POL00027422

Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 9am on 28 January 2015
in the Boardroom at 148 Old Street, London EC1V 9HQ

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

09.00	1	Change of Directors	Alwen Lyons
09.05	2	CEO report	Paula Vennells
09.30	3	Review of scorecard and Financial Performance update	Alisdair Cameron/Neil Hayward
10.00	4	Initial discussions on budget, operating plan and targets for next financial year	Alisdair Cameron/David Ryan/Neil Hayward
10.30	5	Business Transformation update	David Ryan
10.50		BREAK	
11.00	6	IT Strategy including Fujitsu	Lesley Sewell/Alisdair Cameron
12.00		**LUNCH with Cyber Security speaker**	Tony Smith
13.00		BREAK	
13.15	7	Risk Appetite	Chris Aujard
13.45	8	Update on Mails strategy	Martin George/ Mark Siviter
14.30	9	Network/ Channel update (including NT cliff)	Kevin Gilliland
15.00	10	IR – oral update	Neil Hayward/Tom Moran
15.10		BREAK	
15.25	11	Sparrow – oral update	Chris Aujard/Belinda Crowe/Mark Davies
15.55	12	POMS Director appointments	Alwen Lyons
16.00	13	Minutes of Previous Meeting and matters arising Committee Minutes for noting Status report update	Alice Perkins
16.05	14	Board Sub Committees updates - Pensions, FS, ARC (including ARC self-assessment) & Sparrow	Committee Chairmen

POL00027422

Strictly Confidential

16.15	15	Change of Registered Office	Alwen Lyons
16.20	16	Items for Noting • IA Audit Action Status Report Summary • Significant Litigation Report • Health and Safety Report • Sealings	Alwen Lyons
16.25	17	Any other business	Alwen Lyons
16.30		**CLOSE** - Date of next meeting: 25 March 2015 at Finsbury Dials, preceded by a NED breakfast.	

POL00027422

STRICTLY CONFIDENTIAL

CEO's Report – January 2015

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

- We start the new calendar year on firm foundations as we accelerate our turnaround plans; this report provides more detail, but in summary:
    - we have made significant progress reshaping the business and reducing our cost base. Thanks to the efforts of staff across the organisation, we're now only £13k from our target to find £60m of run-rate savings in 2014/15;
    - we have also reached an agreement with the CWU on Supply Chain and Admin pay – without prolonged industrial action – which secured the union's co-operation on Business Transformation, complementing the agreement with Unite;
    - our first wave of staff efficiencies is well under way, and there is good progress across the business in changing the way we work, in preparation for the move to our new building at Finsbury Dials. The building has itself been designed to make us work in a more open, agile and efficient way. The first teams move in 6 weeks' time;
    - growth in Financial Services is key and this month we have launched the new Post Office Money brand. Project Hawk remains central to this and plans are underway but timings are under pressure.
- I am pleased to welcome our new CFO, Alisdair Cameron, and Jane MacLeod, General Counsel, both of whom will be part of the new strategic Group Executive which I am introducing from the 1st February. This will help me lead the business with clearer accountabilities and ensure effective decision making at pace. I am also reviewing our executive governance arrangements to ensure we continue to step up our focus on becoming a commercially sustainable business.

Key issues for discussion at this Board:

- We have four substantive topics for discussion at this Board meeting:
- Firstly, Alisdair will lead an initial discussion on the ***budget for next year***. Building on the business transformation analysis presented to the November Board, we have developed next year's budget with the goal of maintaining year-on-year improvement in EBITDAS on our flightpath to commercial sustainability. The paper highlights areas where we have challenged for income growth and continues our expectations of further cost reduction.
- The paper also provides an interim update on our ***three-year projections*** which will be refined as part of the work to produce a 3-year operating plan. This is intended to help establish a stronger framework for medium-term financial and strategic planning, and to strengthen the culture of financial management across the business.
- Secondly, I have asked Lesley and Alisdair to provide a paper updating the Board on progress implementing our ***IT strategy***. The Board has previously agreed a strategy to transition the business away from its disparate legacy IT systems to a more secure platform, which will meet the evolving needs of our customers and agents and, critically, reduce and variabilise our IT cost base. The paper summarises progress to date and the forward work plan, as well as recognising the significant risks to delivery. Lesley will describe how we are mitigating the risk specifically around exiting Fujitsu as an

incumbent supplier as we procure the new Front Office IT platform. The paper also draws out the actions we are taking to improve governance of IT change and integration with the wider business transformation programme.

- We will then be discussing a draft ***risk appetite statement*** for the business. The statement is an integral part of work to develop our risk management capability to become compliant with the risk elements of the UK Corporate Governance Code by the end of this financial year. The various statements attempt to capture our risk tolerances across a range of dimensions and have been refined following very helpful discussions at both the ExCo and ARC. Work is now in hand to embed the statement into business decision making. The ARC approved the statement for discussion and formal adoption by the Board. If adopted, it is proposed that the Board review the statement bi-annually in the first year, and subsequently on an annual basis.
- Finally, we will review progress on ***Winning in Mails***. The paper notes that whilst we have made good progress on the operational and technical elements of product simplification and network extension, we have made no progress in securing the necessary commercial agreements with Royal Mail. This is despite the best endeavours of the team and engagement at the highest levels between our two organisations, and we believe it reflects a fundamental misalignment in our respective parcel strategies. We are therefore accelerating work on a broader commercial options analysis, building on thinking from our Plan B options. In parallel we will maintain engagement with retailers and the NFSP, however we propose to pause rollout of further access points and concentrate in the interim on a cost reduction/margin improvement approach. The options analysis will form the basis for a strategic review of our approach at the Board in May.

2. Commercial and business performance overview

Overall performance

- As the CFO's Performance Report sets out in detail, December trading was below forecast but showed an improvement on the same period last year. Net income was adverse to budget across all pillars but the focus on cost reduction meant operating profit in the month was favourable to budget, reducing the overall shortfall for the year to date.
- Our focus is now on securing the EBITDAS target of £99m over the next ten weeks. We held a Teamtalk event with the SLT on the 13th January to brief them on the latest financial performance and galvanise them and their teams to rise to this challenge.

Mails focus

- Mails income in Period 9 was ahead of last year, driven by the extra day's trading in Christmas week and supported by the Christmas marketing campaign and Christmas Makers out in branches. Home Shopping returns grew by 24% year-on-year, outstripping the market, however this remains a relatively small proportion of our overall mails income.
- The focus is now on growing income through Q4. This includes more targeted training for Post Offices and poorer performing colleagues in the bottom 1,000 branches. We are also currently evaluating the potential for scaling up a planned online campaign

POL00027422

targeting SMEs and eBay sellers to maximise the impact of the small parcel price promotion.

FS focus

- Banking services continue to perform well and the ongoing positive publicity is helping raising awareness of our services. Another round table with Vince Cable and the banking community has been scheduled at the end of January, providing a further opportunity to discuss how we might expand our partner banking offer on a basis which is commercially sustainable for the Post Office.
- All preparations to launch the Post Office Money Brand have now been successfully completed. The Post Office Money website has gone live (www.postofficemoney.co.uk) and the nationwide PR campaign will ramp up from the end of January, with the first TV advert airing on 1st February. The new brand is being supported in the business with a renewed focus on learning and development through the launch of the Post Office Money Academy.

Telecoms focus

- The Telephony business increased Line Rental prices by £2.00 per month from 1st January, and reduced the Broadband package price by £2.00. As a result Broadband Dual Play customers saw no increase in price, while our Home phone customers saw the full £2.00 increase. This will raise £8 million in Annual Revenue/EBITDAS. Notwithstanding this increase Post Office remains the lowest cost provider in the Home phone market, and we have not seen any material increase in churn.

3. Other issues and updates

Industrial Relations

- The long-running dispute in Supply Chain and Admin is now formally settled. The CWU's Postal Executive endorsed the 'negotiators' agreement' struck on the 23rd December and the subsequent membership ballot resulted in a resounding 93.3% 'YES' vote, on a turnout of 64.4%. The deal which was agreed with the CWU remained within the mandate agreed with the Board.
- The result means we will not need to negotiate on pay in Supply Chain and Admin until shortly before April 2017. More importantly, this confirms the CWU's co-operation on Business Transformation, while retaining our right to make colleagues compulsorily redundant.
- I am sure the Board would like to join me in thanking Neil Hayward and his team for their hard work in landing this milestone agreement.
- Neil Hayward and the IR team have now started a review of the CWU's Facility Time, in line with the IR Strategy approved by the Board last year. The aim is to improve relations between our two organisations and to reduce the cost of facility time to the business. The team presented their proposals to CWU Representatives in Bournemouth on 14th January and aim to have a new framework agreed by April 2015. Our parallel review with Unite is on track to conclude with an agreement by the end of January.

POL00027422

Office move to Finsbury Dials

- Significant work has been undertaken over the last 6 months as we prepare to move out of 148 Old Street. The project remains on track to complete to agreed timescales within the agreed budget, with savings being made on furniture and fit-out costs.
- The Network Transformation team moves to its new site in Clapham with the first official operational day scheduled to be 23rd February. The remainder of our colleagues will move from 148 Old Street to Finsbury Dials in a phased sequence between 9th March and 27th March. Our next Board meeting on 25th March will be held in the new office.
- Staff engagement is a key part of the project, including changing ways of working (furniture, dedicated spaces etc) before we move. Most teams have embraced this enthusiastically. We will begin weekly communication to ensure colleagues are well prepared for the move itself. The new building and new ways of working should help us become more agile, collaborative and ultimately more effective. New ways of working include hot-desking, remote working and greater use of technology and we will draw on lessons from trials over the last 6 months.
- We are also preparing a stakeholder narrative, which puts potentially negative views on the move and associated costs in the context of wider business challenges.

Government Services

- PayPoint have challenged DWP on the use of the Front Office Counter Services (FOCS) Framework Agreement. They have claimed it is an inappropriate contracting vehicle for POca, on the basis that FOCS does not cater for Banking Services. PayPoint have not challenged the award itself. This has led to a delay in DWP signing the new POca contract with POL.
- DWP have made a "robust" response to the PayPoint challenge and assured us this presents a delay to the process rather than a serious challenge. BIS colleagues share this view and have shared advice from the EU Commission confirming they regard FOCS as a suitable contract vehicle for POca. The risk from a delay is that the £9.8m additional POca revenue negotiated for 2014-15 may be at risk. Currently we regard this risk as low but are monitoring the situation daily.
- DWP officials have indicated they expect to enter into formal discussions on the Call-Off Agreement later in January, confirming their intention to continue using the FOCS Call-Off Agreement process.

Sparrow

- We have now completed investigations for all cases in the Scheme. To date, we have found no evidence, nor has any been provided by either an Applicant or Second Sight, of either faults with the Horizon system or unsafe convictions, and we are not aware that any convictions have been appealed.
- The strategy agreed with the Board last summer has, not unexpectedly, resulted in a concerted attempt by JFSA to use MPs and the media to apply pressure on Post Office to mediate all cases. Although JFSA have said that they plan to stay in the Scheme, we believe that they are gathering information through the Scheme to use in litigation against us.
- Media interest to date has been limited but unwelcome and distracting. The coverage is being generated by a small number of journalists. We are taking a very proactive

POL00027422

position in challenging journalists, combining legal and editorial approaches, including to senior figures in relevant organisations. We will maintain our communications strategy focussing on providing a firm, measured and proportionate response to key audiences on the central allegation of faults within the Horizon system.

- We have been invited to attend an evidence session of the BIS Select Committee on the 3rd February, which will be an opportunity to state our case for the formal record.
- Mark Davies and Chris Aujard will provide a verbal update on Sparrow at the Board meeting.

4. Update on key change programmes

Detailed updates are provided in separate Board papers this month for a number of the change programmes:

a) Crown Transformation Programme
b) Network Transformation Programme
c) 'Win in Mails'
d) Business Transformation
f) IT Transformation

To minimise duplication, this report summarises progress on the other programmes.

e) *Separation*

Status overview: The programme remains on track to deliver against the revised MSA deadlines. Progress on migrating to a dedicated Post Office admin IT Network is progressing well, and at the end of Dec 145 (of 352) sites have now been fully separated from Royal Mail. The remaining sites are planned to migrate through Q1 2015. Our Contact Centre estate is now also separated from Royal Mail, and the programme continues to provide operational warranty support prior to handover into business as usual.

Programme KPIs	YTD (P9)		Full programme	
	Target	Actual	Target	Forecast
Separation of IT systems	143	143	256	256
Separation of Business Services	120	120	131	131
Finance – headcount reduction	27.5	27.5	27.5	27.5

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

Key milestones ahead:

Milestone	Target date	Current status
eBusiness Migration	End Feb 15	On track
BT on boarding to ATOS helpdesk complete	End Mar 15	On track
HR Common Components separated	End Apr 15	On track
Networks site migration end	End Apr 15	On track

g*) People & Engagement*

Status overview: The Wave 1 headcount reductions are progressing in line with the plan and will conclude at the end of March. We are now planning and designing Wave 2, focussing on right sizing particularly the top and middle management layers of the

POL00027422

organisation. ExCo consultations are underway and the review will look at all business areas as well as cross-functional opportunities.

The Employee and Agents engagement surveys will be launched next week, and have been brought forward this year to align with the performance review cycle. Top line flash results will be available on 9th March.

A review of the DC pension scheme is underway, with the current consultation due to end on 23rd February. The revised DC scheme is on track for implementation by the 1st April.

Work is in hand to develop a vision for the transformed business which is compelling for our staff, agents and customers. ExCo and SLT interviews are being conducted in January, and an ExCo workshop will be held on 26th January. The project will also form part of an SLT development day on 30th January, and the outcome of this work will be presented to the Board in March ahead of a business-wide launch.

Key milestones ahead:

Milestone	Target date	Current status
Union agreement for new collective framework	End Mar 15	On track
NFSP new relationship in place	End Mar 15	At risk
Revised incentives in place	End Mar 15	On track
Wave 1 complete/Wave 2 design starting	End Mar 15	On track
Revised performance management process in place	End Apr 15	On track
People and Engagement plan/leadership capability and capacity update to Board	End May 15	On track

h) Titan

Status overview: a soft launch for renewals started from the 19th December, and the full POMS launch of new sales began on the 1st January. There were no significant issues. Some minor issues were identified relating to the average length of handling times and abandonment rates, and extra staff were recruited to mitigate this. We are on track to finalise the two remaining contractual relationships by the end of March as planned, and to secure the necessary FCA authorisation.

Programme KPIs	YTD (P9 cum.)		Full programme	
	Target	Actual	Target	Forecast
Contractual relationships in place	11	11	13	13
Systems in place	4	4	6	6
Staff in place	5	5	6	6

Key milestones ahead:

Milestone	Target date	Current status
FCA authorisation complete	End Mar 15	On track
Strategic system implemented	End Aug 15	On track

i) Hawk

Status overview: We are in the final stages of appointing an Independent Expert to progress the negotiation on the Bank's insurance business (Hawk). The team remain confident of achieving the year-end deadline, subject to agreeing a valuation for the

POL00027422

business. Alternative options are also being worked up on a contingency basis and will be brought to the Board if required. This would inevitably impact some timings.

Milestone	Target date	Current status
Conclude IE valuation	End Jan 15	Subject to delay
Seek PO Board approval to proceed	End Feb 15	Contingent on valuation being in POL range.
Sign transaction agreements	End Mar 15	
Hawk Implementation programme	End Dec 15	

j) Financial Services Investments and Savings Negotiations

Status overview: Negotiations with the Bank of Ireland continue with BoI rejecting Post Office's proposal on investments. The key points under discussion are: the need for market soundings; agreeing a delivery model; assessing an altemative structure (linked to Hawk) to exclusivity; and contractual control over Investments.

Savings negotiations for 15/16 have been concluded.

Programme KPIs	2015/16	
	Target	Actual
Incremental increase in net Savings revenues	£0 - £12M	£9m
Investments Negotiations	£0.25m	n/a

Key milestones ahead:

Milestone	Target date	Current status
Investments negotiation	End Mar 15	On track

k) Financial Services Sales Effectiveness

Status overview: The Post Office Money Academy launched on the 19th January, supporting the wider launch of the Post Office Money Brand. The projects currently 'at risk' are now being reviewed to establish actions needed to bring these back on track or re-baseline the plans to ensure effective delivery.

Detailed KPIs are being developed.

Milestone	Target date	Current status
POM Academy Phase 2 complete (expanding curriculum)	End Aug 15	On track
Salesforce development live (web lead to branch appointment functionality)	Mid Feb 15	On track (plan re-baselined)
Technology for Frontline live (upgrading core mortgage system)	Mid Mar 15	At risk
Hub and Spoke Pilot phase 2 launched (expanding reach into agency and linking with FS/MS specialists)	Mid Feb 15	At risk
Data enablement feasibility complete (developing a more agile reporting capability)	Mid June 15	On track

POL00027422

5. Market, political and external developments

- **Retail – Christmas Trading Reports**. In 2014 customers spent £104bn on e-retail, a 14% growth on the previous year. During the Christmas Trading period (2/11 - 27/12) customers spent £21.6bn, an increase of 13% on last year. These rates of growth are being translated into the Home Shopping Returns market which has grown by c8% on last year. Online e-retail now accounts for 24% of retail sales and next year is expected to grow by 12% to £116bn. However, within these numbers are some interesting emerging trends.
    - Whilst the overall Christmas performance is in line with expectation, December trading was only 5% up on last year. This is being linked to the rise of Black Friday which saw 17% of Christmas sales happen in the w/c 23 November, with an estimated £810m being spent on Black Friday (alone the biggest ever day for on line sales).
    - Sales via smartphones and tablet devices recorded a 55% growth on the same period in 2013. £8bn was spent via mobiles this Christmas, compared to £5.1bn last year. 37% of online sales are now made on a mobile device; an estimated 8.9% of total retail sales.

- **City Link entered administration**. The parcel delivery firm entered administration on Christmas Eve. Administrator Hunter Kelly, of Ernst and Young, said, "City Link Limited has incurred substantial losses over several years. These losses reflect a combination of intense competition in the sector, changing customer and parcel recipient preferences, and difficulties for the company in reducing its cost base."
- **BT signals intent for mobile market with exclusive negotiations to buy EE**. BT has decided to pursue negotiations to buy EE for £12.5bn. The sale of the acquisition has raised concerns about the potential control BT will have of Britain's airwaves. Barclay's analysts estimated synergies would be worth £5bn. It is thought BT will use Wi-Fi hotspots, new miniature masts and whole sale deals to use the EE 4G network to undercut rival mobile operators. BT sees negotiations to buy EE as an accelerator for its ambitions in the mobile market and ultimately its quad-play offering.

POL00027422

STRICTLY CONFIDENTIAL

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

Key agenda items	Description
25th March:	
3 year Business plan	Approval of a 3 year business plan
1 year plan and budget	Approval of 1 year operating plan and budget
Scorecard	Approval of 2015/16 scorecard
Business Transformation	Progress update on Business Transformation, cost reduction and run rate for 2015/16
Telephony Strategy	Board update on progress to date and strategic options going forward
21st May:	
Annual Report and Accounts	
Performance payments	Approval of STIP and LTIP payments and performance conditions
People and engagement	Roadmap for people and engagement activity for the next 12-18 months
Network update	Network and Channels update including sales capability
Working capital and subsidy	Review of working capital and approval of the strategy for the next funding round negotiations
Win in Mails	Update on the programme to date and next steps

Strictly Confidential

POST OFFICE LTD BOARD

2014-15 Financial Performance and Scorecard

1. Purpose

The purpose of these papers is to update the Board on:

1.1. the financial performance in December 2014 and YTD;

1.2. the expected financial outcome for 2014-15; and

1.3. the expected outcome on the performance scorecard.

2. Results

2.1. The performance for December 2014 and YTD and the implications for the full year outturn are set out in the attached slide deck. In addition, the standard performance reporting pack is attached, with the usual appendix available in the Reading Room.

2.2. In summary, income continued below budget for December 2014. However, income was slightly ahead of the prior year, including in Mails. Improved cost focus started to deliver benefits and the YTD profit shortfall to plan narrowed from £18m at the end of Quarter 2 to £13m. The business is on track to deliver run rate cost reductions of £60m by the year-end.

2.3. The full year profit forecast has increased from £85m to £95m and the business is seeking to recover to £99m during Q4, hitting plan. In addition to delivering the core trading result, this requires the business to deliver a number of one-off items, including the DWP signature on POCA. This has been challenged by Paypoint and the impact if the contract is not signed is estimated at £9.8m per annum for 2014-15 and 2015-16.

3. Recommendations

The Board is asked to:

3.1. <u>note</u> the performance and improved full year forecast; and

3.2. <u>note</u> that there are a number of key dependencies for this to be achieved.

Alisdair Cameron
January 2015

POL00027422

2014/15 Financial Performance and Scorecard P9 YTD and Outturn Forecast

Alisdair Cameron

28 January 2015

POL00027422
POL00027422

Executive Summary

- December trading remained below forecast but was ahead of prior year
- The focus on costs narrowed the profit gap over Q3
- The business is forecasting it will hit the £99m EBIT budget.... with contingency we are showing £95m
- There are some critical judgments to make and one-offs to capture
- ...... and cost focus will remain intense to create momentum into 2015/16

POL-0024063

December Mails showed a slight improvement on PY but remained adverse to plan

POST OFFICE

Net Income £m	December 2014			December 2013	
	Actuals	Budget	Variance	Actual	Variance (Yr On Yr)
Stamps (1st & 2nd Class plus other stamps)	6.5	5.5	1.0	6.3	0.1
Labels (1st & 2nd Class) incl RM Signed For	10.7	12.7	(2.0)	10.6	0.1
Home Shopping Returns	0.8	1.8	(1.1)	0.6	0.2
Mails Other	22.4	24.3	(1.9)	21.9	0.5
Total Mails & Retail	**40.3**	**44.3**	**(3.9)**	**39.4**	**0.9**

Net Income 2014-15 £m

	P1	P2	P3	P4	P5	P6	P7	P8	P9	YTD
Actual	34.9	28.1	29.0	35.1	26.5	28.0	36.2	31.5	40.3	289.5
Budget	36.9	29.3	31.7	37.2	30.5	31.8	40.1	36.3	44.3	318.0
Variance	(2.0)	(1.2)	(2.7)	(2.1)	(4.0)	(3.8)	(3.9)	(4.9)	(3.9)	(28.5)

- Stamps and labels in line with prior year, but £1m adverse to budget - volumes running behind expectations.
- Home shopping returns – 24% up year on year but not meeting target
- Mails Other - favourable YOY due to International postage, but adverse to budget due to £1.5m stretch task, £0.2m Lottery and £0.2m Retail

POL00027422

Financial Services had another difficult month on income

Net Income £m	December 2014			December 2013	
	Actuals	Budget	Variance	Actual	Variance (Yr On Yr)
Bill Payment Services	2.8	2.7	0.1	3.7	(0.9)
Payment Services	0.8	2.0	(1.2)	0.9	(0.1)
PFS-Savings	4.3	4.6	(0.3)	3.9	0.4
PFS-Insurance	0.8	1.1	(0.4)	0.5	0.3
PFS-Lending	0.6	1.5	(0.9)	0.6	0.0
Travel Insurance	(0.9)	0.4	(1.3)	0.3	(1.2)
MoneyGram	1.9	1.7	0.2	1.5	0.4
NS&I	2.0	0.2	1.8	0.3	1.7
Other	10.3	10.9	(0.6)	10.7	(0.4)
Total Financial Services	**22.6**	**25.1**	**(2.4)**	**22.4**	**0.2**

- Payment Services adverse: Gift vouchers down £700k (£400k under-booked in Dec)
- PFS-Lending (Mortgages and credit cards) behind on sales
- Travel Insurance – AON cost increase catch up £1m impact (expect to move to costs)

Offset by

- MoneyGram – highest sales on record
- NS&I amended contract limit favourable

Underlying c£1m off plan in December

Net Income 2014-15 £m

	P1	P2	P3	P4	P5	P6	P7	P8	P9	YTD
Actual	25.9	22.8	23.2	27.5	21.7	25.4	26.8	21.7	22.6	217.7
Budget	25.0	21.5	22.8	27.2	22.7	26.1	26.9	23.5	25.1	220.8
Variance	0.8	1.4	0.5	0.3	(1.0)	(0.8)	(0.1)	(1.8)	(2.4)	(3.1)

Telecoms remained adverse to plan with a price rise coming into effect in January

Net Income £m	December 2014			December 2013	
	Actuals	Budget	Variance	Actual	Variance (Yr On Yr)
Energy	0.0	0.3	(0.3)	0.0	0.0
HomePhone /Dual & Broadband Customers	3.2	4.8	(1.6)	4.1	(0.9)
Total Telecoms Services	**3.2**	**5.0**	**(1.9)**	**4.1**	**(0.9)**
Motoring Services	1.7	0.5	1.2	0.7	1.0
Card Account	4.0	4.9	(0.9)	4.3	(0.3)
Other Government Services	1.3	1.8	(0.5)	1.3	(0.0)
Total Government Services	**7.0**	**7.2**	**(0.1)**	**6.4**	**0.6**

Net Income 2014-15 £m

Telecoms	P1	P2	P3	P4	P5	P6	P7	P8	P9	YTD
Actual	4.6	4.0	4.0	4.8	3.3	2.3	2.9	3.2	3.2	32.3
Budget	5.5	4.5	4.6	5.7	4.7	4.7	5.8	4.7	5.0	45.2
Variance	(0.9)	(0.5)	(0.6)	(0.9)	(1.4)	(2.4)	(2.9)	(1.5)	(1.9)	(12.9)

Gov. Servs.	P1	P2	P3	P4	P5	P6	P7	P8	P9	YTD
Actual	10.2	9.2	9.6	9.3	7.4	7.4	8.5	7.1	7.0	75.7
Budget	10.4	8.7	9.5	10.8	9.4	10.1	9.2	8.2	7.2	83.4
Variance	(0.2)	0.5	0.0	(1.5)	(2.0)	(2.6)	(0.7)	(1.1)	(0.1)	(7.7)

- Telecoms – income continues to be behind on customer base and ARPU
- Motoring volume higher than budgeted first 2 weeks of December
- POCA: fewer active accounts than budget
- Other Government Services – adverse due to lower passport volumes

POL00027422

December's costs benefited from focus and lower trading

	December 2014			Prior Year Period	
£m	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**
Staff Costs	(17.9)	(18.7)	0.8	(20.3)	2.4
Subpostmaster Costs	(36.4)	(44.8)	8.3	(38.1)	1.7
Non-Staff Costs	(26.4)	(24.4)	(2.0)	(17.1)	(9.3)
Depreciation	(0.0)	(0.1)	0.0	(0.0)	(0.0)
Total Expenditure (pre POOC)	(80.8)	(88.0)	7.2	(75.6)	(5.2)
One off Project costs (POOC)	(1.7)	(0.8)	(0.9)	(2.4)	0.6

- Lower subpostmaster costs due to lower sales in the period and VAT upside of £1.8m

