

Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)**Meeting to be held at 9.45am on 25 March 2015**
in Room 1.19 Wakefield, First Floor, 20 Finsbury Street, London, EC2Y 9AQ

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.

- | | | |
|----|---|-----------------------------|
| 1 | CEO report | Paula Vennells |
| 2 | Hawk & POMS | Nick Kennett |
| | BREAK | |
| 3 | Financial Performance | Alisdair Cameron |
| 4 | Approval of 2015/16 Financial Plan and Scorecard | Alisdair Cameron |
| | LUNCH | |
| 5 | Telephony Strategy | Martin George/ Geoff Smyth |
| 6 | Sparrow Update (Verbal) | Jane MacLeod / Tom Wechsler |
| 7 | Board Effectiveness Review | Alice Perkins |
| 8 | Minutes of Previous Meeting and matters arising
Committee Minutes for noting
Status report update | Alice Perkins |
| 9 | Board Sub Committee updates (Verbal)
RemCo, FS, Pensions & POAC | Committee Chairman |
| 10 | <u>Items for Noting</u> | Alwen Lyons |
| | <ul style="list-style-type: none">• Significant Litigation Report• Health and Safety Report• IT Procurement• Sealings• Publication of Report and Accounts• Pensions Update | |
| 11 | Any other business | Alwen Lyons |

Date of next meeting: May 2015

CLOSE

STRICTLY CONFIDENTIAL

CEO's Report – March 2015

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

- Ahead of our final Board meeting of this financial year, I want us to celebrate the unprecedented pace of transformation now underway, and draw confidence from this as we accelerate our turnaround further in 2015-16. This report provides updates on developments over the last month, and I would highlight:
 - We have had a number of recent successes across our product portfolio: signing the new Post Office Card Account contract to safeguard the service for a further 7 years; reaching a successful conclusion on the valuation of the general insurance business to support our buyout from Bol; and launching the Post Office's identity assurance service 'Verify'.
 - With the Board's support, we have taken greater control of the Mediation Scheme by closing the Working Group, and seen negligible press coverage.
 - We are well ahead of targets for Network Transformation with 5,000 contracts now signed and the 4,000th transformed branch opened. I would like to thank Kevin Gilliland in particular for his outstanding leadership of this programme.
 - We have now secured agreement from both Unite and the CWU to a new Post Office pension arrangement which will be launched with effect from 1 April 2015. The scheme will be called the Post Office Pension Plan and is applicable to all employees who are currently in the Royal Mail Defined Contribution Plan.
 - I am personally delighted by the increases in positive engagement across both our postmasters (up from 44% to 45%) and staff (up from 58% to 62%). This would be worthy of celebration in any event, but is even more remarkable at a time of very significant change, and reflects both strong leadership and open and honest engagement with our people.
 - And finally, the move to the new Customer Support Centre in Finsbury Dials on the 16th March has been a great success, with excellent feedback from staff and a real buzz around the office. I am already seeing the benefits of the Group Executive beginning each day around the 'hub' and I am confident this move will be a decisive enabler of a more open, collaborative and agile working culture across the Post Office.

Key issues for discussion at this Board:

- We have three substantive topics for discussion at the March Board meeting:
- Firstly, I have asked Nick to provide the Board with an update on how we propose to exercise our option to buy the Bank of Ireland's share of the joint **insurance business (Hawk)**. As you know, the Independent Insurance Expert (IIE) concluded that the valuation of the Business is **IRRELEVANT** and, whilst **IRRELEVANT** the Board mandate, this is within the Post Office's value horizon.
- The Board is asked for approval to allow management to proceed with the acquisition of Bol's share of the Business at the given valuation, and approval **IRRELEVANT**
IRRELEVANT
IRRELEVANT Alice and I had a positive and constructive meeting with Christopher Fisher and Des Crowley from the Bank on the 11th March, which confirmed

STRICTLY CONFIDENTIAL

both their interest in continuing to work with us on general insurance and a willingness to consider investment products. They are, as we anticipated, **IRRELEVANT**

IRRELEVANT However, there was commitment on both sides to understand what it would take for the partnership to be successful such that it could continue beyond this point.

- Alisdair will then talk us through the latest in-year financial performance followed by leading a discussion to seek the Board's approval of the **financial plan and scorecard for 2015-16**. At the Board in January we discussed a draft of the financial plan which was designed to reduce the EBITDAS loss from **IRRELEVANT** to **IRRELEVANT**. The latest version of the plan addresses the Board's feedback, and is substantially more realistic than both the previous year's plan and the draft submission in January. Al and I have led challenge sessions to review the assumptions underpinning income projections for next year, and the Group Executive has reviewed the plan on two occasions. This version sees a reduction in net income to reflect the removal of optimism bias and creation of contingency, offset by additional cost reductions to retain the EBITDAS target at **IRRELEVANT**. Whilst more realistic it is important to note that the plan remains challenging.
- The **KPI scorecard** builds on the changes agreed with the Remuneration Committee, and includes financial targets focusing on EBITDAS, digital income, and refinements to the customer satisfaction measures. The scorecard also proposes further changes to the non-bonus related metrics to rationalise them in number, following discussion by the Group Executive.
- Finally, Martin George and Geoff Smyth have prepared a paper to facilitate a Board discussion on the strategy for our **telephony** business, and specifically our homephone and broadband services. At the June Board Awayday last year we agreed to prioritise the mails and financial services businesses, recognising that telephony, along with government services, would be secondary pillars going forward. Given this, I wanted the Board to have the opportunity to review the strategic options available to us for the telephony business, and in particular whether it should be retained as part of our group portfolio or divested to release capital and reduce management distractions.
- The paper provides analysis of a range of options and seeks the Board's agreement to retain and grow the business in the short-term. This recommendation recognises the positive (and growing) Direct Product Contribution the business provides, with minimal funding requirements and a low impact on the network. Following a pause prompted by the regulator, we will also resume talks with potential partners to discuss divestment and franchising.

2. Commercial and business performance overview

Overall performance

- Net income in February was favourable to budget driven primarily by the additional revenue for the new POCa contract. Total expenditure also remains favourable to the budget, meaning the **IRRELEVANT** EBIT target is still within reach. However, the forecast remains in line with the update to the board in January of **IRRELEVANT**. Our focus for the final weeks of 2014-15 remains on delivering income in line with forecasts and maintaining tight cost control.
- The CFO's Performance Report for this Board provides additional commentary on performance across the pillars so these are not summarised here to reduce duplication.

STRICTLY CONFIDENTIAL**3. Other updates of note for the Board**

Sparrow

- As the Board will know, we announced on 10th March that we had completed all of our investigations under the Complaint Review and Mediation Scheme, and that we had decided to mediate all cases that had not been subject to a court ruling. In addition, we published a 187 page report detailing progress on the Scheme so far; announced that the Working Group overseeing the Scheme was to close with immediate effect and gave notice of termination to Second Sight.
- Despite extensive hostile briefing by JFSA, there has been limited media coverage. PA ran a very short, balanced piece picked up by some regional media. There was a very hostile piece in Computer Weekly that does not seem to have been picked up and has now been amended to add more balance. In Parliament, James Arbuthnot attempted to secure an Urgent Question on 11th March. This was rejected but he was called as the first supplementary question at Prime Minister's Questions, suggesting that Post Office had "sacked" Second Sight and were attempting to suppress their Part Two Report – inaccurate on both counts. The PM committed Vince Cable to writing to JA and the Sparrow team have provided material to BIS in support.
- The priorities now are to progress as many cases to mediation as quickly as possible. Second Sight have also given us their updated draft of their "Part Two" Report which is intended to assist in the mediation process. It is inaccurate and inflammatory; we will respond shortly.
- I am sure the Board will wish to join me in thanking Mark Davies and Jane MacLeod in particular for their leadership in helping us take control of this agenda.

Engagement with the NFSP

- We are reaching a critical point in our discussions with the NFSP relating to the MoU, NT Cliff and Network Extension and I therefore wanted to update the Board on progress. As part of the settlement we reached with the NFSP relating to the 2013 NT funding, the Board endorsed the establishment of a 15 year agreement with the NFSP, the agreement itself dependent upon the NFSP re-structuring their organisation and supporting the Post Office in the delivery of NT, particularly elements related to compulsion, noting that any network extension was excluded from the parameters of the MOU. We have made good progress in the last 12 months in achieving delivery of NT and moving the NFSP towards a position of supporting further business change including our plans for Network Extension. This is in an environment where we have yet to sign the Grant Agreement (GA) whilst maintaining our position of wanting to work collaboratively but only in circumstances that are right for the business – this approach has improved our position substantially.
- It should be noted that the NFSP continue to push for additional funding using the possibility of withdrawing support for NT and joining the CWU. Our approach has reduced their demand position significantly and we will continue to press for further agreement/concessions as we do not believe a merge with CWU is their preferred outcome (though this risk cannot be ignored). Our approach remains well within the mandate agreed with the Board and we will keep you updated on progress.

STRICTLY CONFIDENTIAL

4. Update on key change programmes

- Work is well advanced to establish the necessary governance, processes and capability to implement our change programmes as an integrated portfolio. This includes strong central governance led by the Transformation Director, and activity is now being managed to an integrated plan through the Transformation Management Group. Particular attention continues to be given to the implementation of the new Front Office solution given its business-wide impacts.
- Revised reporting is being developed to manage the portfolio of change programmes and it is our intention to introduce this for the Board in May. For this month, updates are provided to the existing format.

a) Crown Transformation Programme

Status overview: 292 branches have now been transformed with 4 more expected by end of March, achieving the original target. Staff cost reductions, staff training and SSK implementations are all achieving or exceeding targets. Around 19 branches will not be franchised under CTP as no suitable partners have been secured. The P&L run rate for the retained Crown estate at March 2015 is forecast to be around IRRELEVANT loss with P&L break-even run rate targeted for later in 2015-16.

Programme KPIs:	YTD			2014/15 FY	
	Target	Actual	Period	Target	Forecast
P&L run rate	IRRELEVANT				
Number of branches transformed					
Number of branches franchised					
Customer satisfaction in transformed branches					
Queue time satisfaction					

Key milestones ahead:

Milestone	Target date	Current status
292 retained branches transformed	By end Mar 15	292 complete, 296 transformed by end-March
70 franchises live	By end Aug 15	On track to deliver 50
505 Self Service Kiosks rolled out	By end Mar 15	Complete

b) Network Transformation Programme

Status overview: The programme is on target against all key metrics, and end of year targets have already been achieved for both contracts signed and branches open. The programme continues work on implementation plans for the 'cliff', including engagement with the NFSP as discussed earlier in this report.

Programme KPIs	YTD (P11)		2014/15 FY	
	Target	Actual	Target	Forecast
Contract signed (cumulative)	IRRELEVANT			
Branches Open (cumulative)				
Customer Satisfaction (all branches)				
Operator Satisfaction				
Average increase in opening hours				
Cost reduction (in-year cumulative)				

STRICTLY CONFIDENTIAL

Key milestones ahead:

Milestone	Target date	Current status
Agent scorecard trial evaluation complete	End of Mar 15	On track
Cliff management – ‘Come on the journey’ letter	End of Mar 15	On track
Transitional locals – Final Tranche	End of May 15	On track
Cliff management – Notice of contract change	End of Jun 15	On track
Cliff management – Deadline for signing a contract or CRP	End of Dec 15	On track

c) ‘Win in Mails’

Status overview: The build of the Access Point solution continues, including the additional products required by retailers. Taking the learning from the Ivy trials, the project has decided not to trial a mails only solution in May 2015, but instead launch when the minimum viable solution for retailers is available in spring next year. This will include a more developed payments proposition to take on our main competitors.

Work is underway with Oliver Wyman on the next steps for mails, as discussed at the Board in January.

d) Business Transformation (Transition to Delivery)

Status overview: The programme is coming to the end of the transition phase to establish the foundations and governance to commence delivery from April 2015: TMO Design, governance bodies and thematic programmes.

Transition Phase Key milestones ahead:

Milestone	Target date	Current status
Governance bodies operational	End Mar 15	Largely complete. Design Authority Group delayed pending the appointment of the Head of Business Design
Transformation Management Office (TMO) operational	End Mar 15	Complete
Delivery programmes operational	End Mar 15	On track
Assess Success Criteria	End Mar 15	On track

e) Separation

Status overview: The programme remains on track to deliver as expected and achieve the agreed MSA target completion date. 257 sites have now separated onto the Post Office IT Network, leaving a further 87 to separate.

Programme KPIs	YTD (P11)		Full programme	
	Target	Actual	Target	Forecast
Separation of IT systems	IRRELEVANT			
Separation of Business Services				
Finance – headcount reduction				

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
HR: Nemo Go-live	End of Mar 15	On track
HR Common Components separated	End of May 15	On track
Networks site migration end	Apr 15	On track

STRICTLY CONFIDENTIAL

f) IT Transformation

Status overview: The **Front Office** procurement remains on plan with three bidders (CSC, IBM and Accenture) submitting proposals on time and the preferred bidder decision due in April. Our ability to successfully complete the implementation by March 2017 remains a key business risk and is the focus of significant management attention. Negotiations continue with Fujitsu on potential extension mechanisms to ensure service continuity.

The **Back Office** workstream has been re-started following conclusion of the BPO review, and an impact assessment is underway. We are currently targeting procurement to start from April and initial estimates for Contract Award late August.

Programme KPIs	YTD		Full programme	
	Target	Actual	Target	Forecast
Towers Contracts Awarded	IRRELEVANT			
3 rd parties transitioned to Service Integrator (SI)				
SI operating model processes accepted				
Financial savings				

Key milestones ahead:

Milestone	Target date	Current status
F/O Contract awarded	End May 15	On track
Network contract awarded	End May 15	On track
EUC Admin service commencement	Mid May 15	On track
B/O contract awarded	End Aug 15	On track
F/O Contract awarded	End May 15	On track
Network contract awarded	End May 15	On track
EUC Admin service commencement	Mid May 15	On track
EUC Admin service complete	End Aug 15	On track
EUC Branch service commencement	End Nov 15	On track

g) People & Engagement

Status overview: Executive sessions continue to develop the second wave of headcount reductions focused on the management population. Consultation on the changes is currently planned for mid-April to allow the process to conclude in July. Good progress has been made in reviewing the facilities time for CWU representatives. This work remains on track. The first of our Business Consultation Forums with the Unions took place this month, involving the CFO and other senior leaders in attendance.

Key milestones ahead:

Milestone	Target date	Current status
CWU facilities time review complete	Apr 15	On track
POL vision sign-off	May 15	On track
Grant funding for NFSP in place	May 15	On track
People and Engagement plan/leadership capability and capacity update to Board	May 15	On track
Wave 2 complete	July 15	Date re-baselined by 2 weeks

h) Titan/POMS

Status overview: POMS commenced trading from 1st January with the business performing to date as forecast. The FCA “minded to approve” has been received with

STRICTLY CONFIDENTIAL

POMS targeting a stand-up date of 1st May (this is subject to Post Office Board approval). The key management focus is to bed down the new processes and close off the outstanding issues from the Grant Thornton report to enable POMS to take up its FCA authorisation.

Programme KPIs	YTD (11 cum.)		Full programme	
	Target	Actual	Target	Forecast
Contractual relationships in place	IRRELEVANT			
Systems in place				
Staff in place				

Key milestones ahead:

Milestone	Target date	Current status
Strategic system implemented	End Aug 15	On schedule

i) Hawk

Status overview: The IE (Independent Expert) provided a valuation purchase price for the business within the expected tolerance. The Board is being asked to proceed at this meeting.

Milestone	Target date	Current status
Seek PO Board approval to proceed	End of Mar 15	On track
Initiate Hawk Implementation programme	End of Apr 15	On track
Buy-Out complete	Early 2015-16	On track

j) Financial Services Investments and Savings Negotiations

Status overview: Savings negotiations concluded and benefits will be realised in 2014-15. Investments negotiations have been on hold until Hawk negotiations have been concluded and will now commence subject to Board approval.

Programme KPIs	2015/16	
	Target	Actual
Incremental increase in net Savings revenues	IRRELEVANT	
Investments Negotiations		

Milestone	Target date	Current status
Conclude investment product negotiations	Early 2015-16	Subject to Board approval

STRICTLY CONFIDENTIAL

5. Market, political and external developments

Third party parcel access point market growing

- DPD is set to open 2,500 PickUp stores as part of its parcel shop network on 1st June 2015. Numark Pharmacies, a network of 3,000 independent pharmacies, has been named as its first retail member. DPD say their aim is to have a DPD PickUp point within ten minutes of “most people in the UK”. In 2013, DPD announced it extended its partnership with myHermes ParcelShops for HomeCall Returns, its own return service. At the time of the agreement there were 3,000 myHermes ParcelShop locations which has now grown to ~5,000. In 2013, DPD delivered 1.6m parcels a week. Doddle also announced plans to open 70 more locations in railway stations and shopping centres taking the total number to 100 by the end of 2015. Doddle has already signed up retailers such as Amazon, Asos, Charles Tyrwhitt and Misguided.

Amazon Logistics set to expand

- Amazon Logistics is set to expand after successful Sunday deliveries. Sunday deliveries quadrupled from last year. Amazon Logistics currently uses 45 different local and national delivery firms. The service is currently free for its subscription paying Amazon Prime customers. According to the head of Amazon UK, Christopher North, “Amazon Logistics is not about replacing a carrier, it is about complementing”. Amazon UK has not revealed what portions of its products are delivered through Amazon Logistics, but it is understood to reach close to 50% some weeks. North insists Amazon has no interest in pushing all its deliveries through Amazon Logistics. He stated, “The answer is you want to spread your volumes across multiple partners. You don’t want to have a single point of failure.”

Competition in the challenger bank space grows

- Virgin Money is set to launch its current account nationwide by April 2015 after launching in Northern Ireland and Scotland last year. Tesco announced plans to grow its share of the current account market to rival its credit card business. However, both face a challenge in winning customers over with only 3% of accounts being switched since reforms were introduced according to the Yorkshire Building Society.
- TSB announced pre-tax profits of £134m in 2014, up 2.3% on the previous year. It added 0.5m new accounts in 2014. Understanding the challenges to get customers switching, it is exploring the option to raise its share of the current account market from 4.2% to 6% through acquisition.

Strictly Confidential

POST OFFICE LIMITED BOARD**Project Hawk****Exercising the Option to buy Bank of Ireland's share of Post Office Insurance****1. Purpose**

- 1.1. This paper updates GS on the negotiations with Bank of Ireland UK plc (BoI) on Project Hawk - the exercising by Post Office of its option to buy BoI's share of the joint insurance business (the Business) as set out in the Eagle agreement ("FSJVA").
- 1.2. This submission follows the paper presented to the Board on 16th July 2014, where approval was given for "management to negotiate a buy-out of BoI's share of Post Office Insurance business at a cost not exceeding [IRRELEVANT] (Board Minute POLB 14/91).
- 1.3. The Independent Insurance Expert (IIE) has opined, concluding that the valuation of the Business is [IRRELEVANT] this determination is final and binding on both parties (although there will be a final true-up on completion). This value, while [IRRELEVANT] outside the Board mandate, is within Post Office's value horizon.
- 1.4. This paper seeks Board approval to allow management to proceed with the acquisition of BoI's share of the Business at the given valuation. Management further seeks scope to negotiate potential alternative structures with BoI.

2. Background - Transforming Insurance to deliver value to Post Office

- 2.1. The insurance transformation programme is targeted to increase Post Office's gross income from insurance activities from [IRRELEVANT] in 2013/14 to [IRRELEVANT] in 2020 and net income of [IRRELEVANT]. As set out in the Financial Services strategy presented to the Board at various times, the program comprises three phases, viz:
 - Phase 1 – Titan (new travel insurance model);
 - Phase 2 – Exercise buyout option as set out in Eagle;
 - Phase 3 – Migration of other insurance businesses as contracts expire (e.g., Junction).
- 2.2. Phase 1 has been completed with the establishment of POMS. Project Hawk is Phase 2.

3. Negotiations and the IIE determination

- 3.1. The FSJVA set out a defined process for Post Office to exercise its option as follows:
 - Post Office initiates the process with a "market value" offer. This was completed when Post Office submitted an offer of [IRRELEVANT] in September 2014;
 - If BoI and Post Office cannot conclude an agreement, Post Office can escalate to an IIE, who would be appointed by both Parties;
 - The IIE will determine the price based on representations from BoI and Post Office. This determination is binding on the parties if Post Office chooses to exercise the option.
- 3.2. Following the submission of Post Office's offer, BoI responded in October with a counter valuation of [IRRELEVANT].
- 3.3. As it was quickly evident that the Parties would likely be unable to negotiate an agreement, in November Post Office advised BoI that it would refer the matter to an IIE. The FSJVA provided for the role of the IIE and set out a clear valuation approach including timings. In January Grant Thornton was appointed as IIE, working within an agreed four week timeframe.

Strictly Confidential

3.4. The IIE process comprised:

- Initial submission by both Parties setting out their valuation rationale;
- Oral presentation by both Parties;
- Interview with the Managing Director of the Business;
- Second submission by both Parties;
- Questions from the IIE.

At each stage papers were shared with the other party; all Parties attended the interview.

3.5. Post Office was supported by KPMG and Linklaters (the same team that drove Eagle), while Bol retained Morgan Stanley, utilised its corporate finance in-house business and appointed a leading insurance valuation expert to its team.

3.6. The IIE delivered his outcome to the parties to schedule on 27th February 2015:

- He determined Bol's share of the Business to be **IRRELEVANT**
- This valuation is final and binding on the Parties.

4. Financial Analysis

4.1. Whilst the Board granted a mandate upto **IRRELEVANT** the discussion at the time discussed a realistic value of **IRRELEVANT**. Subsequent analysis by Post Office Finance has suggested that an even higher valuation would have worked for Post Office. Diagram 1 below sets out an analysis of the theoretical maximum acquisition price Post Office could pay and see a commercially sustainable return.

4.2. This analysis shows the value derived from the various step changes an acquisition of the Business would enable. Each scenario highlighted below builds on the previous scenario.

IRRELEVANT

4.3. In all cases the acquisition of the Business would reduce Bol's contribution to the marketing fund by **IRRELEVANT** per annum. These funds would be provided by POMS (and have been assumed in the budget submissions for 2015/16).4.4. The initiative creates a business with a total value NPV of **IRRELEVANT** based on **IRRELEVANT** **IRRELEVANT**, less the acquisition investment (i.e. **IRRELEVANT**). On a conservative, risk adjusted basis, the value add NPV of the acquisition is **IRRELEVANT**.

Strictly Confidential

Diagram 1

HAWK - THEORETICAL MAXIMUM ACQUISITION PRICE SUMMARY

£ million	Value added in forecast period	Value added in Terminal	Total value added	Risk adjustment	Risk adjusted value added	Theoretical max price (cumulative)
IRRELEVANT						

Source: Post Office Finance

5. Risks

- 5.1. The buy-out of the Business is a key pillar of the Post Office's Financial Services 2020 Strategy. It increases the likelihood of the successful delivery of the strategy, and opens additional opportunities, such as investments (see below).

- 5.2. **IRRELEVANT**
- IRRELEVANT** Moreover, the Bank has indicated that it is keen to get this process concluded and focus on the growth of the remaining businesses.

- 5.3. There is a risk that the business transfer will be delayed whilst Post Office develops the infrastructure to manage it. This risk has been largely offset by the establishment of

IRRELEVANT

- 5.4. POMS will need to advise the FCA that its business will grow beyond travel insurance; this is not an exceptional process. POMS will also need to implement capabilities, process and controls in order to run the newly-acquired business. The analysis and process to develop this is underway, building on the existing POMS infrastructure and capabilities. It is expected and anticipated in the FSJVA, subject to TUPE, that the existing and experienced joint insurance team will move across into POMS.

6. Next Steps

- 6.1. Working with Post Office Legal and Finance, Linklaters and KPMG, we will engage with Bol to conclude the contractual discussions and arrange for the transfer of the business to Post Office. To start the process and following support from the FS Committee, Post Office has written to the CEO of Bol advising him that we will be seeking Post Office Board support to proceed to acquire the Business, based on the IIE's valuation.

¹ Board approval for POMS to proceed to stand-up as a principal under the FCA regime is tabled separately at this meeting.

