combination of self-service machines, online tablets and ATMs. Initially the branch will not be open to the general public, and will instead be used to assess these technologies in a controlled environment and to host VIP visits that were previously confined to the model office at 148 Old Street (for example enabling us to demonstrate innovative approaches to assisted digital). However, in parallel we have also decided to keep open Kennington Park Crown (previously earmarked for closure as part of CTP) and transform it into our first live digital branch, incorporating the concepts which prove to be most successful at the South Bank site. The new layout for Kennington will be developed from August.
- Beyond these in-branch activities, the Common Digital Platform (CDP) development remains on track to deliver a separated platform from Royal Mail by the end of the year, with content from the existing web platform migrated over in several iterations starting from June. The CDP also gives us the flexibility to implement a range of other customer journeys that are not confined to Horizon and traditional counters, such as the use of tablets which we will be testing in the South Bank branch.

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2. Business Transformation Programme

- Our focus over the past few weeks has been on establishing the resourcing needed to take forward the next stage of detailed work to develop our target operating model, assess the different sourcing options and drive out additional shorter-term savings. David Ryan, our Interim Business Transformation Director, started work on 22 April and will lead the overall programme, reporting directly to the CEO. The ITT for our external design partner was issued to a group of external suppliers (McKinsey, Bain, Deloitte, PWC, PA and KPMG) on 8 April with responses due on 22 April. We will be holding presentation and clarification sessions with each of the suppliers over the coming week with the aim of selecting the preferred bidder by the start of May.

3. Project Maypole (future of POCA)

- We are continuing to engage closely with DWP following the submission of our initial outline proposition for the future of POCA in March. DWP have expressed concerns around the pricing of our proposals, although it should be noted that this was to be expected and is consistent with the approach they are taking with all their suppliers in order to meet their own stretching efficiency targets. We are meeting Steve Webb (the DWP Minister responsible for POCA) and Jenny Willott on 20 May, and will be working with DWP officials in the interim period to assess the scope for closing the gap between our respective positions. BIS officials are also helping to intermediate with DWP. The programme is being tightly managed during this critical period, with daily internal planning calls and an ExCo sub-group overseeing all key decisions on the negotiating mandate.

4. Other programme updates

- Updates on the other key programmes will be covered through the following Board agenda items:
 - the commercial update paper covering mails, financial services, government and home services;
 - the network paper which covers NTP, CTP and network expansion;
 - an oral update will be provided on the first Project Sparrow Sub-Committee meeting (and any other notable developments); the next meeting is scheduled immediately after the Board.

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POST OFFICE LIMITED

Performance Report

March 2014

THESE FULL YEAR RESULTS ARE SUBJECT TO AUDIT REVIEW

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Headlines

March 2014

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Profit & Loss

FY – The EBIT outturn of £108.1m is in line with the CFO forecast last month, £6.0m better than the budget of £102.0m and £13.9m better than last year. However, the net income outturn of £866.1m was £3.9m lower than the P11 CFO forecast, £33.9m lower than budget and £36.3m lower than last year.

Although the FY outturn was in line with the P11 forecast at operating profit level, a worsening in the position for both Mails and Telephony is masked by other upsides. Net income for both was lower but was offset by lower subpostmasters costs. Non staff costs were higher than expected as a provision was recognised for the ongoing uncertainty with telephony income, there were higher (partially disputed) internet costs during migration and a provision was included for a mails segregation penalty reflecting that this was not resolved by year end. However, staff costs were lower as the bonus estimates reduced more than expected reflecting anticipated scorecard performance.

Versus budget, the shortfall on income of £33.9m (mainly Mails £20.8m, Lottery £7.2m and Telephony £4.4m) has been largely offset by the subpostmasters costs (£32.4m favourable). The remaining favourable variance is driven by project underspend of £9.0m (of which £7.0m was moved to exceptionals for Separation). The VAT recovery upside of £5.8m has been more than offset by the non staff adverse variance of £13.0m including the Telephony costs and Mails segregation penalty noted above.

Period 12 – Operating profit of £1.5m was £8.9m adverse to budget.

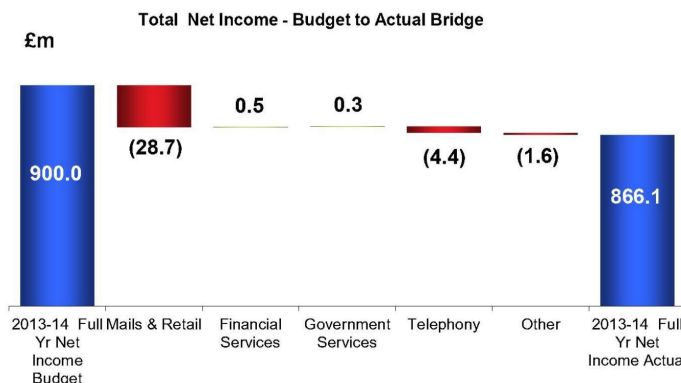
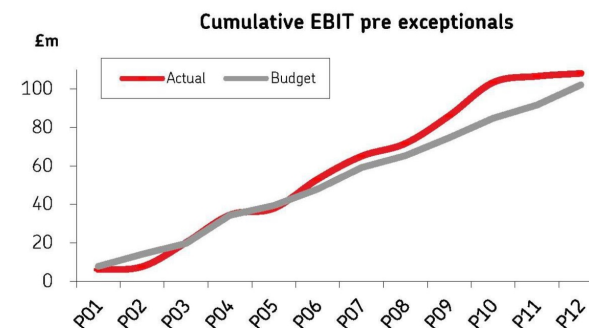
- **P12 net income** was £1.4m favourable driven by Financial Services and Government Services. The FS variance was driven primarily by NS&I catch up for prior months and GS variance is a result of increased passport Check and Send volumes.
- **P12 costs** were £13.3m adverse, comprising primarily of £3.9m higher marketing costs, higher Telephony costs referenced above, the Mails segregation penalty and the VAT recovery budget of £3m for P12 but received earlier in the year.

Cashflow

The full year cashflow was an inflow of £180m which is £196m favourable to the full year budget of £16m outflow. The main driver for the favourable variance, as forecast, was the slower than planned capex on the transformation projects of £53m. The commitment of expenditure accelerated at year end and there is over £100m of capex and exceptional items that have been committed but not yet paid for particularly in relation to NTP and CTP. This cash flow will now fall into 2014-15. In addition, the new DVLA contract resulted in improved settlement terms driving the £36m favourable variance in client balances, as forecast, and network cash was £47m lower due to careful management. Working capital was favourable by £48m, more than forecast, reflecting the acceleration of programme activity late in the year and associated increased pace of purchasing.

Crown P&L

The Crown loss is £2.7m adverse to budget. Income was £4.7m adverse driven primarily by Mails, partially offset by Government Services. Costs are £1.6m favourable and share of JV is £0.5m favourable.



Financials

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

Non Financials

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

Full Year		
Act	Target	Var
866.1	900.0	(33.9)
108.1	102.0	6.0
179.7	(16.2)	195.9
(25.7)	(23.0)	(2.7)

82.1%	80.6%	1.5%
3,246	3,000	246

Profit & Loss Statement

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March 2014



THESE FULL YEAR RESULTS ARE SUBJECT TO AUDIT REVIEW

£m	Current Month			Prior Year Period		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Outturn	Budget	Variance	Outturn	Variance
TOTAL GROSS INCOME	84.1	81.9	2.2	96.5	(12.4)	978.8	1,012.2	(33.4)	1,023.6	(44.8)
Cost of Sales	(9.4)	(8.7)	(0.7)	(11.8)	2.4	(112.7)	(112.2)	(0.5)	(121.2)	8.5
TOTAL NET INCOME	74.7	73.2	1.5	84.7	(10.0)	866.1	900.0	(33.9)	902.4	(36.3)
Staff Costs	(15.0)	(19.7)	4.7	(26.5)	11.6	(252.3)	(256.1)	3.8	(257.4)	5.1
Subpostmaster Costs	(34.5)	(37.3)	2.8	(47.6)	13.2	(447.6)	(480.0)	32.4	(478.1)	30.6
Non-Staff Costs (including Interbusiness)	(36.4)	(15.7)	(20.8)	(31.5)	(4.9)	(264.8)	(257.6)	(7.2)	(260.7)	(4.1)
Depreciation	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.4)	(0.9)	0.5	(0.4)	(0.0)
Total Expenditure (pre POOC)	(85.9)	(72.6)	(13.3)	(105.7)	19.8	(965.0)	(994.5)	29.5	(996.7)	31.6
FRES - Share Of Operating Profits	2.3	1.9	0.3	2.1	0.2	33.1	31.5	1.5	31.9	1.2
EBIT - BAU	(9.0)	2.6	(11.5)	(19.0)	10.0	(65.9)	(63.0)	(2.9)	(62.4)	(3.5)
One off Project costs (POOC)	(4.9)	(7.6)	2.6	(15.7)	10.8	(26.0)	(35.0)	9.0	(52.3)	26.3
EBIT - Post Project Costs	(13.9)	(5.0)	(8.9)	(34.7)	20.8	(91.9)	(98.0)	6.0	(114.7)	22.8
Network Payment	15.4	15.4	0.0	19.8	(4.4)	200.0	200.0	0.0	210.0	(10.0)
EBIT pre exceptionals items	1.5	10.4	(8.9)	(14.8)	16.3	108.1	102.0	6.0	95.3	12.8
Interest	0.1	(0.5)	0.6	0.2	(0.0)	3.1	(5.0)	8.1	(0.8)	3.9
Impairment	(34.5)	(18.0)	(16.5)	(12.4)	(22.1)	(114.2)	(167.5)	53.3	(65.6)	(48.7)
Exceptionals & Redundancy & Severance Costs	(70.3)	(18.5)	(51.8)	(19.2)	(51.1)	(153.0)	(189.4)	36.4	(77.0)	(76.0)
Government Grant Utilisation	27.3	20.7	6.6	30.1	(2.8)	316.8	316.9	(0.1)	98.2	218.6
Profit/(Loss) On Asset Sale	(0.0)	0.0	(0.0)	0.0	(0.0)	3.4	0.0	3.4	(27.7)	31.1
Colleague Share/ Business Transformation Payments	(4.8)	0.0	(4.8)	(3.3)	(1.5)	(4.8)	0.0	(4.8)	(3.3)	0.0
Total Profit/(Loss) Before Tax	(80.7)	(5.9)	(74.7)	(19.4)	(61.2)	159.2	57.0	102.2	19.1	141.7

Period vs. Budget

Operating profit (EBIT) of £1.5m was £8.9m adverse to budget.

BAU was £11.5m adverse due to:

- Higher non staff costs of £20.8m due to £3.9m higher marketing costs, £4.4m higher Telephony costs, £3.0m Mails segregation penalty, VAT recovery budget of £3.0m but actual received earlier and savings task budgeted in P12.

Offset by:

- Higher income of £1.5m, due primarily to NS&I income catch up reflecting the new contract.
- Lower staff costs of £4.7m reflecting the reduced bonus accrual for 2013-14, and
- Lower subpostmaster costs of £2.8m, £1.8 sales related and £1.0m VAT recovery.

Below EBIT

Due to the combined effect of the new strategy and the recent survey sent to subpostmasters, we have seen an increase in potential leavers for which we have increased our provision (offset by increased grant utilisation). Additionally in P12 we incurred £30m on the NT programme costs and £12m IT&C (combined budget £7m).

Full Year Outturn vs. Budget

Operating profit (EBIT) of £108.1m was £6.0m favourable to budget.

BAU variance of £2.9m adverse was mainly due to:

- Lower income of £33.9m, mainly Mails £20.8m and Lottery £7.2m. Mails performance was impacted by lower parcel volumes following the RM price changes in April, but new parcel formats have been introduced at the end of October. Lottery continues to underperform and Telephony is also adverse due to lower customer numbers and higher cost of sales, and
- Higher non staff costs of £7.2m due to higher telephony costs, the mails segregation penalty, higher marketing costs, Horizon costs originally budgeted for in prior year, but incurred this year, partially offset by VAT recovery saving this year.

Offset by:

- Lower subpostmaster costs of £32.4m; £19.8m relates to lower sales income, £4.0m sales mix (parcels), £2.8m WHS provision, £2.9m budgeted but incurred in 2012-13 and £2.6m improved VAT recovery.
- Lower staff costs of £3.8m due to the reduced bonus accrual based on scorecard outturns.
- Higher FRES JV income of £1.5m.

Project One-off variance of £9.0m favourable. The underspend is driven by the movement of Separation costs to exceptionals and reduced due to cost constraint.

Below EBIT

Exceptional costs are favourable mainly due to a £102m unbudgeted credit relating to the change in pensions terms. Other variances are adverse, particularly the NT programme costs which are £55m adverse.

Full Year Outturn vs. Prior Year

Operating profit (EBIT) of £108.1m was £13.9m favourable to prior year.

Like for like BAU adverse variance of £3.5m was mainly due to:

- Lower net income of £36.3m. The variance versus prior year is driven by the stamps buy forward ahead of last year's price increase and lower parcel volumes this year. Government Services also decreased as a result of lower rates from the new DVLA contract and falling Card Account customers. NS&I income fell as NS&I migrated its customers to its online channel. There is also the 53rd week impact of c. £9m, and
- Higher non staff costs of £4.1m due to higher marketing spend, and the removal of the FX bureau rebate received in H1 last year, mails segregation penalty, higher telephony costs, offset by VAT recovery this year.

Offset by:

- Lower subpostmaster costs £30.6m favourable variance to POL; £16.2m due to lower sales, including impact of 53rd week, Mails including buy forward pre price increase, £7.5m lower fixed pay from 53rd week, unfreezing the Core Tier Payment and roll out of Locals, £3.2m relating to the DVLA rate accrual and £2.5m improved VAT recovery, partially off set by a £1.0m increase for payments for mails segregation.
 - Lower staff cost of £5.1m due to the 53rd week, lower bonus payments and efficiency savings offsetting higher pension costs and pay awards.
 - Higher JV income of £1.2m.
- Non like for like** favourable variance of £17.4m was due to:
- Lower project costs of £27.4m, offset by
 - Lower Network payment of £10.0m.

Below EBIT

NT exceptionals including compensation are ahead of the equivalent pace in 2012/13. 2013/14 grant utilisation includes £30m against 2012/13 exceptional costs not covered by the 2012/13 grant.

Crown Profit & Loss Statement



March 2014

	Period			Prior Year Period		Full Year			Prior Year Outturn	
£m	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance
Income and Distributions										
Variable income										
- Mails	3.0	3.2	(0.2)	3.9	(0.8)	39.6	43.2	(3.6)	44.8	(5.2)
- Financial Services	2.0	2.1	(0.1)	2.6	(0.6)	28.2	28.2	(0.0)	30.4	(2.2)
- Government Services	1.9	1.9	0.0	3.0	(1.1)	21.9	20.2	1.6	26.4	(4.5)
- Telephony	0.1	0.1	(0.0)	0.1	(0.1)	0.8	1.3	(0.5)	1.3	(0.6)
Fixed income	2.4	2.2	0.2	2.4	(0.0)	25.2	24.8	0.4	28.2	(3.0)
Gamma/ Other	1.6	1.2	0.4	1.1	0.5	12.8	14.7	(1.9)	10.9	1.9
Renewals and Retentions	0.9	1.3	(0.4)	0.9	(0.0)	16.9	17.7	(0.7)	11.1	5.8
Total Income including Gamma/other	11.9	12.1	(0.2)	14.1	(2.2)	145.4	150.1	(4.7)	153.2	(7.8)
Direct Product Costs	(0.8)	(0.2)	(0.6)	(1.9)	1.1	(7.2)	(5.0)	(2.2)	(8.3)	1.1
Branch costs										
- Staff	(7.3)	(7.9)	0.5	(10.5)	3.1	(106.0)	(106.0)	0.0	(117.9)	11.9
- Property	(2.8)	(2.6)	(0.1)	(4.8)	2.0	(34.4)	(35.4)	1.0	(36.9)	2.6
- Other branch costs	(0.5)	(0.3)	(0.2)	(0.9)	0.5	(4.3)	(4.7)	0.3	(6.3)	2.0
Infrastructure costs	(2.1)	(1.8)	(0.3)	(1.9)	(0.2)	(21.9)	(22.9)	1.0	(22.5)	0.6
Allocated central costs	(0.3)	(0.5)	0.2	(1.4)	1.1	(6.8)	(8.4)	1.6	(7.7)	0.9
Total Expenditure	(13.7)	(13.3)	(0.5)	(21.4)	7.6	(180.6)	(182.2)	1.6	(199.7)	19.1
JV Share of Profits	0.7	0.6	0.1	0.6	0.0	9.6	9.1	0.5	9.6	0.0
Statutory PBIT	(1.2)	(0.6)	(0.5)	(6.6)	5.4	(25.7)	(23.0)	(2.7)	(37.0)	11.3

Summary

Income £4.7m adverse to plan:

- Mails income continued to underperform against target following the Royal Mail pricing changes earlier in the year.
- Main drivers of favourable Government income are UK Visa & Immigration (UKVI) (due to UKVI reducing their backlog in applications) £0.6m, ID Services £1.1m and Passport Check & Send £0.5m, partially offset by Motorist services (DVLA Licences and AEI) which are £0.6m behind target.
- Financial Services overall was on budget, with variances between products. Favourable products were Savings, Premium Bonds and Postal Orders, offset by Life Insurance and Credit Cards. Mortgage sales run rates continued to increase as the FS team moves towards full strength.
- Other income was £1.9m adverse due to the stretch targets being included here.

Costs are £1.6m favourable to plan:

- Staff costs on target, delays in CTP were offset by savings from industrial action earlier in the year.
- Remainder mainly driven by property costs, VAT recovery and a purchase order efficiency drive.

Cost Management update

March 2014

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**Progress since P11 update****Value and confidence**

- The re-structure of Product/Commercial teams will not deliver the budgeted savings due to a need to increase capability. This reduces the anticipated savings by £0.7m to £0.5m.
- A key supply chain initiative to remodel the cash delivery operations has been delayed due to on-going union discussions. The budget FY14/15 saving was £1.7m. This saving has been reduced to £1.4m to reflect the delay.
- The impact of the above is to reduce the total value of initiatives in FY14/15 to £41.2m, and leave a shortfall of £0.9m versus the £34.2m of budgeted savings. We are identifying opportunities to mitigate this shortfall.