POL00027422

... leading to a claw back of H1 profit shortfalls from £18.6m to £13.2m

	Q1			Q2			Q3			Year	
£m	**Actual**	**Budget**	**Variance**	**Actual**	**Budget**	**Variance**	**Actual**	**Budget**	**Variance**	**Actual**	**Bu**
TOTAL GROSS INCOME	240.0	244.0	(3.9)	235.9	255.3	(19.4)	247.5	269.0	(21.5)	723.4	76
Cost of Sales	(26.1)	(25.9)	(0.2)	(27.6)	(26.4)	(1.2)	(26.8)	(27.2)	0.4	(80.5)	(7
TOTAL NET INCOME	213.9	218.1	(4.2)	208.3	228.9	(20.6)	220.7	241.7	(21.1)	642.9	68
Staff Costs	(63.4)	(61.9)	(1.5)	(60.5)	(60.6)	0.1	(58.0)	(58.0)	0.0	(181.9)	(18
Subpostmaster Costs	(113.2)	(117.1)	3.9	(107.5)	(124.0)	16.5	(111.4)	(131.6)	20.2	(332.2)	(37
Non-Staff Costs	(73.8)	(70.8)	(3.0)	(72.0)	(63.8)	(8.2)	(64.1)	(71.1)	7.0	(209.8)	(20
Depreciation	(0.1)	(0.2)	0.0	(0.1)	(0.2)	0.0	(0.1)	(0.2)	0.0	(0.4)	(0
Total Expenditure (pre POOC)	(250.6)	(250.0)	(0.5)	(240.1)	(248.6)	8.5	(233.6)	(260.9)	27.3	(724.3)	(75
FRES - Share Of Operating Prof	9.9	10.0	(0.1)	13.9	13.6	0.3	6.1	5.7	0.4	29.9	2
EBIT - BAU	**(26.7)**	**(22.0)**	**(4.8)**	**(18.0)**	**(6.2)**	**(11.8)**	**(6.8)**	**(13.5)**	**6.6**	**(51.5)**	**(4**
One off Project costs (POOC)	(6.6)	(4.4)	(2.2)	(5.2)	(5.4)	0.2	(5.1)	(3.9)	(1.3)	(16.9)	(1
EBIT - Post Project Costs	**(33.4)**	**(26.4)**	**(7.0)**	**(23.1)**	**(11.6)**	**(11.6)**	**(12.0)**	**(17.3)**	**5.4**	**(68.5)**	**(5**
Network Payment	40.0	40.0	0.0	40.0	40.0	0.0	40.0	40.0	(0.0)	120.0	12
EBIT pre exceptionals items	**6.6**	**13.6**	**(7.0)**	**16.9**	**28.4**	**(11.6)**	**28.0**	**22.7**	**5.4**	**51.5**	**6**

POL00027422

Overall YTD performance is still behind budget PY

£m	Year to Date Actual	Year to Date Budget	Year to Date Variance	Prior Year YTD Actual	Prior Year YTD Variance
TOTAL GROSS INCOME	723.4	768.3	(44.9)	735.2	(11.8)
Cost of Sales	(80.5)	(79.6)	(1.0)	(85.2)	4.6
TOTAL NET INCOME	642.9	688.7	(45.8)	650.0	(7.2)
Staff Costs	(181.9)	(180.6)	(1.3)	(193.6)	11.7
Subpostmaster Costs	(332.2)	(372.8)	40.6	(337.3)	5.1
Non-Staff Costs	(209.8)	(205.7)	(4.1)	(189.6)	(20.2)
Depreciation	(0.4)	(0.5)	0.1	(0.3)	(0.1)
Total Expenditure (pre POOC)	(724.3)	(759.6)	35.3	(720.9)	(3.4)
One off Project costs (POOC)	(16.9)	(13.7)	(3.3)	(21.3)	4.4
EBIT - Post Project Costs	**(68.5)**	**(55.3)**	**(13.2)**	**(63.9)**	**(4.6)**
Network Payment	120.0	120.0	(0.0)	150.0	(30.0)
EBIT pre exceptionals items	**51.5**	**64.7**	**(13.2)**	**86.1**	**(34.6)**
EBITDAS	**(68.1)**	**(54.8)**	**(13.3)**	**(63.6)**	**(4.5)**

POL00027422

The scorecard continues to show a mixed picture

Key Performance Indicators	Current Month			YTD			YTD
	Act	Target	Var	Act	Target	Var	Prior Year
Growth							
Total Net Income (excl NSP) £m (Bonus 20%)	76.4	82.4	(5.9)	642.9	688.7	(45.8)	650.3
Operating profit £m (Bonus 25%)	8.1	7.7	0.5	51.5	64.7	(13.2)	86.1
EBITDAS £m	(4.1)	(4.6)	0.5	(68.1)	(54.8)	(13.3)	(63.6)
Free cashflow £m	(32.2)	(120.6)	88.4	(253.6)	(276.0)	22.4	121.2
Customer							
Customer Satisfaction**	85.8%	89.0%	(3.2)%	86.8%	89.0%	(2.2)%	87.5%
Easy to do business with (Bonus 15%)	28%	47%	(20)%	26%	47%	(21)%	43.0%
Net Promoter score**	5.8	2.0	3.8	2.3	2.0	0.3	-3
Queue time % < 5 minutes - Top 1k branches	64.1%	62.0%	2.1%	76.1%	80.6%	(4.5)%	81.5%
Branch Compliance - Financial Services - basket of 11 measures	30	<=50	-	69	<=50	-	N/A
Branch Compliance - Inland Dangerous Goods	74.0%	80.0%	(6.0)%	74.0%	80.0%	(6.0)%	TBC
Branch Compliance - International Dangerous Goods	87.0%	85.0%	2.0%	87.0%	85.0%	2.0%	TBC
People							
Engagement Index % (Once a year April) (Bonus 15%)	58%	58%	0%	58%	58%	0%	55%
Subpostmaster Engagement Index % (Once a year)	47%	48%	(1)%	47%	48%	(1)%	N/A
Post Office Values the diversity of the workforce (Once a year	54%	66%	(12)%	54%	66%	(12)%	N/A
(No.) % of BME appointments over total recruits at senior leadership and senior manager	100%	7%	93%	12%	7%	5%	9.8%
(No.) % of Female appointments over total recruits at senior leadership and senior manager	50%	45%	5%	38%	45%	(7)%	49.2%
Modernisation							
Crown Profit (Loss) £m	(0.7)	0.8	(1.4)	(13.7)	(3.9)	(9.8)	(22.1)
Crown Profit (Loss) Run Rate £m (Bonus 12.5%)	N/A	N/A	N/A	(11.7)	(6.7)	(5.0)	N/A
NT Transformations - contract signatures	115	139	(24)	4,622	4,226	396	2,407
NT Branches Transformed In Year (Bonus 12.5%)	41	70	(29)	1,521	1,190	331	148

2014-15 profit forecast has improved close to plan

£'m	Budget	Q2 Forecast	Changes	Q3 Forecast	Q3 FYF vs. Budget	PY Outturn	PY Var
Mails & Retail	424	389	(4)	386	(39)	386	(0)
Govt	116	105	8	112	(4)	116	(4)
Telephony	62	53	(1)	52	(10)	46	6
FS	295	297	(2)	295	0	279	16
Other	37	37	0	37	0	40	(3)
Contingency	(9)	0	(2)	(2)	7	0	(2)
Net Income	925	880	(0)	880	(45)	867	13
Staff Costs	(239)	(234)	(4)	(238)	1	(254)	16
Subpostmaster costs	(491)	(456)	15	(441)	50	(448)	7
Non-staff costs	(274)	(281)	1	(280)	(6)	(265)	(15)
POOC	(17)	(20)	(2)	(22)	(4)	(26)	4
Expenditure	(1,021)	(990)	10	(980)	41	(992)	13
Depreciation	(1)	(1)	0	(1)	0	(0)	(0)
JV share of profit	35	35	0	35	0	33	2
EBIT before NSP	(61)	(75)	10	(65)	(4)	(93)	28
Network Payment	160	160	0	160	0	200	(40)
EBIT	99	85	10	95	(4)	107	(12)

Q2 to Q3 forecast changes:

- Income – DWP new contract income has offset reductions from trading risks elsewhere
- Subpostmaster costs:
  - £5m VAT recovery
  - More for less through sales mix/ volumes

POL00027422

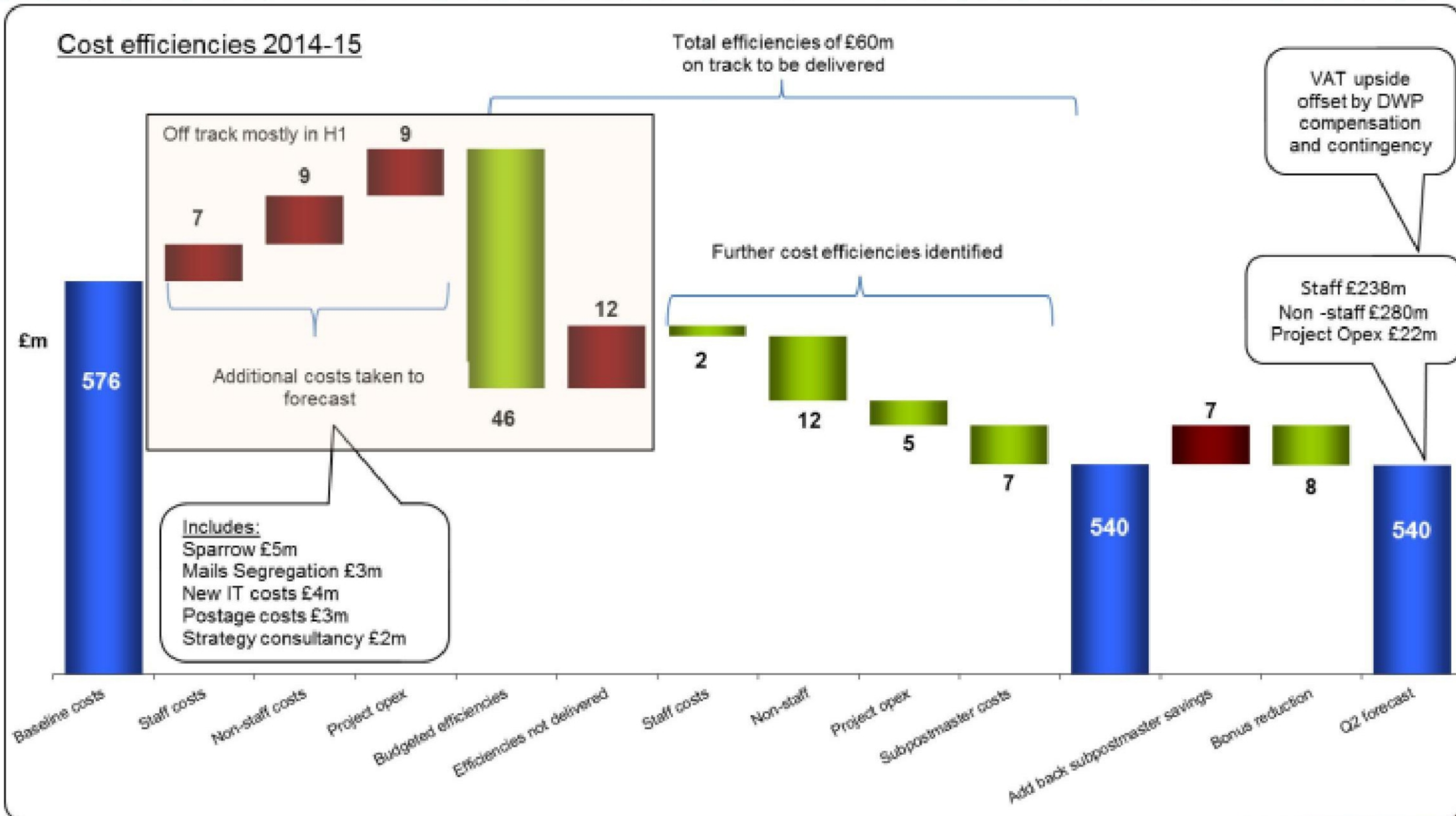
However, we have to deliver significant income in Q4

£m	YTD	ROY	FYF	ROY / FYF %	PY YTD	PY ROY	PY Outturn	PY ROY / Outturn
Mails and retail	289.5	96.5	386.0	25%	289.9	96.1	386.0	25%
Govt	75.7	36.3	112.0	32%	82.1	34.0	116.1	29%
Telecoms	32.3	19.7	52.0	38%	36.8	9.2	46.0	20%
FS	217.6	77.4	295.0	26%	211.3	67.3	278.6	24%
Other	27.8	7.2	35.0	21%	30.0	10.1	40.1	25%
Net income	642.9	237.1	880.0	27%	650.0	216.7	866.7	25%

- Telecoms – 38% of the FYF in Q4, includes £2m price rise, £1m sale of old debt and £2m for Fujitsu settlement
- Government – Q4 includes assumption of new DWP contract impact of £9.8m

POL00027422

We will maintain the focus on costs; delivering the £60m planned savings



POL00027422

In addition, there are significant risks and some opportunities

- DWP contract challenged - £9.8m estimated profit impact
- £3m mails segregation penalty assumed – risk of £3m, opportunity of £3m depending on outcome
- Fujitsu settlements of £7m requested – but only £2m in FYF
- Bonus achievement assumed at 50% - includes achieving engagement index c£1.5m and profit c£3m

POL00027422

We could therefore end up in a variety of outcomes

EBITDAS £m	With DWP		Without DWP	
	High	Low	High	Low
Outturn Ranges	103	93	103	93
DWP Impact			(10)	(10)
Forecast	103	93	93	83

POL00027422

All scenarios show progress year on year for EBITDAS

	2013-14	2014-15	2014-15	2014-15	2015-16
£m	Actual	Q3 low	Q3 Forecast	Q3 High	Budget
Operating Profit	107	83	95	103	95
Network Payment	(200)	(160)	(160)	(160)	(130)
EBITDAS - reported	(93)	(77)	(65)	(57)	(35)
Exclude one-offs:					
Prior Year VAT upside	(9)				
Prior Year VAT upside	12	(12)	(12)	(12)	
DWP compensation	(4)	10	10	10	
ATM rates provision	1	(2)	(2)	(2)	
2012-13 bonus outturn higher than accrued	2				
EBITDAS -adjusted	(91)	(81)	(69)	(61)	(35)

POL00027422

... but likely to give limited bonuses in 2014/15

Measure	Bonus	Forecast	Budget	Stretch target	Forecast bonus outturn
Net income £m	20%	880	925	945	Target unachievable - 0%
Operating profit £m	25%	95	99	119	Target possible - range 0%, to 25% for £99m, to c27% for £103m
Crown loss £m (run rate)	12.5%	(2.0)	0.0	3.0	Target possible - range 0% to 12.5%
Easy to do business with	15%	27%	47%	49%	Target unachievable - 0%
NT branches transformed	12.5%	1,942	1,650	1,750	Stretch likely - range 12.5% for on target, to c17% for full stretch
Engagement	15%	58%	58%	60%	Target and stretch possible - range 0%, to 15% for on target, to 20% for full stretch
Payout					Range 12.5% to 76%

POL00027422

Our focus is clear ....

- Deliver income as forecast
- Maintain intense focus on costs, delivering at least £60m and future momentum
- ExCo considering small growth accelerator investments
- Obtain DWP signature and Fujitsu settlement

POL00027422

Strictly Confidential

POST OFFICE LIMITED

Performance Report

December 2014

Produced By : Financial Control

For Queries & Comments Contact : Sarah Hall or Kam Bassra

POL00027422

Strictly Confidential

Contents

	Page
Headlines	3
Profit & Loss Statement	4
CFO High Level Profit Outlook At Period 9	5
Crown Profit & Loss Statement	6
Cost Management update	7
Cashflow Analysis	8
Business Scorecard	9
Network Transformation Scorecard - Mains	10
Network Transformation Scorecard - Locals	11

Headlines

Strictly Confidential

December 2014

Headlines

Operating profit before exceptional items in the month was £8.1m, £0.5m favourable to budget, bringing year to date operating profit to £51.5m and decreasing the YTD shortfall versus budget to £13.2m (£34.6m adverse year on year, including NSP decrease of £30.0m).

Net income in P9 is adverse to budget by £5.9m, but £0.9m favourable to last year. This reflects the continuing shortfall in Mails and Retail of £3.9m (mainly labels and delayed rollout of ebay returns). Telecoms was £1.9m adverse due primarily to lower customer numbers and lower average revenue per customer. Government Services was £0.1m behind budget mainly due to fewer active POCA accounts than budgeted. FS is adverse by £2.4m with shortfalls across all areas except savings. To achieve the FYF of £880m, net income for the remainder of the year needs to average slightly above budget each month and £6.8m better than prior year each month.

Net income year to date has worsened to £45.8m behind budget and £7.2m below this time last year (excluding NSP).

Total expenditure (before project costs) in the month was £7.2m favourable driven by the favourable subpostmaster costs relating to lower income, and the VAT recovery relating to improved recovery rates.

Total expenditure (before project costs) year to date remains favourable to budget by £35.3m.

The £60m savings task remains challenging but now with only £0.4m still to be underpinned, and with £1.2m in the 'hopper' to be validated (see page 7).

- Subpostmasters' costs are favourable by £40.6m reflecting lower sales volumes and improved VAT recovery.
- Staff costs are adverse by £1.3m reflecting under-delivery of savings tasks primarily in Supply Chain and Commercial.
- Non staff costs are £4.1m adverse driven by a £10m provision for client compensation, shortfall in savings task delivery, £3.0m for the Mails Segregation penalty payment accrual and other increased costs including postage. This is partially offset by increased VAT recovery of £12.0m relating to last year and £4.3m relating to this year.
- Project One Off Costs are adverse to budget by £3.3m reflecting unbudgeted spend for Sparrow and the 'Journey to 2020' strategy work.

CFO Forecast

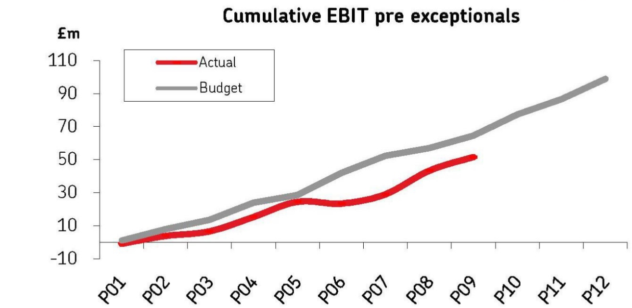
The Q3 forecast shows an improvement of £10m since Q2 to £95m (EBITDAS loss of £65m). This is driven by the anticipated new POCA contract and some further cost savings offset by further reductions in Mails revenue and a £2m reduction in FS revenue.

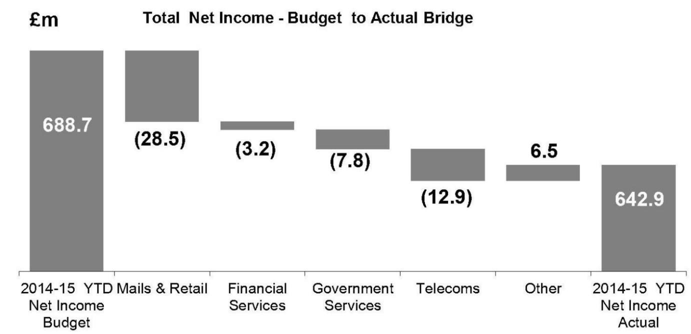
Crown Profit

The YTD Crown profit is £9.8m adverse driven by lower Mails income and higher staff costs and higher property costs due to the delayed savings for the new Facilities Management contract as shown on page 6. The Q2 CFO Crown forecast is a loss of £13.8m which is £4.9m behind budget. This is aligned to the assumptions used in the business CFO forecast but excludes the contingency.

Network Transformation

The programme is ahead of plan at P9 both for contracts signed and branches transformed.





	Year to Date		
Financials	**Act**	**Target**	**Var**
Total Net Income (excl NSP) £m (Bonus 20%)	642.9	688.7	(45.8)
Operating profit £m (Bonus 25%)	51.5	64.7	(13.2)
Free cashflow £m	(253.6)	(276.0)	22.4
Crown Profit (Loss) £m (Bonus 12.5%)	(13.7)	(3.9)	(9.8)
Non Financials			
Queue time % < 5 minutes - Top 1k branches	76.1%	80.6%	(4.5)%
NT Branches Transformed In Year (Bonus 12.5%)	1,521	1,190	331

Profit & Loss Statement

Strictly Confidential

December 2014

£m	Current Month			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Outturn
TOTAL GROSS INCOME	85.2	91.2	(6.0)	84.6	0.6	723.4	768.3	(44.9)	735.2	(11.8)	987.0	1,031.9	(44.9)	979.4
Cost of Sales	(8.8)	(8.8)	0.1	(9.0)	0.3	(80.5)	(79.6)	(1.0)	(85.2)	4.6	(106.8)	(106.8)	0.0	(112.7)
TOTAL NET INCOME	76.4	82.4	(5.9)	75.5	0.9	642.9	688.7	(45.8)	650.0	(7.2)	880.2	925.1	(44.9)	866.7
Staff Costs	(17.9)	(18.7)	0.8	(20.3)	2.4	(181.9)	(180.6)	(1.3)	(193.6)	11.7	(233.6)	(238.7)	5.1	(253.9)
Subpostmaster Costs	(36.4)	(44.8)	8.3	(38.1)	1.7	(332.2)	(372.8)	40.6	(337.3)	5.1	(455.6)	(491.0)	35.4	(447.6)
Non-Staff Costs	(26.4)	(24.4)	(2.0)	(17.1)	(9.3)	(209.8)	(205.7)	(4.1)	(189.6)	(20.2)	(280.6)	(273.5)	(7.1)	(264.8)
Depreciation	(0.0)	(0.1)	0.0	(0.0)	(0.0)	(0.4)	(0.5)	0.1	(0.3)	(0.1)	(0.6)	(0.6)	0.0	(0.4)
Total Expenditure (pre POOC)	(80.8)	(88.0)	7.2	(75.6)	(5.2)	(724.3)	(759.6)	35.3	(720.9)	(3.4)	(970.4)	(1,003.8)	33.4	(966.6)
FRES - Share Of Operating Profits	1.9	1.8	0.1	1.5	0.4	29.9	29.3	0.7	28.3	1.7	35.0	35.0	0.0	33.1
EBIT - BAU	**(2.4)**	**(3.8)**	**1.4**	**1.4**	**(3.9)**	**(51.5)**	**(41.6)**	**(9.9)**	**(42.6)**	**(9.0)**	**(55.2)**	**(43.7)**	**(11.5)**	**(66.9)**
One off Project costs (POOC)	(1.7)	(0.8)	(0.9)	(2.4)	0.6	(16.9)	(13.7)	(3.3)	(21.3)	4.4	(19.7)	(17.3)	(2.4)	(26.0)
EBIT - Post Project Costs	**(4.2)**	**(4.7)**	**0.5**	**(1.0)**	**(3.2)**	**(68.5)**	**(55.3)**	**(13.2)**	**(63.9)**	**(4.6)**	**(74.9)**	**(61.0)**	**(13.9)**	**(92.9)**
Network Payment	12.3	12.3	0.0	15.4	(3.1)	120.0	120.0	(0.0)	150.0	(30.0)	160.0	160.0	0.0	200.0
EBIT pre exceptionals items	**8.1**	**7.7**	**0.5**	**14.4**	**(6.3)**	**51.5**	**64.7**	**(13.2)**	**86.1**	**(34.6)**	**85.1**	**99.0**	**(13.9)**	**107.1**
Interest	0.0	(0.3)	0.3	0.2	(0.2)	4.0	(1.8)	5.8	2.5	1.6	0.0	(3.0)	3.0	3.1
Impairment	(12.0)	(14.7)	2.7	(9.1)	(2.9)	(106.4)	(166.4)	60.0	(59.3)	(47.0)	(183.3)	(205.2)	21.9	(115.6)
Exceptionals (incl BT) & Redundancy & Severance Costs	(17.7)	(11.8)	(5.9)	(12.1)	(5.6)	(142.1)	(161.2)	19.1	4.1	(146.1)	(230.4)	(216.1)	(14.3)	(157.0)
Government Grant Utilisation	0.0	0.0	0.0	15.0	(15.0)	170.0	170.0	(0.0)	179.1	(9.1)	170.0	170.0	0.0	316.8
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	2.5	(2.5)	0.0	0.0	0.0	3.4
Total Profit/(Loss) Before Tax	**(21.6)**	**(19.1)**	**(2.4)**	**8.5**	**(30.1)**	**(22.9)**	**(94.7)**	**71.8**	**214.9**	**(237.8)**	**(158.6)**	**(155.3)**	**(3.3)**	**157.6**

Period vs. Budget

Operating profit (EBIT) of £8.1m was £0.5m favourable to budget.

BAU was £1.4m favourable:

- Lower subpostmaster costs of £8.3m due primarily to lower sales/ product mix and VAT upside of £1.8m.
- Lower staff costs of £0.8m in the month. This is mainly due to lower bonus accrual.

Offset by:

- Lower net income of £5.9m due primarily to lower Mails, FS and Telecoms income.
- Higher non staff costs of £2.0m, driven primarily by higher marketing costs.

One-off project costs variance of £0.9m adv.

Below EBIT

The period variance is due to the charge for agents' compensation provision being quarterly, budgeted monthly.

YTD vs. Budget

Operating profit (EBIT) of £51.5m was £13.2m adverse to budget.

BAU was £9.9m adverse:

- Lower net income of £45.8m due primarily to the continuing adverse income trend; Mails (£28.5m), specifically labels and Dangerous Goods, Home Shopping Returns (HSR), and Lottery, Telecoms (£12.9m), Government Services (£7.8m), mainly POCA and FS income (£3.2m), specifically stretch, Travel and Insurance offset by Banking, Premium Bonds and MoneyGram.
- Higher staff costs of £1.3m mainly due to the savings task not being achieved (£2.2m from Supply Chain and £0.5m from Commercial), the Crown pay deal and the CMA pay award, offset by a lower bonus accrual.
- Higher non staff costs of £4.1m, driven by the £10m provision for client compensation, £4.6m impact of the savings tasks not being fully achieved, £3.0m accrued for Mails Segregation penalty payment, IT savings task yet to be achieved and higher postage costs offset by improved VAT recovery of £12m relating to the prior year and a further £4.3m relating to this year.

Offset by:

- Lower subpostmaster costs of £40.6m due primarily to lower income and sales mix (£26.0m), VAT recovery (£7.4m) and other small variances relating to NT changes.

One-off project costs variance of £3.3m adverse mainly due to unbudgeted project Sparrow (FYF c. £7m) and unbudgeted strategy consultancy costs.

Below EBIT

Both impairment and exceptionals are under budget due to underspends in CT, NT and IT& Change, with CT the largest variance £10m favourable. Although lower than budget, these are both twice last year's spend.

YTD vs. Prior Year

Operating profit (EBIT) of £51.5m was £34.6m adverse to prior year.

Like for like BAU adverse variance of £9.0m was mainly due to:

- Lower net income of £7.2m. The variance versus prior year is driven primarily by lower Government Services income, mainly POCA and Telecoms offset by higher Financial Services (Moneygram, Mortgages, Savings and Insurance) revenue.
- Higher non staff costs of £20.2m due to £10m client compensation provision this year, increased IT costs (mainly Horizon and ATOS) and higher marketing spend (including some switched from POOC) offset by improved VAT recovery.

Offset by:

- Lower staff cost of £11.7m driven primarily by a lower productivity bonus and Crown savings.
- Lower subpostmaster costs of £5.1m which relates to improved VAT recovery.

Non like for like adverse variance of £25.6m was due to:

- Lower Network payment of £30.0m, offset by
- Lower project costs of £4.4m.

Below EBIT

Included in grant utilisation this year is £77m of 2013-14 exceptional spend for which there was insufficient grant last year. Exceptionals in 13-14 is offset by a one off pension assumption credit of £102m.

