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POST OFFICE LTD BOARD MEETING (Company Number 2154540)**Meeting to be held at 9am on 28 January 2015
in the Boardroom at 148 Old Street, London EC1V 9HQ**

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

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

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|-------|----|---|-------------|
| 16.15 | 15 | Change of Registered Office | Alwen Lyons |
| 16.20 | 16 | <u>Items for Noting</u> <ul style="list-style-type: none">• IA Audit Action Status Report Summary• Significant Litigation Report• Health and Safety Report• Sealings | Alwen Lyons |
| 16.25 | 17 | Any other business | Alwen Lyons |
| 16.30 | | CLOSE - Date of next meeting: 25 March 2015 at Finsbury Dials, preceded by a NED breakfast. | |

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POST OFFICE LTD BOARD

Change of Directors

1. Purpose

The purpose of this paper is to:

- 1.1 seek approval for the appointment of Alisdair Cameron, CFO, as a Director of Post Office Limited (the Company) with immediate effect; and
- 1.2 ask the Board to note that Chris Day will cease to be a Director of the Company with immediate effect.

2. Proposal

- 2.1 Alisdair Cameron joined the Business on 5 January 2015 as the new CFO and it is proposed that Alisdair is appointed to the Board of the Company.

3. Recommendations

The Board is asked to:

- 3.1 approve the appointment of Alisdair Cameron with immediate effect;
- 3.2 note that Chris Day will cease to be a Director with immediate effect; and
- 3.3 authorise the Company Secretary to make all necessary filings with Companies House.

Alwen Lyons
20 January 2015

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CEO's Report – January 2015

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

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

Key issues for discussion at this Board:

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

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

- We will then be discussing a draft **risk appetite statement** for the business. The statement is an integral part of work to develop our risk management capability to become compliant with the risk elements of the UK Corporate Governance Code by the end of this financial year. The various statements attempt to capture our risk tolerances across a range of dimensions and have been refined following very helpful discussions at both the ExCo and ARC. Work is now in hand to embed the statement into business decision making. The ARC approved the statement for discussion and formal adoption by the Board. If adopted, it is proposed that the Board review the statement bi-annually in the first year, and subsequently on an annual basis.

IRRELEVANT

2. Commercial and business performance overview

Overall performance

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

Mails focus

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

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

FS focus

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

Telecoms focus

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

3. Other issues and updates

IRRELEVANT

STRICTLY CONFIDENTIAL**Office move to Finsbury Dials**

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

IRRELEVANT

Sparrow

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

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

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

4. Update on key change programmes

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

- Crown Transformation Programme
- Network Transformation Programme
- 'Win in Mails'
- Business Transformation
- IT Transformation

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

e) **Separation**

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

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

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

Key milestones ahead:

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

g) **People & Engagement**

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

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

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

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

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

Key milestones ahead:

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

h) Titan

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

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

Key milestones ahead:

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

i) Hawk

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

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

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

IRRELEVANT

k) Financial Services Sales Effectiveness

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

Detailed KPIs are being developed.

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

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5. Market, political and external developments

- **Retail – Christmas Trading Reports.** In 2014 customers spent £104bn on e-retail, a 14% growth on the previous year. During the Christmas Trading period (2/11 - 27/12) customers spent £21.6bn, an increase of 13% on last year. These rates of growth are being translated into the Home Shopping Returns market which has grown by c8% on last year. Online e-retail now accounts for 24% of retail sales and next year is expected to grow by 12% to £116bn. However, within these numbers are some interesting emerging trends.
 - Whilst the overall Christmas performance is in line with expectation, December trading was only 5% up on last year. This is being linked to the rise of Black Friday which saw 17% of Christmas sales happen in the w/c 23 November, with an estimated £810m being spent on Black Friday (alone the biggest ever day for on line sales).
 - Sales via smartphones and tablet devices recorded a 55% growth on the same period in 2013. £8bn was spent via mobiles this Christmas, compared to £5.1bn last year. 37% of online sales are now made on a mobile device; an estimated 8.9% of total retail sales.
- **City Link entered administration.** The parcel delivery firm entered administration on Christmas Eve. Administrator Hunter Kelly, of Ernst and Young, said, "City Link Limited has incurred substantial losses over several years. These losses reflect a combination of intense competition in the sector, changing customer and parcel recipient preferences, and difficulties for the company in reducing its cost base."
- **BT signals intent for mobile market with exclusive negotiations to buy EE.** BT has decided to pursue negotiations to buy EE for £12.5bn. The sale of the acquisition has raised concerns about the potential control BT will have of Britain's airwaves. Barclay's analysts estimated synergies would be worth £5bn. It is thought BT will use Wi-Fi hotspots, new miniature masts and whole sale deals to use the EE 4G network to undercut rival mobile operators. BT sees negotiations to buy EE as an accelerator for its ambitions in the mobile market and ultimately its quad-play offering.

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

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

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POST OFFICE LTD BOARD

2014-15 Financial Performance and Scorecard

1. Purpose

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

- 1.1. the financial performance in December 2014 and YTD;
- 1.2. the expected financial outcome for 2014-15; and
- 1.3. the expected outcome on the performance scorecard.

2. Results

- 2.1. The performance for December 2014 and YTD and the implications for the full year outturn are set out in the attached slide deck. In addition, the standard performance reporting pack is attached, with the usual appendix available in the Reading Room.
- 2.2. In summary, income continued below budget for December 2014. However, income was slightly ahead of the prior year, including in Mails. Improved cost focus started to deliver benefits and the YTD profit shortfall to plan narrowed from £18m at the end of Quarter 2 to £13m. The business is on track to deliver run rate cost reductions of £60m by the year-end.
- 2.3. The full year profit forecast has increased from £85m to £95m and the business is seeking to recover to £99m during Q4, hitting plan. In addition to delivering the core trading result, this requires the business to deliver a number of one-off items, including the DWP signature on POCA. This has been challenged by Paypoint and the impact if the contract is not signed is estimated at £9.8m per annum for 2014-15 and 2015-16.

3. Recommendations

The Board is asked to:

- 3.1. note the performance and improved full year forecast; and
- 3.2. note that there are a number of key dependencies for this to be achieved.

Alisdair Cameron
January 2015



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

Alisdair Cameron
28 January 2015



Executive Summary

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



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

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

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

Net Income 2014-15 £m

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



Financial Services had another difficult month on income

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

- Payment Services adverse: Gift vouchers down £700k (£400k under-booked in Dec)
 - PFS-Lending (Mortgages and credit cards) behind on sales
 - Travel Insurance – AON cost increase catch up £1m impact (expect to move to costs)
- Offset by
- MoneyGram – highest sales on record
 - NS&I amended contract limit favourable
- Underlying c£1m off plan in December

Net Income 2014-15 £m

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



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

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

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

Net Income 2014-15 £m

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

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



December's costs benefited from focus and lower trading

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

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



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

£m	Q1			Q2			Q3			Year 1	
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Bu
TOTAL GROSS INCOME	240.0	244.0	(3.9)	235.9	255.3	(19.4)	247.5	269.0	(21.5)	723.4	76
Cost of Sales	(26.1)	(25.9)	(0.2)	(27.6)	(26.4)	(1.2)	(26.8)	(27.2)	0.4	(80.5)	(7
TOTAL NET INCOME	213.9	218.1	(4.2)	208.3	228.9	(20.6)	220.7	241.7	(21.1)	642.9	68
Staff Costs	(63.4)	(61.9)	(1.5)	(60.5)	(60.6)	0.1	(58.0)	(58.0)	0.0	(181.9)	(18
Subpostmaster Costs	(113.2)	(117.1)	3.9	(107.5)	(124.0)	16.5	(111.4)	(131.6)	20.2	(332.2)	(37
Non-Staff Costs	(73.8)	(70.8)	(3.0)	(72.0)	(63.8)	(8.2)	(64.1)	(71.1)	7.0	(209.8)	(20
Depreciation	(0.1)	(0.2)	0.0	(0.1)	(0.2)	0.0	(0.1)	(0.2)	0.0	(0.4)	(0
Total Expenditure (pre P00C)	(250.6)	(250.0)	(0.5)	(240.1)	(248.6)	8.5	(233.6)	(260.9)	27.3	(724.3)	(75
FRES - Share Of Operating Prof	9.9	10.0	(0.1)	13.9	13.6	0.3	6.1	5.7	0.4	29.9	2
EBIT - BAU	(26.7)	(22.0)	(4.8)	(18.0)	(6.2)	(11.8)	(6.8)	(13.5)	6.6	(51.5)	(4
One off Project costs (P00C)	(6.6)	(4.4)	(2.2)	(5.2)	(5.4)	0.2	(5.1)	(3.9)	(1.3)	(16.9)	(1
EBIT - Post Project Costs	(33.4)	(26.4)	(7.0)	(23.1)	(11.6)	(11.6)	(12.0)	(17.3)	5.4	(68.5)	(5
Network Payment	40.0	40.0	0.0	40.0	40.0	0.0	40.0	40.0	(0.0)	120.0	12
EBIT pre exceptionals items	6.6	13.6	(7.0)	16.9	28.4	(11.6)	28.0	22.7	5.4	51.5	64



Overall YTD performance is still behind budget PY

£m	Year to Date			Prior Year YTD	
	Actual	Budget	Variance	Actual	Variance
TOTAL GROSS INCOME	723.4	768.3	(44.9)	735.2	(11.8)
Cost of Sales	(80.5)	(79.6)	(1.0)	(85.2)	4.6
TOTAL NET INCOME	642.9	688.7	(45.8)	650.0	(7.2)
Staff Costs	(181.9)	(180.6)	(1.3)	(193.6)	11.7
Subpostmaster Costs	(332.2)	(372.8)	40.6	(337.3)	5.1
Non-Staff Costs	(209.8)	(205.7)	(4.1)	(189.6)	(20.2)
Depreciation	(0.4)	(0.5)	0.1	(0.3)	(0.1)
Total Expenditure (pre P00C)	(724.3)	(759.6)	35.3	(720.9)	(3.4)
One off Project costs (P00C)	(16.9)	(13.7)	(3.3)	(21.3)	4.4
EBIT - Post Project Costs	(68.5)	(55.3)	(13.2)	(63.9)	(4.6)
Network Payment	120.0	120.0	(0.0)	150.0	(30.0)
EBIT pre exceptionals items	51.5	64.7	(13.2)	86.1	(34.6)
EBITDAS	(68.1)	(54.8)	(13.3)	(63.6)	(4.5)



The scorecard continues to show a mixed picture

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



2014-15 profit forecast has improved close to plan

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

Q2 to Q3 forecast changes:

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



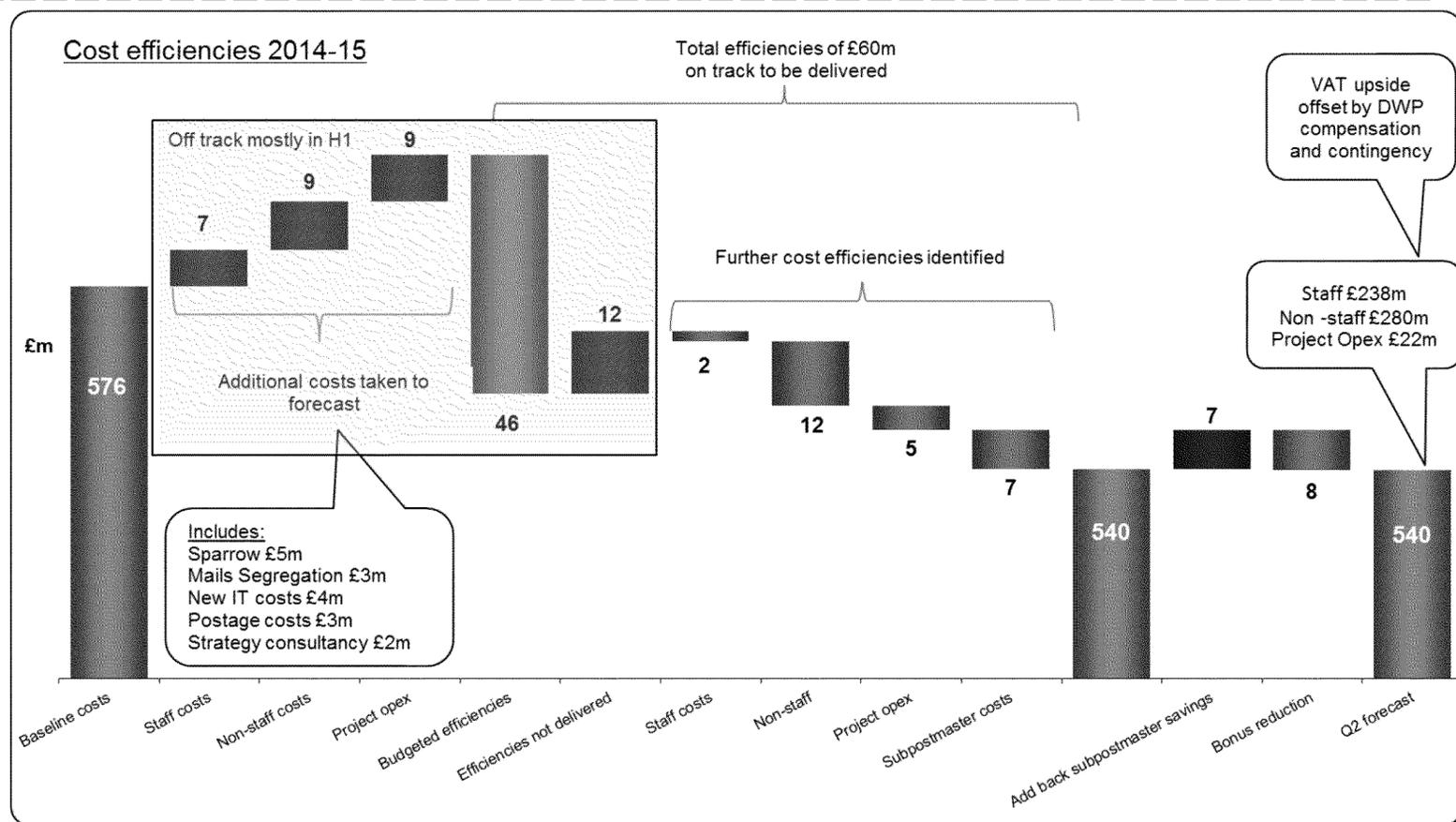
However, we have to deliver significant income in Q4