Strictly Confidential

- 6.2. The Hawk team is building a two pillar plan to complete the transaction. As advised by KPMG's "Integration/Separation, Transaction and Restructuring" partner:
- Pillar 1 will focus on "separation"; acquiring the business from Bol, including asset transfer (principally novating the existing insurance contracts).; and
 - Pillar 2 will deliver the "integration" into POMS. These pillars will focus on people, processes and services, contracts, assets and IP and technology.
- 6.3. Anticipating that the business will be run through POMS, POMS is preparing itself to be ready for the business, including ensuring it has all the relevant regulatory, compliance, technical and commercial capabilities in place.
- Both Post Office and Bol will require assurance that POMS has these in place before the transaction can be concluded.
- 6.4. With Finance leading, supported by our legal team, we are assessing the most cost effective and practical financing structure for the acquisition and how to ensure its delivery into POMS.

7. Summary

- 7.1. The IIE determination has a valuation of the Business of **IRRELEVANT** which is **IRRELEVANT**
IRRELEVANT
- 7.2. The acquisition is a core component of the delivery of the FS strategy.
- 7.3. The acquisition would **IRRELEVANT** per annum.
- 7.4. Management strongly believes that the acquisition of the Business at this valuation represents a good investment for Post Office, with a strong NPV.
- 7.5. Management is assessing the appropriate structure and process to acquire the Business and integrate it into POMS.

8. Recommendation 1.

- 8.1. Management seeks in principal Board approval to proceed to acquire the Business for **IRRELEVANT** and that the acquisition is incorporated into POMS.

9. Alternative models with Bol

- 9.1. Subject to approval 8.1 above, management will seek to conclude Hawk.
- 9.2. There are, however, alternative models that could further opportunities. These are supported by:

- **IRRELEVANT**
- **IRRELEVANT**
- **IRRELEVANT**

- 9.3. Entering the investments market, particularly following the changes to pensions and annuities that come into effect in 2014/15, presents the Post Office with a significant income opportunity. As presented to the Post Office Board Financial Services Committee in June 2014, the 2020 Strategic Plan includes a **IRRELEVANT** income for Post Office; this is believed to be a conservative estimate of the long term opportunity.

Strictly Confidential

- 9.4. Preliminary discussions were held in late 2014 to ascertain the interest and value of an alternative model for Hawk, on the basis of:

IRRELEVANT

- 9.5. This opportunity has considerable merits, including

•
•
•

IRRELEVANT

- 9.6. However it also raises a number of issues:

•
•

IRRELEVANT

10. Recommendation 2.

- 10.1. Management proposes to:

- Proceed with Hawk as recommended above (8.1), establishing a clear timeline for completion; and
- Initiate parallel conversations with BoI to determine whether there is a financial and strategic alignment to proceed further with the alternative solution.

- 10.2. The Board is asked to note the alternative solution and authorise management to assess its veracity, while continuing to complete Hawk (as per 8.1 above).

Nicholas Kennett
Director, Financial Services
March 2015

Strictly Confidential

POST OFFICE LIMITED BOARD

**Statutory Reporting Requirements for
Post Office Management Services Limited**

1. Purpose

The purpose of this paper is to:

- 1.1 Request consent from the Post Office Board pursuant to article 4.3(P) of the Post Office Management Services Limited (POMS) articles of association (Articles) to a) shorten the Accounting Reference Date (ARD) for the second POMS accounting period to 30 November 2014 and then b) extend the ARD for the third POMS accounting period to 27 March 2016.

2. Background - Statutory Reporting Requirements

- 2.1 POMS as a statutory legal entity was incorporated at Companies House on 25 March 2013. The ARD is 31 March, and it is this date which dictates when Companies House expects the financial year end to fall and the financial statements to be prepared.
- 2.2 As per the above, the first accounting period of POMS was from the date of incorporation to 30 March 2014. As POMS was dormant throughout this period, dormant financial statements were prepared and submitted to Companies House in December 2014.
- 2.3 If no action is taken, the second accounting period for POMS will be the twelve month period to 29 March 2015. Preparing financial statements for this period is not considered to be efficient given that for eight months of this period POMS was not trading, and only commenced trading in December 2014. We would incur internal cost and external audit cost for the preparation and audit of these financial statements.
- 2.4 As an alternative to the above, we propose to apply to Companies House to shorten the second accounting period for POMS to end on 30 November 2014, and prepare dormant financial statements (which do not require an audit) for this eight month period.
- 2.5 For the third accounting period of POMS we propose to apply to Companies House to extend the accounting period to end on 27 March 2016 and prepare active trading company financial statements for this sixteen month period. These financial statements will be the first to be audited by our external auditors. Following this the financial period end will always fall at the end of March in alignment with the parent company, Post Office Limited.
- 2.6 This change was approved by the POMS Board on 26 January 2015, subject to consent being granted by the Post Office Board.

Strictly Confidential

3. Request

- 3.1 The Post Office Board is asked to review the above and provide consent pursuant to article 4.3(P) of the Articles of Association of POMS, for POMS to:
- a) Shorten its Accounting Reference Date for the second POMS accounting period to 30 November 2014; and then
 - b) Extend the ARD for the third POMS accounting period to 27 March 2016.

Nicholas Kennett
CEO POMS Ltd.,
March 2015



2014/15 Financial Performance and Scorecard P11 update

Alisdair Cameron
25 March 2015



Executive Summary - February

- February income was favourable to budget and prior year by **IRRELEVANT** including **IRRELEVANT** POCA income
- The focus on costs has continued to narrow the gap – total costs favourable by **IRRELEVANT**
- The **IRRELEVANT** EBIT budget is still within reach – but forecasts suggest **IRRELEVANT** in line with the Board update in January
- There are still some critical one-offs to capture
- and cost focus must remain intense to create momentum into 2015/16

£m	Current Month			Prior Year Period	
	Actual	Budget	Variance	Actual	Variance
TOTAL GROSS INCOME	IRRELEVANT				
Cost of Sales					
TOTAL NET INCOME					
Staff Costs					
Subpostmaster Costs					
Non-Staff Costs					
Depreciation					
Total Expenditure (pre P00C)					
FRES - Share Of Operating Profits					
EBIT - BAU					
One off Project costs (P00C)					
EBIT - Post Project Costs					
Network Payment					
EBIT pre exceptionals items					



Mails income continued the trends, narrowly behind PY, strongly adverse to budget

Net Income £m	February 2015			February 2014	
	Actual	Budget	Variance	Actual	Variance (Yr On Yr)
Stamps (1st & 2nd Class plus other stamps)	IRRELEVANT				
Labels (1st & 2nd Class)					
Home Shopping Returns					
Mails Other					
Total Mails & Retail					

- Stamps in line with budget and marginally behind prior year.
- Label volumes behind budget by **IRRELEVANT**
- Home shopping returns – **IRRELEVANT** up year on year but not meeting target
- Mails Other – flat YOY, but adverse to budget by **IRRELEVANT** due to stretch task, **IRRELEVANT** Lottery and **IRRELEVANT** Retail.

Net Income 2014-15 £m

	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	YTD
Actual	IRRELEVANT											
Budget												
Variance												
PY Variance												



Financial Services had a stronger month recovering close to budget

Net Income £m	February 2015			February 2014	
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)
Bill Payment	IRRELEVANT				
Payment Services					
PFS-Savings					
PFS-Insurance					
PFS-Lending					
Travel Insurance					
MoneyGram					
Other					
Total Financial Services					

- Performance against budget improved in February driven by:
- Recognition of the 'profit share' commission triggered for Credit Card sales of **IRRELEVANT**
- Insurance additional commissions catch up of **IRRELEVANT**

Net Income 2014-15 £m

	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	YTD
Actual	IRRELEVANT											
Budget												
Variance												
PY Variance												



The Telecoms price rise enabled a better month. Government was supported by the main tranche of POCA income

Net Income £m	February 2015			February 2014	
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)
Energy	IRRELEVANT				
HomePhone /Dual & Broadband C					
Total Telecoms Services					
Motoring Services					
Card Account					
Check and Send					
AEI (DVLA & UKBA)					
Other Government Services					
Total Government Services					

Net Income 2014-15 £m

Telecoms	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	YTD
Actual	IRRELEVANT											
Budget												
Variance												
PY Variance												

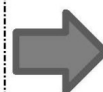
Gov. Servs.	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	YTD
Actual	IRRELEVANT											
Budget												
Variance												
PY Variance												

- Telecoms – flat with budget, but lower customer numbers offset by price increase. PY Feb, saw income reduced in the period to align with Fujitsu.
- Motoring volume falling due to no visible disc implementation.
- POCA: February saw **IRRELEVANT** catch up income (fee per account increase from 1 Dec), so underlying is adverse – fewer active accounts.
- Other Government Services –adverse due to lower passport and AEI volumes



We report gross revenue (not net income) in our Annual Report – at P11 **IRRELEVANT** behind PY pre NSP

£m	P11 YTD Actual	P11 PY YTD	Variance
Gross Revenue			
Mails & Retail			
Financial Services			
Telecoms			
Government Services			
Other			
Total Revenue Pre NSP			
NSP			
Total Gross Revenue			
Cost of Sales			
Mails & Retail			
Financial Services			
Telecoms			
Government Services			
Other			
Total Cost of Sales			
Net income Pre NSP			
NSP			
Total Net Income			



- Mails and Retail – down **IRRELEVANT** year on year driven by parcel and stamps volumes but partly offset by growth in Home Shopping returns **IRRELEVANT**
- FS – increased **IRRELEVANT** year on year mainly savings **IRRELEVANT** (including NS&I **IRRELEVANT** Moneygram **IRRELEVANT** insurance **IRRELEVANT** mortgages and credit cards **IRRELEVANT** offset by decline in traditional bill payment and banking
- Telecoms – declined by **IRRELEVANT** (lower customer base)
- Government – declined by **IRRELEVANT** DVLA, passports and POCA)
- Other **IRRELEVANT** due to step **IRRELEVANT** recognised under the Gamma deal in line with agreed income recognition profile



February's costs benefited from focus and lower trading

£m	Current Month			Prior Year Period	
	Actual	Budget	Variance	Actual	Variance
Staff Costs	IRRELEVANT				
Subpostmaster Costs					
Non-Staff Costs					
Depreciation					
Total Expenditure (pre POOC)					
One off Project costs (POOC)					

- Staff costs include **IRRELEVANT** true-up of LTIP accrual for performance (to assumed **IRRELEVANT** pay-out rate) and continued lower bonus accrual
- Lower subpostmaster costs due to lower sales in the period and VAT upside of **IRRELEVANT**
- Non staff favourable due to lower brand and marketing fees and savings across the functions offset by catch up of property costs
- Project costs credit arises from year end true-up of transfers to exceptional items

Cost savings are continuing to reduce the profit gap – now IRRELEVANT



£m	Q1			Q2			Q3			Q4 TD		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
TOTAL GROSS INCOME	IRRELEVANT											
Cost of Sales												
TOTAL NET INCOME												
Staff Costs												
Subpostmaster Costs												
Non-Staff Costs												
Depreciation												
Total Expenditure (pre P00C)												
FRES - Share Of Operating Prof												
EBIT - BAU												
One off Project costs (P00C)												
EBIT - Post Project Costs												
Network Payment												
EBIT pre exceptionals items												



YTD EBITDAS is ahead of PY for the first time

£m	Year to Date			Prior Year YTD	
	Actual	Budget	Variance	Actual	Variance
TOTAL GROSS INCOME	IRRELEVANT				
Cost of Sales					
TOTAL NET INCOME					
Staff Costs					
Subpostmaster Costs					
Non-Staff Costs					
Depreciation					
Total Expenditure (pre P00C)					
FRES - Share Of Operating Profits					
EBIT - BAU					
One off Project costs (P00C)					
EBIT - Post Project Costs					
Network Payment					
EBIT pre exceptionals items					
EBITDAS					



The mixed picture on KPIs continues

Key Performance Indicators	Current Month			YTD			YTD
	Act	Target	Var	Act	Target	Var	Prior Year
Growth							
Total Net Income (excl NSP) £m (Bonus 20%)							
Operating profit £m (Bonus 25%)							
Earnings before ITDA and Subsidy £m*							
Free cashflow £m							
Customer							
Customer Satisfaction**							
Easy to do business with (Bonus 15%)**							
Net Promoter score**							
Queue time % < 5 minutes - Top 1k branches							
Branch Compliance - Financial Services - basket of 11 measures							
Branch Compliance - Inland Dangerous Goods **** ^							
Branch Compliance - International Dangerous Goods **** ^							
People							
Engagement Index % (Once a year April) (Bonus 15%)^^							
Subpostmaster Engagement Index % (Once a year)^^							
Post Office Values the diversity of the workforce (Once a year April)^^							
(No.) % of BME appointments over total recruits at senior leadership and senior manager							
(No.) % of Female appointments over total recruits at senior leadership and senior manager							
Modernisation							
Crown Profit (Loss) £m							
Crown Profit (Loss) Run Rate £m (Bonus 12.5%)^							
NT Transformations - contract signatures ***							
NT Branches Transformed in Year (Bonus 12.5%)							

IRRELEVANT



In P11, income forecasts stabilised except for Mails

Q3 to P11 forecast changes:

£'m	Q3					
	Budget	Forecast	Changes	P10 Forecast	Latest changes	P11 view
Mails & Retail	IRRELEVANT					
Govt						
Telephony						
FS						
Other						
Contingency						
Net Income						

- P10 saw a reduction from the Q3 FYF
- **IRRELEVANT** in Telecoms was reclassified to non staff costs for claim recovery and debt sale
- **IRRELEVANT** trading worsening in Telecoms had been anticipated and a contingency included at Q3 to cover it
- FS – flattening of trading in a number of products including insurance, mortgages and ATMs
- Mails – reflected continued trading performance.
- The latest outlook is **IRRELEVANT** (almost flat with **IRRELEVANT** last year)



The range of FY outcomes is narrowing but continues to look more likely than **IRRELEVANT**

YTD operating profit

Plus P12 trading run rate

Plus one-offs

Telecoms debt sale

POCA P12 impact

Postal Order uncashed true-up

VAT recovery

Engagement index stretch bonus

No increase in Mails Segregation from

Forecast

Further opportunities

VAT on subpostmasters

Telecoms Fujitsu settlement

If **IRRELEVANT** is missed - bonus release

Potential outturn

If **IRRELEVANT** is missed - bonus release

Potential outturn



- Outturn range of **IRRELEVANT** (if one-offs not delivered) potentially up to **IRRELEVANT** target level



This continues good progress on EBITDAS

	2013-14	2014-15	2014-15	2014-15	2015-16
£m	Actual	<i>P11 low view</i>	Q3 Forecast	<i>Target</i>	Budget
Operating Profit	IRRELEVANT				
Network Payment					
EBITDAS - reported					
Exclude one-offs:					
Prior Year VAT upside					
Prior Year VAT upside					
DWP compensation					
ATM rates provision					
2012-13 bonus outturn higher than accrued					
EBITDAS -adjusted					



Our focus remains clear

- Deliver income as forecast – this is as important to our confidence as to our numbers
- Maintain intense focus on costs
- Obtain Fujitsu settlement, VAT benefits and complete the Telecoms debt sale
- Complete work to evidence mid range mails segregation penalty accrual of IRRELEVANT

Strictly Confidential



POST OFFICE LIMITED

Performance Report

February 2015

Produced By : Financial Control

For Queries & Comments Contact : Sarah Hall or Kam Bassra

CONFIDENTIAL

Commercially Sensitive and not for onward circulation

This document contains commercially sensitive information that is likely to cause damage in the event of unauthorised disclosure. It should not be copied or forwarded in its entirety unless for a specific business purpose and only to internal people who understand the consequences of disclosure or to external people who have signed a non-disclosure agreement. It is normally only circulated to the Senior Leadership Team and Finance Professionals within the Post Office.

Strictly Confidential



Contents

	Page
Headlines	3
Profit & Loss Statement	4
Crown Profit & Loss Statement	5
Cost Management update	6
Cashflow Analysis	7
Business Scorecard	8
Network Transformation Scorecard - Mains	9
Network Transformation Scorecard - Locals	10

Headlines

February 2015

Strictly Confidential

**Headlines**

Operating profit before exceptional items in the month was [IRRELEVANT], which is [IRRELEVANT] favourable to budget, bringing the year to date operating profit to [IRRELEVANT] versus budget to [IRRELEVANT] year on year, including [IRRELEVANT] of [IRRELEVANT].

Net income in P11 is favourable to budget by [IRRELEVANT] and [IRRELEVANT] favourable to last year. This is driven by the increase in Government Services income relating to additional revenue for the new POCA contract of [IRRELEVANT]. The contract has now been signed so the increased account charges with effect from 1 December have been recognised this month. This is offset by the continuing shortfall in Mails and Retail of [IRRELEVANT] (mainly labels and delayed rollout of ebay returns).

Net income year to date has improved by [IRRELEVANT] to [IRRELEVANT] behind budget and [IRRELEVANT] below this time last year (excluding NSP).

Total expenditure (before project costs) in the month was [IRRELEVANT] favourable driven by lower subpostmaster costs and staff costs movement to exceptionals.

Total expenditure (before project costs) year to date remains favourable to budget by [IRRELEVANT].

The [IRRELEVANT] savings task remains challenging but is now all underpinned.

- Subpostmasters' costs are favourable by [IRRELEVANT] reflecting lower sales volumes and improved VAT recovery.
- Staff costs are favourable by [IRRELEVANT] reflecting lower bonus payments offset by under-delivery of savings tasks primarily in Supply Chain and Commercial.
- Non staff costs are [IRRELEVANT] favourable driven increased VAT recovery of [IRRELEVANT] relating to last year and [IRRELEVANT] relating to this year, offset by a [IRRELEVANT] provision for client compensation, shortfall in savings task delivery [IRRELEVANT] for the Mails Segregation penalty payment accrual and other increased costs including postage.
- Project One Off Costs are adverse to budget by [IRRELEVANT] reflecting unbudgeted spend for Sparrow and the 'Journey to 2020' strategy work.

Cashflow

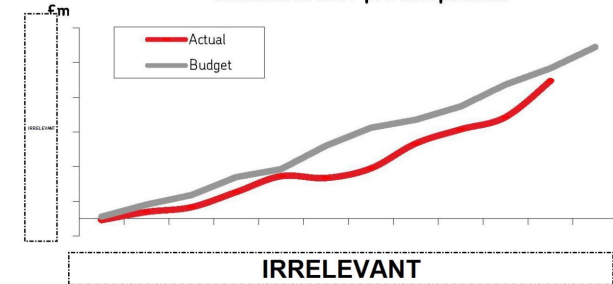
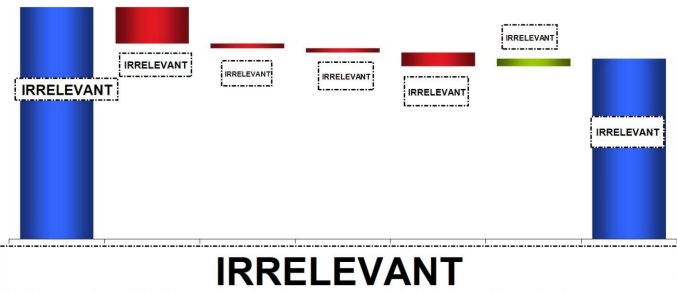
The cashflow is [IRRELEVANT] favourable driven primarily by lower than budgeted capital expenditure.

Crown Profit

The YTD Crown profit is [IRRELEVANT] adverse driven by lower Mails income and higher staff costs as shown on page 6.

Network Transformation

The programme is ahead of plan at P11 both for contracts signed and branches transformed.

Cumulative EBIT pre exceptionals**£m Total Net Income - Budget to Actual Bridge****Financials**

Total Net Income (excl NSP) £m (Bonus 20%)

Operating profit £m (Bonus 25%)

Free cashflow £m

Crown Profit (Loss) £m (Bonus 12.5%)

Non Financials

Queue time % < 5 minutes - Top 1k branches

NT Branches Transformed In Year (Bonus 12.5%)

Year to Date		
Act	Target	Var
IRRELEVANT		

Profit & Loss Statement

February 2015

Strictly Confidential



£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	Q3 Forecast	Budget	Variance	Outturn
TOTAL GROSS INCOME	<h1>IRRELEVANT</h1>													
Cost of Sales														
TOTAL NET INCOME														
Staff Costs														
Subpostmaster Costs														
Non-Staff Costs														
Depreciation														
Total Expenditure (pre P00C)														
FRES - Share Of Operating Profits														
EBIT - BAU														
One off Project costs (P00C)														
EBIT - Post Project Costs														
Network Payment														
EBIT pre exceptionals items														
Interest														
Impairment														
Exceptionals (incl BT) & Redundancy & Severance Costs														
Government Grant Utilisation														
Profit/(Loss) On Asset Sale														
Total Profit/(Loss) Before Tax														

Period vs. Budget

Operating profit (EBIT) of [IRRELEVANT] was [IRRELEVANT] favourable to budget.

BAU was [IRRELEVANT] favourable:

- **Higher net income of [IRRELEVANT]** due primarily to higher Gov. Servs. income of [IRRELEVANT] including [IRRELEVANT] for the recognition of the new POCA contract charges (effective from 1 December), offset by lower Mails income which was [IRRELEVANT]
- **Lower staff costs of [IRRELEVANT]** the month mainly due to the lower bonus accrual and true-up of the LTIP accrual for performance.
- **Lower subpostmaster costs of [IRRELEVANT]** due primarily to lower sales (through branch network), VAT upside of [IRRELEVANT] and smaller savings relating to Network Transformation impacts.
- **Lower non staff costs of [IRRELEVANT]** driven primarily by brand and marketing fees.

One-off project costs variance of [IRRELEVANT] favourable due to a true-up transfer to exceptionals for Business Transformation costs.

Below EBIT

Period variance is due to [IRRELEVANT] severance charge in respect of Wave 1 [IRRELEVANT] and additional Crown franchises [IRRELEVANT] and a transfer of [IRRELEVANT] in respect of the Business Transformation Programme, both without budget. Finally the NT actual was [IRRELEVANT] v budget [IRRELEVANT]

YTD vs. Budget

Operating profit (EBIT) of [IRRELEVANT] was [IRRELEVANT] to budget.

BAU was [IRRELEVANT]

- **Lower net income of [IRRELEVANT]** due primarily to the continuing adverse income trend; Mails [IRRELEVANT] specifically labels and Dangerous Goods, Home Shopping Returns (HSR), and Lottery, Telecoms [IRRELEVANT], Government Services [IRRELEVANT] mainly POCA and FS income [IRRELEVANT], specifically stretch, Travel and Insurance offset by Banking, Premium Bonds and MoneyGram.

Offset by:

- **Lower staff costs of [IRRELEVANT]** mainly due to the lower bonus accrual, offset by the savings task not being achieved [IRRELEVANT] from Supply Chain and [IRRELEVANT] from Commercial) and the Crown pay deal.
- **Lower subpostmaster costs of [IRRELEVANT]** due primarily to lower income and sales mix [IRRELEVANT] VAT recovery [IRRELEVANT] and other small variances relating to NT changes.
- **Lower non staff costs of [IRRELEVANT]** driven by improved VAT recovery of [IRRELEVANT] (relating to the prior year) and [IRRELEVANT] relating to this year, offset by the [IRRELEVANT] provision for client compensation, impact of the centrally held savings task not being fully achieved [IRRELEVANT] accrued for Mails Segregation penalty payment and higher postage costs.

One-off project costs variance of [IRRELEVANT] adverse mainly due to unbudgeted project Sparrow (FYF [IRRELEVANT] Eagle YTD [IRRELEVANT] and unbudgeted strategy consultancy costs.

Below EBIT

Impairment is significantly below budget due to underspends in the IT Delivery and Supply Chain programmes.
Exceptionals is close to budget following the high P11 spend with NT and CT underspends offsetting a budgeted cost challenge [IRRELEVANT]

YTD vs. Prior Year

Operating profit (EBIT) of [IRRELEVANT] was [IRRELEVANT] to prior year.

Like for like BAU favourable variance of [IRRELEVANT] was mainly due to:

- **Higher net income of [IRRELEVANT]** The variance versus prior year is driven primarily by higher Financial Services (Moneygram, Mortgages, Savings and Insurance) revenue, offset by lower Government Services income, mainly POCA and Telecoms.
- **Lower staff cost of [IRRELEVANT]** driven primarily by a lower productivity bonus and Crown savings.