POL00027422

Strictly Confidential

CFO High Level Profit Outlook At Period 9

December 2014

£'m	Income	JV Income	Staff Costs	Agents Costs	Non-staff	POOC	Costs	NSP	EBIT	Comments
Budget	**925**	**35**	**(239)**	**(491)**	**(274)**	**(17)**	**(1,021)**	**160**	**99**	
Mails and Retail										
Mails	(34.0)			21.4			21.4		(12.6)	FYF of £342m following Christmas trading
Lottery and retail	(4.5)			2.9			2.9		(1.6)	Camelot volumes £3.5m; Health lottery fixed fee £0.4m; Retail £0.4m
Mails segregation penalty					(3.0)		(3.0)		(3.0)	Max penalty under MDA of £6m, assume negotiate down to £3m as in 13/14
Government Services										
POCA	(0.7)						0.0		(0.7)	Includes £9.8m from DWP; offset by £6m ring fenced; £4m death notified; £0.5m LIBOR
DVLA	1.3			(0.4)			(0.4)		0.9	Change control income for EVL's £1.0m
IDA	(2.0)			1.0			1.0		(1.0)	Delayed launch no volumes. Assumes do not receive £1m from GDS
Passports	(2.2)			0.9			0.9		(1.3)	Digital passports delay, partially offset by paper passports volumes and price increase
Telephony										
Homephone	(5.4)			0.4			0.4		(5.0)	Lower customer numbers and ARPU's, higher wholesale costs; partially offset by FJ claim
VAT on broadband					1.0		1.0		1.0	Backdated VAT recovery on broadband income, to be paid in P10
Mobile & Energy	(4.6)			2.3			2.3		(2.3)	Mobile launch delayed and energy not being progressed this year
Financial Services	0.0						0.0		0.0	Deliver budget but not the £2m stretch target which was included in the forecast
Staff Costs										
Commercial			(1.6)				(1.6)		(1.6)	New Commercial structure does not deliver budgeted savings task
Supply Chain			(2.3)				(2.3)		(2.3)	£2m savings budgeted. IR delayed implementation of new ways of working
Supply Chain and admin pay awards			(1.1)				(1.1)		(1.1)	14/15 agreed pay awards
CTP franchising			(2.2)	2.2			0.0		0.0	Risk from delays to franchising offset by lower Agents pay
Non-staff cost savings										
Marketing					2.0		2.0		2.0	Updated October forecast which includes £3.8m for Christmas campaign
DVLA credit card fees					(1.0)		(1.0)		(1.0)	Costs not budgeted, offset by income in Gov't Services
FS non-staff costs					(0.7)		(0.7)		(0.7)	Banking intermediary fees not budgeted + various YTD overspends
Official Mail					(3.5)		(3.5)		(3.5)	Cheque pouches not budgeted £2.5m; Passports check and send volumes £1m
Central										
Project Ultra - VAT on Agents				3.2	(0.2)		3.0		3.0	
Release of contingencies / sales mix	7.0			5.0			5.0		12.0	Release all of income contingency / agents pay mix except £2m held for telecoms and £3m agents
	(45.1)	0.0	(7.2)	38.9	(5.4)	0.0	26.3	0.0	(18.8)	
Trading forecast at P9	**880**	**35**	**(246)**	**(452)**	**(279)**	**(17)**	**(995)**	**160**	**80**	
Further 'Trading' risks										
Additional Mails segregation penalty							0.0		0.0	Max penalty under MDA is £6m, assume can negotiate down as in 13/14
Agents costs										
Locals				1.0			1.0		1.0	NT profile fixed pay savings
NFSP members subs				1.5			1.5		1.5	Not required
Staff Costs										
Central bonus release			7.6				7.6		7.6	Bonus provision reduced from 90% to 50% payout (assumes miss ETDBW, Income, Crown profit)
Non-staff										
Additional savings opps identified			1.0		2.7		3.7		3.7	Additional opps identified by the functions against the August cost target, all taken to Q2 forecast
IT Savings task					(3.0)		(3.0)		(3.0)	Savings task budgeted covered by opportunities below
VAT on RM IT charges					(0.5)		(0.5)		(0.5)	£2.5m budget challenge achieved except VAT impact not covered
New IT services not budgeted					(2.8)		(2.8)		(2.8)	SSK maintenance £0.9m; FRP support costs £0.6m; Fujitsu Tier 2/3 Helpdesk £0.6m; RM Projects PY depreciation charge £0.7m
IT Opportunities identified against task			0.5		5.3		5.8		5.8	£0.5m Staff Costs; £1.4m small change budget; £1.7m IT Services supplier opps; £0.8m ATOS savings
Homephone discount					0.0		0.0		0.0	£2m Horizon discount agreed as part of HPBB contract, assume not going to receive the £0.8m Agreed £800k 2014-15, £200k to applied to change works and £1m for 2015-16
HR & Communications costs					1.0		1.0		1.0	Savings identified from L&D budget £0.5m; partially offset by higher recruitment costs. Various savings identified from Comms budget. All taken to Q2 forecast
Corporate Services					(0.5)		(0.5)		(0.5)	Various YTD overspends
Procurement task (Finance)					(1.0)		(1.0)		(1.0)	Covered by savings in other functions
Projects										
Sparrow						(5.0)	(5.0)		(5.0)	Full cost estimate £5.3m covering mediation on c.140 cases. Only £0.3m considered exceptional
Strategy consultancy						(1.6)	(1.6)		(1.6)	McKinseys costs already incurred for Journey to 2020 work + FS strategy work
BTP (opex)						(0.5)	(0.5)		(0.5)	Opex costs which cannot be exceptionalised
POOC savings (FS and Commercial)						2.0	2.0		2.0	Latest POOC opex forecast of £15m
Central										
Central task not underpinned					(6.0)		(6.0)		(6.0)	Budget tasks included in Central, including £1m Official Mail and £3m BTP. Covered by savings in functions
Client Compensation					(10.3)		(10.3)		(10.3)	Provision for prior year DWP 'death notified'
VAT recovery rate - prior year					11.0		11.0		11.0	Taken in H1
VAT recovery rate - current year				8.0	6.0		14.0		14.0	Total VAT recoveries of c£32m, includes £1m for Broadband. Budget already included £7m
Pension rate increase			(1.0)				(1.0)		(1.0)	
Release ATM rates provision					2.5		2.5		2.5	
WHS provision release				1.8			1.8		1.8	
CONTINGENCY					(5.0)		(5.0)		(5.0)	
CFO Outlook at P9	**880**	**35**	**(238)**	**(440)**	**(280)**	**(22)**	**(980)**	**160**	**95**	

Crown Profit & Loss Statement

Strictly Confidential

POST OFFICE

November 2014

£m	Period			Prior Year Period		YTD			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	Outturn
Income and Distributions														
Variable income														
- Mails	4.0	4.5	(0.5)	4.2	(0.2)	27.2	30.5	(3.3)	30.0	(2.8)	39.2	39.2	0.0	39.6
- Financial Services	2.3	2.5	(0.2)	2.1	0.2	23.9	25.1	(1.2)	21.8	2.1	32.0	32.0	0.0	28.2
- Government Services	1.1	1.1	(0.1)	1.3	(0.2)	15.1	14.1	1.0	15.7	(0.6)	18.1	18.1	0.0	21.9
- Telecoms	0.1	0.1	(0.0)	0.0	0.0	0.7	1.0	(0.3)	0.6	0.1	1.3	1.3	0.0	0.8
Fixed income	1.9	1.7	0.2	1.6	0.3	16.9	17.0	(0.1)	18.8	(1.9)	22.0	22.0	0.0	25.3
Gamma/ Other	0.8	0.9	(0.1)	1.7	(0.9)	4.5	6.1	(1.7)	9.7	(5.2)	9.3	9.3	0.0	12.8
Renewals and Retentions	1.4	1.9	(0.5)	1.8	(0.4)	13.6	15.4	(1.8)	14.5	(0.9)	17.5	17.5	0.0	16.9
Total Income including Gamma/other	**11.6**	**12.8**	**(1.2)**	**12.8**	**(1.3)**	**101.9**	**109.4**	**(7.4)**	**111.0**	**(9.1)**	**132.463**	**139.46**	**(7.0)**	**145.5**
Branch costs -														
- Staff	(7.2)	(6.5)	(0.7)	(8.2)	1.0	(71.6)	(69.6)	(2.0)	(81.1)	9.4	(88.8)	(90.0)	1.2	(106.0)
- Property	(2.2)	(2.8)	0.5	(2.9)	0.6	(22.6)	(22.5)	(0.1)	(31.3)	8.7	(29.5)	(30.1)	0.6	(34.4)
- Other branch costs	(0.1)	(0.2)	0.1	(0.3)	0.2	(1.8)	(1.9)	0.1	(3.1)	1.3	(2.4)	(2.4)	0.0	(4.3)
Infrastructure costs	(2.0)	(2.0)	0.0	(3.1)	1.1	(17.5)	(17.2)	(0.3)	(18.3)	0.9	(19.9)	(20.6)	0.7	(22.4)
Allocated central costs	(1.1)	(1.0)	(0.2)	(0.4)	(0.8)	(10.3)	(10.0)	(0.3)	(7.5)	(2.7)	(14.6)	(14.2)	(0.4)	(13.6)
Total Expenditure	**(12.8)**	**(12.5)**	**(0.3)**	**(14.9)**	**2.2**	**(123.8)**	**(121.2)**	**(2.6)**	**(141.3)**	**17.6**	**(155.2)**	**(157.3)**	**2.1**	**(180.8)**
JV Share of Profits	0.5	0.5	0.0	0.4	0.1	8.1	7.9	0.2	8.2	(0.1)	9.0	9.0	0.0	9.6
Statutory PBIT	**(0.7)**	**0.8**	**(1.4)**	**(1.7)**	**1.0**	**(13.7)**	**(3.9)**	**(9.8)**	**(22.1)**	**8.4**	**(13.8)**	**(8.9)**	**(4.9)**	**(25.7)**

Summary

Income:
Income is £7.4m less than plan.
At a business level this is predominantly driven by adverse variances in Mails, including Labels, Home Shopping Returns and Lottery, Government Services and Telecoms, with a favourable variance in Financial Services.

Line by Line variances are as follows:

- Variable sales income is £3.9m less than plan principally due to (i) Mails - Lower parcel volumes, Retail sales and Home Shopping Returns, (ii) Financial Services – shortfall from Life Insurance, Home Insurance and variable sales of Savings products. There is a corresponding upside in savings retention income due to the income guarantee with Bank of Ireland. Premium Bonds and Mortgages are also performing above target. (iii) Government Services – predominantly due to higher Passport check & send transactions. However, there is a variance in 'Other Income' that partially offsets this due to an element of the Passports target being held centrally in Other Income.
- Fixed income is adverse due to lower than planned LIBoR rates for Card Account commissions.
- Retention income is adverse due to a lower customer base and Averaged Revenue Per User for HomePhone, partially offset by favourable Savings retention income.
- Other income is adverse due to the delay or phasing of new products, predominantly Energy. Passport Check & Send (actual income in variable sales) is the other key driver. There was also a central Financial Services target that is held here and being delivered within Financial services variable income .

Costs:
Costs are £2.6m higher than plan.

- Staff costs £2.0m adverse primarily due to timing of the roll out of Franchising and the impact of the pay review settlement where associated efficiencies are on going, this is partially offset by Crown branches vacancies, including Financial and Mortgage specialist.
- Other branch costs are on target.
- Property costs £0.1m adverse due to the delayed savings for the new Facilities Management contract which started in October .
- Central Costs are £0.3m adverse due to a provision for client compensation, impact of centrally held savings not being achieved, accrual for Mails Segregation penalty and higher postage cost, partially offset by improved VAT recovery rates.

Cost Management update

December 2014

Strictly Confidential

Progress since P8 update

Value and confidence

The Cost Reduction Group (CRG) has continued to drive focus on cost management and after further assessment of opportunities the gap between the in-year delivery of "line of sight" initiatives and the total cost reduction challenge has reduced to £0.4m (from P8 report of £6.6m). This includes £7.4m of non volume related saving in the Agents Cost line of the P&L.

Original Cost Management Programme	£34.2m
Additional Cost Challenge to achieve budget	£ 6.0m
Central Stretch to achieve budget	£ 5.9m
Total Budget Cost Challenge	£46.1m
Additional Challenge from Q1 EBITDAS gap	£ 7.0m
Q2 underperformance adjustment	£ 6.9m
Total Current Cost Challenge	£60.0m
Current "Line of Sight" forecast	£59.6m
Gap to £60.0m	£0.4m

Delivery and governance

Regular 121 meetings continue to drive focus on in-year cost management opportunities and delivery of existing initiatives. The weekly CRG reviews business wide opportunities and potential acceleration of the 2015/16 BTP benefits into 2014/15.
Work continues to ensure benefits are built into operational plans for the 2015/16 budget submission.

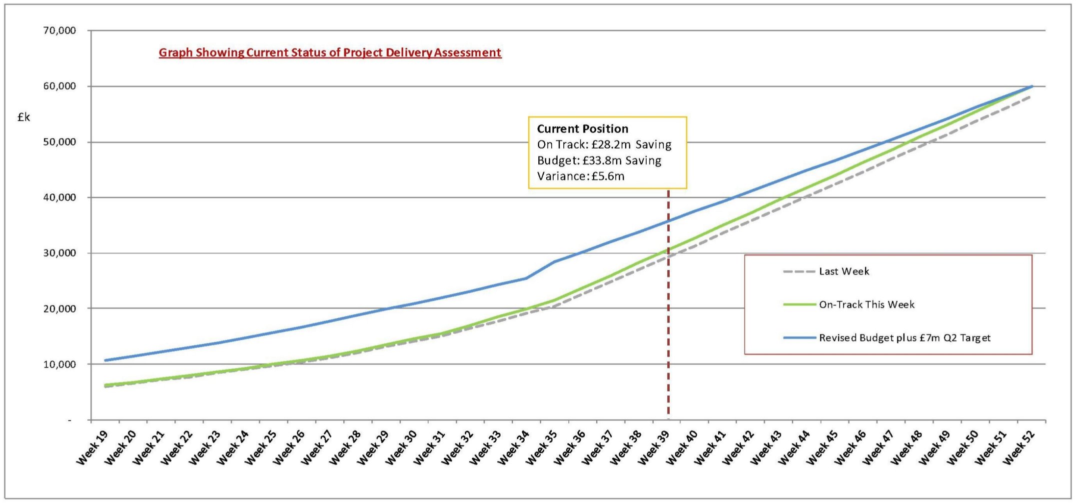
Strategic initiatives for FY15/16 and beyond

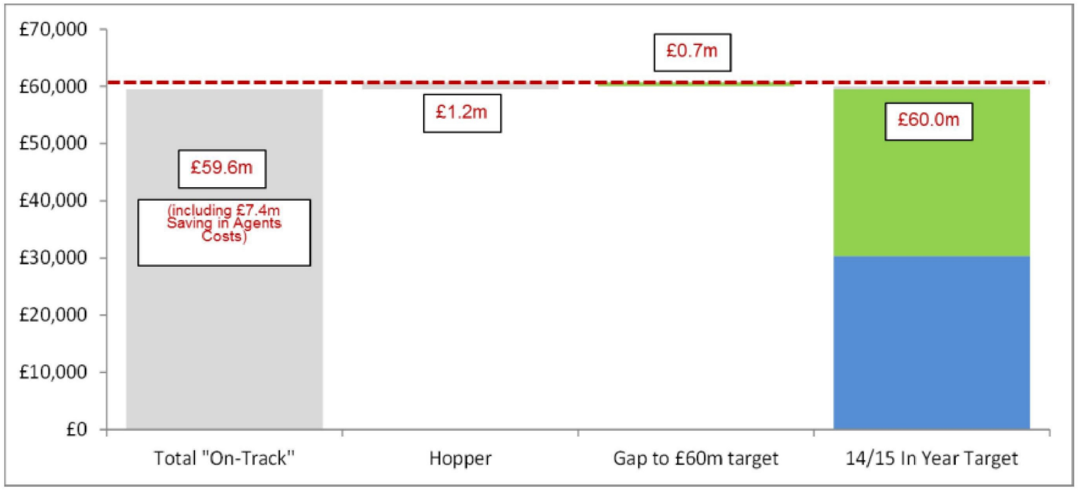
The overall Programme has progressed through Stage 3, designing the financial glidepath to 2020.

Work is ongoing to;
1) Identify a portfolio of incremental cost saving opportunities to achieve the £60m in-year improvement target placing all the cost saving initiatives under the scrutiny of the programme to ensure the expected improvement has the requisite effect on the 2014/15 EBITDAS outturn.

2) Ensure the benefits from these opportunities are sustainable in order to meet 2015/16 EBITDAS targets, moving towards £100m of sustainable run-rate saving by March 2016.

3) Deliver the target operating model that will ensure the cost efficiency targets for the programme (to 2019/20) are realised.

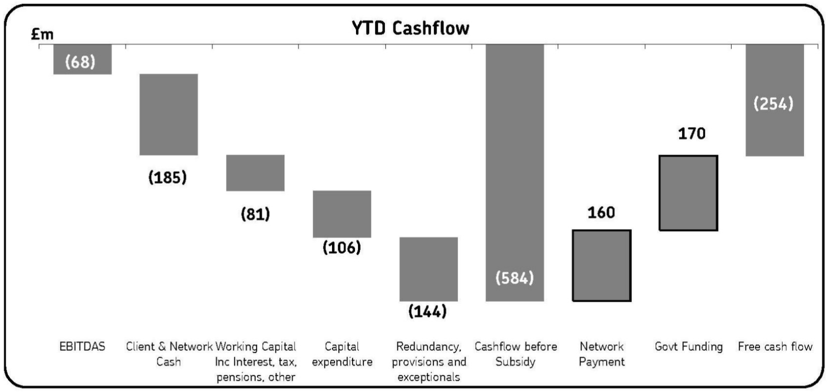


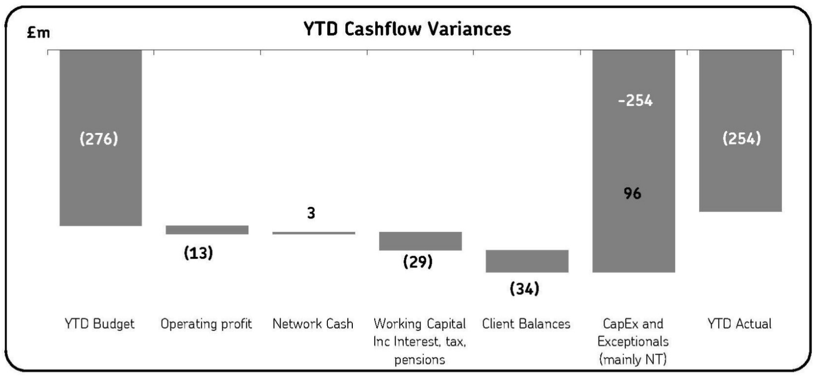


Strictly Confidential

Cashflow Analysis

December 2014





Network Cash

£m	Prior Year	Mar-14 Opening	P9 Actual	P9 Budget	P9 var
Retail, Cash Centres	751	522	691	686	(5)
Bureau	55	58	52	40	(12)
Cheques, debit cards	103	129	111	131	20
Network Cash	**909**	**708**	**854**	**857**	**3**

	Opening	P9
Headroom (£m)	**854**	**677**

Cashflow

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

P9 cash outflow of £254m is £22m favourable to budget of £276m outflow.

The favourable variance is mainly due to:

- Capital and Exceptionals are £96m favourable to budget due to the following underspends; Capital £60m, Crown Transformation £21m, Network Transformation and other programmes £14m.

Offset by:

- Client balances are £34m adverse, driven by the December ATM balance being higher than was originally budgeted. This should be back to normal next period.
- Working capital is £29m adverse, with higher than budgeted debtors, mainly Bank of Ireland and other banking partners.
- Operating profit is £13m adverse.

£m	YTD Actual	YTD Budget	YTD Variance	Q2 Forecast	Full Year Budget
EBIT	(68.5)	(55.3)	(13.2)	85.0	(61.0)
Working Capital	(93.8)	(68.3)	(25.5)	49.5	27.0
Client Balances	(39.3)	(5.0)	(34.3)	(3.0)	17.0
Network Cash	(145.3)	(148.6)	3.3	(91.6)	(57.6)
Capital Expenditure	(106.4)	(166.4)	60.0	(145.0)	(205.2)
Government funding	330.0	330.0	0.0	170.0	330.0
Exceptional Items	(144.1)	(179.7)	35.6	(213.4)	(240.3)
Other (including interest and tax)	13.8	17.3	(3.5)	(9.9)	(9.9)
Operating Cashflow	(253.6)	(276.0)	22.4	(158.4)	(200.0)

POL00027422

Strictly Confidential

Business Scorecard

December 2014

Key Performance Indicators	Current Month			YTD			YTD	Full Year			2013-14
	Act	Target	Var	Act	Target	Var	Prior Year	Q2 F'cast	Target	Var	Outturn
Growth											
Total Net Income (excl NSP) £m (Bonus 20%)	76.4	82.4	(5.9)	642.9	688.7	(45.8)	650.3	880.0	925.1	(45.1)	866.7
Operating profit £m (Bonus 25%)	8.1	7.7	0.5	51.5	64.7	(13.2)	86.1	85.0	99.0	(14.0)	107.1
Earnings before ITDA and Subsidy £m*	(4.1)	(4.6)	0.5	(68.1)	(54.8)	(13.3)	(63.6)	(74.4)	(60.4)	(14.0)	(92.5)
Free cashflow £m	(32.2)	(120.6)	88.4	(253.6)	(276.0)	22.4	121.2	(158.4)	(200.0)	41.6	179.7
Customer											
Customer Satisfaction**	85.8%	89.0%	(3.2)%	86.8%	89.0%	(2.2)%	87.5%	87.5%	89.0%	(1.5)%	87%
Easy to do business with (Bonus 15%)**	28%	47%	(20)%	26%	47%	(21)%	43.0%	26%	47%	(21)%	41%
Net Promoter score**	5.8	2.0	3.8	2.3	2.0	0.3	-3	0.5	2.0	(1.5)	(4)
Queue time % < 5 minutes - Top 1k branches	64.1%	62.0%	2.1%	76.1%	80.6%	(4.5)%	81.5%	77.5%	81.2%	(3.7)%	82.1%
Branch Compliance - Financial Services - basket of 11 measures	30	<=50	-	69	<=50	-	N/A	110> <=50	<=50	-	N/A
Branch Compliance - Inland Dangerous Goods **** ^	74.0%	80.0%	(6.0)%	74.0%	80.0%	(6.0)%	TBC	80.0%	80.0%	0.0%	TBC
Branch Compliance - International Dangerous Goods **** ^	87.0%	85.0%	2.0%	87.0%	85.0%	2.0%	TBC	85.0%	85.0%	0.0%	TBC
People											
Engagement Index % (Once a year April) (Bonus 15%)^^	58%	58%	0%	58%	58%	0%	55%	58%	58%	0%	57%
Subpostmaster Engagement Index % (Once a year)^^	47%	48%	(1)%	47%	48%	(1)%	N/A	48%	48%	0%	45%
Post Office Values the diversity of the workforce (Once a year April)^^	54%	66%	(12)%	54%	66%	(12)%	N/A	66%	66%	0%	52%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	100%	7%	93%	12%	7%	5%	9.8%	7%	7%	0%	11%
(No.) % of Female appointments over total recruits at senior leadership and senior manager	50%	45%	5%	38%	45%	(7)%	49.2%	45%	45%	0%	46%
Modernisation											
Crown Profit (Loss) £m	(0.7)	0.8	(1.4)	(13.7)	(3.9)	(9.8)	(22.1)	(13.8)	(8.9)	(4.9)	(25.7)
Crown Profit (Loss) Run Rate £m (Bonus 12.5%)^	N/A	N/A	N/A	(11.7)	(6.7)	(5.0)	N/A	(2.0)	0.0	(2.0)	N/A
NT Transformations - contract signatures ***	115	139	(24)	4,622	4,226	396	2,407	4,800	4,800	0	3,246
NT Branches Transformed In Year (Bonus 12.5%)	41	70	(29)	1,521	1,190	331	148	1,800	1,650	150	1,551

Bonus worthy metrics

* ITDA Interest, Tax, Depreciation, Amortisation.

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

*** YTD and FY = cumulative including prior years.

**** POL are looking to hit 100%, and these target have been set for 2014-15 in recognition that marked improvement is required to reach 100%.

^ Target is the year end exit rate.

^^ Measured annually with some additional 'Pulse surveys'.

Network Transformation Scorecard - Mains

Strictly Confidential

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

POST OFFICE

	Key Performance Indicators	Current Month % Actual	Current Month % Control Group	Current Month % Var	Ave £'s per branch Var	Actual Sample Size
POL	Finance Approved Investment per Mains £000	(42)	(42)	0	0	
	Total Income: Post vs Pre Conversion					
	Branches live 6-12 months	5%	(2)%	7%	490	420
	Branches live 12-24 months	4%	(2)%	6%	493	771
Agent	Agents Remuneration: Post vs Pre Conversion					
	Branches live 6-12 months	4%	(2)%	6%	293	420
	Branches live 12-24 months	3%	(5)%	8%	459	771
	Customer Sessions					
	Branches live 6-12 months	(1)%	(4)%	4%		420
	Branches live 12-24 months	(1)%	(6)%	5%		771
	Operator Feedback on Retail Sales Performance	7%				155
	Operator Satisfaction	81%				73

		Actual	Target	Var	Actual Sample Size
Customer	Average Increase in Opening Hours	44%	20%	24%	1,550
	Customer Satisfaction	98%	90%	8%	30
	Queuing Times	1m 18s	< 5 mins	3m 42s	179

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
- 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

Strictly Confidential

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

	Key Performance Indicators	Current Month % Actual	Control Group	Var	Ave £'s per branch Var	Actual Sample Size
	LOCALS					
POL	Finance Approved Investment per Local £000	(11)	(11)	0	0	
	Total Net Impact: Post vs Pre Conversion					
	Branches live 6-12 months					
	Income	(6)%	(8)%	2%	39	318
	Actual Fixed pay savings				836	
	Actual Net impact				875	
	Branches live 12-24 months					
	Income	(7)%	(8)%	2%	42	228
	Actual Fixed pay savings				922	
	Actual Net impact				964	
Agent	Customer Sessions					
	Branches live 6-12 months	7%	(4)%	11%		318
	Branches live 12-24 months	8%	(5)%	12%		228
	Operator Feedback on Retail Sales Performance	16%				52
	Operator Satisfaction	75%				57

		Actual	Target	Var	Actual Sample Size
Customer	Average Increase in Opening Hours	108%	80%	28%	1107
	Customer Satisfaction	95%	90%	5%	30
	Queuing Times	67s	< 5 mins	3m 53s	232

Locals

At the point of conversion there is an initial decline in performance; as the branches settle and embeds the operational changes. However this improves month on month and as they near the exit of the 6-12 month category the run rate of performance is now higher than the control group. This is partially as a result of the activities that have been put in place to limit the drop off in income and drive performance.

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

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

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

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

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

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

Strictly Confidential

POST OFFICE LTD BOARD

Update on the 2015-16 Operating Plan and Three Year Operating Plan

1. Purpose

The purpose of these papers is to:

1.1 update the Board on the preparation of the 2015-16 annual Operating Plan;

1.2 set out the proposed approach to the three year plan and provide an interim update on our latest financial projections through to 2017/18.

2. Background

2.1. The plan for 2015-16 is in development. A pack setting out the plan detail will be circulated to the Board in February. Board members will be offered individual review sessions prior to formal Board approval in March, both of the plan and the associated performance scorecard.

2.2. At the meeting in March the Board will also be asked to review the first Three Year Plan for the Post Office.

3. Budget - progress update

3.1. The attached slides set out the current financial expectations for 2015-16 relating to income, costs and cashflow, flagging some key questions on the performance scorecard. The deck sets out progress in improving the profitability of POL, the impact of the ongoing focus on costs and the challenges, risks and opportunities in the recommended outcomes.

3.2. The Executive Committee is recommending an EBITDAS target of (£35m), delivering a year on year improvement of £30m to match the reduction in Network Subsidy Payment. This requires savings in line with the Business Transformation Programme, some of which are currently unallocated and some allocated but ungrounded.

3.3. Further reviews of income, costs, capex and exceptional items are scheduled with the CFO in the next 2-3 weeks. In addition, the Executive Committee will finalise a recommended performance scorecard and bonus targets for 2015-16

4. Recommendations

The Board is asked to comment on:

4.1. the proposed financial shape and risk profile of 2015-16;

4.2. the questions relating to the 2015-16 scorecard; and

4.3. the proposed approach to the Three Year Plan set out in the slides.