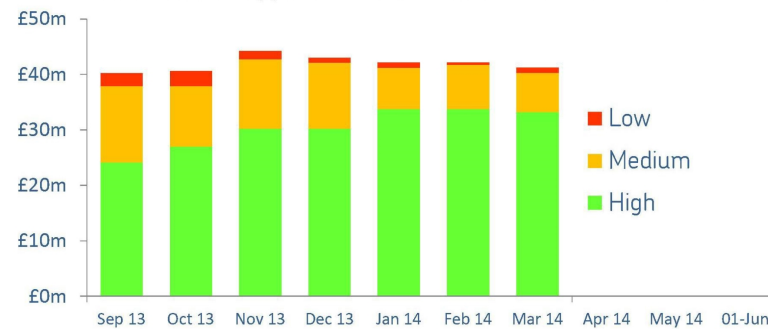
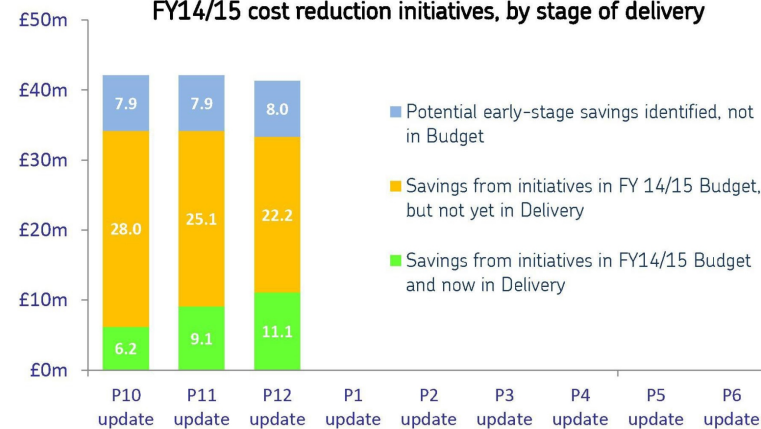
Delivery and governance

The "Delivery Stage" based measure for FY14/15 cost reduction initiatives shows:

- Initiatives currently in delivery will contribute £11.1m of cost reductions in FY14/15. This is up from £9.1m last month, principally due to further voluntary redundancy acceptances in the CTP and procurement savings.
- Benefits from initiatives that are in the budget, but not yet in delivery total £23.7m. Of these, implementation plans have been developed for £17.8m (75%).

Strategic initiatives for FY15/16 and beyond

The strategic business transformation programme provided a progress update to the Post Office Board in March 2014. The Board noted that the programme proposed to proceed with a Design Phase – to complete in November 2014 – and in parallel continue to examine and refine the long term partnering options. The Business Case was approved by POL IC on 8th April and the Invitation to Tender for the Design Phase went to market the same day. Design work will begin in May and will inform procurement of the delivery partner, scheduled to start in September. The programme will next update the Board in May.

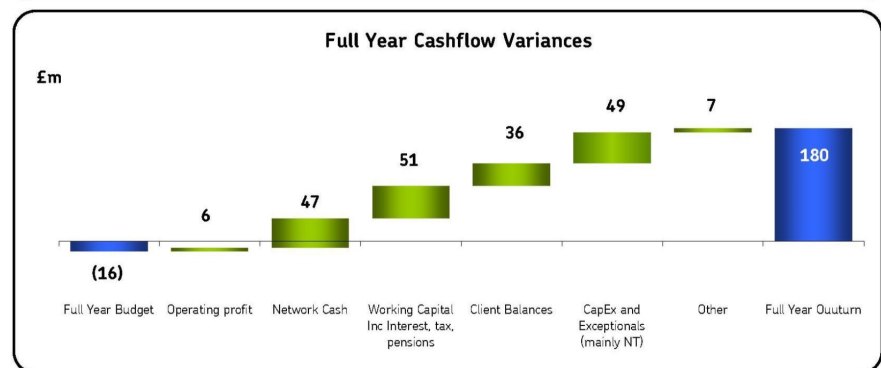
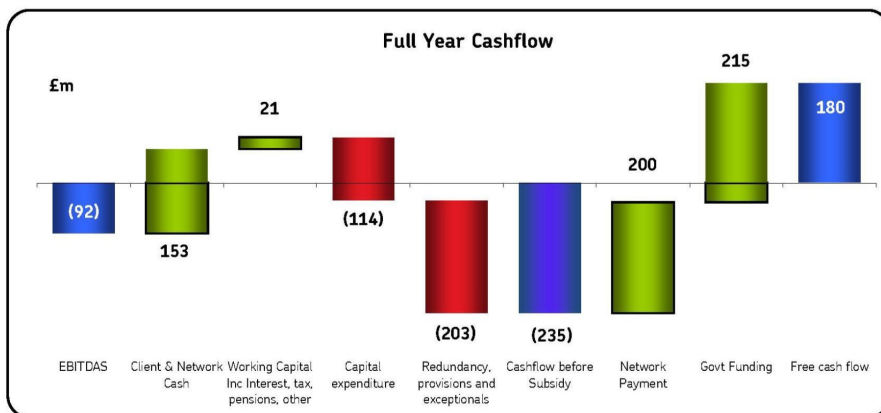
Cost reduction opportunities: Confidence and value FY14/15**FY14/15 cost reduction initiatives, by stage of delivery**

Overview of high impact initiatives (excluding CTP)	Directorate	FTE impact	FY14/15 (£m)				Delivery status	Significant changes since P11 update
			L	M	H	Total		
- Procurement savings in Network and Supply Chain (£2.6m Facilities Management; £1.2m Fleet Maintenance; £1.5m Official Mails, £1.0m Branch consumables etc)	Network & Supply Chain				6.2	6.2	£1.5m	
- Reduce cash delivery frequency and move to single person operation	Supply Chain	50		1.4		1.4	Planning	FY14/15 saving reduced from £1.8m due to delays introduced by on-going union discussions Progress being made on reducing rates and volumes
- Reduce cost and volume of Official Mail	Finance			1.3		1.3	Planning	
- Restructure Commercial to reduce duplication and increase customer focus	Commercial	10		0.5		0.5	Planning	
- Manchester Cash Centre Closure	Supply Chain	20			0.7	0.7	£0.7m	Previously £1.2m. See section 'Value and Confidence'
- Restructure Audit and Training team in the Agency network	Network	20		0.7		0.7	Planning	
- Deliver remainder of Finance Roadmap Programme savings	Finance	15			0.7	0.7	Planning	
- Restructure call centres transferring from Royal Mail and improve efficiency	Network	20			0.6	0.6	Planning	

Cashflow Analysis

March 2014

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Network Cash

£m

	Prior Year	Mar-13	P12		
	P12	Opening	Actual	Budget	var
Retail, Cash Centres	650	650	522	580	58
Bureau	59	59	58	65	7
Cheques, debit cards	161	161	128	110	(18)
Network Cash	870	870	708	755	47

	Opening	P12
Headroom (£m)	838	844

Cashflow

The full year cash inflow of £180m is £196m favourable to budget of £16m outflow. The current favourable variance is mainly due to:

- Capital expenditure was in line with forecast and ended the year £53m favourable to budget due to lower than planned expenditure- mainly NTP and Separation. Cash flow on exceptional items caught up to be just over budget at the year end. There was an acceleration of both capex and exceptional expenditure in the final months of the year and there is over £100m of committed spend that has not yet been paid for. This is particularly in relation to NTP and CTP and includes agents' compensation, Crown redundancy payments and Crown business transformation payments. This cash flow will fall into 2014-15 and the budget will be reviewed in the light of the year end position.
- Working capital was favourable to budget and forecast by £48m, also reflecting the acceleration of programme activity in the final months of the year resulting in higher creditors from the increased pace of purchasing.
- Client balances continued to be £36m favourable in line with forecast and driven by the improved settlement terms within the new DVLA contract.
- Network Cash is £47m favourable to budget due to effective management.
- Operating profit is £6m favourable to budget.

£m	Full Year		
	Outturn	Budget	Variance
Operating Profit	108.1	102.0	0.0
Working Capital	7.1	(41.2)	48.3
Client Balances	(8.4)	(44.4)	36.0
Network Cash	161.3	114.6	46.7
Capital Expenditure	(114.2)	(167.5)	53.3
Government funding	215.0	215.0	0.0
NSP in advance	0.0	0.0	0.0
Exceptional Items	(203.1)	(198.8)	(4.3)
Other	5.7	(1.3)	7.0
Free cashflow before interest, tax	171.5	(21.6)	193.1
Interest	(2.0)	(5.0)	3.0
Tax	10.2	10.3	(0.1)
Free Cashflow	179.7	(16.3)	196.0

Business Scorecard

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March 2014



Key Performance Indicators	Current Month			2013-14 Full Year			2012-13	YoY
	Act	Target	Var	Act	Target	Var	Outturn	Var
Growth								
Total Net Income (excl NSP) £m (Bonus 20%)	74.7	73.2	1.5	866.1	900.0	(33.9)	902.4	(36.3)
Operating profit £m (Bonus 25%)	1.5	10.4	(8.9)	108.1	102.0	6.0	94.2	13.9
Earnings before ITDA and Subsidy £m*	(13.9)	(5.0)	(8.9)	(91.5)	(97.1)	5.6	(115.4)	23.9
Free cashflow £m	(133.7)	(72.0)	(61.7)	179.7	(16.2)	195.9	132.2	47.5
Customer								
Customer Satisfaction**	87.8%	88.0%	(0.2)%	86.8%	88.0%	(1.2)%	87%	(0.2)%
Easy to do business with (Bonus 20%)**	36%	44%	(8)%	41%	44%	(3)%	42%	(1)%
Net Promoter score**	(2)	5	(7)	(4)	5	(9)	1	(5)
Queue time % < 5 minutes - Top 1k branches	82.8%	82.1%	0.7%	82.1%	80.6%	1.5%	80.7%	1.4%
Horizon availability	99.9%	99.7%	0.2%	99.9%	99.7%	0.2%	99.8%	0.1%
Branch - Compliance (new basket)	99.0%	98.0%	1.0%	97.6%	98.0%	(0.4)%	97.8%	(0.2)%
People								
Engagement Index % (Once a year April) (Bonus 10%)	TBC	56%	TBC	TBC	56%	TBC	55%	TBC
(No.) % of BME appointments over total recruits at senior leadership and senior manager	14%	4%	10%	11%	4%	7%	3.0%	8%
(No.) % of Female appointments over total recruits at senior leadership and senior manager	43%	40%	3%	46%	40%	6%	33.0%	13%
Modernisation								
Crown Profit (Loss) £m (Bonus 12.5%)	(1.2)	(0.6)	(0.5)	(25.7)	(23.0)	(2.7)	(37.0)	11.3
NT Conversions - contract signatures (Mains & Locals) (Bonus 12.5%)	333	211	122	3,246	3,000	246	1,450	1,796
NT Branches Open (Mains & Locals)***	304	114	190	2,058	1,950	108	507	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

Network Transformation Scorecard – Mains

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March 2014

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



	Key Performance Indicators	Current Month %			Actual Sample Size	Ave £'s per branch		
		Actual	Control Group	Var		Actual	Control Group	Var
POL	Finance Approved Investment per Mains £000	-	-	-		(42)	(42)	0
	Total Income: Post vs Pre Conversion							
	Branches live 6-12 months	1%	(3)%	4%	387	44	(199)	243
	Branches live 12-24 months	1%	(3)%	4%	75	61	(199)	259
	Focus Income: Post vs Pre Conversion							
	Branches live 6-12 months	16%	9%	7%	387	310	142	167
Agent	Branches live 12-24 months	16%	9%	7%	75	345	142	203
	Agents Remuneration: Post vs Pre Conversion							
	Branches live 6-12 months	(4)%	(7)%	3%	387	(239)	(376)	137
	Branches live 12-24 months	(1)%	(7)%	6%	75	(63)	(376)	313
	Customer Sessions							
	Branches live 6-12 months	1%	(4)%	5%	387			
	Branches live 12-24 months	(4)%	(7)%	3%	75			
	Operator Feedback on Retail Sales Performance	9%			137			
Customer	Operator Satisfaction	78%			118			
		Actual	Target	Var	Actual Sample Size			
	Average Increase in Opening Hours	41%	20%	21%	1,009			
	Customer Satisfaction	98%	90%	8%	30			
	Queuing Times	2m 15s < 5 mins	2m 45s		63			

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.

Network Transformation Scorecard – Locals

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March 2014

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



		Current Month %			Actual Sample Size	Ave £'s per branch			
		Actual	Control Group	Var		Actual	Control Group	Var	
LOCALS									
POL	Finance Approved Investment per Local £000		-	-	-		(11)	(11)	0
	Total Net Impact: Post vs Pre Conversion								
	Branches live 6-12 months								
	Income		(12)%	(10)%	(2)%	113	(254)	(250)	(4)
	Actual Fixed pay savings						931	0	931
	Actual Net impact						677	(250)	927
	Branches live 12-24 months								
	Income		(11)%	(10)%	(1)%	91	(309)	(250)	(59)
Actual Fixed pay savings						905	0	905	
Actual Net impact						596	(250)	846	
Agent	Customer Sessions								
	Branches live 6-12 months		7%	(3)%	10%	113			
	Branches live 12-24 months		2%	(6)%	8%	91			
	Operator Feedback on Retail Sales Performance		13%			31			
Operator Satisfaction		72%			29				
			Actual	Target	Var	Actual Sample Size			
Customer	Average Increase in Opening Hours		116%	80%	36%	616			
	Customer Satisfaction		94%	90%	4%	30			
	Queuing Times		2m 01s < 5 mins	2m 59s		25			

Transformation Delivery

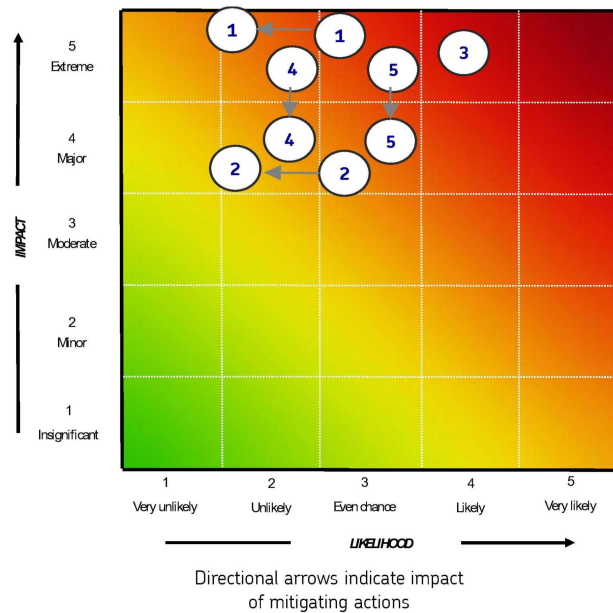
March 2014

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This chart illustrates the programme risks reviewed and discussed at April Transformation Committee (using the Post Office Risk Management framework).

The Transformation Committee delivery performance report is currently being reviewed and improved for inclusion in the 2014-15 performance report.



Ref	Area	Risk Summary	Risk Description and Impact	RAG Gross	Impact (Gross)	Likelihood (Gross)	Current Risk Mitigation	RAG (Net)	Impact (Net)	Likelihood (Net)
1	Cross Transformation Programme and Portfolio	Failure of change programmes to deliver forecast benefits and deliver strategy	There is an increasing risk that cumulatively, programmes within Transformation Committee governance fail to deliver benefits, impacting achievement of 2020 strategy.	15	5	3	Requirement for Business Sponsors to undertake more regular reviews of business cases throughout programmes lifecycle to ensure early sight of variations from expected benefits and any necessary remedial action to be undertaken.	10	5	2
2	Cross Programme and Portfolio	Insufficient capacity to deliver change	The scale of change planned across the business to deliver the strategy results in multiple complex dependencies, lack of availability of subject matter experts/Senior managers - leading to bottle necks and failure to deliver benefits within the strategic plan.	12	4	3	Change Management Team to review short, medium and long term plan to identify capacity constraints: Short term - 14-15 resource and capacity planning underway Medium Term - Consolidate 3 year Operating Plans Long term - Production and monitoring of 2020 capability and outcomes roadmap Transformation Committee to use output and recommendations of capacity planning to amend planned change activity as necessary	8	4	2
3	Business Transformation	Failure to deliver cost savings and workable operating model	Exposure to this risk is being explored but not yet fully understood.	20	5	4	Risk analysis underway within the programme, with update to be provided in May	20	5	4
4	Network Transformation	Non delivery of Network Transformation	NT is an important contributor to improved overall business performance. Failure to deliver the NT conversion plan to 2018 would significantly impact the cost savings embedded in the strat plan. It could also affect income growth through reduced agent incentives (failure to fully variabilise agent pay in larger branches) and poorer customer perception (fewer modernised branches with shorter opening hours).	10	5	2	The NT programme has met all its delivery targets to date; 40% of the planned conversions have already committed, with 25% of them open to customers. The programme has been relaunched with an improved agent offer, while agent responses to the recent survey have reaffirmed confidence that the plan to 8300 can be delivered. Improvements are now being made to reduce programme risk. These include: strengthened governance and processes as well as teams to encourage new operators to take on leaving branches. The programme is also now starting to focus on improving profitability of branch models.	8	4	2
5	IT Transformation	Non delivery of IT Transformation benefits and workable operating model	There is a risk that delays in the IT Transformation Programme lead to an erosion in the benefits delivered.	15	5	3	Strong Programme Governance, including a robust change control process to impact assess any movements in dates or scope. Lessons learned from the SISD procurement and the cancellation of the Data Centre are informing the remaining procurement activities. Independent review of risk by PwC to advise on management, best practice and assurance for the Transition from our existing IT Supply Chain to the new Towers model and the ongoing run of the new model.	12	4	3

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POLB 14(3rd)
POLB 14/31-14/48

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

Minutes of a Board meeting held on 26 March 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
Paula Vennells	Chief Executive (except minute 14/35)
Chris Day	Chief Financial Officer (except minute 14/35)
Susannah Storey	Non-Executive Director (minutes 14/31-14/38)

In Attendance:

Alwen Lyons	Company Secretary
Richard Callard	Non-Executive Director designate, Shareholder Executive
Chris Aujard	General Counsel (minute 14/32)
Angela Van Den Bogerd	Network Change Operations Manager (minute 14/32)
Christa Band	Linklaters LLP (minute 13/32)
Lesley Sewell	Chief Information Officer (minute 14/33)
Neil Hayward	Group People Director (minutes 14/33 and 14/36)
Kevin Gilliland	Network & Sales Director (minute 14/36)
Tom Moran	Head of Industrial Relations and Network Strategy (14/36)
Martin George	Chief Marketing and Commercial Officer (minute 14/44)
Jeremy Woodrow	Head of Telecoms Acquisition and Strategy (minute 14/44)
Vicky Hampshire	Mobile Product Manager (minute 14/44)

POLB 14/31

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting.
- (b) The Chairman reminded the Board that this was to be Susannah Storey's last meeting as a Non-Executive Director and thanked Susannah for her contribution to the Board.

POLB 14/32

PROJECT SPARROW

- (a) The CEO reminded the Board of the background to Sparrow and the Initial Complaint Review and Mediation Scheme ('the Scheme'), and introduced the work which Linklaters had been asked to undertake to clarify the Company's legal position.
- (b) Chris Aujard, General Counsel, Angela Van Den Bogerd, Network Change Operations Manager, and Christa Band from Linklaters LLP

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joined the meeting.

