

EXECUTION VERSION  
Funding Agreement

26 November 2013

THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS

POST OFFICE LIMITED

FUNDING AGREEMENT

CONTENTS

CLAUSE	PAGE
1. INTERPRETATION.....	1
2. CONDITIONS .....	5
3. DELAYED PAYMENT .....	6
4. STATE AID CLEARANCES.....	6
5. GOVERNMENT FUNDING FOR SERVICES OF GENERAL ECONOMIC INTEREST .....	7
6. POL STRATEGIC PLAN.....	10
7. FINAL CONTRIBUTION.....	10
8. EMPLOYEE INCENTIVE ARRANGEMENTS.....	10
9. SUB-POSTMASTER COMPENSATION CONDITIONS.....	11
10. ACCESS CRITERIA.....	11
11. JOINT VENTURES.....	12
12. PUBLIC CONSULTATION, COMMUNICATION AND EQUALITY.....	12
13. CONSENTS.....	13
14. CONFIDENTIALITY.....	13
15. NOTICES.....	14
16. ENTIRE AGREEMENT.....	15
17. GENERAL.....	15
SCHEDULE 1 DELIVERABLES.....	18
SCHEDULE 2.....	19
PART A FUNDAMENTAL CHANGE.....	19
PART B POTENTIAL FUNDAMENTAL CHANGE.....	19
SCHEDULE 3 CALCULATION OF ACTUAL SGEI COST.....	20
APPENDIX A POL ENTRUSTMENT LETTER.....	21
APPENDIX B STRATEGIC PLAN.....	33

EXECUTION VERSION  
Funding Agreement

THIS AGREEMENT is made on 26 November 2013

BETWEEN:

- (1) THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS of 1 Victoria Street, London SW1H 0ET (the *Secretary of State*); and
- (2) POST OFFICE LIMITED, a company incorporated in England and Wales (registered number 2154540) and whose registered address is 148 Old Street, London EC1V 9HQ (POL).

WHEREAS:

- (A) The Parties entered into the 2010 Funding Agreement in respect of funding for certain post office services until the end of the Financial Year 2014/15.
- (B) The Secretary of State has requested that POL continues to provide a national network of post offices across the United Kingdom and wishes to entrust to POL the provision of services of general economic interest over that network.
- (C) The Secretary of State has agreed to enter into this Agreement in order to provide funding to POL to enable it to continue to provide services of general economic interest across that national network.

NOW THIS AGREEMENT WITNESSES as follows:

1. INTERPRETATION

- 1.1 In this Agreement, including the recitals, Schedules and Appendices, unless the context requires otherwise:

*2010 Funding Agreement* means the funding agreement entered into by, *inter alia*, the Parties dated 25 October 2010.

*2010 Funding Period* means the funding period under the 2010 Funding Agreement, being the period commencing the start of Financial Year 2012/13 and ending the end of Financial Year 2014/15.

*2010 SGEI Cost* means POL's net cost of: (i) maintaining a network of post offices; and (ii) ensuring the provision of services of general economic interest over that network, calculated in accordance with schedule 3 (*Calculation of SGEI Payment*) of the 2010 Funding Agreement.

*2010 SGEI Payment* means the total aggregate amount of all payments made by the Secretary of State under clause 5.7 of the 2010 Funding Agreement.

*Actual SGEI Cost* means POL's net cost of: (i) maintaining a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensuring the provision of services of general economic interest over that network, calculated in accordance with Schedule 3 (*Calculation of Actual SGEI Cost*).

*Branch* means any retail outlet of POL, including any post office counter or means of transacting any post office services (including those services described in clause 10.1(a) (*Access Criteria*)) at a third party premises and any other facility (including an "outreach"

EXECUTION VERSION  
Funding Agreement

facility) designated for the transaction of business with members of the public by or on behalf of POL.

*Business Day* means a day (not being a Saturday or a Sunday) on which banks are open for general non-automated banking business in the City of London.

*Code of Practice* means the Code of Practice on Public Consultation and Communication with respect to change in the Post Office network published in December 2012 as amended, varied, supplemented or substituted from time to time.

*Community Branch* means Branches that are the "only shop in the community", where "the community" is defined as a direct 'crow flies' distance of 0.5 miles from the current post office. When considering if Branches are the "only shop in the community", only alternative retailers most likely to be suitable for post offices are included, such as convenience and CTN (Confectioner, Tobacconist and Newsagent) stores.

*Cumulative Funding Period* means the 2010 Funding Period together with the Funding Period, being the period commencing the start of Financial Year 2012/13 and ending the end of Financial Year 2017/18.

*Cumulative SGEI Cost* has the meaning given to it in clause 5.9 ((*Government Funding for Services of General Economic Interest*).

*Cumulative SGEI Payment* has the meaning given to it in clause 5.5 ((*Government Funding for Services of General Economic Interest*).

*Cumulative SGEI Statement* has the meaning given to it in clause 5.9 ((*Government Funding for Services of General Economic Interest*).

*Deprived Urban Areas* means:

- (a) the most deprived fifteen per cent. (15%) of super output areas in England;
- (b) the most deprived fifteen per cent. (15%) of data zones in Scotland; and
- (c) the most deprived thirty per cent. (30%) of super output areas in Wales and Northern Ireland,

based upon each country's then current index of multiple deprivation.

*Entrustment Letter* means the letter in the form set out at Appendix A (*POL Entrustment Letter*) from the Secretary of State to POL and countersigned by POL.

*Financial Year* means an accounting period of POL commencing on or around 1 April in any calendar year and ending on or around 31 March in the following calendar year.

*Fundamental Change* means the occurrence of any of the events listed in Part A of Schedule 2 (*Fundamental Change*).

*Funding Period* means the period commencing the start of Financial Year 2015/16 and ending the end of Financial Year 2017/18.

*Government* means Her Majesty's Government.

EXECUTION VERSION  
Funding Agreement

*Milestone* means:

- (a) in respect of the SGEI Payment payable on 1 April 2015 (or the first Business Day thereafter), the requirements referred to as Milestone 1;
  - (b) in respect of the SGEI Payment payable on 1 April 2016 (or the first Business Day thereafter), the requirements referred to as Milestone 2; and
  - (c) in respect of the SGEI Payment payable on 1 April 2017 (or the first Business Day thereafter), the requirements referred to as Milestone 3,
- in each case in Appendix A (*Funding milestones and test dates*) of the Strategic Plan.

*Milestone Test Date* means, in respect of each SGEI Payment, the date specified in Appendix A (*Funding milestones and test dates*) of the Strategic Plan for the achievement of the Milestone applicable to that SGEI Payment.

*Order* means the Post Office Network Subsidy Scheme Order 2007 (SI 2007/962) made pursuant to section 103 of the PSA2000 and amended by the Post Office Network Subsidy Scheme (Amendment) Order 2011 (SI 2011/98) as may be further amended or replaced by any subsequent payment order increasing the maximum amount payable under it in any twelve (12) month period.

*Parties* means the parties to this Agreement.

*POL Group* means POL and its subsidiaries from time to time.

*POL Working Capital Facility* means the working capital facility provided to POL pursuant to the terms of the credit facilities agreement between the Secretary of State and POL dated 17 October 2003, as amended and restated on 16 May 2007, amended on 18 April 2008, amended and restated on 24 March 2010, amended on 22 March 2012 and as further amended and restated on or around the date of this Agreement.

*Potential Fundamental Change* has the meaning given to it in Part B of Schedule 2 (*Potential Fundamental Change*).

*PSA2000* means the Postal Services Act 2000.

*PSA2011* means the Postal Services Act 2011.

*Relevant Payment* has the meaning given to it in clause 3 (*Delayed payment*).

*Remedy Period* has the meaning given to it in clause 3 (*Delayed payment*).

*Required Payment Date* has the meaning given to it in clause 3 (*Delayed payment*).

*Rural Areas* means those areas which are not Urban Areas.

*SGEI Payment* means a payment by the Secretary of State in a Financial Year of an amount calculated to compensate POL for the net cost of: (i) maintaining a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensuring the provision of services of general economic interest over that network, in each case during that Financial Year.

EXECUTION VERSION  
Funding Agreement

*SGEI Statement* has the meaning given to it in clause 5.9 (*Government Funding for Services of General Economic Interest*).

*SGEI Supporting Statement* has the meaning given to it in clause 5.9 (*Government Funding for Services of General Economic Interest*).

*State Aid Clearance* means, in respect of any payment to be made to POL under this Agreement, confirmation by the European Commission that such payment is compatible with the requirements on State Aid of the Treaty on the Functioning of the European Union.

*Strategic Plan* means POL's strategic plan in relation to the provision of services of general economic interest as set out in Appendix B (*Strategic Plan*).

*Urban Areas* means communities with ten thousand (10,000) or more inhabitants in a continuous built up area.

*VAT Amount* has the meaning given to it in clause 5.12 (*Government Funding for Services of General Economic Interest*).

- 1.2 In this Agreement, except where the context otherwise requires:
- (a) a reference to a person (which shall include any individual, firm, company, corporation or other body corporate, government, state or agency or any association, trust, fund or partnership (whether or not having separate legal personality) shall include, as appropriate, its successors, permitted assignees or transferees;
  - (b) a reference to an enactment or statutory provision shall include a reference to any subordinate legislation made under that enactment or statutory provision and is a reference to that enactment, statutory provision or subordinate legislation as from time to time amended, consolidated, modified, or re-enacted;
  - (c) words in the singular shall include the plural and vice versa;
  - (d) references to one gender include other genders;
  - (e) a reference to any agreement or other instrument (other than an enactment or statutory provision) shall be deemed to be a reference to that agreement or instrument as from time to time amended, varied, supplemented, substituted, novated, assigned or restated;
  - (f) a reference to a clause, Schedule or Appendix shall be a reference to a clause of, or Schedule or Appendix to, this Agreement;
  - (g) a reference to "includes" or "including" shall be construed without limitation to any events, circumstances, conditions, acts or matters specified after those words;
  - (h) references to dates which do not fall on a Business Day shall be construed as references to the immediately subsequent Business Day;
  - (i) the headings are for convenience only and shall not affect its interpretation; and
  - (j) references to this Agreement include this Agreement as amended or supplemented.

EXECUTION VERSION  
Funding Agreement

1.3 The Schedules and Appendices form part of this Agreement and shall have the same force and effect as if expressly set out in this Agreement, and any reference to this Agreement shall include the Schedules and Appendices.

## 2. CONDITIONS

2.1 The obligation of the Secretary of State under this Agreement to make any SGEI Payment is conditional on:

- (a) all necessary State Aid Clearances having been obtained for the making of that payment; and
- (b) the relevant Milestone having been achieved.

2.2 Each obligation of POL under clauses 5 (*Government Funding for Services of General Economic Interest*), 6 (*POL Strategic Plan*), 8 (*Employee Incentive Arrangements*), 10 (*Access Criteria*) and 12 (*Public Consultation, Communication and Equality*) of this Agreement, and the obligations of POL under the Entrustment Letter, in each case in each of Financial Years 2015/16 and 2016/17 and 2017/18 (respectively), is conditional on the conditions referred to in clause 2.1 having been met in respect of the SGEI Payment for, subject to clause 2.3, that Financial Year, save that to the extent the condition in clause 2.1(b) is not met and (at the absolute discretion of the Secretary of State) only part of the SGEI Payment for that Financial Year is paid, then POL shall perform such of its obligations under this Agreement and the Entrustment Letter as shall be correspondingly adjusted by POL and the Secretary of State to be appropriate having regard to the funding constraints to which POL will be subject and to POL's obligations under clause 6 (*POL Strategic Plan*).

2.3 In the event that POL fails to achieve any Milestone by the Milestone Test Date, POL shall provide to the Secretary of State a remedial plan and the Secretary of State shall have no obligation to make the SGEI Payment until POL has achieved the Milestone. Should POL not achieve the Milestone within three (3) months following the Milestone Test Date, any payment (or part thereof) by the Secretary of State of the SGEI Payment shall be at the absolute discretion of the Secretary of State.

## Deliverables

2.4 On the date of this Agreement, POL shall deliver (or ensure that there is delivered) all those documents listed in Schedule 1 (*Deliverables*) in a form and substance satisfactory to the Secretary of State (acting reasonably).

## Fundamental Change

2.5 Without prejudice to the accrued rights and remedies of the Parties, the obligations of the Secretary of State to make or facilitate any payments in accordance with this Agreement, the obligations of POL under clauses 5 (*Government Funding for Services of General Economic Interest*), 8 (*Employee Incentive Arrangements*), 10 (*Access Criteria*) and 12 (*Public Consultation, Communication and Equality*) of this Agreement and the obligations of POL under the Entrustment Letter, shall immediately terminate upon the occurrence of a Fundamental Change.

2.6 If on the date on which any payment is due to be made by the Secretary of State to POL under this Agreement a Potential Fundamental Change exists, the Secretary of State shall be entitled to withhold such payment until such time as:

EXECUTION VERSION  
Funding Agreement

- (a) a Fundamental Change occurs, whereupon clause 2.5 shall apply and the Secretary of State shall have no obligation to make that payment; or
- (b) the Potential Fundamental Change ceases to exist, whereupon the payment shall become immediately due and payable, together with interest from the due date until the date of actual payment at a rate equivalent to the rate of interest then applicable to drawings by POL under the POL Working Capital Facility (as amended from time to time).

2.7 Until the date on which the last SGEI Payment is due to be made by the Secretary of State to POL under this Agreement, POL shall promptly disclose to the Secretary of State any matter or thing of which its board of directors becomes aware after entering into this Agreement which constitutes, or which in the reasonable opinion of its board of directors is reasonably likely to give rise to, a Fundamental Change or a Potential Fundamental Change.

## 3. DELAYED PAYMENT

If any SGEI Payment to be made by the Secretary of State to POL under this Agreement (a *Relevant Payment*) is not made on or by the date on which it is required by clause 5.5 (*Government Funding for Services of General Economic Interest*) to be made (the *Required Payment Date*), then during the period between the Required Payment Date and the end of the tenth (10<sup>th</sup>) Business Day thereafter (such period being the *Remedy Period*), the Parties shall continue to comply with their respective obligations under this Agreement and the Secretary of State shall make the Relevant Payment within the Remedy Period.

## 4. STATE AID CLEARANCES

4.1 The Secretary of State agrees to:

- (a) prepare as soon as reasonably practicable, in consultation with POL, an application for State Aid Clearance for all arrangements under this Agreement requiring such State Aid Clearance, including any payments to POL under clause 5 (*Government Funding for Services of General Economic Interest*), in respect of each of the Financial Years 2015/16 and 2016/17 and 2017/18;
- (b) pursue such State Aid Clearance application in good faith and expeditiously;
- (c) keep POL informed as to the progress of such State Aid Clearance application;
- (d) permit representatives appointed by POL to attend meetings with the European Commission in respect of such application, to the extent permitted by the European Commission and deemed appropriate by the Secretary of State;
- (e) discuss with POL any written notifications to the European Commission in respect of such State Aid Clearance application before they are submitted; and
- (f) discuss with POL any written notifications from the European Commission in respect of such State Aid Clearance application promptly upon their receipt.

4.2 As at the date of this Agreement the Secretary of State is targeting the obtaining of the State Aid Clearance referred to in clause 4.1 by the start of the Funding Period and the Parties shall use their reasonable endeavours to obtain the State Aid Clearance by such date, it being acknowledged that a mere failure to achieve that target is not of itself a breach of this clause 4.2.

EXECUTION VERSION  
Funding Agreement

## 5. GOVERNMENT FUNDING FOR SERVICES OF GENERAL ECONOMIC INTEREST

5.1 POL undertakes to the Secretary of State that it will for the duration of the Funding Period: (i) maintain a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) provide across that network the services of general economic interest entrusted to it by the Entrustment Letter.

5.2 Subject to clause 2.1 (*Conditions*), the Secretary of State agrees to make to POL in each of the Financial Years 2015/16, 2016/17 and 2017/18 an SGEI Payment in the amount specified in clause 5.6, to enable POL to maintain the network and to provide services of general economic interest over the network.

5.3 The SGEI Payment for each of the Financial Years 2015/16, 2016/17 and 2017/18 shall be made in a manner or manners to be determined by the Secretary of State in his absolute discretion (but having consulted with POL as to the impact thereof (if any) on their profit and loss accounts and the tax treatment of such payments).

5.4 The Secretary of State agrees:

- (a) to submit for approval of both Houses of Parliament as soon as reasonably practicable any order amending or replacing the Order to increase the maximum amount payable under the Order in any period of twelve (12) months in order to make any payment under this Agreement which it is determined by the Secretary of State in accordance with clause 5.3 will be made pursuant to section 103 of the PSA2000;
- (b) to submit for approval of the House of Commons as soon as reasonably practicable any payment under this Agreement which it is determined by the Secretary of State in accordance with clause 5.3 will be made pursuant to section 8 of the Industrial Development Act 1982;
- (c) to keep POL informed as to the progress of such approval(s); and
- (d) to notify POL in writing as soon as reasonably practicable after such approval(s) have been obtained.

5.5 The amount of each SGEI Payment payable shall be subject always to the aggregate amount of the 2010 SGEI Payment plus all SGEI Payments made under this Agreement (the *Cumulative SGEI Payment*) not exceeding one billion seven hundred and ninety five million pounds (£1,795,000,000). Each SGEI Payment shall be made by way of payment on 1 April (or the first Business Day thereafter) of the relevant Financial Year of the amount specified in clause 5.6.

5.6 The amount payable in:

- (a) the Financial Year 2015/16 shall be two hundred and eighty million pounds (£280,000,000);
- (b) the Financial Year 2016/17 shall be two hundred and twenty million pounds (£220,000,000); and
- (c) the Financial Year 2017/18 shall be one hundred and forty million pounds (£140,000,000).

EXECUTION VERSION  
Funding Agreement

In ascertaining for any purpose of this clause 5 the amount or maximum amount of any SGEI Payment no account shall be taken of: (i) any VAT Amount which may be payable under clause 5.12; or (ii) the benefit of any interest receivable on any amount held by POL prior to its expenditure.

5.7 The Secretary of State acknowledges that, without prejudicing clause 5.2 or his discretion to determine the method of payment of the SGEI Payment referred to in clause 5.3 above, it is his current expectation that:

- (a) one hundred and thirty million pounds (£130,000,000) of the SGEI Payment for Financial Year 2015/16;
- (b) eighty million pounds (£80,000,000) of the SGEI Payment for Financial Year 2016/17; and
- (c) seventy million pounds (£70,000,000) of the SGEI Payment for Financial Year 2017/18,

will be made by way of a payment under a network subsidy scheme introduced under the Order provided that: (i) the necessary statutory instrument to permit such payment has been approved by an affirmative resolution of each House of Parliament; and (ii) any necessary consent to the making of such statutory instrument has been given by the Lords Commissioners of Her Majesty's Treasury.

5.8 It is acknowledged by the Parties that any part of the SGEI Payments received by POL under a network subsidy scheme pursuant to section 103 of the PSA2000 (currently expected to be the amounts specified in clause 5.7 above) would be treated as revenue in POL's accounts, which has an impact on POL's operating profit. Should any SGEI Payment (or part thereof) be made in any Financial Year in any manner which would result in it not being treated as revenue in POL's accounts then any target operating profit applicable for any purpose to POL, or the PO Group as a whole, in such Financial Year shall be reduced by the amount of any SGEI Payment (or part thereof) received in any such manner in that Financial Year.

5.9 Within three months following the signature of POL's accounts in respect of each of the Financial Years 2015/16, 2016/17 and 2017/18, POL shall provide to the Secretary of State a statement (the *SGEI Statement*) setting out in writing the Actual SGEI Cost for that Financial Year and a cumulative statement (the *Cumulative SGEI Statement*) setting out the cumulative amount of all 2010 SGEI Cost for the 2010 Funding Period plus all Actual SGEI Cost for the Funding Period up to and including the relevant Financial Year (the *Cumulative SGEI Cost*), together with supporting calculations and a clear explanation of how the amounts of each have been calculated. Each SGEI Statement shall be accompanied by a statement (the *SGEI Supporting Statement*) from an independent firm of financial advisers confirming:

- (a) that the SGEI Statement has been properly prepared in accordance with the requirements of Schedule 3 (*Calculation of Actual SGEI Cost*) and any additional conditions imposed by any relevant State Aid Clearance; and
- (b) that while carrying out its financial analysis for the purposes of providing the statement referred to in paragraph (a) above, they did not discover any inconsistency of POL's use of the SGEI Payment as against the terms of this Agreement or of any applicable State Aid Clearance.

EXECUTION VERSION  
Funding Agreement

For the avoidance of doubt, the independent firm of financial advisers will not be responsible for determining whether the net profit that would have been incurred by POL in Schedule 3 (*Calculation of Actual SGEI Cost*) is reasonable. POL agrees to use reasonable endeavours to engage such independent firm of financial advisers on the basis that, if requested by the Secretary of State and on such terms as the financial advisers may agree:

- (a) an accountancy firm nominated by the Secretary of State shall be entitled to discuss directly with the financial advisers the manner in which the SGEI Supporting Statement has been prepared; and
- (b) the financial advisers shall provide to the Secretary of State all notes and other work products produced by them in the preparation of the SGEI Supporting Statement.

5.10 If following the end of the Cumulative Funding Period the Cumulative SGEI Statement (for the entire Cumulative Funding Period) shows that the Cumulative SGEI Cost is less than the Cumulative SGEI Payment, POL shall, within ten (10) Business Days of a request by the Secretary of State, reimburse to the Secretary of State, without deduction, an amount equal to the difference.