Alisdair Cameron
January 2015

POL00027422

POST OFFICE

2015-16 Plan
Early Sight

Alisdair Cameron

28th January 2015

POL00027422

Purpose

The purpose of this session is to get feedback from the Board on:

- The emerging shape of the 2015-16 plan
- Key risks and opportunities
- Key questions relating to the 2015-16 scorecard
- Next steps to finalising the plan
- Proposals for the Three Year Operating Plan

POL00027422
POL00027422

The plans assume fairly flat Mails revenue in 2015-16

Mails Services £m	Net Income (£m) 2013-14	% change FYF vs 2013-14	2014-15 FYF	% change 2015-16 Plan to 2014-15 FYF	2015-16 Plan
Parcelforce	22.8	(5%)	21.7	(7%)	20.2
Special Mails	103.9	3%	106.5	(6%)	99.8
Stamps & Labels	123.0	(4%)	118.5	(0%)	117.9
Home Shopping Returns	7.7	21%	9.4	19%	11.2
RM Fixed Fee	56.7	1%	57.1	(3%)	55.1
Other Mails	28.0	3%	28.9	23%	35.5
Sub Total Mails	342.2	0%	342.1	(1%)	339.7
Retail & Lottery	43.7	0%	43.9	(2%)	43.0
Total Mails Services	386.0	0%	386.0	(1%)	382.7

POL-0024063

POL00027422

In Financial Services, income growth is driven through the new POMS subsidiary

Financial Services £m	Net Income (£m) 2014-15 FYF	2015-16 Plan	% change
Personal Banking	69.9	75.9	9%
Banking Services	90.6	91.3	1%
Travel	24.7	24.9	1%
Payments	85.4	81.1	(5%)
Other	1.3	0.4	-
Fnancial Services - POL	271.9	273.6	1%
POMS	23.1	41.9	82%
TOTAL FINANCIAL SERVICES	295.0	315.5	7%

Note: 2014-15 insurance income has been restated against POMS for comparison.

POL00027422

Giving net income growth of £15m, as Telecoms pricing helps offset decline in Government Services

Net Income (£m)	2014-15 Forecast	2015-16 Plan	Variance
Mails & Retail	386.0	382.7	(3.3)
Financial Services	271.9	273.7	1.8
Government Services	112.0	101.6	(10.4)
Telecoms	52.0	57.9	5.9
Other	35.0	37.6	2.6
TOTAL POL NET INCOME	**856.9**	**853.4**	**(3.5)**
POMS	23.1	41.9	18.8
TOTAL Group NET INCOME	**880.0**	**895.3**	**15.3**
FRES - Share Of Operating Profits	35.0	36.8	1.8

Note: 2014-15 insurance income has been restated against POMS for comparison.

Government Services

£11m reduction in DVLA - removal of paper disc, shift to Direct Debit and reduced fees per transaction

£10m reduction in POCA - reduced customer numbers and lower commission on the balances

Partly offset by growth in Passports and Identity work

Telecoms

£6m flowthrough from 14-15 price rise

£2m for 15-16 price rise

Offset by £2m for continued ARPU erosion

POL00027422

The cost base is being repeatedly challenged

	2015-16 Total Costs £m
Early indicators	1,032.7
First round of challenge	40.0
First Submission - 16th December ExCo	**(992.7)**
Reduced Subpostmasters costs for challenge	4.7
Reduced Commercial non staff costs to meet target	2.2
Reduced Commercial costs to support income growth	4.0
Reduced FS costs to support income growth	0.5
Reduced FS non staff costs	0.2
Reduced POMS costs	2.4
9th January	**(978.7)**
Further savings	
Wave 2 savings - not yet allocated	4.0
Town Hall savings - not yet allocated	5.2
Reduced Scale costs to support income growth	2.5
Current Plan	**(967.0)**
Overall cost reduction from First Submission	**66**

POL00027422

Staff costs improve in spite of investment in Financial Services. FTE reduces by c. 1,100

£m	2014-15	2015-16	
Staff Cost by Function	Forecast	Plan	Variance
Network	(168.7)	(153.4)	20.3
Crowns	(91.5)	(80.6)	10.9
Supply Chain	(57.2)	(50.0)	7.2
Other Network	(20.0)	(17.8)	2.2
Pay Increase	0	(5.0)	(5.0)
Financial Services & POMS	(6.3)	(9.3)	(3.0)
Commercial	(8.4)	(8.0)	0.4
IT& Managed Services	(6.3)	(6.3)	(0.0)
Bonus Payments	(7.7)	(13.8)	(6.1)
Support Services	(40.3)	(35.6)	4.7
Subtotal	**(237.6)**	**(226.4)**	**16.3**

Headcount		
2014-15	2015-16	
Current	Plan	Variance
6,320	5,282	1,038
119	146	(27)
116	109	7
95	95	0
586	462	124
7,236	**6,094**	**1,142**

POL00027422

... and subpostmaster costs improve in relation to income and overall costs

£m	2010-11	2011-12	2012-13	2013-14	2014-15		2015-16
	Outturn	Outturn	Outturn	Outturn	Budget	Forecast	Plan
Net income	847.8	865.3	902.4	866.7	925.1	880.2	895.3
Subpostmaster costs - Variable	(325.8)	(327.2)	(331.9)	(320.9)	(380.3)	(337.6)	(346.5)
Subpostmaster costs - Fixed	(149.2)	(155.7)	(146.2)	(126.6)	(110.7)	(103.0)	(92.5)
Subpostmaster costs - Fixed / Total ratio	31%	32%	31%	28%	23%	23%	21%
Subpostmaster costs	(474.9)	(482.9)	(478.1)	(447.6)	(491.0)	(440.6)	(439.0)
Subpostmaster costs / Net income ratio	56%	56%	53%	52%	53%	50%	49%

POL00027422

Non-staff costs increase because of POMS and IT investments and lower VAT recoveries

£m	2014-15	2015-16	
Non- Staff Cost by Function	**Forecast**	**Plan**	Variance
Network	(91.4)	(84.2)	7.2
Financial Services & POMS	(7.5)	(21.2)	(13.7)
Commercial	(31.7)	(28.4)	3.4
IT & Managed Services	(126.8)	(129.4)	(2.6)
Support Services	(34.2)	(32.3)	1.9
VAT/ DWP not repeated	12.0	7.0	(5.0)
Unallocated challenge		5.2	5.2
Total POL Non Staff Costs	**(279.6)**	**(283.3)**	**(3.7)**

Network
Facilities Management savings £3.2m and property lease savings £3.4m.

Financial Services & POMS
Includes increased marketing and sales force licences.

Commercial
£3m travel insurance marketing now within POMS.

POL00027422

The full P&L shows POL funding the reduction in network payment through improved profitability

£m	2013-14 Outturn	2014-15 Forecast	2015-16 Plan
TOTAL GROSS INCOME	979.4	987.0	1,002.1
Cost of Sales	(112.7)	(106.8)	(106.8)
TOTAL NET INCOME	866.7	880.2	895.3
Staff Costs	(253.9)	(237.6)	(226.4)
Subpostmaster Costs	(447.6)	(440.6)	(439.0)
Non-Staff Costs	(264.8)	(279.6)	(283.3)
Depreciation	(0.4)	(0.6)	(0.6)
Costs to Support Income Growth	(20.8)	(16.1)	(16.0)
Project opex	(5.2)	(5.6)	(1.8)
Total Expenditure	(992.7)	(980.1)	(967.0)
FRES - Share Of Operating Profits	33.1	35.0	36.8
EBIT - before NSP	**(92.9)**	**(64.9)**	**(34.9)**
Network Payment	200.0	160.0	130.0
EBIT pre exceptionals items	**107.1**	**95.1**	**95.1**
Interest	3.1	(3.0)	(7.0)
Impairment	(115.6)	(145.4)	(160.9)
Exceptionals (incl BT) & Redundancy & Severance Costs	(157.0)	(209.8)	(249.9)
Government Grant Utilisation	316.8	170.0	150.0
Profit/(Loss) On Asset Sale	3.4	0.0	0.0
Total Profit/(Loss) Before Tax	**157.6**	**(93.1)**	**(172.7)**
EBITDAS	**(92.5)**	**(64.3)**	**(34.3)**

Note - impairment and exceptional items are early draft indicative figures which will be refined.

POL00027422

… delivering strong year on year progress in EBITDAS

£m	2012-13 Outturn	2013-14 Outturn	2014-15 FYF	2015-16 Budget	2015-16 Strat Plan
EBIT	94.2	107.1	95.1	95.1	129.8
Deduct Network Payment	(210.0)	(200.0)	(160.0)	(130.0)	(130.0)
Add back Depreciation	0.4	0.4	0.6	0.6	0.0
EBITDAS	(115.4)	(92.5)	(64.3)	(34.3)	0.0

… albeit behind the Strategic Plan

POL00027422

Current plans show net risk of £15m

Risks	£m
Annual Count – November 2014 count suggests £8m risk - TBC	8.0
Hawk (pro-rata if delayed)	8.0
Telecoms churn increases due to lack of investment (placeholder)	5.0
IdA income does not materialise	5.0
Fujitsu risk to IT Plan	5.0
Subpostmasters pay challenge to be underpinned	4.7
NS&I renewal	4.2
Other	16.2
Sparrow costs	tbc
Total	56.1

Opportunities	£m
Project Ultra (acceleration and additional)	10.0
Purchase of EE "Life Mobile Base" (MVNO)	6.0
Additional 'Town Hall' savings	4.0
Bonuses budgeted at 100% achievement	4.0
Other	16.7
Postpone/stop mobile	tbc
Wave 3 staff cost savings	tbc
Total	40.7

... creates a focus on landing the opportunities

POL00027422

The early view of cash flow is within the funding envelope

Cashflow (£m)	2014/15	2015/16
EBITDAS	(64)	(34)
NSP	160	130
EBITDA	96	96
Capex (tangible and intangible)	(145)	(161)
Other cash movements	(5)	(11)
Operating cash outflow	(54)	(75)
Reserves, Provisions & Exceptionals	(267)	(250)
non NSP funding	170	150
Underlying cash outflow	(150)	(175)
Working Capital	(54)	(107)
Total cash outflow	(204)	(282)
Headroom at end of financial year	539	342

- The cashflow budget is subject to change depending on actual outturn in 2014-15
- Assumes Hawk deal in 2014-15 at £40m

POL00027422

ExCo has started to debate options for the 2015-16 scorecard

Key Performance Indicators	2014-15 Bonus %	2014-15 Target
Growth		
Total Net Income (excl NSP) £m	20%	925.1
Operating profit £m	25%	99.0
Earnings before ITDA and Subsidy £m*		(60.4)
Free cashflow £m		(200.0)
Customer		
Customer Satisfaction**		89.0%
Easy to do business with	15%	47%
Net Promoter score**		2.0
Queue time % < 5 minutes - Top 1k branches		81.2%
Branch Compliance - Financial Services - basket of 11 measures		<=50
Branch Compliance - Inland Dangerous Goods		80.0%
Branch Compliance - International Dangerous Goods		85.0%
People		
Engagement Index % (Once a year April)	15%	58%
Subpostmaster Engagement Index % (Once a year)		48%
Post Office Values the diversity of the workforce (Once a year April)		66%
(No.) % of BME appointments over total recruits at senior leadership and senior manager		7%
(No.) % of Female appointments over total recruits at senior leadership and senior manager		45%
Modernisation		
Crown Profit (Loss) £m		(8.9)
Crown Profit (Loss) Run Rate £m	12.5%	0.0
NT Transformations - contract signatures		4,800
NT Branches Transformed In Year	12.5%	1,650

- The 2014-15 scorecard is shown for reference
- Key questions/issues:
  - Is the income level for Mails commercially appropriate?
  - Should we add gross margin as it becomes available?
  - What is the right customer measure?
  - Should we shift from contract signatures to openings for Network Transformation?
  - Should cashflow be a bonus-able measure given reducing funding?
  - Other comments/ questions?

POL00027422
POL00027422

We will look to agree the budget for 2015-16 at the March Board

Dates	Next steps
Late Jan-early Feb	CFO review meetings with functional directors
12 February	Final ExCo challenge session ExCo signs off 2015-16 plan and draft scorecard
Mid February	Circulate Budget detail to Board – individual meetings available
25 February	Remuneration Committee review scorecard
25 March	Board meeting to approve the budget

POL-0024063

POL00027422

POL00027422

Three year operating plan:
proposed approach and interim update

POST OFFICE

POL-0024063

POL00027422

Objectives for the 3 year operating plan

- **Key aim is to establish a stronger framework for medium-term financial and strategic planning across the business, providing tighter control of our flight path to commercial sustainability.** Specifically it should:
  - ✓ establish an updated bottom-up view of our 3 year financial projections (which have not been comprehensively reviewed since the numbers for our Strategic Plan were prepared in Spring 2013);
  - ✓ identify, track and manage the key risks and opportunities to these projections, including the alternative levers for driving profit improvements;
  - ✓ allocate and control the drawdown of capital from our balance sheet, ensuring projects are consistent with our strategic priorities and funding constraints;
  - ✓ maintain live tracking of the subsequent benefits delivery of these projects, providing us with clear line of sight through to the impact on overall EBITDAS;
  - ✓ provide an overarching view of our channels strategy (e.g. in terms of how we expect the split of income between branch and digital to evolve over the next three years); and
  - ✓ identify where further work is required to refine and develop aspects of our strategy to respond to our evolving market environment.

POL00027422

Proposed format and contents

i. **Updated P&L, investment and balance sheet projections for the next three years** (with the first year aligned with the annual budget), taking into account the latest market and trading data, the impact of the Business Transformation initiatives and the other strategy work underway.

ii. **A log of the material risks and opportunities to these projections**, which should be quantified as far as possible to enable us to understand the range of potential financial outcomes and to plan accordingly. As part of this we will identify which products/business lines have been included in our base case projections and what options are being held on a reserve list pending further exploration (with a clear timetable set for reviewing them).

iii. **A 3 year balanced scorecard** - identifying the financial, channel, people and customer metrics that define the organisation we expect to build over the next three years, enabling us to track progress along the way.

iv. **Our overarching milestones plan** – identifying the key steps we will be taking to transform the organisation.

v. **A concise narrative overview of our overall 3 year strategy** – including a description of the key transition states as we move towards our target end state design and what this means in terms of customers, channels and products.

The plan will be a living document which is updated annually to cover a rolling 3 year period, but also actively reviewed within each year to reflect new information as it emerges (e.g. project benefits tracking).

POL00027422

Key principles for testing the plan

- While the plan itself will be regularly updated, we would propose testing the outputs against some fixed principles that define the acceptability of our financial flight path and are not subject to continual review.
- We will provide a recommendation to the Board on these principles in March, which are likely to build on the following principles which were discussed with the Board in November (see slide 20 of the Business Transformation deck):
  - ✓ **no reopening of the existing funding settlement up to 2017/18** (which requires close control of our overall cash position);
  - ✓ **clear year-on-year improvements in EBITDAS demonstrated throughout the plan period, with breakeven achieved by 2018/19 at the latest**; and
  - ✓ the **profit run rate and balance sheet position in March 2018 should be consistent with a declining subsidy requirement in subsequent years** (off the baseline of £140m in 2017/18).

POL00027422

Interim update on the financial projections

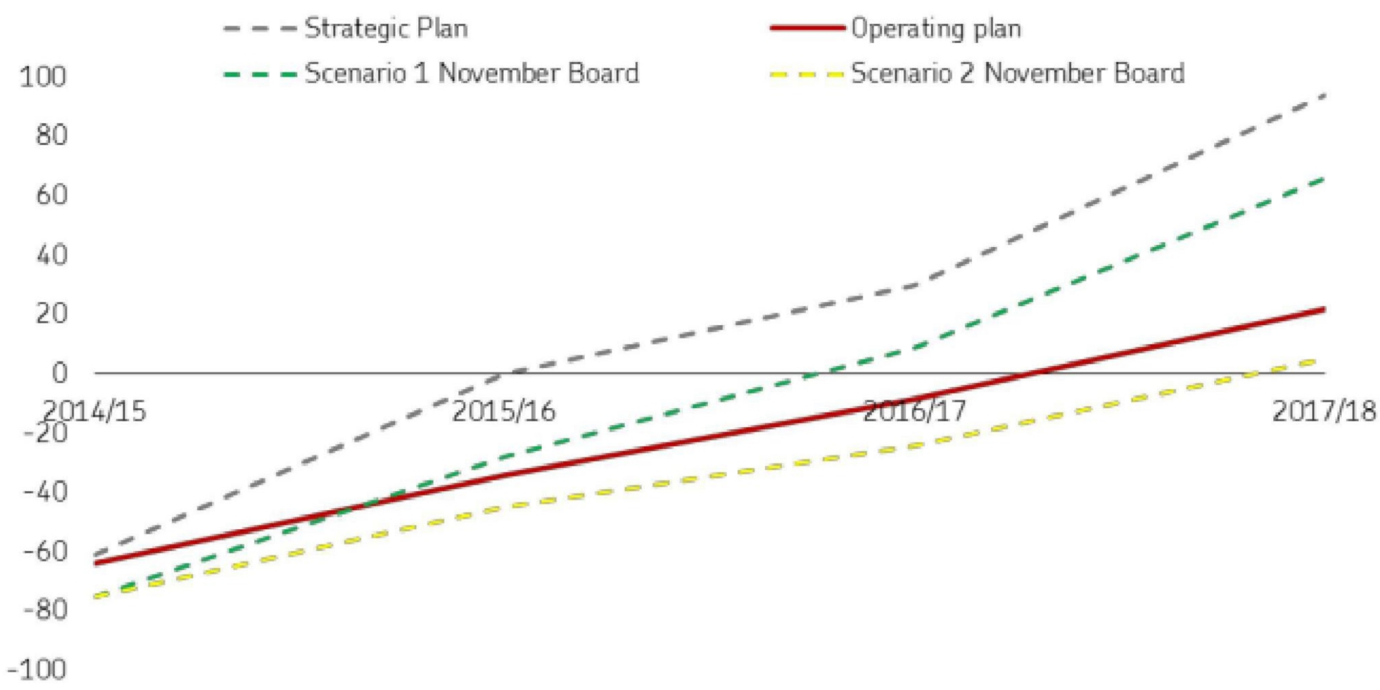
£m	2014/15 Q3 forecast	2015/16 draft budget	2016/17 projection	2017/18 projection
INCOME				
FS incl POMS	295	316	363	432
Mails	386	383	373	371
Government Services	112	102	107	107
Home Services	52	58	74	94
Supply Chain	32	33	34	35
Other	3	4	4	4
Income contingency	0	0	(25)	(40)
Total Net Income	**880**	**896**	**931**	**1,003**
FRES profit share	35	37	37	37
Net Income incl FRES profit share	**915**	**933**	**968**	**1,040**
COSTS				
Agents costs	(441)	(439)	(431)	(441)
Staff costs	(238)	(226)	(219)	(227)
Non staff costs	(280)	(283)	(324)	(355)
Depreciation	(1)	(1)	(1)	(1)
Costs to support income growth (POOC)	(21)	(18)	(18)	(18)
Cost savings associated with income contingency	0	0	15	24
Total expenditure	**(980)**	**(967)**	**(992)**	**(1,042)**
EBITDAS	**(64)**	**(34)**	**(9)**	**23**

Key points:

- Latest projections show us achieving breakeven in 2017/18, driven by strong growth in FS and telephony offsetting the gradual losses in mails and government.
- Agents pay declines from 48% of net income in 2014/15 to 42% in 2017/18, as a result of NT, the shift in portfolio balance and customer journey simplification.
- Staff and non-staff costs are improved through the Business Transformation measures, but offset by the costs of new income growth (particularly FS) and inflation assumed at 3% pa.
- Crowns savings have been scaled back to reflect a less extensive franchising programme which delivers a better payback – a full update will be provided in March.
- A 30% contingency has been applied to the other savings measures to reflect the level of delivery uncertainty at this stage.
- The income contingency line is a provisional allowance covering around 25% of the aggregate impact of the following risks:
  - more aggressive action by RM to reduce our fees;
  - failure to execute Hawk;
  - further delays in the roll out of IDA;
  - slower growth in telephony (both HPBB and mobile).
- If all of these risks materialise then this contingency would be insufficient and our ability to deliver breakeven by 2017/18 would be undermined. We are reviewing and quantifying these risks in more detail as part of the further work between now and March.

POL00027422

This projection falls between the two scenarios for our financial flight path which we presented in November



NB There are significant differences between the modeling approach used for the operating plan and the November scenarios (with the former based on more granular, bottom-up projections), so it is not possible to make direct comparisons

POL00027422

In balance sheet terms, our projections suggest that we can continue to deliver our non-binding target of £200m cash headroom at the end of the funding period – but only just…

£m	2015/16	2016/17	2017/18
Projected cash reserves at start of each year	**539**	**342**	**180**
Cashflow from EBITDAS performance	(34)	(9)	23
Funding from HMG	280	220	140
Working capital movements	(32)	5	13
Investments	(411)	(379)	(155)
Projected cash reserves at end of each year	**342**	**180**	**201**

Key actions underway to improve balance sheet position:

- We are undertaking further work between now and March to de-risk the investment projections, identifying which lower value programmes could be scaled back or stopped, and which areas need greater contingency to allow for risks.
- We are also conducting a review of our working capital management, which will report to the Board in May,

NB The cash reserve numbers shown in the table above differ from those presented at the November Board in that we have now takenthe more cautious approach of excluding debtors (worth c£160m to the starting balance in 2015/16)– however these assets would in principle be accessible if our cash position demanded.

POL00027422

Next steps for progressing the operating plan

January: agree approach and provide interim update on the numbers

March: first draft of operating plan available, following further iteration with the business

May: full draft of plan, taking into account the outputs of the strategic projects listed below

Strategic projects underway which will inform the operating plan:

- Mails strategy review (ToR to be discussed with January Board)
- Updated strategy for the Crowns, covering the opportunities across both cost and income to help maintain a positive operating margin over the next three years (to be discussed with the Board in March)
- Review of the opportunities for expanding our business banking service, which will be progressed alongside further work on our supply chain strategy given the interdependencies
- Development of full business case for our digital strategy, which will articulate in more detail our annual targets for increasing the share of income generated from online channels alongside the associated financial implications
- Review of our strategic options in the HomePhone, Broadband and mobile market (reporting to March Board)

The operating plan will also be informed by the further work underway to develop the detail underpinning the Business Transformation initiatives and the work with Commercial and FS to explore the scope for new income opportunities.

POL00027422

Strictly Confidential

POST OFFICE LTD EXECUTIVE COMMITTEE

Transformation Programme Update

1. Purpose

The purpose of this paper is to provide the Post Office Board with an update on the actions arising from last November's review of the Business Transformation programme. For ease of reference the actions that were captured are summarised below:

1.1 Summarise any changes to the 'end state' design, since it was first outlined at the September Board meeting

1.2 Highlight any investment decisions the Board is being asked to make in January

1.3 Assess the potential to accelerate the BPO of relevant central support functions

1.4 Extrapolate year on year cost savings, by function, based upon the current plan before any uplift in cost to support business growth assumptions

1.5 Provide an update on Transformation governance and specifically who is taking the lead on which aspects of the overall Transformation Programme

The latest position on each action is summarised below:

'End State Design'

1.6 There have been no changes to the 'end-state' design presented to the Board in November. However a number of initiatives are being progressed within specific Transformation themes in Q4 2014/15 to validate aspects of the overall design. They are summarised below:

- **Reduce Central Costs** – Consideration of the merits of accelerating the plan to BPO central support functions aligned with a review of IT Transformation proposal to outsource back office applications [BOAT]. A verbal update on progress will be provided to the Board at the January meeting.
- **Win in Mails / Commercial Strategy** - A review of our overall mails strategy and the potential 'Plan B' alternatives to the current partner arrangements, which will be discussed with the ExCo in February and with the Board in May.
- **Reduce and Variabilise Network Costs** - The development of an updated strategy for the Crowns beyond the end of this financial year, covering the opportunities across both cost and income to help maintain a positive operating margin for the network, which will be discussed with the ExCo and Board in March.
- **Grow FS** - An initiative being led by the FS team to explore the opportunities for expanding our partner and business banking service. Alongside the additional income this could generate, we will need to assess the cost implications for the supply chain business, and compare the net EBITDAS impact against the alternative options for reducing demand on cash services.
- **Win in Mails / Commercial Strategy** - Further work to develop a full business case for our digital strategy, which will articulate in more detail our annual targets for increasing the share of income generated from online channels, alongside the associated implications for capex, opex and income. This is also due to be presented at the March ExCo.

POL00027422

Strictly Confidential

- **Win in Mails / Commercial Strategy** - A project to review our strategic options in the HomePhone, Broadband and mobile market. This is due to be reviewed by ExCo in February and the Board in March.

Investment decisions in January

1.7 The Board is not being requested to ratify any investment decisions related to Transformation at the January meeting.

Extrapolation of Cost Savings:

1.8 The cost savings, as outlined in the Transformation roadmap in November 2013 will be baked into the POL operating plan. The plan is scheduled to be reviewed and agreed with the Board in March 2015

1.9 The plan will re-affirm our commitment to realise a minimum of £100m of annualised, recurring cost savings by the end of the financial year 2015/16 which is integral to the overall strategy to deliver a commercially sustainable business within the plan period to 2019/20

Transformation Governance:

1.10 As outlined in the November update to the Board, the transformation roadmap is structured into six themes to balance certainty of outcomes, benefits, cost to deliver and risk. Accountability for the business outcomes, benefits and costs associated with the six themes is held by specific individuals, with each theme led by a member of the POL senior leadership team [SLT]. The six themes and their sponsors are summarised below:

- Reduce central costs – Alisdair Cameron
- Transform the organisation – Neil Hayward
- Lean IT; via technology transformation and digitalisation – Lesley Sewell
- Reduce and variablise network costs – Kevin Gilliland
- Win in Mails – Martin George
- Grow Financial Services – Nick Kennett

1.11 The overall Transformation will be managed by a small centralised co-ordination team led by the Transformation Director, who is a direct report to the CEO. The search for a permanent Transformation Director is underway. In the interim the role will be performed by David Ryan.

1.12 The Transformation Director will be assisted by a small management team, comprising leads for five related capability groups covering;

- Business Analysis and End State Design
- Portfolio Management and Reporting (including the oversight of 'small change')
- Business Case and Benefits Management
- Programme Assurance
- Stakeholder Management and Communications

1.13 Assignment of individuals to key roles is well advanced and is expected to concluded before the end of the transition phase (31 March 2015)

1.14 The cost of the central coordination team will be funded, in part from the rationalisation of the existing POL Business Analysis and Change delivery capability and leverage capability from other areas of the business where appropriate (specifically Risk, Finance, Communications).

2. Request

The Board is requested to note the updates provided to address the questions raised at the November meeting in respect of Transformation.

David Ryan
21 January 2014

POL00027422

Strictly Confidential

Post Office Limited Board

IT Strategy Update – January 2015

1. Purpose

The purpose of this paper is to update the Board on:

1.1 Progress against the key initiatives within the 2020 Strategy.

1.2 Progress on developing the IT Strategy and alignment with Business Transformation (BTr).

1.3 The key risks, mitigations and contingency plans.

2. Background

2.1 The Board approved an IT Strategy in March 2012 and received subsequent updates the last of these being in May 2014.

2.2 The IT Strategy, validated and fully aligned to BTr, is delivering benefits. We have made significant progress in delivering our Separation and IT Transformation objectives.

2.3 There are significant financial and non-financial benefits to delivering the IT Strategy. However, there remain significant risks to be managed.

2.4 The material set out in the attached slide deck describes: the need to transform, progress to date, the remaining plan, the status of future initiatives, governance and the risk profile and mitigations.

2.5 The Board will receive a further update in March as part of the Operating Plan and will be asked to award contracts to support the Front Office and Network towers in Q1 FY2015/16.