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

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



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





In addition, there are significant risks and some opportunities

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



We could therefore end up in a variety of outcomes

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



All scenarios show progress year on year for EBITDAS

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



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

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



Our focus is clear

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

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POST OFFICE LIMITED

Performance Report

December 2014

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Headlines

December 2014

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Headlines

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

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

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

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

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

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

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

CFO Forecast

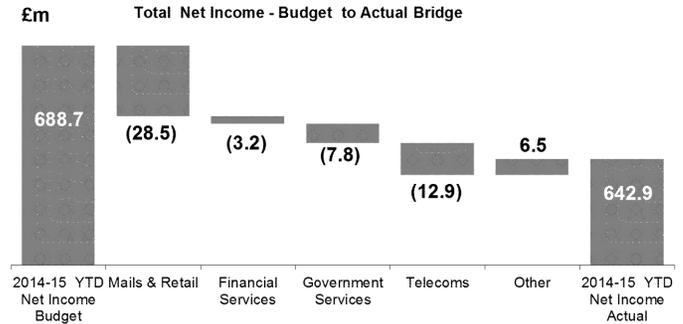
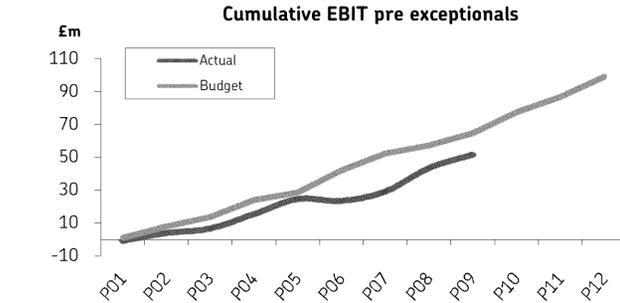
The Q3 forecast shows an improvement of £10m since Q2 to £95m (EBITDAS loss of £65m). This is driven by the anticipated new POCA contract and some further cost savings offset by further reductions in Mails revenue and a £2m reduction in FS revenue.

Crown Profit

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

Network Transformation

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



Financials

Total Net Income (excl NSP) £m (Bonus 20%)
Operating profit £m (Bonus 25%)
Free cashflow £m
Crown Profit (Loss) £m (Bonus 12.5%)

Non Financials

Queue time % < 5 minutes - Top 1k branches
NT Branches Transformed In Year (Bonus 12.5%)

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

Profit & Loss Statement

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December 2014

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

Period vs. Budget

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

BAU was £1.4m favourable:

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

Offset by:

- Lower net income of £5.9m due primarily to lower Mails, FS and Telecoms income.

- Higher non staff costs of £2.0m, driven primarily by higher marketing costs.

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

Below EBIT

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

YTD vs. Budget

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

BAU was £9.9m adverse:

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

Offset by:

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

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

Below EBIT

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

YTD vs. Prior Year

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

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

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

Offset by:

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

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

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

Below EBIT

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

CFO High Level Profit Outlook At Period 9
December 2014

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

Crown Profit & Loss Statement

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November 2014

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

Summary

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

Line by Line variances are as follows:

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

Costs:

- Costs are £2.6m higher than plan.
- Staff costs £2.0m adverse primarily due to timing of the roll out of Franchising and the impact of the pay review settlement where associated efficiencies are on going, this is partially offset by Crown branches vacancies, including Financial and Mortgage specialist.
 - Other branch costs are on target.
 - Property costs £0.1m adverse due to the delayed savings for the new Facilities Management contract which started in October.
 - Central Costs are £0.3m adverse due to a provision for client compensation, impact of centrally held savings not being achieved, accrual for Mails Segregation penalty and higher postage cost, partially offset by improved VAT recovery rates.

Cost Management update December 2014

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Progress since P8 update

Value and confidence

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

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

Delivery and governance

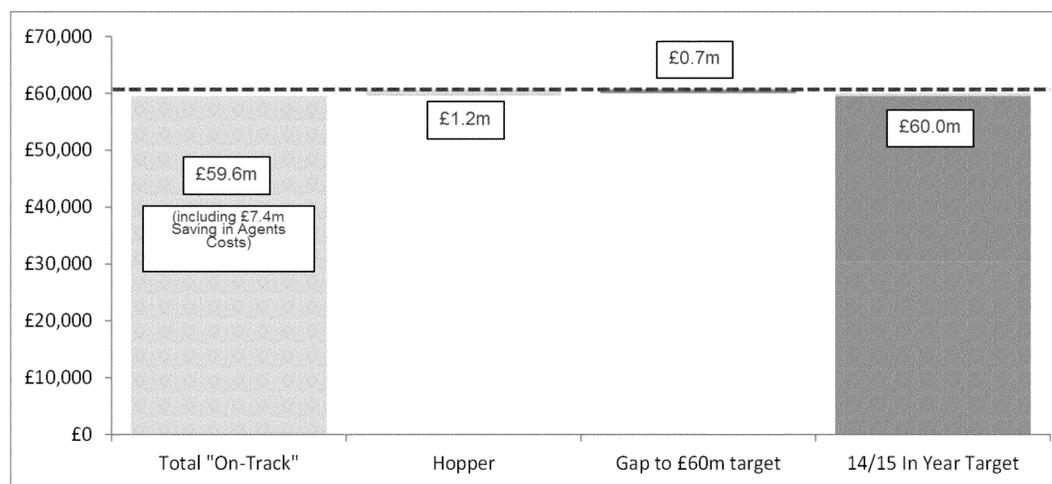
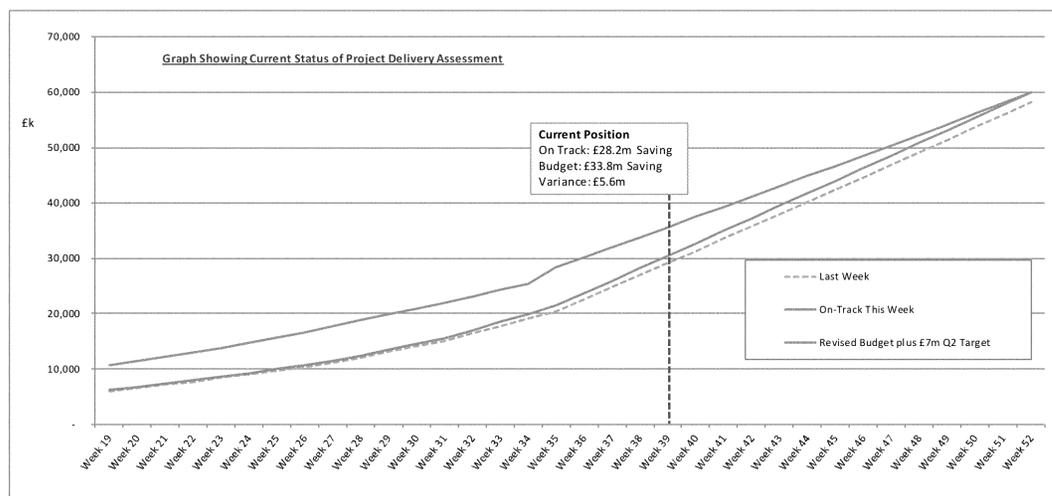
Regular 121 meetings continue to drive focus on in-year cost management opportunities and delivery of existing initiatives. The weekly CRG reviews business wide opportunities and potential acceleration of the 2015/16 BTP benefits into 2014/15. Work continues to ensure benefits are built into operational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

Strategic initiatives for FY15/16 and beyond

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

Work is ongoing to:

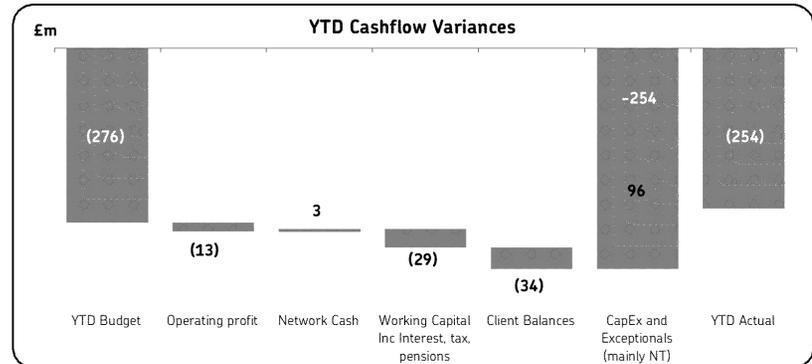
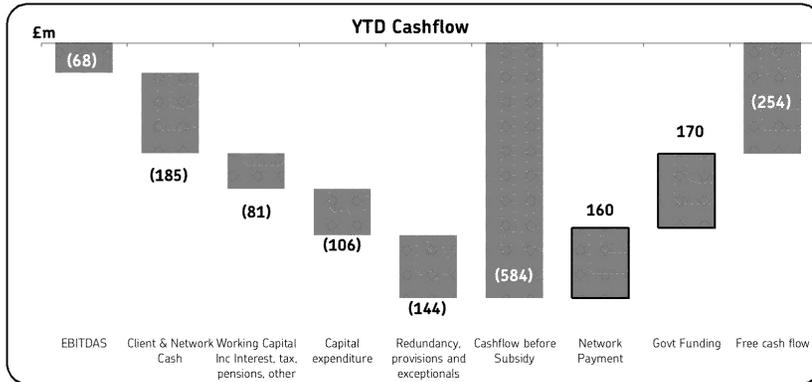
- 1) Identify a portfolio of incremental cost saving opportunities to achieve the £60m in-year improvement target placing all the cost saving initiatives under the scrutiny of the programme to ensure the expected improvement has the requisite effect on the 2014/15 EBITDAS outturn.
- 2) Ensure the benefits from these opportunities are sustainable in order to meet 2015/16 EBITDAS targets, moving towards £100m of sustainable run-rate saving by March 2016.
- 3) Deliver the target operating model that will ensure the cost efficiency targets for the programme (to 2019/20) are realised.



Cashflow Analysis

December 2014

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Cashflow

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

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

The favourable variance is mainly due to:

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

Offset by:

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

Network Cash

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

	Opening	P9
Headroom (£m)	854	677

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

Business Scorecard

December 2014

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

Bonus worthy metrics

* ITDA Interest, Tax, Depreciation, Amortisation.

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

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

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

^ Target is the year end exit rate.

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

Network Transformation Scorecard - Mains

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December 2014

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

		Current Month %			Ave £'s per branch	
Key Performance Indicators		Actual	Control Group	Var	Var	Actual Sample Size
POL	Finance Approved Investment per Mains £000	(42)	(42)	0	0	
	Total Income: Post vs Pre Conversion					
	Branches live 6-12 months	5%	(2)%	7%	490	420
	Branches live 12-24 months	4%	(2)%	6%	493	771
Agent	Agents Remuneration: Post vs Pre Conversion					
	Branches live 6-12 months	4%	(2)%	6%	293	420
	Branches live 12-24 months	3%	(5)%	8%	459	771
	Customer Sessions					
	Branches live 6-12 months	(1)%	(4)%	4%		420
	Branches live 12-24 months	(1)%	(6)%	5%		771
	Operator Feedback on Retail Sales Performance	7%				155
Operator Satisfaction	81%				73	
		Actual	Target	Var		Actual Sample Size
Customer	Average Increase in Opening Hours	44%	20%	24%		1,550
	Customer Satisfaction	98%	90%	8%		30
	Queuing Times	1m 18s	< 5 mins	3m 42s		179

Mains

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

The following products are performing particularly well:

- Travel insurance
- Cash withdrawals
- Growth bonds
- Insurance products

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

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

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

Network Transformation Scorecard - Locals

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

Key Performance Indicators	Current Month %			Ave £'s per branch	Actual Sample Size	
	Actual	Control Group	Var	Var		
LOCALS						
POL	Finance Approved Investment per Local £000	(11)	(11)	0	0	
	Total Net Impact: Post vs Pre Conversion					
	Branches live 6-12 months					
	Income	(6)%	(8)%	2%	39	318
	Actual Fixed pay savings				836	
	Actual Net impact				875	
	Branches live 12-24 months					
Agent	Income	(7)%	(8)%	2%	42	228
	Actual Fixed pay savings				922	
	Actual Net impact				964	
Customer	Customer Sessions					
	Branches live 6-12 months	7%	(4)%	11%		318
	Branches live 12-24 months	8%	(5)%	12%		228
	Operator Feedback on Retail Sales Performance	16%				52
Customer	Operator Satisfaction	75%				57
		Actual	Target	Var		Actual Sample Size
	Average Increase in Opening Hours	108%	80%	28%		1107
Customer	Customer Satisfaction	95%	90%	5%		30
	Queuing Times	67s	< 5 mins	3m 53s		232

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

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

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

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

- POL**
- Products such as bill payments, etop ups, cash withdrawals and moneygram have delivered growth for these branches - with associated footfall. This has been offset in income terms by poorer performance on more complicated products.
 - Fixed pay has been reduced to zero for all converted branches, in line with the strategic plan.
 - On average Lottery income has reduced by c. £60k p.a in these branches. Corrective action on how we minimise future risk is now being looked at, principally by improving the sales messages and focus of the FCA's when signing up the retailer as well as the regional managers focussing on these messages for those already converted
- Agent**
- Customer sessions indicate that retailers are benefiting from greater footfall that should support their retail growth.
 - The footfall is delivering quicker but lower value Post Office sales which in turn should allow the retailer to utilise their staff in different ways or reduce their staff costs.
- Customer**
- Customer Satisfaction, extended opening hours and queue times all remain positive.