5.11 POL shall use each SGEI Payment only to meet the direct and indirect costs associated with: (i) maintaining a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensuring the provision of services of general economic interest over that network (as entrusted to it pursuant to the Entrustment Letter), as described in Schedule 3 (*Calculation of Actual SGEI Cost*) (or to make any reimbursement required to be made by POL pursuant to clause 5.10) and only for purposes permitted by any State Aid Clearance applicable to it.

5.12 It is the mutual opinion of the Parties that the SGEI Payments received by POL will not (and POL agrees not to take any steps with the intention of procuring that they will) constitute, for VAT purposes, the consideration for any taxable supply and that, accordingly, the receipt by POL of such SGEI Payments should not give rise to any liability of POL (or any other member of the PO Group) to account for VAT in respect of any such receipt. Notwithstanding the foregoing opinion, if it should, at any time (whether or not a time falling within the duration of this Agreement), be determined by Her Majesty's Revenue and Customs that such SGEI Payments (or any of them) must be treated as the consideration for taxable supplies made by POL (or, as the case may be, by any other member of the PO Group) and that in consequence POL (or such other member of the PO Group) is liable to account for VAT in respect of the receipt of any of such SGEI Payments (the *VAT Amount*), POL shall notify the Secretary of State of that determination within five (5) Business Days of being so advised by Her Majesty's Revenue and Customs and the Secretary of State shall, as soon as reasonably practicable following notification of such determination, make a payment to POL, in addition to all amounts otherwise payable by the Secretary of State to POL under this Agreement, of a sum equal to the VAT Amount, against production of a valid VAT invoice.

5.13 If Her Majesty's Revenue and Customs issues a determination as referred to in clause 5.12, the Parties shall (acting reasonably) consult as to what action to take regarding such determination. If the Secretary of State disagrees with the determination he may, within ten (10) Business Days of being notified by POL of such determination, give written notice to POL that he requires POL (or any other member of the PO Group) to obtain a review by Her Majesty's Revenue and Customs of that determination; and POL (or such other member of the PO Group, as the case may be) shall promptly request (the form of that request being subject to reasonable review by the Secretary of State) Her Majesty's Revenue and Customs to undertake such review. In the event that the review results in POL obtaining a refund of any

EXECUTION VERSION  
Funding Agreement

VAT Amount, or not being required to pay a VAT Amount, in each case in respect of which the Secretary of State shall have made a corresponding payment under clause 5.12, POL shall promptly refund to the Secretary of State the amount of such corresponding payment.

5.14 The Secretary of State acknowledges the expectation of the Parties that ongoing SGEI Payments may be required to be made to POL following the end of the Funding Period to the extent that POL may be requested to continue to provide services of general economic interest following the Funding Period.

5.15 The Secretary of State acknowledged in the 2010 Funding Agreement that the expectation of the Parties was that ongoing SGEI payments would be required to be made to POL following the end of the 2010 Funding Period to the extent that POL was requested to continue to provide services of general economic interest following the 2010 Funding Period. The Secretary of State acknowledges that this Agreement and the Strategic Plan continue the arrangements under the 2010 Funding Agreement and, as such, hereby waives its right to receive any amount that POL may be required to reimburse to the Secretary of State together with POL's obligation to pay such amount, in each case under clause 5.11 of the 2010 Funding Agreement, on the basis that the Secretary of State is entitled to receive a reimbursement for any short-fall between the Cumulative SGEI Cost and the Cumulative SGEI Payment made over the Cumulative Funding Period pursuant to clause 5.10.

## 6. POL STRATEGIC PLAN

6.1 POL shall from 1 April 2015 use its best endeavours to procure the delivery of the Strategic Plan within the financial parameters of the SGEI Payments provided pursuant to this Agreement and (unless otherwise agreed by the Secretary of State or required by the terms of any State Aid Clearance) POL shall not apply any SGEI Payment for a purpose inconsistent with the Strategic Plan or make any material deviation from the Strategic Plan.

6.2 In monitoring POL's progress in delivering the Strategic Plan, the Secretary of State may request information both on a routine and an *ad hoc* basis. The Secretary of State will ensure that information requests are not overly onerous and POL will use its reasonable endeavours to satisfy all information requests.

## 7. FINAL CONTRIBUTION

POL acknowledges that, subject to clause 5.15, the SGEI Payments to be provided by the Secretary of State pursuant to this Agreement represent the Secretary of State's final funding contribution in respect of POL's obligations over the Funding Period to: (i) maintain a network of post offices in accordance with clause 10 (*Access Criteria*); and (ii) ensure the provision of services of general economic interest over that network in accordance with the Strategic Plan as entrusted to it by the Entrustment Letter.

## 8. EMPLOYEE INCENTIVE ARRANGEMENTS

8.1 POL shall continue to maintain an incentive scheme, approved by the Secretary of State, for its senior executive team in a manner which is designed to ensure, and is consistent with ensuring, the delivery of the Strategic Plan.

## 8.2 POL confirms that:

- (a) the terms of any bonus arrangements specific to POL (or those parts of any group-wide arrangements which are related to the performance of POL) are designed to incentivise and reward the performance of POL;

EXECUTION VERSION  
Funding Agreement

- (b) the terms of such bonus arrangements are robust, subject to annual review and designed not to provide rewards where POL's business has not performed satisfactorily against the relevant target; and
- (c) accordingly, no such bonus arrangements will pay out in respect of any Financial Year during the Funding Period in which POL seeks and obtains new funding from the Secretary of State, over and above that anticipated in this Agreement, as a result of a failure by POL to perform in accordance with the requirements of the Strategic Plan (other than as a result of a change in Government policy or other reasons beyond POL's control). Any future bonus arrangements following any such Financial Year will be discussed with the Secretary of State at the time.

## 9. SUB-POSTMASTER COMPENSATION CONDITIONS

9.1 As part of its obligations to deliver the Strategic Plan, POL shall ensure that it complies with the provisions of clause 10 (*Access Criteria*) and confirms that the Strategic Plan has been developed on the basis that no community loses access to services of the type contemplated in clause 10 (*Access Criteria*) other than due to circumstances beyond POL's control.

9.2 POL shall ensure that during the Funding Period all new or amended agency contracts entered into between POL and any sub-postmaster shall be on such terms as to ensure that such sub-postmaster has no right to receive: (i) fixed pay; or (ii) any compensation payment for termination of such agency contract (other than in respect of a breach by POL of the terms of such agency contract or applicable law), provided that that any new agency contracts entered into with sub-postmasters of Community Branches pursuant to a sale, transfer, termination or otherwise may be on materially the same terms as the existing agency contract for such Community Branches.

9.3 POL shall ensure that (save as required by law or contractual requirements) during the Funding Period, no compensation payments may be paid to any sub-postmaster upon replacement of such sub-postmaster's existing agency contract, unless such replacement agency contract complies with the provisions of clause 9.2.

## 10. ACCESS CRITERIA

10.1 Without prejudice to its obligations pursuant to clause 5.1 (*Government Funding for Services of General Economic Interest*), POL shall throughout the Funding Period provide a network of at least eleven thousand, five hundred (11,500) Branches which:

- (a) provide access to all of the following services:
  - (i) postal services;
  - (ii) basic cash and banking facilities and payout services including those that POL is required to provide on behalf of Government (in respect of pensions, benefits or tax credits);
  - (iii) bill payment facilities; and
  - (iv) information about other services which may be available from POL outlets from time to time,

EXECUTION VERSION  
Funding Agreement

provided that only eleven thousand (11,000) of such Branches (such Branches to be determined by POL in its absolute discretion) shall be required to provide the service contemplated in clause 10.1(a)(ii) (*Access Criteria*) above; and

- (b) enables the following criteria to be met:
  - (i) Nationally:
    - (A) ninety per cent. (90%) of the UK population are within one (1) mile of the nearest Branch;
    - (B) ninety nine per cent. (99%) of the UK population are within three (3) miles of the nearest Branch;
  - (ii) In Urban Areas:
    - (A) ninety five per cent. (95%) of the total population within Urban Areas across the UK are within one (1) mile of the nearest Branch;
    - (B) ninety nine per cent. (99%) of the total population within Deprived Urban Areas across the UK are within one (1) mile of the nearest Branch;
  - (iii) In Rural Areas: ninety five per cent. (95%) of the total population within Rural Areas across the UK are within three (3) miles of the nearest Branch;
  - (iv) In each postcode district: ninety five per cent. (95%) of the population in each individual postcode district are within six (6) miles of the nearest Branch.

10.2 In applying the above criteria POL shall in addition take account of geographical constraints such as rivers, mountains and valleys, motorways and sea crossings to islands so as not to impose undue hardship when considering the appropriate Branch network.

10.3 Reference to "Branch" in this clause 10 shall mean a Branch providing the services described in clause 10.1(a).

## 11. JOINT VENTURES

Unless otherwise agreed with the Secretary of State, POL agrees that it shall only enter into joint ventures with third parties for purposes consistent with the delivery of the Strategic Plan and provided that the joint venture is structured on the basis that it would not (according to Government advice) be classified as part of the public sector under the relevant rules of Her Majesty's Treasury.

## 12. PUBLIC CONSULTATION, COMMUNICATION AND EQUALITY

12.1 POL shall at all times comply with the Code of Practice.

12.2 POL acknowledges the commitment recorded in the resolutions made during its board meeting of 21 January 2008 that any individuals taking any decision or exercising any other function on POL's behalf should do so having due regard to the need to observe factors which comprise the statutory equality duties and that appropriate steps be taken to inform all people making decisions or exercising functions on POL's behalf of these equality duties. POL shall

EXECUTION VERSION  
Funding AgreementEXECUTION VERSION  
Funding Agreement

ensure that this commitment is maintained in the performance of its obligations under this Agreement.

### 13. CONSENTS

The Secretary of State hereby consents, for the purposes of the articles of association of POL and of any other document or arrangement under which its consent or approval is required, to the execution and performance by POL of this Agreement and the documents and arrangements to be entered into pursuant to, or otherwise contemplated by, this Agreement (other than any agreement contemplated in clause 11). The Secretary of State agrees that such consents will take effect notwithstanding any failure to comply with any procedural requirements of such articles or other documents in connection with the obtaining of such consents.

### 14. CONFIDENTIALITY

14.1 Each Party undertakes to the other Party that, subject to clause 14.2, it shall treat as strictly confidential all confidential information. For the purposes of this clause 14, *confidential information* shall mean:

- (a) the provisions of this Agreement, the Entrustment Letter and the Strategic Plan; and
- (b) the negotiations relating to this Agreement, the Entrustment Letter and the Strategic Plan.

14.2 Clause 14.1 shall not prevent the disclosure by a Party of any confidential information:

- (a) to those of its officers (including auditors), employees and agents as it considers have a need for such information in the performance of their respective functions and who shall in each case be made aware by such Party of its obligations under this Agreement and shall be required by such Party to observe the same restrictions on the use of the confidential information as are contained in this clause 14;
- (b) to Postal Services Holding Company PLC and its officers (including auditors), employees and agents, in each case who are bound to such Party by a duty of confidence which applies to the confidential information disclosed;
- (c) to its professional advisers who are bound to such Party by a duty of confidence which applies to the confidential information disclosed;
- (d) to the extent required by applicable law or by the regulations of any regulatory or supervisory authority to which such Party is subject or pursuant to any order of court or other competent authority or tribunal;
- (e) which shall have entered the public domain or ceased to be confidential other than as a result of a breach by such Party of its obligations under this clause 14;
- (f) which was already known to such Party prior to its disclosure to such Party other than as a result of a breach by such Party of an obligation of confidentiality;
- (g) as such Party, acting reasonably, considers necessary in connection with any investigations, inquiries, or actual or threatened proceedings in connection with POL or any of its directors;

- (h) in the case of POL, to the extent that its board of directors acting reasonably, considers disclosure necessary from time to time in its statutory accounts;
- (i) to the extent that the Secretary of State, acting reasonably, considers disclosure necessary from time to time in the published accounts of the Department of Business, Innovation & Skills or Her Majesty's Treasury;
- (j) to the extent required by any Parliamentary obligation;
- (k) to the extent required for the purposes of any examination pursuant to section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which the Secretary of State has used his resources;
- (l) to the European Commission for the purposes of obtaining State Aid Clearance; or
- (m) with the prior written consent of the other Party.

14.3 If a Party becomes required, in circumstances contemplated by clause 14.2(d), (g) or (h) to disclose any confidential information, such Party shall, to the extent permitted by law, give to the other Party such notice of such disclosure as is practicable in the circumstances and shall, to the extent permitted by law and practicable in the circumstances, consult with the other Party as to the extent of such disclosure.

### 15. NOTICES

15.1 A notice to be served pursuant to or in connection with this Agreement shall be in writing and, unless otherwise stated, served in person or sent by pre-paid first class post, fax or any electronic method of communication as agreed by the Parties to the relevant Party at its address or fax number set out below, or such other address in England or Wales or fax number notified by it to the other Party and marked for the attention of the person or department therein specified.

15.2 The address and addressee of each Party at the date of this Agreement are:

Name of Party	Addressee	Address	Fax Number
Secretary of State	Legal Director for Postal Services	1 Victoria Street, London SW1H 0ET	0207 215 3221
POL	Company Secretary	148 Old Street, London EC1V 9HQ	0207 212 2145

15.3 A notice shall be deemed to be received on the date and time specified below (save that where such notice would otherwise be deemed to be received after 17:00 London time on a particular day, it shall be deemed to have been received at 9:00 London time on the next Business Day):

- (a) in the case of a notice served in person, upon delivery at the address of the addressee;
- (b) in the case of a posted letter, on the second Business Day after posting;
- (c) in the case of a fax, when received in legible form; and

EXECUTION VERSION  
Funding Agreement

(d) in the case of any other electronic method of communication agreed by the Parties, when actually received in readable form.

15.4 Each Party undertakes to notify the other Party by notice served in accordance with this clause if the address specified for that Party herein is no longer an appropriate address for the service of notice or if it is desired to substitute any individual addressee of that Party named in clause 15.2.

15.5 In proving service of any notice under or in connection with this Agreement it will be sufficient to prove:

- (a) in the case of a letter, that such letter was properly stamped or franked, addressed and placed in the post or in the case of personal delivery, was left at the correct address; and
- (b) in the case of a fax transmission, that fax was duly transmitted to the fax number, as appropriate, of the addressee referred to in clause 15.2.

#### 16. ENTIRE AGREEMENT

16.1 This Agreement and any documents referred to in it or annexed to it constitute the whole and only agreement between the Parties relating to its subject matter and, for the avoidance of doubt, supersedes any other prior arrangement, understanding or agreement between the Parties relating to the subject matter of this Agreement.

16.2 Each Party acknowledges that in entering into this Agreement, it is not relying on any pre-contractual statement which is not set out in this Agreement.

16.3 Except in the case of fraud, neither Party shall have any right of action against the other Party arising out of or in connection with any pre-contractual statement except to the extent that it is expressly provided for in this Agreement.

16.4 For the purposes of this clause 16, *pre-contractual statement* means any draft, agreement, undertaking, representation, warranty, promise, assurance, forecast, estimate or arrangement of any nature whatsoever, whether or not in writing, relating to the subject matter of this Agreement made or given by any person at any time prior to the date of this Agreement.

#### 17. GENERAL

##### Secretary of State

17.1 Nothing in this Agreement fetters the powers conferred on the Secretary of State by the PSA2000 and the PSA2011.

##### Costs

17.2 Save as expressly provided for elsewhere in this Agreement, each of the Parties shall at its own expense do all such things as shall be necessary to give full effect to the obligations imposed on it under this Agreement.

EXECUTION VERSION  
Funding Agreement

#### Third parties

17.3 For the purposes of the Contracts (Rights of Third Parties) Act 1999, no person other than a Party shall have any rights in respect of this Agreement.

#### Counterparts

17.4 This Agreement may be executed in any number of counterparts and by the Parties on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

#### Partial invalidity

17.5 If any term or provision in this Agreement is held to be illegal or unenforceable in whole or in part under any enactment or rule of law, such term or provision or part shall to that extent be deemed not to form part of this Agreement but the enforceability of the remainder of this Agreement shall not be affected.

#### Rights, variations and waivers

17.6 The rights and remedies of the Parties shall not be affected by any failure to exercise or delay in exercising any right or remedy or by the giving of any indulgence by the other Party or by anything whatsoever except a specific waiver or release in writing and any such waiver or release shall not prejudice or affect any other rights or remedies of the Parties. No single or partial exercise of any right or remedy prevents any further or other exercise thereof or the exercise of any other right or remedy.

17.7 No variation of this Agreement shall be of any effect unless it is agreed in writing by or on behalf of each Party.

17.8 Any waiver of any right, power or remedy under this Agreement must be in writing and may be given subject to any conditions thought fit by the grantor. The person seeking the waiver shall disclose to the grantor all material facts then in that person's knowledge relevant to the subject matter of the waiver. Unless otherwise expressly stated, any waiver shall be effective only in the instance and only for the purpose for which it is given.

#### Remedies

17.9 Without prejudice to any other rights or remedies that either Party may have, each Party acknowledges and agrees that damages alone would not be an adequate remedy for any breach by a Party of the provisions of this Agreement, and that the remedies of injunction and specific performance as well as any other equitable relief for any threatened or actual breach of the provisions of this Agreement by a Party may be more appropriate remedies and that no proof of special damages shall be necessary for the enforcement of this Agreement.

#### Governing law and jurisdiction

17.10 This Agreement and any non-contractual obligations arising out of or in relation to this Agreement shall be governed by and construed in accordance with English law.

17.11 Each Party hereby submits to the exclusive jurisdiction of the courts of England.

EXECUTED by the Parties on the date first written above.

SIGNED by  
for and on behalf of  
**THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS**

**GRO**

Signature: \_\_\_\_\_  
Name: Will Gibson  
Title: Executive Director, Shareholder Executive

SIGNED by  
for and on behalf of  
**POST OFFICE LIMITED**

**GRO**

Signature: \_\_\_\_\_  
Name: Paula Vennells  
Title: Chief Executive

**GRO**

Signature: \_\_\_\_\_  
Name: Chris Ray  
Title: CEO

## SCHEDULE 1

## DELIVERABLES

A certified copy of a resolution of the board of POL:

- (a) approving the terms of, and the transactions contemplated by, this Agreement and the amended and restated POL Working Capital Facility and resolving that it execute and perform this Agreement and the amended and restated POL Working Capital Facility;
- (b) authorising a specific person or persons to execute this Agreement on its behalf; and
- (c) authorising a specified person or persons, on its behalf, to sign and/or dispatch all documents and notices to be signed and/or dispatched by it under or in connection with this Agreement and the amended and restated POL Working Capital Facility.

## SCHEDULE 2

Part A  
Fundamental Change

A Fundamental Change will have occurred if:

1. an order has been made or resolution has been passed for the winding-up of, or a provisional liquidator to be appointed in respect of, POL;
2. an administrator has been appointed in respect of POL;
3. a receiver (which expression shall include an administrative receiver) has been appointed in respect of POL;
4. POL has stopped paying its debts as they fall due;
5. a moratorium is declared in respect of the indebtedness of POL or POL enters into a moratorium or a composition, assignment or similar arrangement with its creditors generally;
6. a scheme of arrangement is approved, or proposed by POL, under Part 26 of the Companies Act 2006 with a view to rescheduling or restructuring POL's indebtedness;
7. a voluntary arrangement has been proposed by POL under section 1 of the Insolvency Act 1986 in respect of POL; or
8. an event analogous to the foregoing has occurred in relation to POL in any jurisdiction outside England.

Part B  
Potential Fundamental Change

A Potential Fundamental Change exists at any time if at that time a Fundamental Change shall not have occurred but:

1. a petition has been presented or a meeting has been convened for the purpose of winding-up POL or appointing a provisional liquidator in respect of POL and such petition has not been discharged or such meeting has not been held; or
2. POL is currently taking steps with a view to appointing an administrator or agreeing a moratorium, composition, assignment or similar arrangement with its creditors generally.

## SCHEDULE 3

## CALCULATION OF ACTUAL SGEI COST

The amount of the Actual SGEI Cost shall be equal to the difference between the actual net costs incurred by POL and the reasonable net profits that would have been incurred in connection with the provision of a network that POL would maintain on a purely commercial basis (as specified by the relevant European Commission decision(s)), during the relevant Financial Year(s).

The calculation of those net costs shall include:

1. All variable costs including those incurred in providing the Network SGEI and the Product SGEIs; plus
2. All fixed costs including those incurred in providing the Network SGEI and the Product SGEIs; less
3. All revenues received by POL from providing the Product SGEIs as well as non-SGEI services.

For the purposes of the calculation above:

- The costs shall include, without limitation, contributions to pension funds, interest costs, central costs, capital expenditure, costs of any employee incentivisation arrangements and the costs of transforming the network, in each case whether such costs are recurring or exceptional.
- *Network SGEI* means, as set out in the Entrustment Letter, the obligation on POL to maintain during the Funding Period a network of post offices beyond its optimal commercial size.
- *Product SGEI* means, as set out in the Entrustment Letter, the obligation on POL to make available during the Funding Period certain services of general economic interest across a network of post offices as defined by the Network SGEI.

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Funding AgreementEXECUTION VERSION  
Funding Agreement

## APPENDIX A

## POL ENTRUSTMENT LETTER

Paula Vennells  
Post Office Limited 148 Old Street  
London  
EC1V 9HQ

\_\_\_\_ November 2013

Dear Paula,

**ENTRUSTMENT OF POST OFFICE LIMITED WITH THE DELIVERY OF  
CERTAIN PUBLIC SERVICES**

**Commencement**

This letter has effect from the later of: (i) the date on which the European Commission confirms that the requirements of this letter are compatible with the requirements on State Aid of the Treaty on the Functioning of the European Union; and (ii) 1 April 2015 (the "Effective Date").