3. Recommendations

The Board is asked to:

3.1 Note the progress against the key initiatives within the 2020 Strategy.

3.2 Note the progress on the IT Strategy and alignment with BTr.

3.3 Note the key risks, mitigations and contingency plans.

3.4 Note that we will come back to the Board:

- March 2015 – Strategy update and alignment to Operating Plan
- May 2015 – to seek authority for the Network Tower award
- May 2015 – to seek authority for Front Office Tower award

Lesley Sewell
28 January 2015

POL00027422

POST OFFICE

The IT Strategy & Roadmap

Board Update – January 2015

Technology for a Digital Post Office

v1.0b

POL00027422

Contents

1. **Introduction & Purpose**

2. **Why Transform? –** challenges and opportunities

3. **Our Transformation Journey –** Progress update, roadmap, plan and financial model

4. **Risks and Governance**

5. **Summary**

POL00027422

Introduction & Purpose

Our purpose today is to update the Board on progress to deliver our IT Strategy, specifically to note:

- Note the progress against the key initiatives within the 2020 Strategy *(slide 5)*
- Note the progress on implementing the IT Strategy and alignment with BTr *(slides 6-15)*
- Note the key risks, mitigations and contingency plans *(slide 16-18)*
- That we will come back to the Board:
  - **March 2015** – Strategy update and alignment to Operating Plan
  - **May 2015** – to seek authority for the Network Tower award
  - **May 2015** – to seek authority for Front Office Tower award

POL00027422

Executive Summary

- We have an IT strategy agreed with the Board to:
  - Separate our IT from RMG and build our own digital platform
  - Move to a streamlined and modernised IT architecture & supply chain model
  - Maintain continuity of service whilst transitioning services to the new model
- This strategy delivers significant benefits in cost, capability, service continuity and customer experience
- The case for change is strengthened by more focus on costs, an ageing IT legacy, availability of new and disruptive technologies and rapid changes in customer needs
- We have already achieved a great deal both in terms of outputs and outcomes and are learning as we go
- Further significant investment is required over the next 3-5 years to complete delivery of the strategy
- Future work will be complex, with significant risk – especially in simultaneously replacing front office hardware, software, supplier and data centres
- Mitigations are in place including integration through business transformation and tighter governance, supplier management, business-wide pipeline management and plans for additional in house capability
- Choices are still to be made about phasing and on rollout of further capability, all of which will be aligned with our Business Transformation plans to create an integrated change portfolio

POL00027422

2. Why Transform?

The challenge – an ageing infrastructure which we need to fix and align with the new capability needed to enable our business transformation

POST OFFICE

CONTINUITY & COST

Addressing significant risk and cost challenges to ensure we can continue to deliver high quality, affordable, reliable and secure IT services to our customers

- Over 60 suppliers, contracts on poor commercial terms and 80% expiring
- Key operational platforms at end-of-life and could stop working
- Competitiveness has been killed in some areas by IT costly to change and run
- Dated point of sale IT means we cannot meet customer needs in the Digital Age
- A Data Centre which is end of life
- A heavy dependence on Royal Mail Group systems and a need to separate

ENABLEMENT

Filling significant gaps in capability to enable business objectives for customer, insight, digital, simplification

- Customer Relationship Management
- Data, insight and analytics
- Digital platform for customers
- Digital for colleagues and branches
- Enterprise Social for Digital working
- Automation & Workflow platforms
- Strategic infrastructure e.g. integration

BUSINESS DEVELOPMENT

Business technology requirements which exploit our strategic enablers to deliver cost and income benefits

- New Mails access points
- Marketing insight and analytics tools
- Virtual FS advisors
- Customer Journey Simplification
- Branch Self-Service development
- Business Transformation & Automation
- Exploiting Digital Ways of Working

***No real choice** – We Must Press ahead with IT transformation*

Our choices

***Real Choices** based upon future business cases & change capacity considerations*

POL00027422

3. Our Transformation Journey

What we have achieved so far: Our journey started with separation, transforming core IT and securing business continuity whilst protecting operational service

POST OFFICE

The Board Approved	What was delivered	What's left to do	Are we on track
	Continuity Of Service & Cost		
Separation of IT services provided by Royal Mail Group	Significant successes - the heavy lifting for Separation is now complete. We have separated **core HR**, **Building Security**, **Fleet** and **Property** systems, built a new **Finance** system, a new **digital platform** for our **eBusiness**, new **contact centres**	Small changes in Q1 FY15/16 to complete transition by June	**On track**. Good track record of delivery for Separation – one of the most complex changes in Post Office, protecting service throughout
Secure service **continuity for Horizon**	An **Horizon support** agreement to March 2017 was **secured** with Fujitsu. 30% of Data Centre refreshed to sustain service.	Complete	**Complete**
Implement a **new IT Supply Chain**, Operating Model	Procurement of the new supply chain initiated. **5 contracts awarded** and in delivery. Key capability in place for Service Integrator and End User Computing. Offshoring of call centre capability.	2 contracts, Front Office, Network to be awarded FY2014/15. Back Office is pending a strategic review	Some 'in year' delays, however **benefits remain on track**
Move from a fixed cost base and **reduce IT costs by 25%**	**Delivered £8m** of the £27m committed benefits and **capability uplift** through the Systems Integrator (Atos)	Transition the remainder of the Supply Chain	**Some in year delays** due to procurement process complexity, but controlled
	Enablement		
Establish our **digital capability**	Strategic **digital capability delivered** by Common Digital Platform (CDP). Replacement of Self Service Kiosks in branch.	Build on CDP through Business Transformation	**On track**
Be agile and **reduce the time to market**	We have **enabled digital capability**	Transition to our new Supply Chain	**On track**

POL00027422

We are acting upon key learnings from the delivery of our IT Transformation and Separation Programmes

Both IT Transformation and Separation have helped mature our approach to managing complex change delivery. A number of key learnings are being taken into our planning.

- Strong governance to ensure timely decisions and challenge scope creep
- Effective Business engagement and communications to manage change and mitigate impact
- Incremental delivery to drive focus and early benefit realisation
- Challenge to test and flex the delivery as we learn
- Continually testing the business case and being prepared to stop
- Securing key skills and resources; Post Office experience is critical and should be locked in - don't do as part of BAU
- Strong dependency and release management as many changes overlap, impacting the same suppliers, processes and colleagues
- Risks to be actively managed – focus on delivering mitigations
- Active management of our incumbent supply chain to minimise risk and cost escalation through transition and exit

POL00027422

Our vision – what it will feel like for customers, colleague and partners

For customers

Technology will be key to transforming customer experience across the channels, propositions and branch models, potentially including:

- Customer journeys start online, complete in branch
- Self & assisted access to more services
- Convenience e.g. book a place in queue via mobile
- Browse online catalogues in branch
- New services e.g. digital passports, identity
- Book an appointment online
- Virtual FS advisor accessible in branch or online

For colleagues & branches

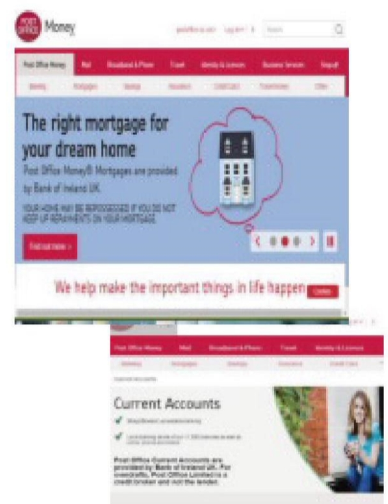
Digital tools will transform productivity & user experience for colleagues centrally and in branch

- Branch communications move online, easier to access and saving print & distribution cost
- Social tools enable collaboration across the central and branch communities
- Branch learning moves online, to be accessed via mobile, PC or tablet
- Manual and repetitive tasks automated, freeing colleagues up for higher value work

For Partners & Clients

Modern digital technologies will allow Post Office and it's clients and partners to connect our products and services seamlessly, improving competitive advantage.

This means we can share data, plug in new applications faster, and join up customer journeys e.g. from the Post Office website across our partner sites.



POL00027422

3. Our Transformation Journey

Looking forward; our roadmap shows a significant programme of work covering IT continuity, enablers and business development opportunities

POST OFFICE®

The roadmap and plan will align and integrate with the Business Transformation portfolio plan as both develop

2012-14

Building Foundations

– see Slide 5

2015/16 – Ramping Up

- **Target Architecture**
- **Front Office delivery starts**
- **EUC & Network delivery start**
- Customer journey design
- **Network extension rollout**
- Product & process simplification
- Select key platforms :CRM, Social, Data
- **Back Office TOM & IT strategy decided**

2016/17 – Building Momentum

- **Horizon replacement deployment**
- Network extension rollout
- **Branch & HQ IT refresh completes**
- Analytics & Insight across products
- Next Best Action across channels
- Product digitisation progressing
- Social platform rollout commences
- Customer & SME portal & My Account
- Transactional functions – BPO / Cloud
- Digital customer journey development
- **IT supply chain consolidation**
- CRM capability build

2017-20 – Reaching Maturity

- Advanced insight & analytics
- Full CRM capability
- Products across channels & devices
- **IT supply chain is Lean**
- IT & data shared across PO
- **Legacy Horizon retired**
- Integrated partner ecosystem
- Innovation capability
- Social tools for colleagues

***Items in bold are 'no choice' and committed** – we must proceed from a cost, capability or business risk perspective.*

POL00027422

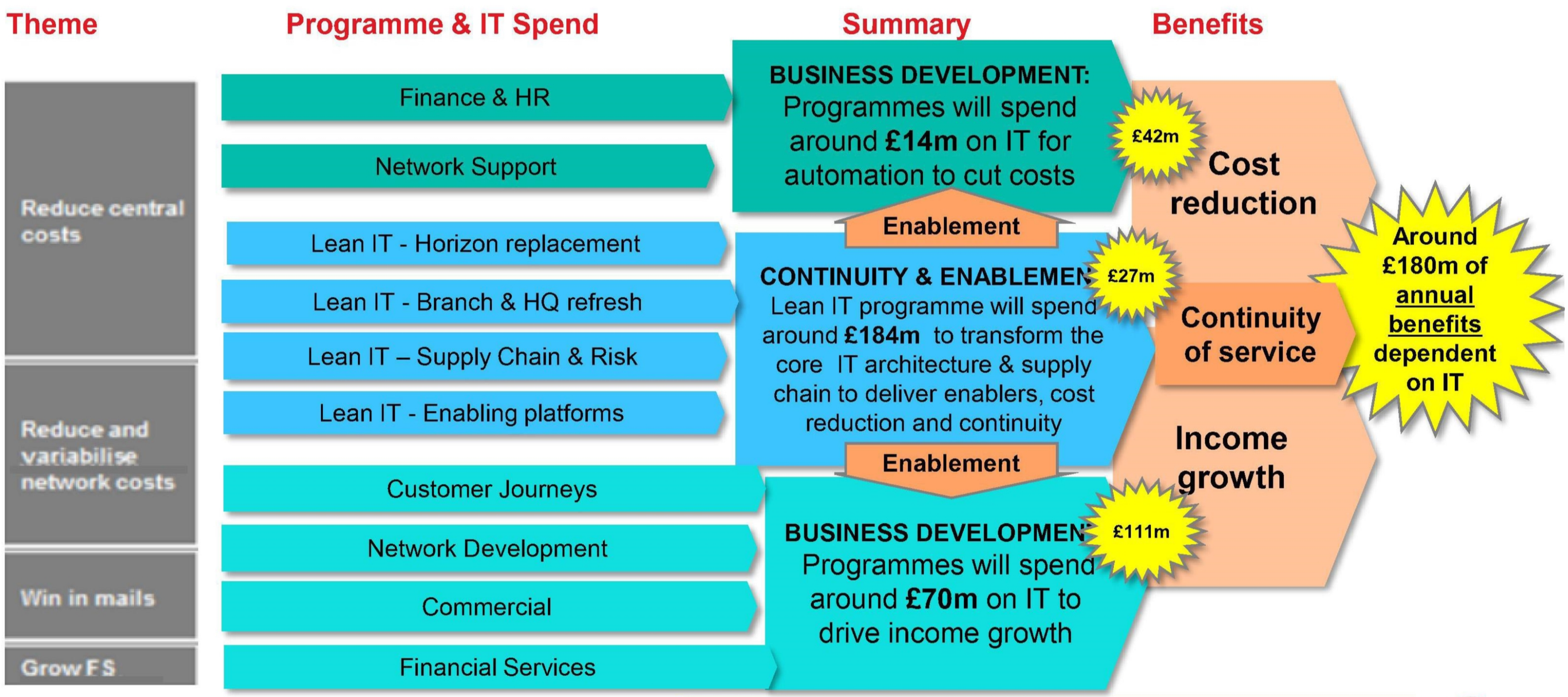
Delivering such a complex programme of change will require strong design principles and governance

IT will be Lean and Mean	working as a strategic partner	enabling business outcomes
BUILD FOUNDATIONS, GROW TO FIT IT platforms will be developed to our minimum need, growing as we grow	We will build once, use many times. No more 'heavy' IT	Drives value for money. Allows us to be more agility We will be 'right-sized'
ONE BUSINESS, ONE VIEW OF OUR DATA One Data Strategy; data sharing by default	Business intelligence will gathered across channels, products and business units	To drive growth and cost efficiency
WE WILL HAVE 'VANILLA' PROCESSES We will buy 'Off the Shelf' Technology'.	Customisation of platforms/solutions only when it clearly enables growth, enables cost-out or mitigates risk	We are dependent on the business to drive process efficiency
DIGITAL BY DEFAULT Digital will be the heart of this business	So we will simplify, standardise and digitise our business and our technology	Our cost reductions a predicated on digital, enterprise wide delivery
MORE FOR LESS IN EVERYTHING We will seek to leverage partner capability	We will exploit the value chain using partner and supplier capability	This drives value and builds relationships
WE WILL DELIVER ALL IT FOR YOU The IT function will take care of all technology selection and delivery for POL .	Business IT needs are managed centrally and aligned with IT strategy. Drive towards enterprise solutions. Functional requirements driven from the business, processes standardised across the operating model	Business do not have to worry about IT. Helps remove duplication. Strategic platforms leveraged.
CAPABILITY TO BE OUTCOME DRIVEN Enabling cost-out, growth or risk reduction	New capability will have to be justified by the EBITDAS impact and its enterprise wide benefits	For us to deliver new capability or grow a platform/service, the justification must 'wash its face'

3. Our Transformation Journey

Business transformation estimated an investment in IT of £269m across continuity, enablement and business development, underpinning annual benefits of £180m

- **Continuity** – good level of certainty around direct benefits of annual IT cost reduction, and continuity of service
- **Enablement** – reasonable confidence in level of spend, benefits will come through leverage in Business Development
- **Business Development** – Low level of certainty in cost and benefits as many requirements are not yet clear



Total investment £295m for Annual benefits of £180m

POL00027422

We must secure continuity of our IT services and reduce the like for like cost base by 25%. £152m of our investment secures our future

Service Continuity and Cost Reduction – £152m

- Delivering the following service change is based on BTr outcome and the cost estimates both approved and new.
- Key outcomes will see a Front Office for a new counter application and supplier, modernisation of aged and end of life infrastructure, enhanced security and streamlining of the IT operation.

Ops Year	2014-15	2015-16	2016-17*	2017-18	2018-19	2019-20
Spend Profile		93.95m	43.05m	15.00m	0.00m	0.00m
Benefits (Towers)		5.80m	6.90m	13.60m	27.00m	27.00m
Outcomes	• Procurement and award of Front Office Tower • Procurement and award of IT Networks Tower • Decision on route forward for Back Office Tower	• Front Office and IT Networks Towers landed • Commence Horizon replacement • Commence branch counter replacement • Complete Head Office end user migration from RMG • Conclude negotiation with Fujitsu for service extension 2017-18	• New Horizon deployment • Branch counters replaced • Commence outsource of back office • IT Supply Chain consolidation	• Migration to new Front Office completes • New IT Network complete • Extension of current Fujitsu contract for data centre (contingency)	• Legacy systems / platforms removed • Replacement systems fully operational • Further consolidation to reduce run identified	• Maintain run state • Execute on further cost out initiatives • Drive additional automation

The £152m has been calculated through understanding the 'must do's ' and committed spend. Front Office is critical and consumes the lion's share of the spend with standing up the Towers and refreshing legacy technology due to contract extensions for contingency (Fujitsu) – Horizon replacement

** Post 15/16 Risk and Resilience is expected to be incorporated into the new IT supply chain contracts and not required as a specific investment*

POL00027422

There is new capability we must build to fulfil the business outcome. £32.5m is the estimate and will be subject to approved business cases

New IT Capabilities / Business Enablers – circa £32.5m

- A set of new IT capabilities will need to be provisioned in order to deliver the projected business outcome.

Ops Year	2015-16	2016-17	2017-18	2018-19	2019-20
Spend Profile	11.45m	13.95m	6.65m	0.40m	0.05m
Outcomes	• Data Architecture • Customer Journey Designs • Product & Process simplification • Exploit automation platform • Analytics Architecture • Business architecture	• Analytics enhancement • Network extension rollout • Outsource designs and commencement • Digital customer journey • CRM capability	• Enhanced insights and analytics • Next Best Action • Social Platform deployment • Back Office outsourced • Branch and HQ IT refresh complete	• New Horizon fully deployed • Full CRM integration into digital channels • Advanced insight and analytics • Products fully delivered across channels and devices	• Holistic data for customer, products and finance shared across all business lines • Legacy manual processes automated • Majority of products offered in digital format online

The £32.5m is based on IT assumptions of new and/or enhanced technology needs to support the business development requirements as surfaced from BTr. IT will continue to challenge business requirements to maintain the annualised savings delivered and control incremental cost increases.

POL00027422

There are significant business technology requirements which support income growth or cost out. £84.5m is the estimate and will be subject to approved business cases

POST OFFICE®

Business Development and Exploitation – circa £84.5m

- The business programmes identified in BTr will exploit the new and enhanced IT capabilities
- Prioritisation based on major benefits and growth will be phased in concert with the business

Ops Year	2015-16	2016-17	2017-18	2018-19	2019-20
Spend Profile	38.00m	21.50m	14.00m	7.50m	3.50m

Outcomes

Commercial - Product Simplification
- Simplify Customer Journey
- Simplify Products
- Simplify Processes

Commercial - Customer Management Programme
- Data: Customer Single View
- Analytics: Deeper Insight and decision making

Financial Services
- New Products
- Simplify Customer Journey
- Simplify Products and Processes

Network Development
- New Access Points
- Back Office Automation
- Simplify Customer Journey

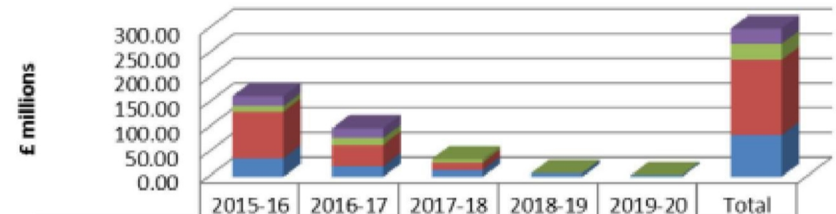
Iterative Activities
- Simplify Customer Journey – contd…
- New Products
- Simplify Processes – contd…
- More Access Points – contd…
- More Back Office automation – contd…

The £84.5m is estimated and pending detailed alignment with business cases although the 'what' is known. The delivery and benefits are front loaded else PO will not deliver the necessary change in order to stay viable or competitive. Once the heavy lift (2015-18) and benefits are delivered, more of the same is required to remain current (2018-20)

POL00027422

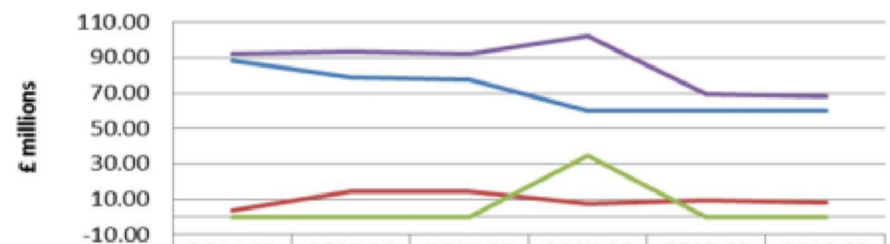
The investment of £269m has been profiled across 2015-20 and includes the benefits from the IT Transformation programme on run costs. The wider business benefits are yet to be fully determined

Change Spend - CAPEX 2015-20



	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Fujitsu	20.00	20.00				40.00
IT Capability	11.45	13.95	6.65	0.40	0.05	32.50
IT Continuity	93.95	43.05	15.00	0.00	0.00	152.00
Business Devt	38.00	21.50	14.00	7.50	3.50	84.50

Run Spend - OPEX 2015-20



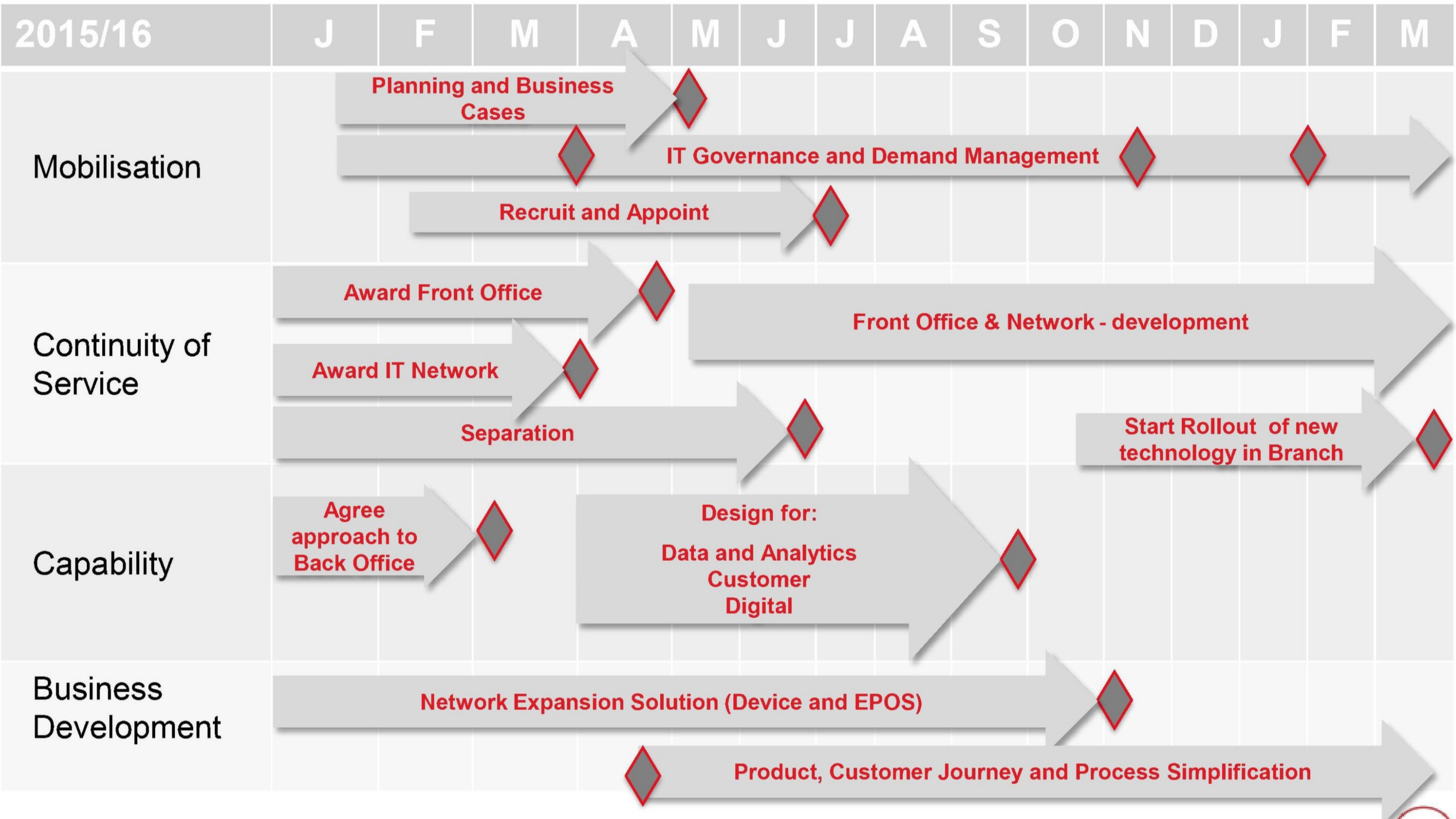
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Current	88.20	78.90	77.80	60.10	60.10	60.10
New	4.00	14.30	14.30	7.50	9.10	8.10
Fujitsu	0.00	0.00	0.00	34.50	0.00	0.00
Total	92.20	93.20	92.10	102.10	69.20	68.20

Key Points

- The investment spend is front-loaded to deliver early benefits, this drives a significant volume of change in 2015-18
- Lean IT will reduce the cost to run technology, though with some cost added back in by new business requirements
- Model assumes a simpler operating model, reduction in legacy systems, resulting in simpler and therefore cheaper IT
- Fujitsu Estimated one off investment to support extension of Fujitsu data centre
- There is much uncertainty around the requirements from the business programmes, may be somewhat lower or higher
- Many of the proposed changes are at the initiation stage and still require business case approval

POL00027422

A number of significant projects have not yet been approved



POL00027422

An IT programme of this scale does not come without significant risk, requiring tight governance of business and IT change through the TMO

Theme	Risk of non-delivery	Specific risks	Mitigation Approach
Lack of Clarity of Business Requirements	**Moderate** *Operations risk - controlled*	• Business capability needs unclear • Lack of agreement across POL • Slow decision making results in spend on obsolete technology	• Business engagement on capability needs • Assumptions and hypotheses to be agreed • Prioritisation of decisions balancing time and cost with benefits and risk
Lack of Clarity of Target Operating Model (TOM)	**Moderate** *Operations risk - controlled*	• BPO uncertainty impacts Back Office IT • IT dependency on product & process consolidation and simplification • No detailed TOM design impacts IT design	• Back Office strategic review initiated • Assess IT impacts and considerations • Assumptions to be made and agreed • Revise IT strategy based on BO review
Supplier & partner issues	**High** *Technology risk - controlled*	• Complexity of the Front Office Transition • Incumbents may slow us or cause issues • Partner and client issues cause delays	• Accelerate Front Office procurement • Fujitsu / Horizon extension (TSS2) • Supplier transition risk management strategy • Incentivise co-operation by leveraging contracts
Complexity and Volume of Change	**Very High** *Operations and Technology risk - controlled*	• Front-Loading of Change demand • Capability and capacity to deliver • Complex inter-dependencies • Delivering the IT Transformation delays business change capacity	• Develop IT roadmap • IT Delivery plan and capability needs • Align to Transformation Portfolio • Governance through TMO to manage demand • Recruitment and retention strategy for key people
Current Risks	**Moderate** *Technology risk - controlled*	• Known risks around IT resilience • Cyber Security risk footprint but will grow as Digital extends across channels	• We are developing our Information Security capability, and will address key resilience issues in the Back office driven from the outcomes of the Back Office strategy review

We have aligned our risk mitigations to Post Office risk appetite – for Operations, Technology & People risks Post Office is risk neutral or risk averse

POL00027422

To deliver a programme of this scale will require strong and integrated change management, governance, people and capability

We Will Require	How	So that we can ..
A significant increase in people capacity, capability and skills	Investment in good quality people, skills and more capacity in-house to manage the change, funded from the investment totals shown	Scale up to deliver he change Ensure we have the depth and breadth of skills required
An integrated Business Planning process & Transformation Portfolio	Integrated Business Planning, not just centrally coordinated budgeting Change Portfolio managed centrally by TMO – currently being setup Proactive pipeline & demand management	Identify and manage dependencies Avoid over-committing to change delivery Drive to common solutions – build once, use many Quickly resolve differences and get to 80/20
Product Process simplification	An effective Business Design Authority and Governance Framework	Leverage Standard IT to speed delivery and reduce costs to build and run
External stakeholders aligned	Strong stakeholder engagement in our strategy and transformation plans, we should not commence work in areas where key partners are not aligned	Progress IT investment in product areas where the dependency on 3rd parties is significant, without the risk of wasted investment
Strong Governance of change management across the portfolio	- Business & IT Design Authorities - Transformation Management Group - Transformation Committee and Exco This framework is in development	Ensure the oversight and decision making are appropriate for high-risk and large scale strategic change

POL00027422

Our Front Office supplier transition will be disruptive to our business, this was anticipated and we have an approach to mitigate the risks and impacts

Background

Post Office is procuring a Front Office IT provider as part of IT Transformation. Fujitsu were part of that process, but have now withdrawn, a risk we were always aware of and have planned for. We have 3 credible bidders for Front Office – CSC, IBM and Accenture, and will be coming to Board in **May 2015** to present the outcome.