- **Lower subpostmaster costs of [IRRELEVANT]** which relates to improved VAT recovery.

Offset by:

- **Higher non staff costs of [IRRELEVANT]** due to [IRRELEVANT] client compensation provision this year, increased IT costs (mainly Horizon and ATOS) and higher marketing spend (including some switched from P00C) offset by improved VAT recovery.

Non like for like adverse variance of [IRRELEVANT] was due to:

- Lower Network payment of [IRRELEVANT] and
- Higher project costs of [IRRELEVANT]

Below EBIT

Included in grant utilisation this year is [IRRELEVANT] 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 [IRRELEVANT]

Crown Profit & Loss Statement

Strictly Confidential



February 2015

£m	Period			Prior Year Period		YTD			Prior Year YTD		Full Year			Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q3 Forecast	Budget	Variance	Outturn
Income and Distributions	IRRELEVANT													
Variable income														
- Mails														
- Financial Services														
- Government Services														
- Telecoms														
Fixed income														
Gamma/ Other														
Renewals and Retentions														
Total Income including Gamma/other														
Branch costs -	IRRELEVANT													
- Staff														
- Property														
- Other branch costs														
Infrastructure costs														
Allocated central costs														
Total Expenditure														
JV Share of Profits														
Statutory PBIT														

Summary

Income:

Income is **IRRELEVANT** 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. There is also an impact of delayed franchising.

Line by Line variances are as follows:

- Variable sales income is **IRRELEVANT** 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 **IRRELEVANT** higher than plan.

- Staff costs are **IRRELEVANT** 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 branch vacancies, including Financial and Mortgage specialist.
- Other branch costs are on target.
- Central Costs are **IRRELEVANT** 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. There is also an impact of delayed franchising.

Cost Management update February 2015

Strictly Confidential



Progress since P10 update

Value and confidence

The Cost Reduction Group (CRG) has continued to drive cost management and the in-year delivery of "line of sight" initiatives amounting to **IRRELEVANT** (as per P9), although the focus has shifted to the challenge included in the 2015/16 cost budget.

Original Cost Management Programme

Additional Cost Challenge to achieve budget

Central Stretch to achieve budget

Total Budget Cost Challenge

Additional Challenge from Q1 EBITDAS gap

Q2 underperformance adjustment

Total Current Cost Challenge

Current "Line of Sight" forecast

Gap to **IRRELEVANT**

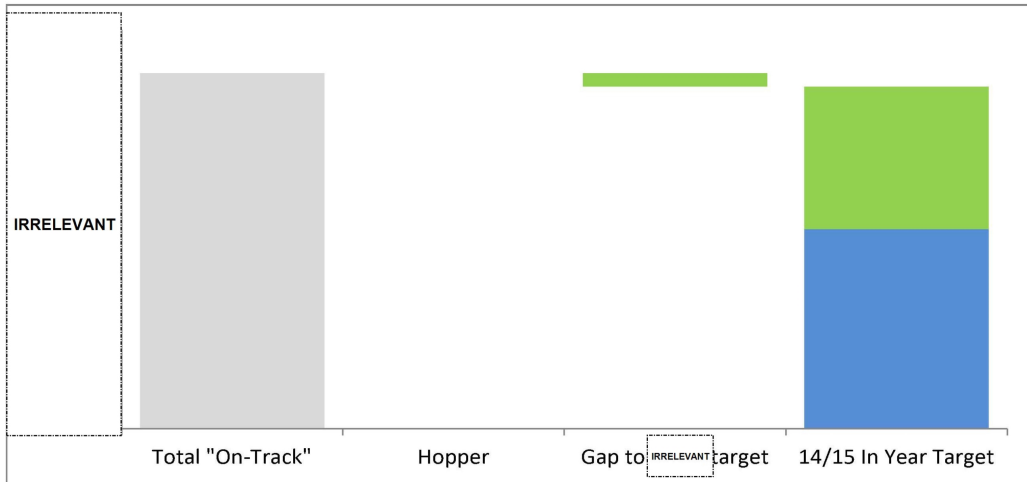
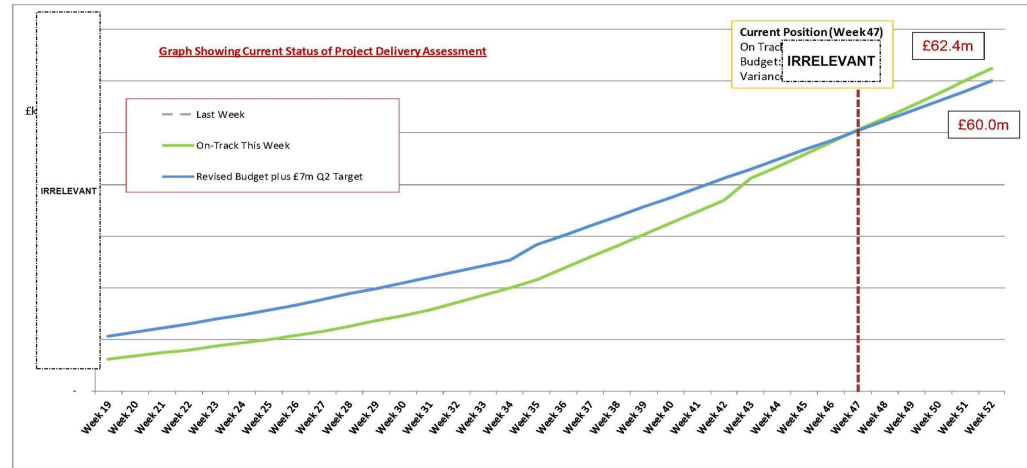
Delivery and governance

The focus has been on driving existing projects to conclusion to achieve the in-year financial targets. 121 meetings have continued to concentrate on a "snagging list" approach to ensure completion of the initiatives and extraction of the full in-year value.

Strategic initiatives for FY15/16 and beyond

Work continues to define the scope and timing of 2015/16 cost saving initiatives and the impact on subsequent years.

The expectation is now for **IRRELEVANT** of run rate cost savings by March 2016, from the original baseline. This represents an **IRRELEVANT** from the original **IRRELEVANT** challenge and reflects the ongoing challenging trading conditions in the market.



Cashflow Analysis

February 2015

Strictly Confidential



YTD Cashflow								
£m								
IRRELEVANT								
EBITDAS	Client & Network Cash	Working Capital Inc Interest, tax, pensions, other	Capital expenditure	Redundancy provisions and exceptionals	Cashflow before Subsidy	Network Payment	Govt Funding	Free cash flow

YTD Cashflow Variances							
£m							
IRRELEVANT							
YTD Budget	Operating profit	Network Cash	Working Capital Inc Interest, tax, pensions	Client Balances	CapEx and Exceptionals (mainly NT)	YTD Actual	

Network Cash

£m	Prior Year	Mar-14	Actual		
		Opening	Actual	Budget	var
Retail, Cash Centres		IRRELEVANT			
Bureau					
Cheques, debit cards					
Network Cash					

	Opening	Actual	Budget	var
Headroom (£m)		IRRELEVANT		

Cashflow

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

P11 cash outflow of **IRRELEVANT** favourable to budget of **IRRELEVANT** outflow.

The favourable variance is mainly due to:

- Client balances are **IRRELEVANT** of which **IRRELEVANT** is because of a cap of **IRRELEVANT** on Transcash payments introduced by Santander to reduce fraud (previously there was effectively no limit). This reduced the amount paid over the counter for Transcash transactions and therefore amount owed to Santander. DVLA is **IRRELEVANT** adverse reflecting reduced volumes. Other clients offset, notably NS&I, UKBA and Payout.
 - Working capital is **IRRELEVANT** and includes the impact of lower creditors than budget reflecting a slower pace of spend on capital than anticipated and seen in previous months and lower general accruals impacted by the cost reduction activities. Debtors levels are higher than budget across the board, being trade debt and accrued income and also Bank of Ireland marketing spend recoverable.
 - Operating profit is **IRRELEVANT**
- Offset by:
- Capital and Exceptionals are **IRRELEVANT** favourable to budget due to the following underspends; Capital **IRRELEVANT** Crown Transformation **IRRELEVANT** Network Transformation **IRRELEVANT** and other programmes including separation **IRRELEVANT** adverse.
 - Network Cash **IRRELEVANT** favourable due to tight control.

£m	YTD			Q3	Full Year
	Actual	Budget	Variance	Forecast	Budget
EBIT	IRRELEVANT				
Working Capital					
Client Balances					
Network Cash					
Capital Expenditure					
Government funding					
Exceptional Items					
Other (including interest and tax)					
Operating Cashflow					

Business Scorecard

February 2015

Strictly Confidential



Key Performance Indicators	Current Month			YTD			YTD	Full Year			2013-14
	Act	Target	Var	Act	Target	Var	Prior Year	Q3 F'cast	Target	Var	Outturn
Growth											
Total Net Income (excl NSP) £m (Bonus 20%)											
Operating profit £m (Bonus 25%)											
Earnings before ITDA and Subsidy £m*											
Free cashflow £m											
Customer											
Customer Satisfaction**											
Easy to do business with (Bonus 15%)**											
Net Promoter score**											
Queue time % < 5 minutes - Top 1k branches											
Branch Compliance - Financial Services - basket of 11 measures											
Branch Compliance - Inland Dangerous Goods **** ^											
Branch Compliance - International Dangerous Goods **** ^											
People											
Engagement Index % (Once a year April) (Bonus 15%)^^											
Subpostmaster Engagement Index % (Once a year)^^											
Post Office Values the diversity of the workforce (Once a year April)^^											
(No.) % of BME appointments over total recruits at senior leadership and senior manager											
(No.) % of Female appointments over total recruits at senior leadership and senior manager											
Modernisation											
Crown Profit (Loss) £m											
Crown Profit (Loss) Run Rate £m (Bonus 12.5%)^											
NT Transformations - contract signatures ***											
NT Branches Transformed In Year (Bonus 12.5%)											

IRRELEVANT

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

February 2015

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



		Current Month %			Ave £'s per branch	Actual Sample Size						
Key Performance Indicators		Actual	Control Group	Var	Var							
POL	Finance Approved Investment per Mains £000	IRRELEVANT										
	Total Income: Post vs Pre Conversion											
	Branches live 6-12 months											
	Branches live 12-24 months											
Agent	Agents Remuneration: Post vs Pre Conversion											
	Branches live 6-12 months											
	Branches live 12-24 months											
	Customer Sessions											
	Branches live 6-12 months											
	Branches live 12-24 months											
	Operator Feedback on Retail Sales Performance											
	Operator Satisfaction											
Customer	Average Increase in Opening Hours						1					
	Customer Satisfaction											
	Queuing Times											

Mains

Branches that have been converted to a Mains model for more than 6 months have consistently outperformed 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

February 2015

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



Key Performance Indicators	Current Month %			Ave £'s per branch	Actual Sample Size
	Actual	Control Group	Var	Var	

LOCALS

POL	Finance Approved Investment per Local £000
	Total Net Impact: Post vs Pre Conversion
	Branches live 6-12 months
	Income
	Actual Fixed pay savings
	Actual Net impact
Agent	Branches live 12-24 months
	Income
	Actual Fixed pay savings
	Actual Net impact
	Customer Sessions
	Branches live 6-12 months
Customer	Branches live 12-24 months
	Operator Feedback on Retail Sales Performance
	Operator Satisfaction
	Average Increase in Opening Hours
	Customer Satisfaction
	Queuing Times

IRRELEVANT

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. Versuses control group in period one was [RELEVANT] and is currently running at [RELEVANT]

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.
- Corrective action taken on Lottery from FCA 's has had a positive effect on the initial decrease in the specific product and is now on positive ground.

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

Approval of the 2015-16 Financial Plan and Scorecard

1. Purpose

- 1.1. The purpose of this paper is to seek Board approval of:
 - (a) the financial plan for 2015-16; and
 - (b) the KPI scorecard and STIP bonus measures for 2015-16.
- 1.2. The Board is tolerant of risk-taking which will grow sustainable EBITDAS, seeks risk that will reduce dependence on subsidies and wishes to ensure that sufficient funding is always available.

2. Background

- 2.1. In January, the Board reviewed a draft financial plan for 2015-16. The review and challenge process was underway but incomplete.
- 2.2. Income was expected to increase by [IRRELEVANT] to [IRRELEVANT] EBITDAS showed a reducing loss, from [IRRELEVANT] to [IRRELEVANT] matching the reduction in network subsidy. The progress to commercial sustainability was slower than in the Strategic Plan, which showed break-even in 2015-16.
- 2.3. The Board challenged the submission, requesting a plan that is realistic and deliverable. A [IRRELEVANT] contingency should be sought through further cost reductions.

3. Progress

- 3.1. In addition to a series of specific review meetings, the Group Executive (GE) has reviewed the plan on two further occasions.
- 3.2. The GE is recommending a financial plan for 2015-16, which has: income reduced by [IRRELEVANT] with some mitigation in lower subpostmaster costs; [IRRELEVANT] of additional cost reductions; and which retains the EBITDAS target at [IRRELEVANT]
- 3.3. The changes to income reflected [IRRELEVANT] of specific amendments. In addition, we reviewed the plan for underlying optimism bias. We considered a number of material decision points, noting that the underlying submission reflected the best possible individual and collective outcomes. We have therefore reduced income by a further [IRRELEVANT] creating pillar level income contingencies.
- 3.4. The GE agreed a further [IRRELEVANT] of cost reductions, [IRRELEVANT] in agents pay and [IRRELEVANT] in operating costs. All of the challenges have been allocated to GE members and accepted. Some [IRRELEVANT] is currently ungrounded.

Strictly Confidential

- 3.5. The plan shows POL operating within its funding envelope. The headroom at the end of 2015/16 is forecast to be [IRRELEVANT] compared to a minimum target of [IRRELEVANT] his assumes planned capital and investment spend of [IRRELEVANT] The main components of the spend are Network and Crown Transformations [IRRELEVANT], IT [IRRELEVANT] and Hawk [IRRELEVANT]. To hit [IRRELEVANT] requires ongoing rationing and challenge against the portfolio of business submissions.
- 3.6. The slides outlining the recommended plan are attached as Annex A, which is in the Reading Room because of its length.
- 3.7. A Key Performance Indicator scorecard, including proposed bonus metrics, has been discussed with the Remuneration Committee and is attached as Annex B.

4. Delivery

- 4.1. We continue to work on ensuring that the plan is fully grounded, embedded in the organisation and will be delivered.
- 4.2. Work is ongoing to ensure that all income plans are absolutely granular and data driven, by product. On costs, the structure that drove 2014-15 reductions is being realigned to support next year's targets: p/l rather than run rate driven and reflecting the changes in organisational structure. Fortnightly cost challenge sessions will be held with individual executives and collectively with the Executive Team.
- 4.3. A considerable amount of work has been undertaken by the Transformation Director and the CIO to develop a single change plan for the business. This has largely been completed and the directorates are working through the implications for their plans. This work is especially critical in a year of limited change through Horizon, as we move towards replacement. A new, single change governance process has been established to ration and prioritise access to funding, the network and the systems.
- 4.4. The GE agreed that [IRRELEVANT] of marketing spend would be held back until September to ensure that we have the capacity to back the areas of greatest potential impact in H2.
- 4.5. We are working through a process to ensure that these targets are consistently embedded in the personal objectives of the SLP (which make up [IRRELEVANT] of the potential awards).

5. Realism and Risk

- 5.1. The Board's primary concern in January was to ensure that it had a plan which was realistic and deliverable following the experience in 2014-15.
- 5.2. The recommended plan is substantially more realistic than both the previous year's plan and the draft submission in January. However, the existence of some income contingency at pillar level should not be confused with a plan that is prudent or easily deliverable. The contingency is simply designed to mitigate optimism bias.

Strictly Confidential

- 5.3. The additional cost challenges have been allocated and accepted. These should be substantially within our control and the business has demonstrated its ability to take cost out. The Board will want ongoing assurance that the challenges are being grounded and deliverable but they appear realistic today.
- 5.4. Some significant, potential developments are not modelled in the plan:
- The plan assumes no significant market changes in 2015-16 and no material changes to competitor positioning. As a result, the Mails business substantially retains market share. This has been reviewed product by product and the trajectories appear sensible and have been aligned with RMG's expectations.
 - RMG has signalled a desire to discuss changes to the **IRRELEVANT** which governs our commercial relationship. Anticipating that, as agreed at the January Board, we have started work to ensure that we understand how the Mails business needs to develop, with a negotiating strategy with RMG as a by-product of the work. The plan assumes no material changes in 2015-16.
 - **IRRELEVANT**
c. **IRRELEVANT** in 2015-16, **IRRELEVANT** on an annualised basis.
 - Following the election of a new government, we expect that a new spending plan will be required for 1, 3 or 5 years. Our plan assumes no change to the current funding agreement.
 - As ever, the **IRRELEVANT**
IRRELEVANT We are currently carrying a **IRRELEVANT** on staff costs.

6. Opportunities

- 6.1. A number of opportunities have been built into the plan:
- Identity verification is assumed to contribute **IRRELEVANT** of revenue from a standing start
 - Our plan assumes renewal of the NS&I contract in September at similar rates to today. This has been flagged as a contentious issue by BIS. If the contract was not renewed, **IRRELEVANT**
 - Hawk is assumed to complete early in 2015
 - Telecoms plans assume that a further price increase is possible in January 2016
 - Network Transformation enables further fixed pay savings of **IRRELEVANT** (cumulative **IRRELEVANT**) and an increase in the variability of costs from 77% in 2014-15 to 81% in 2015-16.
- 6.2. The GE has identified three further strategic opportunities, which do not contribute materially to the plan, delivering just **IRRELEVANT** of planned income in aggregate. However, they have potential to do more and will be tracked as though they were part of the core plan. The three are: identity verification services; additional services for banks withdrawing branches; and additional opportunities in financial services sales. In financial services, the focus is on improving online journeys to increase digital income.

Strictly Confidential

- 6.3. A further commercial opportunity exists. Finally, the business has access to profitability information which shows the direct contribution, the indirect contribution and EBIT by product. This has been approved, with minor changes, by the Commercial Committee and is now being rolled out across the commercial teams. This should enable us to prioritise more profitable products, review the portfolio for small, loss-making products that could be discontinued and challenge pricing/cost structures, debating better outcomes with key suppliers. A comprehensive review, Product Simplification, has started.
- 6.4. None of this is straightforward. Many changes would have to be negotiated with third party clients and the impact on the network would have to be considered and, if material, agreed. However, it should enable better bottom line outcomes over time. Direct product contribution should be the primary KPI for commercial product and marketing managers in 2015-16 scorecards.

7. Reacting to events

- 7.1. In aggregate, while recent income weakness may continue to play into the early part of the year and cost challenges still have to be grounded, the plan appears balanced but stretching. However, events such as aggressive RMG action, a changing financial settlement from Government or the emergence of new competitors could take us below plan.
- 7.2. In the shorter term, it will be difficult to manage such changes through additional cost cutting as happened in 2014-15: the current plans already contain risk. The immediate option, which reduces over the course of the financial year, is to cut discretionary spend like marketing, to the detriment of the business.
- 7.3. A 3 or 5 year plan discussion with Government would take discussions beyond the current agreement and focus us on any residual, uncompetitive areas of our cost base. Such discussion may also be triggered by the triennial valuation of the pension scheme. We have assumed no costs or benefits for fundamental changes in 2015-16.

8. Three Year Plan

- 8.1. As a result of structural market changes in Mails and the failure of intended Government revenue to crystallise, delivery of the Strategic Plan is taking longer than originally assumed. The Board should debate a number of key questions at its May meeting and June awayday, including:
- the potential impact of product simplification;
 - the outturn of the Mails review, with any implications for the relationship with RMG;
 - alternative sources of revenue;
 - the plan to tackle the residual areas of uncompetitive cost;
 - digital strategy; and
 - IT delivery, awarding the front office procurement contracts.
- 8.2. The Board will be asked to approve: a revised three year plan; and a document for an incoming government that demonstrates the benefits of the plan, the returns on investment and alternative options.

Strictly Confidential

9. KPI Scorecard

9.1. The KPI scorecard includes a number of changes agreed with the Remuneration Committee:

- the financial targets focus on EBITDAS with a lower allocation to income
- a measure of increasing digital income has been included
- cashflow, incorporating the substantial capital and exceptional spend, is on the scorecard but the Remuneration Committee didn't consider it should be bonusable
- the customer satisfaction measure has been split between NPS for Financial Services and Customer Effort for the whole business. The methodology of the Effort measure has been improved
- Subpostmaster engagement remains on the scorecard with a view to it becoming bonusable from 2016-17.

9.2. The business continues to believe that it would be commercially appropriate to have a threshold measure for income and profit, albeit asymmetric with the stretch target.

10. Recommendation

10.1 The Board is asked to:

- approve the financial plan for 2015-16, as set out in Annex A.
- to approve the KPI scorecard for 2015-16 and the STIP bonus measures, as set out in Appendix B.

Alisdair Cameron
March 2015



Annex B - 2015-16 Scorecard targets

March 2015



Draft 2015-16 Scorecard – proposed targets

				2015-16 Proposals			
Key Performance Indicators (2014-15 bonus % in brackets)	Metric Status	2014-15 %	2014-15 FYF	2015-16 %	Threshold	Target	Stretch
Commercial Sustainability							
Total Net Income (excl NSP) £m	Existing						
Operating profit £m	Existing						
Earnings before ITDA and Subsidy £m*	Existing						
Free cashflow £m	Existing						
Digital Net Income (measured using Credence)	New						
Customer							
Customer Satisfaction	Existing but changes						
Customer Effort Score	Existing but changes						
Net Promoter score – FS only	Existing but changes						
Net Promoter score – PO brand	Existing but changes						
Queue time % < 5 minutes – Top 1k branches -Perception of queue time	Existing but changes						
Compliance – Financial Services – basket of 11 measures	Existing						
Compliance – Inland Dangerous Goods	Remove						
Compliance – International Dangerous Goods	Remove						
People							
Engagement Index % (Once a year in March) (set on new measurement basis 2014-15 on old basis was 60%)	Existing						
Subpostmaster Engagement Index % (Once a year)	Existing						
New starter turnover	New						
Senior management representation – gender	New						
Senior management representation – ethnicity	New						
Post Office Values the diversity of the workforce (Once a year April)	Remove						
(No.) % of BME appointments over total recruits at senior leadership and senior manager	Remove						
(No.) % of Female appointments over total recruits at senior leadership and senior manager	Remove						
Modernisation							
Number of branches							
Crown Profit (Loss) £m	Existing						
Crown Profit (Loss) run rate £m	Remove						
NT Transformations – contract signatures	Remove						
NT Branches Transformed In Year	Existing						

IRRELEVANT

IRRELEVANT

Note that the cash flow budget will be amended once year end outturn is known.

The Crown P&L budget will be calculated from the final approved Post Office group budget.



Commercial Sustainability – basis for proposed targets

- Net income target proposal is in line with the budget with threshold and stretch set in line with 2014-15 **IRRELEVANT** lower for threshold, **IRRELEVANT** higher for stretch)
- Recommend a threshold for EBITDAS that is **IRRELEVANT** than the budget target proposal of **IRRELEVANT** loss. Stretch proposal at **IRRELEVANT** and aligns to the LTIP threshold
- Digital net income is based on Credence reporting with a target aligned to the **IRRELEVANT** net income budget and stretch proposed at **IRRELEVANT**
- The cashflow target is aligned to the draft budget but will be adjusted once year end outturn is known.



Customer –Customer Effort Score, Customer Satisfaction and Wait time trend data taken from Voice of Customer (feedback from customers visiting a branch)

Effort (Voice of Customer). Data shown P6-P11 14/15

64% 65% 67% 64% 62% 64%

P1 14/15 P2 14/15 P3 14/15 P4 14/15 P5 14/15 P6 14/15 P7 14/15 P8 14/15 P9 14/15 P10 14/15 P11 14/15

- Through this programme, frequent visitors hold slightly higher perceptions month on month of how easy it is to do business with the Post Office.
- The Christmas period also proved a pressure point across among these customers
- The average score has been 63-64% (although highs of 65% and 67% have been hit) and the target proposed is intended to be stretching but not unrealistic.
- The measure will cover more branches next year which may impact the score although we will be able to see a consistent score with this year if required.