- (c) Christa Band presented the legal advice to the Board, which dealt with the Company's contractual relationship with sub-postmasters and the Company's right under the contract to recover losses. She emphasised that the advice focussed on the legal issues, not questions of fact or individual cases. Christa Band questioned the approach taken by Second Sight with respect to the work produced by them to date. In particular she would have expected them to:
 - (i) produce a review of the system as a 'baseline' before considering any specific complaints; and
 - (ii) cite hard evidence to back up any conclusions made.
- (d) The Board discussed the Scheme and possible compensation payments. Christa Band explained that, because of the terms of the contract between sub-postmasters and the Post Office, the Company would not be required to pay compensation and that if compensation were given this would not give sub-postmasters outside the scheme any legal right to demand such compensation although it may lead to claims of 'unfairness'.
- (e) Christa Band explained that English Law did not allow for compensation for distress as claimed by many of the cases in the Scheme.
- (f) The Board thanked Christa for her report covering the legal aspects of the claims against the Business. Christa Band left the meeting.
- (g) The Board agreed to set up a Sparrow Board Sub Committee which the Chairman would Chair and would involve the CEO, Alasdair Marnoch (Chairman of the Audit Committee) and Richard Callard. Other NEDs were invited if they wished to join.
- (h) The CEO reported on other work underway. She noted that the quality of the work undertaken by Second Sight had been challenged by Sir Anthony Hooper, Chairman of the Working Group, who was now insisting on more evidence based reports.
- (i) The CEO had met the CEO of the Financial Ombudsman Service to understand the principles they would recognise as good practice for goodwill payments.
- (j) The CEO, General Counsel and Angela Van den Bogerd had also attended an MPs meeting, called by James Arbuthnot, at which a couple of the MPs with cases in the Scheme were pushing for compensation for their constituents.
- (k) The Board agreed that they needed to commission a piece of work, to complement that undertaken by Linklaters, to give them and those concerned outside the Business, comfort about the Horizon system. The Business was asked to revert with the terms of reference and timescale for the work which should cover:
 - The work undertaken by Angela Van Den Bogerd explaining

ACTION:
Company
Secretary

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how the system works

- A review of the data integrity aspects of the system
- A reference to all audits and tests carried out on the system
- A response to the most significant thematic issues raised by Second Sight.

ACTION:
Chris Aujard

- (l) These terms of reference should be tested with Linklaters to ensure that this work would satisfy them as evidence that Horizon is reliable and then agreed by the Board Sparrow Sub Committee.

- (m) The Board noted the update on the Scheme.

ACTION:
Chris Aujard

- (n) After due consideration, and in the interest of regularising Second Sight's engagement, the Board authorised the execution of the draft engagement letter. Chris Aujard was asked to try to extend the time period restricting Second Sight from acting against the Company beyond a 12 months period.

ACTION:
Belinda Crowe

- (o) The Board requested a one page lessons learned covering 3 or 4 areas by the next Board meeting.

- (p) Chris Aujard and Angela Van Den Bogerd left the meeting.

POLB 14/33

BUSINESS TRANSFORMATION PROGRAMME

ACTION:
Chris Day

- (a) Tim Franklin declared an interest in two of the Companies who may be involved in this work. It was noted that he is a strategy advisor for Firstsource, and a member of the advisory board at L&T Infotech, both interests had been previously logged with the Company Secretary.

- (b) The Board welcomed Neil Hayward, Group People Director, and Lesley Sewell, Chief Information Officer, to the meeting and received an update on the Business Transformation Programme.

- (c) The CFO explained the changes since the last Board meeting and the decision to spend more time on the design phase of the plan. He acknowledged that the effect of this delay would be to produce a gap in the strategic plan in 2014/15 of circa £10-15million which the Business would need to find more radical options to cover. Supply Chain was one of the areas being considered, which would be presented at the May Board.

ACTION:
Chris Day

- (d) The Board asked the CFO to model the scenario where revenue remained flat next year, to show the cost savings which would be required to hit the strategic plan profit target.

- (e) The CEO explained the recruitment process for an interim Transformation Director and that additional consultant assistance was being sought, so that the business would be fully supported.

- (f) Lesley Sewell assured the Board that the base case now being considered included a model where TUPE applied.

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- (g) The Board noted the update and the next steps regarding the design phase, risk management activity and communications and stakeholder planning.
- (g) Neil Hayward and Lesley Sewell left the meeting.

POLB 14/34

APPROVAL OF 2014-15 BUDGET AND SCORECARD TARGETS

- (a) Further to previous discussions, the Board received a request to approve the 2014-15 budget.
- (b) The Board recognised the challenge in the revenue budget and were concerned by the level of growth required as compared to this year's performance. The CFO reported that the Commercial team were committed to delivering these numbers and that they recognised the importance of hitting revenue targets to help achieve breakeven for the Crown network.
- (c) The CEO explained that she had set up a Commercial Committee, which is chaired by Martin George, to drive the revenue and ensure that the Business have the right incentives in place. The commercial team would be presenting their plans at the April Board.
- (d) The Board:
 - noted the actions being taken in response to the challenges given on the Board conference call on 10 March 2014;
 - on the basis of these actions, approved the 2014-15 budget; and
 - noted the development of the Key Performance Indicators for 2014-15.
- (e) Paula Vennells, CEO, and Chris Day, CFO, left the meeting.

POLB 14/35

EXECUTIVE REMUNERATION FRAMEWORK 2014-15

- (a) Richard Callard declared an interest that as the Shareholder representative on the Board who would be considering the recommendation in his capacity at the Shareholder Executive, he could not be seen to be giving implicit approval to the proposals. The Chairman recognised this conflict.
- (b) The Board received a recommendation from Neil McCausland, Chair, Remuneration Committee, for:
 - the level of base pay of the Executive Directors for 2014-15;
 - the Short Term Incentive Plan (STIP) scorecard measures for 2014-15; and

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- the Long Term Incentive Plan (LTIP) performance conditions for the award dated April 2014-17.

- (c) The Board recognised that the base pay of the Executive Directors was circa 70% of the market benchmark and that although the Board would not recommend an increase this year that this situation was not sustainable.
- (d) The Board discussed the proposed changes to the STIP measures and the percentage of bonus attributed to each. It was recognised that neither the Board nor the Shareholder liked threshold targets, but with the challenge in the revenue target next year it was thought appropriate to maintain this one threshold.
- (e) The Board agreed the business's proposal for Net Promoter Score rather than Easy to do Business for Financial Services in 2014-15 and Neil McCausland explained that this was tracked on the Business Scorecard but not bonus worthy.
- (f) The Board received the personal objectives for the CEO and were asked to revert back to the Chairman with any comments. The CEO would be asked to circulate the objectives for the CFO.
- (g) The Board discussed the LTIP measures and retaining access criteria as the gateway. The Business was asked for a paper to explain the work underway to increase access points.
- (h) The Board agreed:
- not to award an increase in base pay for the Executive Directors for 2014-15;
 - the STIP scorecard for 2014-15, as detailed in Appendix A of the paper; and
 - the LTIP performance conditions of access criteria and Earnings Before Interest and Tax, Depreciation, Amortisation and Subsidy, for the award dated April 2014.
- (i) Paula Vennells and Chris Day re-joined the meeting.

ACTION: All
ACTION: CEO

ACTION:
Martin George

POLB 14/36

INDUSTRIAL RELATIONS UPDATE

- (a) The Board welcomed Kevin Gilliland, Network & Sales Director, Neil Hayward, Group People Director and Tom Moran, Head of Industrial Relations and Network Strategy, to the meeting.
- (b) The Board received an update on the pay talks, including the details and parameters of a potential pay deal as agreed by the Executive Committee.
- (c) The Board discussed the effect of the industrial action on the performance of the Business and specifically on the topline and on the Engagement Index.

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- (d) The Board noted the update and the restatement of the negotiating mandate.
- (e) The Board also noted the pay proposal, as detailed in Section 4 of the paper.
- (f) Kevin Gilliland, Neil Hayward and Tom Moran left the meeting.

POLB 14/37

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the Chief Executive's report.
- (b) The CEO reported that she and the Chairman had had a positive meeting with Vince Cable, Secretary of State, and Jenny Willott, Minister for Employment Relations and Consumer Affairs. Richard Callard, who also attended, agreed that the positive messages had been well received.
- (c) The CEO thanked Tim Franklin for chairing the Post Office Advisory Council. The inaugural meeting had been very successful with a high level of engagement from the members.
- (d) The CEO referred to the final version on the Public Purpose Statement, which had been circulated to the Board, and explained that the Business was now pulling together a plan for its launch.

POLB 14/38

FINANCIAL PERFORMANCE UPDATE

**ACTION:
Chris Day**

- (a) The Board received a financial performance update for February 2014.
- (b) The CFO recognised the pressure that the shortfall in revenue was putting the Business under and suggested that he produce some analysis to further understand the underlying quality of earnings.
- (c) The Board appreciated the new Network Transformation reports but were concerned that the Locals model did not appear to be working as expected. The CFO assured the Board that work was underway to understand this trend and that the Business recognised that the Locals required more support after converting.

**ACTION:
Chris Day**

- (d) The Board asked the CFO to explain the reduction in customer sessions in the Mains Branches that have been open for 12-24 months.

**ACTION:
Chris Day**

- (e) The CFO recognised that an additional page of narrative to explain the remedial actions being taken by the Business and his views and any concerns on performance would enhance the report and promised to include this from next month.

POLB 14/39

CORPORATE GOVERNANCE REVIEW

- (a) The Board received an update on corporate governance from Alwen

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Lyons, Company Secretary.

(b) The Board:

- noted the current level of compliance with the UK Corporate Governance Code;
- approved the terms of reference presented for the Board, including a Schedule of Matters reserved for Board decision, and the Board sub-committees;
- approved the definition of the roles of the Chairman and Chief Executive;
- approved the matrix of Delegated Authorities and the Delegated Authorities for Remuneration Matters; and
- authorised the Executive Committee to be permitted to use its discretion to authorise delegates to approve contracts, commitments of expenditure and implementation of change that the Executive Committee would be authorised to approve under the authority granted to the Executive Committee by the Board. Such authority:
 - (i) may not exceed the limits of the authority granted by the Board to the Executive Committee; and
 - (ii) must be in writing and specify any limits to the authority.
- authorised any member of the Executive Committee to be permitted to use his or her discretion to authorise delegates to approve contracts, commitments of expenditure and implementation of change that that member of the Executive Committee would be authorised to approve. Such authority:
 - (i) may not exceed the limits of the authority granted by the Board to that Executive Committee member; and
 - (ii) must be in writing and specify any limits to the authority.

POLB 14/40

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 26 February 2014 were approved for signature by the Chairman.

POLB 14/41

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
- the Audit, Risk and Compliance Committee meetings held on 19 November 2013 and 11 February 2014;

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- the Financial Services Committee meetings held on 27 January 2014 and 10 February 2014;
- the Pensions Committee meetings held on 20 November 2013 and 8 January 2013; and
- the Remuneration Committee meeting held on 11 February 2014.

POLB 14/42

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, including an Energy proposition update, was noted.

POLB 14/43

PROJECT SPARROW - INSURANCE

- (a) The Board discussed the Professional Indemnity (PI) insurance and the Sparrow compensation risks. The CFO explained that PI insurance could only cover incidents for which the Business was legally responsible. Therefore any compensation paid outside that legal requirement could not be covered by PI insurance.
- (b) The Board asked the Business to consider enhancing its insurance expertise and to reconsider how it tracks events and near misses which should be reported to the insurers. The CFO was asked to provide an update for the next ARC on his proposal for PI insurance.

**ACTION:
CFO**

POLB 14/44

PROJECT WAVE

- (a) The Board welcomed Martin George, Chief Marketing and Commercial Officer, Jeremy Woodrow, Head of Telecoms Acquisition and Strategy, and Vicky Hampshire, Mobile Product Manager, to the meeting and received an update on Project Wave.
- (b) The Board noted the fact that the proposals to enter the energy market had been put on hold, as detailed in the Board Status Report. This gave them comfort that Project Wave was likely to be a good investment for the Company.
- (c) Martin George explained the proposition as outlined in the paper and explained how the Business would work with the chosen suppliers. The Board were given assurance from the Business that working with these small companies would deliver the best innovation and results.
- (d) The Board raised concerns about the Post Office's contract management resource but were reassured by the Business' proposal to bring in the necessary relevant expertise.
- (e) The Board supported the product but asked the Business to consider what it would take to deliver the results more quickly and achieve the targets in the strategic plan. Martin George agreed that he would like to grow the business more quickly and understood that this product might be challenged if it was only delivering the targets in the

**ACTION:
Martin George**

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business case.

**ACTION;
Martin George**

- (f) The Board discussed the opportunities for cross product marketing if the Business had a single view of the customer and Martin George promised to let the Board know when a single view of the customer was likely to be available.

**ACTION:
Neil Hayward/
Martin George**

- (g) Martin George explained that the product would be launched with a colleague offer. The CEO promised a paper on 'colleague offers' for the next Board.

- (h) The Board:

- noted the update;
- authorised any member of the Executive Committee to sign the contracts with the mobile vendors as detailed in Part E, Annex 1 of the Paper;
- approved the deployment of a mobile service in accordance with the launch strategy outlined in the Paper and in support of the objectives outlined in the Strategic Plan; and
- noted the investment requirement of £6.6m to establish the service.

- (i) Martin George, Jeremy Woodrow and Vicky Hampshire left the meeting.

POLB 14/45

ITEMS FOR NOTING

- (a) The Board noted the Project Maypole update.
- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.
- (d) The Board noted the update on Cyber Security and Information Assurance.
- (e) 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 1129 to 1140 inclusive in the seal register was hereby confirmed.

POLB 14/46

CHANGE OF DIRECTORS

- (a) The Board approved the appointment of Richard Callard and noted the resignation of Susannah Storey with immediate effect.
- (b) The Company Secretary was authorised to make all the necessary filings with Companies House.

POLB 14/47

DEFINED CONTRIBUTION PENSION ARRANGEMENT

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- (a) The Board ratified the decisions made by correspondence on 21 March 2014 regarding the Defined Contribution Pension Scheme.

POLB 14/48

PENSIONS SUB COMMITTEE

ACTION:
Virginia Holmes/
Company
Secretary

- (a) Virginia Holmes, Chairman of the Pensions Sub Committee, suggested that the Terms of Reference for the Sub Committee needed review and undertook to discuss a proposed draft at the next Sub Committee meeting.

ACTION:
Company
Secretary

- (b) It was agreed that Richard Callard would replace Susannah Storey on the Pensions Committee and that Neil Hayward would replace the CFO.

POLB 14/48

DATE OF NEXT MEETING

- (a) It was noted that the next Board meeting would be held on 30 April 2014.

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POST OFFICE LIMITED 26 MARCH 2014 BOARD ACTION LOG

<u>REFERENCE</u>	<u>ACTION</u>	<u>BY WHOM</u>
	<u>Project Sparrow</u>	
<u>March 2014</u> <u>POLB 14/32(g)</u>	Set up a Sparrow Sub Committee with the Chairman as Chair and to involve the CEO, Alasdair Marnoch and Richard Callard	<u>Company Secretary</u>
<u>March 2014</u> <u>POLB 14/32(l)</u>	Draft Terms of Reference for a piece of work to provide the Board and those outside the Business comfort about the Horizon system. These terms of reference should be tested with Linklaters to ensure that this work would satisfy them as evidence that Horizon is reliable and then agreed by the Board Sparrow Sub Committee.	<u>Chris Aujard</u>
<u>March 2014</u> <u>POLB 14/32(n)</u>	Try to extend the time period restricting Second Sight from acting against the Company beyond a 12 month period.	<u>Chris Aujard</u>
<u>March 2014</u> <u>POLB 14/32(o)</u>	Prepare a one page lessons learned covering 3 or 4 areas by the next Board meeting.	<u>Belinda Crowe</u>
	<u>Finance</u>	
<u>March 2014</u> <u>POLB 14/33(c)</u>	Present on options to cover the gap in the strategic plan (Supply Chain) at the May Board	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/33(d)</u>	Model the scenario where revenue remained flat next year, to show the cost savings which would be required to hit the strategic plan profit target.	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/38(b)</u>	Produce some analysis to further understand the underlying quality of earnings.	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/38(d)</u>	Explain the reduction in customer sessions in the Mains Branches that have been open for 12-24 months.	<u>CFO</u>
<u>March 2014</u>	Include an additional page of narrative to explain the remedial actions being taken by the	<u>CFO</u>

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<u>POLB 14/38(e)</u>	Business and the CFO's views and any concerns on performance to be included in the financial performance update from next month.	
	<u>Strategy</u>	
<u>March 2014</u> <u>POLB 14/35(g)</u>	Provide a paper to explain the work underway to increase access points.	<u>Martin George</u>
<u>March 2014</u> <u>POLB 14/44(e)</u>	Consider what it would take to deliver the results more quickly and achieve the targets in the strategic plan for Project Wave.	<u>Martin George</u>
<u>March 2014</u> <u>POLB 14/44(f)</u>	Inform the Board when a single view of the customer was likely to be available.	<u>Martin George</u>
<u>March 2014</u> <u>POLB 14/44(g)</u>	A paper on 'colleague offers' to come to the next Board meeting.	<u>Martin George/Neil Hayward</u>
	<u>Miscellaneous</u>	
<u>March 2014</u> <u>POLB 14/35(f)</u>	Revert back to the Chairman with any comments on the personal objectives for the CEO.	<u>All</u>
<u>March 2014</u> <u>POLB 14/35(f)</u>	Circulate the objectives for the CFO.	<u>CEO</u>
<u>March 2014</u> <u>POLB 14/43(b)</u>	Provide an update for the next ARC on the CFO's proposal for PI insurance	<u>CFO</u>
<u>March 2014</u> <u>POLB 14/48(a)</u>	Discuss proposed draft Pensions Committee terms of reference at the next Pensions Committee meeting.	<u>Virginia Holmes/</u> <u>Company</u> <u>Secretary</u>
<u>March 2014</u> <u>POLB 14/48(b)</u>	Richard Callard to replace Susannah Storey on the Pensions Committee and Neil Hayward to replace the CFO.	<u>Company</u> <u>Secretary</u>

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POLARC14 (2nd)
14/4 - 14/17

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

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on 6 March 2014 at 148 Old Street, London, EC1V 9HQ**

Present:

Alasdair Marnoch	Chairman of Committee
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director

In attendance:

Chris Aujard	General Counsel (GC)
Gill Catcheside	Assistant Company Secretary
Chris Day	CFO
Sarah Hall	Head of Financial Control and Compliance
David Mason	Head of Risk Governance
Malcolm Zack	Head of Internal Audit
Mark Davies	Communications Director (Minute POLARC 14/6-14/7 only)
Angus Grant	Partner, Ernst & Young (Minute POLARC 14/8-14/10 only)
Steve Lyon	Ernst & Young (Minute POLARC 14/8-14/10 only)

POLARC
14/4

INTRODUCTION

A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.