Key elements of our Risk Mitigation plan:

- Proactive management of Fujitsu exit - Lead appointed and has started work
- Fujitsu service extension being negotiated, 6 months segments from March 2017 to Sept 2018
- Simplification of functionality, allowing us to use standard "ready-made" IT components for faster delivery
- The technology solution will develop and extend our Common Digital Platform rather than starting afresh
- Security and integrity will be key requirements in the procurement
- Potential incentives to new Front Office supplier to achieve faster delivery
- Close collaboration with our Communications team to manage external impacts e.g. Sparrow
- Selection of a capable supplier – all three bidders are credible, we will sign contract in May:

Summary of bidder proposals

Accenture	CSC	IBM
Extend CDP, supplementing with commercial off-the-shelf (COTS) components to fill gaps e.g. Point of sale. Current Horizon functions replaced March 2017, further enhancements from April 2017	Partnering with Escher to implement the Riposte product which they claim can support 72% of the required functionality out-of-the box. Riposte will be integrated with CDP and rolled by November 2016	Propose extending CDP, supplementing with commercial off-the-shelf (COTS) components including some proprietary IBM solutions. All requirements live by March 2017

POL00027422

Summary

Key Points

- The IT Strategy delivers key benefits; we have made significant progress in delivering our Separation, IT Transformation objectives
- We have made good progress in identifying the capabilities and approach to support BTr
- A key dependency is simpler products and standardised processes across the organisation, without these our benefits could be significantly eroded by building customisation into systems during transition
- There remain significant risks to be managed. Q4 FY 2014/15 is the key period to establishing the plan and mitigations, working closely with the Transformation Management Office (TMO)
- The transition away from Fujitsu is technically and commercially challenging but can be managed. Action has been taken to secure relevant expertise and to build an exit management and transition strategy

The Board is asked to:

- Note the progress against the key initiatives within the 2020 Strategy *(slide 5)*
- Note the progress on implementing the IT Strategy and alignment with BTr *(slides 6-15)*
- Note the key risks, mitigations and contingency plans *(slide 16-18)*
- Note that we will come back to the Board:
  - **March 2015** – Strategy update alignment to Operating Plan
  - **May 2015** – to seek authority for the Network Tower award
  - **May 2015** – to seek authority for Front Office Tower award

POL00027422

Strictly Confidential

POST OFFICE LTD BOARD

RISK APPETITE STATEMENT

1. Purpose

The purpose of this paper is to:

1.1. Seek board approval for the risk appetite statement developed by the Executive Committee (ExCo) and considered and recommended for submission to the board by the Audit & Risk Committee (ARC).

2. Background

2.1. Defining an organisation's appetite for risk is a fundamental part of the risk management framework, setting the parameters for acceptable levels of risk taking and identifying those areas where there is little or no appetite for risk taking.

2.2. This definition of parameters, aligned to the Post Office's strategic objectives, provides a clear steer for management and improves decision making in the organisation.

2.3. Setting the risk appetite is an intrinsic part of meeting the board's obligation to determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives, as set out in section C2 of the UK Corporate Governance Code.

3. Current Situation

3.1. The Post Office approach to developing its risk appetite statement began in August 2014 with a presentation from PWC to the ExCo describing the purpose of having a risk appetite statement and a proposed plan to develop one. The ExCo tasked the risk function with developing a methodology for articulating risk appetite and a straw man statement for review. This was completed through a combination of researching accepted best practice and input from individual in the business drawn from both ExCo and the Senior Leadership Team (SLT) colleagues. Several iterations of the paper at both ExCo and the ARC were required to get to the final version appended to this paper for consideration.

3.2. The final framework introduced four levels of risk acceptance, ranging from ***'risk seeking'*** through to ***'risk averse'***. These definitions are explained in the appendix to this paper (appendix A).

3.3. The framework also defined nine categories of risk. Whilst there is no accepted standard for the number of categories we believe that the ones selected cover the vast majority of risks that the business is exposed to. These categories are set out in the appended paper, together with the Post Office risk appetite statement for each.

3.4. Where possible, positive statements have been used to express appetite; however, it should be noted that some of these statements deliberately set out

POL00027422

to indicate unacceptable levels of risk and therefore the use of apparently negative statements is unavoidable.

3.5. It is important to note that the risk appetite statement explains the level of acceptable risk-taking in the organisation and should not be confused with, for example, the commercial appetite for new business.

3.6. The debates at ExCo in developing this risk appetite statement were often difficult and challenging. In the course of discussions tensions were identified between different categories of risk and the willingness to take risk in each of these areas. By way of example, the requirement of taking risks to achieve growth (risk seeking) contradicted the appetite for risk taking in respect of the social purpose of Post Office.

3.7. Once the risk appetite statement is approved by the board, the risk function will co-ordinate a range of activities to embed risk appetite into the process and procedures of the business. Examples of such processes are: investment appraisal; business performance review; induction, appraisal and development procedures. A detailed plan for implementation will be tabled at ExCo by the end of this financial year.

3.8. The board should also note that the articulation of risk appetite may change over time and that it is common for different aspects of risk appetite to be flexed up or down according to the strategic direction of the organisation at the time; consequently, the risk appetite statement will be tabled for review by the board on a six-monthly basis.

4. Recommendations

The Board is invited to:

4.1. Adopt the risk appetite statement as appended to this paper

Chris Aujard
20th Jan 2015

POL00027422

Appendix A - Draft Risk Appetite Statement:

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
<u>Customer</u> The impact of Post Office activities on customers in terms of satisfaction, service or advocacy for Post Office	Post Office is committed to the fair treatment of its customers and, as a consequence, has: • ***Averse*** appetite for taking risks which might result in failure to maintain the service commitment in respect of customers in line with our social purpose and Government's policy on subsidy.	Coverage and Scope of Services to meet this commitment (as required by detailed metrics in POL entrustment letter), eg 11,500 branches and 99% of the population to live within 3 miles of a branch. To provide at all these branches, mails, basic cash and banking facilities, pay out services and bill payment facilities;	• Kevin Gilliland
	• ***Neutral*** risk appetite for dissatisfaction related to BAU services recognising that in a complex business there will be a level of dissatisfaction as part of the normal course of business of achieving our commercial objectives.	Customer complaints levels (TBC either an absolute count measure or % transactions measure) per month On line sentiment (social media commentary) Easy to do business with metric % of branches delivering to the required level (from Insight team) Customer advocacy measure (NPS) B2B metrics NPS	• Martin George • Nick Kennett • Martin George

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	-- • ***Averse*** appetite for risk taking which would alienate or lose significant groups of profitable customers • ***Tolerant*** *risk* appetite for customer dissatisfaction caused by transformation, innovation and customer selection/profitability decisions. • ***Neutral*** appetite for risk taking which would have a detrimental impact on vulnerable customers. Post Office will take a balanced view, reflecting commercial implications of introducing safeguards and controls to protect vulnerable customers and the needs of those customers.	-- None specific- but appetite to be considered in strategic planning and business decisions.	• Nick Kennett • Martin George • Nick Kennett • Kevin Gilliland
Financial Exposures to credit, liquidity, pricing risks or external financial related crime.	Financial sustainability is a core goal for Post Office. Underpinning this are clear boundaries in relation to financial risk taking: POL has: • ***Averse*** *risk* appetite for not having sufficient financial resources to ensure the continuity and sustainability of the company. This especially relates to ensuring that sufficient funding is always available • ***Averse*** *risk* appetite for financial crime to occur within any part of the organisation • ***Averse*** *risk* appetite for disruption to any credit facility • ***Tolerant*** to risk-taking which will grow sustainable EBITDAS over time	• Govt. subsidy value • Income from all sources • Cash and credit facilities monitored to ensure loan remains below £950m cap and maintain £200m headroom • Cost reduction targets achieved • Value of subsidy reduced in line with funding agreement • Value of leakage of assets (criminal instances) • Financial performance versus budget and prior year (Costs, Profit, Cashflow)	• Alisdair Cameron

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	• ***Seeking*** *risk* appetite for reducing dependence on subsidies over time.		
<u>Market</u> Exposure to market changes, competitor activity, reputational or brand damage	Post Office acknowledges that it operates in increasingly competitive markets and its attitude to risk-taking in these markets reflects this. POL has: • ***Tolerant*** *risk* attitude to pricing to drive revenue growth, but not to the point at which it becomes non profitable Subject to the above, POL has: • ***Seeking*** *risk* attitude in the mails market where we will take on competitors in markets and consider reduced margin to defend market share • ***Neutral*** *risk* attitude in government services and telephony market where we will price competitively to retain market share • ***Seeking*** *risk* attitude in financial services to gain profitable revenue and market share. • ***Averse*** *risk* attitude when it comes to diversifying Post Office's product portfolio or for business initiatives that may have adverse reputational or brand impact.	• Market share data • Spread/margin data • Competitive price position • Proportion of investment cases rejected/approved	• Martin George • Nick Kennett • Kevin Gilliland

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
Legal / Regulatory Compliance with regulations, law, and any other external oversight.	Post Office takes its legal and regulatory responsibilities seriously and consequently has: • ***Tolerant*** risk appetite for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality • ***Averse*** risk appetite for litigation in relation to high profile cases / issues • ***Averse*** risk appetite for ligation in relation to Financial Services matters • ***Averse*** risk appetite for not complying with law and regulations or deviation from business' conduct standards	• FCA, ICO, or other regulatory formal censure actions against POL/ BOI (in respect of POL business) its subsidiaries or directors/officers. • Basket of measures used for reporting to Customer and Conduct Risk Committee **Leading indicators** • Risk of regulatory censure or action short of this, such as requirement to undertake a business change or undertake past business review • Critical internal audit findings • Qualified External Audit report (or significant concerns in management letter) in respect of legal/compliance	• Martin George • Nick Kennett • Jane McLeod
People Capability and capacity of staff. Ethical behaviour including staff misfeasance.	Post Office is committed to safeguarding the wellbeing of its people and therefore has: • ***Averse*** risk appetite associated to the health, safety and wellbeing of POL customers and colleagues in everything we do. This is paramount to every aspect of POL operation. This includes; loss of life, serious injury and non-compliance to regulation and policy • ***Averse*** *risk appetite for unethical behaviour including staff misfeasance*	Health and safety statistics: • H&S incidents • Near misses • No. Claims per area	• Neil Hayward

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	• ***Neutral*** risk appetite for: - Misalignment of people capability and capacity of staff - Inadequate assessment of the necessary talent and capabilities identified in order to build the learning and development plan and resourcing strategy (employees & agents) to drive business performance - Insufficient people capacity to enable PO to effectively deliver core services to customers.	• H&SE breaches / Fines • No. of H&S risk assessments (inc. projects) completed • No. of H&S annual objectives achieved • Engagement scores & indicators • Amount of time a vacant position remains unfilled • Adequate processes and polies in place in relation to employee conduct. • To take to hire SLAs • Cost per hire • 100% compliance to vetting standards	
Technology Systems and IT related risk; stability, design, implementation. This also includes IT Security, hacking, and unauthorised use of data.	Post Office is committed to exploiting technological benefits to achieve market advantage. In recognition of this, Post Office has: • **Averse** appetite for data loss/leakage that can lead to customer, commercial or reputational damage	Incident Log – (any Severity 1 incidents reported as detailed below) Any recorded high risk event (Severity 1 incident) that requires reporting to the ICO or FCA as per ICO/FCA guidelines ----------------------------------- 1. No more than 4 Severity 1 incidents reported	• Lesley Sewell

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	-- • ***Neutral*** appetite for operational IT services	per month 2. Performance against agreed SLA's (to meet and/or exceed those contractually stated) 3. Less than 12 unique Risk Acceptance Notes approved (by the CIO) during any one financial year 4. Evidence of Service Acceptance Board (SAB) signoffs for all changes that go live. ---------------------- 1. Severity 1 incidents reported by IT Service Desk/Number of hours downtime – core customer facing systems 2. Agreed SLAs in place: Horizon Branch Availability Post and Go Availability Paystation Terminal Availability AB Infrastructure Availability Credence User (Online Day) Availability Master Data Management Vocalink 3. Risk Acceptance Notes approved as part of Service Introduction/go live 4. Service Acceptance Board (SAB) Signoffs for live --	

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	-- • ***Averse*** appetite for inaccurate and unreliable processing of data.	1. Less than 1 per month live severity 1 incident that relate to data inaccuracies 2. Remedial actions from 3rd Party Assurance Reports (specifically Internal and External Audit Reports) in relation to inaccurate and unreliable processing of data. 3. Evidence of sign off of Test Reports and/or Verification Reports from projects (one per project) 4. Evidence of sign off of Business Readiness or BAT in projects (one per project). 1. Number of severity 1 live incidents that relate to data inaccuracies IT Controls in place 2. Audit Reports – Internal and External 3. Evidence of sign off of Test Reports and/or Verification Reports from projects 4. Evidence of sign off of Business Readiness or BAT in projects	
Operations Internal processes and operations including financial reporting processes,	Effective and efficient processes and operations are core to the long term success of Post Office and therefore, Post Office has: • **Averse** risk appetite for inefficient or ineffective processes that result in: lost time, duplicated effort, and increased risk of financial loss or errors in any part of its business or core processes ***Averse*** risk appetite for inefficient or ineffective or prolonged	• Branch loss data • Customer complaints • Calls to NBSC • Branch loss data	• Lesley Sewell • Kevin Gilliland

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
governance and control processes and oversight, supply chain management, physical asset management.	failure of, governance and control processes, critical financial reporting processes, critical supply chain and business continuity processes. -- ***Averse*** risk appetite for any serious impact to the confidentiality, integrity and availability of information, leading to financial loss, business disruption, public embarrassment or legal consequences.	• Customer complaints • Calls to NBSC -- • Strictly confidential information – no incidence of loss reported. Severity 1 incidents reported relating to customer and business information • Confidential information – no more than six incidents of data loss per year. Severity 1 incidents reported relating to customer and business information • The number of unauthorized accesses and/or changes to critical. systems/data. • Time to grant, change and remove access privileges compared to agreed service levels. Agreed SLA's in place • Number of critical business processes/services with outstanding Information/cyber risk actions. Outstanding audit actions. • Number of Information related audit actions outstanding. Outstanding audit actions. • Number of projects and change not following the governance/gating process. Information Security Risk Acceptance Notes. • Number of outstanding non-compliance to Information Security training requirements. Training records. • Security operations reporting requirements outside SLA.	

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
Stakeholder Major stakeholders including: • External stakeholders, government, the minister, consumer futures, royal mail • Colleagues • Agents & retailers CWU & CMANFSP	Post Office is committed to engaging and involving its key stakeholders in support of its strategic objectives. Post Office has: • ***Tolerant*** risk appetite to lose the engagement of any key stakeholder in the process and for staying the course in face of opposition if in the wider interests of the business and its commercial priorities •	• No. of complaints from consumer/industry groups-e.g. Which, Post Office Advisory Council • No. of incidents of significantly disruptive industrial action • No. of negative media coverage instances • Frequency of criticism about POL from Shareholder Executive /Government • Significantly disruptive industrial action • Employee engagement scores • NFSP campaigning/lobbying against the POL strategy	• Neil Hayward • Mark Davies
Corporate Affairs The relationship of the company to its Shareholder (BIS/ Government) and to the	Post Office's relationship with its shareholder is a key factor in determining strategy and delivering success. Post Office has: ***Tolerant*** *risk* appetite in taking forward its strategy in the corporate affairs environment- as it is recognised that there will inevitably be opposition and adverse comment – but if POL presents a clear, cogent, confident case it can create the right environment for change	• Feedback from SHEX • Other political indicators TBC	• Mark Davies

POL00027422

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
media, political and environmental factors that influence the shareholders direction to the company			

Risk Appetite Approach	Risk seeking	Risk tolerant	Risk neutral/balanced	Risk averse
Risk taking vs. reward	Post Office actively encourages risk taking	Post Office is willing to take greater than normal risks	Post Office takes a balanced approach to risk taking	Post Office actively discourages risk taking
Objective/negative impact relationship	Willing to accept a significant negative impact in order to pursue objective	Willing to accept some negative impact in order to pursue objective	Potential negative impact and objective given equal considerations	Not willing to accept any negative impact
Impact on residual risk	Post Office will accept high levels of residual risk in pursuit of its objectives	Post Office will accept some residual risk	Residual risk will be balanced against potential business benefits	Post Office will mitigate/treat risks in order to minimise residual risk

Strictly Confidential

POST OFFICE LTD BOARD

Winning in Mails Update

1. Purpose

The purpose of this paper is to:

1.1. Update the Board on the latest developments regarding Post Office Ltd (POL) plans for Winning in Mails.

2. Background

2.1. At the June 2014 Board we presented a strategy outlining how POL would respond to the growing competitive challenges and threats in the Mails market. At its core this strategy centred on retaining Mails market share and improving margin to create a commercially sustainable Mails business.

2.2. This was principally to be achieved by improving convenience through rapid network expansion, particularly in urban areas, and radical product simplification which would reduce costs in the existing network and make the creation of low cost Mails access points commercially attractive.

3. Current market conditions

3.1. There has been a slowing of growth in competitor networks. Our activity in the market (particularly our discussions with multiple retailers about network expansion) has given us more time than we originally anticipated. Our main competitor failed to meet its self-imposed target for expansion in 2014 and potential retail partners are telling us that they are considering all providers before deciding to enter into medium term contracts.

3.2. It has become very clear following engagement with most of the target multiple retailers that our Mails access point proposition is most attractive to them, and their customers, when combined with bill payment capability. This has demonstrated that we must at least match the proposition provided by Paypoint (Collect+) to be competitive. We know that MyHermes are paying retailers a fee per parcel of at least twice Collect+ as a result of their lack of a bill pay proposition.

3.3. We still believe that convenience, particularly in urban population centres, is the key battleground in the Mails market. POL will achieve this convenience through a combination of network expansion (competing directly for the best multiple and independent retailers), existing Network and Crown Transformation, new and improved digital customer journeys and simplified products across its entire network. POL's current shortcomings in these key areas mean that we are still losing volume share although the rate of loss has slowed considerably from financial year 2013/14.

4. Development since September 2014

4.1. Since the last 'Winning in Mails' Board update in September 2014 work has been progressing to simplify products and customer journeys as well as developing in

POL00027422

Strictly Confidential

branch technology to give POL the ability to develop new branch operating models which provide the foundation for network expansion and help reduce costs in existing branches.

4.2. A proposition has been defined which will provide the foundation for network expansion through the development of low cost access points. This will form the basis for reducing costs in the existing network through the deployment of simplification and improved customer journeys. The proposition includes the products which will be available in low cost access points and for Mails products the digital channels through which they will be sold. This proposition is informed by a substantial piece of customer research and has been agreed with Royal Mail Group (RMG).

4.3. The capability will be launched in three phases. Phase one is mails only acceptance where the products are purchased online in advance and dropped off in store. Phase two will also see the inclusion of bill payment. Phase three is planned to include mails purchased in store, cash withdrawals and foreign currency. This capability, together with product simplification, provides us with the opportunity to launch trials and support contracts with multiple retailers and reduce cost in the current network.

4.4. The technical solution has been defined. The supplier (Ingenico) is engaged and working on detailed designs for release of phase one (Mails products only) in April/May 2015 and phase two (Mails products and bill pay) in November 2015. The technical solution will be a new Paystation device which has the capacity to deliver Electronic Point of Sale (EPOS) integration with multiple retailers systems. This was assessed against, and selected ahead of, the tablet solution indicated in the September 2014 update. The selection of Paystation was made based upon the relatively low cost of the device compared to a tablet, combined with the relative ease with which EPOS integration can be achieved and feedback from potential retail partners on its simple usability.

4.5. Operational requirements have been agreed with RMG which include agreement in principle to remove the need for weighing, sizing and segregating of parcels in new access points. A joint online strategy has also been agreed with RMG (although details of data ownership are still outstanding). These are both significant steps forward as they allow POL to compete on operator and product simplicity with its main competitors.

4.6. The solution has been designed with a view to the potential benefit of its use in the existing POL network. Once this is achieved, the potential savings as a result of shorter transaction times are substantial. A dedicated programme is now being established in line with business transformation delivery to expand this simplification work to include all product pillars, alongside product rationalisation, refinement and new developments.

5. Current situation

5.1. We have achieved the roll out of 150 home shopping returns access points (Project Ivy) which has provided us with some valuable learning points particularly regarding training and branch support. However, it is clear that these access points are not a commercially sustainable model as volumes are very low due to the restricted product range and low customer awareness.

POL00027422

5.2. It now appears inadvisable to expand the network to 12k outlets by April 2015 (as per the conditional agreement with the Shareholder Executive) as we do not recommend the roll out of any further access points which offer only the home shopping returns product as they are commercially unsustainable.

5.3. The September 2014 update indicated that we expected agreement with the NFSP to be reached by the end of 2014; this has not materialised and negotiations on network expansion continue. It is believed that the NFSP are keen to reach an agreement but at a cost to POL. An options paper is currently being considered by ExCo along with a request for a negotiating mandate. The urgency of reaching this agreement has lessened as the growth of competitor networks has slowed.

5.4. The gap between RMG and POL on the commercial terms combined with mixed messages from RMG on their support for network expansion makes it unlikely that we can deliver the original plans in a commercially appropriate way. Nonetheless, RMG and POL agree that a sustainable future requires a combination of simplified products, improved multi-channel customer journeys, a better retail experience and more urban access. There is therefore reason to believe that a win-win strategy can be negotiated. However, any such negotiations will be complex and could escalate to cover the existence and terms of the Mails Distribution Agreement (MDA). We do not have a sufficient understanding of RMG's strategy or of the implications for our business and network to engage in such discussions.

5.5. We have therefore decided to slow down the broader discussions with RMG on a variety of fronts while we build a negotiating strategy. This will require complex modelling and as such we will build models that can be used in multiple 'game theory' iteration. This will be supported by appropriate third parties, including people with more direct knowledge of RMG and other competitors. Draft Terms of Reference for this exercise are attached at Annex 1.

6. Next steps

6.1. POL will reconsider its approach with RMG in light of the work described in Annex 1. An update on this work will be provided to the Board in March with final outputs to be presented to the Board in June. This will allow POL to maintain momentum with network transformation, product simplification and developing the access point proposition while re-appraising its approach to the commercial agreement with RMG.

6.2. POL will continue to develop low cost access points capitalising on product simplification. The outputs of this work will be used to; agree contracts for new access points with key multiple and independent retailers, trial an urban area flooding exercise to assess the impact on POL and its competitors. We will also pursue opportunities to deploy simplified products and customer journeys through the existing network.

6.3. Negotiations will also continue with the NFSP with a view to getting agreement to access point roll out by the end of March 2015. This will allow the team to conclude memoranda of understanding and contracts with the first multiple and independent partners.

6.4. We will not roll out any additional Ivy outlets and will recommence roll out of access points once the full Mails proposition is ready in May 2015.

POL00027422

Strictly Confidential

7. Recommendations

7.1. The Board is asked to note progress in developing a low cost proposition and the current situation with RMG and the NFSP.

7.2. The Board is asked to agree not to roll out any further Ivy trial outlets prior to the launch of the full access point proposition in May 2015.

7.3. The Board is asked to agree the Terms of Reference contained in Annex 1.

Martin George
January 2015

POL00027422

Strictly Confidential

POST OFFICE LTD BOARD

Annex 1 – Terms of Reference for reviewing strategic options for the Post Office in the Mails market and its relationship with Royal Mail

1. Background

There is currently a misalignment between RMG and POL's commercial strategy in the parcels market: RMG believe POL should increase convenience for customers primarily through increased opening hours and improvements to the customer experience. POL's recent approach to improving commercial performance has been focused on network extension and product simplification, as well as continuing with the Network Transformation programme.

POL and RMG see "Online Mails" as an increasingly important channel to the individual and SME market: one which potentially reduces RMG dependence on POL as well as associated POL income as it moves from a 'sale and accept' payment to a significantly lower acceptance fee. There is a risk that, if we cannot reach an agreed joint approach wit h RMG, they will pursue an active campaign to push volume and income away from POL branches.

It is also noted that, more generally, RMG's approach to POL is increasingly characterised by a focus on cost reduction e.g. calculation of annual count, format changes for International Mail from labels to stamps, mailwork renegotiation.

In light of the potential implications of these issues, it is timely to step back and assess the options available to POL that best position us to achieve our objective of commercial sustainability in the Mails market.

2. Key questions

Given the material financial risk to POL's future business strategy, the Exco would like to understand -

- **What is our 'unconstrained' view of the market that POL could pursue?**

  To include:

  - A view of how the market will evolve (including competition)?
  - Which market sectors should POL compete in (where do we have a right to play)?
  - Which elements of the value chain?

- **What is RMG's overarching strategy?**
  - What are RMG's priorities in terms of channels and market segments?

Strictly Confidential

- What role do RMG see POL playing in their future?
- What is their next best alternative to POL as a channel?
- Where are our interests converging, opposing or neutral?
- What value do RMG add to POL (and vice versa)?
- How could we act as 'one mails organisation' and create "Win-Win" (e.g. around product/journey simplification)? What would it take to do this? What is the size of the benefit?

- **Is the MDA a barrier to growth?**
  - What more can we do within the existing MDA to create more value for POL?
  - What does our desired end state look like and what are the risks and opportunities?
  - What would a rebalancing of the MDA mean in terms of P&L impact, payments to postmasters? What do we each want? What do we offer?
  - How long would each option take to implement and what are the dependencies?
  - Should we start again with a new MDA?

- **What are the alternatives POL should consider if we fail to reach strategic alignment with RMG? What are the financial and structural implications of these alternatives?**

  To include:

  - 'As is'
  - Expansion without RMG support ('expansion light')
  - Renegotiate MDA
  - End exclusivity with RMG

3. Approach

The Commercial and Finance teams will use "Game Theory" to better understand RMG's strategy and develop "What if scenarios" to shape our thinking, negotiating tactics and model impacts and outcomes. The deliverable will be a negotiating remit and 'decision-tree' of possible outcomes and our potential response.

A thorough process of evidence collection and preparation will be undertaken with an independent third party to help provide the best outcomes.

Key inputs will include a) market analysis – e.g. segmentation, growth, market size and competitor analysis b) value chain analysis – where is value generated and shared across RMG/POL/Agents.

POL00027422

Strictly Confidential

A review of existing initiatives, such as sharing of POL data from Horizon, will be undertaken to avoid weakening our negotiating position.

4. Outputs

- Overview of strategic options available to POL and financial models, with recommended way forward.
- Recommended strategic approach towards RMG

5. Interdependencies

- Impact of alternatives on the network
- Impact of alternatives on other product pillars
- Implications for Government

These interdependencies will be considered and addressed as part of the wider strategy and planning work being led by Martin Edwards.

6. Timescales

Board to be updated in March.

Completion in advance of Board Strategy Away Day in June.

7. Sponsorship

Commercial Director – Martin George

Chief Financial Officer – Alisdair Cameron

8. Project Lead

Mark Siviter – Head of Mails

POL00027422

Strictly Confidential

POST OFFICE LTD BOARD

Network Transformation, Model Performance and Crown Transformation Q3 2014

1. Purpose

1.1. The purpose of this paper is to update the POL Board on Network Transformation, performance of the new models and progress on Crown Transformation.

2. Network Transformation – converting mains and locals

2.1. At the end of Q3 the programme remains ahead of target for contracts signed and branch openings for both mains and locals. At the 28th December there were 4,622 contracts signed (1,947 local, 2,675 main) and 3,579 branches open (1,440 local, 2,139 main).

2.2. Throughout Q3 branch opening rates have been consistently strong: despite the slow-down in activity leading up to Christmas, an average weekly beat rate of 37 has been achieved. Strong performance is set to continue in Q4. The end of year target of 3,708 (1,650 during the financial year) should be achieved in late January, with the forecast at year-end now at 4,000 branch openings. The programme also remains on track to beat the overall end of year target of 4,800 contracts signed: the year-end forecast is now at 4,950 contracts signed.