- Based on the numbers seen through Voice of Customer from P6-P11 (YTD is 64%), a **suggested annual target of 64%**

Customer Satisfaction (Voice of Customer). Data shown P1-P11 14/15

87% 87% 86% 87% 87% 88% 88% 88% 86% 87% 88%

P1 14/15 P2 14/15 P3 14/15 P4 14/15 P5 14/15 P6 14/15 P7 14/15 P8 14/15 P9 14/15 P10 14/15 P11 14/15

- Customer Satisfaction through Voice of Customer (top 3 box) is a very stable measure, with limited scope for likely growth (i.e. late-80s is very high)

- Based on the numbers seen through Voice of Customer from P1-P11 (YTD is 87%), a **suggested annual target of 88%**

% served within 5 mins – (Voice of Customer). Data shown P1-9 14/15

74% 74% 74% 77% 79% 80% 81% 82% 71% 80% 81%

P1 14/15 P2 14/15 P3 14/15 P4 14/15 P5 14/15 P6 14/15 P7 14/15 P8 14/15 P9 14/15 P10 14/15 P11 14/15

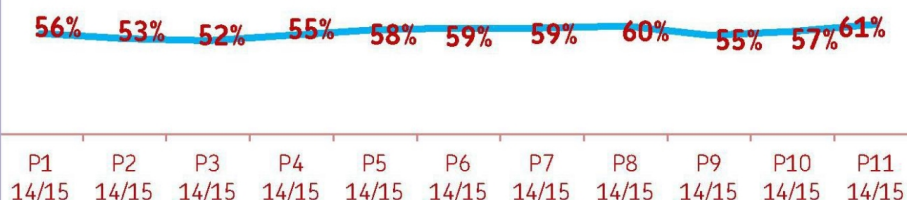
- Voice of Customer vs. Mystery Shopping – the two show a very similar trend over time
- There is a similar picture when splitting this by Crown, Agency and WHSmith

- Based on the numbers seen through Voice of Customer from P1-P11 (YTD is 78%), a **suggested annual target of 78%**



Customer – Brand-level NPS taken from Voice of Customer (feedback from customers visiting a branch)

NPS (Voice of Customer). Data shown P1-P9 14/15



- NPS – at a brand-level – is not currently asked on the Voice of Customer programme. The last time it was asked was it was +41
- However, visit reason/product-level NPS is asked, and this can be aggregated up to give a 'brand-level' view, grounded in why people have engaged with the brand via a branch. This means it is asked in a way that is more relevant, and easier to understand for customers, while making the amalgamated score broadly representative of the Post Office customer base
- Based on the numbers seen through Voice of Customer from P1-P11 (YTD is 57%), a **suggested annual target of 57%**



Customer – Net Promoter Score for Post Office Money

NPS Data shown P6-P11 14/15

IRRELEVANT

P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11
14/15	14/15	14/15	14/15	14/15	14/15	14/15	14/15	14/15	14/15	14/15

Brand & Industry		Base Sizes	
Brand	Industry	Unweighted bases	NPS 2013

IRRELEVANT

- We know that our currently NPS is over inflated due to the fact that we only carry out telephone customer surveys at present, and our results are not based mainly on current account, as with most high street banks.
- Throughout 15/16 it is planned to move towards a percentage of our surveys to be carried out through IVR's and SMS, where customers will be far more open to be critical than they are over the phone. For 15/16 we will maintain the telephone only score while we establish the benchmark for the different approach with a view to targeting on the new approach in 16/17.
- As we increase our current account holdings our NPS score will almost certainly decline as peoples expectations are always higher of their current account provider than they are for instance their car insurance provider. (average bank NPS is between -5 and 5). Maintaining the current score will therefore be challenging.
- Our current cross product holding is circa 1.25 and again as we drive this towards 2 and customers have multiple product holdings, their expectations rise and NPS as a result will suffer.
- Our NPS can be split by product, customer type and channel, and whereas we can mainly influence sales (rather than service and passive) customers and our telephony channel is mainly run by 3rd parties, they all have a brand impact on Post Office Money so it is recommended that the overall NPS score for FS is used as the measure.
- For comparison, recent NPS scores from other FS providers are shown in the table indicating that the Post Office score is currently high. As the Post Office develops as an FS provider, we might expect the score to drop more in line with competitors.

• Based on the current trend and planned changes to customer type a **suggested NPS annual target is 25 with a stretch to 27**



People – basis for proposed targets

- Employee Engagement
 - Target of +1 based on continuing to increase engagement during period of business transformation. The stretch of +3 is based on hitting the Hay Group external retail benchmark norm (65).
- Postmaster Engagement
 - Target of +2 based on continuing to increase engagement with postmaster population. We are still awaiting full breakdown of 14/15 results that will highlight differentiation between transformed branches – which we expect to achieve higher engagement levels.
- New Starter Turnover
 - The measure is calculated as leavers with up to 12 months service vs. total population with up to 12 months service. As there is a moving top line the monthly spikes/drops could be severe so reporting on a quarterly basis will provide a better trend
- Representation Gender
 - Like for like 13/14 actual figure was 35.9%, so 15/16 target of 0.5% increase rationalised by turning a 0.4 decrease into a 0.5 increase. Target set in wider context of 40% senior managers female by 2020.
- Representation Ethnicity
 - 15/16 target set in wider context of 10% of senior managers BME by 2020.

Strictly Confidential**POST OFFICE LTD BOARD****Update on strategic options for the telecommunications business****1. Purpose**

The purpose of this paper is to:

- 1.1. Update the Board on progress in reviewing the alternative strategic options for the telecommunications business (telco).

2. Background

- 2.1. The strategy for telco has not been reviewed in detail since the preparation of the 2013 Strategic Plan – it was not an explicit part of the work done for last year's June Board away day, other than to reach the high level conclusion that it was a secondary pillar rather than one of our core strategic priorities of mails and financial services. The Executive Committee therefore agreed in November 2014 that a review should be undertaken of the strategic options available to us for the telco business, and in particular whether it should be retained as part of our group portfolio or divested to release capital and reduce management distractions.

3. Activities/Current Situation

- 3.1. Having lost around 25,000 HomePhone and Broadband (HPBB) customers between September 2013 and July 2014 as a result of the call centre issues associated with the migration from BT to Fujitsu, the performance of the business has started to improve during the second half of this financial year, with a forecast net addition of 5,000 customers.
- 3.2. A price increase of £2 per month on the Home Phone service was executed successfully in January 2015, delivering an annualised profit improvement of £7 million. Plans are in place with the network and other distribution channels to deliver a net increase of 20,000 customers in 2015/16 (taking the total base to 475,000 customers by end 15/16). Together with the proposed £1.00 monthly price increase from January 2016, telecoms is forecast to generate a direct product contribution (DPC) in 2015/16 of [IRRELEVANT] a [IRRELEVANT] year on year increase. These growth plans are supported by [IRRELEVANT] investment to introduce fibre based broadband in Q2 and develop our internet security product ('Post Office Safeguard'). The scope for further price and volume growth in subsequent years is outlined in the next section.
- 3.3. Our default strategy in the short term is therefore focussed on maximising the positive contribution the business makes to our central overheads, thereby supporting our path to profitability over the next three to four years. However, recognising the challenges we face in remaining competitive in this market in the long term, we have also started to assess whether greater value could be realised through a divestiture to a third party. To inform this assessment in November we commenced a preliminary dialogue with BT and Fujitsu (under NDA) to: a) estimate the potential market valuation of our business under a full disposal; and b) to assess whether there is appetite for a franchising or merger arrangement which would retain a role for the Post Office brand within the telco market, but with a third party taking on responsibilities for running the business. The preliminary conclusions of this dialogue are set out in the next section.

Strictly Confidential

3.4. Separate to the HomePhone and Broadband business, our planned launch of mobile was delayed from November 2014 to May 2015, primarily to improve our financial outlook this year by reducing marketing spend within Q4. The delay has also allowed more time for rigorous testing through a friendly user trail with colleagues and relations. We are proposing to also stagger the roll-out of the mobile launch through a consumer trial in the North West region, with clear check points in place to review trading performance before committing to further investment. It should be noted that mobile will dilute EBITDAS by around [RELEVANT] million over the first two years of trading before becoming profitable in year 3.

4. Options considered and commercial impacts**4.1. Option 1: Retain the telco business and maximise DPC**

- The UK telco market is mature and our competitors have far greater marketing firepower and more compelling bundled 'quad play' propositions. Therefore our right to play in this market remains confined to a limited, value-focused segment, particularly amongst the over 65s. While we have a relatively strong position (second behind BT) in the profitable HomePhone only market, this segment is clearly facing structural decline over the longer-term.
- Nonetheless, as noted in the previous section, telco provides a positive DPC to the overheads of the business, thereby indirectly supporting our strategic priorities in mails and FS, and also provides a useful degree of diversification during a period when we are facing significant structural challenges in the mails market.
- Furthermore, we are projecting a c5.5% annual average customer growth over the next 3 years and expect the DPC to improve at a higher rate due to continued annual price increases, reflective of a rational market with BT as a price leader. Under our 'balanced' growth scenario, we project gross income to increase from [RELEVANT] in 2014/15 to [RELEVANT] in 2017/18, delivering [RELEVANT] DPC by year 3. This assumes that we maintain our current price differential and increase prices only in line with market. We also have the option of reducing the price differential versus BT on HomePhone in order to maximise the DPC, but with some potential trade off against longer-term value.
- Telco also places limited demands on the wider Post Office group, both in funding terms (capex over the next 3 years is estimated at [RELEVANT]) and operating model requirements. In particular, in the context of the constraints and risks associated with our IT transformation plans, telco has the significant advantage of being serviced by an independent technology platform at Fujitsu with limited interface requirements with Horizon and its replacement system.
- The product is also predominantly traded online and through call centres (accounting for 70 % of projected sales in 2017/18), limiting the demands on the network during the deployment of Front Office.

Strictly Confidential**4.2. Option 2: Sell the base of customers to a competitor and exit the business**

- Estimated value [IRRELEVANT] million, based upon a market tested price of [IRRELEVANT] per Broadband customer and an estimated price of [IRRELEVANT] per Homephone customer.
 - [IRRELEVANT] is the most likely purchaser of the combined base, as other competitors are less likely to be interested in Homephone customers. There is a possibility that we could split the customer base and sell to different parties; in this instance the likely purchaser of the Dual Play base would be [IRRELEVANT] at a small premium, while [IRRELEVANT] remain the target purchaser of the Homephone Base.
 - The write off of the technology investment in the Fujitsu solution is projected at the end 2015/16 as [IRRELEVANT]
 - In the event that the Mobile Business is not considered viable, at the conclusion of the consumer trial, or the Telephony Business is sold, [IRRELEVANT]
[IRRELEVANT]
- Initial discussions with [IRRELEVANT] were constructive, but were paused in January due to their [IRRELEVANT] announcement and an Ofcom review of the broadband market impact. However, [IRRELEVANT] has continued to express interest in renewing the dialogue in May/June. Fujitsu has not at this stage expressed enthusiasm for either an acquisition or franchising arrangement, on the grounds that owning a telco franchise is not part of their core business model (although they remain keen to continue working with us under the current arrangement).
- Divesting of the business would arguably reduce management distractions from core priorities in mails and FS. However, financially the question is whether the opportunity cost of not disposing of the business to release [IRRELEVANT] of capital is greater than the [IRRELEVANT] of annual DPC which we believe is achievable by retaining the business (we have not identified any material central costs which would be saved if we no longer had a telco business, and therefore this loss of DPC would be largely unmitigated).
- At this stage we have not identified alternative investment opportunities which clearly deliver a greater risk-adjusted annual return and which would only be affordable if we were to divest of telco. However, this will be kept under review as part of the next stage of work to refine and prioritise (by pay back) the options for spending against our limited discretionary investment budget, with a further update provided as part of the 3 year plan in May/June.
- There is also potential for brand damage should customers feel unhappy about being transferred to another provider, and also an undermining of network confidence in the growth aspirations of the Post Office (notwithstanding the fact that 60 % of HPBB sales are via non-network channels).
- Finally, it should be noted that shareholder approval would be required for a disposal of telco (both because this is an explicit deviation from the Strategic Plan and there are specific obligations under the Articles for approval of disposals). Alongside the commercial considerations, BIS would wish to take account of the potential stakeholder, network, regulatory and competition implications of such a move.

Strictly Confidential**4.3. Option 3: Franchise the business or merge with another player**

- Depending upon the model selected, the Post Office would either earn a modest franchise fee, based on customer volumes, or would become a minority shareholder in a merged entity. In particular this could be a value enhancing move for both parties if one believes the Post Office brand is better leveraged using the capabilities and infrastructure of a larger player such as [REDACTED]. During our initial dialogue [REDACTED] expressed some potential interest in consolidating our business alongside their [REDACTED] subsidiary (which targets a similar value-focused segment of the market).
- This option has the potential benefit of reducing management distraction and risk by handing over operational control to a better qualified third party, and in financial terms could release both some upfront capital and maintain a recurrent annual dividend/royalty payment. (We do not yet have a reliable estimate of the potential value of these payments, but this is something we will seek to model as part of the next stage of work, informed by any further dialogue with [REDACTED] in the summer.)
- While management and operational distractions might be reduced by a franchising arrangement, we would need to build and maintain an effective framework and competence for managing our exposure to brand risks through the third party arrangements. As part of any proposed deal we would also need to assess arrangements over data ownership e.g. for use in cross-selling into our other product lines.

5. Proposal

- 5.1. Given the considerations outlined above and the fact that we have not (as yet) received a concrete expression of interest in either an acquisition of franchising/merger arrangement, at this stage our recommended default strategy is to retain telco within the corporate portfolio and seek to maximise the net cash contribution to the overall business over the next three years through the right combination of pricing, sales and investment levers.
- 5.2. In practice this is likely to mean keeping the investment in marketing and product development to relatively low levels compared with industry benchmarks, and maintaining the price differential vs. [REDACTED] in HomePhone over the period. The optimum pricing and marketing strategy will be reviewed ahead of the next expected price increase round in Jan 1 2016, based on the available evidence at that point and any regulatory considerations (e.g. the risk that Ofcom could seek to impose a price cap on line rental). We are planning a line rental increase of £1.00 effective January 1 2016.
- 5.3. However, recognising that: a) the value of the business in-house is likely to decline over the longer term; and b) it may be of greater value to a third party with greater synergistic opportunities, we would propose resuming the exploratory discussions with [REDACTED] in early summer, in order to obtain more reliable estimates of the financial impacts of the disposal and franchising options outlined above. These updated figures will then be considered alongside our latest assessment of alternative investment opportunities (including any arising from further consideration of the 'Plan B' options in mails or other areas) to understand the effective opportunity cost of retaining telco. A further update on this assessment will be provided to the Board at this point.

Strictly Confidential

5.4. In the event that we do decide that our preferred approach is to divest of the business, we would also look to increase the number of potential purchasers to create greater price tension.

6. Key risks and mitigation activities

6.1. Fujitsu's call centre sub-contractor Capita **IRRELEVANT**
IRRELEVANT
IRRELEVANT Given the challenges we experienced with the last migration, clearly any migration will need to be meticulously planned and adequately funded (by Fujitsu) to ensure the necessary staffing levels and training. We will ensure Fujitsu are fully aware of these requirements as part of any new contracting discussions.

6.2. In the event that a decision is made to either divest or merge the telco business, there is a risk that our homephone customer base in particular will be confused, leading to an increase in complaints and potential brand damage. This risk should be mitigated by the fact that the purchaser is likely to have significant experience in executing these types of migrations.

6.3. In the event that we elect to pursue a more explicit 'cash cow' strategy and increase line rental ahead of the market (e.g. £2.00 vs. an expected **IRRELEVANT** increase of £1.00), the total increase over 39 months would be in excess of 50%. This creates the risk of brand damage which we will need to evaluate in our future pricing decisions.

7. Conclusion

7.1. As set out above, telco has the potential to generate a rising direct product contribution reaching around **IRRELEVANT** by 2017/18. It therefore provides a useful source of diversification and meaningful contribution to the central overheads associated with our strategic priorities of mails and financial services, and this is the benchmark against which alternative corporate portfolio options should be assessed. We will continue to assess these alternative investment opportunities alongside further work to validate and quantify the economics of either a disposal or franchising/merger arrangement.

8. Recommendations

The Board is asked to:

8.1. Note the update on strategic options for telco set out above and agree the proposed next steps.

Martin George
March 2015

Evaluation of the Effectiveness of the Post Office Board – March 2015

1. Process

Following the first full Board evaluation carried out in summer 2013, the current Board evaluation was carried out by the Chairman based on interviews with all Board Directors and the Company Secretary in January and February 2015. It takes account of feedback from some members of the ExCo.

The key findings are set out below. The Chairman is separately giving feedback to the individual Directors on a personal basis.

2. Context

Prior to the beginning of this evaluation, the Chairman had announced her intention to stand down at the end of July after 4 years in the role. The SID had also let it be known that he did not intend to extend his term beyond his 4 year term which would end in the autumn.

A new CFO had joined the Board in January.

Discussion about the future composition of the Board should be seen in the light of these changes.

3. Overall Effectiveness

In general, the consensus was that the Board was continuing to grow in terms of its effectiveness and was doing “pretty well” at addressing the right issues in the right way in the best interests of the business and its shareholder.

The change of CFO provided a very positive opportunity to improve matters further and to rebalance the respective contributions of the non-executive and executive Directors. The Board should take conscious advantage of this.

The introduction of the new-style CEO report at the beginning of each meeting, providing an overview of the business and progress in implementing its strategy, was regarded as a significant improvement in terms of giving the non-executives an understanding of how things stood, and focussing the rest of the meeting. The non-executives attached great importance to the CEO owning the content of that report and opening the meeting by drawing out the key issues from her personal perspective so that they could support her and her team more effectively.

Several Directors said that it was important for the Board to focus its time and attention primarily on the issues which are key to the future success of the business in particular revenue growth (eg mails, financial services and digital). The Forward Look for future Board agendas could be used more effectively to ensure this happens.

Several Directors commented on the danger of the Board getting drawn into too much detail and becoming too “executive”. This had often happened where the executive’s contribution on an issue had not been strong and it was thought that the style and contribution of the new CFO could help the Board control that tendency where it was inappropriate. It was also suggested that where individual Directors were particularly interested in the detail of a particular issue, they should be encouraged to take this off-line.

There is a specific question about how “intrusive” the non-executives should be in relation to regulatory/compliance matters in relation to financial services on which there are different views round the Board table. The Board should discuss this.

A couple of Directors wondered whether the Board had become more risk averse and whether this was detracting from the need to drive growth. On the other hand, it was suggested that a more explicit articulation of key risks facing the business eg on a quarterly basis, might be helpful.

Overall, the executives value the Board's contributions especially on the commercial agenda. The NEDs were all thought to be well engaged in the business, knowing the key people and talking to them outside meetings when appropriate. The level of challenge is thought to be right but it was suggested that the Board could be more forthcoming with praise where it was due.

Many people commented on the dynamic around the Board table which they thought was very good. There were no "egos" on display; differences were aired frankly and it was felt that the non-executives did not pull their punches. The best discussions were those where the papers were clear; had been properly digested by everyone; taken as read; and the non-executives' questions and concerns were aired at the outset so that the discussion covered these thoroughly. The Chairman was recognised as someone who encouraged debate but it was suggested that she could sometimes bring discussions to a conclusion more briskly.

One Director commented that It was important that there was no loss of energy in the Board in the period before the current Chairman and SID stood down.

4. Organisation of the Board

Recently, Board agendas had become very packed and energy levels had flagged in the afternoons. The inclusion of a speaker during the lunchtime session had put further pressure on the use of time. Several people requested a clear break of at least 30 minutes for lunch. One Director suggested that meetings should be limited to 4 hours and another that the Board could sometimes meet the evening before the formal meeting to discuss issues which did not need to be decided formally, thus taking some pressure off the agendas.

It was generally thought that the Board papers had deteriorated in quality - they were far too long and insufficiently clear. One Director commented that the volume of papers for each meeting was about 4 times the volume of papers for other Board meetings attended. It was unclear who owned the quality of what came to the Board. Further work is needed here.

It was also suggested that the Board might meet in different Post Office venues as it had in the past, where there was business activity with which it could usefully engage.

5. Composition of the Board

With the forthcoming change of Chairman and SID, it is agreed that maintaining continuity amongst the remaining non-executives is important for the business. The new SID will need to complement the experience of the new Chairman so that between the two of them, they cover both the commercial and the government waterfronts. Given the range of business issues with which the Board needed to engage, there might be a case for adding an additional non-executive in the longer run. It would be helpful to recruit to the Board people who had IT and digital skills as well as knowledge of mails, and to broaden the diversity of the group.

6. Sub-Committees

The Remuneration and Nominations Committees were working well, addressing the right issues at the right time and reaching clear decisions when required.

The Audit and Risk Committee had taken longer than had been hoped to get to grips with some important key issues, such as risk, but progress had been made. The new CFO would put his stamp on this, and other changes in personnel would help here.

There is an issue, raised below, about the extent to which the ARC should engage in the financial services side of the business.

Members of the ARC are clear that meetings need to take place face to face rather than on the telephone and this has been addressed in the planning of future meetings.

The Pensions Sub-Committee had broken the back of its original agenda and in the future, should not need to meet more than a couple of times a year. But it was agreed that it should remain in existence and should be accorded appropriate executive support.

The two non-executive Directors on the Financial Services Sub-Committee both take the view that it should be wound up once the POMS Board is fully up and running under the Chairmanship of Steve Ashton. They believe that the Sub-Committee falls into the trap of becoming inappropriately executive; that the current arrangements allow for a lack of clarity about the role of the ARC in respect of FS matters and that the Sub-Committee is not a good use of non-executive time.

Instead they suggest that post Hawk:-

The POMS Board should take responsibility for all “in scope” insurance matters with updates provided to the ARC on an agreed basis to ensure that the ARC continues to have a company-wide oversight of this area of business;

The ARC should take responsibility for non-POMS related FS matters in a discrete section of its meetings to which at least one BoI representative should be invited alongside Nick Kennet and his team. Tim Franklin has offered to meet Nick Kennet ahead of each ARC meeting to ensure the right level of non-executive scrutiny and avoid detailed presentations or discussions.

This issue needs to be discussed and a way forward agreed with all concerned.

7. Issues

The focus of the Board’s time and use of the Forward Look in planning this.

Board members to flag when they think the non-executives are in danger of becoming too executive.

The Chairman to be quicker on drawing discussions to a close.

The length of meetings and use of afternoons/evenings before the formal Board meetings.

The quality of Board papers and who is responsible for assuring this.

The Board’s role on financial services regulation/compliance.

The future of the Financial Services Sub-Committee post Hawk.

In the longer term, after the appointment of the new Chairman, the size of the Board and possible widening of skills and experience represented.

Post Office Limited – Strictly Confidential

POLB 15(1st)
POLB 15/01 - 15/23

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

Minutes of a Board meeting held on 28 January 2015
at 148 Old Street, London EC1V 9HQ

Present:

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

In Attendance:

Alwen Lyons	Company Secretary
Neil Hayward	Group People Director (minute POLB 15/4-15/6)
David Ryan	Business Transformation Director (minute POLB 15/5-15/7)
Martin Edward	Head of Financial Strategy (minute POLB 15/5-15/6)
Lesley Sewell	Chief Information Officer (minute POLB 15/7 only)
Jane MacLeod	General Counsel (minute POLB 15/9 only)
Chris Aujard	General Counsel (minute POLB 15/9 only)
Arnout Van Der Veer	Head of Risk & Assurance (minute POLB15/9 only)
Martin George	Commercial Director (minute POLB 15/10 only)
Mark Siviter	Head of Mails (minute POLB 15/10 only)
Kevin Gilliland	Network & Sales Director (minute POLB 15/11 only)
Mark Davies	Communications & Corporate Affairs Director (minute POLB 15/12 only)
Tony Smith	Head of CPNI (minutes POLB15/8 only)

POLB 15/01

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting.

POLB 15/02

CHANGE OF DIRECTORS

- (a) The Board approved the appointment of Alisdair Cameron and noted that Chris Day would cease to be a director with immediate effect.