POLARC
14/5

MINUTES OF THE LAST MEETINGS AND MATTERS ARISING

- (a) The Committee approved the minutes of the meetings held on 19 November 2013 and 11 February 2014 for signature by the Chairman of the Committee.
- (b) The Committee noted the actions list dated 26 February 2014.
- (c) The Committee received a report on the Bank of Ireland's saving strategy. It was noted that balances had been actively reduced to £16.0bn so that the savings book could be grown in line with the mortgage book growth, and that it was anticipated there would be no further re-structuring of the balance sheet. CD advised that there was a statement of intent with Bank of Ireland to grow both sides of the balance sheet with the Post Office but that there was no contractual arrangement in place. Nick Kennett, Director of Financial Services, was asked to confirm (i) that there were no restrictions on Post Office by being tied to the structure and growth of Bank of Ireland's balance sheet; and (ii) details of the benchmark for competitiveness to ensure that customers were not disadvantaged.

ACTION: NK

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POLARC
14/6

ANNUAL REPORT AND ACCOUNTS 2013/14

- (a) Mark Davies, Communications Director, was welcomed to the meeting.
- (b) The Committee noted the key messages and plans for the publication of the Post Office's Report and Accounts for the financial year 2013/14 ("R&A"). It was agreed that the work of the Post Office Advisory Service should be included in the public purpose section.

ACTION: MD

- (c) Mark Davies was asked to circulate a timeline for the production of the R&A, together with more detail for the high level themes to include "the most difficult words and issues". It was agreed that a balanced sensible approach was required as 2013/14 had been a tough year. It was agreed that the R&A should be consistent with the Post Office's corporate branding.

ACTION: CD

- (d) It was noted that the publication date for the R&A would be after that of Royal Mail due to the price sensitive nature of the reporting of Mails. Chris Day undertook to advise Matthew Lester of Royal Mail of Post Office's R&A timeline.

POLARC
14/7

ADOPTION OF NEW UK GAAP REGIMES

- (a) The Committee received a report on the new UK financial reporting framework, and considered Post Office's response to the changes outlined.
- (b) Sarah Hall advised that, following consultation with the Company's Pension providers and corporation tax advisers, there would be no disadvantage to working towards early adoption of the new UK GAAP regimes.

ACTION: SH

- (c) The Committee asked Sarah Hall to raise the issue with the Shareholder Executive, and subject to their agreement, agreed that Post Office should early adopt the new UK GAAP regime and prepare the Company financial statements for the 2013/14 financial year end under FRS 101 (reduced disclosure).

POLARC
14/8

AUDIT PLANNING REPORT 2013/14

- (a) Angus Grant and Steve Lyon of Ernst & Young ("EY") were welcomed to the meeting.
- (b) The Committee considered the Audit Planning report for the 2013/14 financial year. Angus Grant advised it would be a year of transition with new corporate governance rules being introduced, including the "fair, balanced and understandable" requirement. Chris Day suggested it would be helpful for EY to review Post Office's 2012-13 R&A in light of the new best practice and to provide examples of good reporting by other companies.
- (c) Angus Grant noted that the Fujitsu IT controls report had been received and had no issues of concern. The Committee discussed the independence of the report on Fujitsu's controls. It was noted that a separate team from EY prepared the report against defined standards,

ACTION: EY

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and underwrote its accuracy. The Committee was advised that the audit of the Fujitsu work had improved over the last two years with higher levels of engagement and oversight, and that lessons learnt would be implemented at the start of the re-platforming process to take place in 2015.

ACTION: CA (d) It was agreed that the Business share its top risks with EY.

ACTION: EY (e) It was also agreed that EY should be invited to provide a briefing to the Financial Services Sub-Committee on regulation under the FCA.

ACTION: GC (f) The classification of exceptional items was discussed, including the impact of the change in RMPP terms and the utilisation of Government grant for transformation expenses. Counterparty risk was also discussed and it was agreed that Gill Catcheside would forward to EY the Terms of Reference for the Financial Services Sub-Committee which had oversight of the Bank of Ireland capital and liquidity for Eagle Contract requirements

(g) The Committee discussed and noted EY's fees for the 2013/14 audit work which had been agreed with the CFO. It was noted that the inflationary increase had been mitigated by efficiencies but there was a 7% uplift in fees mainly due to the work required for the preparation of the interim consolidated accounts for the first time in 2013-14.

**POLARC
14/9**

REVIEW OF BUSINESS TOP RISKS

(a) The Committee received a paper on the Executive Committee's assessment of the key risks facing the Post Office in the achievement of its strategic objectives.

ACTION: DM (b) It was agreed that a note on the key risks should be circulated to the Board, and that a copy of the paper be sent to EY. It was noted that the Executive Committee Governance structure included a Risk & Compliance Committee, and that each committee within the structure had risk management incorporated into its Terms of Reference.

**ACTION: CD/
CA** (c) A paper was tabled on the insurance-related issues for Project Sparrow. The Committee was advised that the risks associated with Project Sparrow were being identified and action taken to mitigate those risks, and that this was being regularly monitored by the Board. The Committee discussed the position with regard to Professional Indemnity insurance ("PI"), and was concerned at the apparent lack of clarity on the current/historic levels of insurance which might cover Sparrow risks. Chris Day and Chris Aujard would provide a report to the 26 March 2014 Board meeting to provide clarity on the insurance position, including PI cover, in respect of Sparrow; and the legal liabilities in respect of claims made in connection with Sparrow

(d) The Committee reviewed the other eight key risks. It was noted that these risks had been discussed by the Board.

ACTION: CA (e) Chris Aujard advised that he was liaising with Nick Kennett regarding Project Titan and the implications of a potential FCA authorisation.

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- (f) It was noted that the ExCo owner of the People Capability was now Neil Hayward, and that Capability and Capacity to Change would be included in the risk description.
- (g) With regard to the Network Transformation programme, the Committee agreed that it was important to deliver a sustainable network.
- (h) The continuing trend of “red” mystery shops was discussed, and the Committee agreed that an understanding of the process together with an urgent remedial action was required. Nick Kennett would be asked to produce an update for the next Board meeting.
- ACTION: NK**
- (i) Lesley Sewell was asked to provide the Committee with an update on Data Security/Integrity at the next meeting, to include lessons learnt and what controls and processes were now in place.
- ACTION: LS**
- (j) The Committee was informed that the report from Price Waterhouse Coopers on risks, risk management best practice and assurance in relation to the IT Transformation programme would be considered by the Board.
- (k) Chris Aujard, Chris Day and Dave Mason undertook to incorporate the Committee’s feedback on the Business’ top risks.
- ACTION: CD/CA/DM**
- (l) The Committee noted the progress made in the management of the risks affecting the Post Office strategy.
- POLARC 14/10**
- CORPORATE GOVERNANCE AND KEY ACCOUNTING STANDARDS BRIEFING**
- (a) Steve Lyon tabled a presentation outlining the changes to UK Regulatory and Corporate Governance requirements.
- (b) The Companies Act 2006 requirements for a Strategic report within the R&A, and the need for the Board to present a fair, balanced and understandable (“FBU”) assessment of the Company’s position and prospects within the R&A was discussed. Angus Grant advised that the Company did not have to make an FBU statement in the 2013/14 accounts, but should evaluate what work was necessary to be able to make an FBU statement in next year’s R&A.
- (c) Angus Grant would send through a model set of accounts reflecting the recent changes in Corporate Governance and Key Accounting Standards. EY would also advise what level of reporting other companies were considering for the current financial year.
- ACTION: EY**
- (d) Angus Grant and Steve Lyon left the meeting.
- POLARC 14/11**
- INTERNAL AUDIT PLAN 2014/15**
- (a) The Committee received the proposed internal audit plan for 2014/15. Malcolm Zack advised that the plan incorporated the Business’ top risks.
- (b) It was agreed that an internal audit plan be recommended to the

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ACTION: MZ Committee at the next meeting, incorporating a prioritisation of work and the necessary resource requirements.

POLARC 14/12 **INTERNAL AUDIT ACTIVITY REPORT**

- (a) A paper on Internal Audit activity since November 2013 including key outcomes, and proposed audit and advisory work for Q1 2014 was noted.

ACTION: LS (b) Lesley Sewell was requested to provide updates on the outstanding actions.

ACTION: MZ (c) It was agreed that Internal Audit should encourage management to complete outstanding actions.

POLARC 14/13 **MORTGAGE MARKET REVIEW & BUSINESS COMPLIANCE SCORECARD**

- (a) It was noted that the Mortgage Market Review and Business Compliance Scorecard would be considered by the Financial Services Sub-Committee.

POLARC 14/14 **ITEMS FOR NOTING**

- (a) The summary of 2013/14 IA activity was noted.
- (b) The recommendations log updates was noted.
- (c) The review of the regulatory risk framework was noted.

POLARC 14/15 **ANY OTHER BUSINESS**

- (a) Chris Aujard advised that a report on the Data Centre procurement process would be given at the next meeting.

POLARC 14/16 **DATE OF NEXT MEETING**

The date of the next meeting is 12 May 2014. It was agreed that the timing of the meeting be altered so that Angus Grant was able to attend by telephone.

POLARC 14/17 **CLOSE**

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

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POST OFFICE LTD BOARD

Update on EXCO Risks

1. Purpose

The attached paper was considered by the Audit, Risk & Compliance Committee (the "ARC") at its meeting on 6 March 2014. The ARC asked that the paper be circulated to the Board for its information.

2. Recommendations

The Board is asked to note the update on EXCO risks.

**Dave Mason
17 April 2014**

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AUDIT, RISK AND COMPLIANCE COMMITTEE

Update on EXCO risks

1. Purpose

The purpose of this paper is to update the committee on the ExCo assessment of the key risks facing Post Office in the achievement of its strategic objectives.

2. Background

Since the November meeting of the committee, ExCo has further reviewed the key risks. The original risks have been revised and refined and now number nine, including a merged data integrity and cyber-security risk. Details of each risk are included in section 3 of this paper.

There are strong interdependencies between these risks. Individually and jointly they all have the potential to prevent Post Office delivering its strategic plan. There is therefore a major commercial imperative in ensuring they are successfully managed.

The ExCo risk owners and the risk management function have been working to develop the assessment and mitigation of these risks in line with their impact on the strategic plan.

3. Key Risk Status Summary

Whilst the fierce competition for resources has meant that the current pace of progress in the management of these risks has been slower than expected, this is improving rapidly and actions have been taken to further reinforce the process.

- The ExCo sub-committee – the 'Risk & Compliance Committee' now focusses on these risks. To ensure this focus is maintained at the appropriate level the committee is chaired by the General Counsel and is attended by the CEO. The committee will be performing regular in depth reviews of each risk ensuring appropriate rigour is in place
- CoSec is leading a restructure of the various governance committees in the organisation which will ensure they formally consider the management of risk.
- The risk and compliance function business partners are actively assisting the risk owners in challenging and supporting the risk assessments and developing appropriate mitigating actions.

The following sections provide a clarification of each risk's impact on the strategy, a view of its current state and mitigating actions planned or in place.

Due to the varying levels of maturity of risk management in the Post Office this view remains subjective in the majority of cases. For many of the risks, detailed plans for mitigating actions are still being developed. The business risk partners are supporting risk owners to ensure that more objective assessments can be performed and that plans for corrective action completed.

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A further verbal update will be provided at the ARC committee meeting. These risks will be further discussed at the ExCo meeting of March 13th.

3.1 Allegations relating to the integrity of the Horizon system

ExCo Owner: Chris Aujard

Owner's Risk Description

Originally known as Project Sparrow, the Initial Complaint and Mediation Scheme programme currently carries a substantial level of risk which is being managed with support of colleagues across the business, including ExCo. It will be important to maintain this focus as we move into a critical delivery phase for the programme.

Risk Owner Update

It has been the subject of extensive previous discussions at Board level; a further Board discussion was held on 26 February 2014 to consider the various options for managing the risks and issues relating to the programme. A copy of the board paper is provided as Appendix A. Consequently a detailed update is not appropriate for this meeting.

For completeness, the following mitigating actions are in place:-

- CEO participation in stakeholder communications,
- Strengthening the Post Office resources available, and
- Close Board involvement.

3.2 Failure to deliver top line growth in line with strategic plans

ExCo Owner: Martin George & Nick Kennett

Owner's Risk Description

Lack of growth in both Financial Services (FS) and across the Commercial portfolio would have a detrimental impact on delivery of the strategic plan. Non delivery of growth targets will reduce the appeal of the franchise model impacting Network Transformation. There is an immediate threat that long term growth targets could become unachievable if we do not respond quickly to competitors.

Risk Owner Update - Financial Services

The FS business is charged with significantly growing overall income by 2020 with a step change in insurance revenue in 2016/17. FS's assessment is that the growth plan is on track albeit with risks that are being monitored, managed and controlled. The FS management team have a number of existing metrics in place to monitor these growth risks. These include:-

- Sales and marketing effectiveness measures (in place)
- Business model enhancements project measures (in place)
- Product development and launch MI (in place)
- External factors review i.e. competition, regulation and government (partly in place)
- BOI/Third party capability and strategy (partly in place)
- People and resources (in development)

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The business risk partner is working with FS management to develop and present these measures in a common format aligned to the growth risk. This is planned to be in place in March.

A key risk area is the Project Titan work where the scope of the work involves significantly changing the business model and potentially FCA authorisation. This is to be delivered to challenging deadlines. Separate reporting of this business model enhancement is in place and is currently reporting 'amber'.

Risk Owner Update - Commercial

The main risks facing the Commercial product portfolio which have the potential to impact the achievement of the 2020 Growth requirements can be summarised into four main areas:

- **Mails:** The on-going commitment from Royal Mail will not be sufficient to meet our growth aspirations for Mails, inhibiting our ability to innovate and compete effectively in an increasingly competitive marketplace;
- **Government Services:** The Government will act in line with our time expectations in developing new products and service, such as the next version of POca, and especially adopting a more digitally oriented agenda. Revenue development would be hampered in services for HMPO, Identity Assurance and Assisted Digital Services;
- **New Product Development:** The income targets from current products and services will be insufficient to achieve our strategic plan targets and new products and service development is inadequate to close the revenue shortfall;
- **Digital:** The failure to develop an effective omni-channel proposition makes Post Office vulnerable to customer's opting for other more attractive options from competitors.

The active management of these risks can be summarised as follows:

- **Mails:** On-going engagement at both an operational and directorial level with Royal Mail to include, joint targets, action plans, milestones and clear accountabilities. Work is progressing well and these should be available in 90 days;
- **Government Services:** On-going engagement with key Governmental personnel to include joint targets, actions plans, milestones and clear accountabilities. Key departments are engaged, and work is underway to deliver plans, milestones and the key accountabilities within 90 days;
- **New Product Development:** On-going Commercial team focus on current performance of existing product portfolio, detailed 3 year plans and regular updating of forecasts, in addition to work undertaken to identify possible new business opportunities consistent with our core purpose. Work is progressing well and the plans should be finalised by the end of June 2014;
- **Digital:** The Digital Group consisting of key executives from across the business that will ensure that there is a detailed digital roadmap, as a core component of

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creating an integrated omni-channel offer to customers. This group are accountable for the roadmap, milestones and metrics.

The current conclusion is that the 2020 growth requirement that the Commercial Directorate is tasked to achieve is attainable, but there are some sizeable challenges to overcome.

3.3 Operating Model fails to deliver requisite cost savings

ExCo Owner: Chris Day

Owner's Risk Description

Our exposure to this risk is being explored but not yet fully understood.

A new operating model has been proposed to make the Post Office more cost effective. The most significant instrument progressing delivery of the new operating model is the Business Transformation Programme.

Risk Owner Update

A workshop will be held on 3rd March, facilitated by the business risk partner, to identify causal factors, likely consequences and mitigating controls of the Operating Model Risk. The outputs will be considered to shape the future scope and structure of the Business Transformation Programme.

The Programme's current mandate from the Board is to examine the business case to engage a transformation partner and, assuming the business case is sufficiently compelling, prepare for a partner selection exercise. The transformation partner would be contracted to help Post Office shape and deliver the new operating model. In the short term the Programme will develop the core design principles and elaborate the high level structure of the new operating model.

Key risks & issues identified for Programme:

- If the procurement is approved the Programme will require a dedicated team of post office subject matter experts and is working with ExCo to address this;
- Post Office does not have the supplier management skills to manage the commercial contracts associated with the new operating model and then manage our own people to drive full benefit from the contract. The Programme will ensure this skill set is developed as part of the retained organisation;
- The risk that industrial relations may be strained by the implications of business transformation will be addressed through Stakeholder and Communications plans which will be presented to ExCo and the Board with the partner business case in March;
- With a general election due in 2015 potentially at the same time as a transformation partner mobilises in Post Office there is a risk of political impact. The Public Affairs team will address this in Stakeholder and Communications plans.

Strictly Confidential**3.4 Inadequate people capability or capacity to deliver transformational change and the strategic plan**

ExCo Owner: Fay Healey

Owner's Risk Description

The capability of our people is critical to successful delivery of all facets of the strategy. There is a risk that we cannot retain, recruit and effectively performance manage our people to the level of capability required within the necessary timeframe.

Risk Owner Update

The current level of exposure is higher than that deemed acceptable by management. Whilst activity is underway to reduce the exposure, implementation is in the early stages and therefore there is no evidence, as yet, that capability or capacity is at the requisite level. A timeline will be produced to ascertain when the current exposure will be reduced to an acceptable level and whether interim controls to mitigate the risk are required.

Detailed analysis and assessment of key control design effectiveness has commenced and activity to close known gaps continues. The nature of several controls required to appropriately mitigate the risk are complex and broad in their design e.g. 'Management Training Programme' and as such will take time to implement. Where this is the case, interim action is taken to address the most pressing gaps e.g. targeted 'Honest Conversations Workshops' for line managers with poor performing team members.

3.5 Non-delivery of Network Transformation Programme

ExCo Owner: Kevin Gilliland

Owner's Risk Description

Failure to deliver network transformation in a timely fashion would result in a non-viable business model requiring additional subsidy from the Government or closure of branches, neither of which are sustainable options. There is an immediate risk that if we do not manage current and prospective partners and stakeholders effectively, we may find that we cannot secure the retail partners we need to secure the future of our network.

Risk Owner Update

The NT programme is currently on track to meet its 2013/14 targets for contracts and branch openings, and the launch of the revised strategy has provided additional momentum to the transformation programme. However there remains a significant residual risk of non-delivery of programme benefits due to the semi compulsory nature of the programme, the difficulty of finding replacement leavers, maintaining the attractiveness of models and the possibility of government lobbying by disaffected stakeholders. These require mitigation and recent activity has included the appointment of a General Manager to the programme with a mandate to maintain delivery momentum whilst improving governance, risk management and programme resilience as well as improving programme efficiency and value for money.

Strictly Confidential**3.6 Strike action within supply chain could damage ability to distribute cash to network (IR/CWU)**

ExCo Owner: Kevin Gilliland

Owner's Risk Description

Whilst there are multiple controls, and back up plans, in place to mitigate the risk of a breakdown in cash distribution there is a risk that these will be insufficient to deal with continued strike action. The impact of branches not receiving the cash they need to serve our most vulnerable customers would be detrimental to the Post Office reputation.