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POST OFFICE LTD BOARD

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

1. Purpose

The purpose of these papers is to:

- 1.1 update the Board on the preparation of the 2015-16 annual Operating Plan;
- 1.2 set out the proposed approach to the three year plan and provide an interim update on our latest financial projections through to 2017/18.

2. Background

- 2.1. The plan for 2015-16 is in development. A pack setting out the plan detail will be circulated to the Board in February. Board members will be offered individual review sessions prior to formal Board approval in March, both of the plan and the associated performance scorecard.
- 2.2. At the meeting in March the Board will also be asked to review the first Three Year Plan for the Post Office.

3. Budget - progress update

- 3.1. The attached slides set out the current financial expectations for 2015-16 relating to income, costs and cashflow, flagging some key questions on the performance scorecard. The deck sets out progress in improving the profitability of POL, the impact of the ongoing focus on costs and the challenges, risks and opportunities in the recommended outcomes.
- 3.2. The Executive Committee is recommending an EBITDAS target of (£35m), delivering a year on year improvement of £30m to match the reduction in Network Subsidy Payment. This requires savings in line with the Business Transformation Programme, some of which are currently unallocated and some allocated but ungrounded.
- 3.3. Further reviews of income, costs, capex and exceptional items are scheduled with the CFO in the next 2-3 weeks. In addition, the Executive Committee will finalise a recommended performance scorecard and bonus targets for 2015-16

4. Recommendations

The Board is asked to comment on:

- 4.1. the proposed financial shape and risk profile of 2015-16;
- 4.2. the questions relating to the 2015-16 scorecard; and
- 4.3. the proposed approach to the Three Year Plan set out in the slides.

Alisdair Cameron
January 2015



2015-16 Plan Early Sight

Alisdair Cameron
28th January 2015



Purpose

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

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



The plans assume fairly flat Mails revenue in 2015-16

Net Income (£m)

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



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

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

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



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

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

Government Services

£11m reduction in DVLA - removal of paper disc, shift to Direct Debit and reduced fees per transaction
£10m reduction in POCA - reduced customer numbers and lower commission on the balances
Partly offset by growth in Passports and Identity work

Telecoms

£6m flowthrough from 14-15 price rise
£2m for 15-16 price rise
Offset by £2m for continued ARPU erosion

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



The cost base is being repeatedly challenged

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



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

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

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



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

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



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

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

Network

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

Financial Services & POMS

Includes increased marketing and sales force licences.

Commercial

£3m travel insurance marketing now within POMS.



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

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

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



... delivering strong year on year progress in EBITDAS

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

... albeit behind the Strategic Plan



Current plans show net risk of £15m

<u>Risks</u>	£m	<u>Opportunities</u>	£m
Annual Count – November 2014 count suggests £8m risk - TBC	8.0	Project Ultra (acceleration and additional)	10.0
Hawk (pro-rata if delayed)	8.0	Purchase of EE “Life Mobile Base” (MVNO)	6.0
Telecoms churn increases due to lack of investment (placeholder)	5.0	Additional 'Town Hall' savings	4.0
IdA income does not materialise	5.0	Bonuses budgeted at 100% achievement	4.0
Fujitsu risk to IT Plan	5.0	Other	16.7
Subpostmasters pay challenge to be underpinned	4.7	Postpone/stop mobile	tbc
NS&I renewal	4.2	Wave 3 staff cost savings	tbc
Other	16.2		
Sparrow costs	tbc		
Total	56.1	Total	40.7

... creates a focus on landing the opportunities



The early view of cash flow is within the funding envelope

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

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



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

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

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



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

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



Three year operating plan: proposed approach and interim update



Objectives for the 3 year operating plan

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



Proposed format and contents

- i. **Updated P&L, investment and balance sheet projections for the next three years** (with the first year aligned with the annual budget), taking into account the latest market and trading data, the impact of the Business Transformation initiatives and the other strategy work underway.
- ii. **A log of the material risks and opportunities to these projections**, which should be quantified as far as possible to enable us to understand the range of potential financial outcomes and to plan accordingly. As part of this we will identify which products/business lines have been included in our base case projections and what options are being held on a reserve list pending further exploration (with a clear timetable set for reviewing them).
- iii. **A 3 year balanced scorecard** – identifying the financial, channel, people and customer metrics that define the organisation we expect to build over the next three years, enabling us to track progress along the way.
- iv. **Our overarching milestones plan** – identifying the key steps we will be taking to transform the organisation.
- v. **A concise narrative overview of our overall 3 year strategy** – including a description of the key transition states as we move towards our target end state design and what this means in terms of customers, channels and products.

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



Key principles for testing the plan

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



Interim update on the financial projections

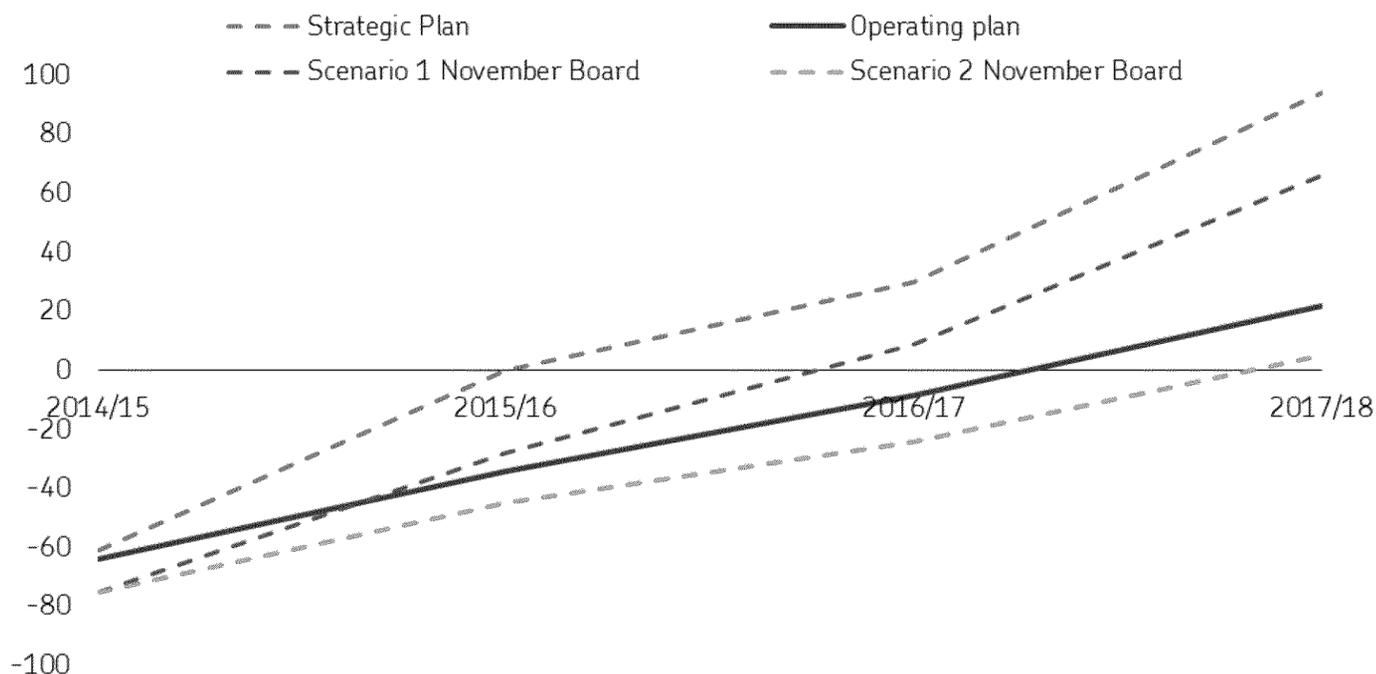
Key points:

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

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



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



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



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

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

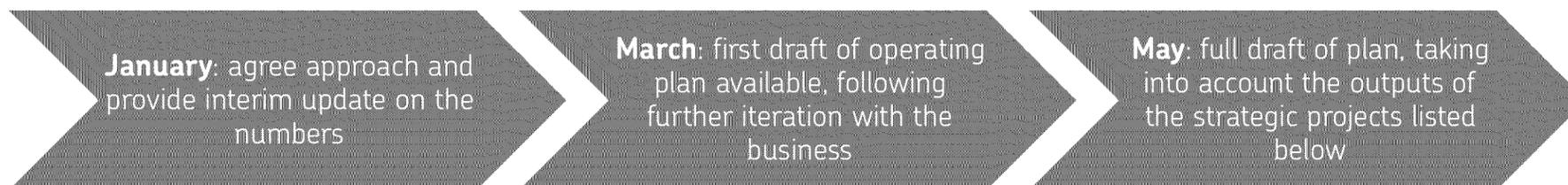
Key actions underway to improve balance sheet position:

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

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



Next steps for progressing the operating plan



Strategic projects underway which will inform the operating plan:

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

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

Strictly Confidential**POST OFFICE LTD EXECUTIVE COMMITTEE****Transformation Programme Update****1. Purpose**

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

- 1.1 Summarise any changes to the 'end state' design, since it was first outlined at the September Board meeting
- 1.2 Highlight any investment decisions the Board is being asked to make in January
- 1.3 Assess the potential to accelerate the BPO of relevant central support functions
- 1.4 Extrapolate year on year cost savings, by function, based upon the current plan before any uplift in cost to support business growth assumptions
- 1.5 Provide an update on Transformation governance and specifically who is taking the lead on which aspects of the overall Transformation Programme

The latest position on each action is summarised below:

'End State Design'

- 1.6 There have been no changes to the 'end-state' design presented to the Board in November. However a number of initiatives are being progressed within specific Transformation themes in Q4 2014/15 to validate aspects of the overall design. They are summarised below:
 - **Reduce Central Costs** – Consideration of the merits of accelerating the plan to BPO central support functions aligned with a review of IT Transformation proposal to outsource back office applications [BOAT]. A verbal update on progress will be provided to the Board at the January meeting.
 - **Win in Mails / Commercial Strategy** - A review of our overall mails strategy and the potential 'Plan B' alternatives to the current partner arrangements, which will be discussed with the ExCo in February and with the Board in May.
 - **Reduce and Variabilise Network Costs** - The development of an updated strategy for the Crowns beyond the end of this financial year, covering the opportunities across both cost and income to help maintain a positive operating margin for the network, which will be discussed with the ExCo and Board in March.
 - **Grow FS** - An initiative being led by the FS team to explore the opportunities for expanding our partner and business banking service. Alongside the additional income this could generate, we will need to assess the cost implications for the supply chain business, and compare the net EBITDAS impact against the alternative options for reducing demand on cash services.
 - **Win in Mails / Commercial Strategy** - Further work to develop a full business case for our digital strategy, which will articulate in more detail our annual targets for increasing the share of income generated from online channels, alongside the associated implications for capex, opex and income. This is also due to be presented at the March ExCo.

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

Investment decisions in January

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

Extrapolation of Cost Savings:

- 1.8 The cost savings, as outlined in the Transformation roadmap in November 2013 will be baked into the POL operating plan. The plan is scheduled to be reviewed and agreed with the Board in March 2015
- 1.9 The plan will re-affirm our commitment to realise a minimum of £100m of annualised, recurring cost savings by the end of the financial year 2015/16 which is integral to the overall strategy to deliver a commercially sustainable business within the plan period to 2019/20

Transformation Governance:

- 1.10 As outlined in the November update to the Board, the transformation roadmap is structured into six themes to balance certainty of outcomes, benefits, cost to deliver and risk. Accountability for the business outcomes, benefits and costs associated with the six themes is held by specific individuals, with each theme led by a member of the POL senior leadership team [SLT]. The six themes and their sponsors are summarised below:
- Reduce central costs – Alisdair Cameron
 - Transform the organisation – Neil Hayward
 - Lean IT; via technology transformation and digitalisation – Lesley Sewell
 - Reduce and variablise network costs – Kevin Gilliland
 - Win in Mails – Martin George
 - Grow Financial Services – Nick Kennett
- 1.11 The overall Transformation will be managed by a small centralised co-ordination team led by the Transformation Director, who is a direct report to the CEO. The search for a permanent Transformation Director is underway. In the interim the role will be performed by David Ryan.
- 1.12 The Transformation Director will be assisted by a small management team, comprising leads for five related capability groups covering;
- Business Analysis and End State Design
 - Portfolio Management and Reporting (including the oversight of 'small change')
 - Business Case and Benefits Management
 - Programme Assurance
 - Stakeholder Management and Communications
- 1.13 Assignment of individuals to key roles is well advanced and is expected to concluded before the end of the transition phase (31 March 2015)
- 1.14 The cost of the central coordination team will be funded, in part from the rationalisation of the existing POL Business Analysis and Change delivery capability and leverage capability

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from other areas of the business where appropriate (specifically Risk, Finance, Communications).