ACTION:
CoSec

- (b) The Company Secretary was authorised to make all the necessary filings with Companies House.

POLB 15/03

CEO'S REPORT

- (a) The CEO introduced her report and focussed on the following key areas for discussion with the Board:

Post Office Limited – Strictly Confidential

- ACTION:**
CEO
- (b) Cost Reduction The CEO was pleased to report the excellent progress made by the Business - the forecast was to overachieve the IRRELEVANT target by IRRELEVANT. She recognised the work done by David Ryan, Business Transformation Director, and stressed that the focus on cost reduction would continue into the new financial year. The first wave of staff efficiencies was taking place and planning for the second wave, focussed on managerial role was underway.
- (c) Finsbury Dials Teams would begin to move into the new 'Customer Support Centre' in March and the CEO informed the Board that it would be ready in time for the next Board meeting. The move would promote new ways of working including a Group Executive hub; more use of hot-desking and open plan areas; and a meeting room which could accommodate up to 300 people. The CEO promised to circulate a note explaining the new governance structure, including the Group Executive, but assured the Board that there was no change in the delegated authorities from the Board.
- ACTION:**
Mark Davies
- (d) It was proposed that the next Post Office Advisory Council (POAC) be held in the new office.
- ACTION:**
Pete Markey
- (e) FS Media coverage The CEO reported the excellent media coverage received for Post Office Money and the Financial Services Academy. A link to the new Post Office Money TV advertisement would be circulated as soon as it was available.
- (f) Banking Facilities The CEO explained that the Secretary of State was leading a debate on banking facilities and the role that Post Office could play and thanked Richard Callard for his support with this work.
- ACTION:**
Nick Kennett
- (g) Hawk The CEO focussed on the timescales for Project Hawk and the risk of further slippage. A Financial Services update would be given at the next meeting, including Hawk and POMS.

POLB 15/04

2014/15 FINANCIAL PERFORMANCE AND SCORECARD

- (a) The Board welcomed Neil Hayward, Group People Director, to the meeting.
- (b) The CFO gave the Board an update on:
- the financial performance in December 2014 and YTD;
 - the expected financial outcome for 2014-15; and
 - the expected outcome on the performance scorecard.
- (c) The CFO considered that in his opinion the IRRELEVANT revenue forecast still contained a degree of optimism. The Board discussed the revenue trajectory and the Q4 revenue required to achieve the forecast.
- (d) The Board asked when the new FS incentive scheme would be launched. Neil Hayward explained that the detail had been sent to the

Post Office Limited – Strictly Confidential

CWU on 18th December. The Board discussed the importance of retaining the focus on Treating the Customer Fairly as well as incentivising sales and agreed that the ARC should continue to monitor the FS sales risk measures.

ACTION:
Kevin Gilliland

- (e) The Board recognised the importance of Q4 for ISA sales and asked the Business to ensure that they had the necessary sales focus in place.

ACTION:
CFO

- (f) The Board discussed the telephony revenue and asked if the contract had been changed to rectify the revenue/cost disparity for increased customer usage. The CFO agreed to circulate a note to clarify.
- (g) The CFO highlighted that Q3 was the first quarter of the year to deliver an EBIT above plan and he was hopeful that the Business would be able to close the EBIT gap further in Q4.

ACTION:
Pete Markey

- (h) The Board discussed the scorecard and the poor performance on 'easy to do business with'. The CEO acknowledged the significant drop against target and last year's result. It was agreed that a note would be circulated to explain the change.
- (i) The CFO explained that Q4 still contained some big one-off risks and opportunities and that the EBIT could range from **IRRELEVANT** although he was comfortable with the **IRRELEVANT** currently being forecast. Likewise the Bonus could range between **IRRELEVANT** with a current forecast of **IRRELEVANT**.
- (j) The Board discussed the Crown P&L target and agreed to the principle that the initial **IRRELEVANT** Crown branches be analysed to produce a like for like breakeven analysis.
- (k) The Board noted the performance and improved full year forecast. The Board further noted that there were a number of key dependencies for this improved full year forecast to be achieved.

POLB 15/05

UPDATE ON THE 2015/16 OPERATING PLAN AND THREE YEAR OPERATING PLAN

- (a) The Board welcomed David Ryan, Business Transformation Director, and Martin Edwards, Head of Financial Strategy, to the meeting.
- (b) The CFO updated the Board on the preparation of the 2015/16 Annual Operating Plan and introduced the proposed approach to the three year plan, providing an interim update on the latest financial projections through to 2017/18.
- (c) An EBITDAS target of **IRRELEVANT** was proposed for 2015/16, continuing the improvement of the last three years but falling short of the breakeven target in the strategic plan.
- (d) The CFO explained that he believed that the Business was being over optimistic on revenue, especially in Mails, which had not factored in RMG's promotion of online postage. He did not think the level of over optimism was as significant as it had been in the 2014/15 budget but

ACTION:
Martin Edwards

Post Office Limited – Strictly Confidential

he wanted a more realistic approach in the budget and three year plan. The Chairman stressed the need for realism.

- (e) The CFO recognised the need for a [IRRELEVANT] contingency to support the [IRRELEVANT] EBITDAS target proposed for 2015/16. This would be built into the budgets agreed with individual functions. Neil Hayward reminded the Board that an EBITDAS target of [IRRELEVANT] would not hit the LTIP target, the Business would need to deliver an outturn of [IRRELEVANT] to trigger the LTIP.
- (f) The Board discussed the current risks and opportunities highlighted in the plan and the need to continue to focus on reducing costs. The CFO recognised the need to manage working capital to enable the Business to deliver the plan without further borrowing.
- (g) The CEO explained that the Business scorecard and bonus measures would be discussed at the RemCom in February.
- (h) The Board discussed the objectives for the three year operating plan, the first year of which would be the budget for 2015/16. The CFO promised a draft to the Board in March and the final plan in May.
- (i) The Board asked for a page showing the 2012/13 to 2017/18 strategic plan against the outturn for past years and the forecast for future years, to be included as a baseline in the three year operating plan.
- (j) Martin Edwards explained that the plan would contain milestones and change activity, along with major events and a log of material risks and opportunities. The Board asked that the plan showed the assumptions being made so that they could understand the choices available to the Business.

POLB 15/06

BUSINESS TRANSFORMATION

- (a) The Board thanked David Ryan for the focus he had set the Business on cost reduction and the performance to date.
- (b) The Board received an update from David Ryan on the Business Transformation Programme and the actions arising from the November Board. David Ryan reported that he now believed a [IRRELEVANT]

IRRELEVANT

ACTION:
David Ryan

- (c) David Ryan proposed that the Back Office Application Tower (BOAT) work, which had been suspended to consider alignment with the wider back office outsourcing, should now go ahead. The added risks and cost of any further delay to BOAT outweighed any possible small advantage. The Board agreed that the risks outweighed any benefits and that the Business should focus on the front office changes. David Ryan would circulate a briefing note to the Board once the final BOAT and back office timelines were agreed.
- (d) David Ryan explained that he was focussing on three areas for Business Transformation:
 - i. Driving the cost savings this year and next to get to a

Post Office Limited – Strictly Confidential

- stretch target
 - ii. Delivering a 3 year plan, aligned with the operating plan, with Business Transformation milestones, which he agreed to report to the Board on in May
 - iii. Introducing joined up governance through design authority and a Transformation Working Group, escalating to the Transformation Committee to ensure that all activity is considered through a transformation lens.
- (e) David Ryan stressed that the technology agenda was mission critical and needed to take precedence.
- (f) The Board noted the update.
- (g) Neil Hayward and Martin Edwards left the meeting.

POLB 15/07

IT STRATEGY

ACTION:
Lesley Sewell**ACTION:**
Lesley Sewell**ACTION:**
Mark Davies

- (a) The Board welcomed Lesley Sewell, Chief Information Officer, to the meeting and received an update on: the progress against the key initiatives within the 2020 Strategy; the progress on developing the IT Strategy and alignment with Business Transformation; and the key risks, mitigations and contingency plans.
- (b) The Board discussed the changes to the front office system and Lesley Sewell stressed the need for the front office changes to be given primacy over all other Business initiatives. It was recognised that standardising and simplifying products and systems would reduce cost and complexity for suppliers and risk for the Company. The CEO assured the Board that the Executive recognised the need to simplify products and processes and that the IT strategy was being managed through the Executive.
- (c) A preferred bidder (from Accenture, IBM and CSC) would be chosen by the end of March.
- (d) The Board asked the Business to consider the failures in other Business' big IT projects to better understand the possible risks; and to report back to the Board on their analysis and its relevance to the Post Office.
- (e) The Board discussed Sparrow and any perceived or actual risk for sub-postmasters of the system change. The Business was asked to ensure independent assurance of the system's integrity and security before it goes live, with a forensic end to end assurance.
- (f) The Business was also asked to consider how it would manage the PR implications of announcing the change whilst Sparrow is still ongoing.
- (g) Lesley Sewell explained that the plan was to run the new and old systems in parallel for 6-7months and the need for the new supplier to work closely with Fujitsu. The Board asked if the new supplier and Fujitsu would have back to back contracts to mitigate the commercial

Post Office Limited – Strictly Confidential

risk for the Business. Lesley Sewell assured the Board that this was the plan but still recognised the Fujitsu exit as a significant risk.

- (h) The Board asked how the Business would future proof the new system and were reassured that this would be as standard a system as possible, enabling additional 'plug in' improvements for software developments.
- (i) The Board noted:
 - the progress against the key initiatives within the 2020 Strategy
 - the progress on the IT Strategy and alignment with Business Transformation
 - the key risks, mitigations and contingency plans
 - that the team would revert back to the Board as follows:
 - 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
- (j) David Ryan and Lesley Sewell left the meeting.

POLB 15/08

CYBER SECURITY

- (a) The Board welcomed Tony Smith, Head of CPNI (Centre for the Protection of National Infrastructure) for a discussion on Cyber Security.

POLB 15/09

RISK APPETITE

- (a) The Board welcomed Chris Aujard, General Counsel, Jane MacLeod, General Counsel and Arnout Van Der Veer, Head of Risk and Assurance, to the meeting and received a request to approve the Company's Risk Appetite Statement (RAS).
- (b) Chris Aujard explained the process used to develop the RAS and the discussions at ExCo and the ARC. The RAS established the ground rules for the Business and would help to drive behaviours. Arnout Vanderveer recognised that it would take time to embed risk into the Business and ensure that decisions were aligned with the RAS.
- (c) Alasdair Marnoch, Chairman of the ARC, acknowledged that the RAS was a good step forward, albeit that the process had been slow. He was encouraged by the discussions at both ExCo and the ARC and believed the RAS was a good basis upon which to build. He asked that the RAS, with risk metrics, be presented to the ARC and Board in May.
- (d) Jane MacLeod recognised that the RAS would develop. She wanted to develop a framework which would mature and change to drive

ACTION:
Arnout Van Der
Veer

Post Office Limited – Strictly Confidential

business decisions.

ACTION:
CoSec

- (e) The Board asked that all future Board papers included a risk section which related back directly to the RAS.
- (f) The Board agreed to adopt the RAS.
- (g) Jane MacLeod, Chris Aujard and Arnout Van Der Veer left the meeting.

POLB 15/10

MAILS STRATEGY

ACTION:
Pete Markey

- (a) Martin George, Commercial Director, and Mark Siviter, Head of Mails, joined the meeting.
- (b) Martin George provided an update on the Christmas advertisement campaign and its positive effect on brand recognition and perception. The Board asked if the analysis could be broken down to understand the effect on young people's perception of the Business.
- (c) Martin George explained that the Business was still on track to hit the IRRELEVANT Mails revenue forecast. He reported the three things in place to support the sales:
 - i. The continuing sales support through the guiding coalition, including focus on the IRRELEVANT IRRELEVANT
 - ii. An online marketing campaign
 - iii. And a branch sales incentive for the last 5 weeks of the year.
- (d) Martin George updated the Board on the 'Win in Mails' strategy. He was pleased with the progress on the hand held ingenico devices; the positive conversations with retailers; and the clear path to a Mails-only solution in the spring with other products added later. However he had made limited progress with RMG, albeit they had agreed to work on trials to look at an improved customer journey, simplified products and more access points.
- (e) The CFO recognised that this was probably the last chance to run a meaningful trial with RMG to make a compelling case for change.
- (f) The Board asked why the Ivy trials had not produced the expected results. Martin George explained that, although the volumes of home shopping returns had been lower than anticipated, the trial had shown the market that Post Office was a viable alternative to Collect+ and My Hermes. Retailers were now considering Post Office alongside these other carriers.
- (g) The Board supported the idea of a trial but were concerned that the offer would be difficult to sell to retailers who would want a network with more consistent opening hours for their customers. The Board agreed that more work needed to be done on the design of the trial, with a clear outcome for both the Business and RMG, or there was a danger of a negative result which might reinforce the RMG position.
- (h) The Board were asked to consider the Terms of Reference for

ACTION:
Mark Siviter

Post Office Limited – Strictly Confidential

reviewing the strategic options for Post Office in the Mails markets. The CFO explained that this piece of work was his proposal based on similar scenario planning in previous companies. It would enable the Business to understand RMG's strategy and possible areas of conflict and alignment. The CEO asked that the work deliver: an understanding of the RMG operation; a negotiating strategy; and how Post Office could add value; and { IRRELEVANT }

{ IRRELEVANT }

**ACTION:
Mark Siviter**

- (i) The Board supported the proposal and asked the Business to ensure that the work produced tangible proposals which could be discussed at the June Away Day. This work should be done without the knowledge of RMG.
- (j) The Board agreed not to roll out any further Ivy trial outlets prior to the launch of the full access point proposition in May 2015. Richard Callard supported the decision but recognised that the Minister would be disappointed that the Business had not reached 12000 outlets by March 2015.
- (k) Martin George and Mark Siviter left the meeting.

POLB 15/11**NETWORK TRANSFORMATION, MODEL PERFORMANCE AND CROWN TRANSFORMATION Q3 2014**

- (a) The Board welcomed Kevin Gilliland, Network & Sales Director, to the meeting and received an update on Network Transformation, performance of the new models and progress on Crown Transformation.
- (b) Kevin Gilliland was pleased to report that the Business had already hit its target of { IRRELEVANT } branches opened in the year and was expecting to have { IRRELEVANT } branches by March. He reported relative success with the guided leaver programme and wanted every office to know what was happening to their branch before the IT front office changes.
- (c) Kevin Gilliland reminded the Board that the sub postmasters' contract requires the Business to give 3 months' notice to sub postmasters but that the proposed cliff would give 6 months. It was his intention to have started conversations with all sub postmasters before May. The September cliff had always been indicative and because NT was ahead of plan the Business needed to bring this forward to keep up the conversion rate.
- (d) The Board agreed that the term cliff was unhelpful and that the Business should try to smooth the changes as much as possible.
- (e) The Board asked how the NFSP and George Thomson are likely to react to the change. Kevin Gilliland hoped that George Thomson would understand the need to bring the date forward but he was comfortable that this was the right thing to do irrespective of the NFSP position. The Board noted that the MoU with the NFSP had still not been agreed.

Post Office Limited – Strictly Confidential

ACTION:
Kevin Gilliland

- (f) The Board discussed the Crown Office P&L and getting the IRRELEVANT branches to breakeven. They recognised that some Crown branches were still making a loss and that the Business would now deal with these as Business as Usual. Kevin Gilliland was asked to set new targets for the next 3 years with a specific focus on the untapped potential in Financial Services.
- (g) The Board noted the update, and thanked Kevin Gilliland and his teams for the Network and Crown transformation results.
- (h) Kevin Gilliland left the meeting.

ACTION:
Virginia Holmes

- (i) The Board recognised that ISA sales should be the focus for the next 3 months and Virginia Holmes agreed to discuss this with Kevin Gilliland.

POLB 15/12

SPARROW

- (a) Mark Davies, Communications & Corporate Affairs Director, joined the meeting.
- (b) The Chairman explained that the agenda item was to update the Board on the BIS Select Committee on 3rd February.
- (c) Mark Davies described the Select Committee process and explained that the Business had been asked to appear to give evidence. The CEO would represent the Business. Other attendees were JFSA, NFSP, CWU and Second Sight. He explained the work being done to prepare for the Committee and the likely media activity.
- (d) Mark Davies reported that the Business had received a letter from the Criminal Case Review Commission (CCRC) asking for information on the Criminal cases involved in Sparrow. The Business had 28 days to respond to the CCRC.
- (e) The Board discussed the possible outcomes from the Committee. The Chairman explained that the Board Sparrow Sub Committee would consider options and next steps at their next meeting.
- (f) Mark Davies left the meeting.

POLB 15/14

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meetings held on 21 October, 18 November, 26 November and 14 December 2014 were approved for signature by the Chairman.

POLB 15/15

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
- the Sub-Committee to approve the interim report and accounts meeting held on 19 November 2014

Post Office Limited – Strictly Confidential

- the Audit, Risk and Compliance Committee meeting held on 10 November 2014;
- the FS Sub-Committee meetings held on 14 October and 3 December 2014; and
- the Pensions Sub-Committee meeting held on 8 October and 3 December 2014;
- the Post Office Advisory Council meeting held on 12 November 2014; and
- the Sparrow Sub-Committee held on 12 January 2015.

POLB 15/16

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.
- (b) The Board noted the update on Project Ultra and the draft forward agendas.

POLB 15/17

UPDATE FROM THE AUDIT, RISK AND COMPLIANCE COMMITTEE

- (a) Alasdair Marnoch, Chairman of the Audit, Risk and Compliance Committee, updated the Board on the last Committee meeting.
- (b) The ARC was more comfortable with the approach to risk, although they wanted to continue to monitor Treating the Customer Fairly. The Business had now set up a major incident team which it was in the process of testing. The Internal Audit plan would need to come to the Board in March.

POLB 15/18

UPDATE FROM THE FS SUB-COMMITTEE

- (a) The Board received an update from Virginia Holmes, Chairman of the FS Sub-Committee.
- (b) Virginia Holmes suggested that the Board may no longer need an FS Committee, and it was agreed to include sub-committee structure as part of the Board evaluation.
- (c) The Board agreed that if this sub-committee was disbanded the ARC would need to include FS compliance as part of its Terms of Reference.

POLB 15/19

UPDATE FROM THE PENSIONS SUB-COMMITTEE

- (a) The Board received an update from Virginia Holmes, Chairman of the Pensions Sub-Committee.
- (b) Virginia Holmes reported that the Pensions Sub-Committee had asked for a short paper to be presented to the Board detailing the investment

Post Office Limited – Strictly Confidential

ACTION: CFO

review position and its implications for the Pensions Plan. This would be presented at the March Board.

POLB 15/20

CHANGE OF REGISTERED OFFICE

(a) The Board:

- approved the change of registered office for the Company from 148 Old Street, London, EC1V 9HQ, to 20 Finsbury Street, London EC2Y 9AQ;
- agreed to provide written consent for the change of registered office for POMS in the form presented, giving a duly appointed director or company secretary authority to sign the consent.;
- noted the change of registered office for Postal Services Holding Company Limited; and
- authorised the Company Secretary to make all necessary filings with Companies House.

POLB 15/21

ITEMS FOR NOTING

- (a) The Board noted the IA status report summary as at 31 December 2014.
- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.
- (d) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1241 to 1261 inclusive in the seal register was hereby confirmed.

POLB 15/22

ANY OTHER BUSINESS

- (b) Neil McCausland explained the process was underway to appoint a new Post Office Chairman. The OCPA (Office for the Commission of Public Appointments) had appointed Margaret Scott as the PAA (Public Appointments Assessor) to lead the process which also includes Neil McCausland as the Post Office Board SID. Russell Reynolds had been selected as the head hunters and an advert would be published in mid-February. The current plan was to interview in May/June, with the new Minister interviewing in late June and an appointment in July.

POLB 15/23

DATES OF NEXT MEETINGS

- (a) It was noted that the next Board meeting would be held on 25 March 2015, to be preceded by a NEDs' breakfast.

Strictly Confidential

POLARC15 (1st)
15/01 - 15/12

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

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on 12 January 2015 at 148 Old Street, London, EC1V 9HQ**

Present:

Alasdair Marnoch (AM)	Chairman of Committee
Neil McCausland (NM)	Senior Independent Director
Tim Franklin (TF)	Non-Executive Director

In attendance:

Paula Vennells (PV)	CEO
Alisdair Cameron (AC)	CFO
Chris Aujard (CA)	General Counsel (GC)
Gary Hooton (GH)	Interim Head of Internal Audit
Arnout Van Der Veer (AV)	Head of Risk and Assurance
David Mason (DM)	Head of Risk Governance
Jonathan Hill (JH)	Head of Financial Services Banking Regulation, Risk, Strategy & Planning (Minute 15/04 only)
Lesley Sewell (LS)	Chief Information Officer (Minute 15/07 only)
Dave Hulbert (DH)	Senior Service Delivery Manager (Minute 15/07 only)
Alwen Lyons (AL)	Company Secretary

POLARC
15/01

INTRODUCTION

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

POLARC
15/02

MINUTES OF THE LAST MEETINGS AND MATTERS ARISING

- (a) The Committee approved the minutes of the meeting held on 10 November 2014 for signature by the Chairman of the Committee.
- (b) The Committee noted the actions list dated 8 January 2014, and the CFO assured the Committee that he had taken ownership of the external Audit actions including the Auditors fees.

POLARC
15/03

RISK APPETITE STATEMENTS

- (a) DM introduced the Risk Appetite paper explaining the process undertaken to produce the proposal. The Chairman explained that the Committee was being asked to review and approve the statements for recommendation to the Board.
- (b) The Committee supported the categories for risk identified and the four definitions used for the appetite, but asked the Business to consider reversing some of the negative statements, to make them clear. Instead of an 'averse risk appetite not to maintain the service commitment to customers', change to a 'seeking appetite to maintain the service commitment to customers'.

Strictly Confidential

- (c) The Committee discussed the specific statements and proposed that each area had an overarching introductory statement explaining the areas where there was no appetite for risk, e.g. unethical behaviour or regulatory misconduct.
- (d) The Committee stressed that a definition of vulnerable customers would help clarify the statements and asked that this group of customers was treated consistently across all the areas.
- (e) Specific comments by the Committee:
 - i. Customer
The Business was too tolerant of Business as Usual risk to customers and the Committee thought there should be more protection for customers.
It was highlighted that the risk to the Business from customer behaviour should also be considered.
 - ii. Financial
Business Transformation added significant risk into the Business and the Committee, after discussion, were comfortable with the levels identified.
 - iii. Market
The Committee asked for clarity in the overarching statement to explain the drive for profitable growth, and the relationship with the EBITDAS statement.
The CEO explained that the neutral attitude in government services was based on prioritisation of Mails and FS and with this positioning the Committee were comfortable with the levels identified.
 - iv. Legal/Regulatory
The Committee challenged the risk appetite in this area, and were very clear that they believed the Business should be averse to legal and regulatory risk. AV stressed the importance for a zero tolerance to compliance. The Committee asked the Business delete the words 'that lead to censure' as they believed the Business should have averse risk appetite irrespective of censure. The Business was asked to reconsider the levels identified as the ARC could not support them
 - v. People
The Committee asked the Business to include unethical behaviour in the averse statement shown in the first bullet, and to rewrite the rest of this category as positive statements which the Business could seek to achieve.
 - vi. Technology
The Committee supported the averse appetite for data loss and asked for a more granular statement for IT services.
 - vii. Operation
The Committee supported the statements as written.

Strictly Confidential

viii. Stakeholder
The Committee supported the statements as written.

ix. Corporate Affairs
The Committee supported the statements as written.

ACTION: CA/DM (f) The ARC asked the Business to amend the statements as discussed and agreed to table the redeveloped risk appetite statements to the January Board.

POLARC 15/04

FINANCIAL SERVICES COMPLIANCE RISK UPDATE

(a) Jonathan Hill, Head of Financial Services Banking Regulation, Risk, Strategy & Planning, joined the meeting and the provided the Committee with an update on financial services compliance risk.

(b) The Committee discussed FS compliance and were concerned by the three dashboard measures shown as amber: mystery shopping; life insurance cancellations; and credit card usage. There was acknowledgement that the mystery shopping results had improved but recognised that this was from a very low base and the absolute performance needs to improve. There was also concern about reducing the mystery shopper frequency whilst the results remained volatile.