Risk Owner Update

There continues to be a long term risk of strike action in supply chain but immediate action is unlikely. No strike activity has taken place since early December, and a joint CWU/Post Office statement reporting progress in negotiations was issued on 6 February 2014. The negotiating teams have met once on supply chain pay since then. There is a common goal to try and reach a negotiated settlement but these are complex negotiations and the CWU negotiating team will also be facing difficult challenges from its own Postal Executive. Further meetings on supply chain issues will be scheduled next month.

Contingency plans remain in place to enable the distribution of cash to the network should industrial action re-occur.

3.7 Delivering poor customer outcomes through FS mis-selling

ExCo Owner: Nick Kennett

Owner's Risk Description

Financial Services has a demanding growth agenda that will require more sales to be generated through a variety of channels particularly in insurance. This includes a number of new projects, product developments and pilots. There is a risk of regulatory failure and client dissatisfaction through mis-selling by staff or agents.

Risk Owner Update

The FS mis-selling risk and controls are well defined and measures to manage the risk are in place.

The findings of the Financial Specialist video mystery shopping measure (where there has been a continuing trend of "red" mystery shops) remain a key area for control improvement. Actions required include further training as well as increased management oversight to ensure that compliance requirements 'stick' with Financial Specialists. In addition, where behaviour has not improved sales management will continue to use their powers to suspend licences and accreditation to sell.

Strictly Confidential**3.8 The security and integrity of Post Office data cannot be maintained.**

ExCo Owner Lesley Sewell

Owner's Risk Description

Any failure to protect customer or corporate data could have a disproportionate reputational impact, sufficient to prevent Post Office achieving the growth necessary to achieve its strategic objectives. The integrity and security of Post Office data is reliant on a complex network of interrelated processes and controls. The number of potential threats, particularly of external attacks through the internet, is rapidly increasing.

Risk Owner Update

Some elements of this risk are not yet managed at an appropriate level. Examples are: data ownership and classification, business continuity and incident management. However, many other controls are operating giving assurance that the risk as a whole is being managed. Further assurance is obtained through third party reviews and certification audits such as those by external and internal audits, network security penetration testing, ISO 27001 and PCI/DSS. The risk will be subject to a detailed "deep dive" review at the next Risk and Compliance Committee.

Risk mitigation is under way through projects which are reviewing the controls and putting in place active measures to monitor the risks and their mitigation. These include implementation of a new GRC tool, appointment of a Data Protection Officer and procurement of a communications and training tool covering data protection and information security. An additional five resources have been provided to augment the existing team to increase the effectiveness of existing risk measures.

3.9 Post Office cannot operate or deliver services following IT Transformation

ExCo Owner Lesley Sewell

Owner's Risk Description

The cost savings and flexibility to be delivered by the IT Transformation programme are critical to the overall strategy. The various contractual relationships, the multiple components of the programme and the pervasive nature of the changes create a complex and changing risk landscape.

Risk Owner Update

The programme risks are adequately managed. Controls, including programme oversight and contract management, have been implemented. These are supported by planned post-implementation processes and controls.

Governance and control structures for post implementation "business as usual" (BAU) are being defined. The programme management process provides multiple performance measures which are being reviewed to ensure they provide adequate measures of control effectiveness.

At the request of the Committee, Internal Audit have engaged Price Waterhouse Coopers to advise on risks, risk management best practice and assurance needs for a programme of this scope and magnitude. This work is under way and will consider both transition and BAU.

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4 Action

The committee is asked to note the progress made in the management of the risks affecting the Post Office strategy.

David Mason
6th March 2014

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PC 14/4-14/15

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 5 March 2014**

Present:	Virginia Holmes (VH) Chris Day (CD) Susannah Storey (SS)	Chair CFO
In Attendance:	Natasha Wilson (NW) Harpreet Singh (HS) Tim Giles (TG) Ross Mitchell (RM) Ian McKnight (IM) Gill Catcheside (GC)	Head of Reward and Pensions Pensions Adviser AON Hewitt (for items 14/4-14/9) AON Hewitt (for items 14/4-14/9) RMPTL (for item 14/9) Secretariat

PC 14/4

OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 14/5

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

The minutes of the meetings held on 20 November 2013 and 8 January 2014 were approved for signature by VH.

The actions list as at February 2014 was noted.

The following matters arising from the minutes were discussed:

ACTION: NW

- a) PC 13/12 – It was noted that market valuations were now at levels that made equity futures unattractive.
- b) PC 13/46 – NW undertook to circulate the Robin Summary to the Post Office Board.
- c) PC 13/47 – NW advised that she and Ken Potter had attended the Implementation Working Group (“IWG”) meeting on 12 December 2013, and had raised Post Office’s issues of implementation of the Transition Plan and the Liability Hedging Triggers. NW advised that Post Office’s concern regarding the slowness of implementation had been acknowledged by Chris Hogg. It was noted that the IWG meetings were held following the Investment Sub-Committee (“ISC”) meetings, and that the next IWG would be held on 3 April 2014. The letter to Royal Mail Pension Plan (“RMPP”) regarding the Liability Hedging Triggers dated 6 January 2014 was tabled.
- d) PC 13/47 - Implementation Plan. The Committee discussed the overweight cash position with draw-downs to target asset allocations being slower than anticipated, and considered whether the cash should be placed in higher risk funds in the short term. It was agreed that the issue should be raised with RMPP, along with the possibility of investing in diversified growth funds as an interim measure.

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PC 14/6

COMMITTEE TERMS OF REFERENCE

The Committee endorsed the Terms of Reference as circulated and agreed to recommend them to the Board for adoption.

PC 14/7

STATEMENT OF INVESTMENT PRINCIPLES

The Committee considered the draft Statement of Investment Principles, which was being reviewed by RMPP. It was noted that there was no change in strategy or risk, but that there was a “tidy up” of the Project Robin wording, and consolidation of asset-class classifications. TG advised that he was happy to give the level of freedom in the asset-class classifications to ease RMPP’s strategic rebalancing procedure.

The Committee endorsed the Statement of Investment Principles.

PC14/8

REVIEW OF INVESTMENT POSITION

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

TG voiced his on-going frustration at RMPP’s slow implementation of the Section’s agreed investment strategy. It was noted that the Section remained significantly underweight to risk assets and would underperform if risk assets continue to outperform

PC 14/9

INVESTMENTS

Ian McKnight of RMPTL joined the meeting. He tabled a paper from Mercers covering the periods 31 March 2012-31 October 2013, and 31 July-31 October 2013. These showed the Section’s surplus position to have deteriorated by around £30million, despite material pension contributions, with accruing liabilities being the single largest source of the change in the surplus position.

IM presented the Quarterly Investment Report as at 31 December 2013 together with an Investment Strategy Update, which was considered by the Committee. The Section’s assets returned 0.2% in Q4, outperforming the liability benchmark by 0.9% and the strategic benchmark by 0.8%. Of this, the return seeking assets delivered 0.9% and the liability hedging assets 0.6%. Over the full 2013 year the return was -2.7%, an outperformance of 4.0% versus the liability benchmark and 3.6% versus the strategic benchmark.

The performance of individual asset managers within the underlying asset classes was reviewed. In aggregate, return-seeking assets in Q4 outperformed their composite benchmark by 2.8%, with every asset class except Absolute Return Strategies posting an outperformance. Private Market assets and Property also showed an underperformance. However allocations to these had yet to be filled. In terms of absolute contribution to the overall Section return for the year as a whole, the biggest contributions had been Developed Market Equities and Investment Grade Credit but negative contributions from Liability Hedging assets had offset this.

IM advised that the Post Office Section benefitted from the economies of scale with regards to the fees paid to the individual managers by being part

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of the RMPP.

The Committee was advised that the Dodge & Cox mandate had started strongly. It had been funded in September 2013 and in its first full quarter had outperformed its benchmark by 2.8% with strong returns from its rotational value style which had favoured the IT sector. Its style complemented that of Walter Scott which had underperformed its benchmark by 1.5% and had moved to amber status. IM advised that the annual base fee for Walter Scott shown in the report was the total fee for RMPP and that the Post Office Section paid a flat fee of around 12.5 bps plus a performance fee.

It was noted that the Lazard Emerging Market Equity mandate was local currency and unhedged.

IM reported that the ISC was still in the process of considering whether to amend the Absolute Return Strategies' USD benchmark back to Sterling. It was noted that if this was approved, RMPP would look to take it forward with Black Rock over the coming months. TG advised that a tactical delay of 12-18 months would be sensible, as currently the fair value of the US Dollar was currently low, and the impact of a hedge at 1.50 would be around £1m. VH undertook to send IM a copy of a paper on US hedging from Calpers. IM undertook to advise the Committee of the ISC's decision on hedging.

ACTION: VH

ACTION: IM

IM advised that the liability hedge was being extended to 4 years of future accrual as agreed. A 3.5 year hedge would be in place by March 2014, and the four year hedge by September 2014.

The Committee expressed its on-going dissatisfaction with the speed of implementation of the key transitions required in order to take the Section to its target asset allocations. It encouraged RMPTL to make investments to Private Market assets and Property as soon as possible. It was suggested that a mainstream diversified growth fund with returns of LIBOR +4-5% should be targeted for the as yet uninvested growth asset short-term cash holding, rather than Loomis Sayles at Gilts +1%. However, IM went on to explain that the interest rate exposure of the credit portfolio was hedged out and additionally that the holding was smaller than the Committee had feared as a result of the very recent funding of Gramercy and the temporary housing with Beachpoint of the private debt funds waiting to be drawn down with Oaktree.

ACTION: IM/TG

IM undertook to circulate the current position to TG for review to ensure that it would satisfy the Committee in terms of meeting the Section's expected returns and risk budget.

It was further noted that the revised Statement of Investment Principles would allow the Post Office Plan to participate fully in private equity funds, and that a proposal would be submitted to the June ISC for investment in specific funds. IM advised that that this would bring the Section into line with its risk profile. It was reported that the "Alternative Investments" listed in the SIP included absolute return funds, private debt, and, if agreed, unstructured debt.

It was noted that VH would be meeting with Joanna Matthews on 25 March

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and she would re-iterate the negative impact on the Section's surplus of the slow implementation of the agreed asset allocation strategy.

PC 14/10

DEFINED CONTRIBUTION PENSION ARRANGEMENTS

The Committee received a report on Defined Contribution Pension Arrangements, outlining proposed changes to the contribution rates for members, and the possibility of separating from the Royal Mail Defined Contribution Plan ("RMDCP") and creating a new Post Office Defined Contribution pension arrangement.

The Committee:-

- (i) Noted the update on the Royal Mail position on pension contributions;
- (ii) Agreed to recommend to the Post Office Board to remove the lower 3% contribution tier and replace it with a 4% employee, 7% employer contribution rate and to add an upper contribution rate of 6% employee, 9% employer; and
- (iii) Agreed to recommend to the Post Office Board to separate from the Royal Mail Defined Contribution Plan with effect from 1 April 2015 and to arrange for a new Post Office pension arrangement to be put in place from that date; and
- (iv) Endorsed the need to investigate urgently the types Defined Contribution pensions arrangements available on the market

HS advised that he would be supported in the process by Procurement to select a new pension provider and that external professional advice will also be sought. It was noted that as both AON Hewitt and Towers Watson were service providers listed in the Master Services Agreement, they would be asked to provide indicative fees for providing professional advice on this matter. It was noted that the selection of an adviser would be progressed in the spirit of public procurement.

PC 14/11

INITIAL REVIEW OF ASSUMPTIONS FOR REPORT & ACCOUNTS DISCLOSURES

The Committee noted the approach to be taken with regard to the assumptions for Report & Accounts Disclosures.

PC 14/12

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.

It was agreed that the fees proposed in the paper be approved, and that future work should be on a fixed fee basis.

PC 14/13

ANY OTHER BUSINESS

- (a) HS reported that as REMSEP had a Trustee position available, Post Office would ask RMPP to consider a Post Office representative for the position.
- (b) HS advised that Post Office would participate in the pension's educational programme that the RMPP and RMDCP Trustee Boards

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were preparing for participants.

ACTION: VH

(c) VH undertook to circulate a note of her meeting with Joanna Matthews.

PC14/14

NEXT MEETING

It was noted that the next Pensions Committee meeting would be held on 25 June 2014 at 148 Old Street starting at 10am.

PC 14/15

CLOSE

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

Pensions Committee – Robin Summary for Post Office Limited - Strictly Confidential and not for circulation

Robin Term	Description	Rationale	Effect/Details	Cost and benefit impact
<p>1. Pensionable salary is preserved as at 31st March, 2013 and re-valued in line with RPI thereafter, with a cap of 5%; starts 1 April 2014</p> <p>2. Any pensionable allowances are added to this figure as they are now</p> <p>3. Bonuses for managers flow through into CSDB Salary as they do now</p> <p>4. A late change to the strategy following consultation is that within existing pay grades, an increase due to a promotion which results from a change of role or a job-specific increment will not be considered as a promotion for pension purposes but an increment or progression. The resulting pay increase will therefore flow through to both Final Salary Pensionable Pay and Career Salary Defined Benefit Pensionable Pay. Otherwise promotions on an inter-band basis only flow through into CSDB Pensionable Pay and not Final Salary Pensionable Pay</p>	<ul style="list-style-type: none"> Pensionable pay generally ceases to be linked to final salary for pre-2008 service with effect from 1 April 2014 Existing link to CSDB (the career average accrual since 2008) blocks continues – based upon actual pay but re-valued at RPI up to 5% thereafter with effect from 1 April 2014 	<ul style="list-style-type: none"> The strategy frees up the “opening funding balance” attributable to the Pensions Solution based upon the pre-funding of the scheme at RPI + 1% agreed with Government Controls one of the principal defined benefit pension risks for Post Office in the future in respect of the existing final salary link risk Takes advantage of the unique funding position of RMPP post-Pensions Solution. 	<ul style="list-style-type: none"> Creates a surplus in the POL Fund (the Post Office Section of RMPP) of around £170 million This is the key outcome for Robin – it permits Post Office to continue to fund the employer contributions at 17.1% of pensionable salary rather than the revised rate of 30% based upon recent market conditions reflected in the agreed 2012 valuation Keeps pension costs manageable in the medium to long term (8 -13 years) 	<ul style="list-style-type: none"> Average approximate annual pension costs 2013/14 to 2017/18, assuming 5% member turnover and 17.1% contribution rate are £21.4 million Average approximate annual pension costs assuming the employer contribution rate increases to 30.0% (without Robin) are £37 million Therefore the annual average “saving” if Robin is introduced is £16.6 million Towers Watson estimated in 2012 that the “reserve” based upon Robin would last for between 8 years and indefinitely if the current contribution rate of 17.1% is maintained. This is sensitive to assumptions. For example, assuming an investment return of gilts + 0.75% and turnover of 5% per annum (both conservative) then the reserve would last for 7 years on a “solvency” basis (were the basis similar to winding up or insurance costs externally) or 13 years on an “on-going” basis on the Retained Asset basis used at segregation. The late change to the strategy will, depending upon the number of relevant movements within bands, impact the rate at which surplus is used up. TW estimated that on a worst-case scenario, this would be some two years earlier. It should be noted that these are cash cost impacts and not necessarily the same as the accounting impact Note that costs without Robin could have been higher as the strategy for investment allocation may have been different. It is likely that the Trustee would have required a more conservative approach which may have reduced the estimated rate of return and increased costs further
5. Employee Contribution Rate to remain at 6%	<ul style="list-style-type: none"> The rate of employee contribution based upon CSDB salary plus any allowances 	<ul style="list-style-type: none"> Previous communications have stated that these will “never” increase 	<ul style="list-style-type: none"> Contributions will be based upon the CSDB salary as is the case now 	
6. DC Plan Contributions	<ul style="list-style-type: none"> Employer and employee contribution rates under discussion The proposal is to increase these by 1% for each 	<ul style="list-style-type: none"> The existing levels are low compared to other schemes Seen as part of the “pensions package” still being negotiated 	<ul style="list-style-type: none"> Improves Post Office DC pension offering Likely to be effective from 1 June 2014 to permit system changes and possible consultation 	<ul style="list-style-type: none"> Each 1% of additional employer contributions would cost approximately £300,000 per annum It should also be noted that when auto-enrolment is necessary for Post Office, costs would be likely to rise then. The latest date for AE is May, 2017

Ken Potter

December 2013

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POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Finance		
1a	January 2014 POLB 14/5(f)	Ensure that there is common understanding of the position and the precise definition of 'break even' between the Business and BIS via the final budget presentation.	CFO	On-going
1b	March 2014 POLB 14/33(c)	Present on options to cover the gap in the strategic plan (Supply Chain) at the May Board	CFO	To May Board
1c	March 2014 POLB 14/33(d)	Model the scenario where revenue remained flat next year, to show the cost savings which would be required to hit the strategic plan profit target.	CFO	An alternative lower revenue scenario will be covered in the Financial Performance Update at the April Board meeting.
1d	March 2014 POLB 14/38(b)	Produce some analysis to further understand the underlying quality of earnings.	CFO	Statutory Quality of Earnings will be presented to the 15 May ARC meeting. Management definition and 13/14 outturn will be covered in the Financial Performance Update at the April Board meeting.
1e	March 2014 POLB 14/38(d)	Explain the reduction in customer sessions in the Mains Branches that have been open for 12-24 months.	CFO	An explanation has been included in paragraph 3.2 of the Network & Sales update. We continue to review the NT scorecard, in particular the 6-12 mth and 12-24 mth groupings, to provide the most appropriate performance metrics.
1f	March 2014 POLB 14/38(e)	Include an additional page of narrative to explain the remedial actions being taken by the Business and the CFO's views and any concerns on performance to be included in the financial performance update from next month.	CFO	This will be incorporated for 2014/15 performance reporting.
		2. Strategy		
2a	February 2014	Further paper on the Data Centre procurement to be brought to the Board after the lessons learned have	Chris Aujard	To come to May ARC

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	POLB 14/28 (a)	been considered by the ARC.		
2b	March 2014 POLB 14/35(g)	Provide a paper to explain the work underway to increase access points.	Martin George	Project Ivy paper enclosed.
2c	March 2014 POLB 14/44(e)	Consider what it would take to deliver the results more quickly and achieve the targets in the strategic plan for Project Wave.	Martin George	Update attached.
2d	March 2014 POLB 14/44(f)	Inform the Board when a single view of the customer was likely to be available.	Martin George	
2e	March 2014 POLB 14/44(g)	A paper on 'colleague offers' to come to the next Board meeting.	Martin George/Neil Hayward	Noting paper to May Board.
3. Project Sparrow & Prosecuting Authority				
3a	July 2013 POLB 13/51(g) September 2013 POLB 13/95(b)	Review of Second Sight report to be provided to ARC explaining how we awarded and managed the contract and include an internal 'lessons learned' review for Project Sparrow.	Belinda Crow/Alwen Lyons	To May ARC
3b	March 2014 POLB 14/32(n)	Try to extend the time period restricting Second Sight from acting against the Company beyond a 12 month period.	Chris Aujard	In progress
3c	March 2014 POLB 14/32(o)	Prepare a one page lessons learned covering 3 or 4 areas by the next Board meeting.	Belinda Crowe	In progress
4. Miscellaneous				
4a	February 2014 POLB 14/28 (b)	An industry expert to be invited to a future Board to present on Cyber Security.	Company Secretary	To be included in a future agenda.