2. Request

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

David Ryan
21 January 2014

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Post Office Limited Board

IT Strategy Update – January 2015

1. Purpose

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

- 1.1 Progress against the key initiatives within the 2020 Strategy.
- 1.2 Progress on developing the IT Strategy and alignment with Business Transformation (BTr).
- 1.3 The key risks, mitigations and contingency plans.

2. Background

- 2.1 The Board approved an IT Strategy in March 2012 and received subsequent updates the last of these being in May 2014.
- 2.2 The IT Strategy, validated and fully aligned to BTr, is delivering benefits. We have made significant progress in delivering our Separation and IT Transformation objectives.
- 2.3 There are significant financial and non-financial benefits to delivering the IT Strategy. However, there remain significant risks to be managed.
- 2.4 The material set out in the attached slide deck describes: the need to transform, progress to date, the remaining plan, the status of future initiatives, governance and the risk profile and mitigations.
- 2.5 The Board will receive a further update in March as part of the Operating Plan and will be asked to award contracts to support the Front Office and Network towers in Q1 FY2015/16.

3. Recommendations

The Board is asked to:

- 3.1 Note the progress against the key initiatives within the 2020 Strategy.
- 3.2 Note the progress on the IT Strategy and alignment with BTr.
- 3.3 Note the key risks, mitigations and contingency plans.
- 3.4 Note that we will come back to the Board:
 - March 2015 – Strategy update and alignment to Operating Plan
 - May 2015 – to seek authority for the Network Tower award
 - May 2015 – to seek authority for Front Office Tower award

Lesley Sewell
28 January 2015



The IT Strategy & Roadmap

Board Update – January 2015

Technology for a Digital Post Office

v1.0b





Contents

1. Introduction & Purpose

2. Why Transform? – challenges and opportunities

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

4. Risks and Governance

5. Summary



Introduction & Purpose

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

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

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



2. Why Transform?

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

CONTINUITY & COST

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

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

ENABLEMENT

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

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

BUSINESS DEVELOPMENT

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

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

No real choice – We Must Press ahead with IT transformation

Our choices

Real Choices based upon future business cases & change capacity considerations



3. Our Transformation Journey

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

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



3. Our Transformation Journey

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

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

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



3. Our Transformation Journey

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

For customers

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

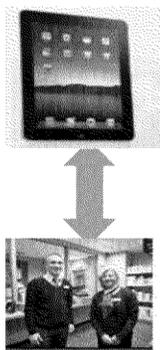
- Customer journeys start online, complete in branch
- Self & assisted access to more services
- Convenience e.g. book a place in queue via mobile
- Browse online catalogues in branch
- New services e.g. digital passports, identity
- Book an appointment online
- Virtual FS advisor accessible in branch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



For colleagues & branches

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

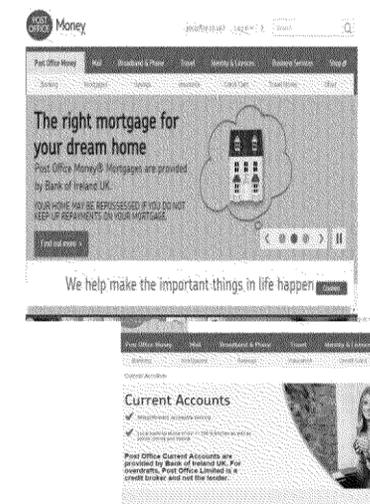
- Branch communications move online, easier to access and saving print & distribution cost
- Social tools enable collaboration across the central and branch communities
- Branch learning moves online, to be accessed via mobile, PC or tablet
- Manual and repetitive tasks automated, freeing colleagues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



For Partners & Clients

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

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

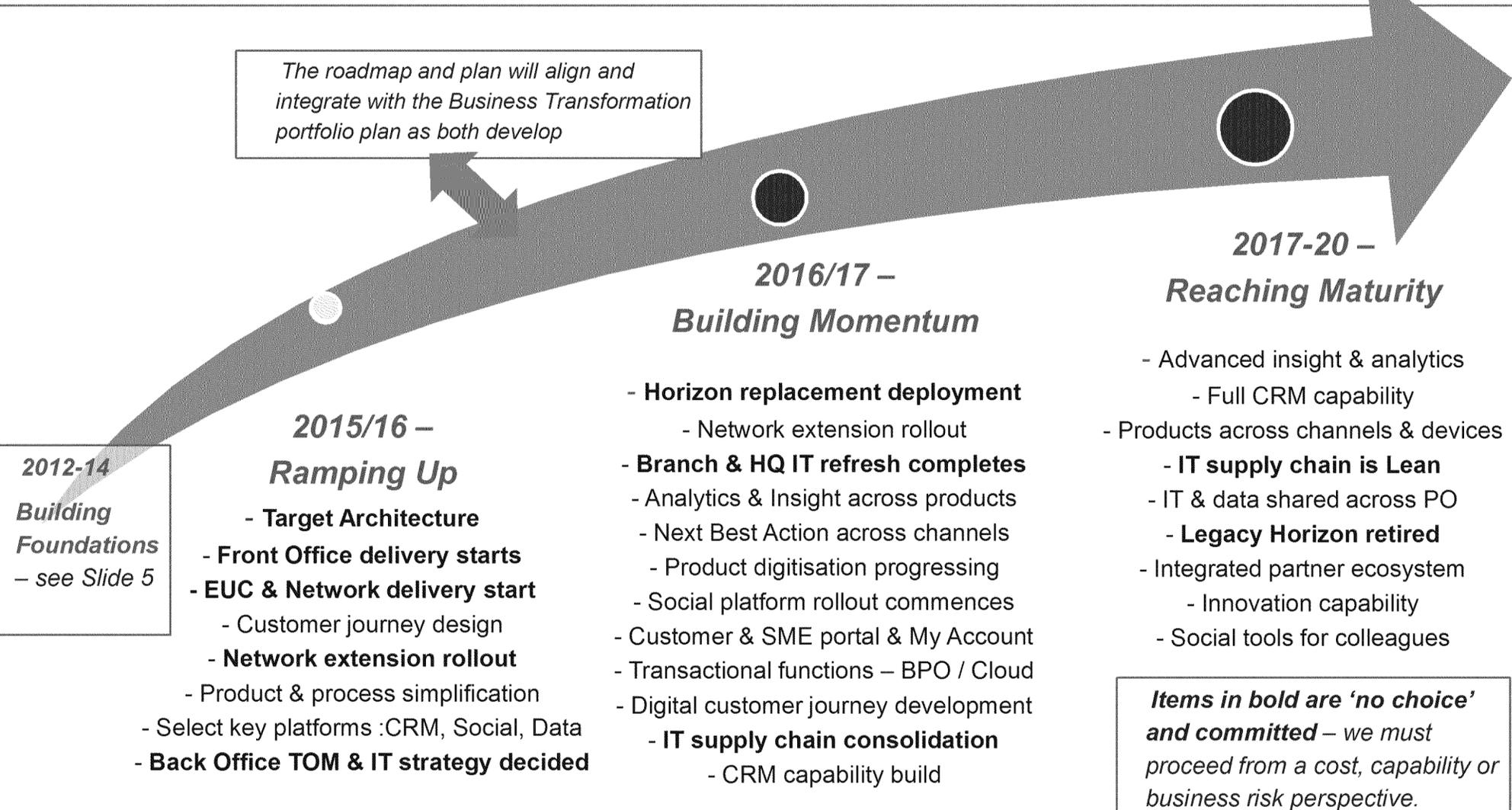




3. Our Transformation Journey

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

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



2012-14
Building Foundations
– see Slide 5

2015/16 – Ramping Up

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

2016/17 – Building Momentum

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

2017-20 – Reaching Maturity

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

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



3. Our Transformation Journey

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

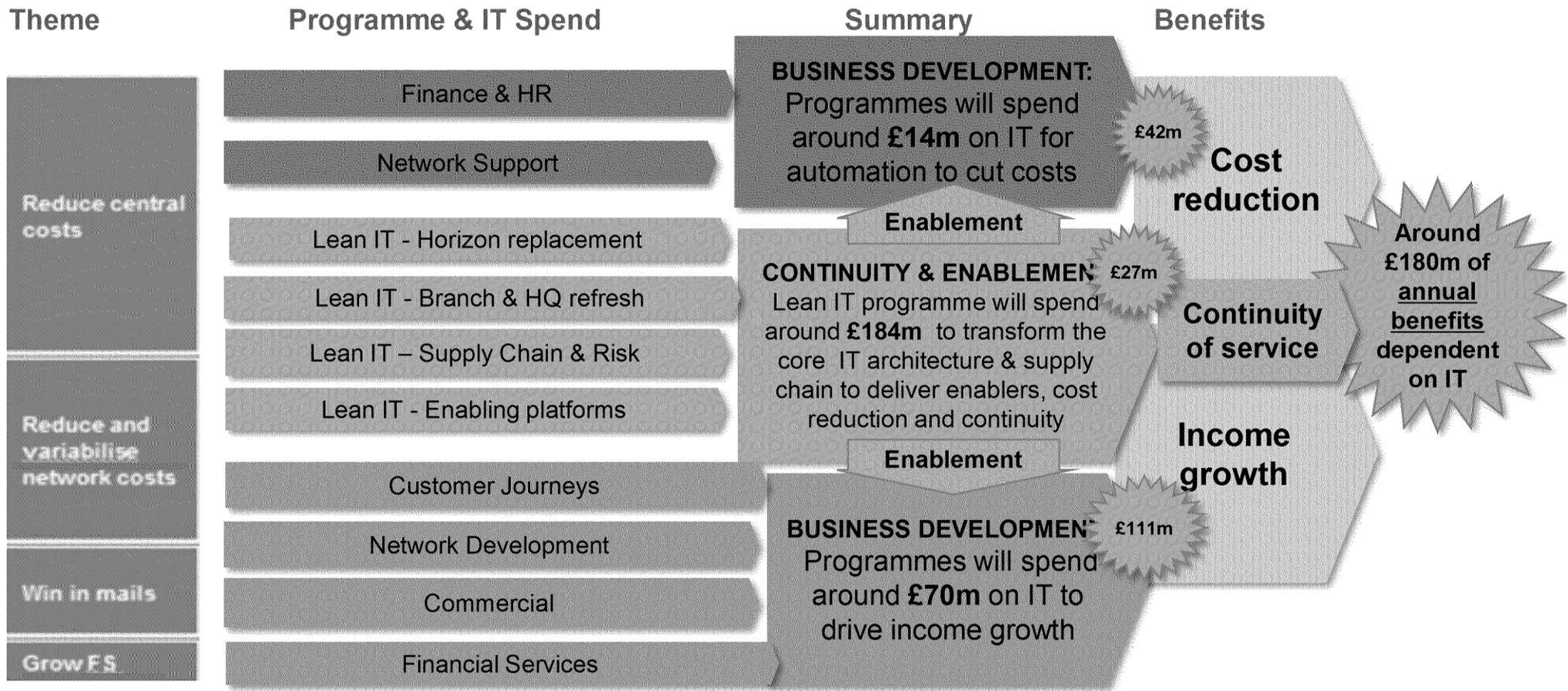
IT will be Lean and Mean	working as a strategic partner	enabling business outcomes
BUILD FOUNDATIONS, GROW TO FIT IT platforms will be developed to our minimum need, growing as we grow	We will build once, use many times. No more 'heavy' IT	Drives value for money. Allows us to be more agility We will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



3. Our Transformation Journey

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

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



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



3. Our Transformation Journey

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

Service Continuity and Cost Reduction – £152m

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

Ops Year	2014-15	2015-16	2016-17*	2017-18	2018-19	2019-20
Spend Profile		93.95m	43.05m	15.00m	0.00m	0.00m
Benefits (Towers)		5.80m	6.90m	13.60m	27.00m	27.00m
Outcomes	<ul style="list-style-type: none"> • Procurement and award of Front Office Tower • Procurement and award of IT Networks Tower • Decision on route forward for Back Office Tower 	<ul style="list-style-type: none"> • Front Office and IT Networks Towers landed • Commence Horizon replacement • Commence branch counter replacement • Complete Head Office end user migration from RMG • Conclude negotiation with Fujitsu for service extension 2017-18 	<ul style="list-style-type: none"> • New Horizon deployment • Branch counters replaced • Commence outsource of back office • IT Supply Chain consolidation 	<ul style="list-style-type: none"> • Migration to new Front Office completes • New IT Network complete • Extension of current Fujitsu contract for data centre (contingency) 	<ul style="list-style-type: none"> • Legacy systems / platforms removed • Replacement systems fully operational • Further consolidation to reduce run identified 	<ul style="list-style-type: none"> • Maintain run state • Execute on further cost out initiatives • Drive additional automation

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

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



3. Our Transformation Journey

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

New IT Capabilities / Business Enablers – circa £32.5m

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

Ops Year	2015-16	2016-17	2017-18	2018-19	2019-20
Spend Profile	11.45m	13.95m	6.65m	0.40m	0.05m
Outcomes	<ul style="list-style-type: none"> Data Architecture Customer Journey Designs Product & Process simplification Exploit automation platform Analytics Architecture Business architecture 	<ul style="list-style-type: none"> Analytics enhancement Network extension rollout Outsource designs and commencement Digital customer journey CRM capability 	<ul style="list-style-type: none"> Enhanced insights and analytics Next Best Action Social Platform deployment Back Office outsourced Branch and HQ IT refresh complete 	<ul style="list-style-type: none"> New Horizon fully deployed Full CRM integration into digital channels Advanced insight and analytics Products fully delivered across channels and devices 	<ul style="list-style-type: none"> Holistic data for customer, products and finance shared across all business lines Legacy manual processes automated Majority of products offered in digital format online