**Existing Entrustment Letter**

Notwithstanding the signing of this letter, in respect of the period prior to the Effective Date, the provisions of the letter from the Government to Post Office Limited entitled "Entrustment of Post Office Limited with the delivery of certain public services" and dated 21 March 2012 (the "Existing Entrustment Letter") shall continue in full force and effect and the provisions of this letter shall be without prejudice to any rights, remedies, obligations or liabilities of any party accrued under the Existing Entrustment Letter.

The Existing Entrustment Letter shall be terminated on the Effective Date.

**Entrustment**

This letter contains an overarching ministerial instruction entrusting Post Office Limited with the provision and delivery of certain services of general economic interest. This instruction is legally binding on Post Office Limited and Post Office Limited has signed this letter in agreement and acknowledgement of this.

We confirm that Post Office Limited is under a public service obligation (as set out here and also contractually in the Post Office Limited Funding Agreement dated 26 November 2013 (the "2013 Funding Agreement")) to maintain, from the Effective Date until the end of its financial year ending on or around 31 March 2018, a network of post offices beyond its optimal commercial size (the "Network SGEI"). That network must number a minimum of 11,500 post offices and also meet the following minimum access requirements:

- Nationally, 99% of the UK population to be within 3 miles and 90% of the population to be within 1 mile of their nearest post office outlet.
- 99% of the total population in deprived urban areas across the UK to be within 1 mile of their nearest post office outlet.
- 95% of the total urban population across the UK to be within 1 mile of their nearest post office outlet
- 95% of the total rural population across the UK to be within 3 miles of their nearest post office outlet.

In addition the following criterion will apply at the level of each and every individual postcode district, establishing a minimum level of coverage at a very local level.

- 95% of the population of the postcode district to be within 6 miles of their nearest post office outlet.

Post Office Limited is required to provide this network of post office branches to make available the services of general economic interest detailed in Annex A ("Product SGEI") on the basis set out in the 2013 Funding Agreement. This Network SGEI obligation therefore extends the provision of the Product SGEI over a network which may be beyond that required under individual Product SGEI contracts entered into on a commercial basis between Post Office Limited and relevant Government departments or bodies (whether public or private). The delivery of the Product SGEI by Post Office Limited across its network will be governed in accordance with contracts or other agreements under which the terms of the provision of the individual product SGEI are specified.

The entrustment of the delivery of the Network SGEI set out in this letter to Post Office Limited does not replace or change in any way any contracts or other agreements under which the terms of the provision of the individual Product SGEI are specified. Post Office Limited is expected to use reasonable endeavours to enter into contracts with Government departments or bodies (whether public or private) contracting with Post Office Limited in respect of the provision of one or more Product SGEIs. A list of the current individual contracts and agreements held by Post Office Limited to deliver the Product SGEI is provided in Annex B.

**Method of Calculating Compensation**

As soon as reasonably practicable following publication of its audited accounts for the Financial Year ending on or around 31 March 2018, Post Office Limited will be required to provide, in accordance with the 2013 Funding Agreement, a statement (the "Cumulative SGEI Statement"). The Cumulative SGEI Statement must be accompanied by a supporting statement from an independent financial adviser, to confirm that the aggregate amount of the SGEI compensation payments made by the Government to Post Office Limited under the funding agreement dated 25 October 2010 (the "2010 Funding Agreement") and the 2013 Funding Agreement (the "Cumulative SGEI Payment") did not exceed the difference between the actual net costs incurred by Post Office Limited and the reasonable net profits that would have

EXECUTION VERSION  
Funding Agreement

been incurred in connection with the provision of a network that Post Office Limited would maintain on a purely commercial basis (as specified by the relevant European Commission decision(s)), during the financial years covered by the 2010 Funding Agreement and the 2013 Funding Agreement (the "Cumulative SGEI Cost"). The calculation of those net costs shall include:

1. All variable costs including those incurred in providing the Network SGEI and the Product SGEIs; plus
2. All fixed costs including those incurred in providing the Network SGEI and the Product SGEIs; less
3. All revenues received by Post Office Limited from providing the Product SGEIs as well as non-SGEI services.

For the purposes of the calculation above, the costs shall include, without limitation, contributions to pension funds, interest costs, central costs, capital expenditure, costs of any employee incentivisation arrangements and the costs of transforming the network, in each case whether such costs are recurring or exceptional.

**Recovery of Overpayment**

Notwithstanding clause 5.2 of the 2013 Funding Agreement, in the event that the Cumulative SGEI Payment exceeds the Cumulative SGEI Cost, Post Office Limited will be required to repay to the Government, within 10 Business Days of a request from the Government, an amount equal to such excess.

The 2010 Funding Agreement does not foresee an outcome in which the objectives associated with the entrusted obligations under the 2010 Funding Agreement will need to be re-phased. In the unlikely event that this occurs and a repayment from Post Office Limited arises under the 2010 Funding Agreement, the Government waives its right to receive any such repayment on the strict understanding that (a) the cumulative reconciliation described in the paragraph above will be carried out and (b) any objectives that are not achieved during the 2010 Funding Agreement will remain as objectives under the 2013 Funding Agreement. This is in recognition of the scale and complexity of the activities being carried out by Post Office Limited and the parties' desire to promote the efficient use of all funds committed by the Government to Post Office Limited under the 2010 Funding Agreement and the 2013 Funding Agreement.

It is possible that Post Office Limited may during the period of this entrustment cease to provide an individual Product SGEI, the provision of which over the post office network beyond its optimal commercial size is compensated by the Government. In those circumstances, the Government shall, provided that the provision of the Network SGEI will be maintained, withhold such proportion of that compensation (if any) which corresponds to the net direct costs of providing that Product SGEI.

Yours sincerely,

EXECUTION VERSION  
Funding Agreement

JO SWINSON

Post Office Limited acknowledges that the instructions set out in this letter are legally binding.

Signed by

for and on behalf of Post Office Limited

Dated \_\_\_\_ November 2013

EXECUTION VERSION  
Funding AgreementEXECUTION VERSION  
Funding Agreement

## Annex A

SCHEDULE OF SERVICES OF GENERAL ECONOMIC INTEREST  
PROVIDED BY POST OFFICE LTD AT POST OFFICE BRANCHES

	Category of Service	Service Provided	Service Provided on Behalf of
1.	Processing social benefit and tax credit payments to the public.	Cash payment of state benefits including state pension, child benefits and tax credits  Issuing of vouchers to eligible asylum seekers	The Department for Work and Pensions  The Social Security Agency - Northern Ireland  Her Majesty's Revenue & Customs  Financial Institutions  The Home Office
2.	Processing of national identity and licensing scheme applications	Providing passport application forms for customers to complete and return  Checking and authentication of passport applications and supporting documentation  Capturing biometric data for Biometric Residence Permits  Providing vehicle licence application forms for customers to complete and return  Receiving payment for vehicle licences and photocard licences  Services for the sale of Rod Fishing Licences	Her Majesty's Passport Office     UK Visas and Immigration     Driver and Vehicle Licensing Agency     The Environment Agency
3.	Universal payment facilities for public utility services.	Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. including savings stamps)  Provision of facilities for payment of tax bills and social housing rents	Financial Institutions  Individual Utility Service Providers  Billing Service Providers  Her Majesty's Revenue and Customs  Local Authorities  Housing Associations

	Category of Service	Service Provided	Service Provided on Behalf of
4.	Access to postal services	Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by Ofcom in accordance with section 36 of the Postal Services Act 2011 and the Designated Universal Service Provider Conditions issued by Ofcom on 27 March 2012	Royal Mail Group Limited
5.	Universal access to basic cash and banking facilities and Government savings instruments, especially for rural customers and those on social benefits.	Provision of basic community banking facilities (e.g. including cashing of cheques, cash deposit, Post Office card account and cash withdrawals and deposits) and cash transmission facilities (e.g. including postal orders), in particular to socially excluded customers and businesses local to post office branches  Access to certain Government savings instruments	Financial Institutions  Her Majesty's Treasury, National Savings & Investments  The Department for Work and Pensions  The Social Security Agency - Northern Ireland, Her Majesty's Revenue & Customs

EXECUTION VERSION  
Funding Agreement

## Annex B

POST OFFICE CONTRACTS TO DELIVER SGEI  
AS AT THE DATE OF THIS LETTER

## Category 1: Processing Social Benefit and Tax Credit Payments to the Public

Description of Services	Contracting Entity Opposite Post Office Limited
POCA Card Account	The Department for Work and Pensions
Asylum Seekers Benefits Payments	Sodexho Pass
Meals on Wheels Vouchers	Fife Council
Meals on Wheels Vouchers	London Borough of Waltham Forest
Meals on Wheels Vouchers	London Borough of Tower Hamlets
Meals on Wheels Vouchers	Salford City Council
Meals on Wheels Vouchers	London Borough of Islington
Meals on Wheels Vouchers	Eastleigh Borough Council
Homecare Vouchers	Salford City Council
Payout (Emergency Payments) Contracts	Bedford Council
Payout (Emergency Payments) Contracts	Blackpool Council
Payout (Emergency Payments) Contracts	Cornwall Council
Payout (Emergency Payments) Contracts	Derbyshire Council
Payout (Emergency Payments) Contracts	Glasgow Council
Payout (Emergency Payments) Contracts	Greenwich Council
Payout (Emergency Payments) Contracts	Lewisham Council
Payout (Emergency Payments) Contracts	Merton Council
Payout (Emergency Payments) Contracts	Reading Council
Payout (Emergency Payments) Contracts	Rotherham Council
Payout (Emergency Payments) Contracts	Staffordshire Council
Payout (Emergency Payments) Contracts	Torbay Council
Payout (Emergency Payments) Contracts	Tower Hamlets Council
Payout (Emergency Payments) Contracts	Westminster (City of)
Payout (Emergency Payments) Contracts	West Lothian Council
Payout Contracts	Autism Initiatives
Payout Contracts	Durham and Darlington NHS
Payout Contracts	First Initiatives
Payout Contracts	Blackburn and Darwen Council
Payout Contracts	Buckinghamshire Council
Payout Contracts	Cumbria Council
Payout Contracts	Hampshire Council
Payout Contracts	Hull Council
Payout Contracts	Lambeth Council
Payout Contracts	Lancaster Council
Payout Contracts	Leeds Council
Payout Contracts	Lewisham Council
Payout Contracts	Manchester City Council

EXECUTION VERSION  
Funding Agreement

Payout Contracts	Newham Council
Payout Contracts	Redbridge Council
Payout Contracts	St Helen's Council
Payout Contracts	Staffordshire Council
Payout Contracts	City Of Westminster Council
Payout Contracts	Wirral Council

EXECUTION VERSION  
Funding Agreement

## Category 2: Processing of National Identity and Licensing Scheme Applications

Description of Services	Contracting Entity Opposite Post Office Limited
Passport Applications 'Check & Send'	Her Majesty's Passport Office
Driving Licence Applications	Driver and Vehicle Licensing Agency
Services for the sale of Rod Fishing Licences	The Environment Agency
Capture of photograph in support of applications	Security Industry Authority (The Home Office)
Biometric data capture for Biometric Residence Permit applications	UK Visas and Immigration
Identity Assurance Services (for access to online public services)	Government Digital Services (The Cabinet Office)
Document checking in support of a Vetting and Barring Scheme application (formerly CRB)	Care Quality Commission

EXECUTION VERSION  
Funding Agreement

## Category 3: Universal Payment Facilities for Public Utility Services

Description of Services	Contracting Entity Opposite Post Office Limited
Bill Payments	Santander (A&L Commercial Bank plc as was)
Bill Payments	The Co-Operative Bank plc
Bill Payments	Allpay.net Ltd
Bill Payments	Airticity Holdings Limited (Republic of Ireland company)
Bill Payments	Freedom Council - London Councils Transport and Environment Committee
Bill Payments	EON Energy Limited
Bill Payments	EDF Energy
Bill Payments	RWE Npower plc
Bill Payments	Scottish Power Energy Retail Limited
Bill Payments	Scottish & S Southern (SSE)
Bill Payments	British Gas Trading Limited
Bill Payments	Phoenix Gas
Bill Payments	BT plc, novated to BT Payment Services Limited
Bill Payments	South West Water Limited
Bill Payments	Northern Ireland Electricity plc, novated to NIE Energy Ltd
Bill Payments	United Utilities
Bill Payments	Yorkshire Water
Bill Payment	Bristol and Wessex Billing Services Ltd
Bill Payment	Siemens Energy Services (a Management Division of Siemens PLC)
Travel Tickets	West Yorkshire Passenger Transport Executive
Travel Tickets	Merseyside Passenger Transport Executive
Travel Tickets	Cardiff Council
Travel Tickets	Brighton and Hove Bus & Coach Company
Travel Tickets	Coventry Council
Travel Tickets	Neath Port Talbot Council
Travel Tickets	Scotland Improvement Service
Travel Tickets	Strathclyde Council
Travel Tickets	Transport for London
Council Tax and Other Related Council Services	The Lord Mayor & Citizens of the City of Westminster
Council Tax and Other Related Council Services	London Borough of Hammersmith and Fulham

EXECUTION VERSION  
Funding Agreement

## Category 4: Access to Postal Services

Description of Services	Contracting Entity opposite Post Office Limited
Master Distribution Agreement - Mail support services from Post Office Limited to Royal Mail Group Limited to assist Royal Mail Group Limited in meeting its designated Universal Service Provider conditions	Royal Mail Group Limited

EXECUTION VERSION  
Funding Agreement

## Category 5: Universal Access to Basic Cash and Banking Facilities and Government Savings Instruments, Especially for Rural Customers and Those on Social Benefits

Description of Services	Contracting Entity opposite Post Office Limited
ATM Services	Bank of Ireland
Provision of Basic Banking Facilities	Bank of Ireland
Provision of Basic Banking Facilities	Barclays Bank
Provision of Basic Banking Facilities	Charities Aid Foundation (CAF) bank
Provision of Basic Banking Facilities	Cahoot
Provision of Basic Banking Facilities	Clydesdale Bank
Provision of Basic Banking Facilities	Co-operative Bank
Provision of Basic Banking Facilities	Danske Bank
Provision of Basic Banking Facilities	First Direct
Provision of Basic Banking Facilities	First Trust Bank
Provision of Basic Banking Facilities	HBOS
Provision of Basic Banking Facilities	HSBC Bank
Provision of Basic Banking Facilities	Lloyds Bank
Provision of Basic Banking Facilities	National Australia Group
Provision of Basic Banking Facilities	National Savings & Investments
Provision of Basic Banking Facilities	Nationwide Building Society
Provision of Basic Banking Facilities	Northern Bank
Provision of Basic Banking Facilities	RBS Group
Provision of Basic Banking Facilities	Santander
Provision of Basic Banking Facilities	Smile
Provision of Basic Banking Facilities	TSB
Provision of Basic Banking Facilities	Virgin Money
POCA Card Account	The Department for Work and Pensions
Premium Bonds applications	National Savings & Investments

EXECUTION VERSION  
Funding Agreement

COMMERCIAL IN CONFIDENCE

APPENDIX B  
STRATEGIC PLAN

Foreword

We are submitting this Strategic Plan to Government having completed the 2012/13 financial year; our first year operating independently of Royal Mail and the first year of our 2012/15 Strategic Plan. We have delivered a strong performance, improving the service we offer to our customers, starting to rebuild the Post Office brand and moving forward on our goal of commercial sustainability.

We are not, however, complacent about our future. This year has been one of the most challenging on the high street. Many well-known brands are disappearing and others continue to struggle. The Post Office has been at the heart of the nation for almost four centuries but if we are to thrive for future generations we have to continue to adapt and change our business. The Post Office is proud of its heritage and while this is at the core of what we are as an organisation, we cannot let it prevent us from responding to the changing market environment. When one looks at the organisations that have failed in recent years, it is clear that they did not address the fundamentals of their business by updating their retail model, their products and services and responding to technological changes fast enough. We will not allow this to happen to the Post Office. The commitment in our 2012/15 Strategic Plan to deliver a sustainable and relevant Post Office remains our absolute priority.

This year (FY 2013/14) will be one of the toughest in our transformation. To get the Crown network (373 directly managed branches out of 11,818 total branches) to break-even, we must find a way through on our current industrial relations dispute; and to get the Post Office as a whole to a sustainable financial position within the next plan period, we must ensure that agents are moving forward with their part in our transformation journey, rather than continuing with out-dated and unsustainable models. We will also need to make significant changes to our cost base to enable us to be commercially sustainable. We understand that these changes may be difficult for our people but if we are to deliver a commercially sustainable business that could be mutualised for the benefit of all our stakeholders, they are essential. In the past, we have often compromised when faced with these difficult decisions. We cannot afford to make those same mistakes again. The transformation of our physical network, a core differentiator for our business, is absolutely fundamental to our future - it must be modernised, offering self-serve solutions and extended opening hours. Without these changes, we will not be able to compete effectively. Organisations such as PayPoint and Collect+ will steal market share and undermine the economics of our own and our agents' businesses.

But our transformation is about more than just our networks. It is about the services we offer, the way we structure our business, the

COMMERCIAL IN CONFIDENCE

competitiveness of our cost base and our engagement with our people and our stakeholders. Through the implementation of our strategy, we will improve every one of these elements. We will grow our income through customer focused product development. We will make an increasing proportion of our cost base variable to provide us with the commercial resilience to withstand downturns in the market. We will reduce our central support costs through the adoption of new business models. We will embrace the opportunity of multi-channel by enhancing our online offer and improving the management of our customer data. We will build better levels of engagement with our people and all our stakeholders so we can create the opportunity for a mutually owned Post Office.

The change programme we are proposing in this Strategic Plan is comprehensive. We are confident that through its implementation we will deliver a Post Office that is modern and vibrant - a commercially sustainable business that is committed to its public purpose; a public purpose defined and agreed by its stakeholders. Our achievements over the past two years demonstrate that our business now has the leadership to deliver this.

We have set out in the following pages our vision of the Post Office in 2020. It is a vision we believe is compelling for our people, our customers, and our partners - one which we will all be proud to have realised. To deliver this, we will need the support of Government - not just in terms of meeting our funding request but also in terms of empowering us to face the difficult challenges ahead. In return, we commit to protect the future of the Post Office, reducing its reliance on taxpayer subsidy and safeguarding its public purpose for this and future generations.

COMMERCIAL IN CONFIDENCE

#### Our Vision of the Post Office in 2020

For almost four centuries, the Post Office has been at the heart of the nation. This strategy aims to ensure that when we reach our 400th birthday we are not just surviving but flourishing in communities across the UK. To meet this goal in a challenging market environment we need to continue to drive forward and complete the most wide ranging modernisation programme in our history. We are transforming our products and services, our network and our supporting organisation. In this section, we present our vision of the Post Office in 2020. At the simplest level it is a vision of a multi-channel Post Office, serving customers in communities across the UK and growing to offer a wider range of essential products and services aimed at touching the lives of every citizen: a thriving commercial business differentiated by, and committed to, the delivery of its public purpose.

##### We will achieve commercial sustainability

While we have made great progress in improving the financial performance of the Post Office in recent years, there is still much to do. The execution of this strategy will complete this transition. By 2020, we will have achieved true commercial sustainability. Our Government funding will be limited to support for the non-commercial public purpose elements of our business, and will have reduced to £50m by 2020. This funding will be subject to a long term contractual relationship.

##### We will broaden and increase our market presence

By 2020, we will have transformed the Post Office from a channel business into a retailer of transparent, value for money, and ethical services for both consumers and small businesses; serving them in their communities, both physically and digitally.

The provision of postal, government and financial services will always be at our core. These are the services for which the Post Office is known and they are the reason that millions of our customers visit us in branch and online every day. Our vision for 2020 continues to be built around this core. We will continue to be the front office of government having expanded our role into more specialised areas such as identity management. We will be the number one mails retail provider, offering a range of competitive postal products that cover the traditional and online marketplace. Our most significant growth will be in financial services, where we will double our customer base to five million and be a true challenger in the sector, with a broad range of services and products from current accounts through to mortgages. But we will do more. We will look beyond these core markets for opportunities

COMMERCIAL IN CONFIDENCE

where we can provide consumers and small businesses with new services. By 2020 we will have built on this platform of success and will be providing broader home and small business services such as energy.

We will protect and grow our physical network whilst expanding our digital services

We will continue to be differentiated by our physical presence on the high street and in rural and deprived urban communities. We will have completed the transformation of our branch network and have introduced a greater number of store formats - formats that are customer-focused and cost-efficient. By 2020, changes to our network will be embedded as part of business as usual activity. Like every other retailer we will update and refresh our network to ensure it remains relevant and competitive. Opening hours, locations, service models and branch numbers will be driven by our customers and their needs, with access to post office services in even more locations and a new fund to support Community post offices.

By 2020, our unrivalled access will extend beyond our physical network into the digital world; we will be a truly multi-channel retailer. Multi-channel is now the norm - both for access to information and to transact. We will embrace this change and rapidly build our capability in this area. By 2020, we will have made significant progress on this journey with around 30% of our income initiating from direct channels.