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4b	March 2014 POLB 14/43(b)	Provide an update for the next available ARC on the CFO's proposal for PI insurance	CFO	A recommendation to review general insurance, including PI, is being taken to ARC on 15 May.
4c	March 2014 POLB 14/48(a)	Discuss proposed draft Pensions Committee terms of reference at the next Pensions Committee meeting.	Virginia Holmes/ Company Secretary	Currently under review.

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POST OFFICE LTD BOARD

Wave Programme – April 2014
Reference: POLB 14/44 – Action (e)

1. Purpose

The purpose of this paper is to:

- 1.1. Respond to the action arising from the Post Office Board held on 26th March 2014 following the Wave Programme update.
- 1.2. *The action; “The Board supported the product but asked the Business to consider what it would take to deliver the results more quickly and achieve the targets in the strategic plan. Martin George agreed that he would like to grow the business more quickly and understood that this product might be challenged if it was only delivering the targets in the business case.”*
- 1.3. The short paper outlines an accelerated growth scenario, the associated prerequisites to deliver the growth and resulting financial metrics.

2. The key changes between the baseline scenario and the Accelerated Growth Scenario

- 2.1. The key driver influencing improvement to net income and contribution numbers is customer acquisition rates. It is possible that a significant increase in acquisition can be achieved, but would require an increase in the level of focus and investment from the Business. The Accelerated Growth Scenario shows a significant ramp up in acquisition volumes from 2016/17. It is likely that a period of ‘bedding in’ in 2015/16 will be required when capability is being developed and credibility established.
- 2.2. In order to achieve the acquisition rates, the following factors have been adjusted:
 - Increase in annual marketing spend from £2m to £3.5m.
 - Increase in branch costs (Agency commission, support costs, training etc). These costs now reflect 19% of net income compared to 11% (£12m to £42m).
 - A reduction in price by 10%, reflecting a more aggressive approach to promotions and pricing.

3. Financial Implication

- 3.1. The financial case demonstrated to the Board on 26th March met all financial hurdles with the exception of payback. The additional scenario (“Accelerated Growth Scenario”) shown in this paper also meets all financials hurdles, and improves payback from 4 years to 3 years. The table below shows the key financial metrics associated with the original case compared to the new scenario:

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Metric	Baseline Scenario	Accelerated Growth Scenario
Customer Base at 2019/20	390,000	895,600
Funding requirement 2014/15	£6.6m	£6.6m
Cumulative contribution to 2019/20	£48.7	£93.4m
Contribution in 2019/20	£23m	£40.9m
NPV to 2019/20	£25m	£57m
Payback	Nearly 4 years	3 Years
IRR	67%	100%
PV:I	3.8	8.6

- 3.2. The resulting P&L for the baseline scenario, the accelerated growth scenario and the Strategic Plan is shown below. Over the period to 2019/20, the Accelerated Growth scenario meets the Net Income targets in the Strategic Plan. The profile of achieving the Net Income target is slightly back end loaded and reflects the issue that Post Office is later to market by a year than is reflected in the Strategic Plan. Even when growth is accelerated in the early years, it is not quite sufficient to completely recover the early years Net Income numbers outlined in the Strategic Plan which contains income from a retained base of customers.

£m	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
Accelerated Growth Scenario:							
Net Income	0.0	5.6	27.0	48.6	63.3	78.5	223.0
Contribution	-0.9	-5.1	6.6	21.4	30.5	40.9	93.4
Baseline Scenario:							
Net Income	0.2	2.4	12.8	22.9	30.8	40.7	109.8
Contribution	-0.7	-3.9	3.3	11.0	15.9	23.1	48.8
Strategic Plan*							
Net Income	0.0	24.7	39.1	47.7	51.1	51.1	213.7
Accelerated Growth Scenario vs Strategic Plan	0.0	-19.1	-12.1	0.9	12.2	27.4	9.3

* The Strategic Plan does not break down contribution at an individual product level

4. Conclusion

- 4.1. In order to deliver the Strategic Plan targets, a significant increase in customer acquisition is required. These would be achievable where additional investment is made available in terms of marketing and branch support and focus. Additionally, a more aggressive approach to pricing and promotions would be required.

- 4.2. This Accelerated Growth Scenario will now be evaluated with the Business and a recommendation provided to the ExCo in 4 weeks time.

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POST OFFICE LTD BOARD

Separation Programme Update April 2014

1. Purpose

The purpose of this paper is to:

- 1.1. Update the Board on the progress of the Separation Programme, including the status of key projects;
- 1.2. Update the Board on the outputs of the March Master Services Agreement (MSA) Board meeting.

2. Background

- 2.1. Post Office is separating from Royal Mail Group (RMG), as per the terms and timetable specified in the MSA. Establishing the Post Office as an independent commercially viable entity is a key premise of the 2020 Vision and the Separation Programme supports this.
- 2.2. The scope of the programme includes separating 131 business services and 248 IT systems. The Separation activity ranges from low risk, minimal intervention to larger projects with high impact and requiring significant IT intervention.
- 2.3. It was agreed in Quarter 4 2013 that a strategic review of the IT orientated workstreams would be undertaken to ensure that the approaches being followed for IT separation were being conducted in the most effective manner and were in the best interests of both organisations. The review also sought to mitigate the risks arising due to the Royal Mail Information Technology Service Transformation (ITST) Programme and the Post Office IT Tower Procurement Programme running concurrently.
- 2.4. March 31st 2014 was the target date set by the MSA for the Separation of Business Services with IT services targeting the end of September. As a result of the strategic review, some of the IT dates have moved beyond the September target. This approach has been endorsed by the MSA Board.

3. Current Situation

- 3.1. Of 248 systems and services to Separate, 109 have been completed and a further 7 will close during April. The remaining Separation activity will be completed within the revised timelines of the MSA.
- 3.2. As of the 31st March 2014, we have successfully separated a number of business services, including: Fleet, Fuel, Property, Long Term Storage, Freedom of Information, and Company Cars. Despite the complexity and the scale of the task, the implementation of these revised services was achieved with minimal impact to the business.
- 3.3. The cessation of the Contact Centre service was completed on the 28th of February, with the successful transfer of 73 staff to Post Office. The remaining 39 staff were re-deployed within Royal Mail. The outcome of this work included the consolidation of three disparate call centres into one, serving both our internal and external customer base.

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- 3.4. An extension to the Facilities Management service has been agreed and signed off by the MSA Board. This provides continuity of service while allowing us to go to market for a new service provider. The Post Office has now issued an Invitation to Tender to the market.
- 3.5. Negotiations are continuing between Post Office and Royal Mail on Official Mail and services will continue at no extra cost until these conclude. The desired outcome for both parties is a continuation of service, subject to acceptable commercial terms. Should this not be possible Post Office will go to market for a replacement provider.
- 3.6. The IT strategic review completed in November 2013 concluded that there was insufficient time to complete the IT Networks and EUC / Microsoft Domain separation within the original MSA cessation date. The revised timelines have a negligible impact from a cost perspective; more closely matches our risk appetite and is aligned to the Royal Mail ITST programme and the Post Office Tower procurement programme.
- 3.7. Another recommendation of the strategic review was to extend the eBusiness project to ensure strategic alignment with the Common Digital Platform programme. This also provides a seamless customer experience and avoids unnecessary costs.
- 3.8. The HR system is scheduled to move to a Post Office only Unix¹ platform in May 2014, this constitutes physical Separation. We are reviewing the opportunity of a direct contract award, for hosting, with CSC which will complete the remaining commercial Separation.

4. Key Risks/Mitigations

- 4.1. There is a risk that the Royal Mail Information Technology Service Transformation Programme (ITST) takes priority for Royal Mail over Separation. This may result in longer turnaround times for requests from Post Office to Royal Mail, resource constraints and a delay to the Separation programme overall. The Separation programme team is fully integrated with the ITST programme and has identified contingencies, should they be needed.
- 4.2. As a consequence of the early Royal Mail privatisation, the cost of separating licenses is greater than the budget provisioned. Proactive engagement with suppliers is taking place, with an approach of promoting the transfer of licenses. The cost exposure has been largely mitigated by optimising the use of resources and funding in other areas of the programme. The risk extends to reputational damage through contravening licensing agreements; discussions are ongoing with Royal Mail to resolve matters in line with Post Office risk appetite.
- 4.3. An existing Royal Mail data security and liability risk has been identified during the work to setup the Post Office ATOS SI/SD service. It relates to Post Office non-permanent employees accessing Royal Mail controlled IT systems and data. A joint Post Office and Royal Mail team has been working together to mitigate this risk exposure. This has resulted in gaining aligned legal interpretations of elements of the MSA, and a joint plan being produced led by the respective Information Security teams to further embed IT and business data controls.

¹ UNIX is an industry standard IT operating system that supports the running of a number of Post Office applications.

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5. Finance

- 5.1. At the end of 2013/14, the programme spent £20.2m; within its approved spend of £21.8m, with some activities moving to the next financial year following the strategic review.
- 5.2. The programme budget for 2014/15 is £21.3m.
- 5.3. As services have moved away from Royal Mail, the Inter Business Charge has been re-negotiated and significantly reduced (from £11.5m to £5.7m in FY 14/15). This reduction is offset by direct contracts with external suppliers and increases to staff costs as services are transferred. During FY 2014/15 we will seek to further reduce the Inter Business Charge where possible.

6. Next Steps

- 6.1. Implement new governance structure across the Separation Programme to take into account the progress to date, and the predominantly IT nature of the remaining workstreams.
- 6.2. Conclude negotiations with Royal Mail in respect of the provision of Official Mail.
- 6.3. We are currently aligned with both the Post Office and Royal Mail Tower Procurement programmes. Maintaining this engagement is vital to the on-going success of Separation and we will continue to focus on this.

7. Request

- 7.1. The Board is asked to note the update and support the actions set out above.

Lesley Sewell
April 2014

POST OFFICE LTD BOARD

Head Office Relocation

1. Purpose

- 1.1 The Post Office Board is asked to note plans to take advantage of a lease break on 148 Old Street in May 2015 and relocate to Finsbury Dials, Finsbury Street, London EC2Y 9AQ to realise savings of £1.9m pa.

2. Background

- 2.1 Post Office Ltd (POL) holds a 10 year full repairing and insuring lease on 148 Old St which expires on 19 May 2020. POL can break the lease on 19 May 2015 by serving notice on the Landlord by the 18 November 2014.
- 2.2 Currently, POL occupy 73,582 sq ft of the 97,807 sq ft within 148 Old St. Royal Mail Group occupy 13,315 sq ft by way of an under-lease and there is 10,910 sq ft of ancillary space comprising Romec facilities, gym, coffee bar and storage.
- 2.3 Rents at 148 Old St are £22.19 per sq ft rising to £26.99 per sq ft from May 2015 with the total rent payable by POL amounting to £2.17m pa. Rent receivable from Royal Mail is £0.36m pa resulting in net rents of £1.8m pa.
- 2.4 The current building desk numbers stood at circa 900 in January 2014 with an average occupancy rate of 80%.
- 2.5 The heating and ventilation systems in 148 Old St are old and whilst functioning do not cope well with the extremes of cold and warm weather. There is a risk of catastrophic failure of the system due to both age and uniqueness of design. Under the terms of the lease POL would be required to replace the systems at a cost of c£5m excluding the renting of temporary accommodation to cater for the significant disruption to the office environments whilst work is undertaken.
- 2.6 Investigations into the options for relocating head office were undertaken including moving outside of London and maintaining a small head office. The potential cost of redundancy and compensation related to excess travel expenses were felt to render this option unaffordable.
- 2.7 The search was therefore focused on a securing a new London based head office against the following principles:
 - Minimise the people related costs relating to the move.
 - Ensure flexibility in the lease to accommodate fluctuations in the numbers of head office staff.
 - Minimise property costs
 - Ensure the new location adequately reflected the brand

3. Finsbury Dials

- 3.1 BNP Paribas conducted an extensive site search on behalf of POL. From the list of potential properties it was determined that securing a lease of three floors on the building at Finsbury Dials to accommodate c480 desks and touchdown facilities for 70 people would suffice.
- 3.2 The office accommodation at the new location would be supplemented by the utilisation of space above Crown offices in Clapham and Camden Crown offices to house circa 130 desks between them.
- 3.3 Desk space in this new configuration has therefore been reduced by 290 desks to reflect the anticipated reduction in headcount as part of the Business Transformation Programme.

- 3.4 Finsbury Dials is located less than a 10 minute walk from 148 Old Street on Finsbury Street. It is close to Moorgate Underground and the mainline railway station. The property benefits from good open plan floor plates and natural light.
- 3.5 The property is currently leased and fully occupied by JP Morgan. They will begin vacating the whole building in May 2014 and Post Office Ltd will take a sub-let of 54,000 sq ft across the Ground, First and Second floors along with 2,000 sq ft of basement storage. Floors three through to six, basement and sub-basement are available to let to other occupier(s).
- 3.6 Post Office Ltd will take a separate lease per floor, which gives it the flexibility to sub-let to another tenant on a floor by floor basis if necessary in the future. The lease term will be for the remainder of JPMorgan's term of occupation until May 2023. There are no break clauses included within the leases.
- 3.7 POL will be part of a multi-tenanted property and as such will share a central reception point. There will be a dedicated Post Office reception within our demise on the Ground floor. The landlord will be responsible for maintenance of common services such as the air conditioning, lifts, common toilets, building fabric, cleaning of the common parts, windows, etc.
- 3.8 As part of JPMorgan's vacation of the building they will be removing all of their furniture and moveable fittings. They will also upgrade the air-conditioning, lifts, toilets and common areas and leave all the services under the raised floor including structured cabling and floor outlets for both power and data.

4. Financial highlights

- 4.1 The rent of the property is £22.57 per sq ft which compares favourably with the £26.99 POL will pay from May 2015.
- 4.2 The on-going annualised cost savings associated with the relocation to Finsbury Dials amount to £1.9m when compared to 148 Old St.

5. Timescales

- 5.1 The plan is to finalise the lease and exchange contracts at the end of April 2014. We are proceeding with the detailed design and implementation plan prior to that date in order to obtain landlord's consent for proposed works. These will be run in conjunction with negotiations with our existing landlord at 148 Old Street regarding the physical works required to return the property on the break date of 19 May 2015. Occupation of the building is planned to begin in January 2015 and complete by March 2015.

6. Options

The following options were considered:

- a) Do Nothing until lease expiry in 2020 – This option is viable if POL is prepared to invest c£5m to bring the building up to acceptable accommodation standards especially with regard to the replacement of heating and ventilation systems. We will also have to either sub-let the floors that we will not occupy or incur the full uplifted rent from May 2015.
- b) Vacate 148 Old Street and relocate the Headquarters to Finsbury Dials and use existing space above Crown Offices and the vacant space above Clapham Common Crown Office.- Preferred
- c) Relocate all staff above Crown offices in the London area. There is insufficient space to accommodate the reduced number of staff in Crown offices without

including space in Croydon, Dartford, Ferndale Road, Stockwell, Kennington Park, Sutton and Poplar. This would involve the dispersal of small teams across greater London into premises carrying retail rather than office rents and with significant planning consent issues and capex costs to render them suitable for office accommodation. This option is not recommended.

- d) Relocate POL's Head Office operation outside of central London – This was discounted due to the high staff relocation costs and the potential to lose key members of staff due to the new geographic location.

7. Benefits of the preferred option

The preferred option:

- Avoids replacing heating and ventilation equipment in 148 at a cost of circa £5m and the resultant disruption to the POL staff working within the building;
- Avoids the potential for the space currently occupied by Royal Mail Group space to remain vacant at a cost to POL of £0.4m per annum if Royal Mail serve their break notice as expected;
- Relocates the headquarters building within a 10 minute walk and removes any staff relocation/excess travel expenses costs;
- Utilises surplus office accommodation above Crown Offices, thereby reducing size and cost of new headquarters and defrays some of the costs of maintaining Crowns;
- Improves the workplace rather than simply replacing the heating and ventilation systems;
- Delivers competitive rents of £22.57 per sq ft compared with Old St (£26.99 psf from May 2015) and cost savings of £1.9m pa.
- Meets the proposed timescale with regard to the lease break on 148 Old Street;

8. Key Risks And Dependencies

8.1 The key risks (*with mitigations*) relate to:

- Failure to serve the break notice by the 18 November 2014. This date is fixed and although we can serve notice before this date, we cannot serve notice afterwards. *Robust project management and governance will ensure we give notice in a time;*
- Failure to secure the lease on the new premises, which would leave insufficient time to find another suitable property before having to serve the break notice. *We are close to sign-off on the lease;*
- Failure of the business to deliver the necessary headcount reduction which has been factored into the space being provided by the new properties. *We will need to invoke similar contingencies to those utilised during the London Olympics;*
- Failure to serve the pre-emptive notice on Royal Mail by the 17 July 2014. This date is fixed and although we can serve notice before this date, we cannot serve notice afterwards. *Robust project management and governance will ensure we give notice in a time.*
- Failure to vacate 148 Old Street and occupy the new premises by May 2015. *We do not envisage this risk materialising. However, we can rely on the space in Clapham Crown being ready for use by then and we are in dialogue with the landlord of 148 Old Street regarding the potential for flexibility on exit date. We are also re-examining the re-*

instatement of the contingencies that were invoked for the 2012 London Olympics including: home-working for extended periods; and utilising available desk space in other admin buildings and Crown branches.

8.2 The major dependencies are:

- Sign off of the design concepts produced by the technical design teams to agreed timescales.
- Availability of the necessary BT connectivity into the new premises.
- Resource within the appointed suppliers.

9. Request of the Board

- The Board is asked to note the plans to progress with the exit from 148 Old Street and a move to Finsbury Dials supplemented by space at Camden and Clapham Crown offices.