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



3. Our Transformation Journey

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

Business Development and Exploitation – circa £84.5m

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

Ops Year	2015-16	2016-17	2017-18	2018-19	2019-20
Spend Profile	38.00m	21.50m	14.00m	7.50m	3.50m
Outcomes	Commercial - Product Simplification <ul style="list-style-type: none"> • Simplify Customer Journey • Simplify Products • Simplify Processes 		Iterative Activities <ul style="list-style-type: none"> • Simplify Customer Journey – contd... • New Products • Simplify Processes – contd... • More Access Points – contd... • More Back Office automation – contd... 		
	Commercial - Customer Management Programme <ul style="list-style-type: none"> • Data: Customer Single View • Analytics: Deeper Insight and decision making 				
	Financial Services <ul style="list-style-type: none"> • New Products • Simplify Customer Journey • Simplify Products and Processes 				
	Network Development <ul style="list-style-type: none"> • New Access Points • Back Office Automation • Simplify Customer Journey 				

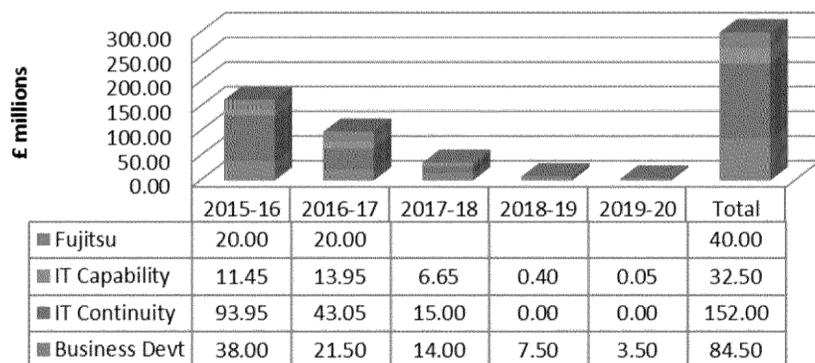
The £84.5m is estimated and pending detailed alignment with business cases although the 'what' is known. The delivery and benefits are front loaded else PO will not deliver the necessary change in order to stay viable or competitive. Once the heavy lift (2015-18) and benefits are delivered, more of the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



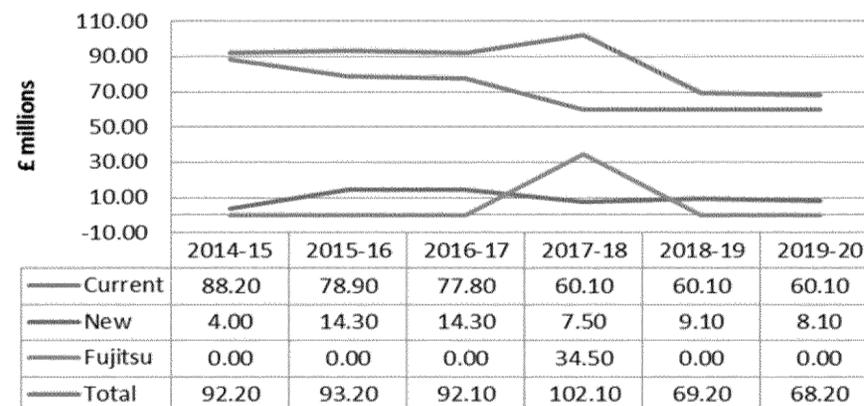
3. Our Transformation Journey

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

Change Spend - CAPEX 2015-20



Run Spend - OPEX 2015-20



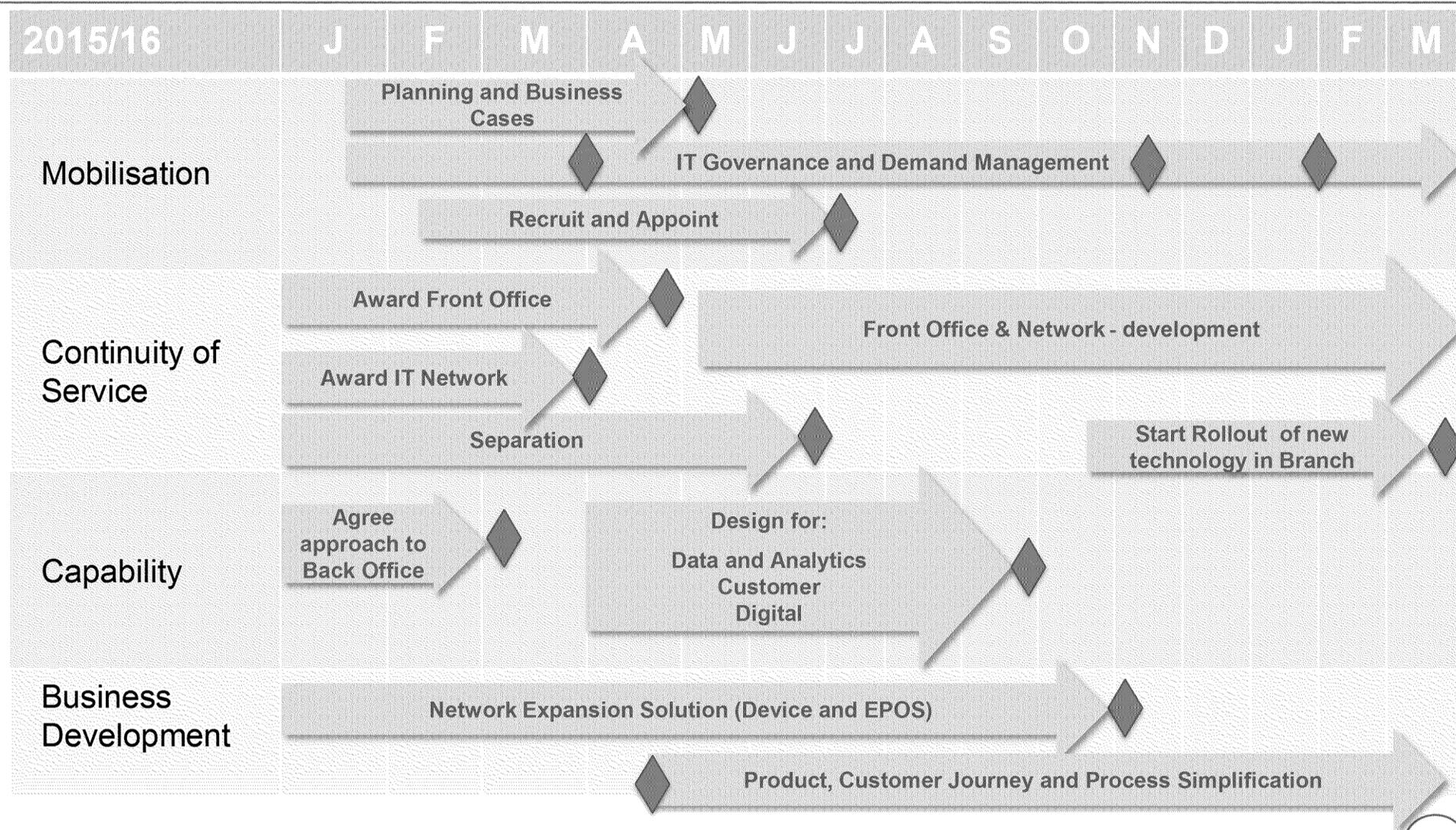
Key Points

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



4. Risks and Governance

A number of significant projects have not yet been approved





4. Risks and Governance

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

Theme	Risk of non-delivery	Specific risks	Mitigation Approach
Lack of Clarity of Business Requirements	Moderate <i>Operations risk - controlled</i>	<ul style="list-style-type: none"> Business capability needs unclear Lack of agreement across POL Slow decision making results in spend on obsolete technology 	<ul style="list-style-type: none"> Business engagement on capability needs Assumptions and hypotheses to be agreed Prioritisation of decisions balancing time and cost with benefits and risk
Lack of Clarity of Target Operating Model (TOM)	Moderate <i>Operations risk - controlled</i>	<ul style="list-style-type: none"> BPO uncertainty impacts Back Office IT IT dependency on product & process consolidation and simplification No detailed TOM design impacts IT design 	<ul style="list-style-type: none"> Back Office strategic review initiated Assess IT impacts and considerations Assumptions to be made and agreed Revise IT strategy based on BO review
Supplier & partner issues	High <i>Technology risk - controlled</i>	<ul style="list-style-type: none"> Complexity of the Front Office Transition Incumbents may slow us or cause issues Partner and client issues cause delays 	<ul style="list-style-type: none"> Accelerate Front Office procurement Fujitsu / Horizon extension (TSS2) Supplier transition risk management strategy Incentivise co-operation by leveraging contracts
Complexity and Volume of Change	Very High <i>Operations and Technology risk - controlled</i>	<ul style="list-style-type: none"> Front-Loading of Change demand Capability and capacity to deliver Complex inter-dependencies Delivering the IT Transformation delays business change capacity 	<ul style="list-style-type: none"> Develop IT roadmap IT Delivery plan and capability needs Align to Transformation Portfolio Governance through TMO to manage demand Recruitment and retention strategy for key people
Current Risks	Moderate <i>Technology risk - controlled</i>	<ul style="list-style-type: none"> Known risks around IT resilience Cyber Security risk footprint but will grow as Digital extends across channels 	<ul style="list-style-type: none"> We are developing our Information Security capability, and will address key resilience issues in the Back office driven from the outcomes of the Back Office strategy review

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



4. Risks and Governance

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

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



4. Risks and Governance

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

Background

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

Key elements of our Risk Mitigation plan:

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

Summary of bidder proposals

Accenture

Extend CDP, supplementing with commercial off-the-shelf (COTS) components to fill gaps e.g. Point of sale. Current Horizon functions replaced March 2017, further enhancements from April 2017

CSC

Partnering with Escher to implement the Riposte product which they claim can support 72% of the required functionality out-of-the box. Riposte will be integrated with CDP and rolled by November 2016

IBM

Propose extending CDP, supplementing with commercial off-the-shelf (COTS) components including some proprietary IBM solutions. All requirements live by March 2017



Summary

Key Points

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

The Board is asked to:

- Note the progress against the key initiatives within the 2020 Strategy (*slide 5*)
- Note the progress on implementing the IT Strategy and alignment with BTr (*slides 6-15*)
- Note the key risks, mitigations and contingency plans (*slide 16-18*)
- Note that we will come back to the Board:
 - **March 2015** – Strategy update alignment to Operating Plan
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Strictly Confidential**POST OFFICE LTD BOARD****RISK APPETITE STATEMENT****1. Purpose**

The purpose of this paper is to:

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

2. Background

- 2.1. Defining an organisation's appetite for risk is a fundamental part of the risk management framework, setting the parameters for acceptable levels of risk taking and identifying those areas where there is little or no appetite for risk taking.
- 2.2. This definition of parameters, aligned to the Post Office's strategic objectives, provides a clear steer for management and improves decision making in the organisation.
- 2.3. Setting the risk appetite is an intrinsic part of meeting the board's obligation to determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives, as set out in section C2 of the UK Corporate Governance Code.

3. Current Situation

- 3.1. The Post Office approach to developing its risk appetite statement began in August 2014 with a presentation from PWC to the ExCo describing the purpose of having a risk appetite statement and a proposed plan to develop one. The ExCo tasked the risk function with developing a methodology for articulating risk appetite and a straw man statement for review. This was completed through a combination of researching accepted best practice and input from individual in the business drawn from both ExCo and the Senior Leadership Team (SLT) colleagues. Several iterations of the paper at both ExCo and the ARC were required to get to the final version appended to this paper for consideration.
- 3.2. The final framework introduced four levels of risk acceptance, ranging from '**risk seeking**' through to '**risk averse**'. These definitions are explained in the appendix to this paper (appendix A).
- 3.3. The framework also defined nine categories of risk. Whilst there is no accepted standard for the number of categories we believe that the ones selected cover the vast majority of risks that the business is exposed to. These categories are set out in the appended paper, together with the Post Office risk appetite statement for each.
- 3.4. Where possible, positive statements have been used to express appetite; however, it should be noted that some of these statements deliberately set out

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

- 3.5. It is important to note that the risk appetite statement explains the level of acceptable risk-taking in the organisation and should not be confused with, for example, the commercial appetite for new business.
- 3.6. The debates at ExCo in developing this risk appetite statement were often difficult and challenging. In the course of discussions tensions were identified between different categories of risk and the willingness to take risk in each of these areas. By way of example, the requirement of taking risks to achieve growth (risk seeking) contradicted the appetite for risk taking in respect of the social purpose of Post Office.
- 3.7. Once the risk appetite statement is approved by the board, the risk function will co-ordinate a range of activities to embed risk appetite into the process and procedures of the business. Examples of such processes are: investment appraisal; business performance review; induction, appraisal and development procedures. A detailed plan for implementation will be tabled at ExCo by the end of this financial year.
- 3.8. The board should also note that the articulation of risk appetite may change over time and that it is common for different aspects of risk appetite to be flexed up or down according to the strategic direction of the organisation at the time; consequently, the risk appetite statement will be tabled for review by the board on a six-monthly basis.