(c) The Committee raised the level of credit card usage, and questioned whether the sales process could be Treating the Customer Fairly with such a high number of cards unused by the customer. JH accepted that the level was too high and explained that the Bank of Ireland did not have a process for supporting card activation, an area which was currently being reviewed.

ACTION: JH

(d) The Committee asked the Business to provide a 6 month forecast for the three areas show as amber with a proposed target for each measure and stronger mitigating actions to improve the performance.

ACTION: JH

(e) The CEO expected that the launch of the new credit card would see a higher level of usage and asked JH to provide this analysis.

(f) The Committee noted the update.

(g) Jonathan Hill left the meeting.

POLARC 15/05

ANALYSIS OF THE TELEPHONY CONTRACT

(a) The Committee received an update on the historic and current position around the Telecoms revenue accounting.

(b) The Committee noted that Post Office was now satisfied that the revenue billing information provided by Fujitsu could be relied upon and that a claim has been made for the £300,000 which had been identified as a result of a full forensic review of billed revenue.

ACTION: CFO

(c) The Committee asked the Business to check that there had been no customer detriment caused by the overbilling.

Strictly Confidential

- (d) The CEO recognised that the Business needed to improve its financial modelling for future contracts to lessen the impact of unforeseen consequences.
- (e) The Committee was informed that the Board would receive an update on Telecoms strategy, including the broader relationship with Fujitsu and any commercial claims for the disruption after hand-over in March.

POLARC
15/06**MAJOR INCIDENT/DISASTER RECOVERY TIMETABLE UPDATE**

- (a) The Committee received an update on the major incident management progress and planning.
- (b) DM explained that the Business Continuity steering group was now active and would coordinate any incidents. The new step was to run a major disaster recovery event test with the ExCo, which would take place on 5th February.

ACTION: DM

- (c) The Committee asked for sight of the major incident communications plan including the Board and the Shareholder.
- (d) The Committee noted the update.

POLARC
15/07**IA STATUS OF AGREED ACTIONS, INCLUDING AN UPDATE ON THE STATUS OF OUTSTANDING IT AUDIT ACTIONS**

- (a) Lesley Sewell, Chief Information Officer, and Dave Hulbert, Senior Service Delivery Manager, joined the meeting.
- (b) The Committee noted the update on the status of agreed actions arising from formal audit and advisory activity and acknowledged the good progress made.
- (c) The Committee discussed the status of the outstanding IT audit actions. LS explained the dependencies between the audit actions and two new key suppliers being in place. She reported the work with Internal Audit (IA) to clarify the actions and deadlines. 10 of the 19 actions were now complete and 9 of the outstanding actions which aligned to separation would be finalised by the end of May. The Committee were encouraged by the progress and understood the reliance on separation, but asked for more clarity in future reports on why and when deadlines have to change.
- (d) It was agreed that IA would continue to give assurance to IT projects alongside the work done by PwC.
- (e) Lesley Sewell and Dave Hulbert left the meeting.

**ACTION:
LS/GH**POLARC
15/08**2015/16 INTERNAL AUDIT PLAN**

- (a) The Committee received an update on the approach for the 2015/16 Internal Audit plan.
- (b) GH explained that the proposed IA plan would be ready by mid-March. He stressed the importance of aligning with the Business Transformation plan. The Committee members were asked to feed in any comments to

ACTION:

Strictly Confidential

ARC shape the direction over the next two weeks.

ACTION: (c) It was agreed that a draft proposal would be circulated to the Committee
GH/ CoSec members and the Company Secretary would set up a Committee meeting by conference call to sign off the plan.

POLARC **RESULTS OF THE COMMITTEE SELF-ASSESSMENT 2014**
15/09

- (a) The Committee received the results of the Committee Self-Assessment 2014.
- (b) The Committee discussed the web-o-gram shown at 3.4, and the progressed made over the year. The Committee recognised that processes had improved and that there were higher expectations on the Committee and the Business.

ACTION: (c) The Committee supported inviting ExCo members to present their risk
CoSec assessments and asked that IT be included in the forward agenda.

ACTION: (d) The Committee asked that the ARC self-assessment be circulated to the
CoSec Board as a noting paper.

POLARC **IA CHARTER**
15/10

The Committee noted the IA Charter.

POLARC **DATE OF NEXT MEETING**
15/11

The date of the next meeting is 20 May 2014.

POLARC **CLOSE**
15/12

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

Strictly Confidential

REMCOM
15/01 – 15/14

POST OFFICE LTD

REMUNERATION COMMITTEE

**Minutes of a meeting of the Remuneration Committee of the Board
held at 148 Old Street, London EC1V 9HQ on 25 February 2015**

Present:	Neil McCausland (NH)	(Committee Chairman)
	Virginia Holmes (VH)	
	Alice Perkins (AP)	
In Attendance:	Neil Hayward (NH)	Group People Director
	Alwen Lyons (AL)	Company Secretary
	Keith Murdoch (KM)	Head of Reward and Pensions
	Paula Vennells (PV)	Chief Executive (15/04 – 15/09)

REMCOM
15/01

OPENING OF MEETING AND CONSTITUTION OF COMMITTEE

- (a) A quorum of two directors being present, the Chairman of the Committee opened the meeting and welcomed those attending.

REMCOM
15/02

MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

- (a) The minutes of the meeting held on 29 October and 10 November 2014 were approved for signature by the Chairman of the Committee.

ACTION:KM

- (b) NH reported that the objectives the new CFO needed to deliver to attain his 'sign on' payment would be recommended to Committee for their agreement by 6 March.

REMCOM
15/03

TERMS OF REFERENCE

- (a) The Committee considered the draft of the revised Terms of Reference (ToR). It was explained that the TOR had been expanded to bring them into line with the UK Corporate Governance Code. The Committee asked the Company Secretary to ensure that this longer form did not hamper future Board Effectiveness reviews.

**ACTION:
CoSec**

- (b) The Committee asked the Business to ensure that the references to POMS aligned with the POMS Board TOR.

**ACTION:
CoSec**

- (c) The Committee, being constituted of the same members, discussed the Nominations Committee TOR. It was pointed out that the Nominations Committee has no jurisdiction to appoint a Board Chairman, and this reference should be removed.

**ACTION:
CoSec**

- (d) The TORs for both Committees were agreed, subject to the above, and recommended to the Board.

Strictly Confidential

REMCOM
15/04**SHORT TERM INCENTIVE PLAN BALANCED SCORECARD 2015/16**

- (a) Paula Vennells, CEO, joined the meeting.
- (b) NH updated the Committee on the proposed measures for the Post Office Scorecard for 2015/16 (the Scorecard), in particular the measures that would form part of the Short Term Incentive Plan (STIP) calculation. KM explained that Richard Callard (NED and Shareholder Representative on the Board) had provided written input for the debate, which was circulated.
- (c) The Committee agreed that as a principle it would like to continue with a similar or smaller number of measures and discussed the Scorecard and STIP measures in detail.
- (d) Commercial Sustainability
The Committee discussed the proposed bonus worthy scorecard measures, including the change in the weighting given to net income and the introduction of a cashflow measure. The CEO explained the Business' preference to focus more on EBITDAS than net income, to drive margin and profit. The Committee recognised that EBITDAS should remain the measure with the highest bonus weighting but it was felt that the Business should retain the net income bonus target.

**ACTION:
CEO**

The Committee challenged the inclusion of cashflow as a bonus worthy measure on the scorecard, although it was recognised that this would be an important measure in future years. It was suggested that the CFO be given an objective to define and start to drive the cashflow performance.

Modernisation

The Committee supported the inclusion of a digital net income measure to be included in the Commercial Sustainability section of the scorecard. Both Crown P&L and Network Transformation branch openings were acknowledged as important targets and the Committee agreed that these two measures should make up the modernisation scorecard.

Customer

The Committee discussed the proposed customer measures and a possible additional option which would include three measures Financial Services Net Promoter Score (NPS), a Business wide NPS and a Customer Effort Score (CES). The Committee did not support a change to three measures. After debate they agreed to continue with the FS NPS and asked the Business to consider CES or Business wide NPS as the other measure ensuring a sound baseline of data to set the target against.

People

NH explained that the Business had intended to include a subpostmaster engagement measure in the scorecard for 2015/16, but that the recent engagement survey returns had been very low at 25%, and that this may not provide an accurate representation or a good base from which to set the target. The CEO suggested that the Business used the People Engagement measure as proposed but that the Business should consider measuring the subpostmaster engagement at the point of network transformation. It was acknowledged that, given the relative

Strictly Confidential

ACTION: CEO large number of subpostmasters in comparison to employees, that the Business had to develop a way of measuring their engagement. It was suggested that the People Director be given a personal objective to develop a measure to be included in the scorecard for 2016/17.

(e)

The Committee supported the following measures and bonus weighting for each for the 2015/16 Scorecard:

Commercial Sustainability		
EBITDAS		30%
Net Income		10%
Digital Net Income		10%
Customer		
CES or POL NPS		10%
FS NPS		5%
People		
Engagement		15%
Modernisation		
NTP branches open		10%
Crown P&L		10%

(f)

ACTION: NH

The Committee asked the Business to finalise the scorecard, consult again with ShEx, and present it to the March Board.

**REMCOM
15/05****BONUS DESIGN FOR GROUP EXECUTIVE**

- (a) The Committee received and approved a recommendation to align the bonus design for the Group Executive (GE) with the Executive Directors.

**REMCOM
15/06****PROPOSED LONG TERM INCENTIVE PLAN MEASURES 2015/16**

- (a) Keith Murdoch gave an oral update on the progress to date with the Long Term Incentive Plan Design (LTIP).
- (b) The Committee agreed to retain the same LTIP measures and recognised the important debate still to take place on the targets and the shape of the gateway and stretch 'cylinder'.

...

**REMCOM
15/08****SHORT TERM INCENTIVE PLAN AND LONG TERM INCENTIVE PLAN PERFORMANCE**

- (a) The Committee received an update on the forecasted outturn from the 2014/15 STIP and LTIP due to complete in March 2015. The current forecast would generate a very small STIP payment and a 54% LTIP performance.
- (b) NH reported that the Crown P&L looked likely to breakeven in September or October 2015, so the March target would be missed. The CEO explained that, if taken as a whole, the original 373 branches would breakeven by March. However, the Crown branches remaining in the network would miss the target so the scorecard bonus and Crown staff payments would not be triggered.

Strictly Confidential

- (c) The Committee noted the impact of the P10 forecast on the potential STIP and LTIP payments.

REMCOM
15/09

NEW EMPLOYEES WITH A BASE PAY OF OVER £125K

ACTION:
KM

- (a) The Committee noted the employees who had been employed since the last meeting on salaries above £125k.
- (b) The Committee asked for a paper to be circulated including all the employees who earned salaries above £125k, showing where they work in the Business and whether they were eligible for STIP or LTIP.
- (c) Paula Vennells, CEO left the meeting.

...

REMCOM
15/11

DIRECTORS' REMUNERATION REPORT 2014/15

- (a) KM introduced the Committee to the draft Directors' Remuneration Report 2014/15.
- (b) The Committee members were broadly comfortable with the level of disclosure being proposed but would revert back to KM with any comments.

REMCOM
15/12

NEDS' FEES

- (a) The Committee discussed the fees paid to NEDs by the Business and its effect on future recruitment. AP reported that she had discussed this issue with Richard Callard and that the Post Office NED fees were more generous than other Government owned Businesses. It was agreed that the issue would be discussed when the new Board Chairman was in place.

REMCOM
15/13
ACTION:
NM

DATE OF NEXT MEETING

NM said he would review the next Committee date, which was currently scheduled for 13.00 – 14.30, 13 May 2015.

REMCOM
15/14

CLOSE

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

Strictly Confidential

**POST OFFICE LIMITED BOARD
Status Report**

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Strategy		
1d	January 2015 POLB 15/07(d)	The Board asked the Business to consider the failures in other Business' big IT projects to better understand the possible risks; and to report back to the Board on their analysis and its relevance to the Post Office.	Lesley Sewell	Feed in to programme and will be completed part of the programme.
1e	January 2015 POLB 15/07(e)	Ensure independent assurance of the system's integrity and security before it goes live, with a forensic end to end assurance.	Lesley Sewell	Action is in progress, feedback provided by TMG members on critical success factors. Drawing on insight from our delivery partners (Deloitte, PwC and Berkeley). Board response being prepared for March meeting.
1f	January 2015 POLB 15/07(f)	Consider how to manage the PR implications of announcing the system change whilst Sparrow is still ongoing.	Mark Davies	Update for May Board
1g	January 2015 POLB 15/10(c)	The Board asked if the analysis of the Christmas advertising campaign could be broken down to understand the effect on young people's perception of the Business.	Pete Markey	Update for March Board
1h	January 2015 POLB 15/10(g)	The Board agreed that more work needed to be done on the design of the Mails trial, with a clear outcome for both the Business and RMG, or there was a danger of a negative result which might reinforce the RMG position.	Mark Siviter	Feedback at June Away Day
1i	January 2015 POLB 15/10(i)	The Board supported the proposal and asked the Business to ensure that the work produced tangible proposals which could be discussed at the June Away Day.	Mark Siviter	June Away Day

Strictly Confidential

		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 pre-paid debit account rather than the current account as on the effective hook for customers	Nick Kennett	To be included in the FS forward agenda
2c	January 2015 POLB 15/11(f)	Kevin Gilliland to set new targets for Crown branches for the next 3 years with a specific focus on the untapped potential in Financial Services.	Kevin Gilliland	To be dealt with in the Sales capability slot at the May Board
		3. Business Transformation		
3a	November 2014 POLB 14/145(h)	Discuss the progress on Digital at the March Meeting.	Martin George	March Board
3d	November 2014 POLB 14/145(m)	Discuss the vision and change narrative at the Board.	Neil Hayward/Mark Davies	May Board
3f	January 2015 POLB 15/06(c)	Circulate a briefing note to the Board once the final BOAT and back office timelines are agreed.	David Ryan	
3g	January 2015 POLB 15/22(a)	Provide an update on the appointment of the Business Transformation Director.	CEO	March Board
		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.

Strictly Confidential

		5. Risk		
5a	January 2015 POLB 15/09(c)	The RAS, with risk metrics, to be presented to the ARC and Board in May.	Arnout Van Der Veer	May Board & ARC
		6. Financial		
6b	November 2014 POLB 14/146(g)	Have a separate session on working capital at the May Board	CFO	June Away Day
6d	January 2015 POLB 15/04(h)	The Board discussed the scorecard and the poor performance on 'easy to do business with'. The CEO acknowledged the significant drop against target and last year's result. It was agreed that a note would be circulated to explain the change.	Pete Markey	March Board
6e	January 2015 POLB 15/05(d)	Provide a more realistic approach to revenue in the budget and three year plan.	Martin Edwards	May Board
		7. Miscellaneous		
7c	October 2014 POLB 14/135(a)	Undertake an internal Board effectiveness review in the New Year.	Chairman	March 2015 Board
7e	January 2015 POLB 15/03(c)	Circulate a note explaining the new governance structure, including the Group Executive.	CEO	End March

**POST OFFICE LIMITED
NOMINATIONS COMMITTEE
TERMS OF REFERENCE**

PURPOSE

The purpose of the Nominations Committee is to recommend the appointment of individuals to the Board of Post Office Limited (the Company); to its sub-committees; to Group Executive positions which report directly to the Chief Executive and the Company Secretary; and to the Post Office Management Services Limited (POMS) Board. The Committee will also consider and, if necessary, recommend to the Board any proposals to remove or replace individuals holding office as a Director of the Company or POMS or reporting directly to the Chief Executive and the Company Secretary. It is acknowledged that the actions of the Committee will be subject always to the Articles of Association of the Company, under which any proposal for the appointment or removal of a director of the Company requires the consent of the Shareholder.

A. COMPOSITION AND GOVERNANCE

1. The Nominations Committee is constituted as a sub-committee of the Board.
2. The Chairman and members of the Committee shall be appointed by the Board.
3. The Committee shall be made up of three members, including at least two independent non-executive directors.
4. The Chairman shall chair the Nominations Committee.
5. In the absence of the Chairman of the Committee at any meeting, the Committee members present shall determine who shall chair the meeting.
6. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed for a further three year period but no director shall serve as a member of the Nominations Committee for a period of more than six years.
7. Only members of the committee have the right to attend Committee meetings. The Chief Executive and the Group People Director (or the holder of any equivalent position) shall be informed of the date of each meeting and may be invited by the Committee Chairman to attend all or part of any meeting, as and when appropriate.
8. The Company Secretary shall not be a member of the Committee but shall act as Secretary to the Committee (or shall nominate an appropriate substitute) and shall keep minutes and records of each meeting and ensure regular reporting by the Committee to the full Board.
9. Minutes of each meeting will be circulated to all members of the Committee and, once agreed, to those members of the Board who have no personal interest in the matters discussed. Where a conflict of interest exists, the Company Secretary will provide sufficient information to the full Board to provide an understanding of the matter(s) considered.
10. If so requested by the Board or by the Shareholder, the Committee shall provide an annual report on its activities.

11. The Committee shall have access to sufficient executive time and resources in order to carry on its duties, including access to the Company Secretary and members of the HR team;
12. The Committee shall have authority to appoint executive search consultants and to obtain, at the Company's expense, legal or other professional advice on matters within its terms of reference as required, up to a financial limit determined by the Board.
13. If there should be disagreement between the Nominations Committee and the full Board, the Chairman of the Board shall make time available for discussion of the issue so that the matter may be resolved.
14. Members of the Committee shall conduct an annual review of the Committee's performance.

B. MEETINGS

1. The Committee shall meet as often as required but not less than twice each year. The Committee may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.
2. The quorum necessary for the transaction of business shall be 2 members.
3. Meetings may be convened by the Secretary to the Committee, at the request of the Committee Chairman, or by any member of the Committee, at any time.
4. Notice of each meeting shall be given to all members of the Committee and any other person required to attend, at least 3 working days before each meeting.

C. DUTIES AND RESPONSIBILITIES WITH REGARD TO THE COMPANY

The main duties and responsibilities of the Committee with regard to the Company are:

1. to keep under review the structure, size and composition of the board (taking account of the skills, experience, knowledge and diversity of its members), to ensure that the key roles of Board Chairman, Chief Executive, Chief Financial Officer and Senior Independent Director are filled and to recommend changes to the Board's composition as thought necessary.
2. to monitor the independence, and process for evaluation of, Board sub-committees and the skills and experience available within the Board, in order to recommend new appointments to committees, or the replacement of individuals on those committees, as required from time to time.
3. to review the results of the performance appraisal of executive directors and the results of any committee evaluation process which may relate to the time required from non-executive directors and whether non-executive directors are spending enough time to fulfil their duties, the composition of the Board, any of its sub-committees or the Group Executive.
4. to consider the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required.
5. to lead the process for identifying and nominating candidates for appointment to the Board, including the formulation and approval of appropriate role descriptions and specifications and considering

candidates from a wide range of backgrounds, on merit and against a range of objective criteria and with due regard for the benefits of diversity on the Board, including gender, and which seek to attract a wide range of talent and promote diversity within the organisation. Such deliberations should also assess whether appointees have enough time available to devote to the position.

6. to ensure that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.
7. in the case of the proposed appointment of a new Chairman, to work with the Shareholder to prepare a full specification which reflects accurately the personal qualities, skills and experience and time commitment needed by the Business.
8. to consider for each proposed appointment the respective merits of open advertising and the use of specialist advisers to facilitate the search for appropriately qualified candidates.
9. to review the processes for the engagement of external search agents for senior appointments
10. to consider recommendations made by the Chief Executive on appointments to Group Executive positions which report directly to the Chief Executive and the Company Secretary to ensure that a fair, open and transparent process is followed in identifying and interviewing candidates for Group Executive positions.
11. to ensure that the business puts in place plans for development of potential and succession plans for key roles on the Board and on the Group Executive, taking into account the challenges and opportunities facing the Company and the skills and expertise needed for leadership of the Post Office in the future.
12. to review, on behalf of the Board, the progress of building talent and diversity within the Post Office and to report to the Board progress against the targets set for performance measurement in this area.
13. to ensure that any proposed appointee to the Board discloses other business interests and any potential conflict of interest, in line with the recommendations of the UK Corporate Governance Code (the Code) and the precepts set by the Nolan Committee on Standards in Public Life.
14. to work with the Remuneration Committee in respect of new hires, to ensure that the proposed package for new senior appointments reflects the responsibilities of the role and is designed to attract talent but is not excessive.
15. to ensure that consent is sought from The Secretary of State for Business, Innovation and Skills for the appointment to the Board of any new director on terms agreed between the Nominations Committee and the Remuneration Committee.
16. to respond to any queries from the Shareholder on the processes for selection of candidates or the contractual terms proposed for any senior appointment.
17. to consider on behalf of the Board any matters relating to the continuation in office of any director or direct report of the Chief Executive and the Company Secretary, including the suspension or termination of any contract of employment or contract for services, subject to the provisions of the law.

18. to undertake any other oversight function delegated to the Committee by the full Board.

D. DUTIES AND RESPONSIBILITIES WITH REGARD TO POMS

The main duties and responsibilities of the Committee with regard to POMS are:

1. to keep under review the structure, size and composition of the POMS board (taking account of the skills, experience, knowledge and diversity of its members), to ensure that the key roles are filled and to recommend changes to the POMS board composition as thought necessary.
2. to consider the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the POMS board in the light of knowledge, skills and experience required.
3. to lead the process for identifying and nominating candidates for appointment to the POMS board, including the formulation and approval of appropriate role descriptions and specifications and considering candidates from a wide range of backgrounds, on merit and against a range of objective criteria and with due regard for the benefits of diversity on the POMS board, including gender, and which seek to attract a wide range of talent and promote diversity within the organisation. Such deliberations should also assess whether appointees have enough time available to devote to the position.
4. to ensure that any proposed appointee to the POMS board discloses other business interests and any potential conflict of interest, in line with the recommendations of the Code and the precepts set by the Nolan Committee on Standards in Public Life.
5. to work with the Remuneration Committee in respect of new hires, to ensure that the proposed package for new senior appointments reflects the responsibilities of the role and is designed to attract talent but is not excessive.
6. to consider on behalf of the Board any matters relating to the continuation in office of any POMS board director, including the suspension or termination of any contract of employment or contract for services, subject to the provisions of the law.

E. ANNUAL REVIEW

1. The Committee will undertake an annual review of the Terms of Reference and recommend to the Board any necessary changes.
2. These Terms of Reference were last reviewed in [] 2015.

**POST OFFICE LIMITED
REMUNERATION COMMITTEE
TERMS OF REFERENCE**

PURPOSE

The purpose of the Remuneration Committee is to recommend to the Board the remuneration strategy and any changes to individual elements of the remuneration package for executive directors of Post Office Limited (the Company); members of the Group Executive who report directly to the Chief Executive; other significant senior level appointments with comparable remuneration; and to provide an oversight function for the remuneration of the directors of the Post Office Management Services Limited (POMS) board, as determined by the Board. Any changes in remuneration for directors of the Company must be approved in advance by the Shareholder. The remuneration of the Chairman and of non-executive directors will be set by the Shareholder.

A. COMPOSITION AND GOVERNANCE

1. The Remuneration Committee is constituted as a sub-committee of the Board and its Chairman shall be appointed by the Board. If considered independent at the time of appointment, the Chairman of the Company may be a member of the Committee, but shall not chair it.
2. Members of the Committee shall be appointed by the Board, acting on the recommendation of the Nominations Committee and in consultation with the Chairman of the Remuneration Committee.
3. The Committee shall be made up of at least two independent non-executive directors. Only non-executive directors shall be eligible to be members of the Committee such that no individual shall be involved in determining their own remuneration.
4. In the absence of the Chairman of the Committee at any meeting, the Committee members present shall determine who shall chair the meeting.
5. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed for a further three year period but no director shall serve as a member of the Remuneration Committee for a period of more than six years.
6. Only members of the Committee have the right to attend Committee meetings. The Chief Executive and the Group People Director (or the holder of any equivalent position) shall be informed of the date of each meeting and may be invited by the Committee Chairman to attend all or part of any meeting, as and when appropriate.
7. The Company Secretary shall not be a member of the Committee but shall act as Secretary to the Committee and shall keep minutes and records of each meeting and ensure regular reporting by the Committee to the full Board.
8. Minutes of each meeting will be circulated to all members of the Committee and, once agreed, to those members of the Board who have no personal interest in the matters discussed. Where a conflict of interest exists, the Company Secretary will provide sufficient information to the full Board to provide an understanding of the matter(s) considered.
9. If so requested by the Board or by the Shareholder, the Committee shall provide an annual report on its activities.