2.3. Engagement with transitional local branches (those modelled as locals with poor retail and facing compulsory exit) has continued throughout Q3, with 350 branches now in the process. This is more than half the affected branches, with the remainder due to enter the process in Q4. To date, the majority of postmasters have accepted that staying as they are with limited or no retail will not be possible in the future as income levels reduce and competition intensifies. As such, the majority have either chosen to leave the business on a voluntary basis (40%) or develop a plan to improve their retail business and convert (30%). A further 23% of branches have expressed an interest in selling their branch or are in the process of appealing against their model classification. For the remaining 7%, where the postmaster has not agreed to leave, convert or sell, Post Office is proceeding to advertise the branch against the wishes of the postmaster and seek a suitable alternative operator. The engagement approach with branches – coupled with proactive engagement with MPs and other opinion formers – appears to be working as the negative PR associated with transitional locals so far has been limited, considering the number of branches involved.

2.4. To date there have been 236 applications to the Community Branch Fund (156 of which have been approved and 38 completed), with many postmasters seizing the opportunity to increase overall sustainability through improvements to retail and added convenience for customers. 81 completed applications have now been received for open plan improvements with 6 of these already implemented and delivering additional opening hours for customers. 60 applications have also been received for enhancements to the host retail offer with 42 of these already underway. Other improvements made include new signage, increased storage space to accommodate Click & Collect services, and improvements to accessibility in branch.

3. Introducing additional compulsion for the last groups of branches not yet engaged with Network Transformation (the 'cliff')

3.1. The principle of the cliff, as agreed in 2013, was to add further aspects of compulsion to Network Transformation in order to maintain the momentum of the programme through to the end. Excellent progress has been made with NT: the forecast of 4,950 contracts at the end of this financial year compares with a predicted range in 2013 of 3,750 to 4,400 at this point. Indeed, 4,950 is fewer than 300 contracts behind the fully

Strictly Confidential

compulsory approach that was not pursued in 2013. It is therefore sensible to accelerate the cliff if possible.

3.2. More than half of the remaining contracts needed to complete the transformation from next year will not require additional compulsion: they are replacements for leavers that will already be in process (either from volunteers or the transitional locals process above). However, the cliff remains an important tool to complete the transformation. There will likely be around 1,500 branches in scope for additional compulsion who have not engaged with Network Transformation:

- 750 modelled as locals who have retail (600 indeps and 150 multiples)
- 450 modelled as mains who have retail (300 indeps and 150 multiples)
- 300 modelled as mains without a significant retail offer

3.3. The proposal is simple and straightforward:

- Notice will be served on these branches that they will be moved onto fully variable main or local pay six months later (the optimum operational time between announcement and action to allow branches to convert voluntarily).
- As per the approach and lessons learnt from transitional locals, we will take a localised approach to engaging with agents and stakeholders. All 1,200 independent agents will be visited by the field teams soon after announcement to discuss their individual circumstances and agree a timetable for each branch, minimising the scope for misunderstandings and negative coverage. Stakeholders will be engaged in the same time frame.
- Any branch who has not signed a contract or committed to leave by the deadline will receive 18 months' worth of their loss in pay (if any) in compensation at the contractual change date (e.g. 1.5 times the loss of core tier payment for locals).

3.4. Branches have six months to engage again on realising the benefits of the investment and compensation available to them through NT. We expect some to opt to leave for 26 months' compensation, but most operators with retail will want to keep the footfall and so should opt to convert. For branches modelled as mains without retail, we expect most to leave.

3.5. In terms of timing, Post Office's preferred approach is to serve notice on subpostmasters as soon as practical after the election i.e. in June 2015. Delaying to September 2015 – as per the intention of the 2013 agreement with NFSP and BIS – or beyond has significant cost, at just under £2m in P&L impact per quarter's delay. We have started to discuss this approach with BIS; subject to Board approval, it is our intention to seek endorsement of the plans from the shareholder by the end of this financial year.

3.6. It will be difficult and time consuming to try to secure agreement from the NFSP to this proposal. Agreement is intrinsically tied up with the broader negotiations on the NFSP's future and network expansion. Slower or no agreement will increase the risk that the current minister comes under pressure to prevent Post Office proceeding with additional compulsion – or that a new minister post-election does so.

3.7. As well as the challenges of securing stakeholder buy-in, the other significant risk stems from good retailers (independents and multiples) choosing to leave rather than convert when they have to choose. This adds cost and generates a significant replacement challenge. We will work closely with these retailers over the six months after announcement to find a way to make the models work for them and provide the benefits of Post Office footfall to their retail businesses.

POL00027422

4. Network Transformation – performance of the new models

4.1. Since the last performance update in October, model performance has continued to improve, especially in local branches where the converted branches are now consistently outperforming the control group (+2% in December, up from 0% in September and -8% in January 2014). Mains continue to outperform their control group (+7% in December, +6% in September, +4% in January 2014). Customer session growth also remains strong, as both models offer increased hours and convenience.

4.2. We are beginning to reach the peak of improvement that can be generated by an improved customer environment and hours alone, and so have begun the next phase of performance improvement, focussing on individual branch performance. We have developed an individual branch scorecard that we have sent out to a trial group of 50 branches. This balanced scorecard focuses on customer, remuneration and performance metrics to help identify areas for each branch to improve. It also points them to relevant training and promotion material online, giving them the tools to improve in a cost effective way.

4.3. By focussing on individual branch performance in this way, we anticipate getting a greater lift on overall performance through a low cost and repeatable mechanism. We are currently taking feedback from the trial branches on areas to improve and refine the scorecard before rolling it out more widely. The encouraging results so far have been the ease of attracting volunteers for the trial (nearly 70 volunteers replied in one weekend to an advert placed on Subspace online, with many claiming that such a mechanism would be very beneficial to them) and the willingness for postmasters to interact indirectly (through email and Subspace), rather than the traditional and relatively expensive methods of direct visits.

5. Crown Transformation- Programme delivery progress

5.1. CTP plan to deliver a total of 302 physical branch transformations. Of this, 287 projects had completed prior to the start of the 2014 Christmas trading peak, in line with plan. The remaining projects are running during Q4.

5.2. Also prior to the Christmas trading peak, over 3200 staff had been trained under the two-day CTP training programme. This formally completes delivery of the CTP training project and this has now transitioned into business-as-usual ownership.

5.3. Income performance in those branches that have completed transformation has consistently outperformed that of non-transformed branches. On average, income in transformed Crowns has been increasing 4.0% year-on-year (YoY), versus 0.5% YoY growth in non-transformed branches. A particular highlight is the 16% YoY growth in Financial Services income in the transformed branches, a growth rate that is over 1.8 times that of non-transformed branches.

5.4. Despite some positives on income growth, the breakeven plan has needed to evolve over the life of the programme to shift increasingly from income growth towards cost reduction. As a reminder, our starting point at the time of the October 2010 Funding Agreement was a position of a c£50m annual loss in the Crown network, which we had reduced to c£40m by March 2012. The breakeven plan has had to iterate since then, and the changes since March 2012, when CTP was formally established, are shown in the table below:

POL00027422

Strictly Confidential

Benefits	Plan as at March 2012 (£m)	"Plan B" signed off by January 2013 POL Board (£m)
Income growth	18	8
Staff costs	12	20
Property costs	4	4
Franchising	6	8
TOTAL (£m)	**40**	**40**

5.5. Over the three years of the programme, the total staffing of the Crown network will have reduced from c3900FTE to c2600FTE, a reduction of 1/3, through a combination of efficiencies enabled in retained Crowns and staff exiting franchised Crowns.

5.6. CTP has delivered a reduction in the retained Crowns' staff cost base of £20m across the three years of the programme. Against the target of ending 503 full time equivalent (FTE) counter staff roles from retained Crowns across FY13/14 and FY14/15, 500 roles have so far been removed, and the balance will be removed during Q4. There has also been a reduction of 66FTE branch manager positions from branch templates, in line with plan. Staff have exited the business under voluntary redundancy (VR).

5.7. A large proportion of the staff saving benefit was enabled through the rollout of over 500 of the new generation self-service kiosks. The rollout is substantively complete and support of the devices has moved into business-as-usual IT. Branches with the kiosks are, on average, conducting 60% of their mails and retail sales through the devices, as opposed to requiring customer interaction with a counter clerk. During the peak Christmas trading period, over 2.5 million items per week were sold through the devices.

5.8. New duty sets have gone live in branches, synchronised with both the transformation of the branch and the exit of colleagues under VR. Customer satisfaction has been closely monitored through Voice of the Customer feedback whilst the new duties embed, with "rapid response" teams in place to resolve any teething issues. The overall satisfaction score in the transformed branches was 82% during Q3, a level marginally higher than before staff exits from the same branches began in April 2014. The "acceptability of wait time" score in the same branches was 85%, which is the same score as in April 2014 despite the staff exits in the intervening period.

5.9. Work to progress the remaining mergers and relocations within CTP's scope is progressing well. November 2014 saw branch relocations go live in central Manchester and Edinburgh, as well as the closure of High Street Sutton branch, with its services transferred into Sutton's Grove Road branch. A relocation of the Crown branch in central Glasgow is also planned by CTP for delivery during Q1 of FY15/16. An eviction notice received for our King's Walk (Chelsea) branch has resulted in a planned force majeure closure in February 2015, on which a public consultation has now completed.

5.10. In terms of franchising, of the 70 branches originally planned to be franchised:

- 31 branches have so far gone live as franchises.
- A further 13 branches are planned to go-live during Q4.
- Between 7 and 12 further branches are expected to have contracts signed by the end of Q4, for go-lives in the first half of FY15/16.
- 12 branches have so far been informed that they will be retained as Crowns. Whilst applications were received for running these branches, none were able to meet all three of the success criteria required for an appointment to be made (suitable premises, credible business plan and successful interview).

POL00027422

- In any other cases where a suitable franchise partner cannot be found before the end of the programme, the most likely contingency will be to retain the branch on a minimised staff and property cost base. This could be up to 7 further branches retained.

A number of mitigations have been put in place to reduce the Crown P&L impact of this gap, meaning that despite the fact that not all branches will be franchised, over 90% of the planned Crown P&L benefits associated with franchising will be realised (c£7.3m of £8.0m).

6. Crown Transformation- Forecast Crown P&L position

6.1. Despite the programme's delivery successes and the outperformance of transformed Crowns versus non-transformed, the rate of income growth budgeted this financial year has not been achieved. Full year Crowns income is forecast to be £7m below in-year budget. (A £7m outturn below budget would broadly align to a whole-business outturn of £880m.) The primary drag is underperformance on mails, where income has declined 2% YoY in transformed Crowns and 3% YoY in non-transformed Crowns; against a budgeted 9% YoY growth.

6.2. The in-year shortfall on income will also impact the breakeven run-rate calculation. This combined with the shortfall against franchising benefits, and the impact of allocated costs of the central business not reducing to plan, would result, if unmitigated- with the retained Crowns being at a run rate of an **£8m loss** at the end of this financial year.

7. Crown Transformation- Programme response to forecast P&L position

7.1. A number of mitigations against the emerging income gap were mobilised during Q3, some of which included new areas of programme scope. These are currently expected to deliver **£5-6m** of additional run-rate benefit by March 2015 (down from £6-£7m forecast in October):

- Changes have been made to the distribution of Financial Services (FS) specialists' costs between the Crown network and FS management teams. This has reduced resource costs on the Crown P&L by £2.2m.

- Property maintenance budgets have been reduced and further reallocations of property costs have been made for any space in Crown branches that is in use by other parts of the business. This has delivered £0.9m of benefits.

- Further counter staff savings are being generated through the "Leaving the Business with Dignity" programme.120FTE are planned to leave the business and be replaced by new hires during February and March. The differential in cost between leavers and new joiners will generate £0.6m of benefits.

- The force majeure closures completed at Albermarle Street (Mayfair) and planned for Kings Walk (Chelsea) will generate £0.4m of benefits.

- Losses in those Crown branches which are not open to the public are being significantly reduced. New contracts have being agreed with Royal Mail which will eliminate POL's losses for the two branches in The Royal Household. A bespoke contract has also been agreed for the Post Office service in the Scottish Parliament, which has eliminated that branch's losses. With regards to the three branches in The Palace of Westminster, a number of different options are in negotiation with the Palace of Westminster authorities. These options have ShEx and ministerial backing, and are designed to result in a break-even position. This effect of all these changes results in £0.5m of Crown P&L benefits.

POL00027422

- Four branches are being transformed into Post Office Concept stores, sponsored by the Commercial directorate. This will mean £0.3m of costs off-charged from the Crown P&L.

- New product launches during this financial year provide only a part-year income effect in-year. The full-year effect of this income was previously expected to allow POL to justify an additional £2m income flow-through in the run rate calculation. Although the budgeting process for 15/16 is still in progress, it is clear that business-wide income will be budgeted to grow less from 14/15 to 15/16 than originally planned. In such an environment, it is not possible for POL to claim such a significant upward trend in Crowns income in the run-rate calculation. Income flowthrough is now expected to be a maximum of £1m, driven by UKVI and Mortgage product growth which disproportionately advantages Crowns over other channels.

- Further potential mitigations were assessed but discounted due to them either being unachievable within the programme's timeframes; or them requiring POL to break public commitments about programme scope.

7.2. In the event that income targets for this financial year had been met, these additional actions would mean the P&L of the retained Crowns would be at a runrate of a £4-£5m *profit* by the end of this financial year. However, the current forecast is for this run rate to be at a £2-£3m loss.

7.3. However, it should also be remembered that CTP's franchising project delivers an additional bottom-line benefit to POL that is not visible on the Crown P&L: the **like-for-like** change in profitability of Post Office services at the 373 Crown locations that existed at the start of the programme produces £2.5-£3m of additional profit from franchised branches. We forecast that by the end of this financial year CTP will have sufficiently improved the run-rate profitability of branches in these 373 locations to eliminate **all** the Crown losses that existed at the start of the programme.

7.4. The retained Crown estate has grown income (+4%) whilst operating on a staff and property cost base that has reduced by ~25%. We are developing a plan to optimise the profitability of these branches. This will be through the delivery of additional new initiatives to reduce costs by at least a further £2-£3m during FY15/16, whilst achieving 15/16 income targets. Over £1m of the new savings required will come from efficiency projects already identified and in train, with the balance primarily coming from new changes to the network shape and staffing. The formal closure of CTP in March 2015 means that the commitments made to staff and stakeholders at the start of the programme regarding CTP's scope come to an end. The expiry of these commitments offers further flexibility in areas including staff redundancy, branch mergers, closures, relocations and franchising.

7.5. The scope of changes to the Crown network shape under CTP was set out during FY12/13. As we move towards FY15/16, the changed income position and the availability of lease breaks or expiries beyond April 2015 mean that further changes to the network shape to eliminate losses should be made in FY15/16 onwards. Although no wholesale franchising programme is planned on the scale of CTP, it is likely that a small number carefully selected mergers, relocations, franchises and closures will assist in delivering this cost saving.

7.6. Furthermore, we are assessing the market for new technology to automate POCA and business banking transactions, with a view to these being used in projects to further increase branch profitability in 15/16 and beyond. This will build on our CTP experiences with very quick customer adoption of new technology such as SSKs, and our proven ability to reduce our staff cost base through technology enablers.

POL00027422

Strictly Confidential

7.7. These concepts form part of the development of the long term Crown strategy for 2015-2020 and a more comprehensive update on this will be shared with the March Board. This will require a programme of investment (albeit smaller than CTP) to generate further savings, and this investment will be sought as part of Business Transformation.

Kevin Gilliland

January 2015

Strictly Confidential

POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Strategy		
1a	May 2014 POLB 14/65(f)	Draft necessary amendments to the Remuneration and Nominations Committees' Terms of Reference to enable it to make recommendations to the Post Office Board on appointments to the POMs Board.	**Company Secretary**	To be circulated for approval.
1b	May 2014 POLB 14/69(e)	Deliver a separate and accurate P&L account and balance sheet for the Supply Chain Business.	**CFO**	The new Finance system design provides the functionality to provide robust channel P&L's, including one for the Supply Chain business. We are currently working on the Channel P&L's as part of the implementation, prioritising the Crown P&L and Product P&Ls before starting work on the Supply Chain P&L. A balance sheet could be constructed at this stage.
1c	September 2014 POLB 14/114(a)	Provide clarification on the impact of the Common Digital Platform on the Horizon system and any possible cost savings.	**Martin George**	To be included in the digital paper being prepared for the March Board
1d	November 2014 POLB 14/144(a)	Revert back to the Board in the New Year to discuss the proposal being discussed with the NFSP to bring the 'cliff' forward in Network Transformation.	**Neil Hayward/Kevin Gilliland**	Paper at January Board
1e	November 2014 POLB 14/144(c)	Provide a paper on the telephony strategy in the New Year.	**Martin George**	March Board
		2. Financial Services		
2a	September 2014 14/105(f)	Present the results of the six month trial where Post Office FS colleagues used Mains branches as their base.	**Nick Kennett**	May Board
2b	September 2014 14/105(i)	Analyse on present to the Board on whether the Business should focus more on the innovation of the	**Nick Kennett**	To be included in the FS forward agenda.

		pre-paid debit account rather than the current account as on the effective hook for customers		
2c	November 2014 POLB 14/148(k)	Circulate the final Grant Thornton report to the Board before the 'go'/'no go' decision was taken. Subject to the Grant Thornton report giving assurance that all four critical components of the review were complete (green), the POMs Board to make the final 'go live' decision.	**Chris Aujard/POMS Board**	Final paper included in the Board Reading Room.
		3. Business Transformation		
3a	November 2014 POLB 14/145(c)	Provide an update of what has changed in the Business Transformation plan since the September Board presentation.	**David Ryan**	January Board
3b	November 2014 POLB 14/145(e)	Provide a note explaining the changes to tax treatment for sub-postmasters.	**Kevin Gilliland**	January Board – as attached to the Status Report
3c	November 2014 POLB 14/145(g)	The detail of the IT strategy to be considered at the January Board	**Lesley Sewell**	January Board
3d	November 2014 POLB 14/145(g)	Provide an extrapolation (by year to 2020) of the indicative cost profile of the business by function (before the uplift in costs to support business growth) with a commentary on the key differences. The analysis should include changes in relative costs, for example IT in relation to people; and outsourced costs in relation to direct costs.	**David Ryan**	The benefits from the BTr programme will be baked into the POL 3 year operating plan. The analysis of the future cost base will be provided as part of 3 year plan update to the Board
3e	November 2014 POLB 14/145(h)	Discuss the progress on Digital at the March Meeting.	**Martin George**	March Board
3f	November 2014 POLB 14/145(i)	Consider the balance sheet position in more detail with the Operating Plan and Budget in March.	**CFO**	March Board
3g	November 2014 POLB 14/145(j)	Provide an additional flight path between the 'full' and 'partial' delivery projections after Christmas trading figures had been obtained.	**CFO**	Action being taken forward as part of the 3 year operating plan. Initial view to be provided in January followed by further draft in March.

POL00027422

3h	November 2014 POLB 14/145(k)	Provide a note setting out the precise basis for the promised funding through to 2018.	**Chris Aujard**	Provided with the B48s – 28 November 2014
3i	November 2014 POLB 14/145(l)	The Business to provide information on the clear ownership and accountability of roles and a view of the additional resource required.	**David Ryan**	See January Board update on Transformation
3j	November 2014 POLB 14/145(m)	Discuss the vision and change narrative at the January Board.	**Neil Hayward/Mark Davies**	Update is provided in the CEO report. To come forward in March.
3k	November 2014 POLB 14/145(n)	The final PwC report to be circulated to the Board for their information.	**Chris Aujard**	As available
3l	November 2014 POLB 14/145(o)	The Business to revert back to the Board in January, addressing the points raised.	**David Ryan**	See January Board update on Transformation
3m	November 2014 POLB 14/145(p)	Update the Board in December and include information on the 6 BTr themes in her report.	**CEO**	December
		4. People and Engagement		
4a	October 2014 POLB 14/130(e)	Provide an update at the end of the financial year to review the People and Engagement roadmap for the next 12 -18 months and the senior leadership training and development.	**Neil Hayward**	May Board
4b	October 2014 POLB 14/130(g)	Provide a note on the relationship between Post Office and subpostmasters.	**General Counsel**	Work is underway and a note will be circulated to the Board when it becomes available.
		5. Risk		
5a	July 2014 POLB 14/90(h)	The ARC to review the Risk Management framework.	**General Counsel**	Draft went to October ARC. Final version to be discussed at the January ARC and Board.
5b	November 2014 POLB 14/155(b)	The ARC to discuss the PWC Post Office Limited Risk Management Capability Report Executive Summary at the January ARC.	**ARC**	January ARC

POL00027422

		6. Financial		
6a	November 2014 POLB 14/146(c)	Provide a note explaining the financial effect of the POca payment once the contract was agreed.	**CFO**	The POCA contract has not yet been agreed. The estimated financial impact is included in the Q3 forecast material.
6b	November 2014 POLB 14/146(g)	Have a separate session on working capital at the May Board	**CFO**	May Board
		7. Miscellaneous		
7a	October 2014 POLB 14/129(d)	Provide forward agendas for Board and Sub-Committee meetings.	**Company Secretary**	Draft forward agendas for ARC, Board and Pensions are attached. The agreed forward agenda for the RemCom is also attached. The FS Committee forward agenda is to follow.
7b	October 2014 POLB 14/131(h)	Telephony contract to go to the Risk and Compliance Committee and then the ARC for a deep dive in the New Year.	**Chris Day/Alasdair Marnoch**	To January ARC
7c	October 2014 POLB 14/131(m)	Return to the Board to discuss ETDBW.	**Martin George**	Update 20/11: We are returning to ExCo before Christmas to discuss how we measure customer feedback and then act on the insights. We will brief the Board early in the New Year.
7d	October 2014 POLB 14/135(a)	Undertake an internal Board effectiveness review in the New Year.	**Chairman**	March 2015 Board
7e	November 2014 POLB 14/144(a)	Provide an update as to where cases were in the Sparrow mediation scheme.	**Belinda Crowe**	Ongoing Board updates and Sparrow Sub-Committee

Strictly Confidential

POST OFFICE LTD BOARD

Project Ultra: Voluntary contract change for traditional contract holders.

1. Purpose

The purpose of this paper is to:

1.1 Update the Board on recent taxation changes to Postmaster fees and the potential benefits to Postmasters and the Post Office

1.2 Outline the details of a pilot which we are proposing to use to test how these benefits might be secured at pace, along with analysis of the associated risks

2. Background

2.1 Postmasters on NT contracts and nationally managed multiples charge Post Office VAT on their fees. Postmasters on traditional contracts pay income tax and National Insurance Contributions (NIC) on their fees.

2.2 As a consequence of separation from RM, Post Office has had to negotiate its own VAT recovery method with HMRC, as a result of which it can now recover 100% of VAT on agents' fees (compared to ~30% under RM's pre-separation method) which is financially beneficial for Post Office.

2.3 Because it is not possible for us to recover any employers' NIC, there is now a financial benefit if agents charge VAT rather than Post Office being required to pay employers' NIC.

2.4 Postmasters benefit from a VAT contract in terms of cash flow, and as a company Director, they also benefit from reducing their personal NIC deductions.

2.5 It makes sense to offer contract change now, as the **mutual benefit** is that Postmasters can avoid employees NIC being taken from their fees, and help Post Office to avoid employers NIC, by agreeing to contract with us as a Partnership or Company, moving the relationship into VAT.

2.6 The National Federation of Subpostmasters have been consulted and agree that company and partnership type relationships on a voluntary basis are a good idea; analysis by Deloitte shows smaller sites will not financially be in any different position than today (but will be better off than if the concession detailed at 2.7 is removed), but an agent in an average size branch with remuneration of £40k will be better off by £3k to £4k pa for almost no outlay; there are also additional cash flow benefits for Postmasters.

2.7 HMRC are now reviewing a concession they introduced many years ago which allows agents to treat their Post Office income as part of their retail business income for income tax purposes. If, as seems likely, HMRC remove this concession, it will be disadvantageous for Postmasters because they will not be

POL00027422

Strictly Confidential

able to deduct their Post Office costs for income tax purposes. We are meeting HMRC on 6th February to discuss this.

3. Activities/Current Situation

3.1 Although the mutual benefits are clear, this is potentially a large scale change and very significant gain, so we need to ensure that we have a strong plan to maximise the opportunity, informed by a small scale pilot; this pilot will tell us about take-up, and will inform what additional resource / incentives are needed.

3.2 We will to write to 200 randomly selected Postmasters from our prime target groups to test a range of pilot offers with different approaches to maximising take-up, including NFSP involvement, **w/c 2nd February.** We will make a final recommendation in time for scale-up from March, including any additional financial incentives proposed to maximise our opportunity informed by the pilot.

3.3 Although we don't yet know what level of uptake there will be, we have calculated the potential for Post Office accelerated savings in the following way):

Number of sites on 'traditional' contracts at March'15:~6,000

Number of small sites we believe would only receive a marginal gain from change so are unlikely to change: ~1,500

Number of sites left that are likely to change: ~4,500

Estimated uptake from a 'whole estate' offer is 10% of that: ~450 sites.

Net benefit from these 450 in 15/16 after NT impact: ~£0.67m

The typical accelerated saving at each site will be ~£250 per month for each month up to NT contract change; the pilots will typically cost us ~£250, with a range of £60 and £500 to effect the different pilot approaches.

3.4 There are three unknowns to consider when estimating the potential accelerated benefit for 15/16:

- Level of uptake
- Who agrees to change
- When they change

3.5 Note that this is an **accelerated benefit** because for the sites likely to change will change contract in NT, and move into a VAT arena when they change – all NT contracts are in VAT, irrespective of how they contract with us i.e. individual, partnership or company.

4. Risks/Mitigation

4.1 Taxation is changeable; the VAT recovery method may need to be changed if the business activity profile of Post Office changes, 'though it is very unlikely a change in VAT recovery will be significant enough to turn this benefit into a cost for Post Office.

POL00027422

Strictly Confidential

5. Recommendations

The Board is asked to:

5.1 Note the recent changes to VAT recovery affecting Postmaster's fees, and note that we are about to implement a small scale pilot to inform scale-up so we can maximise our opportunity.