We will have an organisation and operating model that is streamlined and cost effective

By 2020, the Post Office will be a very different organisation from today. The developments in our income, network and market environment require us to change and we will respond. Looking forward, we see an organisational structure that is simpler and slimmer than today. At the top of our business there will be a small corporate centre that manages relationships with our key stakeholders and the external marketplace. It will also set the framework and parameters for the overall business. At the heart of this organisation will be a customer function listening to our customers and reviewing the market to anticipate and respond to market changes. We will sustain the growth in our income by proactively managing our product portfolio. We will continually make our business more cost efficient - significantly reducing costs as a proportion of the income we generate. We will also ensure our costs are more variable, to give us greater flexibility and resilience to market changes. By 2020, commercial sustainability

COMMERCIAL IN CONFIDENCE

will be a given and the focus will be increasingly based on creating value for the Post Office business and its shareholders.

We will be an organisation that lives and breathes the principles of mutualisation

While it is not clear today what form of mutual ownership will be right for our business, we know that by 2020 our culture will be truly aligned to that of a mutual organisation. We remain resolutely committed to protecting our public purpose - a public purpose developed with our stakeholders. Our public purpose will be at the core of our organisation. It will be the uniting force for all Post Office stakeholders representing not just how we want to engage with our customers but also with each other. We will be an organisation that is connected with our customers, our employees and all our stakeholders - this will ensure we hear and understand their issues and ideas for change and improvement. These connections will add real value to the Post Office in terms of greater stakeholder alignment, loyalty and ultimately improved business performance. Along with the achievement of commercial sustainability they will provide the conditions to make mutualisation a possibility.

#### Post Office Strategic Plan 2013/20

#### Contents

1. Introduction .....	16
2. Delivering our vision - the commercial perspective .....	19
3. Delivering our vision - the channel perspective .....	31
4. Delivering our vision - the organisational perspective .....	44
5. Delivering our vision - our mutualisation journey .....	48
6. Delivering our vision - our funding requirement .....	57
7. Delivering our vision - assumptions, risks and opportunities ..	65
8. Delivering our vision - supporting your commitments .....	71
Appendix A - Funding milestones and test dates.....	76

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

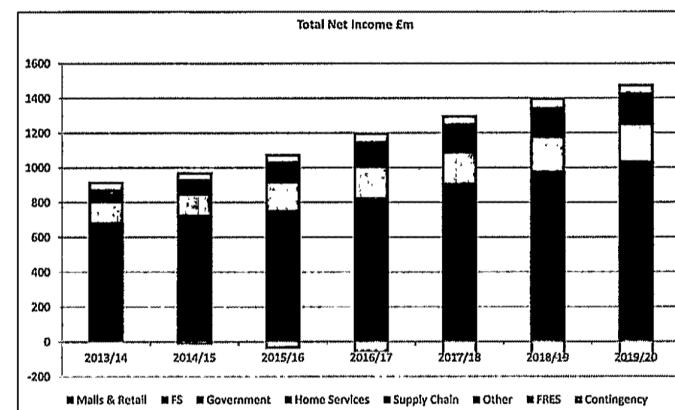
Appendix B - Operational milestones..... 81

#### Executive Summary

##### Post Office Vision for 2020:

- We will achieve commercial sustainability.
- We will broaden and increase our market presence.
- We will protect and grow our physical network whilst expanding our digital services.
- We will have an organisation and operating model that is streamlined and cost effective.
- We will be an organisation that lives and breathes the principles of mutualisation.

##### The commercial perspective:



- As the figure above shows, our Strategic Plan includes ambitions income growth targets. Specifically, we will grow our income from £921m in 2013/14 to £1,360m in 2019/20, investing in our products, network, brand, sales and multi-channel capability.
- Since 2010, the marketplace has changed significantly. Economic pressures continue to drive down margins and push face to face transactions online. Competitive intensity is increasing with players such as Collect+ and MyHermes extending their presence in the mails market, financial

COMMERCIAL IN CONFIDENCE

services seeing new entrants challenging the traditional banks (M&S, Virgin, major grocers, as well as new challenger brands such as Metro) and PayPoint continuing to grow in bill pay and challenge in government services.

- As a result of these changes we are seeing significant pressure in our traditional markets. Additionally in Government Services, whilst we have had many contract successes, the revenue and margin associated with these contracts is much lower than was envisaged in 2010.
- To secure our future, mails and government services remain vital and will be protected and grown. However, the most significant revenue increase will be achieved by building on the Post Office's established position as a retailer of financial services and telephony products. Our differentiator is our commitment to serve consumers and small businesses in communities across the UK, providing them with access to transparent, value for money, ethical services that are built around their needs.
- Customer value propositions will ensure we develop a product portfolio that is targeted and effective at attracting new customers and increasing the number of products they buy. The key focus initially will be to develop and grow our small business offering.

**The channel perspective:**

- The post office network remains at the heart of communities nationwide. However, as we recognised in our 2012/15 Strategic Plan if this network was to be sustained and retain its relevance, a significant modernisation was needed.
- I. Crown branches, the flagships of our network, were outdated and loss making. We had to change their layout and format - creating more open plan and welcoming environments for our customers. We had to embrace new self-serve technologies to deliver efficiencies and better customer service. We had to provide consultation areas where our financial services specialists could speak privately with customers - away from the hustle and bustle of the day to day transactions of our business. We had to create a design that was modular - capable of evolving along with the needs and expectations of our clients and our customers. We had to address our pay model to make ourselves more competitive and ensure we did not introduce any consolidated increases until financial break-even was achieved.

COMMERCIAL IN CONFIDENCE

II. Agency branches, the core of our network, were sub-optimal commercially. We had to move our agency costs on to a more variable basis - to incentivise agents to grow their business and to make the Post Office more resilient to market downturns. We had to change the compensation terms for exiting a post office - to ensure that future investment in the network is spent not on those leaving our business but instead with the agents who are building our future. We had to extend our opening hours - to align them with the needs of our customers who want to visit us early in the morning and late in the evening. We had to increase the number of store formats which we had in the market - to make the models profitable and attractive for agents, our customers and the Post Office. We had to consider introducing additional access points - to extend our network coverage and enable us to compete on specific services such as mails and bill payment.

III. Community post offices, where we are introducing a new investment programme. Sustaining post offices in rural and urban deprived areas is increasingly important to both ensuring we support our customers in difficult economic conditions and successfully address the increasing competitive pressure in the mails market. We are therefore in this Strategic Plan including a commitment to invest £20m in this element of the network. This Community Post Office Fund will be used to invest not only in improving the conditions and services of these branches; it will support communities in creating the post office that is right for them. Today we have over 150 mutual post offices being sustained by their local communities. They have defined their purpose, sought out partners and funding, and ensured they provide a value to their community. We want to support this activity and to provide the stimulus and investment to make it a greater part of what the Post Office does.

- Over the past twelve months, we have made significant progress with network modernisation. The losses in the Crown network have been reduced by around 20% and we continue to make good progress towards our break even target in March 2015. In the agency network, over 2,000 new contracts have been signed with agents and our converted branches are exceeding targets in extended opening hours, customer satisfaction and queue times.
- However, the past twelve months has also shown that the current approach on network transformation will not allow us to meet our commitment to convert 6,000 agency branches to new

COMMERCIAL IN CONFIDENCE

models by 2015/16. The reality is that in these difficult economic times, sub-postmasters are reluctant to enter a transformation process. While there are clear benefits around investment in their store, lower operating costs and the opportunity for them to release retail space for other uses, there is also a risk associated with the removal of the current fixed pay model. We understand their reluctance, but we cannot afford to delay the programme. Competitors such as PayPoint, MyHermes and Collect+ are growing their networks every day. This is a significant threat to our agents, to the Post Office and to our ability to serve Royal Mail.

- This 2013/20 strategy therefore introduces a new approach to network transformation. This has been developed in partnership with the NFSP and moves the programme on to a semi-compulsory basis with additional investment to support sub-postmasters in making this transition to our future network. Our expectation is that this new approach will deliver an outcome similar to that of the more structured and tightly scheduled approaches to network transformation we have previously discussed with Government. Given the importance of this transformation to our market competitiveness, our ability to serve our clients and customers and our journey to commercial sustainability, we will take action should there be a shortfall against this projection or the benefits accruing from the broader programme. In that context, we will complete a formal review of the programme in September 2015. At that stage, we will decide on any adjustments that need to be introduced – this could include amongst other changes amendments to investments made in branches, changes to compensation levels, alterations to the Core Tier Payment. Both the NFSP and Government understand the need for this action should the shortfall arise.
- This change in approach to the agency network which is absolutely essential to our strategy remains true to the fundamentals of our network transformation journey:
  - I. Maintain geographic accessibility, network capabilities and social value for the benefit of customers,
  - II. Undertake a network modernisation programme to ensure customers can access services through channels that meet their needs and expectations,
  - III. Offer a ~40% increase in opening hours giving greater convenience,

COMMERCIAL IN CONFIDENCE

- IV. Ensure queues are reduced so that 90% of customers are served within 5 minutes,
- V. Bring the Crown Office network to break even by March 2015,
- VI. Create branch models that are profitable for Post Office and for Agents,
- VII. Ensure all new agency contracts have fully variable commission and remove the right to compensation on exit,
- VIII. Manage the transition from the current network structure to one that is fit for purpose and cost effective in a smooth, customer oriented way which compensates agents appropriately, minimises adverse public opinion and which takes account of local community views,
- IX. As part of this transition, Post Office will not remove any provision from a community where a service currently exists, other than for reasons beyond Post Office's control.
- It also ensures we deliver on our long term commitments to Government. Without it, we will not be able to secure the commercial sustainability of our business and create the opportunity for mutualisation which is important to many of our stakeholders. We remain committed to implementing the Crown and Network Transformation Programmes. We understand the challenges these programmes present for staff and agents, but we cannot allow the pace of change to slow if we are to keep up with market developments and rapidly changing customer expectations.

The organisational perspective:

- If we are to deliver this strategy, we must address two fundamental issues in our business:
  - I. Our organisational model is structured on a traditional, product structure. To make the transition from a channel business to a retailer we must have an organisation that is built around the customer – ensuring that all of our processes are focused on delivering an excellent customer experience.
  - II. While the Network Transformation Programme will increase the proportion of our cost base which is variable, it will not be enough to secure a commercially sustainable future. We must also reduce central costs and ensure

COMMERCIAL IN CONFIDENCE

that as we grow our income we are not adding fixed cost back in.

- To achieve this we are conducting a 'root and branch' review of our organisation, starting with customer facing channels and working back through the organisation to make the business slimmer and ensure that everything we do is focused on delivering value for the customer.
- This will create a Post Office with a cost base that is lower and more variabilised and therefore able to adapt to changing market conditions. The Post Office will be built from the customer perspective and focused on growing true value for our shareholder.

#### Our Mutualisation journey:

- In 2010, the Government made two key commitments on the long term ownership arrangements for the Post Office: firstly that it is not for sale and secondly that it would create the opportunity for a mutually owned Post Office.
- This Strategic Plan contains three commitments that combined will build the opportunity for mutualisation to be realised:
  - I. We will make the Post Office financially sustainable – this is the primary driver for our strategy and is an absolute pre-requisite before a transfer of ownership can be considered.
  - II. We will create an environment that encourages mutual ways of working – introducing stronger and more effective models for engaging our staff, sub-postmasters, customers and other stakeholders.
  - III. We will define our Public Purpose – completing the process that is underway with the Stakeholder Forum and making a recommendation to BIS that we can then jointly communicate.
- Supporting these three commitments is a roadmap that will evolve the Post Office into an organisation that has all the characteristics of a mutual organisation. An organisation that is commercially sustainable. An organisation that is connected to its people, its customers and its wider stakeholder audience. An organisation that invites others to engage and participate in its development and future.
- Finally, when the transformation is complete, we will have delivered the pre-conditions for a mutualisation transaction

COMMERCIAL IN CONFIDENCE

and associated changes in our ownership and formal governance. The final decision on whether to transfer ownership at that point would of course be for Government and Parliament.

#### Our Funding requirement:

- At the heart of this Strategic Plan is a commitment to make Post Office commercially sustainable and less reliant upon Government subsidy.
- We are protecting our network and increasing the range of services that we offer to consumers and small businesses, we are offering customer friendly opening hours, and improving our on-line offer to serve those that prefer digital access. Combined this will deliver a 47% increase in income through to 2019/20.
- We are investing in automation, franchising and other cost measures to create a Crown Network that will not only achieve breakeven but over the plan period will become profitable; turning a £51m loss in 2010/11 to a position of breakeven by March 2015. This creates the momentum for a bright future.
- We are improving the economic viability of our agency network and individual sub-postmasters: introducing variable pay to align sub-postmasters and Post Office commercial objectives and creating a retail support team who can support sub-postmasters to ensure they can maximise the value of the new pay model. Over the plan period, the proportion of our agency costs that are variable will increase from 73% to 90%.
- We are protecting post offices that are the 'last shop in the village' taking them out of the scope of network transformation and creating a Community Post Office investment fund of £20m. This recognises the social value that these post offices play, giving them access to funds that can help them improve the service they offer to their communities.
- We are also addressing our central costs developing a new target operating model for Post Office looking to other organisations and the wider marketplace to understand if there are more efficient ways to operate our business. Through this activity we will reduce our existing central business costs by 23% over the plan period.
- Our journey to commercial sustainability is already underway. Our overall income in 2012/13 was £35m higher than forecast in the 2010 Strategic Plan, and our EBITDA is £10m better.

COMMERCIAL IN CONFIDENCE

Annual losses in the Crown network reduced from £51m in 2010/11 to £37m in 2012/13.

- To continue this journey, we ask Government for £640m of funding for the period 2015/16 to 2017/18. This will allow us to deliver the strategy as set out in this document protecting the post office network and creating a Post Office that is profitable, cash-flow positive and has a materially lower subsidy requirement - from over £400m per annum now to a forecast of £50m per annum in 2019/20. All the conditions needed for mutualisation.

**Assumptions, risks and opportunities:**

- As with any plan that stretches out for seven years, there is uncertainty. We will therefore continue to monitor and adapt to ensure we deliver on the goal of commercial sustainability.
- At the heart of our plan are two core assumptions which are fundamental to the overall strategy. If these do not materialise as planned, a significant adjustment to the plan would be required.
- First is the switch from a voluntary to a semi-compulsory approach to the roll-out of the Network Transformation Programme. Failure to secure agreement to this shift in the programme approach will impact upon every aspect of our plan - our ability to grow income, to reduce cost, to compete, to protect the network and to deliver commercial sustainability.
- Second is the continuation of the Post Office Card Account contract beyond 2015, albeit at a reduced volume and income level. This has strategic importance not just for the direct contribution it makes to our P&L, but also for the way that income is distributed around the network, the additional footfall and retail income it generates for agents, and for the way we run our supply chain business.
- Beyond these core assumptions, the plan contains a balance of risk and opportunity across income and costs. We will proactively monitor these and adjust the tactical implementation of our strategy as appropriate.

COMMERCIAL IN CONFIDENCE

**1. Introduction**

2010 represented a major milestone in the Post Office's history. Our 2012/15 Strategic Plan to deliver a sustainable and relevant Post Office was approved along with a four year funding promise of £1.34bn. When this was combined with the commitment of Government to secure the post office network in a digital age, it was clear the platform had been created to allow our aspiration of commercial sustainability to become a reality. The task was now ours to deliver.

We are one year into the delivery of this strategy. We have completed our first year as an independent business, our first year as an Executive team with an independent Board; and our first year as an organisation that is not only looking at commercial sustainability, but beyond it to the potential of becoming a mutual Post Office. It has been a tough year but in spite of all the challenges, we have more than delivered. Our financial performance in FY12/13 at income and profit levels exceeded targets and as the table below shows, in every one of our transformation programme elements, we made great progress:

Network transformation	1,450 of our agents signed up to our new network transformation contracts, allowing us to convert them to new network models that deliver better customer experience and allow us to better align our costs to our income.
Crown transformation	The losses in our Crown network were reduced by around 20% from the 2011/12 financial position and we continue to make good progress towards our break even target in March 2015.
Financial services	We agreed a new contract with our financial services partner, Bank of Ireland. We signed partner banking agreements with RBS and HSBC meaning 95% of card holders in the UK can now access their cash at a post office. We introduced Mortgage Specialists into branches. We grew our presence in the financial services market with ISA, mortgage and most recently current account products.
Mails	We trialled Priority Services on our Post & Go kiosks as the basis for roll-out across the Crown network in 2013/14 and launched our Drop & Go solution for SMEs.
Government	We won the DVLA contract. We celebrated processing 1.5m applicants through our AEI technology. We trialled our assisted digital solution.
Telephony	We reinvigorated our telephony business and increased our customer base to beyond

COMMERCIAL IN CONFIDENCE

Technology	500,000. We became the number one acceptor of contactless payment in Europe.
Mutualisation	We established the Stakeholder Forum to develop a proposed public purpose.
Governance	We set up a fully functioning Board and developed the supporting governance arrangements following our separation from Royal Mail Group.

However, as we progressed through this year, it became clear that to deliver against our goal of breakeven before subsidy in 2015/16 and build beyond that point to achieve commercial sustainability, we would need to make some fundamental changes to our Strategic Plan. The table below provides an overview of the structure of this document and highlights the key changes that have been made since the last Strategic Plan submission.

Section Number	Title	Key changes since 2012/15 Strategic Plan
Section 2	Securing our income growth	<ul style="list-style-type: none"> <li>Total income remains in-line with our 2012/15 Strategy submission however the profile has been rebalanced to reflect changing market conditions in front office of government. This shortfall has been addressed with a more aggressive financial services strategy.</li> </ul>
Section 3	Delivering our channel programmes	<ul style="list-style-type: none"> <li>While the core principles of the network transformation programme remain unchanged, there have been some fundamental changes to our approach: <ul style="list-style-type: none"> <li>Community post offices: we have included a commitment to protect our community post offices excluding them from the network transformation programme and providing a community fund of £20m to help them continue to improve the service they offer to their customers.</li> <li>Network transformation: in partnership with the NFSP we have revised our approach to include additional investment and a mandate to exit those post offices that are not viable under our new network models.</li> </ul> </li> <li>Finally, the strategy recognises that while network expansion will be necessary to maximise the mails market opportunity and resist competitive expansion, it must be</li> </ul>

		balanced with a commitment that we will not cannibalise our sub-postmasters' businesses. Our strategy therefore includes a commitment to increase our physical reach through the development of access points rather than full service post offices.
Section 4	Creating the organisation of the future	<ul style="list-style-type: none"> <li>The 2012/15 strategy remained largely silent on the core Post Office organisation. This strategy recognises the need to create an organisation that is capable of competing in today's market.</li> </ul>
Section 5	Adopting the principles of mutualisation	<ul style="list-style-type: none"> <li>Mutualisation was not included in the 2012/15 strategy. This strategy therefore recognises that commercial sustainability and establishing the right culture are vital steps towards mutualisation.</li> </ul>
Section 6	Setting out our funding requirement	<ul style="list-style-type: none"> <li>The 2012/15 Strategic Plan included funding projections through to 2016/17 and we have worked hard to develop a plan that remains in line with these projections. However as a result of our work with the NFSP on Network Transformation, our funding requirement has increased by £200m.</li> </ul>
Section 7	Risks and opportunities	<ul style="list-style-type: none"> <li>In this section we highlight the key risks to our plan.</li> <li>The most significant to note are the failure to secure agreement to move the network programme to a semi-compulsory approach and the failure to secure any extension of the Post Office Card Account.</li> </ul>

COMMERCIAL IN CONFIDENCE

## 2. Delivering our vision – the commercial perspective

### Key messages:

- Since 2010, the marketplace has changed significantly. Economic pressures continue to drive down margins and push face to face transactions online. Competitive intensity is increasing with players such as Collect+ and MyHermes extending their presence in the mails market, financial services is seeing new entrants challenging the traditional banks (M&S, Virgin, major grocers, as well as new challenger brands such as Metro) and PayPoint continues to grow in bill pay and challenge in government services.
- As a result of these changes we are seeing significant pressure in traditional markets. Additionally in Government Services, whilst we have had many contract successes, the revenue and margin associated with these contracts is much reduced compared to what was envisioned in 2010.
- To secure our future, mails and government services remain vital and will be protected and grown. However, the most significant revenue increase will be achieved by building on Post Office's established position as a retailer of financial services and telephony products. Our differentiator is our commitment to serve consumers and small businesses in communities across the UK, providing them with access to transparent, value for money, ethical services that are built around their needs.
- Customer value propositions will ensure we develop a product portfolio that is targeted and effective at attracting new customers and increasing the number of products they buy. The key focus initially will be to develop and grow our small business offering.
- To support this we will continue to invest in our brand, sales capability and multi-channel capability and understanding of our customers.
- Through these activities we will grow our aggregate income from £921m in 2013/14 to £1,360m in 2019/20.

Post Office is moving from a 'Channel' to a 'Retailer' business:

COMMERCIAL IN CONFIDENCE

Looking back through history, the Post Office's primary purpose was to be a channel for third parties. Our national network of offices allowed citizens and customers access to essential services from within their local community. We were the primary access point, the first choice when looking to offer certain kinds of service to the marketplace.

However as we look forward, our ability to be successful as a channel for third parties is challenged by two key developments:

- Reducing market for physical face to face services (volume pressure): citizens and customer want to be able to access services through a range of channels. Call centres, online and mobile are now an increasingly important part of everyday life. The fact that the alternatives are typically lower cost than a physical channel means that organisations are proactively seeking to increase their use. This is reducing the overall size of the physical channel market.
- Increased commoditisation of the market (margin pressure): historically the face to face market has been a high value market which needed trusted agents to conduct the services provided. However as technology has progressed and the economic environment has become more challenging, organisations are reconsidering their requirements and are often willing to 'trade down' on the value of the service to realise cost savings. This is commoditising significant elements of the market and reducing the level of profitability that can be achieved.