4. Recommendations

The Board is invited to:

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

Chris Aujard
20th Jan 2015

Appendix A - Draft Risk Appetite Statement:

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
<p>Customer</p> <p>The impact of Post Office activities on customers in terms of satisfaction, service or advocacy for Post Office</p>	<p>Post Office is committed to the fair treatment of its customers and, as a consequence, has:</p> <ul style="list-style-type: none"> • Averse appetite for taking risks which might result in failure to maintain the service commitment in respect of customers in line with our social purpose and Government’s policy on subsidy. <hr/> <ul style="list-style-type: none"> • Neutral risk appetite for dissatisfaction related to BAU services recognising that in a complex business there will be a level of dissatisfaction as part of the normal course of business of achieving our commercial objectives. 	<p>Coverage and Scope of Services to meet this commitment (as required by detailed metrics in POL entrustment letter), eg 11,500 branches and 99% of the population to live within 3 miles of a branch.</p> <p>To provide at all these branches, mails, basic cash and banking facilities, pay out services and bill payment facilities;</p> <p>-----</p> <p>Customer complaints levels (TBC either an absolute count measure or % transactions measure) per month</p> <p>On line sentiment (social media commentary)</p> <p>Easy to do business with metric</p> <p>% of branches delivering to the required level (from Insight team)</p> <p>Customer advocacy measure (NPS)</p> <p>B2B metrics</p> <p>NPS</p>	<ul style="list-style-type: none"> • Kevin Gilliland <ul style="list-style-type: none"> • Martin George • Nick Kennett <ul style="list-style-type: none"> • Martin George

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

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	<ul style="list-style-type: none"> • Seeking risk appetite for reducing dependence on subsidies over time. 		
<p>Market Exposure to market changes, competitor activity, reputational or brand damage</p>	<p>Post Office acknowledges that it operates in increasingly competitive markets and its attitude to risk-taking in these markets reflects this.</p> <p>POL has:</p> <ul style="list-style-type: none"> • Tolerant risk attitude to pricing to drive revenue growth, but not to the point at which it becomes non profitable <p>Subject to the above, POL has:</p> <ul style="list-style-type: none"> • Seeking risk attitude in the mails market where we will take on competitors in markets and consider reduced margin to defend market share • Neutral risk attitude in government services and telephony market where we will price competitively to retain market share • Seeking risk attitude in financial services to gain profitable revenue and market share. • Averse risk attitude when it comes to diversifying Post Office’s product portfolio or for business initiatives that may have adverse reputational or brand impact. 	<ul style="list-style-type: none"> • Market share data • Spread/margin data • Competitive price position • Proportion of investment cases rejected/approved 	<ul style="list-style-type: none"> • Martin George • Nick Kennett • Kevin Gilliland

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
<p><u>Legal / Regulatory</u> Compliance with regulations, law, and any other external oversight.</p>	<p>Post Office takes its legal and regulatory responsibilities seriously and consequently has:</p> <ul style="list-style-type: none"> • Tolerant risk appetite for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality • Averse risk appetite for litigation in relation to high profile cases / issues • Averse risk appetite for litigation in relation to Financial Services matters • Averse risk appetite for not complying with law and regulations or deviation from business' conduct standards 	<ul style="list-style-type: none"> • FCA, ICO, or other regulatory formal censure actions against POL/ BOI (in respect of POL business) its subsidiaries or directors/officers. • Basket of measures used for reporting to Customer and Conduct Risk Committee <p>Leading indicators</p> <ul style="list-style-type: none"> • Risk of regulatory censure or action short of this, such as requirement to undertake a business change or undertake past business review • Critical internal audit findings • Qualified External Audit report (or significant concerns in management letter) in respect of legal/compliance 	<ul style="list-style-type: none"> • Martin George • Nick Kennett • Jane McLeod
<p><u>People</u> Capability and capacity of staff. Ethical behaviour including staff misfeasance.</p>	<p>Post Office is committed to safeguarding the wellbeing of its people and therefore has:</p> <ul style="list-style-type: none"> • Averse risk appetite associated to the health, safety and wellbeing of POL customers and colleagues in everything we do. This is paramount to every aspect of POL operation. This includes; loss of life, serious injury and non-compliance to regulation and policy • Averse risk appetite for unethical behaviour including staff misfeasance 	<p>Health and safety statistics:</p> <ul style="list-style-type: none"> • H&S incidents • Near misses • No. Claims per area 	<ul style="list-style-type: none"> • Neil Hayward

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	<ul style="list-style-type: none"> • Neutral risk appetite for: <ul style="list-style-type: none"> - Misalignment of people capability and capacity of staff - Inadequate assessment of the necessary talent and capabilities identified in order to build the learning and development plan and resourcing strategy (employees & agents) to drive business performance - Insufficient people capacity to enable PO to effectively deliver core services to customers. 	<ul style="list-style-type: none"> • H&SE breaches / Fines • No. of H&S risk assessments (inc. projects) completed • No. of H&S annual objectives achieved • Engagement scores & indicators • Amount of time a vacant position remains unfilled • Adequate processes and polies in place in relation to employee conduct. • To take to hire SLAs • Cost per hire • 100% compliance to vetting standards 	
<p>Technology Systems and IT related risk; stability, design, implementation. This also includes IT Security, hacking, and unauthorised use of data.</p>	<p>Post Office is committed to exploiting technological benefits to achieve market advantage. In recognition of this, Post Office has:</p> <ul style="list-style-type: none"> • Averse appetite for data loss/leakage that can lead to customer, commercial or reputational damage 	<p>Incident Log – (any Severity 1 incidents reported as detailed below)</p> <p>Any recorded high risk event (Severity 1 incident) that requires reporting to the ICO or FCA as per ICO/FCA guidelines</p> <p>-----</p> <p>1. No more than 4 Severity 1 incidents reported</p>	<ul style="list-style-type: none"> • Lesley Sewell

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner							
	<p>-----</p> <ul style="list-style-type: none"> • Neutral appetite for operational IT services 	<p>per month</p> <ol style="list-style-type: none"> 2. Performance against agreed SLA's (to meet and/or exceed those contractually stated) 3. Less than 12 unique Risk Acceptance Notes approved (by the CIO) during any one financial year 4. Evidence of Service Acceptance Board (SAB) signoffs for all changes that go live. ----- <ol style="list-style-type: none"> 1. Severity 1 incidents reported by IT Service Desk/Number of hours downtime – core customer facing systems 2. Agreed SLAs in place: <table border="1" data-bbox="1192 899 1730 1159"> <tr><td>Horizon Branch Availability</td></tr> <tr><td>Post and Go Availability</td></tr> <tr><td>Paystation Terminal Availability</td></tr> <tr><td>AB Infrastructure Availability</td></tr> <tr><td>Credence User (Online Day) Availability</td></tr> <tr><td>Master Data Management</td></tr> <tr><td>Vocalink</td></tr> </table> 3. Risk Acceptance Notes approved as part of Service Introduction/go live 4. Service Acceptance Board (SAB) Signoffs for live ----- 	Horizon Branch Availability	Post and Go Availability	Paystation Terminal Availability	AB Infrastructure Availability	Credence User (Online Day) Availability	Master Data Management	Vocalink	
Horizon Branch Availability										
Post and Go Availability										
Paystation Terminal Availability										
AB Infrastructure Availability										
Credence User (Online Day) Availability										
Master Data Management										
Vocalink										

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
	<p>-----</p> <ul style="list-style-type: none"> • Averse appetite for inaccurate and unreliable processing of data. 	<ol style="list-style-type: none"> 1. Less than 1 per month live severity 1 incident that relate to data inaccuracies 2. Remedial actions from 3rd Party Assurance Reports (specifically Internal and External Audit Reports) in relation to inaccurate and unreliable processing of data. 3. Evidence of sign off of Test Reports and/or Verification Reports from projects (one per project) 4. Evidence of sign off of Business Readiness or BAT in projects (one per project). <ol style="list-style-type: none"> 1. Number of severity 1 live incidents that relate to data inaccuracies IT Controls in place 2. Audit Reports – Internal and External 3. Evidence of sign off of Test Reports and/or Verification Reports from projects 4. Evidence of sign off of Business Readiness or BAT in projects 	
<p>Operations Internal processes and operations including financial reporting processes,</p>	<p>Effective and efficient processes and operations are core to the long term success of Post Office and therefore, Post Office has:</p> <ul style="list-style-type: none"> • Averse risk appetite for inefficient or ineffective processes that result in: lost time, duplicated effort, and increased risk of financial loss or errors in any part of its business or core processes <p>Averse risk appetite for inefficient or ineffective or prolonged</p>	<ul style="list-style-type: none"> • Branch loss data • Customer complaints • Calls to NBSC • Branch loss data 	<ul style="list-style-type: none"> • Lesley Sewell • Kevin Gilliland

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
governance and control processes and oversight, supply chain management, physical asset management.	<p>failure of, governance and control processes, critical financial reporting processes, critical supply chain and business continuity processes.</p> <p>-----</p> <p>Averse risk appetite for any serious impact to the confidentiality, integrity and availability of information, leading to financial loss, business disruption, public embarrassment or legal consequences.</p>	<ul style="list-style-type: none"> • Customer complaints • Calls to NBSC <p>-----</p> <ul style="list-style-type: none"> • Strictly confidential information – no incidence of loss reported. Severity 1 incidents reported relating to customer and business information • Confidential information – no more than six incidents of data loss per year. Severity 1 incidents reported relating to customer and business information • The number of unauthorized accesses and/or changes to critical. systems/data. • Time to grant, change and remove access privileges compared to agreed service levels. Agreed SLA's in place • Number of critical business processes/services with outstanding Information/cyber risk actions. Outstanding audit actions. • Number of Information related audit actions outstanding. Outstanding audit actions. • Number of projects and change not following the governance/gating process. Information Security Risk Acceptance Notes. • Number of outstanding non-compliance to Information Security training requirements. Training records. • Security operations reporting requirements outside SLA. 	

Category of Risk	Risk Appetite Statement	Potential metrics/indicators	Proposed Owner
<p><u>Stakeholder</u></p> <p>Major stakeholders including:</p> <ul style="list-style-type: none"> • External stakeholders, government, the minister, consumer futures, royal mail • Colleagues • Agents & retailers CWU & CMANFSP 	<p>Post Office is committed to engaging and involving its key stakeholders in support of its strategic objectives. Post Office has:</p> <ul style="list-style-type: none"> • Tolerant risk appetite to lose the engagement of any key stakeholder in the process and for staying the course in face of opposition if in the wider interests of the business and its commercial priorities • 	<ul style="list-style-type: none"> • No. of complaints from consumer/industry groups-e.g. Which, Post Office Advisory Council • No. of incidents of significantly disruptive industrial action • No. of negative media coverage instances • Frequency of criticism about POL from Shareholder Executive /Government • Significantly disruptive industrial action • Employee engagement scores • NFSP campaigning/lobbying against the POL strategy 	<ul style="list-style-type: none"> • Neil Hayward • Mark Davies
<p><u>Corporate Affairs</u></p> <p>The relationship of the company to its Shareholder (BIS/ Government) and to the</p>	<p>Post Office’s relationship with its shareholder is a key factor in determining strategy and delivering success. Post Office has:</p> <p>Tolerant risk appetite in taking forward its strategy in the corporate affairs environment- as it is recognised that there will inevitably be opposition and adverse comment – but if POL presents a clear, cogent, confident case it can create the right environment for change</p>	<ul style="list-style-type: none"> • Feedback from SHEX • Other political indicators TBC 	<ul style="list-style-type: none"> • Mark Davies

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

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

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IRRELEVANT

Strictly Confidential**POST OFFICE LTD BOARD****Network Transformation, Model Performance and Crown Transformation Q3 2014****1. Purpose**

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

2. Network Transformation – converting mains and locals

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

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

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

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

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

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

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

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

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

3.3. The proposal is simple and straightforward:

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

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

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

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

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

Strictly Confidential**4. Network Transformation – performance of the new models**

- 4.1. Since the last performance update in October, model performance has continued to improve, especially in local branches where the converted branches are now consistently outperforming the control group (+2% in December, up from 0% in September and -8% in January 2014). Mains continue to outperform their control group (+7% in December, +6% in September, +4% in January 2014). Customer session growth also remains strong, as both models offer increased hours and convenience.
- 4.2. We are beginning to reach the peak of improvement that can be generated by an improved customer environment and hours alone, and so have begun the next phase of performance improvement, focussing on individual branch performance. We have developed an individual branch scorecard that we have sent out to a trial group of 50 branches. This balanced scorecard focuses on customer, remuneration and performance metrics to help identify areas for each branch to improve. It also points them to relevant training and promotion material online, giving them the tools to improve in a cost effective way.
- 4.3. By focussing on individual branch performance in this way, we anticipate getting a greater lift on overall performance through a low cost and repeatable mechanism. We are currently taking feedback from the trial branches on areas to improve and refine the scorecard before rolling it out more widely. The encouraging results so far have been the ease of attracting volunteers for the trial (nearly 70 volunteers replied in one weekend to an advert placed on Subspace online, with many claiming that such a mechanism would be very beneficial to them) and the willingness for postmasters to interact indirectly (through email and Subspace), rather than the traditional and relatively expensive methods of direct visits.