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Post Office Ltd

Update on various risk matters including Bank of Ireland (UK) plc capital & liquidity

Nicholas Kennett, Director, Financial Services

26.03.2014

Post Office Ltd Board
Financial Services Committee – 2nd April 2014
Item 5.1



1. Purpose

- 1.1. The purpose of this paper is to update the Committee for noting on:
 - 1.1.1. Bank of Ireland (UK) plc's ("BoI") capital and liquidity position against its regulatory and Eagle contract requirements;
 - 1.1.2. Mortgage Market Review update;
 - 1.1.3. FCA "deep dive" on mortgages in Post Office
 - 1.1.4. PRA visit to Post Office branch
 - 1.1.5. Video Mystery Shopping
 - 1.1.6. FCA market study on general insurance "add ons"

2. Bank of Ireland (UK) - Capital and Liquidity position

- 2.1. Under the Financial Services Joint Venture Agreement ("FSJVA"), BoI must attest that it is meeting the capital and liquidity levels set out in the agreement. This is part of the early warning system that would enable the Post Office to take action within the termination provisions, should this become necessary.
- 2.2. BoI has confirmed that it continues to meet its obligations during 2013, providing certificates on 27th March, 3rd June, 23rd August, 26th November 2013 and most recently on 7th March 2014 that, on each occasion:
 - 2.2.1. BoI's Core Tier 1 Capital Ratio exceeded the amount required in the FSJVA and has increased during 2013;
 - 2.2.2. BoI was holding a surplus over its regulatory liquidity requirements;
 - 2.2.3. BoI is meeting the Capital Planning Buffer as set by the regulator.
- 2.3. Post Office is of the view that BoI remains well capitalised with surplus liquidity.
- 2.4. The public rating agencies' ratings of BoI's parent (BoIG) are stable, but remain a grade below "investment-grade, viz":
 - 2.4.1. Moody's - B1 with stable outlook (30th January 2014) down from Ba1 to bring it into line with BoIG, following a change in the BoIG baseline credit assessment;
 - 2.4.2. S&P - BB+ stable outlook (July 2013) - revised up from negative.
- 2.5. BoIG's financial position continues to improve. The Preliminary Statement for the year ended 31st December was published on 3rd March 2014. The key points were:
 - 2.5.1. Financial results substantially improved - almost €1 billion improvement in underlying performance.
 - 2.5.2. Safely managed Eligible Liabilities Guarantee (ELG) Scheme expiry.
 - 2.5.3. Reimbursement of Irish Government investments in 2009 Preference Stock and 2011 Contingent Capital.
 - 2.5.4. Net interest margin of greater than 2% achieved, despite the low interest rate environment.
 - 2.5.5. Asset quality improved; defaulted loans reduced by €1.2 billion since June 2013.
 - 2.5.6. Regulatory Balance Sheet Assessment / Asset Quality Review addressed.
 - 2.5.7. Raised over €3 billion during 2013 through capital markets, showing that it has access to these markets on a consistent basis
 - 2.5.8. Significant investment in infrastructure including Single European Payments Area (SEPA) compliance and new branch operating models.

Post Office Ltd Board
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3. MMR

- 3.1. Mortgage advice went live in branches on 3rd February. Non-advised in-branch mortgage sales will cease with effect from 1st April 2014.
 - 3.1.1. There are currently no significant negative compliance indicators in relation to in-branch mortgage sales.
- 3.2. Post Office has established a Quality Assurance Team (QAT) with Bol to ensure the advice given is appropriate. The QAT has confirmed that the quality of advised cases from branches has been good, with a 'reassessed' pass-rate of 98% (based on 64 cases). Prior to reassessment and remedial action, the pass rate was 66%. Only one case was assessed as not meeting the suitability requirements.
- 3.3. We are currently undertaking a post-implementation review of the MMR, to ensure that all relevant regulatory requirements have been met.

4. FCA Mortgage Deep Dive

- 4.1. During Q2 2013/4 the FCA undertook a deep dive on the Post Office Mortgage strategy and distribution, interviewing Bol and POL employees, including Paula Vennells, Nick Kennett, Mortgage Specialists and Post Office's sales supervisory personnel. Feedback was positive with the only call outs being for us to review the structure of our incentive schemes (please see item 4) and in particular the impact of red rated Video Mystery Shopping reviews.

5. Prudential Regulation Authority (PRA) visit to City Branch on 13th March 2014

- 5.1. The PRA requested, as part of its continuous monitoring of Bol UK, a visit to a Post Office branch to gain a better understanding of how the financial services model works. This was a 'formal informal' visit. The PRA met the FS Area Manager, the Branch manager and the Mortgage Specialist. The visit was accompanied by Bol Risk and Compliance.
- 5.2. We await feedback from Bol on the visit.

6. Video Mystery Shopping – Life Insurance “Deep Dive”

- 6.1. There is a continuous focus on sales compliance and monitoring of the risk of mis-selling. Together with Bol, we have conducted a deep dive on Life Insurance
- 6.2. A significant proportion of the Life Insurance mystery shops conducted in January (89%) and February (69%) 2014 were rated 'red'. The majority of these demonstrated failures to follow the approved sales process.
- 6.3. A further 'deep-dive' analysis of the Life Insurance mystery shopping reviews conducted in January 2014 highlighted the following types of problems: (1) no/ineffective status disclosure; (2) mandatory statements not read/not read in full or paraphrased; (3) mandatory system instructions not followed; (4) mandatory health and lifestyle questions not asked/not asked in full; (5) inaccurate or poorly explained product information provided; and (6) specialists used inconsistent/unstructured sales conversations. However, there was no indication that customers are systematically being provided with unauthorised advice in relation to life insurance and thus there is no evidence of significant customer detriment.
- 6.4. A full analysis, detailing the above findings and the resulting risk of customer detriment, was considered by the Customer and Conduct Risk Committee in February 2014. As a result we have developed an action plan, designed to deal with the issues identified by the Life Insurance 'deep-dive' and the results of mystery shopping in general.
- 6.5. The Customer and Conduct Risk Committee has agreed a deadline of the end of September 2014 for there to be significant improvements in the results of mystery shopping.
- 6.6. Further mystery shopping in relation to Life Insurance will be performed in May 2014 to assess whether the actions taken to resolve the issues identified have been effective.

Post Office Ltd Board
Financial Services Committee – 2nd April 2014
Item 5.1



- 6.7. In addition, a further 'deep dive' on VMS results will be undertaken in March for Credit Card shops involving Bank and POL Compliance and POL T&D resource.

7. Consumer Credit Licence

- 7.1. On 1st April, regulation of Consumer Credit moves from the OFT to the FCA. The FCA is managing a two year programme to get all companies and individuals needing a consumer credit licence approved. In order to continue business all such companies are required to apply for an "interim" consumer credit licence, which Post Office has done.

8. FCA market study – general insurance "add-on" products

- 8.1. In March 2014, FCA published the provisional findings from its market study into general insurance add-on products, to which Post Office contributed. The FCA concluded that (a) competition in the markets for general insurance add-ons is not effective and that this can lead to poor consumer outcomes; and (b) consumers can be significantly overpaying when they buy products as add-ons.
- 8.2. The report also sets out a number of proposed remedies that the FCA believes will strengthen competition in the markets for add-ons by improving the way decisions are presented to consumers and the way add-ons are sold, and by putting pressure on firms to improve product value across both add-on and stand-alone products - these are:
- Imposing a deferred opt-in on add-on sales of Guaranteed Asset Protection (GAP)
 - Banning pre-ticked boxes (so-called 'opt-outs') for the sale of add-ons
 - Requiring firms to publish claims ratios
 - Improving the way add-ons are offered through price comparison websites, focusing in particular on what information consumers can access about add-ons and when this is introduced.
- 8.3. The provisional findings are currently under review to understand the impact, if any, on the distribution of products through the Post Office. Given the products we sell and our distribution model, it is not expected that there will be a significant risk for Post Office.

9. Competitions & Market Authority – preliminary review of SME Banking and Personal Current Accounts

- 9.1. The new Competition & Markets Authority (CMA) is undertaking a "short programme of works" on banking to enable it to decide if it going to carry out a full market investigation. On 26th March the CMA informed Post Office that it is to be included in this preliminary review and will be required to respond to the information request during April and May 2014.
- 9.2. We will liaise with BoI on this as it is the provider of our current account products.

10. Recommendations

- 10.1. The Sub-Committee is asked to note this update. It will be then passed to the ARC for noting.

Nicholas Kennett
Director, Financial Services
March 2014

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POST OFFICE LTD BOARD

Financial Services Sub Brand

1. Purpose

- 1.1 The purpose of this paper and the attached PowerPoint presentation is to update the Board on progress towards launching a Financial Services sub brand. The details were presented to the Financial Services Board Committee in April, who requested that it be shared to the Board. It is tabled for noting.

2. Strategic opportunity

- 2.1 The 2020 strategy targets a doubling of income from Financial Services, rising from £310m to £538m. A key concern in developing the strategy has been low levels of awareness that Post Office offers financial service products, with concomitant low consideration.
- Post Office research has concluded that consumers' awareness of Post Office financial services is only 6 percent, while consideration is 16 percent. The plan seeks to increase these to 20 and 35 percent respectively by 2020.
- 2.2 To support this mind-set change the business has been developing a number of business changes, including:
- Improving the customer experience;
 - Increasing the use of data and data analytics to understand customers' needs better and improve offer targeting;
 - Launching a wider range of relevant products and services.
- 2.3 The final component of building the financial services business is to launch a sub brand. This should allow Post Office to be seen and recognised as a serious and committed player in the market, thereby increasing our credibility as a financial services provider.
- 2.4 Post Office undertook extensive research on consumers' views on Post Office Financial Services. The supporting presentation providing a brief outline of the decision making process, the new sub brand logos, samples of customer facing material and branch fascia.
- 2.5 Separating the FS brand from the main Post Office brand, but retaining a clear link, will enable Financial Services to portray a "fresh" perspective to the offerings, while maintaining a link to the strong loyalty and trust elements in the core brand.

3. Roll out Plans

- 3.1 The brand rollout is planned to commence in September 2014. Limited funding of £0.5 million is included in the current budget to develop brand logos, marketing designs, brand guidelines, photography and design of the website. The rollout will be managed within the Eagle marketing fund:
- Post Office Money branded literature and marketing will be migrated as business as usual costs, with stocks run down and small leaflet runs to ensure literature is kept in branches;
 - Wherever possible, branch fascia will be changed as part of the Crown Transformation Programme;
 - Web migration will be completed as part of the move to the Common Digital Platform.

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3.2 Product launches and changes to product designs and propositions will be targeted for the September launch, to maximize PR for the sub brand.

4. Recommendations

4.1 The Board is asked to note this update and attached presentation.








Nicholas Kennett
Director, Financial Services
April 2014



Financial Services Sub Brand Update

In customer research, two clear preferred names emerged

Popularity with customers

Recommended Sub Brand Name	
 <ul style="list-style-type: none">✓ Brings associations of freshness and modernity✓ Shows confidence, commitment and credibility✓ Allows forgiveness of narrower product range✓ Lower expectations for multichannel functionality• Must work harder to convey full offering	 <ul style="list-style-type: none">✓ Clear understanding of product range✓ Shows confidence, commitment and credibility✓ Indicates a strong digital and multichannel offering• Seen as 'safe' and 'boring'
NB: FCA requirement to use an equal or larger sized reference to Bank of Ireland if using 'Post Office Bank' which may cause customer confusion.	
  	<p>Potentially awkward to use</p> <p>Sounds alien and foreign</p>
 	<p>No clear sense of what's being offered and sounds 'old fashioned'</p> <p>Lacks modernity and progression</p>



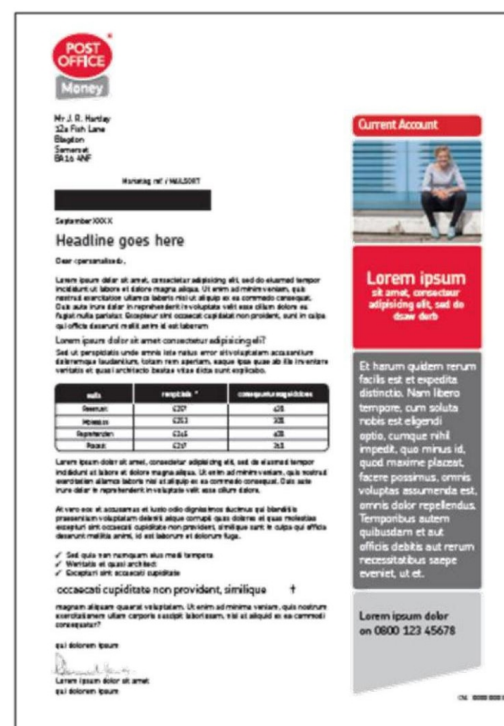
Post Office Money Logo's



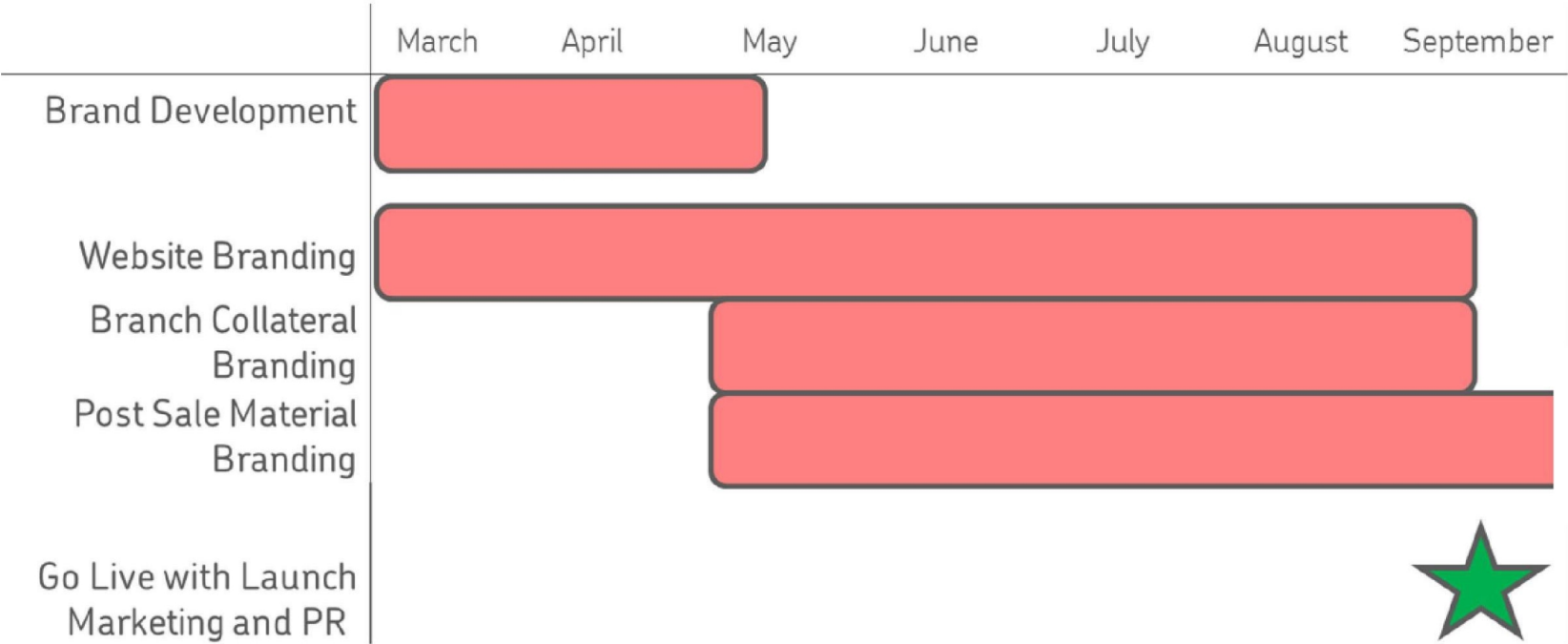
Branch Fascia



Examples of customer touch points



Next Steps for September Launch



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APRIL 2014

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

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/RW	Belinda Crowe / Angela van den Bogerd	<p>A sub-committee of the Board has been formed to oversee the program managing these claims, and consider options for the future. The sub-committee had its first meeting on 10.04.14, and will next meet on 30.04.14.</p> <p>POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes.</p> <p>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.</p> <p>Following discussions with James Arbuthnot MP and JFSA, in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review into these allegations.</p> <p>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.</p>	<p>Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme aimed at resolving individual complaints made about Horizon. POL has also been developing and implementing a Business Improvement Program to improve the way POL supports SPMs run their branches.</p> <p>The Scheme has received 150 applications. These are being progressed through the Scheme under the direction of a Working Group chaired by retired Court of Appeal Judge Sir Anthony Hooper, and comprising representatives from POL, Second Sight, and JFSA.</p> <p>POL has also reviewed its approach to the criminal prosecutions it brings against SPMs which use Horizon data and generally. To ensure POL complies with the continuing evidential, public interest, and disclosure standards required for prosecutions, POL has also undertaken a review of past criminal prosecutions which used Horizon data.</p> <p>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</p>	Bond Dickinson

Significant Litigation Report

17 April 2014

Page 1 of 3

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				Report.		
Employment	POL/NM	Colin Stretch				Weightmans
Employment	POL/NM	Colin Stretch				Weightmans

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PART (B) – PRINCIPAL CRIMINAL CASES BROUGHT BY POST OFFICE LIMITED

DESCRIPTION	STATUS
Sub postmaster accused of theft of £78,660.63.	The defendant has applied to vary down to a nominal sum a Confiscation Order originally made for £22k on the ground that the main asset has been repossessed and there is no other source of funds. This application will be heard on 25.04.14.
Subpostmaster accused of two offences of theft of £175,260 and £9,999.43, and two offences of false accounting regarding the same sums.	A final hearing in the Confiscation Proceedings is scheduled for 06 and 07.11.14. Any further prosecution evidence must be served by 11.07.14.
Subpostmaster accused of fraud of £115,172.11.	Voluntary restitution has been made of the full amount taken. Confiscation Proceedings have therefore been withdrawn and the case closed.