While success in bidding for Government contracts over the past two years demonstrates we can compete in this commoditised, low cost marketplace, the reality is that we need to adjust our strategy for this marketplace in three ways:

- Firstly, we need to accelerate the cost reduction elements of our strategy to help mitigate the impact of reduced margin on the contracts which we have recently secured. The scale of this task is best illustrated through the recent DVLA contract. Previously DVLA paid £1.25 per transaction. Under the new agreement this has been reduced to 72p, impacting both agents income and the Post Office margin. To offset this reduced margin, we will need to reduce our associated costs well beyond the level originally envisaged in the current transformation plan.
- Secondly, we need to focus our third party channel activities on to the non-commodity areas of the market. An example of this is our market leading Applicant Identification

COMMERCIAL IN CONFIDENCE

(AEI) service which has now processed the biometric information of more than one and a half million applicants. This service is currently being used by the DVLA and the UK Border Agency. We also need to develop our offering in the Identity Services space, where there are opportunities for Post Office with both Government and Corporate clients and the consumer.

- Finally, we need to accept the challenges and likely future trajectory of the channel marketplace and look to build our presence as a retailer in our own right. We have a very strong track record in this marketplace having successfully established offerings in telephony, travel, financial services and retail.

In conclusion therefore, our strategic imperative is to protect our channel income while we grow our retail business. This will allow us to continue to provide access to Government and Royal Mail services whilst also growing new income streams to support the future economic stability of our business.

#### Building a Retailer business:

The retailer markets that we are targeting are highly competitive, and often have entrenched big players that control significant shares of the market. For example, in financial services, 87% of Britons' main current accounts are held with the top five providers.

As we look to establish ourselves as a retailer in our own right, it is clear that we need to understand our customers better. We need to understand what it is that they value about the Post Office and how that differentiates us from other service providers. Having considered our market position, we identified three key components of differentiation:

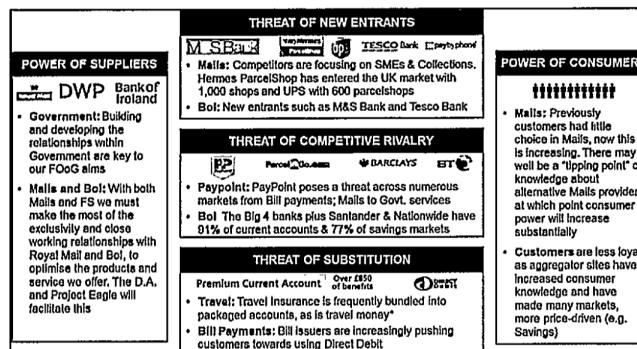
- The Post Office brand: Post Office is one of the best known brand names within the UK. It has a heritage and history which is unrivalled. We are recognised as a trusted service provider; an organisation that is national and local; an organisation that provides the essential services.
- The range of products and services that we offer: while single products are offered by many other service providers, there is no other service provider who can compete with us on the range of services offered on a national basis. No other provider offers government, mails, bill payment, savings, mortgages, and telephony services.

COMMERCIAL IN CONFIDENCE

- The network: we have over 11,500 branches. This enables us to sell and service our customers from a truly national footprint and gives our customers the assurance that only face-to-face interaction is able to provide.

Combining these components allowed us to get clarity on how we would realise our vision.

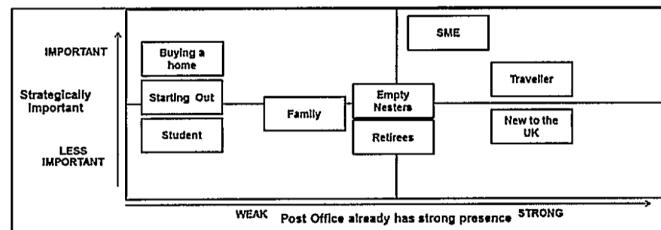
In addition, we also need to understand the competitive dynamics in our markets. The "Porter's Five Forces" diagram below gives a high-level overview of key dynamics impacting our markets.



**Customer Value Propositions:** We will bundle together products and services that meet the specific needs of nine key customer segments, providing customers with the products and services they need, from a provider they trust that has an unparalleled physical network. These nine Customer Value Propositions (CVPs) will allow us to stand apart from our competitors in the crowded retailer marketplaces.

We will not go to market with the CVPs all at once, as this would reduce their impact. Instead we will prioritise our focus on a small number of CVPs in 2013/14. This will start with the small business CVP and when we have confirmed our approach in this area will extend into the other CVPs where we already have traction and see growth opportunity:

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We have produced a definition for each value proposition, sizing the market opportunity, defining the customer needs, aligning our existing products and identifying gaps. The outputs from this exercise have then been provided to our market pillar teams to drive their product development strategies for the coming years. A summary of each market pillar strategy is provided below.

#### Government Services strategy:

Front office of government will continue to be an important part of our business, providing both footfall and unique customer interactions which will help add depth to our customer value propositions.

#### Key areas of focus:

- support Government policy on Digital by Default by developing and expanding three core propositions: identity assurance; assisted digital services; and physical step out (in support of an online journey).
- explore the opportunity to support Government in its agenda of reducing the costs of providing front office of government services either through service provision or co-location.

**Changing role of Government Services:** Government service products (both new and existing) are important 'hooks' for our other products and services. They are the core transactions of our business today; the transactions around which we can build service offers that are relevant and compelling for customers. For example, a customer who is using our passport Check and Send service will quite possibly need additional travel services including travel money and travel insurance.

Traditional Government business, for example car tax and Post Office Card Account, will continue to be a footfall driver during the Plan period to 2020. However as Government moves more transactions online, demand for these services will reduce. The strategy is

COMMERCIAL IN CONFIDENCE

therefore to grow our new AEI services and the three new propositions supporting a digital future so that we create a new customer base that will support new customer value propositions. In particular identity assurance and physical step out from digital journeys will provide valuable hooks for the small business, student, 'starting out' and 'recent arrivals' customer value propositions.

**Summary:** we project that this market pillar will grow by around £90m from 2013 to 2020 over the Plan period and will continue to represent around 15% of our income. This is a significant change from our 2012/15 Strategic Plan which had assumed this pillar would account for 26% of income by 2017.

#### Mails strategy

The mails pillar is an absolutely vital part of our future strategy. It provides 67% of footfall in branch and accounts for 38% of visits to postoffice.co.uk. It applies to every one of our customer value propositions. It draws a broad demographic of consumers and small businesses. It is resilient to the growth in online technology, with the growth in eCommerce more than offsetting the likely decline in mails.

#### Key areas of focus:

- Customer knowledge:** The key challenge with the mails pillar is that the vast majority of transactions are non-attributed. They tell us very little about the customer and therefore provide very little basis upon which to structure our customer value proposition offers. The first customer segment where we will address this gap will be small business accounts.
- Drive small business proposition:** We estimate that 40-45% of small businesses in the UK use their post office on a weekly basis for their mailing needs. Our branches know these customers and already have established relationships. We are currently developing a bespoke small business proposition which manifests itself through the newly developed and launched Drop and Go service. This will start the basis of a relationship with these customers and provides the opportunity for the Post Office to develop a more complete small business account service. This will be underpinned by a loyalty scheme which, while starting with mails, will broaden out to cover financial services, telephony and retail services.
- Enhance our collections services:** Beyond the SME customer value proposition, the key mails opportunity is related to eCommerce. The UK online market is one of the largest and

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most developed in the world. The market is moving at pace and the new developments offer great opportunity for the Post Office. Through our relationship with Royal Mail we can offer Click and Collect services to retailers and consumers. Through our combined mails and financial services pillars we can offer secure payment solutions. Through our combined mails and government services pillars, we can offer identity assurance to increase the opportunity for authenticated transactions. An improved collections offer is central to us exploiting all of these opportunities.

**Changing role of Mails:** Overall, Post Office will face more competition in the mails marketplace and will need to work much harder to retain customers, particularly small businesses. We will defend and grow our position by:

- Providing consumers and small businesses with more convenience, competitive prices, simpler product range, flexible payment options, and online interaction.
- Giving clients, specifically Royal Mail and its retail customers access to consumers and small businesses; services and solutions that extend reach and keep costs low; professionalism through staff specialist expertise and effective IT infrastructure; extensive footprint; and operational accuracy.

By doing this the Post Office will gain more ownership of customer relationships in the mails area and strengthen customer and client loyalty to the brand while providing the insight needed to benefit our customer value propositions. This strategy will also allow the Post Office to minimise any risk associated with the privatisation of Royal Mail and any associated implications for the Mails Distribution Agreement by providing the basis upon which the Post Office could also take more control of its mails business by leveraging its strength to source good quality, high margin products from other mails or retail providers.

**Summary:** We project that this market pillar will grow by around 34% from 2013 to 2020 and continue to account for around 40% of total revenues.

#### Financial Services Strategy:

Financial Services is a critically important focus area for the Post Office, and it is this pillar where the greatest shift towards becoming a retailer will be realised as we develop and grow our own-branded products and services. The higher margins achieved in this

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area will also be essential to the Post Office achieving commercial sustainability.

#### Key areas of focus:

- **Customer knowledge:** as in the mails pillar, the vast majority of customer transactions with the Post Office today are anonymous. If we are to realise our customer value proposition potential, we must get to a position where we can link these directly to customers as it is this information that will allow us to better develop our product offer. Whilst the mails pillar can provide the basis of this for small businesses, it is the financial services pillar that will allow us to do this for individual consumers. Our savings, insurance, lending, and payments services are all attributed to individual customers and while these are provided on an individual transaction basis today, the launch of our current account in 2013 will give us the core data around which to build our relationship with consumers.
- FS plans to move up the value chain in order to get closer to its customers and maximise the opportunities around the products it offers

Our financial services strategy will be realised through four market components:

- **Savings:** the Post Office already offers a broad range of retail savings products; including tax free, fixed and variable rate and online savings. Over the plan period, we will extend our offer in this area to include pensions, annuities, and investments, eventually including advisory services.
- **Insurance:** insurance is a service that applies to every life stage and therefore every customer value proposition. These products create a longevity and natural contact cycle for customers. They allow us to have an annual conversation with the customer building our knowledge and understanding of them and their needs.
- **Lending and transactions:** this is an area of growth and opportunity. The Post Office has some basic offerings in the credit card and mortgage areas. These are areas of great potential. The need for consumers and SMEs to be able to access lending that is transparent, fair, and value for money is increasing. The larger banks are constraining their lending and as a result there is now a prevalence of short term lenders who are charging above market rates. The Post

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Office will focus on satisfying this unfulfilled market demand.

- Payments and banking services: bill payment and utility top up services are integral to our customer value propositions. Our network of branches and ATMs provide customers with a one stop shop to maintain the administration of their home and business services. Over the strategy period, we will look to broaden our offer with a specific emphasis on SME services and pre-paid cards introducing the capability to support mobile and peer to peer payments.

**Summary:** We project that this market pillar will grow by approximately 75% (£215m) in the period 2013 to 2020. Today financial services accounts for around 30% of our total income. By 2020, this will have increased to around 36%.

#### Telephony strategy:

The Telecoms portfolio is evidence of how the Post Office can be successful as both a channel and a retailer. In the Mobile Top-up market, we launched in 2003 and currently have in excess of 5% of the retail top-up market. In the residential telecoms market, we launched HomePhone in 2005 and currently have a customer base of close to 500,000 customers.

#### Key areas of focus:

- **Mobile:** the Post Office is planning to deliver a branded mobile service in 2013-14, the launch of this service will be phased with pre-pay being delivered first, followed the next year by post-pay services. Our pre-pay services will primarily be targeted at those customers currently topping-up their mobile phones in our branches (c 15m transactions per annum). Post-pay services will be targeted at key customer segments within our Homephone and financial services base.
- **Energy:** Within the residential 'Home Services' market, the other area where we believe we can potentially add real value is the Energy market. Recent press coverage of the Energy Industry has focussed on the lack of clarity and transparency in the market and the Post Office, given its low cost of customer acquisition and position as a trusted provider of services, would be well positioned to take market share. Customer Research suggests that consumers would be very open to considering an Energy proposition and our agents are likely to find it relatively simple to sell, given the obvious association with our bill payment business.

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- **Additional telecoms services:** Including Superfast Broadband (Fibre) - where the move to our new service provider will allow us to offer higher speed broadband services, and so improve new segments and retain our existing customers.
- **New home services:** Bundling of TV - the bundling of TV with communication packages is becoming more prevalent, Post Office will add a TV option to retain and grow our customer base.
- **SMEs:** our current Telecoms proposition is focussed purely on residential services and similarly our launch plan into the mobile market is focussed initially on residential customers. Our new service platform gives us the building blocks to be able to provide simple business propositions to the smaller end of the SME market (less than 5 telephone lines) and the addition of Superfast Broadband and post-pay mobile would allow the Post Office to deliver some compelling SME propositions.

**Summary:** We see significant opportunity in this market. Relative to our other market pillars, it is currently small, accounting for around only 5% of our total income. However, as we look to broaden our appeal and to target new market areas, its relative importance increases. The telecoms and a wider 'Home Services' portfolio will become a central pillar to our customer value propositions allowing us to offer customers a one stop shop for their household utility needs. We anticipate this market growing by about £100m during the Plan period with it ultimately representing at least 10% of our total income.

#### Developing our sales capability

Over the past few years, the Post Office has developed a specialist sales capability within its larger branch offices. This is comprised of two key segments:

- **Financial Services Specialists (FSS):** There are around 300 of these located primarily in the Crown network. Each FSS operates in one branch and is supervised by a branch manager. They do not share sales leads across the network.
- **Product Specialists:** There are around 40 savings and 40 insurance product specialists operating within the Crown network who are again managed through the branch manager structure. In addition to this, there are around 16 Product Champions in the WH Smith branches. These are WH Smith's employees and counter staff with accreditation in some of our products. The supervisory structure is provided by the Post Office WH Smith's area team.

COMMERCIAL IN CONFIDENCE

While this structure has delivered income growth in recent years, if we are to realise our income potential and address the shortfall in government services income, we need to deliver a step change in their performance. Our strategy will therefore see significant changes in the operating model of this sales force – and specifically the FSS:

- Establishing a dedicated FS team & structure: Creation of a supervisory and performance management structure outside of the branch management structure with dedicated, qualified and motivated managers to effectively performance manage the FSS team.
- Developing the FSS role: Ensuring it is seen as a career opportunity; providing levels of training, recognition, reward and remuneration that are aligned with market expectations and ensuring our people are appropriately qualified for their roles.
- Improving lead generation: Building a greater pipeline of leads by applying analytics to our customer data so improving our ability to offer relevant product and service prompts both at the counter and through direct channels.
- Creating the right environment/ location model: Ensuring our FSSs are in the right location and environment to provide the best customer service and results, exploring the opportunity to expand the FSSs into the larger agency branches.

By taking these steps, we believe we can deliver the essential the productivity gains of this sales force and not only grow our financial services sales, but also provide the platform for selling other specialist sales products such as telephony and home services.

#### Conclusion:

The successful implementation of the above customer and commercial strategy will allow the Post Office to become a more balanced business with income being generated across a range of different markets. We believe this will allow us to reduce dependency on any one single market or client and will therefore make us more resilient to short term market changes, and enable the Post Office to reach commercial sustainability.

#### Additional information

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Additional detail on each of the elements of the commercial perspective of our strategy is included under separate attachment, specifically:

1. Market and competitor work book
2. Introduction to customer value propositions including small business workbook
3. Income overview workbook
4. Financial services workbook
5. Mails and retail workbook
6. Government services workbook
7. Telecoms and home services workbook

COMMERCIAL IN CONFIDENCE

3. Delivering our vision - the channel perspective

COMMERCIAL IN CONFIDENCE

Key messages:

- The post office network remains at the heart of communities nationwide. However, as we recognised in our 2012/15 Strategic Plan if this network was to be sustained and retain its relevance, significant modernisation was needed.
- I. Crown branches, the flagships of our network, were outdated and loss making. We had to change their layout and format - creating more open plan and welcoming environment for our customers. We had to embrace new self-serve technologies to deliver efficiencies and better customer service. We had to provide consultation areas where financial services specialists could speak privately with customers - away from the hustle and bustle of the day to day transactions of our business. We had to create a design that was modular - capable of evolving along with the needs and expectations of our clients and our customers. We had to address our pay model to make ourselves more competitive and ensure we did not introduce any consolidated pay increases until financial break-even was achieved. We had to pursue franchising to realise reductions in our operating costs.
- II. Agency branches, the core of our network, were sub-optimal commercially. We had to move agency costs on to a more variable basis - to incentivise agents to grow their business, to make post office a more attractive proposition for a new generation of sub-postmasters and to make the Post Office more resilient to market downturns. We had to change the compensation terms for exiting a post office - to ensure that in the future investment in the network is not spent on those leaving our business but instead with the agents who are building our future. We had to extend our opening hours - to align them with the needs of our clients and customers who want to visit us early in the morning and late in the evening. We had to increase the number of store formats which we had in the market - to make the models profitable and attractive for our agents, our customers and Post Office. We had to consider introducing additional access points - to extend our network coverage and enable us to compete on specific

COMMERCIAL IN CONFIDENCE

creating the post office that is right for them. Today we have over 150 mutual post offices that are being sustained by their local communities. They have defined their purpose, sought out partners and funding, and ensured they provide a value to their community. We want to support this activity and to provide the stimulus and investment to make it a greater part of what the Post Office does.

- Over the past twelve months, we have made significant progress with network modernisation. The losses in the Crown network have been reduced by around 20% and we continue to make good progress towards our break even target in March 2015. Over 1,450 new contracts have been signed with agents and our converted branches are exceeding targets in extended opening hours, customer satisfaction and queue times.
- However, the past twelve months has also shown that the current approach on network transformation will not allow us to meet our commitment to convert 6,000 agency branches on to new models by 2014/15. The reality is that in these difficult economic times, sub-postmasters are reluctant to enter a transformation process. While there are clear benefits around investment in their store, lower operating costs and the opportunity for them to release retail space for other uses, there is also a risk associated with the removal of the current fixed pay model. We understand their reluctance, but we cannot afford to delay the programme. Competitors such as PayPoint, MyHermes and Collect+ are growing their networks every day. This is a significant threat to agents, to Post Office and to our ability to serve Royal Mail.
- This 2013/20 strategy therefore introduces a revised approach to network transformation to include additional investment and a mandate to exit those post offices that are not viable under our new network models. This has been developed in partnership with the NFSP and is currently going through their governance process for approvals. This change in approach is absolutely fundamental to our strategy. Without it, we will not secure the commercial

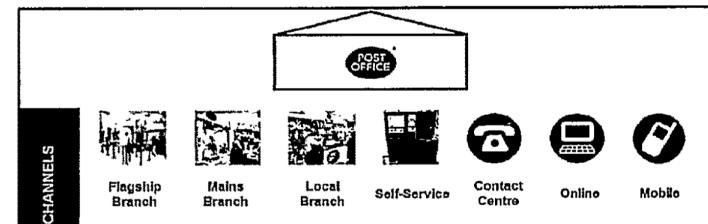
#### Introduction

This year has been one of the most challenging on the high street. Many well-known brands are disappearing and others continue to struggle. When we have looked at organisations that have failed in

COMMERCIAL IN CONFIDENCE

recent months, it is clear that they did not address the fundamentals of their business by updating their retail model, their products and services and responding to technological changes fast enough. The commercial elements of our strategy are designed to reinvent our customer proposition. However if we are to deliver it successfully, we need to re-align our operational capability.

This strategy is therefore focused on creating a modern and integrated multi-channel operating model.



While this model is not significantly different from that of our 2012/15 strategy; the business imperative is much greater. If we are to be a retailer of Post Office branded products, attract customers from a broader customer demographic, and grow our presence in the financial services marketplace, we need a very different operating model. We need a specialist sales capability that is experienced and qualified to sell regulated products. We need consultation rooms where customers can discuss their financial services needs in an appropriate environment. We need longer opening hours so customers can access our services at the time that suits them. We need self service solutions for consumers and small businesses that allow them to complete simple transactions without the need to visit a counter. We need to recognise that while our face to face capability will always be our differentiator, many customers want to interact through other channels. We need a single view of our customer, so that customers feel that they have a relationship with us and we can guide them to the products and services that they need.

Our 2012/15 strategy built the foundations for this new operating model and over the past twelve months, we have made significant progress in its creation. However if we are to secure the delivery of our strategy, we must increase the pace of our transformation activity. The competitive threats in our market are continually increasing. The unaffiliated retailers who have been at the core of our agency network are disappearing from our high streets. Meanwhile, organisations such as PayPoint, Collect+ and MyHermes are

COMMERCIAL IN CONFIDENCE

forming relationships with the Multiple Retailers and the Symbol Groups. If we do not move quickly, we may find that cannot secure the retail partners we need. This is a significant threat to Post Office, our agents, and our ability to serve Royal Mail.

This 2013/20 Strategy addresses these issues head on.