5. Crown Transformation- Programme delivery progress

- 5.1. CTP plan to deliver a total of 302 physical branch transformations. Of this, 287 projects had completed prior to the start of the 2014 Christmas trading peak, in line with plan. The remaining projects are running during Q4.
- 5.2. Also prior to the Christmas trading peak, over 3200 staff had been trained under the two-day CTP training programme. This formally completes delivery of the CTP training project and this has now transitioned into business-as-usual ownership.
- 5.3. Income performance in those branches that have completed transformation has consistently outperformed that of non-transformed branches. On average, income in transformed Crowns has been increasing 4.0% year-on-year (YoY), versus 0.5% YoY growth in non-transformed branches. A particular highlight is the 16% YoY growth in Financial Services income in the transformed branches, a growth rate that is over 1.8 times that of non-transformed branches.
- 5.4. Despite some positives on income growth, the breakeven plan has needed to evolve over the life of the programme to shift increasingly from income growth towards cost reduction. As a reminder, our starting point at the time of the October 2010 Funding Agreement was a position of a c£50m annual loss in the Crown network, which we had reduced to c£40m by March 2012. The breakeven plan has had to iterate since then, and the changes since March 2012, when CTP was formally established, are shown in the table below:

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

- 5.5. Over the three years of the programme, the total staffing of the Crown network will have reduced from c3900FTE to c2600FTE, a reduction of 1/3, through a combination of efficiencies enabled in retained Crowns and staff exiting franchised Crowns.
- 5.6. CTP has delivered a reduction in the retained Crowns' staff cost base of £20m across the three years of the programme. Against the target of ending 503 full time equivalent (FTE) counter staff roles from retained Crowns across FY13/14 and FY14/15, 500 roles have so far been removed, and the balance will be removed during Q4. There has also been a reduction of 66FTE branch manager positions from branch templates, in line with plan. Staff have exited the business under voluntary redundancy (VR).
- 5.7. A large proportion of the staff saving benefit was enabled through the rollout of over 500 of the new generation self-service kiosks. The rollout is substantively complete and support of the devices has moved into business-as-usual IT. Branches with the kiosks are, on average, conducting 60% of their mails and retail sales through the devices, as opposed to requiring customer interaction with a counter clerk. During the peak Christmas trading period, over 2.5 million items per week were sold through the devices.
- 5.8. New duty sets have gone live in branches, synchronised with both the transformation of the branch and the exit of colleagues under VR. Customer satisfaction has been closely monitored through Voice of the Customer feedback whilst the new duties embed, with "rapid response" teams in place to resolve any teething issues. The overall satisfaction score in the transformed branches was 82% during Q3, a level marginally higher than before staff exits from the same branches began in April 2014. The "acceptability of wait time" score in the same branches was 85%, which is the same score as in April 2014 despite the staff exits in the intervening period.
- 5.9. Work to progress the remaining mergers and relocations within CTP's scope is progressing well. November 2014 saw branch relocations go live in central Manchester and Edinburgh, as well as the closure of High Street Sutton branch, with its services transferred into Sutton's Grove Road branch. A relocation of the Crown branch in central Glasgow is also planned by CTP for delivery during Q1 of FY15/16. An eviction notice received for our King's Walk (Chelsea) branch has resulted in a planned force majeure closure in February 2015, on which a public consultation has now completed.
- 5.10. In terms of franchising, of the 70 branches originally planned to be franchised:
- 31 branches have so far gone live as franchises.
 - A further 13 branches are planned to go-live during Q4.
 - Between 7 and 12 further branches are expected to have contracts signed by the end of Q4, for go-lives in the first half of FY15/16.
 - 12 branches have so far been informed that they will be retained as Crowns. Whilst applications were received for running these branches, none were able to meet all three of the success criteria required for an appointment to be made (suitable premises, credible business plan and successful interview).

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

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

6. Crown Transformation- Forecast Crown P&L position

- 6.1. Despite the programme's delivery successes and the outperformance of transformed Crowns versus non-transformed, the rate of income growth budgeted this financial year has not been achieved. Full year Crowns income is forecast to be £7m below in-year budget. (A £7m outturn below budget would broadly align to a whole-business outturn of £880m.) The primary drag is underperformance on mails, where income has declined 2% YoY in transformed Crowns and 3% YoY in non-transformed Crowns; against a budgeted 9% YoY growth.
- 6.2. The in-year shortfall on income will also impact the breakeven run-rate calculation. This combined with the shortfall against franchising benefits, and the impact of allocated costs of the central business not reducing to plan, would result, if unmitigated- with the retained Crowns being at a run rate of an **£8m loss** at the end of this financial year.

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

- 7.1. A number of mitigations against the emerging income gap were mobilised during Q3, some of which included new areas of programme scope. These are currently expected to deliver **£5-6m** of additional run-rate benefit by March 2015 (down from £6-£7m forecast in October):
 - Changes have been made to the distribution of Financial Services (FS) specialists' costs between the Crown network and FS management teams. This has reduced resource costs on the Crown P&L by £2.2m.
 - Property maintenance budgets have been reduced and further reallocations of property costs have been made for any space in Crown branches that is in use by other parts of the business. This has delivered £0.9m of benefits.
 - Further counter staff savings are being generated through the "Leaving the Business with Dignity" programme. 120FTE are planned to leave the business and be replaced by new hires during February and March. The differential in cost between leavers and new joiners will generate £0.6m of benefits.
 - The force majeure closures completed at Albermarle Street (Mayfair) and planned for Kings Walk (Chelsea) will generate £0.4m of benefits.
 - Losses in those Crown branches which are not open to the public are being significantly reduced. New contracts have being agreed with Royal Mail which will eliminate POL's losses for the two branches in The Royal Household. A bespoke contract has also been agreed for the Post Office service in the Scottish Parliament, which has eliminated that branch's losses. With regards to the three branches in The Palace of Westminster, a number of different options are in negotiation with the Palace of Westminster authorities. These options have ShEx and ministerial backing, and are designed to result in a break-even position. This effect of all these changes results in £0.5m of Crown P&L benefits.

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- Four branches are being transformed into Post Office Concept stores, sponsored by the Commercial directorate. This will mean £0.3m of costs off-charged from the Crown P&L.
 - New product launches during this financial year provide only a part-year income effect in-year. The full-year effect of this income was previously expected to allow POL to justify an additional £2m income flow-through in the run rate calculation. Although the budgeting process for 15/16 is still in progress, it is clear that business-wide income will be budgeted to grow less from 14/15 to 15/16 than originally planned. In such an environment, it is not possible for POL to claim such a significant upward trend in Crowns income in the run-rate calculation. Income flowthrough is now expected to be a maximum of £1m, driven by UKVI and Mortgage product growth which disproportionately advantages Crowns over other channels.
 - Further potential mitigations were assessed but discounted due to them either being unachievable within the programme's timeframes; or them requiring POL to break public commitments about programme scope.
- 7.2. In the event that income targets for this financial year had been met, these additional actions would mean the P&L of the retained Crowns would be at a runrate of a £4-£5m *profit* by the end of this financial year. However, the current forecast is for this run rate to be at a £2-£3m loss.
- 7.3. However, it should also be remembered that CTP's franchising project delivers an additional bottom-line benefit to POL that is not visible on the Crown P&L: the **like-for-like** change in profitability of Post Office services at the 373 Crown locations that existed at the start of the programme produces £2.5-£3m of additional profit from franchised branches. We forecast that by the end of this financial year CTP will have sufficiently improved the run-rate profitability of branches in these 373 locations to eliminate **all** the Crown losses that existed at the start of the programme.
- 7.4. The retained Crown estate has grown income (+4%) whilst operating on a staff and property cost base that has reduced by ~25%. We are developing a plan to optimise the profitability of these branches. This will be through the delivery of additional new initiatives to reduce costs by at least a further £2-£3m during FY15/16, whilst achieving 15/16 income targets. Over £1m of the new savings required will come from efficiency projects already identified and in train, with the balance primarily coming from new changes to the network shape and staffing. The formal closure of CTP in March 2015 means that the commitments made to staff and stakeholders at the start of the programme regarding CTP's scope come to an end. The expiry of these commitments offers further flexibility in areas including staff redundancy, branch mergers, closures, relocations and franchising.
- 7.5. The scope of changes to the Crown network shape under CTP was set out during FY12/13. As we move towards FY15/16, the changed income position and the availability of lease breaks or expiries beyond April 2015 mean that further changes to the network shape to eliminate losses should be made in FY15/16 onwards. Although no wholesale franchising programme is planned on the scale of CTP, it is likely that a small number carefully selected mergers, relocations, franchises and closures will assist in delivering this cost saving.
- 7.6. Furthermore, we are assessing the market for new technology to automate POCA and business banking transactions, with a view to these being used in projects to further increase branch profitability in 15/16 and beyond. This will build on our CTP experiences with very quick customer adoption of new technology such as SSKs, and our proven ability to reduce our staff cost base through technology enablers.

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

Kevin Gilliland

January 2015

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POST OFFICE LTD BOARD

**Appointment of Non-Executive Chairman to Post Office Management Services Limited
(POMS)**

1. Purpose

The purpose of this paper is to:

- 1.1. Make a recommendation from the Nominations Committee (the Committee) to the Post Office Board (Board) regarding the appointment of a Non-Executive Chairman to POMS;

2. Background

- 2.1. The Nominations Committee was tasked to identify a suitable candidate to become Non-Executive Chairman of POMS and instructed Saxton Bampfylde (SB) to assist with that search on 2 July 2014.
- 2.2. SB presented their Non-Executive Research Report containing a long list of sixteen candidates to the Committee on 27 October 2014. The long list was discussed and SB presented their short list of five potential candidates to the Committee on 10 November 2014 having taken recommendations from Nick Kennett into account.
- 2.3. The shortlist of candidates was reviewed by the Committee on 10 November 2014 who decided to take Stephen Ashton, Paul Bradshaw and Julie Hopes forward to interview. Interviews were held between Nick Kennett, Virginia Holmes and the three shortlisted candidates on 5 and 9 December 2014. Stephen Ashton and Julie Hopes were selected for final interview with Alice Perkins and Paula Vennells. The interviews with the final two candidates were held on 17 December 2014 and Stephen Ashton selected as the preferred candidate.
- 2.4. Mr Ashton is a qualified account and his executive career includes roles at Ernst & Young, Marks & Spencer, Saga Services and the Automobile Association. His insurance industry career began when he joined Saga in 2002 and he is currently Chairman of two businesses and holds non-executive roles in a further two.
- 2.5. The results of the interviews were discussed between the Committee members informally (to be ratified and recorded at the Committee meeting on 25 January 2015) who agreed Stephen Ashton was a suitable candidate to appoint as Non-Executive Chairman of POMS and to make a recommendation to the Board to consent to the appointment of Stephen Ashton as Non-Executive Chairman of POMS.
- 2.6. The Board should note that as POMS is soon to be an FCA Regulated company any appointment will be conditional upon FCA approval.

3. Activities/Current Situation

- 3.1. POMS wish to offer Stephen Ashton the position of Non-Executive Chairman of POMS and await Board consent in order to do so.

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4. Commercial Impact/Costs

- 4.1. The recommendation is that Mr Ashton should be offered the role and will be paid remuneration of £60,000.

5. Recommendations

The Board is asked to:

- 5.1 Approve the appointment of Stephen Ashton as Non-Executive Chairman of POMS in accordance with the recommendation of the Nominations Committee.

Alice Perkins (Chair of Nominations Committee)
January 2015

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POST OFFICE LTD BOARD

**Request for Written Consent by Post Office Management Services Limited (POMS) to
appoint Non-Executive Chairman**

1. Purpose

The purpose of this paper is to:

- 1.1. Request specific written consent from Post Office pursuant to POMS' articles of association (Articles) to appoint a Non-Executive Chairman.

2. Background

- 2.1. The "go live" decision has now been taken and POMS has begun to trade.
- 2.2. The Nominations Committee have undertaken a recruitment process to appoint a Non-Executive Chairman and recommended the appointment of Stephen Ashton (their recommendation is attached for noting).
- 2.3. Within article 4 of POMS' Articles there are specified powers reserved to Post Office which preclude POMS from undertaking certain actions without written consent of Post Office.
- 2.4. Pursuant to that article, Post Office is requested to provide written consent to POMS to appoint Stephen Ashton as Non-Executive Chairman in accordance with the recommendation from the Nominations Committee.

3. Recommendations

The Board is asked to note the contents of this paper and provide the consent requested in the form annexed, giving a duly appointed director or company secretary authority to sign the consent.

**Alwen Lyons
January 2015**

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

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

1. To the appointment at an appropriate time of Stephen Ashton as director and Non-Executive Chairman of POMS pursuant to Articles 4.3 (U) and (W) respectively

.....

Signature

.....

Name

.....

Date

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POST OFFICE LTD BOARD

**Request for Written Consent by Post Office Management Services Limited (POMS) to
appoint two Non-Executive Directors**

1. Purpose

The purpose of this paper is to:

- 1.1. Request specific written consent from Post Office pursuant to POMS' articles of association (Articles) to appoint two Non-Executive Directors.

2. Background

- 2.1. The "go live" decision has now been taken and POMS has begun to trade.
- 2.2. Chris Day resigned from the POMS board on 26 January 2015 and Chris Aujard has indicated his intention to resign from the POMS board at a time to be agreed, but consistent with an orderly handover of duties. Alisdair Campbell will succeed Chris Day as CFO of Post Office and Jane MacLeod will succeed Chris Aujard as General Counsel of Post Office.
- 2.3. Within article 4 of POMS' Articles there are specified powers reserved to Post Office which preclude POMS from undertaking certain actions without written consent of Post Office.
- 2.4. Pursuant to that article, Post Office is requested to provide written consent to POMS to appoint Alisdair Cameron as a Non-Executive Director to replace Chris Day and to appoint Jane MacLeod as a Non-Executive Director to replace Chris Aujard at appropriate times consistent with an orderly handover and to ensure compliance with any FCA requirements..