10. The Committee shall have access to sufficient executive time and resources in order to carry on its duties, including access to the Company Secretary and members of the HR team.
11. The Committee shall be authorised to seek any information it requires from any employee of the Company in order to perform its duties.
12. The Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting terms of reference of remuneration consultants and have authority to appoint remuneration consultants and to obtain, at the Company's expense, legal or other professional advice on matters within its terms of reference as required, up to a financial limit determined by the Board.
13. If there should be disagreement between the Remuneration Committee and the full Board, the Chairman of the Board shall make time available for discussion of the issue so that the matter may be resolved. Where any such disagreement cannot be resolved, the Remuneration Committee shall report the issue as part of any annual report on its activities required by the Shareholder.
14. Training will be provided by the Company for members of the Committee, as required. Such training may take the form of internal briefings, attendance at formal courses and conferences and/or sessions with external advisers.
15. Members of the Committee shall conduct an annual review of the Committee's performance.

B. MEETINGS

1. The Committee shall meet as often as required but not less than three times each year. The Committee may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.
2. The quorum necessary for the transaction of business shall be 2 members.
3. Meetings may be convened by the Secretary to the Committee, at the request of the Committee Chairman, or by any member of the Committee, at any time.
4. Notice of each meeting shall be given to all members of the Committee and any other person required to attend, at least 3 working days before each meeting.

C. DUTIES AND RESPONSIBILITIES WITH REGARD TO THE COMPANY

The main duties and responsibilities of the Committee with regard to the Company are:

1. to recommend to the Board the remuneration strategy for the Chief Executive, executive directors and those members of the Group Executive who report directly to the Chief Executive, always taking into account the remuneration policy set for other employees.
2. in determining such strategy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code (the Code) and associated guidance. The objective of such strategy should be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary having regard to views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the company and alignment to the company's long strategic term goals. A significant proportion of remuneration should

be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company.

3. review the ongoing appropriateness and relevance of the remuneration strategy.
4. with the consent of The Secretary of State for Business, Innovation and Skills, determine each element of the total individual remuneration package of the Chief Executive and other executive directors, both existing and for new hires, including any increases in salary (whether or not resulting from company-wide pay increases), pension provision and the outturn of performance related pay arrangements and incentive schemes.
5. to determine the elements which will form the remuneration package for an individual in the above group, which may include, but shall not be restricted to:
 - base salary
 - short term incentive (annual bonus)
 - Long Term Incentive Plan
 - pension provision
 - benefits such as car or car allowance, private health, holidays
 - contractual terms such as notice periods
6. to keep under review the contractual terms applicable to executive directors such that payments made are fair to the individual and to the company, that success, rather than failure, is rewarded and that the duty to mitigate loss is fully recognised.
7. to work with the Nominations Committee in respect of new hires, such that the Remuneration Committee can recommend to the Board an appropriate level of remuneration which will attract talent but not be excessive.
8. to receive information on each element of the remuneration package and total remuneration for new hires and any internal promotions and appointments which are proposed to carry a salary in excess of the lowest salary of any member of the current Group Executive.
9. to review the overall total remuneration of the Senior Group (defined as the Chief Executive, executive directors and members of the Group Executive) compared both with external market comparators and with the remuneration of other employees in the Group.
10. to review and recommend to the Shareholder the implementation of, or changes to, performance related incentive schemes for the executive directors, Group Executive members and senior managers eligible to be invited to participate in the Post Office Long Term Incentive Plan.
11. to review and agree the criteria for, and the outturn of, performance related pay arrangements for executive directors and Group Executive members, subject to authorisation from the Shareholder.
12. to review the total outturn of performance related pay arrangements across the business.
13. to approve any exit package for any individual with a salary above the lowest salary within the Group Executive membership, where the exit package would be in excess of contractual obligations.
14. to undertake any other function delegated to the Committee by the full Board.

D. DUTIES AND RESPONSIBILITIES WITH REGARD TO POMS

The main duties and responsibilities of the Committee with regard to POMS are as follows, to provide an oversight function for remuneration of senior executives within POMS:

1. to ensure the remuneration strategy for and any appointments to the POMS board is consistent with remuneration policies within the Company, always taking into account the remuneration policy set for other employees.
2. to ensure each element of the total individual remuneration package of the executive directors of POMS, both existing and for new hires, including any increases in salary (whether or not resulting from company-wide pay increases), pension provision and the outturn of performance related pay arrangements and incentive schemes is consistent with remuneration policies within the Company.
3. to ensure the elements which will form the remuneration package for an individual in the above group, are consistent with remuneration policies within the Company and may include, but shall not be restricted to:
 - base salary
 - short term incentive (annual bonus)
 - Long Term Incentive Plan
 - pension provision
 - benefits such as car or car allowance, private health, holidays
 - contractual terms such as notice periods
4. to ensure the contractual terms applicable to executive directors of POMS such that payments made are fair to the individual and to the company, that success, rather than failure, is rewarded and that the duty to mitigate loss is fully recognised.
5. to work with the Nominations Committee in respect of new hires to the POMS board such to ensure that levels of remuneration will attract talent but not be excessive and will be consistent with remuneration policies within the Company.
6. to review the overall total remuneration of the Senior Group (defined as any members of the POMS board) compared both with external market comparators and with the remuneration of other employees in the Group.
7. to ensure the criteria for, and the outturn of, performance related pay arrangements for executive directors of the POMS board is consistent with remuneration policies within the Company.

E. ANNUAL REVIEW

1. The Committee will undertake an annual review of its own performance and the Terms of Reference and recommend to the Board any necessary changes.
2. These Terms of Reference were last reviewed in [] 2015.

Strictly Confidential

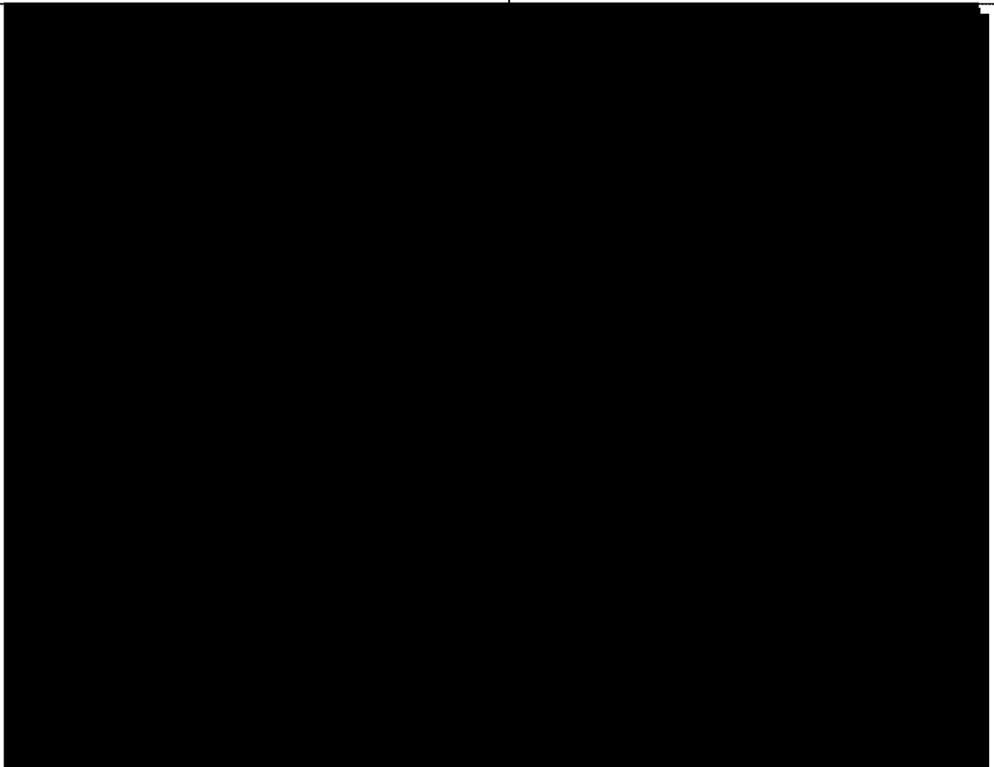
March 2015

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")	Rodric Williams	Belinda Crowe / Angela van den Bogerd	<p>Post Office has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes.</p> <p>These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made by the "Justice for Subpostmasters Alliance" (JFSA) and advanced through SPMs' MPs.</p> <p>Following discussions with James Arbuthnot MP and JFSA, independent investigator Second Sight Support Services Ltd (Second Sight) was appointed in July 2012 to carry out a review into these allegations.</p> <p>On 08.07.13, Second Sight published a Report finding shortcomings in Post Office's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.</p> <p>Following the Second Sight Report, on 27.08.13 Post Office launched a Mediation Scheme (Scheme) aimed at resolving individual complaints made about Horizon.</p>	<p>This matter is the subject of separate updates to senior management and the Board.</p> <p>The Scheme received 150 applications, which have been progressed under the direction of a Working Group comprising retired Court of Appeal Judge Sir Anthony Hooper (as Chair), Post Office, Second Sight, and JFSA. 80 cases are still being progressed through the Scheme.</p> <p>On 03.03.15 the Board approved a course of action by which Post Office would presume to mediate all non-criminal cases within the Scheme, the Working Group would be closed, and the current engagement with Second Sight would be terminated. Post Office's project team is acting in accordance with the Board's direction.</p> <p>To date, no claim has been made against Post Office in the civil courts, and no appeal has been made against any conviction in the criminal courts, following Second Sight's Report. Post Office is however in</p>	Bond Dickinson

Strictly Confidential

				<p>correspondence with the Criminal Cases Review Commission about its past prosecution practices.</p> <p>There has also been significant media and political activity concerning the Scheme, which is likely to continue in the immediate future. Post Office's Communications team is fully engaged on this activity.</p>	
Employment	Nisha Marwaha	Colin Stretch			Eversheds

Strictly Confidential

Employment	POL/NM	Colin Stretch		Weightmans

PART (B) – CRIMINAL LITIGATION**PROSECUTION POLICY**

Post Office is in the process of finalising a new prosecution policy drafted by former First Senior Treasury Counsel Brian Altman QC.

PROSECUTION CASES

Post Office is not currently pursuing any live prosecutions in England and Wales, although there are 5 cases being dealt with by the national prosecutors in each of Scotland and Northern Ireland. A number of security investigations are being reviewed as to whether a prosecution could be commenced (supported by an independent expert report on the Horizon branch accounting system if appropriate – see below).

EXPERT REPORT

Strictly Confidential

Steps continue to be taken to determine the basis on which Imperial College London may be able to provide expert evidence to support prosecutions which involve data obtained from the Horizon system.

Confidential

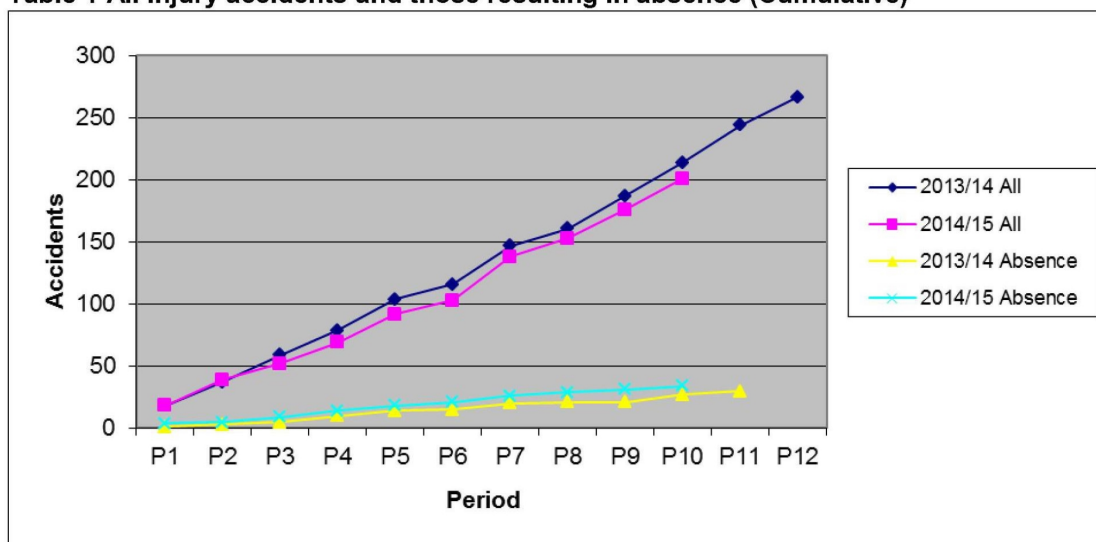
POST OFFICE LTD BOARD**Health & Safety Report****1. Purpose**

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 during the past 10 months of 2014/15 indicates that the 5% continuous improvement target in absence accidents will not be achieved. This needs to be considered in the context of the overall low number of absence accidents and the adverse impact that an additional one or two absence accidents per month has on the overall performance. The severity of those accidents, measured by the number of days lost, indicates that while volume has increased, severity has significantly decreased with days lost from accidents well ahead of the target reduction of 5%. The reduction of all injury accident incidents is currently on target for a 5% reduction at year end.

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

- 2.3 Personal injury compensation claims have fallen significantly in line with the reduction in accidents that result in sick absence. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower in both public and employer's liability and of those claims the 'denial' or 'defence' rate is significantly higher. The general level of claims is recognised by the insurers as extremely low both in volume and value.

Confidential

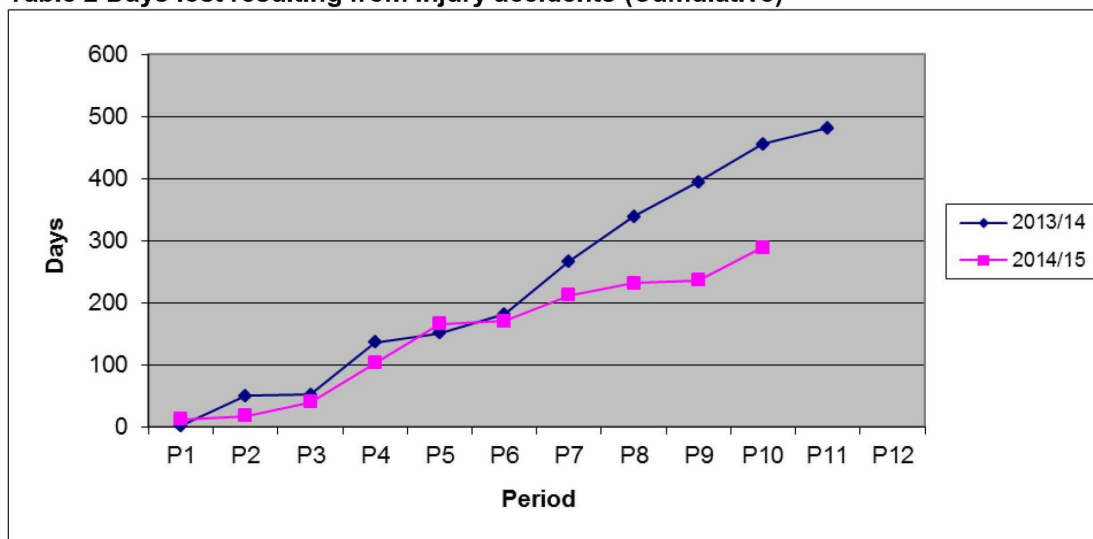
The insurance year runs from October to September - the table below indicates 2012/13, 2013/14 and Q1 of the 2014/15 insurance year.

UW Year	Policy Class	Claim Count	Total Paid	Recoveries	Open Reserves	Gross Incurred	Net Incurred
2012	Employers' Liability	IRRELEVANT					
	General Liability						
	Total						
2013	Employers' Liability						
	General Liability						
	Total						
2014	Employers' Liability						
	General Liability						
	Total						
Total	Total						

Note: Employers' liability – employees. General liability – customers.

- 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) for the past 10 months is up 39 on last year. While this is of concern it is believed that there continues to be a more robust approach to the reporting of incidents, irrespective of severity, and what appears to be an increase in minor damage incidents e.g. broken mirrors and minor scrapes. The number of incidents where the Post Office driver is 'at fault' is also up compared to last year and accounts for 54.5% of the incidents. (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. Reversing incidents remain a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are extremely infrequent and 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. Road risk reduction activities are highlighted at 3.1 below.

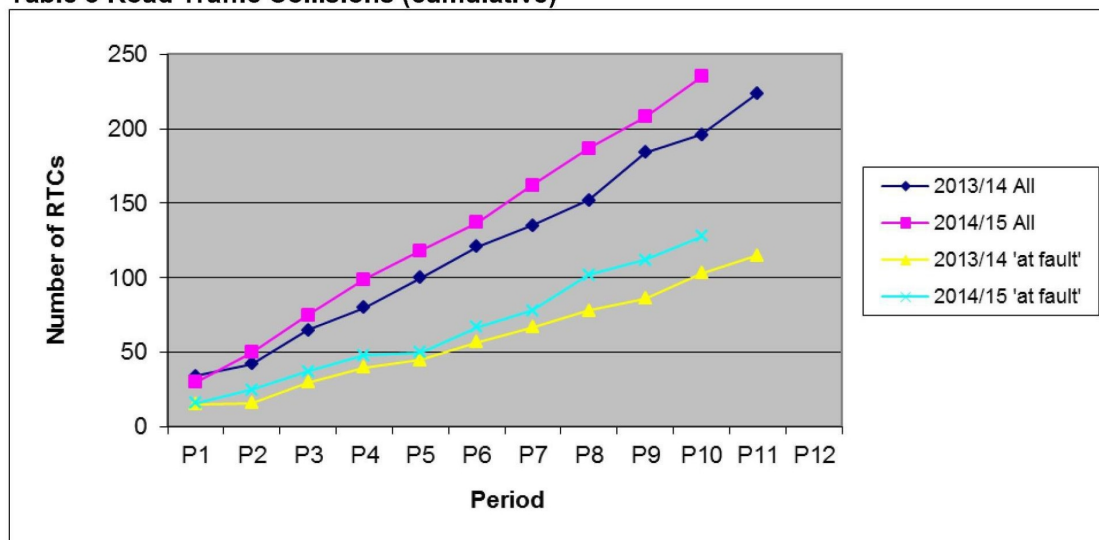
There was a serious road traffic incident involving a Post Office vehicle on 6th February as a result of which the driver of the other vehicle died. Indications

Confidential

are that the 3rd party, who had been reported as driving erratically, was on the wrong side of the road (overtaking) at the time of the collision. The Post Office driver suffered non-life threatening injuries which required hospital treatment and is being supported via line management and occupational health interventions. Post Office insurers have been notified of the incident.

Governance of all three areas of vehicle use – commercial, business car and private vehicle – is being tightened to mitigate the associated risks.

Table 3 Road Traffic Collisions (cumulative)



- 2.6 Robberies involving Post Office Cash and Valuables in Transit (CViT) crews are down 5 on last year from 33 to 28 for the past 10 months. Physical injuries during robberies, of which there have been 9, 1 less than last year for the same period, remain relatively minor in severity. The level of use of firearms remains consistent with last year with 5 of the 28 robberies (17.8%) enabled by the presence and/or threat of use of fire arms. There has been one occasion where the fire arms were discharged (into the ceiling). 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). Following discussions at the Group Executive H&S sub-committee the robbery risk assessment and the business' approach to body armour is now the subject of a formal 3 monthly review.
- 2.7 Robberies and attempted robberies on the Post Office network, up to and including P10, are up 4 on last year to 94 of which 55.3% were successful. Injuries sustained during robberies are down from 17 to 14. 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).

Confidential

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
- On site coaching to improve slow manoeuvring skills e.g. reversing

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 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
- Attendance levels are at 96.5% which compares very favourably with the public sector and relatively favourably with the private sector
- Mental health - A programme of activity has been running for the past 9 months to raise awareness of mental health conditions and the support available to

Confidential

those affected and those supporting them. Mental health conditions remain the single most common cause of longer term absence however related monthly absence (days lost) is down from a peak of 2274 in P5 to 2185 in P10 and occurrences are down from 121 in P5 to 106 in P10.

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.

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
March 2015

Confidential

Appendix 1

Significant Incidents (Period 10)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
Blyton outreach, Blyton Parish Council Office, Blyton, Gainsborough DN21 3LA	£5,000	Tue 6/1/15 9:30. Male armed with a knife entered the office and took cash. (Core branch Epworth 498311).	Nil	One previous incident robbery Jan 2010.
Beech Road SPSO, 12 Beech Road, St Albans, AL3 5AS	£27,000	Mon 19/01/2015 5:39 - Supervisor had the safe open to take out the till and stamps. Two masked men forced their way in and held supervisor at knifepoint. He was pushed to the floor and has cuts & bruises. Cash taken. Phone ripped out, the alarm was activated.	Cuts and bruises	No previous incidents
Supply Chain				
Location	Loss	Circumstances	Physical Injuries	Any further details
Mill Lane, 41a Mill Lane, London, NW6 1NB	£26,000	Wed 28/01/2015 10:15 -Crew member was at the counter when 2 males were waiting in the queue in the post office once she opened the Ibox the pouches were snatched 1 cash pouch and 1 stock pouch 2 males made off on foot. No weapons were seen..	Nil	No previous incidents

Strictly Confidential

POST OFFICE LTD BOARD

Front Office and Network Tower Procurements: Route to Contract Award

1. Purpose

- 1.1. The purpose of this paper is to inform the Board of:
 - The current status of the Front Office Application and Network Tower procurements;
 - The governance steps that will support the recommendation to award contracts for the Front Office Application and Network Towers;
 - The intent to seek approval to award the Front Office Application and Network Tower contracts at the Board meeting on 21st May 2015; and
 - The current status of the Back Office Tower following the decision to resume the procurement.
- 1.2. In addition, we request the Board to recommend non-executive directors (NEDs) who will work with the Front Office and Network teams prior to contract award, leveraging their expertise and experience.
- 1.3. Due to the strategic importance and high value of the remaining procurements the IT Transformation Programme Committee has issued this paper to ensure the Transformation Committee and Board has visibility of the proposed route to contract award.

2. Background

- 2.1. IT Transformation is responsible for transforming and modernising the IT services consumed by Post Office, to support the 2020 Strategy.
- 2.2. The intention is to award contracts for the Front Office Application and Network Towers in May 2015 as part of the IT Transformation programme (Lean IT) supporting Business Transformation.
- 2.3. The Front Office Application Tower will provide an enhanced replacement to the Horizon platform provided by Fujitsu, and will be a key enabler in modernising our branch experience for our customers.
- 2.4. The Network Tower will replace the current branch and admin network services provided by Fujitsu (TalkTalk) and BT respectively, and allow us to modernise our branch IT estate.
- 2.5. The current Front Office Application and Network Tower contracts with Fujitsu and BT expire in March 2017 and May 2018 respectively, and it is necessary to conclude these procurements by May 2015 to minimise transition risk and to ensure continuity of service.

Strictly Confidential

- 2.6. Given the Front Office Tower is a key enabler to achieving the 2020 strategy, the governance and accountability for the transformation will be enhanced to increase business ownership. The Front Office Tower will be set up as a separate Business Transformation theme, jointly sponsored by Kevin Gilliland and Lesley Sewell. A strong interface with the remaining elements of IT Transformation will be retained.
- 2.7. Following the recent Business Process Outsourcing (BPO) review, a decision was made to resume the Back Office tower procurement.