#### Our transformation commitments

The 2012/ 2015 Strategic Plan recognised that the scale of the network transformation that was being proposed could raise concerns around the extent to which it would reduce customer service or affect the coverage provided by the post office network. In that context, we set out the core principles that would underpin the transformation. As we refresh our strategy, we can confirm a continued commitment to every one of these network transformation principles:

- Maintain geographic accessibility, network capabilities and social value for the benefit of customers,
- Undertake a network modernisation programme to ensure customers can access services through channels that meet their needs and expectations,
- Offer a ~40% increase in opening hours giving greater convenience,
- Ensure queues are reduced so that 90% of customers are served within 5 minutes,
- Bring the Crown Office network to break even by March 2015,
- Create branch models that are profitable for Post Office and for Agents,
- Ensure all new agency contracts have fully variable commission and remove the right to compensation on exit,
- Manage the transition from the current network structure to one that is fit for purpose and cost effective in a smooth, customer oriented way which compensates agents appropriately, minimises adverse public opinion and which takes account of local community views,

COMMERCIAL IN CONFIDENCE

- As part of this transition, Post Office will not remove any provision from a community where a service currently exists, other than for reasons beyond Post Office's control.

#### Transforming our Crown network

Through this strategy we are converting the Crown office network into the flagship for our brand, our services and the experience we can offer to customers. Specifically, we are:

- improving branch layout, using a modular design that allows the branch the flexibility to create a tailored model that functions for them and their customers
- creating distinct, discreet and formal areas for financial services interactions, where confidential discussions about mortgages, current accounts and savings can take place
- increasing the use of self-service to allow customers the option of by-passing the queue and complete transactions themselves
- improving our systems and sales incentives to provide the front line staff with the tools and recognition for serving customer needs
- relocating, merging or franchising branches where the property costs and/or branch size is no longer appropriate.

As the components of this programme indicate, this is not just about customer service and competitiveness; it is about making this element of our network commercially sustainable. In 2011/12, our Crown network made an annual loss of £46m. Through the implementation of the above measures we have already reduced this to £37m in 2012/13. This is a significant achievement and provides a great foundation upon which to build.

As we look forward the next steps are:

- re-sizing our network: we currently have 373 Crown branches. By the end of 2015, we will have reduced this to 300; franchising 70 branches, merging a further 6 with branches close by, and replacing two pairs of neighbouring branches with one new improved branch. Since announcing our intention to franchise these branches, we have received a significant amount of market interest. We will now progress this through a formal market engagement activity to ensure we select the best partner.

COMMERCIAL IN CONFIDENCE

- rolling-out our blueprint operating model: over the coming two years, every single one of our remaining Crown branches will undergo a transformation. Working with the team in the branch, we will develop the design that is right for their branch, for them and their customers. This will be constructed from our blueprint which has been informed by the learning of the pilots which we have completed.
- strategic network growth: as the Crown models develop, and our financial services and retail product offering strengthens, there may well be areas where it is felt that adding a Crown office into the network could be warranted. We therefore envisage a future where the number of Crown branches could potentially increase.

We believe that by completing this transformation, we will have realigned our cost base to make it market competitive and created an environment where the Crown network can play an increasingly important role in the delivery of our sales growth.

The successful completion of this transformation programme will not only see the Crown network achieve break-even in March 2015, it will create the platform for profitability. If income is generated in line with the expectations set out in this strategy, the Crown network could deliver profits of around £65m by 2020.

#### Transforming our agency network

While our Crown Network is our flagship, we must remember that it only accounts for around only 3% of our total network. For the vast majority of our customers, it is the agency network and the sub-postmasters that are their main connection with the Post Office. The transformation of this network is therefore absolutely core to the delivery of our strategy and the commercial sustainability of our business.

In our 2012/15 strategy, we laid out the elements of our agency transformation programme:

- introducing new contract terms that would provide for fully variable pay: incentivising and rewarding sub-postmasters for growing their business whilst improving the Post Office's resilience to market downturns;
- removing the right to future compensation: removing the onerous compensation costs that have been associated with past network transformation programmes and ensuring that agents were rewarded not for exiting the business but for continuing to be a part of our future;

COMMERCIAL IN CONFIDENCE

- improving customer service: introducing longer opening hours, better queuing time and improving overall customer satisfaction;
- reducing the agent operating costs: integrating the post office into their retail model to deliver staff efficiencies whilst also freeing up space that could be used for other retail activity.

When our 2012/15 Strategy was submitted, much of the thinking around network transformation was yet to be tested. This testing has now been completed and we are convinced these models are the right ones for the future of our business.

At the end of our first year of the programme and over 1,450 contracts had been signed (against a target of 1200) and more than 500 agency branches had converted to the new models. In our converted branches, we were delivering excellent customer service - an 87% increase in opening hours; average queue times of around two minutes in Mains and less than one minute in Locals; and customer satisfaction levels of 95%. In addition, the new models were delivering benefits to our agents with a survey showing an increase in income levels of between 9% and 19%<sup>1</sup> in their associated retail businesses after conversion.

However, in spite of this success, the past twelve months had also shown that the current approach on network transformation would not allow us to convert our network with the pace that we need. In these difficult economic times, some sub-postmasters are showing a reluctance to enter the transformation process. While there are clear benefits around investment in their store, lower operating costs and the opportunity for them to release retail space for other uses, there is also a risk associated with the removal of the current fixed pay model. We understand their reluctance but we cannot afford to delay the programme. We have to make our network more competitive and deliver the benefits for our customers.

Our competitors are growing their networks every day:

- PayPoint has grown its network by ~4% per annum and now has over 24,000 sites. In addition, it has begun integrating its products onto retailers' tills and has recently signed deals with Co-op Group to integrate their services onto the Co-op EPOS system, enabling them to offer PayPoint services across all of their 4,500 stores and at each of their retailer tills.

<sup>1</sup> Indicative results from trial branches – will be further substantiated as the number of converted branches increases

COMMERCIAL IN CONFIDENCE

PayPoint has also grown its Collect+ network to over 5,000 branches.

- MyHermes has begun the rollout of its own network, with over 1,500 collection points already established
- UPS has 600 locations with plans for a further 900 by the end of the year.

These and other competitors are likely to continue to establish long-term partnerships with retailers on the high street, as well as expanding the range of services they offer. This is a significant threat to agents, to the Post Office and to our ability to serve Royal Mail.

This 2013/20 strategy therefore changes the basis of the agency transformation programme, specifically reducing the voluntary nature of the programme and introducing additional investment. Sub-postmasters will in 2013/14 complete a retail survey which will allow us to take a more strategic approach to this programme. Through this exercise we will build our understanding of the viability of our sub-postmasters' businesses and their ability to successfully operate one of our new network models. Where sub-postmasters cannot be viable, we will have the ability to manage their exit from the business. We will work with them to either find a new agent to take over their business or to find an alternative location for the post office within the vicinity. No post office will close and no agent compensation will be paid until the new post office is operational. For those that are viable, our field change advisors will support them through every stage in their transformation - helping them understand the process, build their business case, connect with suppliers and partners and finally make the transformation.

Our expectation is that this new approach will deliver an outcome similar to that of the more structured and tightly scheduled approaches to network transformation we have previously discussed with Government. Given the importance of this transformation to our market competitiveness, our ability to serve our clients and customers and our journey to commercial sustainability, we will take action should there be a shortfall against this projection or the benefits accruing from the broader programme. In that context, we will complete a formal review of the programme in September 2015. At that stage, we will decide on any adjustments that need to be introduced - this could include amongst other changes amendments to investments made in branches, changes to compensation levels, alterations to the Core Tier Payment and possibly even an extension

COMMERCIAL IN CONFIDENCE

of the compulsory nature of the programme. Both the NFSP and Government understand the need for this action should the shortfall arise.

#### **Investing in our sub-postmasters' retail capability**

Our Local operating model relies on there being a host retail business that is sustainable. To ensure that sub-postmasters receive the support and advice to allow their businesses to be successful during and after conversion, we are creating a fund that will expand the role we play in assisting them with the retail side of their business. Specifically, Post Office will provide support in three key areas:

- Advice and guidance: Post Office already provides tools and services to help sub-postmasters grow their retail income, and we will expand this team and their remit to enable them to support a greater number of branches. These services range from shop layout to website support.
- Funding: existing sub-postmasters will be able to apply for funding to assist in growing their retail income after converting to a Local model. We anticipate this support being available to up to 2,500 branches who wish to convert on site.
- Providing a conduit to external support and partnerships: working with potential partners and franchises, we will be able to present sub-postmasters with a range of external options to get investment and growth opportunities. Given the size and scale of the Post Office, we would hope this would provide them with more competitive and convenient deals than they may be able to negotiate themselves.

#### **Investing in our community network**

The final part of our network transformation plans relates to Community post offices, where we are establishing a new investment programme to sustain and reinvent this increasingly vital part of our public service. The importance of a post office in rural and urban deprived areas is increasingly important in difficult economic conditions. They not only provide access to vital services, they provide a hub for the community and an important differentiator in an increasingly competitive mails market. We are therefore including a commitment to invest £20m in this element of the network. This Community Post Office Fund will be used to invest not only in improving the conditions and services of these branches but in supporting communities to create the post office that is right for them. Today we have over 150 mutual post offices that are being sustained by their local communities. They have defined their

COMMERCIAL IN CONFIDENCE

purpose, sought out partners and funding, and ensured they provide a value to their community. We want to support this activity and to provide the stimulus and investment to make it a greater part of what the Post Office does.

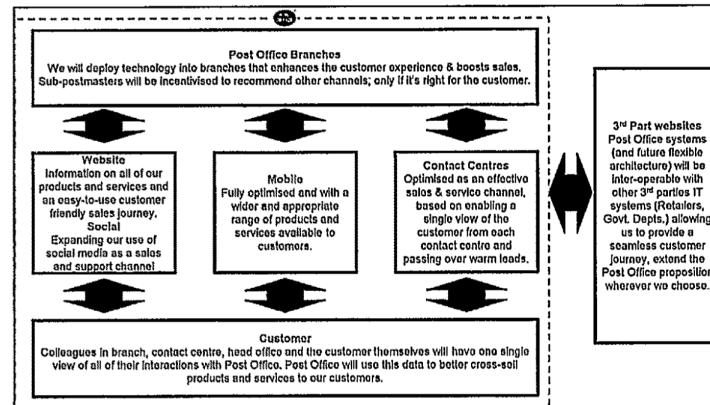
#### Investing in increasing access to our services

Within this strategic plan period, we are looking to not only transform our existing network but to grow it. While the Post Office network has for many years been the largest retail network within the UK, we are seeing competitors using relationships with third parties to create significant networks. As we highlighted above, PayPoint has over 24,000 sites and has grown its Collect+ network to over 5,000. If we are to protect our market position, we must also adopt this approach. We must look for new ways to increase the access points to our network. This will need to go beyond our standard post office models and consider the possibility of self-service technologies and perhaps even single service solutions, e.g. collection and return access points. This latter point is essential if we are to protect our position as the number one retail mails provider and continue to support Royal Mail in its market aspirations.

#### Investing and creating a multi-channel presence

The final element of our operational strategy relates to multi-channel. In today's retail world, customers expect to be able to interact with organisations across a range of channels. Whilst we have made progress in providing multichannel access to our financial services and telecoms products, we lag the market in every other product area. If we are to deliver our strategy, we have to address this issue and become a truly multi-channel retailer. Over the strategy period, we will therefore invest in creating an interconnected modern channel model for our business. This is summarised in the figure below.

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Fundamentally, this model will allow customers to start any product or service journey in one channel and complete it in any other, whenever and wherever they want. It will allow us to attract a broader customer base by appealing to those segments who do not want to use a physical branch. It will allow us to share data across our service providers to enable us to provide a joined up view every time they interact with the Post Office. It will allow us to up-sell and cross-sell our product offer, increasing the likelihood of customer retention whilst also reducing our cost to serve and sell.

#### Conclusion

This operational strategy protects the physical network which is and will continue to be our greatest strength, whilst also maximising the synergies between this and the digital world. No other retail organisation in the UK can compete with our breadth, reach and physical presence, and we must build on this advantage if we are to deliver our retail vision. Through the effective and relevant use of these channels we will be able to ensure that all our current and prospective customers, regardless of their means, capabilities, location or preference will be able to access the Post Office products and services they require, in a manner convenient and relevant to them.

#### Additional information

Additional detail on each of the elements of the channel perspective of our strategy, are included under separate attachment, specifically:

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1. Transforming the post office agency network workbook
2. Crown network workbook
3. Digital and multi-channel workbook
4. Network transformation stakeholder engagement and communications workbook

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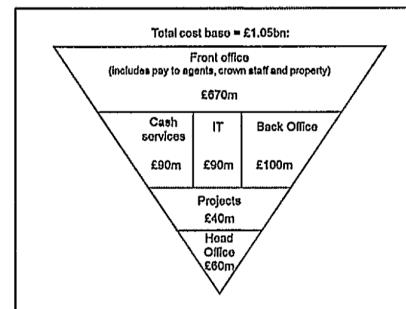
#### 4. Delivering our vision – the organisational perspective

##### Key messages:

- If we are to deliver our strategy, we must address two fundamental issues in our business:
  - Our organisation model is structured on a traditional product structure. To make the transition from a channel business to a retailer we will have an organisation that is built around the customer – ensuring that all of our processes are focused on delivering an excellent customer experience.
  - While the Network Transformation Programme will increase the proportion of our cost base which is variable, it will not be enough to secure a commercially sustainable future. We need also to reduce our central costs and ensure that as we grow our income we are not adding fixed cost back in.
- To achieve this we will conduct a 'root and branch' review of our organisation, starting with customer facing channels and working back through the business to make it slimmer and ensure that everything we do is focused on delivering value for the customer.
- This will create a Post Office with a cost base that is lower and more variabilised and therefore able to adapt to changing market conditions. The Post Office will be built from the customer perspective and focused on growing true value for our shareholder.

##### Current situation and the inherent challenges:

In 2012/13 Post Office total costs were £1.05bn on total income of just £934m. Around two thirds of the total cost relates to the 'front office', i.e. agents pay, Crown staff, property and sales support. The remainder is split across the support functions of the business:





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- We will focus on ensuring value for money in everything we do
- We will have clear and unambiguous accountabilities
- We will embrace mutualised ways of working

As we take this forward, we will challenge every aspect of our business. We will consider its purpose, value, effectiveness and efficiency. The 2012/15 strategy was focused on making our network customer focused. In this strategy, we extend this principle to our entire business making sure that everything we do is justifiable in the value which it adds to the customer, to the Post Office and to our shareholder.

COMMERCIAL IN CONFIDENCE

## 5. Delivering our vision – our mutualisation journey

### Key messages:

- In 2010, the Government made two key commitments on the long term ownership arrangements for the Post Office: firstly that it is not for sale and secondly that it would create the opportunity for a mutually owned Post Office.
- This Strategic Plan contains three commitments that combined will build the opportunity for mutualisation to be realised:
  - I. We will make the Post Office financially sustainable – this is the primary driver for our strategy and is an absolute pre-requisite before a transfer of ownership can be considered.
  - II. We will create an environment that encourages mutual ways of working – introducing stronger and more effective models for engaging our staff, sub-postmasters, customers and other stakeholders.
  - III. We will define our Public Purpose – completing the process that is underway with the Stakeholder Forum and making a recommendation to BIS that we can then jointly communicate.
- Supporting these three commitments is a roadmap that will evolve the Post Office into an organisation that has all the characteristics of a mutual organisation. An organisation that is commercially sustainable. An organisation that is connected to its people, its customers and its wider stakeholder audience. An organisation that invites others to engage and participate in its development and future.

### Introduction

Over the past eighteen months, we have taken some important steps on our mutualisation journey. We have established a Stakeholder Forum to support us in the definition of our Public Purpose. We have engaged with other mutual organisations to improve our understanding of the many different organisation constructs and operating models. We have conducted a cultural study that assessed the gap between the current Post Office culture and that of mutual organisations.

## COMMERCIAL IN CONFIDENCE

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Through this work, we have built a clear understanding of the requirements for mutualisation and it is in this context, that our 2013/20 Strategic Plan makes three commitments:

- We will make the Post Office commercially sustainable – with a business model that is robust for the commercial environment in which we operate, supported by a far smaller and more stable long-term funding agreement from Government that sustains those elements of our network that are for social benefit.
- We will create the conditions to enable mutual ways of working across our business – introducing stronger models for engaging our customers, consumer groups, partner organisations, our people and their representative bodies to improve business performance and to facilitate the cultural changes that are crucial to becoming a mutual.
- We will work with our partners to define our Public Purpose – completing the next stage of the process with the Stakeholder Forum to allow us to recommend a Public Purpose statement to Government which we can then jointly communicate and use to guide the future development of the Post Office.

## Creating the commercial conditions for mutualisation

As the Government's 2012 consultation identified, if the Post Office was to operate as an independent mutual entity, it must fundamentally redefine its financial relationship with Government. This does not mean the subsidy must reduce to zero, but it must reach a far smaller and stable level to enable a more arm's length relationship with Government. Since the consultation response was published we have been working with external advisors to refine this definition of financial independence, identifying the core characteristics that would enable us to operate as a standalone mutual business:

- A strategy and market position that allows us to compete effectively in our chosen markets – both now and in the future
- The flexibility to respond quickly through corporate actions to unforeseen changes in these markets
- An appropriate cost base and business model with the flexibility to withstand revenue volatility
- A robust track record of profitability and cash generation (taking into account of a far smaller on-going funding stream from Government)

- Sufficient free cash-flow to allow on-going investment in the business to maintain commercial competitiveness in a continually evolving marketplace.

We believe the successful implementation of our Strategic Plan will create these commercial conditions and in doing so the opportunity for mutualisation. In March 2015 our Crown Network will return to breakeven. In FY15/16 Post Office will achieve breakeven at EBITDAS (earnings before interest, tax, depreciation, amortisation and subsidy). In FY16/17 Post Office will be cash-flow positive. In FY18/19, we believe Post Office will have established a track record of commercial sustainability that would be credible in the external market and by FY19/20 we will have reduced our overall Government subsidy requirement from a peak of £415m this year to around £50m per annum.

Our primary driver in this Strategy is to create a commercially sustainable Post Office that is successful, vibrant and growing. The decision on whether to transfer ownership at that point and create a mutual organisation would of course be for Government and Parliament to make.

## Creating an environment that encourages mutual ways of working

While the above commercial milestones are important steps towards being a mutual organisation, it is in our view the cultural shift that is more important.

Over the past year we have held discussions with a wide range of mutual organisations to hear their story and learn from their experiences. At the core of these organisations is a commitment to engage with their stakeholders through customer forums, employee councils, regional stakeholder bodies or a variety of other mechanisms, to hear and understand their issues and ideas. Inspired by these examples, we have already started to make progress on our own engagement agenda.

- Our Stakeholder Forum brought us together with the people from the BBC, Consumer Futures, Citizens Advice, Age UK, the British Youth Council and the representatives of our people (Unite, CWU and the National Federation of Sub-postmasters). Together we are shaping the Public Purpose of the Post Office.
- Our Super-Briefers are connecting our head office staff with our branches. This group of around 100 senior managers in the business was mobilised to communicate directly with our staff in Crown offices to explain the pay and franchising proposals so we could hear their concerns. While this was initially introduced to address a specific business issue – it is a

COMMERCIAL IN CONFIDENCE

concept that has received positive feedback from our people and is therefore one we will continue and expand.

- Our WOW magazine for our Crown Staff saw us introduce a magazine that was for our people and written by our people. This magazine allows people to share their stories whether they are about their experiences of Crown Transformation, their transformed branches or their successes at a branch and individual level.

These have been important first steps for us in changing the culture of the Post Office and our mutualisation timeline includes many more:

- **Engagement with NFSP on Strategic Plan and revised Network Transformation approach:** In Q2 FY13/14, with the encouragement of Ministers, we started to engage with the NFSP on our 2013/20 Strategic Plan. We agreed principles for information sharing, provided the NFSP with a copy of the draft Strategic Plan document, had teams from across the directorates share the detail of their elements of the plan and provided the NFSP with the opportunity to truly engage and challenge the work that had been completed. We then worked together to redesigned the network transformation programme approach and the associated funding/ compensation elements. The NFSP are now taking this revised approach through their governance processes. We expect this to conclude at the end of November 2013 and for us then to work together on driving through the delivery of network transformation approach.
- **Engagement with the NFSP on the future of their organisation:** over 7,000 of our sub-postmasters are members of the NFSP and it is the only organisation that Post Office recognises as representing the sub-postmaster community. As we consider our future and that of our sub-postmasters, it is clear that the NFSP has an important role to play. We need them to support sub-postmasters as they determine their future through Network Transformation. We need them to be capable to support the sub-postmaster of the future who, to ensure their success, will need a thriving retail business sitting alongside their post office. We need them to be relevant to our multiple partners who will play an increasingly important role in our business. Jointly we recognise that this will require the NFSP to change its organisation, its capability and the services that it offers to its members. In Q4 2013/14, we will therefore focus our engagement in this area; building a view of the NFSP of the future and developing a joint roadmap to secure its delivery.

COMMERCIAL IN CONFIDENCE

- **Introduction of a sub-postmaster survey:** While we have mechanisms in place to measure the engagement and satisfaction of our employees, we did not have a formal mechanism in place for our sub-postmaster community. In Q2 FY13/14, we developed a sub-postmaster engagement survey. This embraced the principles of our existing survey whilst also recognising that our relationship with our sub-postmasters is very different. The survey was launched in September 2013 and we will shortly have the first round of results. These will help us shape our future plans for engaging with the network and also support the refinement of the engagement survey process. Surveys will now take place on a regular basis with action plans to respond being developed.

- **Introduction of super-briefers:** in Q1 FY13/14, we introduced super briefers into our Crown Network. These individuals who are chosen from our senior management community spend time in branch engaging with our front line staff. They cascade our messages into the business and listen to the thoughts, concerns and issues of our people. We intend to engage with the NFSP to assess the feasibility of introducing a similar concept into the agency network aligning Post Office managers with each of the NFSP regional branches to create a rolling programme of regional forums and roundtable discussions. Should this prove a viable way forward, we would start implementation in Q4 FY 13/14.