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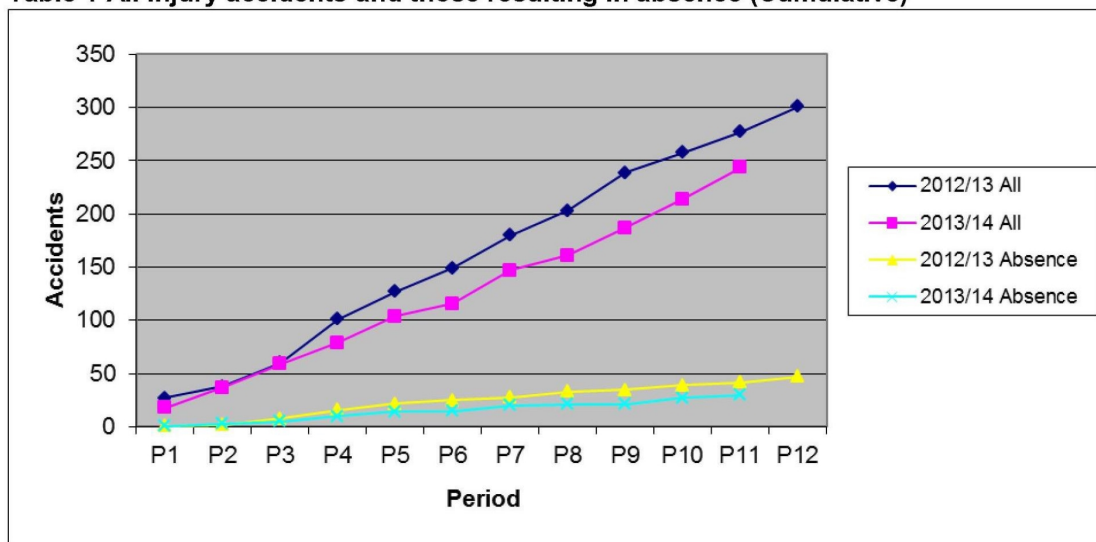
POST OFFICE LTD BOARD**Health & Safety Report****1. Purpose**

The purpose of this paper is to:

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

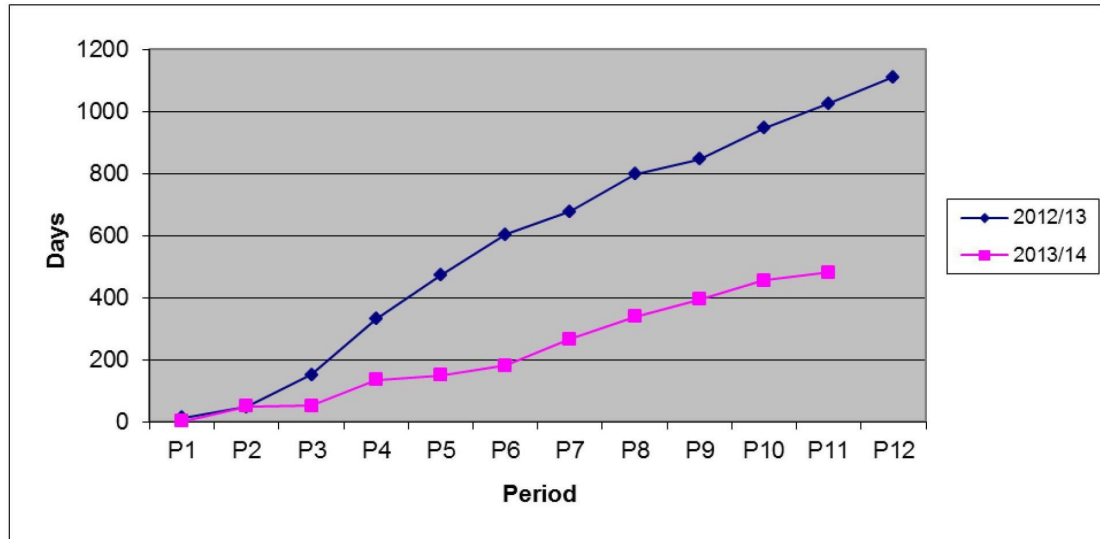
2. Current Situation

- 2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.
- 2.2 Injury accidents, up to period 11, are showing an 11.9% reduction on the same period last year ahead of the target reduction of 5%. Accidents involving absence have decreased significantly from 42 to 30 compared to the same period last year and are significantly favourable against the 5% reduction target. The “per 1000 staff in post” comparison indicator, which takes account of head count fluctuation year on year, is showing a similarly favourable trend for ‘all accidents’ and significantly favourable for ‘absence’ accidents. (Table 1)

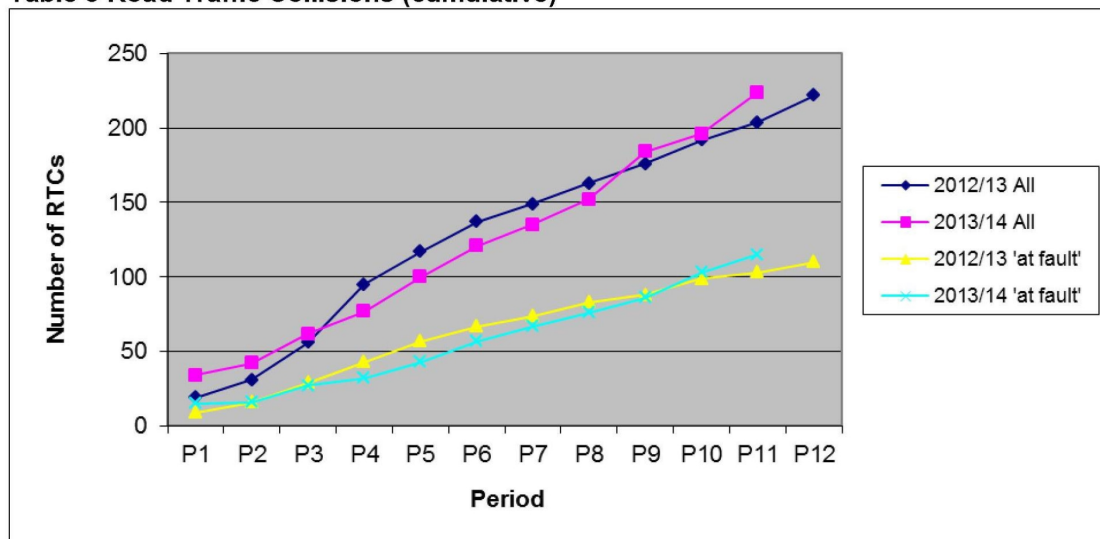
Table 1 All Injury accidents and those resulting in absence (Cumulative)

- 2.3 The number of days lost due to accidents is showing a significantly favourable trend compared to the same period last year and against a target reduction of 5%. This reduction is predominantly due to the absence of major injuries and indicates that not only is there a favourable trend in the frequency of accidents there is also a favourable trend in a reduction of the severity of those accidents. (Table 2 below refers)

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Table 2 Days lost resulting from injury accidents (Cumulative)

- 2.4 The total number of road traffic collisions (RTCs) up to and including period 11 is up 9.8% on last year. This increase is believed to be related to a more robust approach to the reporting of incidents no matter how minor. The number of incidents where the Post Office driver is 'at fault' is 11.6% up against the same year to date period as last year although the ratio of 'fault' against total number of incidents remains similar to last year. (Table 3) 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 becoming 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.

Table 3 Road Traffic Collisions (cumulative)

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- 2.5 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down from 49 to 40 cumulative for the past 11 months. Physical injuries during robberies, of which there have been 10, a reduction of 4 on last year, remain relatively minor in severity. There is a reducing trend in the use of firearms with 5 of the 40 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 support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.6 Robberies and attempted robberies on the Post Office network, cumulative to period 11, are higher than last year – 105 compared to 100 – 58 of the 105 were successful. Injuries sustained during robberies are down from 24 to 20. Robberies take place predominantly at sub post offices. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).
- 2.7 Burglaries and attempted burglaries (which do not involve personal attack) have increased from 79 to 84 compared to the same 11 month period last year – 23 of the 84 incidents were successful..

3. Activities**3.1 Road Risk**

Current activities to mitigate road risk are:

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

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. 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
- 'Darker nights' security awareness campaign

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- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles
- A three month 'Crime stopper' campaign in the West Midlands has commenced, aimed at reducing cash in transit robberies

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Programme of visits to all Post Office sites to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing
- Plans in place to re-visit all Post Office Crown Branches and Supply Chain sites within 18 months
- Health and wellbeing 'Team Talk' modules
- Health and wellbeing poster themed campaigns
- Online wellbeing monitoring tool to support health check initiative
- 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. Professional advice and support continues to be available via RMG. Legal Services have been engaged to assess the responsibilities and to ensure arrangements for on-going management of asbestos are robust.

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 Post Office Ltd 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
April 2014

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Appendix 1

Significant Incidents (Period 11)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
Fazeley SPSO, 8 Coleshill Street, Fazeley, Tamworth, Staffs B78 3RA.	£nil	Wed 05/02/2014, 19:00. 3 masked males armed with crowbars came in to the shop by forcing a side door, the front door and shutters were down at the front, They demanded the ATM cassettes, Spmr had safe and himself locked inside the secure area. The assailants damaged the screen and fled with the empty reject cartridge. CCTV available	None	
Gosforth MSPO, St Nicholas Avenue, Gosforth, Newcastle-Upon-Tyne. NE3 12AA	£56,565	Fri 21/02/2014, 8:17. Female Spmr was followed in to the PO when she was opening up by a male, who threatened and assaulted her, Spmr was tied to a door and the safe was accessed. Spmr has been taken to hospital for checks to injured shoulder and ligature marks.	Injured shoulder and ligature marks.	
St Marys Bay SPSO, 1 Teelin Close, Marsh, Tonbridge TN29 0SE	£10,780	Sat 15/02/2014, 9:30.. 2 males in balaclava entered via the shop, they forced the secure area door. 1 male was armed with a gun and demanded that the safe be opened. No injuries but Spmr is very shaken. CCTV not working	None	
Supply Chain (Cash, delivery and collection)				
Rookery Road SPSO, 171 Rookery Road, Handsworth, Birmingham B21 9QZ	£26,000	Tue 04/02/2014, 10:30. Crew member was making his 2nd trip with stock and cash pouch when a male assailant grabbed the lbox, and pushed the crew member to the floor and fled.	None	
Fullhurst SPSO, 8 Fullhurst Avenue, Leicester LE3 1BH.	£26,000	Tue 18/02/2014, 14:05. The crew member was making his delivery when 2 masked offenders approached him inside the office one offender was armed with a crowbar. They demanded the box to be opened. When the crew member stated he could not,	None	

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		they snatched the box and made their escape in a White BMW.		
Hardy Lane SPSO, 343 Barlow Moor Road, Manchester M21 7QH.	£26,000	Fri 21/02/2014, 12:15. Crew member was at the point of transfer when 2 males ran in to the PO and snatched the pouch.	None	
Glenhills SPSO, 3 Carvers Corner, Grange Drive, Glen Parva, Leicester LE2 9PE.	£15,000	Wed 26/02/2014, 10:50. Crew member was crossing the car park to make his delivery, when a car raced in and 2 males, one armed with an axe got out. They demanded the Ibox and the crew member dropped the box, 1 of the males picked up the box and the fled in the car.	None	Tracker on the Ibox was activated and the Ibox has been located.
Hough Green SPSO, 285 Ditchfield Road, Widnes WA8 8JX.	£6,000	Wed 26/02/2014, 11.55,. The Crew member was at the rear of the van when he turned around he saw a White Audi car being driven towards him. The crew member dropped the Ibox and jumped out of the way, the car hit the rear of the CViT vehicle. 2 males got out of the car, one armed with a hammer they grabbed the Ibox and fled in the car.	None	
Aldi Fallowfield, 143 Lord Street South, Manchester M14 7LA.	£nil	Mon 03/02/2014, 9:30. Crew member was taking coin into Aldi when he was attacked with a sledgehammer from behind by a male assailant. Crew member was dragged to his feet and forced into the store assailant tried to gain access to the Aldi secure area, crew member took a few blows to his helmet. No access gained and assailant fled empty handed	Shaken and bruised	

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POST OFFICE LTD BOARD

Cyber Security and Information Assurance

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Board on European, UK and industry Cyber Security initiatives;
- 1.2 Update the Board on key Information Security and Assurance Group (ISAG) activities;
- 1.3 Outline risk reduction activities being implemented at Post Office in Cyber Security.

2. European, UK and industry Cyber Security initiatives

2.1 Data Protection

In March the European Parliament passed a new Data Protection regulation, aimed at strengthening online data protection rights. The two most significant points for consideration are;

- Businesses may face fines of up to 5% of their annual global turnover, or €100 million if greater, if they breach the new proposed data protection laws;
- A certification scheme may be introduced under which organisations will be able to certify that their processing of personal data is compliant. Organisations issued with a valid 'European Data Protection Seal' would face immunity from fines for breaches of the regulation unless the breach was "intentional" or involved "negligent incompliance".

The exact nature, and therefore the impact, of the new data protection rules is still to be clarified. ISAG will keep a watching brief for further developments, ensuring that Post Office is adequately prepared, should the regulation be passed into UK law. It should be noted that if this initiative becomes law in UK it will take at least 2 years to be fully adopted.

2.2 Computer Emergency Response Team UK (CERT-UK)

The UK Government have this week launched CERT-UK, which will take the lead in coordinating the management of national cyber security incidents. The organisation will also act as the UK central contact point for international counterparts in this field. CERT-UK will work closely with industry, government and academia to enhance UK cyber resilience. This includes exercising with government departments and industry partners, sharing information with UK industry and academic computer emergency response teams and collaborating with national CERTs around the globe to enhance our understanding of the cyber threat.

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- 2.3 ISAG are currently discussing CERT-UK with HMG Security Agencies and how Post Office may play its part in this important initiative.

3. Activities/Current Situation**3.1 Incident Summary**

There are currently 14 active incidents or breaches that ISAG are aware of, out of those; 8 will be discussed at the next information Security Committee (8th May 2014) and formal closure will be requested, leaving only 6 active incidents. All incidents are analysed to ensure lessons learnt are incorporated into 'Business as Usual'.

At the time of writing this report there are no significant risks to the business known as a result of the 6 incidents.

3.2 Programme/Project Governance

The 'Self Service Kiosk' and 'Mortgage Brain' projects that were referred to in the last ExCo/Board paper have been subject to formal risk acceptance and on-going review.

This exercise identified gaps in governance and risk management in Post Office, enabling a review and strengthening of these processes.

3.3 Marketing Due Diligence

Regular engagement continues with Marketing due to the high level of reliance on processing personal information. An ISAG Service List has been passed to Marketing to enable them to budget for the ISAG services that need to be reflected in any commercial undertaking.

3.4 IT Supply Chain Transition to ATOS

Regular meetings continue with the Atos team to define and govern the detailed Information Security services that they provide to Post Office.

ISAG are participating in the PWC risk review of the Transition Programme.

3.5 Governance Risk and Compliance Tool

The Governance Risk and Compliance Tool called 'Synergy' has been procured, with the target date of mid-April for the start of implementation. This tool will help align Post Office Information Security certification activities as well as provide executive and management risk reports across Post Office.

Information Security will be the first to utilise, followed by IT Services with the potential of Corporate Risk adopting within 2 years. Corporate Risk want to see the tool working before they commit to 'Synergy', they are currently using a tool called 'Stratex' which has a licensing commitment for the next 2 years. All parties have been part of the decision making process.

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3.6 Business Impact Assessment/Privacy Impact Assessments

A key activity in assessing risk is in understanding where Information Assets (critical services, systems, information, and people) are located.

The Business Continuity Business Impact Assessments (BIA's), undertaken by Corporate Risk, identify key risks and link them to business strategy and objectives. It has been agreed with Corporate Risk representatives that ISAG will take the lead and align their BIA's to the ISAG version, ensuring that both groups requirements are represented.

3.7 Training and Awareness

The new and combined Information Security and Data Protection e-learning training is on schedule to be rolled out this month for all corporate staff. This will also be included in the induction and annual training programmes for network colleagues.

ISAG are engaged with HR representatives to ensure ISAG policies are reflected in colleague induction, communications and HR policies.

A new programme is in the planning stage for cross Post Office Information Security and Data protection awareness and training to provide a focus on Networks and Sales. The Network and Sales directorate will be fully engaged before taking this to the next stage.

This activity will be reviewed on an on-going basis and longer term may need a full time resource. Currently this resource is shared with Security.

4. Request

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

Julie George/Lesley Sewell
7 April 2014

POST OFFICE LIMITED BOARD

Sealings 20 March 2014 – 24 April 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 1141 to 1159 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 1141 to 1159 inclusive in the seal register is hereby confirmed.”

**Alwen Lyons
Company Secretary
24 April 2014**

POST OFFICE LIMITEDDate
24/04/2014**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
1141	24/03/2014	14/03/2014	Lease of 351 and 353 Kings Road, London, SW3 between The Mayor and Burgesses of the Royal Borough of Kensington and Chelsea and POL	Alwen Lyons	Jean Reynolds
1142	24/03/2014	24/03/2014	TR1 relating to land on the east side of Egerton Crescent, Withington, Manchester, M20 4PL between POL (transferor) and Nashud Limited (transferee).	Alwen Lyons	Jean Reynolds
1143	24/03/2014	21/03/2014	Renewal lease by reference to an existing lease relating to Part Ground Floor, Brazennose House, Brazennose Street, Manchester, between The Prudential Assurance Company Limited and POL	Alwen Lyons	Jean Reynolds
1144	24/03/2014	24/03/2014	Reversionary lease relating to ground floor shop 234/236, Walworth Road, London, SE17 1JE between Omegacrest Limited and POL	Alwen Lyons	Jean Reynolds
1145	24/03/2014	24/03/2014	Deed of variation of a lease dated 28 March 2011 between Omegacrest Limited and POL	Alwen Lyons	Jean Reynolds
1146	27/03/2014	27/03/2014	Variation Deed to Master Services Agreement between POL and Royal Mail Group Limited	Piero D'Agostino	Jean Reynolds
1147	28/03/2014	28/03/2014	Deed of Amendment and Resolution to Modify in respect of the Royal Mail Pension Plan between POL, Royal Mail Group Limited and Royal Mail Pensions Trustees Limited	Alwen Lyons	Harpreet Singh
1148	28/03/2014	28/03/2014	Deed of Amendment in respect of the Royal Mail Pension Plan between POL and Royal Mail Pensions Trustees Limited	Alwen Lyons	Harpreet Singh
1149	31/03/2014	31/03/2014	Underlease of Premises at Part of 22 Market Square, Poplar, E14 6AB between POL and Iridium Assets Limited	Piero D'Agostino	Jean Reynolds
1150	31/03/2014	31/03/2014	Licence for alterations relating to premises at part of 22 Market Square, Poplar, E14 6AB between POL and Iridium Assets Limited	Piero D'Agostino	Jean Reynolds
1151	01/04/2014	31/03/2014	Licence to occupy the Ground Floor and Basement Premises at Upper Street, Islington, London N1	Gill Catcheside	Jean Reynolds
1152	02/04/2014	01/04/2014	Licence to Occupy relating to Space at West Block, Future	Gill Catcheside	Jean Reynolds

POST OFFICE LIMITEDDate
24/04/2014**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
			Walk, West Bars, Chesterfield, S49 1PF between Post Office Limited and Atos IT Services UK Limited		
1153	02/04/2014	01/04/2014	Collateral Agreement relating to 54-60 High Street & 17 Ram Street Wandsworth SW19 4LD	Gill Catcheside	Jean Reynolds
1154	03/04/2014	02/04/2014	Lease of Ground Floor and Basement 67/68 (2/6 Maple Walk) Chelmsley Wood Shopping Centre Solihull West Midlands between Fordgate Midlands Properties Limited (in administration), Anthony Cliff Spicer and Henry Anthony Shinnars of Smith & Williamson LLP and POL.	Piero D'Agostino	Jean Reynolds
1155	03/04/2014	02/04/2014	Licence to Assign premises at 27 Bournemouth Road, Poole, Dorset, BH14 0EL between POL, Stephen Graham Cliff and Arti Hiren Modi	Piero D'Agostino	Jean Reynolds
1156	09/04/2014	08/04/2014	Land Registry Transfer Deed in respect of Lands at Greenpark Road between Katherine McAlerney, Bank of Ireland (UK) plc and POL	Piero D'Agostino	Jonny Gribben
1157	09/04/2014	09/04/2014	Land Transfer Deed in respect of lands and premises at 60 Greenpark Road between Katherine McAlerney, Bank of Ireland (UK) plc and POL	Piero D'Agostino	Jonny Gribben
1158	11/04/2014	10/04/2014	TR1 relating to 66 - 70 Lichfield Street Wolverhampton WV1 1AB between POL and Primeco Limited	Piero D'Agostino	Jean Reynolds
1159	22/04/2014	17/04/2014	Licence for access over 250 - 252 Stamford Hill N16 6TW between POL and JCDEAUX UK Limited	Gill Catcheside	Jean Reynolds