Kevin Gilliland
20th January 2015

POL00027422

POST OFFICE LIMITED BOARD

Future Dates and Proposed Agenda Items

Meeting / Action	**Date**	**Proposed Agenda Items**
Board	25 March	CEO report Main items: • Approval of 1 year operating plan and budget • Approval of 2015/16 scorecard • Telephony Strategy • Sparrow – Branch Improvements • Board Effectiveness Review Updates: • Financial Performance, including Crown Transformation year end • Business Transformation • Sparrow
Board	21 May	CEO report Main items: • 3 year Business plan – Mails Plan B • Annual Report and Accounts *(to be discussed at the ARC on 20 May)* • Approval of STIP and LTIP payments and performance conditions *(to be discussed at the RemCom on 13 May)* • People & Engagement road map next 12-18 months • Network & Channels update including Sales Capability • Working capital Updates: • Financial Performance • Win in Mails Update Financial Services
Board Sub-Committee	TBC	• Final approval of the Annual Report and Accounts
Board Awayday(s)	17-18 June	17th Post-Election strategic review (possible slot for new Minister) 18th to be decided possibly Market review &Strategic plan FS deep-dive including POMS Digital
Board	15 July	CEO report Main items:

POL00027422

		• IT strategy • Business Transformation Updates: • Financial Performance Sparrow
Board	22 September	CEO report Main items: • Risk *(after discussion at the ARC on 10 September)* • Win in Mails Strategy Updates: • Financial Performance • Business Transformation • Sparrow
Board	28 October	CEO report Main Items: • Network &Sales • Financial Performance update, including Half Year results Updates: • Telephony • Government • FS/POMS
Board	25 November	CEO report Main items: • People and Engagement (half year review) • Interim report and accounts *(to be discussed at the ARC on 10 November)* Updates: • Financial Performance • Win in Mails • Sparrow • Business Transformation

POL00027422

POST OFFICE LIMITED AUDIT, RISK AND COMPLIANCE COMMITTEE

Future Dates and Proposed Agenda Items

Meeting / Action	**Date**	**Proposed Agenda Items**
ARC	20 May	Minutes and actions of previous meeting IA status of agreed actions Annual Report and Accounts External Auditors' report on the Annual Report and Accounts Audit Planning Report 2013/14 Whistleblowing policy
Board	*21 May*	*Annual Report and Accounts* *Committee update*
ARC	21 September	Minutes and actions of previous meeting IA status of agreed actions Insurance Review Risk update
Board	*22 September*	*Risk update* *Committee update*
ARC	10 November	Minutes and actions of previous meeting IA status of agreed actions Financial statements – half year Auditors' report – half year Annual Evaluation Annual Review of Terms of Reference and IA charter Review and approval of the External Audit plan
Board	*25 November*	*Interim report and accounts* *Committee update*

POL00027422

POST OFFICE LIMITED BOARD
PENSIONS SUB-COMMITTEE
FORWARD AGENDA

Recurring Items	
Occurrence	**Item**
Standing Items	Minutes of Previous Meeting and Actions List
	Investments
	• Review of Investment Position by Aon Hewitt
	• Report on Investment Subcommittees (ISC and IWG)
	• Investment Report from RMPP Trustee (currently presented by Ian McKnight)
	Report from GPP Governance Group
	Pensions Forum update
	Professional fees update
	Future Agenda Items
	Any other business
Annually	Proposed Subcommittee dates for following year
	Committee Effectiveness Review (including review of Terms of Reference)

MEETING AGENDAS

Meeting Date	**Agenda Items**
Board 28 January 2015	*Board update 28 January 2015*
11 March 2015	Standing Items, plus: 1. Defined contribution scheme update 2. Committee Effectiveness Review (including Terms of Reference)
Board 25 March 2015	*Board update 25 March 2015*
Board 21 May 2015	
26 June 2015	Standing Items, plus: 1. Defined contribution scheme update 2. Proposed Subcommittee dates for 2016
Board 15 July 2015	*Board update 15 July 2015*
Board 22 September 2015	
1 October 2015	Standing Items
Board 28 October 2015	*Board update 28 October 2015*
Board 25 November 2015	
3 December 2015	Standing Items

POL00027422

Confidential

POST OFFICE LTD REMUNERATION COMMITTEE

Future Dates and Proposed Agenda Items

Meeting / Action	**Date**	**Proposed Agenda Items**
Remuneration Committee	25 February	Executive Remuneration Framework – submission to ShEx Finalisation of LTIP (2015/18) measures Finalisation of STIP (2015/16) measures Draft DRR
Board	*25 March*	*Ratification of LTIP and STIP measures 2015/18 and 2015/16* *Ratification of submission to ShEx*
Submission	April	Submission to the ShEx for the Executive Director Remuneration Framework 2015/16
Remuneration Committee	12 or 13 May (TBC)	DRR approval Outturn of STIP 2014/15 Outturn of LTIP 2014/15
Board	*21 May*	*Board* *Ratification of STIP and LTIP outturn 2014/15*
Remuneration Committee	8 July	Matters arising from the above
Remuneration Committee	3 November	Executive Framework

POL00027422

Confidential

POST OFFICE LTD BOARD

Change of Registered Office

1. Purpose

The purpose of this paper is to:

1.1 seek approval for the change of registered office for Post Office Limited (the Company);

1.2 seek written consent for the change of registered office for Post Office Management Services Limited (POMS); and

1.3 ask the Board to note the change of registered office for Postal Services Holding Company Limited (PSHC).

2. Proposal

2.1 On 23 March 2015, it is proposed that the Company will change its registered office from 148 Old Street London EC1V 9HQ to 20 Finsbury Street, London EC2Y 9AQ as part of Project Slaid. This change of registered office requires Board approval.

2.2 POMS and PSHC also need to change their registered offices from 148 Old Street London EC1V 9HQ to 20 Finsbury Street, London EC2Y 9AQ, consistent with the changes made by the Company. PSHC will change its registered office by a written resolution of its Board of directors.

2.3 Within article 4 of POMS' Articles there are specified powers reserved to the Company which preclude POMS from undertaking certain actions without written consent of the Company. Pursuant to that article, the Company is requested to provide written consent to POMS to change its registered office.

3. Recommendations

The Board is asked to:

3.1 approve the change of registered office for the Company;

3.2 provide written consent for the change of registered office for POMS in the form annexed, giving a duly appointed director or company secretary authority to sign the consent.;

3.3 note the change of registered office for PSHC; and

3.4 authorise the Company Secretary to make all necessary filings with Companies House.

Alwen Lyons
20 January 2015

POL00027422

Confidential

Annex 1

Written Consent to Post Office Management Services Limited (POMS) pursuant to POMS' articles of association (the Articles)

[ ] duly authorised for and on behalf of the board of directors of Post Office Limited hereby consents:

1. To the change of registered office from 148 Old Street, London EC1V 9HQ to 20 Finsbury Street, London EC2Y 9AQ pursuant to Article 4.3 (G)

………………………………………………………………

Signature

……………………………………………………………..

Name

…………………………………………………………..

Date

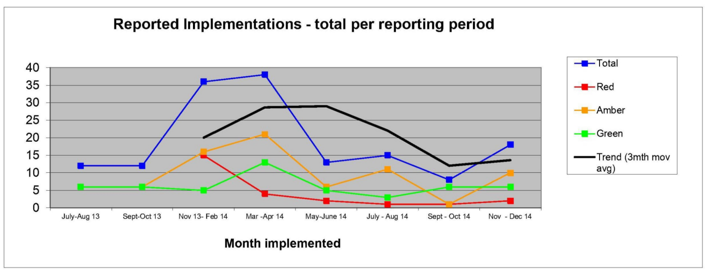
Status as at December 31st 2014

	Total	Red	Amber	Green
Total actions outstanding bfwd as at 31st October 2014	57	11	30	16
Implemented by Mgt - Nov- Dec 2014	(18)	(2)	(10)	(6)
Actions added (audits and advisory)	0	0	0	0
Superceeded	6		4	2
Corrections	(2)			-2
Risk accepted by management	(1)		-1	
Carried Forward as at December 31st	42	9	23	10

Analysis of Carried forward

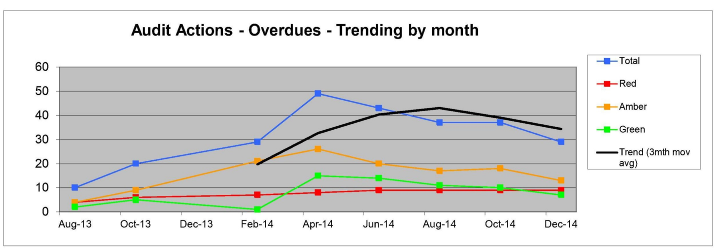
	Total	Red	Amber	Green
Overdue - Work in progress	29	9	13	7
Not yet due	13		10	3
	42	9	23	10

Trends



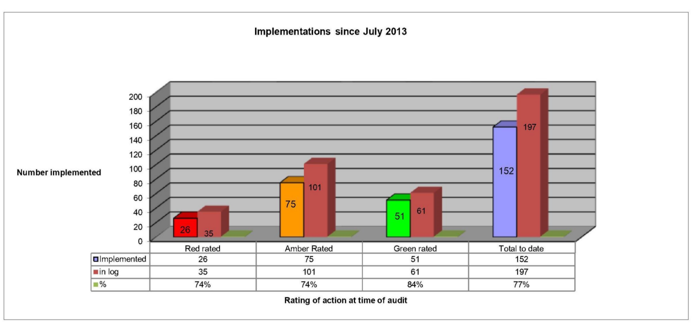
Reported Implementations	Total	Red	Amber	Green
July-Aug 13	12		6	6
Sept-Oct 13	12		6	6
Nov 13- Feb 14	36	15	16	5
Mar -Apr 14	38	4	21	13
May-June 14	13	2	6	5
July - Aug 14	15	1	11	3
Sept - Oct 14	8	1	1	6
Nov - Dec 14	18	2	10	6
Cumulative	152	25	77	50

Implementations rate improved through Decemeber 2014.



Overdue as at	Total	Red	Amber	Green
31-Aug-13	10	4	4	2
31-Oct-13	20	6	9	5
20-Feb-14	29	7	21	1
30-Apr-14	49	8	26	15
30-Jun-14	43	9	20	14
31-Aug-14	37	9	17	11
31-Oct-14	37	9	18	10
31-Dec-14	29	9	13	7

Overdues have slowly decreased in the last couple of months -most of these have been in IT but renewed effort noted in late December 2014 although some long overdue items remain. Action is also needed for 3 items in Business Continuity and remaining actions from Finance for the Benefits Realisation process.



Implementations achieved (from July 2013)

	Implemented	Total in log	%
Red rated	26	35	74%
Amber Rated	75	101	74%
Green rated	51	61	84%
Total to date	152	197	77%

IA logs the total actions agreed with the business and tracks implementations since the final transition from Royal Mail IA in June 2013. The 77% overalll rate is the highest acheived since the current recording method began in 2013, although it is slightly skewed by the absence of new additions to the log in the Nov-Dec period.

POL00027422

Strictly Confidential

January 2014

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

PART (A) – CIVIL LITIGATION

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims (aka "Project Sparrow")	POL/RW	Belinda Crowe / Angela van den Bogerd	POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made by the "Justice for Subpostmasters Alliance" (JFSA) and advanced through SPMs' MPs. Following discussions with James Arbuthnot MP and JFSA, independent investigator Second Sight Support Services Ltd (Second Sight) was appointed in July 2012 to carry out a review into these allegations. On 08.07.13, Second Sight published a Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself. Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme (Scheme) aimed at resolving individual complaints made about Horizon.	This matter will be the subject of a separate update to ExCo. The Scheme received 150 applications, which are being progressed under the direction of a Working Group comprising retired Court of Appeal Judge Sir Anthony Hooper (as Chair), POL, Second Sight, and JFSA. 110 cases are still being progressed through the Scheme or are being scheduled for mediation. Mediations have been held for the first 7 applications. A further 9 mediations are currently being scheduled. The POL project team continue to handle the applications in line with the Board's direction to take a firmer position, informed by its legal position and tighter control over timescales and costs. To date, no claim has been made against POL in the civil courts, and no appeal has been made against any conviction in the criminal courts, following Second Sight's Report. There has however been significant recent media activity, on which POL's	Bond Dickinson

POL00027422

				Communications team is engaged.	
[redacted]					

POL00027422

[redacted]

PART (B) – CRIMINAL LITIGATION

PROSECUTION CASES
There are number of cases which could have been prosecuted (e.g. those with full and frank admissions to theft /fraud), but prosecutions were not commenced to avoid adverse judicial comment.
Several cases have also been terminated while POL obtains an independent expert report on the Horizon branch accounting system (see below).
There are currently 14 cases which are being kept under review as to whether a prosecution (supported by an expert report) can be commenced.

EXPERT REPORT
New experts from Imperial College London have prepared a scope of work on which formal instructions and a protocol for requesting and receiving information will be based.
Appropriate individual confidentiality agreements will be prepared for both the experts and POL employees involved in preparing the report.
Meetings to progress the report are taking place between the experts, POL and Fujitsu.

PROSECUTION POLICY
Former First Senior Treasury Counsel Brian Altman QC has drafted a proposed prosecution policy for POL. Brian Altman has reviewed
Comments from POL stakeholders and return the Draft for further consideration and approval by POL.

POL00027422

Confidential

POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

The purpose of this paper is to:

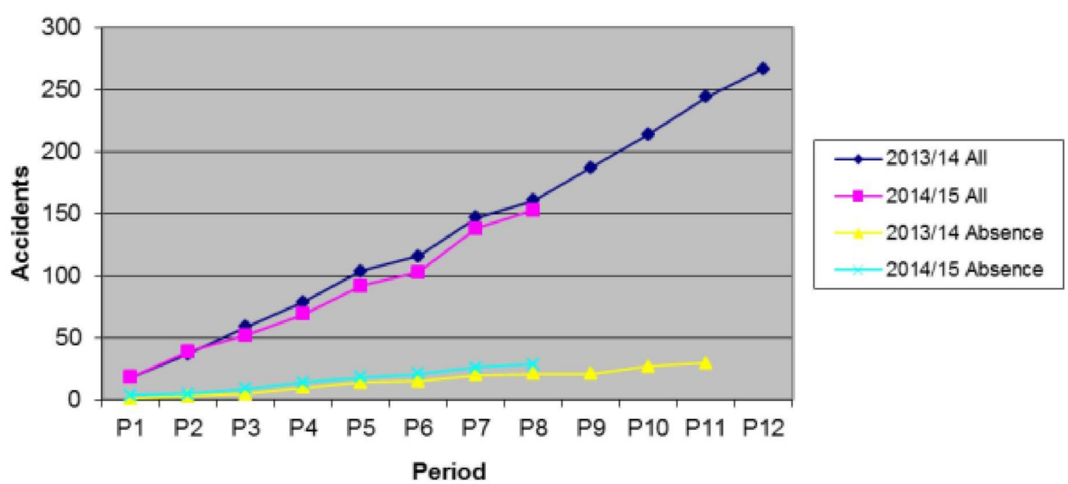
1.1 Provide an update on safety performance.
1.2 Outline risk reduction activities.

2. Current Situation

2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are higher frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.

2.2 Performance up to and including P8 for 2014/15 indicates that 'all accidents' are tracking on target and are forecast to outturn on the 5% reduction target. Absence accidents are tracking adverse to target and as a result of two relatively weak periods are now unlikely to achieve target reduction at year end. However severity of the accidents, measured by 'days lost', is currently well ahead of target and forecast to outturn ahead of the 5% reduction target.

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

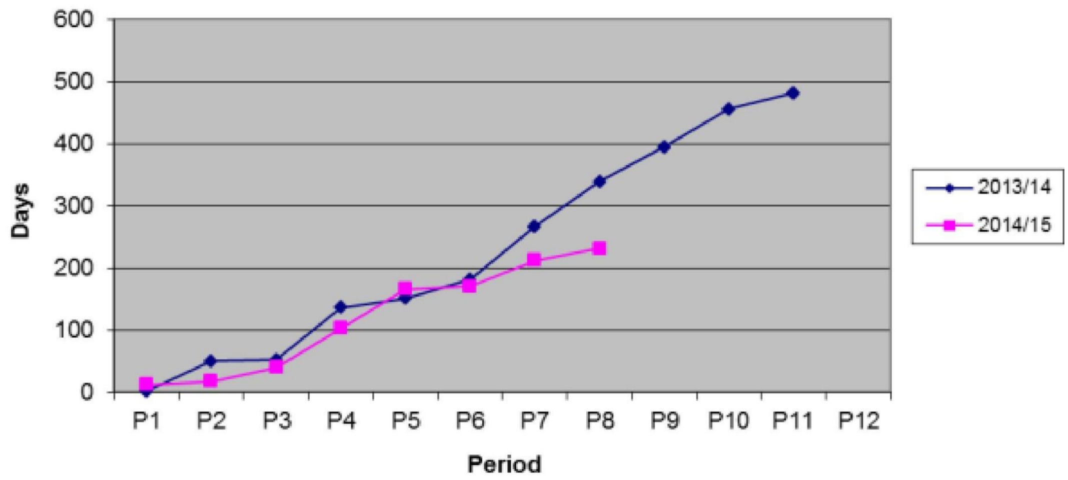


2.3 Personal injury compensation claims remain at a low level having reduced significantly from previous years and in line with the low number of accidents that result in sick absence. Claims involving members of the public have also reduced. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower in both public and employer's liability and of those claims the 'denial' or 'defence' rate is significantly more successful. The insurance year runs from October to September.

Confidential

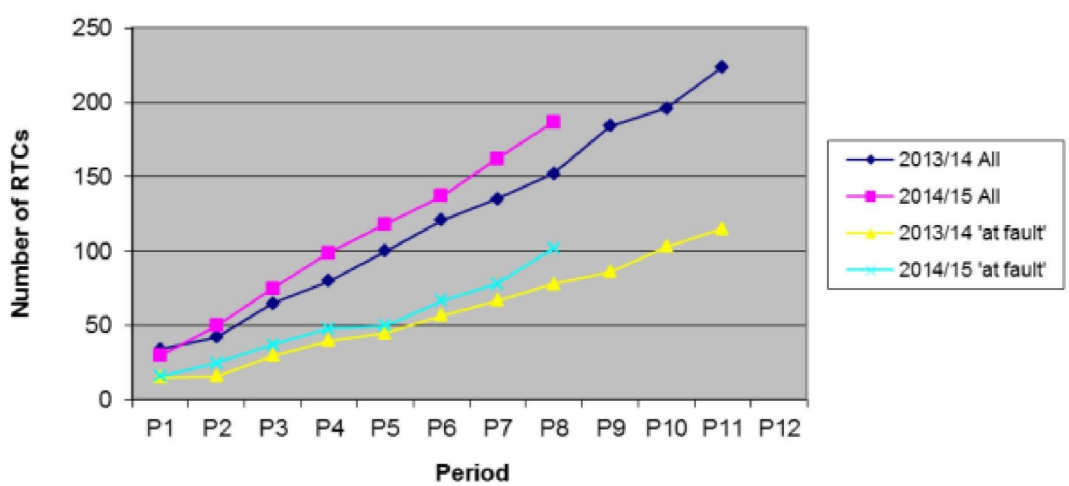
2.4 The number of days lost due to accidents is currently well ahead of target and forecast to outturn ahead of the 5% reduction target. (Table 2 below refers)

Table 2 Days lost resulting from injury accidents (Cumulative)



2.5 The total number of road traffic collisions (RTCs) up to and including P8 is up 35 on last year. The number of incidents where the Post Office driver is 'at fault' is showing an increase of 11 compared to last year. (Table 3 refers) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents remain a cause for concern and have been the subject of specific improvement interventions. Injuries as a result of road traffic collisions are extremely infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss. Currently the majority of incidents involve low speed – less than 25mph – and relatively low levels of damage.

Table 3 Road Traffic Collisions (cumulative)



POL00027422

2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down four on last year from 27 to 23 for the past 8 months. Physical injuries during robberies, of which there have been 6, 1 less than last year for the same year to date period, remain relatively minor in severity. The level of use of firearms is down 1 on last year with 4 of the 23 robberies enabled by the presence and/or threat of use of fire arms and on no occasions were the firearms discharged. Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)

2.7 Robberies and attempted robberies on the Post Office network, up to and including period 8, are up 4 on last year to 67 of which 55% were successful. Injuries sustained during robberies are down from 12 to 10. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected. Supporting activities have been introduced to continue to mitigate the robbery risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

3. Activities

3.1 Road Risk

Current longer term activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities supported by the risk management division of our insurers
- Analysis and deployment of interventions for reversing incidents to mitigate the increased incidence rates, including yard assessments and technical accident reduction interventions on new vehicles e.g. Reversing aids to reduce accidents
- Analysis and evaluation of data including risk profiling to identify drivers who need additional support and to determine further generic accident reduction interventions
- Safe driver of the year award to encourage and reward responsible driving
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of good practice
- Programme of driving and road risk communications to raise awareness of current and emerging risks

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police to understand ‘at risk’ areas and to deploy surveillance teams
- Increased use of ‘advertising’ on vehicles 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
- Trialling new point of transfer arrangements to reduce exposure at Post Office counters - the majority of robberies take place at the point of transfer which in Post Office’s is the counter where there is ready public access. The new arrangements allow for the cross pavement protection box to be emptied / filled in a secure location.
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles – single person vehicles eliminate the

POL00027422

opportunities for Supply Chain employee duress type incidents which historically have been the most violent and likely to involve injury.

3.3 Health and Wellbeing

Healthcare interventions:

- Second programme of visits to Crown branches, Supply Chain units and Admin offices to offer health checks using equipment that provides a wide range of indicators on physical wellbeing. The anonymised data is used to develop future health and wellbeing campaigns and target interventions.
- The programme of visits is supported by an online 'Wellbeing Zone' health check tool as a 'self- help' option
- Ongoing campaign of communications to promote a range of different wellbeing issues
- Wellbeing events to promote general health, exercise and dietary initiatives
- Mental health awareness workshops – absence occurrences related to mental health conditions as a percentage of all absence occurrences at P8 are down from a high in P5 of 18.62% to 13.05% in P8. Mental health conditions remain as the single most common cause of sick absence days as a percentage of all sick absence days at 27.21%.

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.

On 13 November 2014, the Sentencing Council opened its 14 week public consultation on draft guidelines for corporate manslaughter and health and safety offences. If implemented, the guidelines will mean that large organisations convicted of corporate manslaughter may face increased fines of up to £20 million with those convicted of fatal health and safety offences facing fines of up to £10 million. Updates will follow in due course.

4. Residual Risks

4.1 Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions identified in 3.1 above are aimed at mitigating that risk and improving performance.

5. Recommendation

The Board is asked to:

5.1 Note the overall safety performance
5.2 Note the risk reduction activities.
5.3 Note the residual risks

Neil Hayward
January 2015

POL00027422

Appendix 1

Significant Incidents (Period 8)				
Crowns and Network				
Location	**Loss**	**Circumstances**	**Physical Injuries**	**Any further details**
Rishton SPSO Rishton BB1 4JZ	£30,000	Fri 07/11/2014 17:25 A male entered the branch, when the female SPMR opened the secure area to take a parcel, she was physically assaulted and forced back in to the secure area back room. A second male came into the branch and they emptied the contents of the safe £30k. The SPMR managed to activate the alarm, the men fled.	The SPMR received injuries and received treatment at hospital but was subsequently released.	No previous incidents.
Batlers Green SPSO Radlett WD7 8NF	£10,249	Tue 25/11/2014, 16:45 Two masked males armed with a gun forced their way into the secure area and took £10,249. No damage, alarm activated, no CCTV.	None	
Supply Chain				
Location	**Loss**	**Circumstances**	**Physical Injuries**	**Any further details**
The Broadway SPSO The Hyde West Hendon London NW9 7AA	£14,000	Thurs 13/11/2014, 14:50. A crew member entered the PO to deliver/collect coins. On 2nd entry to PO on handover of cash from PM to crew member, a male snatched the pouch containing £14,000 and ran out of shop, Another male stepped out causing disruption and blocking the exit.	None	
Childwall Valley Ave SPSO Liverpool L25 1PZ	£Nil	Tues 11/11/2014 Two males followed the crew member into Branch and attacked him with bats with nails; the crew member was injured and received a chipped bone in his elbow, and a broken thumb. A member of the public informed Police that the two assailants had made off in a white van.	Chipped bone in elbow and broken thumb.	A Police patrol gave chase to the two assailants, one was caught and the other has left a large amount of evidence which the forensics are analysing.
Send Money India Wolverhampton WV2 3DR	£Nil	Fri 21/11 12:25 Crew member returning to his vehicle following collection, he was approached by two males, he was hit on the helmet with a hammer and the i-Box was snatched.	None	Loss £23,000 later recovered by the Police. Two people arrested.

POL00027422

POST OFFICE LIMITED BOARD

Sealings 19 November 2014 – 20 January 2015 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 1241 to 1261 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 1241 to 1261 inclusive in the seal register is hereby confirmed."

Alwen Lyons
Company Secretary
20 January 2015

POL00027422

POST OFFICE LIMITED

Date
20/01/2015

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
1241	21/11/2014	19/11/2014	Underlease of Unit 39, Kingsway Shopping Centre, Newport, Gwent between Kingsway Investments LLP and Post Office Limited	Piero D'Agostino	Jean Reynolds
1242	21/11/2014	19/11/2014	Licence to Alter relating to Unit 39, Kingsway Shopping Centre, Newport, Gwent	Piero D'Agostino	Jean Reynolds
1243	24/11/2014	24/11/2014	Amendment of the Authorised Officer for the Escrow Agreement dated 29 August 2014 between Royal Mail Group Limited, Post Office Limited and BNP Paribas SA, London branch	Alwen Lyons	Jean Reynolds
1244	01/12/2014	01/12/2014	Transfer deed relating to GRO GRO between Post Office Limited and Harklam Estates Limited	Alwen Lyons	Jean Reynolds
1245	09/12/2014	10/12/2014	Agreement for Sale of property at 90 High Street, Stockton-on-Tees, Cleveland, TS18 1AD between Post Office Limited and The Council of the Borough of Stockton-on-Tees	Alwen Lyons	Jean Reynolds
1246	10/12/2014	09/12/2014	TR1 relating to 90 High Street, Stockton-on-Tees, Cleveland, TS18 1AD between Post Office Limited (the transferor) and The Council of the Borough of Stockton-on-Tees	Alwen Lyons	Jean Reynolds
1247	10/12/2014	08/12/2014	Section 278 Agreement by Letter relating to the proposed development at The Post Office, 19 Grove Road, Sutton, SM1 1DX between TfL and Post Office Limited	Alwen Lyons	Jean Reynolds
1248	10/12/2014	08/12/2014	Underlease of premises at First Floor 199/201 High Street Southend SS1 1LL between Post Office Limited and Think Business Sales Limited	Alwen Lyons	Jean Reynolds
1249	10/12/2014	08/12/2014	Licence to underlet for First Floor 199/201 High Street Southend-on-Sea, Essex between Threadneedle Pensions Limited, Post Office Limited and Think Business Sales Limited	Alwen Lyons	Jean Reynolds
1250	22/12/2014	17/12/2014	Licence to Underlet Part of the premises at Chorlton Post	Alwen Lyons	Jean Reynolds

POST OFFICE LIMITED

Date
20/01/2015

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
			Office 543 Willbraham Road Manchester M21 9PP between Post Office Limited, Napcom Limited, Nazmathassanali Hudda, Paul Coughlin and Post Box Cafes Limited		
1251	22/12/2014	17/12/2014	Licence to carry out works at Prestwich DO/CO/GAR, 2 Kingswood Road, Manchester, M25 3AA between Royal Mail Estates Limited and Post Office Limited	Alwen Lyons	Jean Reynolds
1252	22/12/2014	17/12/2014	Licence for alterations for Colchester CO, North Hill, Colchester	Alwen Lyons	Jean Reynolds
1253	22/12/2014	20/12/2014	Lease relating to Dartford CO, 19 Hythe Street, Dartford	Alwen Lyons	Jean Reynolds
1254	29/12/2014	24/12/2014	Agreement for Surrender & Lease relating to Ground Floor premises, 35 The Broadway, Mill Hill, London, NW7 3DA between Post Office Limited, Jayesh Apabhai Patel, Rita Patel, Nayna Patel and Sohini Patel, Supertex Trading Limited and Dhrupesh Patel	Alwen Lyons	Jean Reynolds
1255	29/12/2014	24/12/2014	Deed of Surrender of lease at Ground Floor Premises, 35 the Broadway, Mill Hill, London, NW7 3DA between Post Office Limited and Jayesh Apabhai Patel, Nayna Patel and Sohini Patel	Alwen Lyons	Jean Reynolds
1256	29/12/2014	24/12/2014	Sub-underlease by reference relating to premises at Ground Floor Premises, 35 the Broadway, Mill Hill, London, NW7 3DA between Post Office Limited and Dhrupesh Patel	Alwen Lyons	Jean Reynolds
1257	29/12/2014	24/12/2014	Underlease by reference relating to premises at Ground Floor Premises, 35 the Broadway, Mill Hill, London, NW7 3DA between Dhrupesh Patel and Post Office Limited	Alwen Lyons	Jean Reynolds
1258	29/12/2014	24/12/2014	Deed of Surrender of Lease at Ground Floor Premises, 35 the Broadway, Mill Hill, London, NW7 3DA between Supertex Trading Limited and Post Office Limited	Alwen Lyons	Jean Reynolds
1259	12/01/2015	09/01/2015	Lease by reference relating to premises at Berwick upon	Alwen Lyons	Jean Reynolds

POL00027422

POST OFFICE LIMITED

Date
20/01/2015

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
			Tweed FPO, 9 - 13 West Street, Northumberland, TD15 1AS between Alan Galloway and Sheila Galloway and Post Office Limited		
1260	14/01/2015	14/01/2015	Lease of premises known as Ground Floor Shop 12 and 14 The Broadway, Debden, Loughton, Essex, IG10 3SU between Epping Forest District Council and Post Office Limited	Alwen Lyons	Jean Reynolds
1261	19/01/2015	19/01/2015	Underlease of premises at Unit 1, The West Building, Clifton Road, The Arcade, Littlehampton, BN17 5AA between Post Office Limited and Iridium Estates Limited	Alwen Lyons	Jean Reynolds