- **Creation of a joint NFSP & Post Office communications forum:** as the NFSP and Post Office progress the approvals and subsequent implementation of the revised network transformation approach, we have been working closely on communications. While we each have responsibility and ownership of our respective organisations agenda and messaging, it is absolutely essential that we are aligned. In that context, we are sharing timetables, plans and as far as is practicable content. This is building a relationship and way of working that we believe would be valuable to continue beyond network transformation. We will therefore seek to establish a joint NFSP & Post Office communications forum in Q1 FY14/15.

- **Creation of a Post Office Advisory Council:** In June 2013, the Post Office Board agreed to establish a Post Office Advisory Council. This will provide a formal mechanism for customers, employees, sub-postmasters and wider stakeholder groups to engage with the Post Office on areas such as new products, new branches, advertising, customer/ service issues. This will allow them to connect into the highest level of our business

COMMERCIAL IN CONFIDENCE

and us to really understand their views. The Council will have around 20 members and be chaired by one of our Non-Executive Directors. The aim is to announce and recruit Council members during Q4 FY13/14 and hold the first meeting of the Council in Q1 FY 14/15. Once the Council is established, it will meet three times each year.

- **Creation of Business User Groups:** Alongside the Post Office Advisory Council, Post Office will establish business user groups. These will allow people from across our organisation to come together and address specific business ideas, opportunities or problems. In Q3 FY13/14, we established our first user group. This is focused on the findings of the recent Second Sight review and is tasked with developing an action plan for the business. Additional business user groups will be established in Q4 FY13/14 and then throughout FY14/15.
- **Cross stakeholder culture working group:** In Q4 FY12/13, Post Office commissioned an independent review of the Post Office culture comparing it to that of a mutual organisation and identifying key gaps. A workshop with the CWU, Unite and NFSP had been planned to provide a similar opportunity to discuss and understand their perspective on priorities. Due to the current industrial relations environment, this was postponed. We intend to resurrect this and would anticipate this taking place in Q1 FY14/15 with the output of the session being a long term roadmap for our joint engagement moving forward.

Post Office is absolutely committed to this engagement programme. Where possible we will accelerate the activities that are set out above but in doing so we will be cognisant of our partners. The objective here unlike our other programmes is not to finishing first but to finish together. Patterns of behaviour and ways of working have been developed over many years and to truly change these will take time.

#### Creating our public purpose

Over the past year, the Stakeholder Forum has been working together on the Public Purpose of the Post Office. It produced two draft Public Purpose statements and over the summer, these have been tested through independent qualitative market research. Through this process we have received over 1000 responses from customers, small businesses, employees, sub-postmasters and the general public. They have provided us with their views of the Post Office – the reasons they believe the Post Office needs to exist, what it is about the Post Office that makes it different, and as the Post Office evolved what it must protect. They also provided specific feedback on the two statements that the Stakeholder Forum produced.

COMMERCIAL IN CONFIDENCE

The analysis of this information will be presented to the Stakeholder Forum in December 2013. The outcomes of their discussion will then be structured into a submission for the Post Office Board to consider in January 2014. By the end of Q4 FY13/14, the Post Office will make a recommendation to BIS on the Public Purpose statement with the intention that this is announced in Q1 FY14/15.

#### Mutualisation timeline and milestone summary

In summary, this Strategic Plan will create a Post Office that has all the characteristics of a mutual organisation:

- An organisation that is commercially sustainable
- An organisation that is connected to its people, its customers and its wider stakeholder audience
- An organisation that invites others to engage and participate in its development and future
- An organisation that is clear about its Public Purpose.

The table below provides a summary of the key milestones on our journey.

Milestone type	Activity	Milestone
Public Purpose	Launch of Stakeholder Forum	Q3 FY12/13
Engagement	Independent review of Post Office culture	Q4 FY12/13
Engagement	Super-briefers into Crown Network	Q1 FY13/14 on-going
Engagement	Board agree to establish Post Office Advisory Council	Q1 FY13/14
Engagement	Post Office and NFSP engagement on Strategic Plan	Q2 FY13/14 on-going
Engagement	Development of sub-postmaster engagement survey	Q2 FY13/14
Engagement	Launch of WOW magazine	Q2 FY13/14
Engagement	Sub-postmaster engagement survey launched	Q3 FY13/14 on-going
Engagement	First Post Office Business User Forum created	Q3 FY13/14 on-going
Engagement	Post Office and NFSP engagement on future of NFSP	Q4 FY13/14 on-going
Engagement	Announce and recruit Post Office Advisory Council	Q4 FY13/14

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

Engagement	Super-briefers into agency network (if viable)	Q4 FY13/14
Public Purpose	Stakeholder Forum submits findings to Board	Q4 FY13/14
Public Purpose	Post Office Board recommends Public Purpose to BIS	Q4 FY13/14
Public Purpose	Post Office and BIS announce Public Purpose	Q1 FY14/15
Engagement	Creation of NFSP & Post Office communications forum	Q1 FY14/15
Engagement	First meeting of Post Office Advisory Council	Q1 FY14/15 on-going
Engagement	Cross stakeholder culture working group	Q1 FY14/15 on-going
Commercial	Crown network achieves breakeven	Q4 FY15
Commercial	Post Office achieves breakeven at EBITDAS	FY 15/16
Commercial	Post Office achieves positive cash-flow	FY 16/17
Commercial	Post Office achieves commercial sustainability	FY 18/19
Commercial	Post Office reduces NSP to £50m	FY 19/20

In 2010, Government set out its commitments to create the opportunity for a mutually owned Post Office with an ambition to make progress by the end of its term in Government. As the table above shows, by 2015, significant steps will have been taken:

- Public Purpose: the Post Office will have a Public Purpose statement that has been developed in partnership with its stakeholders and with the input of over 1,000 people including consumers, small businesses, sub-postmasters and employees.
- Post Office Advisory Council: a Council of around 20 people from within and outside the Post Office will have been formed and operational. This body will have the opportunity to be involved in key business areas and have direct access into the Post Office Board, through its Chairman who is one of our Non-Executive Directors.
- NFSP: a new long term commitment to the NFSP will be in place. This will be a joint agreement to work together to evolve the NFSP so that it has the skills, expertise and resource that are needed to support our sub-postmaster community regardless of whether they are independent business people or large multiple organisations.
- Engagement with our people: our people whether they are employees or sub-postmasters will be playing a greater role in

our business and we will have a better understanding of their issues. Business user forums, engagement surveys, magazines, and super-briefers will have been in place for over a year and will be delivering tangible results.

- Commercial sustainability: the final deliverable will of course be the steps we have taken towards commercial sustainability. Our Crown Network will be at breakeven and we will be on track to achieve breakeven at EBITDAS level the following year.

COMMERCIAL IN CONFIDENCE

## 6. Delivering our vision – our funding requirement

### Key messages:

- At the heart of this Strategic Plan is a commitment to make Post Office commercially sustainable and less reliant upon Government subsidy.
- We are protecting our network and increasing the range of services that we offer to consumers and small businesses, we are offering customer friendly opening hours, and improving our on-line offer to serve those that prefer digital access. Combined this will deliver a 47% increase in income through to 2019/20.
- We are investing in automation, franchising and other cost measures to create a Crown Network that will not only achieve breakeven but over the plan period will become profitable; turning a £51m loss in 2010/11 to a position of breakeven by March 2015. This creates the momentum for a bright future.
- We are improving the economic viability of our agency network and individual sub-postmasters: introducing variable pay to align sub-postmasters and Post Office commercial objectives and creating a retail support team who can support sub-postmasters to ensure they can maximise the value of the new pay model. Over the plan period, the proportion of our agency costs that are variable will increase from 73% to 90%.
- We are protecting post offices that are the 'last shop in the village' and taking them out of the scope of network transformation and creating a Community Post Office investment fund of £20m. This recognises the social value that these post offices play and gives them access to funds that can help them improve the service they offer to their communities.
- We are also addressing our central costs developing a new target operating model for Post Office looking to other organisations and the wider marketplace to understand if there are more efficient ways to operate our business. Through this activity we will reduce our existing central business costs by 23% over the plan period.
- Our journey to commercial sustainability is already underway. Our overall income in 2012/13 was £35m higher than forecast in the 2010 Strategic Plan, and our EBITDA is

COMMERCIAL IN CONFIDENCE

### Introduction

As the previous section set out, this Strategic Plan has been built around the key imperative to deliver a commercially sustainable financial position for the Post Office before the end of the plan period. We have already made strong progress against this objective over the last year, finishing 2012/13 ahead of our targets to reduce the deficits in both the Crown Network and overall business, despite the worse than expected economic environment, the additional resource implications of separation which were not incorporated in our plan and the shortfalls in income from government services compared to our original expectations.

By mitigating these risks and developing an ambitious but credible plan for growing our revenue and cutting our costs we believe we will be able to complete the task of delivering commercial sustainability before 2020. The key financial milestones contained in this Strategic Plan are as follows:

- March 2015: breakeven in the Crown Network
- 2015/16: breakeven at EBITDAS (earnings before interest, tax, depreciation, amortisation and subsidy)
- 2016/17: first year of positive cash-flow
- 2018/19: point at which track record of commercially sustainability is achieved, i.e. a sustained level of positive cash-flow, self-financing of investment and profitability

### Financial projections

The tables at the end of this chapter set out the components of our profit and loss and cash flow projections from 2013/14 through to 2019/20. The key trends and developments are highlighted below:

- Overall income in this period will grow from £921m to £1,360m – an increase of 47%, equivalent to an annual average real growth rate of over 4%, outpacing the rate of growth in the broader economy during this period. Within this all of the main pillars are delivering sustained growth, with the strongest driver being the 77% increase in financial services income, from £277m in 2013/14 to £492m in 2019/20;
- Our cost to income ratio (excluding subsidy) will decrease from over 110% in 2013/14 to just over 91% in 2019/20. This is in line with expectations for other organisations of our type and a key indicator of our decisive shift to financial

COMMERCIAL IN CONFIDENCE

sustainability. This turnaround in ratios is delivered through a combination of our ambitious revenue growth and a clear focus on reducing operating costs. 90% of our agency costs will be variable by the end of the plan period. Staff costs (excluding agents) will be reduced by ~16% over this period, and existing central business costs (i.e. not including new income costs) will be reduced by 23%.

- Operating cash flow becomes positive on a sustained basis from 2016/17, alongside a significant reduction in the network subsidy period in every year. Improvements in our working capital management will reduce our overall requirement by £200m and improve the overall volatility. Working Capital changes, whilst substantial in-year, net off over the plan period.

#### Key areas of investment

To deliver the strategy set out in the document and the associated financial performance, we will need to complete our transformation programme. The key investment areas are presented below.

##### 1. Network spend:

As in the previous plan, the majority of the investment will be concentrated on the Network Transformation Programme (NTP). As we highlighted in Section 3, to deliver our Strategic Plan, we must accelerate our network transformation programme. While great progress has been made to date, without a change in approach, we will not be able to complete the scale of change that is needed to secure our and our sub-postmasters future. This funding request therefore includes additional investment funds for our sub-postmasters who are both exiting and converting. The scale and profile of this requirement is provided in the table below.

£m	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Network Investment*	42	32	42	59	6	181
Agents Compensation	36	223	162	101	28	550
Network Project team	43	37	20	20	6	126
<b>Total NTP investment</b>	<b>122</b>	<b>292</b>	<b>223</b>	<b>180</b>	<b>40</b>	<b>857</b>

\*Includes investment in community branches and increased access models

##### 2. Non-network spend:

In parallel to the modernisation of our physical network, it is essential we invest in the capabilities needed to drive the

COMMERCIAL IN CONFIDENCE

income growth forecasts set out in this plan. Specifically, we must:

- I. Invest in developing face-to-face sales capabilities for financial services, implementing a supervisory structure and developing a customer management system to drive mortgage and other financial services business.
- II. Develop and roll-out new, customer-focussed financial services products, such as the Post Office current account.
- III. Invest in assisted digital access and identity assurance technology to provide both 'entry level' and 'premium' services to our customers.
- IV. Implement IT systems to support the growth in new products and services, and replacement of the existing point-of-sale system ("Horizon") to make it fit for the future.

The profile for the funding until the end of the plan period is as follows:

	£.k	Wk. NTF	Total
	130	150	280
	80	140	220
	70	70	140
18/19*	60	Nil	60
19/20*	50	Nil	50

Please note the figures provided for 18/19 and 19/20 are indicative and outside the scope of this funding request.

##### 3. Working capital facility

The Post Office currently has a Working Capital Facility of up to £1.15bn to finance its working capital requirements (mainly network cash). The demands on this facility are particularly volatile as they are often driven by customer behaviour and outside of Post Office's control (for example, the weather impacts on the pattern of benefit withdrawals).

As a sign of our strengthening financial position, as part of this Strategic Plan we are able to lower our requested Working Capital Facility limit to £950m, a reduction of £200m. In addition the Post Office will undertake a review of options to reduce the volatility of this facility.

##### Measuring progress

Building on the governance arrangements that have been established over the past year, we will work with the Shareholder Executive to develop and agree an appropriate monitoring regime and new scorecard

COMMERCIAL IN CONFIDENCE

and supporting metrics to enable progress against the Strategic Plan to be monitored, assessed and discussed on a regular basis. This should incorporate both the specific performance conditions associated with the funding agreement, and the broader range of metrics which BIS officials and Ministers will wish to monitor in their capacity as shareholder.

#### Additional information

Additional detail on each of the elements of the funding perspective of our strategy, are included under separate attachment, specifically:

##### 1. Finance workbook [Re-issue]

COMMERCIAL IN CONFIDENCE

**Post Office Ltd.**  
**Profit & Loss Statement 2013 to 2020**  
 (£m)

	13/14	14/15	15/16	16/17	17/18	18/19	19/20
<b>Net Income</b>							
Total Mails & Retail	407	430	425	448	482	515	546
Total Financial Services	277	295	328	379	427	464	492
Total Government Services	115	117	158	174	173	190	206
Total Home Services	51	60	94	119	137	145	150
Total Pillar Income	850	902	1005	1119	1219	1314	1394
Supply Chain	29	32	34	33	37	37	37
Other	9	6	8	8	8	8	8
Total Income (excluding FRES Profit Share)	888	940	1047	1160	1264	1359	1439
FRES Profit Share	33	34	33	35	37	41	41
Total Net Income (including FRES Profit Share)	921	974	1080	1195	1301	1400	1480
Income contingency		(15)	(40)	(60)	(80)	(100)	(120)
Total Net Income (including FRES Profit Share and after Income Contingency)	921	959	1040	1135	1221	1300	1360
<b>Costs</b>							
Variable Agents Pay	(344)	(379)	(411)	(455)	(484)	(521)	(551)
Fixed Agents Pay	(126)	(111)	(99)	(81)	(65)	(61)	(60)
Agents Pay	(470)	(490)	(510)	(536)	(549)	(582)	(611)
Central staff costs	(54)	(43)	(41)	(39)	(38)	(37)	(35)
Supply Chain staff costs	(55)	(55)	(55)	(55)	(55)	(55)	(55)
Other staff costs	(149)	(138)	(129)	(128)	(127)	(127)	(127)
Total Staff Costs	(259)	(236)	(225)	(222)	(220)	(219)	(218)
IT running costs	(81)	(71)	(67)	(66)	(66)	(66)	(66)
Central costs (including inter-business)	(97)	(99)	(88)	(88)	(85)	(82)	(80)
Supply Chain costs	(41)	(41)	(41)	(41)	(41)	(41)	(41)
Other costs	(71)	(67)	(49)	(37)	(37)	(37)	(37)
Total existing business costs	(290)	(278)	(244)	(232)	(229)	(226)	(224)
New Income Related Non- IT costs	0	(23)	(79)	(143)	(170)	(216)	(251)
New Income Related IT costs	0	(2)	(6)	(8)	(8)	(9)	(9)
Total new income business costs	0	(25)	(85)	(151)	(178)	(225)	(260)
Total Non-Staff Costs	(290)	(303)	(329)	(382)	(406)	(450)	(483)
Total Costs	(1019)	(1029)	(1064)	(1141)	(1175)	(1251)	(1312)
Costs related to income contingency		9	24	36	48	60	72
Total costs after income contingency	(1019)	(1020)	(1040)	(1105)	(1127)	(1191)	(1240)
EBITDAS	(98)	(61)	0	30	94	109	120
NSP	200	160	130	80	70	60	50
EBITDA	102	99	130	110	164	169	170

COMMERCIAL IN CONFIDENCE

Post Office Ltd.  
 Cash Flow Statement 2013 to 2020  
 (£m)

	13/14	14/15	15/16	16/17	17/18	18/19	19/20
EBITDAS	(98)	(61)	0	30	94	109	120
NSP	200	160	130	80	70	60	50
EBITDA	102	99	130	110	164	169	170
Capex (tangible and intangible)	(136)	(179)	(232)	(106)	(96)	(59)	(54)
Other cash movements	(7)	(3)	(1)	(4)	(4)	(6)	(2)
Operating Cash inflow/ (outflow)	(41)	(83)	(103)	0	64	104	114
Reserves, Provisions & Exceptional items	(31)	(333)	(188)	(131)	(54)	(10)	(10)
Non NSP Funding	215	170	150	140	70	0	0
Underlying Cash inflow/ (outflow)	143	(246)	(141)	9	80	94	104
Working capital	(39)	(23)	(122)	105	5	(25)	30
Total Cash inflow/ (outflow)	104	(269)	(263)	114	95	69	134

COMMERCIAL IN CONFIDENCE

Post Office Ltd.  
 Summary Balance Sheet 2013 to 2020  
 (£m)

As at March	2014	2015	2016	2017	2018	2019	2020
<b>Assets</b>							
Fixed Assets	79	81	81	84	87	92	94
Working Capital	(109)	(154)	(157)	(157)	(157)	(117)	(152)
Provisions and Grants	(17)	0	0	0	0	0	0
Pension Debtor/ (Creditor)	96	96	96	96	96	96	96
Client Balances	(276)	(200)	(255)	(185)	(180)	(220)	(190)
Network Cash	755	730	900	725	725	750	725
Net Trading Funds	(100)	(365)	(627)	(512)	(427)	(358)	(225)
<b>Net Assets</b>	<b>428</b>	<b>188</b>	<b>38</b>	<b>51</b>	<b>143</b>	<b>243</b>	<b>348</b>
<b>Financed by:</b>							
Capital Reserves	428	188	38	51	143	243	348

Please note:

- For planning purposes impairment is assumed to continue throughout the plan period, although in practice this is unlikely to be the case. This is an accounting issue and has no impact on funding. However, this will impact financial targets and these will need to be altered at the point of change of accounting treatment.
- This plan and the associated financial projections assume that Post Office receives £1.795m of State Aid funding over the period FY2012/13 to FY 2017/18. Should the level of actual funding be less than this amount, the plan commitments and outcomes will be revised.

COMMERCIAL IN CONFIDENCE

## 7. Delivering our vision – assumptions, risks and opportunities

### Key messages:

- As with any plan that stretches out for seven years, there is uncertainty. We will therefore continue to monitor and adapt to ensure we deliver on the goal of commercial sustainability.
- At the core of our plan are two core assumptions which are fundamental to the overall strategy. If these do not materialise as planned, a significant adjustment to the plan would be required.
  - First is the switch from a voluntary to a semi-compulsory approach to the roll-out of the Network Transformation Programme. Failure to secure agreement to this shift in the programme approach, will impact upon every aspect of our plan – our ability to grow income, to reduce cost, to compete, to protect the network and to deliver commercial sustainability.
  - Second is the continuation of the FOCA contract beyond 2015 albeit at a reduced volume and income level. This has strategic importance not just for the direct contribution it makes to our P&L, but also for the way that income is distributed around the network, the additional footfall and retail income it generates for agents, and for the way we run our supply chain business.
- For each of the above core assumptions, we have developed a detailed counter factual case. This is attached in our Counter Factual Workbook.
- Beyond these core assumptions, the plan contains a balance of risk and opportunity across income and costs. We will proactively monitor these and adjust our strategy as appropriate. In this section, we highlight the key points to be noted.

### Delivering our strategy – the key risks

Key risk	Mitigation
Competitive threat:	1. Introducing the revised approach for network transformation: this will
Over the past twelve months, we	

COMMERCIAL IN CONFIDENCE

have seen a significant increase in the level of competitive intensity in our markets. PayPoint, myHermes and others are increasing their network size – signing partnerships with many of the multiples and symbol groups. If this level continues it will have an impact on our competitive differentiators.

allow us to maintain the momentum of our transformation activity so ensuring that we get extended opening hours in the branches that give us the best competitive advantage.

- Increasing the pace and level of our conversation with franchise partners: the information obtained through our retail survey combined with the mandate to exit unviable sub-postmasters, allows us to move our discussions with franchise partners on to a more strategic level as we will have clearer view of the possible opportunities for partnership with them. A strategic and proactive engagement plan is currently being developed.

- Increasing the size of our network: by 2020 we envisage a network of 13,500 access points. This will include our 11,500 post offices and an additional 2,000 access points. We are currently building a view of the possible format and structure of these new 'access' options.