3. Activities / Current Situation

- 3.1. Post Office has followed a robust Competitive Dialogue procurement process for over a year, designed to achieve the best value proposals from the marketplace.
- 3.2. The process has included two down-selection steps, and as a result, there are three bidders remaining in each procurement:
 - Front Office Application Tower – IBM, CSC and Accenture.
 - Network Tower – BT, Vodafone and Verizon.
 - Back Office Application Tower – Accenture, CSC and CGI
- 3.3. Bidders on both the Network and Front Office Tower procurements have submitted their final proposals which are currently being evaluated.
- 3.4. Some of our government clients (DVLA, Home Office and Environment Agency) require us to obtain their written permission prior to the appointment of the new suppliers for Front Office (and Networks).
- 3.5. The formal requests will be made early May, once Preferred Bidder status has been identified. Engagement is underway with Government Services to agree the information that clients will require. We have achieved client support for previous contract awards; the DVLA provided sign off of the EUC contract, awarded in October 2014. However, we remain subject to successfully completing the formal process.
- 3.6. The Shareholder Executive will be engaged as we progress to ensure that they are informed and are appropriately involved.
- 3.7. To mitigate risk the recommended option to ensure service continuity of the existing Horizon service during Front Office transition will be finalised. We are in discussion with Fujitsu on options, including the potential for an extension of the Horizon contract.
- 3.8. The project team to support the resumed Back Office procurement is currently being mobilised, and the impact of the delay is subject to an impact assessment.

4. Governance Approach

- 4.1. Given the importance and value of these services, there is a need for heightened governance. The programme team has worked closely with the wider business on finalising the approach to governance, it is critical that key business owners from across the business are consulted at the appropriate time prior to contract signature.
- 4.2. A separate steering group, with supporting terms of reference has been established and is meeting monthly, or more frequently as we mobilise for delivery. This has recognised and is taking necessary actions to secure a programme director and key delivery leads, including the end to end process lead.

Strictly Confidential

- 4.3. A plan is being formalised, with support from external specialist expertise to ensure full engagement across the senior leadership team to accelerate learning and prepare the business for change.
- 4.4. We intend to involve nominated NEDs ahead of the May Board, leveraging their expertise and experience to bring challenge and insight to prepare the Board ahead of presenting the recommendation.
- 4.5. A recommendation on securing continuity of service with Fujitsu will be presented to Board alongside the recommendation on Front Office contract award so that a full view of impacts, commitment, risks and costs are understood.
- 4.6. The Board recommendation will be subject to prior approval from the Transformation Committee and Group Executive.

5. Commercial Impact/Costs

- 5.1. The Front Office Application Tower will be worth circa £180m over a 7 year period.
- 5.2. The Network Tower will be worth circa £100m over an 8 year period.
- 5.3. The Network and Front Office contracts are within the delegated authority of the Board and there is no requirement to go to the Shareholder Executive for approval.
- 5.4. On identification of preferred bidder the business cases will be updated, reflecting the cost and benefit profile against the overall three-year business transformation plan. The Front Office business case will include the impact of securing a continuity of service contingency with Fujitsu.

6. Key Risks / Mitigation

- 6.1. Risks associated with the on-going procurement and resulting transition will be subject to Post Office governance, project management and control processes, and will be escalated to the appropriate governance where necessary.
- 6.2. Ahead of presenting the recommendation to sign the contract we will provide a comprehensive update on the critical risks. This will include:
 - The Horizon change freeze required during Front Office implementation may impact other key business initiatives. (Operations Risk – Controlled)
 - There is less flexibility in the event of a change of scope or business strategy. This is because on signature of the contracts, Post Office is committed to minimum levels of spending in both the Front Office and Networks contracts. (Financial Risk – Controlled)
 - Failure to fully transition to the new Front Office solution by March 2017 may result in a delay in benefits realisation and significant additional Fujitsu cost being incurred to maintain continuity of service. (Operational Risk / Financial risk – Controlled)
 - Failure to deliver within the three-year transformation window may have significant ramifications to the wider business transformation, and require major funding outside the existing cost envelope. (Operational / Financial Risk – Controlled)

Strictly Confidential

- 6.3. In addition, an action from the February Board was to present the lessons learnt from high profile IT Transformation failures. The resulting paper will be provided as an annex to the Front Office contract award recommendation. 1

7. Long Term Considerations

- 7.1. These contracts represent a significant step for Post Office in delivering the future IT capabilities and achieving specific elements of the 2020 vision:
- A capability to take cost out of the business (not just IT) through efficiency and process improvements.
 - Reengineering of customer journeys to provide the optimum experience for both the customer and user.
 - Reducing processing errors, driving a reduction in losses and write-offs.
 - Looking for a more flexible way to bring on new products, harnessing the new technology, and making current products more profitable.

8. Communications Impact

- 8.1. Pre-contract communication will go via legal and the procurement team.
- 8.2. On contract award there will be communications to the wider market via the official government procurement channels.
- 8.3. Discussions continue with the central communication team aimed at developing a robust stakeholder plan, including sub-postmaster and union messaging.

9. Conclusion

- 9.1. The programme will continue with a robust management and control approach to ensure that it complies with the necessary governance to deliver the contract.

10. Recommendations

The Board is asked to:

- 10.1. Nominate NEDs to work with the IT Transformation programme to assure the recommendation to appoint the successful supplier;
- 10.2. Endorse the intent to seek approval to award the Front Office Application and Network contracts at the Board meeting on 21st May 2015;
- 10.3. Note the update and actions set out above.

Lesley Sewell
17 March 2015

POST OFFICE LIMITED BOARD
Sealings 21st January 2015 – 18th March 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 1262 to 1286 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 1262 to 1286 inclusive in the seal register are hereby confirmed."

Alwen Lyons
Company Secretary
18th March 2015

POST OFFICE LIMITED**Date**
18th March 2015**Register of Sealings****Company Number**
21554540

1262	26/01/2015	26/01/2015	Deed of Amendment and Restatement relating to an agreement to provide funding to Post Office Limited between the Secretary of State for Business, Innovation & Skills and Post Office Limited	Paula Vennells	Piero D'Agostino
1263	27/01/2015	26/01/2015	Renewal lease by reference to an existing lease of premises situate at and known as 489/491 Prescot Road, Old Swan, Liverpool, Merseyside between Valerie Margaret Marson and Post Office Limited	Alwen Lyons	Jean Reynolds
1265	02/02/2015	29/01/2015	Lease of Units 29 and 30 Tower Ramparts Shopping Centre, Ipswich between Mars Pension Trustees Limited and Post Office Limited	Alwen Lyons	Jean Reynolds
1266	02/02/2015	29/01/2015	Agreement for works relating to Units 29 and 30 Tower Ramparts Shopping Centre, Ipswich between Mars Pension Trustees Limited and Post Office Limited	Alwen Lyons	Jean Reynolds
1267	02/02/2015	29/01/2015	Underlease of premises at 52 Great Portland Street, London, between Post Office Limited and LRK Associates London Limited	Alwen Lyons	Jean Reynolds
1268	18/02/2015	18/02/2015	Lease of premises at 22 Lendal, York, YO1 8AA between Post Office Limited and Employee Pulsecheck Limited (trading as Karian and Box Limited)	Alwen Lyons	Jean Reynolds
1269	18/02/2015	18/02/2015	Lease relating to Heathway Post Office 214-216 Heathway, Dagenham, RM10 8RD between Post Office Limited and Dagenham Enterprise Limited	Alwen Lyons	Jean Reynolds
1270	19/02/2015	18/02/2015	Counterpart Lease relating to 84-86 Fore Street, Hertford, SG14 1AA between Primeco Limited and Post Office Limited	Alwen Lyons	Jean Reynolds
1271	19/02/2015	18/02/2015	Counterpart Lease relating to 76 Regent Street, Weston-Super-Mare, North Somerset, BS23 1AA between Primeco Limited and Post Office Limited	Alwen Lyons	Jean Reynolds
1272	19/02/2015	18/02/2015	TR1 relating to 76 Regent Street, Weston-Super-Mare, Avon, PO30 1AB between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds

Register of Sealings

Alwen Lyons
18th March 2015

Page 2

1273	19/02/2015	18/02/2015	TR1 relating to 136 High Street, Gosport, Hampshire, PO12 1EH between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds
1274	19/02/2015	18/02/2015	TR1 relating to 84-86 Fore Street, Hertford, SG14 1AA between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds
1275	19/02/2015	18/02/2015	TR1 relating to 20 Albert Street, Rugby, Warwickshire, CV21 2AA between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds
1276	19/02/2015	18/02/2015	TR1 relating to 140 Queensway, Bletchley, MK2 2AA between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds
1277	19/02/2015	18/02/2015	TR1 relating to 74/76 High Street, Epsom, Surrey, KT19 8BE between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds
1278	19/02/2015	18/02/2015	TR1 relating to 20 Giles Street, Northampton, NN1 1NN between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds
1279	19/02/2015	18/02/2015	TR1 relating to 15-19 Howardsgate, Welwyn Garden City, Hertfordshire, AL8 6AA between Post Office Limited and Primeco Limited	Alwen Lyons	Jean Reynolds
1280	02/03/2015	02/03/2015	Call of Agreement between Secretary of State for Work and Pensions and Post Office Limited (POCa)	Paula Vennells	Kevin Seller
1281	17/03/2015	13/03/2015	Lease Agreement for 92A Balham High Road	Alwen Lyons	Jean Reynolds
1282	17/03/2015	13/03/2015	Licence for Alteration ref. Southend on Sea CO, 199-201 High Street	Alwen Lyons	Jean Reynolds
1283	17/03/2015	11/03/2015	TR1 between Shirley Avenue Post Office and Post Office Limited	Alwen Lyons	Jean Reynolds
1284	17/03/2015	13/03/2015	Lease of Premises at Finsbury Dials - Ground Floor	Alwen Lyons	Jean Reynolds
1285	17/03/2015	13/03/2015	Lease of Premises at Finsbury Dials – First Floor	Alwen Lyons	Jean Reynolds
1286	17/03/2015	13/03/2015	Lease of Premises at Finsbury Dials - Second Floor	Alwen Lyons	Jean Reynolds

Strictly Confidential

POST OFFICE LTD

Publication of our Report and Accounts for 2014/15**1. Background and Purpose**

- 1.1 The purpose of this paper is to set out plans for the publication of the Post Office's Report and Accounts for the financial year 2014/5. The paper outlines the overall format of the document, high level messages and tone and explains the development and production timeline.

2. Approach and style of the report

- 2.1 Post Office Ltd has now established a track record of producing Report and Accounts documents to the appropriate standards as a separate company. The 2014/15 report will therefore follow the same structure as the 13/14 document. The sections to be included are given at Annex 2.
- 2.2 The document will display the same professional production standards as last year, but will take a more functional stance in terms of fewer pictures and it will not include detailed 'case studies'. The document will be distributed as a digital pdf. A very limited number of digitally printed paper copies will be produced for key high level stakeholders and reference purposes
- 2.3 This functional approach will mean that [IRRELEVANT] of cost will be saved compared to previous years (we have budgeted a total production cost of [IRRELEVANT] 15/16 budgets compared to [IRRELEVANT] 14/15).
- 2.4 It is anticipated that the Report and Accounts should be ready for external publication from the middle of June. This will follow Royal Mail Financial Results which will be published 21 May. Our precise date of publication is yet to be determined and the accompanying PR and stakeholder plan will also be finalised nearer the time dependent on the specific environment faced. At this stage, we are expecting to employ a 'business as usual' approach to external media and stakeholders: we are not expecting to aggressively seek media attention.

3. Tone and key messages

- 3.1 The document is first and foremost a professional documentation of the year's financial results which meets the accounting and reporting standards appropriate to a listed company. Beyond this it represents a positioning of the company's strategic progress to the media and key stakeholders; to internal audiences of staff and subpostmasters; and to our Shareholder (who will be a new Government following the May general election). Notably, this Report and Accounts may be the first formal public positioning of the company in front of a new Government.
- 3.2 As such, the overall tone of the report should be one of confidence - demonstrating steady, competent progress in delivering a strategy of change, making financial improvement and delivering subsidy reduction - whilst being realistic about the significant challenges in our market and environment. It should demonstrate progress in delivering a long term strategy by referencing year on year metrics (as required in financial reporting) rather than internal targetry. The document should demonstrate that the company has the determination and commercialism to continue to deliver necessary change.

Strictly Confidential

- 3.3 Against this backdrop, the Chairman's Foreword can emphasise the long term progress as a reflection prior to stepping down in July whilst the Chief Executive's review can focus on in year progress, achievement and challenge – and point to the continued necessity for accelerating change.

4. Timeline

- 4.1 An outline of the current timetable is given at Annex 1. The March Board is being consulted on tone, feel and timescale using a variation on this paper. Content will be gathered in April. Collation and accounting clearances will be achieved in the first half of May – leading to the May Board giving necessary approvals and delegations. We will be ready for the signing of the Report and Accounts in the first half of June.
- 4.2 Finance will collate the figures and the 'back half' of the report (Financial Statements); Communications and Corporate Affairs will collate the 'front half'. To enable this, individual Directors will be approached in March to commence the process of providing and signing off non-financial content for the relevant sections against templated formats.

5. Recommendation

- 5.1 The ET is asked to note and agree the approach, key messages and timescales for the production of the 2014/15 Report and Accounts

Mark Davies and Alisdair Cameron

March 2015

Strictly Confidential

Annex 1

High Level Timetable showing key dates

Date	Activity
17 March	ET Meeting covering approach and key messaging
25 March	Board Meeting covering approach and key messaging
16 March to 15 April	'Front Half Content' liaison between Communications and Directors
9 April	Flash Results for Year End to GE
13 April to 6 May	Finance Liaison with EY / Finance collating 'Back Half Content'
15 April to 23 April	Communications collating Front Half
23 April	Collated Front Half circulated to GE for comment
30 April	Front Half with GE inputs circulated to ARC
13 May	Full Report/Accounts draft and EY Report to ARC
14 May	Full Report/Accounts draft sent to the Board
20 May	ARC – review of full accounts
21 May	Board – approval and delegations to prepare for publication
First Half June (date tbd)	Signing of Accounts
June (tbd)	Publication with associated PR / Stakeholder Plan

Strictly Confidential

Annex 2

Overall Format / Structure of 14/15 Report and Accounts

OVERVIEW

Our year in numbers

Chairman's foreword

Chief Executive's review

Strategy

BUSINESS REVIEW

Business in detail – brief summary of each pillar – Mails, Financial Services, Government Services, Telecoms

Network and Modernisation

Customer excellence

Our people

Supporting colleagues and communities (including CSR and commentary on 'milestones to mutualisation').

STRATEGIC REPORT

Financial review

Business risk

GOVERNANCE

Board biographies

Corporate governance

Directors' report

Directors' remuneration report

FINANCIAL STATEMENTS

Statement of Directors' responsibilities

Independent auditors report to the members of Post Office Limited

Consolidated income statement

Consolidated statement of comprehensive income

Consolidated statement of cash flows

Consolidated balance sheet

Consolidated statement of changes in equity

Notes to the financial statements

Parent Company financial statements

Report and Accounts

Page 4 of 4

Strictly Confidential**POST OFFICE LTD BOARD****Post Office Pensions – Update****1. Purpose**

The purpose of this paper is to:

- 1.1 Update the Board on the defined benefit pension arrangement, Royal Mail Pension Plan (RMPP) and the proposed new defined contribution Group Personal Pension, Post Office Pensions Plan (POPP).
- 1.2 Note the initial engagement with the RMPP Trustee and their advisers with regards to the 2015 valuation.

2. Royal Mail Pension Plan (RMPP) – Background

- 2.1. Following the transfer of RMPP liabilities to the Royal Mail Statutory Pension Scheme (RMSPS) and HMG in 2012, Post Office became responsible for funding its own section of the RMPP.
- 2.2. As part of the agreement of the transfer, it was agreed to retain the link between the RMSPS and final salary for Post Office employees still in employment. It was agreed to set future increases at RPI. [IRRELEVANT] was further agreed that HMG would fund this link and [IRRELEVANT] was left in the Post Office section of the RMPP.
- 2.3. At the valuation on 31 March 2012, the Trustee of the RMPP utilised the same assumptions used by the Government Actuaries Department (GAD) when they valued the liabilities that were transferred to HMG.
- 2.4. Based upon these assumptions, the employer contribution rates and the investment strategies were set for both Royal Mail and Post Office by the Trustee. The employer contribution rate proposed was [IRRELEVANT] of pensionable pay (compared with [IRRELEVANT] which was being paid at the time). It was felt that this higher rate was not economically viable and would put the future of the RMPP in jeopardy.
- 2.5. Royal Mail and Post Office examined ways to limit their contributions to the RMPP whilst providing a degree of certainty for the future of the RMPP. It was agreed with the Trustee to limit Pensionable Pay increases to RPI (to a maximum of [IRRELEVANT] regardless of any pay increase an employee would receive from 1 April 2014 onwards.
- 2.6. By capping future Pensionable Pay increases it was agreed that the contribution rate would remain at [IRRELEVANT]. However, it needs to be understood that the economic rate the Company should still be paying is [IRRELEVANT]. The gap of [IRRELEVANT] was subsidised by the assets in the fund. This was possible due to the money left by HMG to fund the pensionable salary link at a rate of RPI [IRRELEVANT] with the removal of the [IRRELEVANT] created a surplus that would be drawn down over time. It was projected at the time that, if the assumptions and investment returns were realised, the RMPP would cross-over into a deficit position by

Strictly Confidential

2021. Prior to this point, Post Office would have to consider the future of its section of the RMPP.

3. RMPP – Current Situation

- 3.1 Following an update from the Trustee at the last Pensions Committee (December 2014), it was highlighted that Post Office might want to consider its position and support of the RMPP as it was estimated that the deficit crossover point could be between March 2018 and late 2019, rather than 2021 as initially thought.
- 3.2 The financial position of the RMPP as at 30 November 2014 (this being the most up to date figures available) is shown below, with commentary on the key points.

	Gilts basis ABO 31 August 2014 (estimated)	Gilts basis ABO 30 November 2014 (estimated)
Liabilities	IRRELEVANT	
Assets		
Surplus/(Deficit)		
Funding Level		
Effective nominal discount rate		
Effective real discount rate		

Commentary

- The surplus position has remained largely unchanged over the period, with assets increasing by **IRRELEVANT** and liabilities increasing by **IRRELEVANT**.
 - The positions include the effect of the April 2012 salary increases assumed in the 2012 actuarial valuation basis **IRRELEVANT** base increase plus an allowance for promotional salary increase), as well as the promotional salary increases from 2013 onwards assumed as part of the 2012 actuarial valuation.
 - The gilt basis ABO measure shown here uses demographic assumptions from the 2012 actuarial valuation basis, market gilt yields and RPI inflation rates. The RPI/CPI differential is also from the 2012 valuation basis. LPI rates are Mercer defined.
 - The figures exclude an expense allowance.
- 3.3 The major contributor to the increase in the liabilities is the significantly reduced returns in UK government bond yields. Since March 2012 the 20-year UK government bonds yield has dropped from circa 3.5% to circa 2.3% in September 2014 (source Bank of England). The impact of this has been significantly to increase the cost associated with accruing pension benefits in the RMPP, as they are measured with reference to UK government bonds.

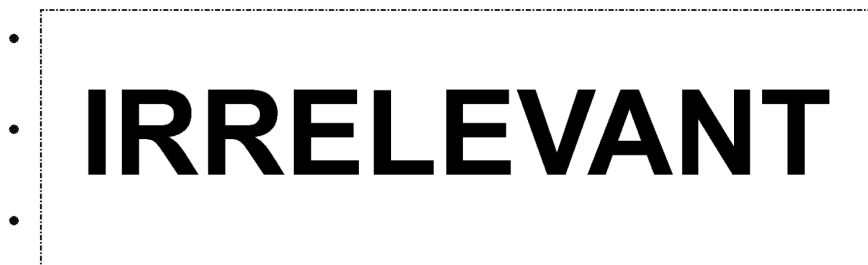
The POL section has a hedging programme in place, however this currently only extends to benefits accrued to 31 December 2015, and benefits accrued after this date remain subject to market movements.

Strictly Confidential

The Trustee will be taking the current situation with UK government bonds into consideration when they determine the assumptions to be used in the valuation due on 31 March 2015.

4. RMPP – Next steps

- 4.1. Post Office met with the Trustee and their advisers on 19 March 2015, to discuss the upcoming valuation. This initial engagement was to set the expectations and timescales.
- 4.2. Engagement with the Trustee on the valuation and the assumptions to be used can have an effect of the economic viability of the RMPP from a Post Office perspective. The Trustee has an obligation to engage with the employer when setting assumptions and the Pensions Regulator has set out the role of the employer with regards to the funding of defined benefit pension arrangements in its Code of Practice No.3. If we did not engage, we would risk the following:



- 4.3. Post Office will not know the full extent of the financial implications of the valuation until September 2015, when the initial results will be available. In the meantime, all possible scenarios will be examined ranging from not doing anything to closing the RMPP to future accrual. Possible courses of actions will be presented to the Group Executive in April 2015.
- 4.4. We are currently developing a risk profile for the different scenarios which includes key considerations such as industrial relations, employee relations and the financial risk to the business.
- 4.5. Given the close link between Post Office and Royal Mail through the RMPP, and the CWU's longstanding view that separation was not in the best interests of employees, it would be highly preferable to avoid any changes until Royal Mail had chosen to do the same. We will be speaking to the Royal Mail pensions and IR teams in confidence over the next month to understand our respective positions better.

5. People and IR impact

- 5.1. The DB pension scheme is highly valued by – and highly valuable to – our employees and is fiercely protected by both Unite and the CWU. We are certain that any move to close or substantively reduce the perceived benefit of the RMPP would be fiercely opposed by both unions and would likely lead to industrial action.

Strictly Confidential

- 5.2. Anticipating this risk, we are planning our consultation schedule to avoid DB pensions coinciding with Crown pay and 'Wave 2' of Business Transformation and adding specialist pensions expertise to the IR team. We would also invest in comprehensive communications to support affected colleagues so they had the information to understand any change and make the right decisions for them.
- 5.3. The current work on pensions is one part of a wider review of staff-related costs across the business. The People team is currently reviewing all aspects of pay and reward (including terms and conditions) for colleagues in detail, working closely with the management teams of Crowns and Supply Chain in particular. We aim to complete this work in Q1 of 2015/16 so it can inform the next steps regarding overall pay and reward, and our next steps within both the Crown and Supply Chain networks.

6. New Group Personal Pension (Project Nemo) – Update

- 6.1. The name of the new pension arrangement will be Post Office Pension Plan (POPP).
- 6.2. A 60 day consultation with all employees affected by the change began on 23 December 2014 and ended on 23 February 2015. We considered the feedback from employees and the Unions before making a final decision to proceed with the POPP. Unite was broadly positive and this view was echoed in correspondence to members. Their main issue concerned the governance of POPP.
- 6.3. As part of the consideration we met with the Unions to gain their support and discuss any issues they still may have. We addressed the situation surrounding the governance of the new pension scheme and provided them with the feedback from employees. It was agreed in principle to the formation of a joint Post Office and unions governance group. The terms of reference have been discussed but still need to be finalised between Post Office and the Unions.
- 6.4. Based upon the formation of the joint Governance Group, both Unions provided their support for Post Office's proposal to set up a new Defined Contribution pension scheme to replace the Royal Mail Defined Contribution Scheme. It was further agreed to issue a joint statement between the unions and Post Office demonstrating union support for the proposal. The joint statement was issued on 17 March 2015.
- 6.5. The implementation of POPP is on schedule, with system changes at an advanced stage. Given the importance of this project, we are prioritising this project over other HR SAP changes.
- 6.6. We have worked with our unions and the provider (Zurich) to arrange a series of presentations to employees joining POPP. These are taking place in London and Bolton, with Zurich present and both the CWU and Unite fully supportive and signed up to explaining the changes to their members. These have already started, with the first union presentation on 9th March and the first colleague presentation on 18th March.
- 6.7. The Trustee of the Royal Mail Defined Contribution Plan (RMDCP) and Royal Mail has agreed to allow current Post Office members of the RMDCP with fewer than 3 months' pensionable service to take a full transfer of their

Strictly Confidential

'pension pot' to POPP instead of the usual refund of a member's own contributions.

- 6.8. We formally notified Royal Mail of our ceasing to participate in the RMDCP from 1 April 2015 on 10 March 2015.

7. Recommendations

The Board is asked to:

- 7.1. Note the update and actions proposed in respect of the RMPP set out above; and
- 7.2. Note the outcome of the consultation for Project Nemo and the fact that this project is currently on track as intended.

Alisdair Cameron
March 2015