### Industrial relations:

The Post Office industrial relations environment is currently very challenging. The transformation programmes we are currently undertaking combined with the uncertainties around the possibility of mutualisation present challenges for our industrial relations environment. If the current situation

- The current Crown Network dispute is being managed proactively at the most senior level within the organisation. We are continually monitoring the situation and engaging as appropriate to find a constructive way through the dispute. We have established a 'super-briefer' group to engage directly with our people to ensure we have a

COMMERCIAL IN CONFIDENCE

<p>escalates, continues for a prolonged period of time or gets linked into a wider industrial relations dispute around the privatisation of Royal Mail Group, it could have a significant impact on the deliverability of our plan.</p>	<p>direct connection with our people and have our own temperature check on developments. In the meantime, our central teams have been trained so that they can provide support in branch to mitigate the impact of strike action on customers, our partners and the delivery of our strategy.</p> <p>2. We are currently conducting a strategic review of our relationship with the NFSP. The NFSP are keen to work closely with the Post Office on the mutualisation agenda and are looking for Post Office support to enable them to transition to a trade association. Our review is therefore considering how best we build this relationship moving forward, ensuring that we are clear of the role they can play in the future business and the delivery of our strategy.</p>
<p><b>Income growth:</b></p> <p>At the core of our strategy is an imperative to grow our income over the coming years. While historically, we have managed to deliver pockets of growth, this has always been offset by areas of decline to deliver a flat-lined income position. If we do not address this trend over the coming twelve months we are likely to undermine the fundamental commercial viability of our network and our commercial sustainability.</p>	<p>1. We have created a dedicated financial services sales team. We are investing in improving their capability and providing them with the infrastructure they need to perform. We have also changed their reporting line - taking it out of the branch structure and aligning it directly with the financial services commercial team.</p> <p>2. We are improving our customer journeys to remove the current weak points in our sales process. This will reduce the number of 'abandoned' sales journeys and improve our</p>

COMMERCIAL IN CONFIDENCE

	<p>overall conversion rate.</p> <p>3. We are creating a single repository for customer data - accessible and visible by all. This will ensure that we maximise the opportunity for cross selling and upselling products at every customer interaction.</p> <p>4. We are investing in our marketing and advertising to rebuild our brand perception and product awareness. Significant campaigns have been completed over the past twelve months and these will continue throughout the plan period.</p>
<p><b>Management and third party capacity</b></p> <p>The transformation programme set out in this plan is significant in both scale and complexity. We are committed to its delivery but also recognise that this will test the capacity and capability of our organisation and our partners.</p>	<p>1. The Post Office Strategic Programme Management Office and the Transformation Board will continue to monitor progress across our transformation programme and resource with decisions being taken to prioritise activities, strengthen our teams and increase capacity as appropriate.</p>

COMMERCIAL IN CONFIDENCE

## Delivering our strategy – the key opportunities

Key opportunities	Positive action
Identity & assisted digital:  Post Office has invested and is committed to both of the above markets. We see them as a critical part of our future in providing front office of government services. However, each of these markets is relatively immature, with Government still developing their view of their needs. We have made an assessment around the potential value of these markets in our plan however we are aware that these could be more valuable than we have projected.	<ol style="list-style-type: none"> <li>1. Proactive engagement across Government departments: we are continuing to build relationships across many Government departments to ensure they are aware of our capabilities, expertise in these markets. We have established contracts within identity and we need to ensure that where possible these are maximised.</li> <li>2. Designing the possibility of the future: aligned with the above point is the need to create a picture of the possibility of each of these markets. We are therefore investing time in creating a Post Office view of the future market, its needs and possible solutions.</li> </ol>
Collections & returns (including click and collect):  The click and collect market is a new and emerging marketplace. In the plan, we have made assumptions around the scale and scope of the potential volume and income that could be generated in this area. However, there is a possibility that the market could be significantly larger.	<ol style="list-style-type: none"> <li>1. Building a scalable and robust operating model: to access this market, Post Office needs the ability to integrate into retailers' websites so that collection from a post office is presented as an option when ordering online. In addition we need a capacity model that can allow us to understand and map volume at a branch by branch level. These models are under development and are being built in a way that will allow them to scale as is needed.</li> <li>2. Building a market presence: working in partnership with Royal Mail we are developing a retailer proposition that</li> </ol>

COMMERCIAL IN CONFIDENCE

	showcases our joint offer to clients. Conversations are already taken place and a sales pipeline is being developed.
New market opportunities (including energy and broader home services):  At the core of our strategy is an aim to expand our range of services building from Telephony into new market areas. The area which is specifically incorporated within the plan is the development of an energy proposition. The reality is that if Post Office is successful in establishing itself in a home services market, it could open up the opportunity for other new markets for both consumers and small businesses.	<ol style="list-style-type: none"> <li>1. Developing an energy proposition: we are currently exploring the potential to build a Post Office branded energy service. Through this exercise, we will build an approach to new market identification, assessment and development. This will ensure that we continue to learn and develop as we seek to grow our income.</li> </ol>

## Additional information

Additional detail on the core assumptions in our strategy, are included under separate attachment, specifically:

1. Counterfactual workbook

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

## 8. Delivering our vision – supporting your commitments

As we have stated previously, 2010 represented a major milestone in the Post Office's history. Our 2012/15 Strategic Plan to deliver a sustainable and relevant Post Office was approved along with a four year funding promise of £1.34bn. It was also the year that BIS set out its nine commitments to 'Secure the Post Office Network in a Digital Age'. This plan supports and enables every one of these commitments.

BIS Commitment	Post Office action to deliver
We recognise that the Post Office is more than a commercial entity and serves a distinct social purpose	<p>1. We have used this to set the North Star for our strategy and for the day to day operation of our business. "Post Office: a commercial business with a public purpose."</p> <p>2. We have established a Stakeholder Forum that comprises representatives from inside and outside our organisation. They are supporting Post Office in the development of its Public Purpose Statement. This work has been taken out the wider public through an engagement exercise with over 1000 responses. The Stakeholder Forum will make a submission to the Board in December with the Board making a recommendation to BIS for subsequent joint announcement.</p>
We will ensure that post offices remain a valuable social and economic asset for communities and businesses	<p>1. We believe that the Post Office can be a provider of ethical, transparent, value for money services to consumers and small businesses, providing the essential services which make people's lives simpler.</p>

	<p>2. While our initial focus is on financial services and home phone services - we will expand from these areas into markets where we believe there is an opportunity to provide our customers with a better service. We are currently exploring the feasibility of offering mobile phone and energy related services.</p> <p>3. Small businesses are a key target for this plan. We will help to support their growth by developing bespoke products across our portfolio and examine the potential to create small business hubs within our network.</p> <p>4. We will grow our Front Office of Government business, developing our traditional services and looking for new ways to support the delivery of public services, particularly in relation to identity verification and digital by default.</p> <p>5. We will develop the digital post office, ensuring that all our services are also available online and invest in our people to ensure they acquire digital skills.</p>
There will be no programme of post office closures under this Government	<p>1. The principle of no programme of post office closures remains at the core of our network transformation plan. Where a sub postmaster cannot transfer to our new operating models, we will not close that post office or pay any compensation until the new post office opens.</p>

COMMERCIAL IN CONFIDENCE

	<p>2. A key part of this commitment is equipping our sub-postmasters to grow their retail businesses. As part of this strategy, we are investing in resource that will support sub-postmasters in this area - introducing them to possible partners, suppliers and retail ideas. This will be a key part of our future network operation moving forward.</p> <p>3. This strategy, however, goes beyond this principle of no closure and seeks to extend number of access points to post office services. [Update]</p>
<b>The Post Office is not for sale</b>	<p>1. We remain fully committed to Government ownership.</p>
<b>We will provide £1.34bn for the Post Office to modernise the network and to safeguard its future, making it a stronger partner for Royal Mail</b>	<p>1. We are modernising our operating model to make it more relevant to our customers: multiple store formats, self-service options, extended opening hours, and more online services.</p> <p>2. We are making our organisation more commercially sustainable: reducing our reliance on the taxpayer, moving our Crown network to break-even, variabilising our agent costs, removing the current compensation payment model, and reducing our central business costs by around 25%.</p>
<b>We want to see the Post Office become a genuine Front Office for Government at both the national and local level</b>	<p>1. We have had significant success in winning government service contracts.</p> <p>2. We have invested in AEI technology to support</p>

COMMERCIAL IN CONFIDENCE

	<p><b>Government identity initiatives</b></p> <p>3. We have piloted assisted digital capabilities within our Crown pilots</p>
<b>We will support the expansion of accessible and affordable personal financial services available through the Post Office</b>	<p>1. We have, over the past twelve months significantly increased our position in the financial services market.</p> <p>2. We have moved beyond our traditional savings market position, adding mortgage and current account products to our offer.</p> <p>3. We are now building relationships with our customers that are broad and sustainable.</p> <p>4. The successful delivery of this Strategic Plan will establish Post Office as a challenger bank within the UK financial services market.</p>
<b>We will support greater involvement of local authorities in planning and delivering local post office provision</b>	<p>1. We now have over 150 mutualised post offices within our network. These are a clear sign that communities working at a local level can define a role for their post office and secure the financial support needed to make this viable. We will continue to support these initiatives.</p> <p>2. We have over the past twelve months engaged with local authority groups to explore opportunities for Post Office to be a local front office for government. We will continue to progress this initiative where there is clear</p>

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

	<p>commercial appetite.</p> <p>3. Finally, this plan includes a commitment to invest in the ~3000 uneconomic branches within our network which are not capable of operating under one of our existing store formats. Through this plan we will create a Community Post Office fund. We are allocating £20m to this fund and will work in partnerships with sub-postmasters, communities and local authorities to ensure this is invested to protect and grow the role which Post Office plays in supporting rural and urban deprived areas.</p>
We will create the opportunity for a mutually owned Post Office	<p>1. The primary focus of this plan is to create a commercially sustainable Post Office. This is the fundamental building block for enabling the opportunity for mutualisation.</p>

#### Appendix A – Funding milestones and test dates

Milestone	Milestone Test Date	Requirements
1	31 March 2015	<p><i>Network size and scope:</i></p> <ul style="list-style-type: none"> <li>As demonstrated by the then most recent report submitted to the House of Commons library (subject to any updates notified by POL), POL's network continues to number at least 11,500 Branches in accordance with clause 10.1(a) of the Funding Agreement.</li> <li>POL's network continues to meet the access criteria set out in clause 10.1(b) of the Funding Agreement.</li> </ul> <p>Any shortfall caused by Unplanned Closures, which POL can demonstrate it is taking steps to remedy, will be deemed not to be a failure to meet this milestone.</p>
<i>Annual plan:</i>		
<ul style="list-style-type: none"> <li>POL has presented a plan for the Financial Year 2015/16 setting out the steps it will take in respect of the Strategic Plan (or any variation to it, agreed by the Parties where material) during that Financial Year (an "Implementation Plan"). This Implementation Plan will include:           <ul style="list-style-type: none"> <li>POL's annual budget;</li> <li>POL's Crown Network including details of the commercial rationale for the same;</li> <li>POL's Agency Network strategy including details of commercial rationale for the same;</li> <li>Other targets included in POL's commercial plan for the relevant year;</li> <li>POL's mutualisation activity timeline; and</li> <li>A reconciliation of the steps POL took under its Financial Year 2015/16 Implementation Plan back to the Strategic Plan, including a breakdown of changes to the network;</li> </ul> </li> </ul>		
<i>SGEI Statements:</i>		
<ul style="list-style-type: none"> <li>POL has presented the SGEI Statement, the Cumulative SGEI Statement and the SGEI Supporting Statement for the Financial</li> </ul>		

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

Year 2013/14.

Milestone	Milestone Test Date	Requirements
2	31 March 2016	<p><i>Network size and scope:</i></p> <ul style="list-style-type: none"> <li>As demonstrated by the then most recent report submitted to the House of Commons library (subject to any updates notified by POL), POL's network continues to number at least 11,500 Branches in accordance with clause 10.1(a) of the Funding Agreement.</li> <li>POL's network continues to meet the access criteria set out in clause 10.1(b) of the Funding Agreement.</li> </ul> <p>Any shortfall caused by Unplanned Closures, which POL can demonstrate it is taking steps to remedy, will be deemed not to be a failure to meet this milestone.</p>
<i>Annual plan:</i>		
<ul style="list-style-type: none"> <li>POL has presented a plan for the Financial Year 2016/17 setting out the steps it will take in, respect of the Strategic Plan (or any variation to it, agreed by the Parties where material) during that Financial Year (an "Implementation Plan"). This Implementation Plan will include:           <ul style="list-style-type: none"> <li>POL's annual budget;</li> <li>POL's Crown Network including details of the commercial rationale for the same;</li> <li>POL's Agency Network strategy including details of commercial rationale for the same;</li> <li>Other targets included in POL's commercial plan for the relevant year;</li> <li>POL's mutualisation activity timeline; and</li> <li>A reconciliation of the steps POL took under its Financial Year 2016/17 Implementation Plan back to the Strategic Plan, including a breakdown of changes to the network;</li> </ul> </li> </ul>		
<i>SGEI Statements:</i>		
<ul style="list-style-type: none"> <li>POL has presented the SGEI Statement, the Cumulative SGEI Statement and the SGEI Supporting Statement for the Financial Year 2014/15.</li> </ul>		

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

Milestone	Milestone Test Date	Requirements
3	31 March 2017	<p><i>Network size and scope:</i></p> <ul style="list-style-type: none"> <li>As demonstrated by the then most recent report submitted to the House of Commons library (subject to any updates notified by POL), POL's network continues to number at least 11,500 Branches in accordance with clause 10.1(a) of the Funding Agreement.</li> <li>POL's network continues to meet the access criteria set out in clause 10.1(b) of the Funding Agreement.</li> </ul> <p>Any shortfall caused by Unplanned Closures, which POL can demonstrate it is taking steps to remedy, will be deemed not to be a failure to meet this milestone.</p> <p><i>Annual plan:</i></p> <ul style="list-style-type: none"> <li>POL has presented a plan for the Financial Year 2017/18 setting out the steps it will take in respect of the Strategic Plan (or any variation to it, agreed by the Parties where material) during that Financial Year (an "Implementation Plan"). This Implementation Plan will include: <ul style="list-style-type: none"> <li>POL's annual budget;</li> <li>POL's Crown Network including details of the commercial rationale for the same;</li> <li>POL's Agency Network strategy including details of commercial rationale for the same;</li> <li>Other targets included in POL's commercial plan for the relevant year;</li> <li>POL's mutualisation activity timeline; and</li> <li>A reconciliation of the steps POL took under its Financial Year 2017/18 Implementation Plan back to the Strategic Plan, including a breakdown of changes to the network;</li> </ul> </li> </ul> <p><i>SGEI Statements:</i></p> <ul style="list-style-type: none"> <li>POL has presented the SGEI Statement, the Cumulative SGEI Statement and the SGEI Supporting Statement for the Financial Year 2015/16.</li> </ul>

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

### Appendix B – Operational milestones

Alongside the Funding Milestones set out in Appendix A which are used to trigger funding payments from Government to Post Office, are a range of operational milestones. These milestones relate to two specific areas: mutualisation and network transformation. In monitoring Post Office's progress in delivering against the Strategic Plan and these milestones, BIS may request information both on a routine and ad hoc basis. BIS will ensure that information requests are not onerous and Post Office will make use reasonable endeavours to satisfy all information requests.

#### Mutualisation

In relation to mutualisation, the key milestones are as follows:

Milestone type	Activity	Milestone
Public Purpose	Launch of Stakeholder Forum	Q3 FY12/13
Engagement	Independent review of Post Office culture	Q4 FY12/13
Engagement	Super-briefers into Crown Network	Q1 FY13/14 on-going
Engagement	Board agree to establish Post Office Advisory Council	Q1 FY13/14
Engagement	Post Office and NFSP engagement on Strategic Plan	Q2 FY13/14 on-going
Engagement	Development of sub-postmaster engagement survey	Q2 FY13/14
Engagement	Launch of WOW magazine	Q2 FY13/14
Engagement	Sub-postmaster engagement survey launched	Q3 FY13/14 on-going
Engagement	First Post Office Business User Forum created	Q3 FY13/14 on-going
Engagement	Post Office and NFSP engagement on future of NFSP	Q4 FY13/14 on-going
Engagement	Announce and recruit Post Office Advisory Council	Q4 FY13/14
Engagement	Super-briefers into agency network (if viable)	Q4 FY13/14
Public Purpose	Stakeholder Forum submits findings to Board	Q4 FY13/14
Public Purpose	Post Office Board recommends Public Purpose to BIS	Q4 FY13/14
Public Purpose	Post Office and BIS announce Public Purpose	Q1 FY14/15
Engagement	Creation of NFSP & Post Office	Q1 FY14/15

	communications forum	
Engagement	First meeting of Post Office Advisory Council	Q1 FY14/15 on-going
Engagement	Cross stakeholder culture working group	Q1 FY14/15 on-going
Commercial	Crown network achieves breakeven	Q4 FY15
Commercial	Post Office achieves breakeven at EBITDAS	FY 15/16
Commercial	Post Office achieves positive cash-flow	FY 16/17
Commercial	Post Office achieves commercial sustainability	FY 18/19
Commercial	Post Office reduces NSP to £50m	FY 19/20

Post Office is committed to this mutualisation programme and where possible we will accelerate the activities that are set out above. However, in relation to engagement activity any change to the plan will be cognisant of our partners. The objective here unlike our other programmes is not to finishing first but to finish together. Patterns of behaviour and ways of working have been developed over many years and to truly change these will take time.

In 2010, Government set out its commitments to create the opportunity for a mutually owned Post Office with an ambition to make progress by the end of its term in Government. As the table above shows, by 2015, significant steps will have been taken:

- Public Purpose: the Post Office will have a Public Purpose statement that has been developed in partnership with its stakeholders and with the input of over 1,000 people including consumers, small businesses, sub-postmasters and employees.
- Post Office Advisory Council: a Council of around 20 people from within and outside the Post Office will have been formed and operational. This body will have the opportunity to be involved in key business areas and have direct access into the Post Office Board, through its Chairman who is one of our Non-Executive Directors.
- NFSP: a new long term commitment to the NFSP will be in place. This will be a joint agreement to work together to evolve the NFSP so that it has the skills, expertise and resource that are needed to support our sub-postmaster community regardless of whether they are independent business people or large multiple organisations.
- Engagement with our people: our people whether they are employees or sub-postmasters will be playing a greater role in

## COMMERCIAL IN CONFIDENCE

our business and we will have a better understanding of their issues. Business user forums, engagement surveys, magazines, and super-briefers will have been in place for over a year and will be delivering tangible results.

- Commercial sustainability: the final deliverable will of course be the steps we have taken towards commercial sustainability. Our Crown Network will be at breakeven and we will be on track to achieve breakeven at EBITDAS level the following year.

## Network transformation

The change in network transformation approach requires us to revisit the targets that have been set for this programme. At this stage the new approach has not been announced and we have not yet received the results of the sub-postmaster retail survey. In that context, we provide our latest assessment of the likely outcomes in terms of both contract signature and branch openings. As you will see these are presented as a range. Our funding requirement has been profiled using the mid-point of the range.

## Branch signatures

		Worst case								
		up to 2012/13	2013/14	2014/15	Sep-15	2015/16	2016/17	2017/18	2018/19	2019/20
Cumulative	Locals	495	1,099	1,971	2,650	3,202	4,564	4,800	4,800	4,800
Cumulative	Mains	939	1,501	1,778	2,000	2,080	3,334	3,500	3,500	3,500
Total		1,433	2,599	3,749	4,650	5,282	7,899	8,300	8,300	8,300

		Best case								
		up to 2012/13	2013/14	2014/15	Sep-15	2015/16	2016/17	2017/18	2018/19	2019/20
Cumulative	Locals	495	1,103	2,284	3,100	3,403	4,564	4,800	4,800	4,800
Cumulative	Mains	939	1,583	2,085	2,400	2,575	3,449	3,500	3,500	3,500
Total		1,433	2,686	4,369	5,500	5,978	8,013	8,300	8,300	8,300

## Branch openings

		Worst case								
		up to 2012/13	2013/14	2014/15	Sep-15	2015/16	2016/17	2017/18	2018/19	2019/20
Cumulative	Locals	329	631	1,299	1,900	2,534	3,640	4,535	4,800	4,800
Cumulative	Mains	178	1,074	1,627	1,800	1,918	2,484	3,319	3,500	3,500
Total		507	1,705	2,926	3,703	4,452	6,124	7,854	8,300	8,300

		Best case								
		up to 2012/13	2013/14	2014/15	Sep-15	2015/16	2016/17	2017/18	2018/19	2019/20
Cumulative	Locals	329	673	1,540	2,400	3,053	3,802	4,557	4,800	4,800
Cumulative	Mains	178	1,109	1,809	2,150	2,348	2,881	3,338	3,500	3,500
Total		507	1,782	3,348	4,550	5,400	6,683	7,895	8,300	8,300

As highlighted above, these numbers are indicative. They will be updated by end of January 2014 when sub-postmaster reaction to the announcement of the new approach is better understood. In February

## COMMERCIAL IN CONFIDENCE

2014, Post Office and BIS will then use the sub-postmaster retail survey to further refine this analysis and agree an appropriate target regime for the programme.

As highlighted previously, given the importance of this transformation to our market competitiveness, our ability to serve our clients and customers and our journey to commercial sustainability, we will take action should there be a shortfall against this projection or the benefits accruing from the broader programme. In that context, we will complete a formal review of the programme in September 2015. At that stage, we will decide on any adjustments that need to be introduced - this could include amongst other changes amendments to investments made in branches, changes to compensation levels and alterations to the Core Tier Payment. Both the NFSP and Government understand the need for this action should the shortfall arise.

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