3. Recommendations

The Board is asked to note the contents of this paper and provide the consents requested in the form annexed, giving a duly appointed director or company secretary authority to sign the consents.

**Alwen Lyons
January 2015**

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

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

- 1. To the appointment at appropriate times of
 - a. Alisdair Cameron as Non-Executive Director of POMS pursuant to Article 4.3 (U); and
 - b. Jane MacLeod as Non-Executive Director of POMS pursuant to Article 4.3 (U)

.....

Signature

.....

Name

.....

Date

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POLB 14(9th)
POLB 14/118-14/126

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

Minutes of a Board held by conference call on 21 October 2014

Present:

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

In Attendance:

Alwen Lyons	Company Secretary
Mark Davies	Communications & Corporate Affairs Director
Kevin Gilliland	Network & Sales Director
Tom Moran	Head of Industrial Relations & Network Strategy
Keith Rann	Head of Supply Chain
Gavin Lambert	Chief of Staff

Apologies for Absence:

Neil McCausland	Non-Executive Director
Virginia Holmes	Non-Executive Director

POLB 14/118

INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting and asked the CEO to explain what she would like to cover and any decisions required of the Board.
- (b) The CEO thanked the Board for their time and explained that the Business planned to discuss the IR landscape and managing the likely opposition to business transformation at the Board meeting in October. However, before that Board Meeting, talks were taking place with the CWU at which the Business would make clear its plans for supply chain pay and the likely need for compulsory redundancy (CR) to deliver wider Business Transformation. Before those talks, the CEO wanted to clarify the likely short and long term consequences for the Business and ask the Board to reaffirm their support for the pay mandate principle and their backing for the approach.

POLB 14/119

BUSINESS TRANSFORMATION, SUPPLY CHAIN AND INDUSTRIAL RELATIONS

- (a) The CEO emphasised her view that this was the right and responsible approach to reducing the cost base despite potential risks, and a possible short term adverse effect to the bottom line.

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- (b) The CEO explained that the supply chain pay deal and the short term Business transformation activity, producing savings in this financial year, were predicated on having CR available, to be used as a last resort. She acknowledged that CR would be a difficult issue for the CWU and stressed that the Business would do all it could to bring the union on board, but that there was a likelihood of Industrial Action (IA). The CEO believed that pushing forward with this significant change was a vital step to transforming the Business.

POLB 14/120

SUPPLY CHAIN AND ADMIN PAY

- (a) Tom Moran, Head of Industrial Relations and Network Strategy, explained that he was meeting the CWU to propose a self-funding pay deal. This deal would be funded by making significant staff cost savings of £10m and would; modernise the working practices in the supply chain; lead to a much lower cost base; and enable potential growth of circa £4m. He explained that the CWU had already declined one offer and refused to cooperate in cost savings, and they were unlikely to accept the new offer. It was however an attempt to offer a similar structured pay deal to that accepted in the Crowns including payments for transformation.
- (b) Planned head count reduction of 190 FTEs equated to 15% of supply chain CWU grades (compared with the 33% reduction which had taken place in the Crown network).

POLB 14/121

INDUSTRIAL ACTION SCENARIOS AND CONTINGENCIES

- (a) Kevin Gilliland, Network and Sales Director, recognised that the changes being proposed to the CWU with the introduction of CR were likely to lead to IA. The introduction of CR would give the CWU a legitimate reason to ballot the whole of the Post Office.
- (b) He recognised that a Business wide strike would be more complex to manage but that the focus would be in the supply chain.
- (c) Kevin Gilliland assured the Board that robust planning was in place around two scenarios for IA in supply chain:
 1. Most likely scenario- discontinuous action. For example, 2 days per week of strike action. This would be challenging but possible to manage. Offices would be prefunded the week before any strike. External customers would be prioritised and most of the large contracts could be serviced. Branches would have to hold more cash but this would be within their defined limits. Pre-funding for a two day strike would need an additional £150m cash and cost circa £64k if the cash was in the network for an additional 2 weeks.
 2. Worst case scenario- prolonged continuous action. This would be highly unlikely and far beyond any previous action taken. The Business would need to be prepared for this as it would be extremely serious and undermine our position in the external

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market. It would be made clear to the CWU that any loss of external contacts we would have to lead to further staff cost reductions. The prefunding would require an additional £1.2bn cash and cost circa £1m, with additional cash in the network for 5 to 10 weeks depending on the size of the branch.

- (d) Because staff who took IA would receive neither pay nor strike pay it was highly unlikely that they would take continuous action, especially in the run up to Christmas.
- (e) Kevin Gilliland emphasised that the plans focussed on ensuring branches were able to pay benefits to vulnerable customers. He explained that the Business would use its Rapid Deployment Team of 120 people who had the necessary training and qualifications to work in the Supply Chain.
- (f) He explained that the Business had assessed the effect this strike could have on the NFSP and the possibility of both the CWU and NFSP being in concurrent disputes with the Business. This would be discussed further at the October Board meeting.
- (g) The Board asked if Health and Safety issues had been taken into considered in the contingencies. Kevin Gilliland assured the Board that Health and Safety of both subpostmasters and staff had been considered. The additional cash in the network was within defined limits and all those people asked to work in the supply chain were fully trained.
- (h) The Board asked if the Business would offer arbitration as part of the negotiation process. Tom Moran explained that the Business had offered to use ACAS in the past but this had been declined by the union, however he did not rule out offering the service again.
- (i) Tom Moran explained that the union would have to notify their members in the ballot if they were considering the use of continuous IA, and would also have to give the Business 7 days' notice of any strike, which would give the Business time to put in place its contingency plan.

POLB 14/122**FINANCIAL EFFECT**

- (a) To give the Board the context in which to consider the financial effect of any IA the CFO explained the changes to the Full Year forecast which he intended to present in more detail at the October Board. The income forecast was now projected at £880m, having adjusted for the £10m risk in relation to previous assumptions made on the POca contract extension as well as a more prudent run rate for Mails, both in terms of the underlying performance and the delayed/reduced impact of remedial actions. The EBITDAS forecast had been reduced to £85m including a contingency of £5m.
- (b) The likely effect of the supply chain discontinuous IA would be an additional loss of up to £1.5m a month this financial year leading to a possible reduction of EBITDAS forecast to £80m. This loss is driven by a combination of revenue loss and delays in implementing the staff

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cost reduction in supply chain because of the dispute (maximum projected impacts £3.5m and £1.5m respectively).

- (c) Continuous action could lead to a loss this year of £12.5m income and £8m reduction in EBITDAS. Continuous IA would also mean the loss of external contracts putting £30m of income and £15-20m EBITDAS at risk next year.
- (d) The Board discussed the commercial effect of any action and the short term impact on the income and profit. The CEO acknowledged that the short term impact would be difficult but believed that it was important to stick to the principles of reducing the cost base and introducing CR before moving into business transformation. She did however support the proposal of a 2 to 3 year self-funding deal to transform the supply chain, as to do so with the unions' support would be faster and less difficult.
- (e) Richard Callard reported that the Minister believed this was an operational matter in which she should not get involved. She did not see a reason why CR should not be on the table but asked that the Business be as creative as possible in trying to get to a deal.

POLB 14/124**STAKEHOLDER MANAGEMENT**

- (a) Mark Davies assured the Board that significant planning was already in place with a detailed stakeholder plan for the supply chain. He emphasised that the messages on this proposal would be linked to the Business' focus on commercial sustainability.
- (b) Mark Davies acknowledged that it would be challenging if the CWU and NFSP were in simultaneous disputes with the Business, but did not think this was unmanageable. He explained that the detailed stakeholder plan would be discussed at the October Board meeting.
- (c) The Chairman asked the Business to ensure it communicates effectively with the Minister, Vince Cable and if necessary No. 10 to ensure there are no surprises.

POLB 14/125**IN SUMMARY**

- (a) The CEO explained that she had spoken to Neil McCausland who had given his apologies for the meeting. Neil was supportive of the approach, he understood the bottom line impact and although he expected there to be noise, he wanted to business to be resolute in its approach.
- (b) The Chairman thanked the CEO and Business for the meeting. The Board gave unanimous support to the proposed approach to the CWU pay talks including the introduction of CR, if required, to achieve the cost savings. They reaffirmed their support for a self-funding pay principle.
- (c) The CEO promised to keep the Board informed of the progress and thanked them for their support.

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POLB 14/126

CLOSE

There being no further business, the meeting was closed.

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**POLB 14(11th)
POLB 14/142**

**POST OFFICE LTD
(Company Number 2154540)**

**Meeting of a Board meeting held by correspondence
on Wednesday 18th November 2014**

Present:

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

In Attendance:

Alwen Lyons	Company Secretary
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POLB 14/142

**INTERIM REPORT AND CONDENSED FINANCIAL STATEMENTS FOR
2013-14**

- (a) The Board received a request from Chris Day, Chief Financial Officer, to approve the Interim Report and Condensed Financial Statements for 2013-14 ("Interim Report 2013-14").
- (b) It was noted that the comments following the first review by Board members in October had been considered and addressed. Further comments from the Chairman, the CEO, ARC, Shex, Royal Mail and Ernst & Young had also been addressed.
- (c) After due consideration, the Board:
- Approved the approach to Going Concern and agreed the Going Concern status for Post Office Limited at the half year;
 - Approved the Interim Report;
 - Delegated authority for reviewing final amendments and completing the Interim Report on behalf of Post Office Limited to a Sub-Committee, the quorum for which to be comprised of any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch; and
 - Approved the Letter of Representation to the auditor and authorised Paula Vennells or Chris Day to issue it on behalf of the Board.
- (d) It was noted that the Board Sub-Committee would be booked for 19 November to provide final approval and sign off prior to communication to staff on 20 November and media release on 21 November.

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POLB 14(12th)
POLB 14/143 -14/157

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

Minutes of a Board meeting held on 26 November 2014
at 148 Old Street, London EC1V 9HQ

Present:

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

In Attendance:

Alwen Lyons	Company Secretary
David Ryan	Business Transformation Director (minute POLB 14/145)
Kevin Gilliland	Network & Sales Director (minute POLB 14/145)
Neil Hayward	Group People Director (minute POLB 14/145)
Martin Edwards	Head of Financial Strategy and Planning (minute POLB 14/145)
Chris Aujard	General Counsel (minute POLB 14/145, 14/147-14/148 & 14/156)
Nick Kennett	Director, Financial Services (minute POLB 14/147 -14/148)
Paul Havenhand	General Manager, POMS (minute POLB 14/147 – 14/148)
Jon Sperrin	Partner, Grant Thornton (minute POLB 14/148)
Mark Davies	Associate Director, Grant Thornton (minute POLB 14/148)

POLB 14/143

INTRODUCTION

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

POLB 14/144

CEO'S REPORT

- (a) The CEO introduced her report and focused on the following key areas for discussion with the Board:
1. Business Transformation (BTr) was the main focus of the Board meeting and the CEO explained the decision to present a holistic view of the strategy including existing programmes and incorporating the relevant parts of Plan B. She stressed the need for good governance to oversee the BTr but was mindful that this should not become over bureaucratic.
 2. The CEO informed the Board that the Secretary of State (S of S) had written to the major banks promoting Post Office as an

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alternative access point for their customers. A roundtable debate was organised for week commencing 1st December at which Nick Kennett would represent Post Office, to ensure that any proposition discussed made commercial sense. The CEO thanked Richard Callard and his team for their work in briefing the SoS.

3. The CEO had briefed the Senior Leadership Team on the Wave 1 headcount reductions and redundancies necessary to deliver the cost reduction target of £53m. She was sure that people were well briefed and realised the sensitive nature of conversations they would have with their teams. The Business had reached agreement with Unite on redundancy but the CWU had as yet refused to meet the Business to discuss the issue.
4. The CEO explained that Fujitsu had withdrawn from the procurement process underway to replace the front office IT equipment, and because of this Accenture had been included back into the tender process. The CFO explained that the Business was trying to extend the Fujitsu contract for a year to give more time to move to an alternative provider. Any renegotiation with Fujitsu added financial risk. The CFO assured the Board that IP ownership was no longer an issue as Post Office owned all the IP post 2008, and the key would be managing the relationship as the Businesses exited the partnership. The Board would be having a substantive discussion of IT at its next meeting.
5. The supply chain CWU strike ballot had returned a yes vote but with considerably lower support than ever before. The CEO reported that Andy Furey had agreed to attend conciliation sessions at ACAS but that this would not necessarily stop the union calling a strike.
6. The CEO was hopeful that the DWP would agree the Post Office Card Account (POca) contract before the 15th December. The contract being proposed was within the mandate agreed by the Board and the Board resolved that approval to enter into the contract would be granted by correspondence.
7. The CEO recounted her meeting with four MPs to discuss the Sparrow mediation scheme. She explained that the Business intended to write to the MPs to explain the Business' position on denying mediation for criminal cases, and that this letter may become public. The Business had taken further advice on the likelihood of a Judicial Review, if JFSA withdrew from the process, and the QC's advice was that the likelihood was low. The Board asked for an update on where cases were in the scheme.
8. The CEO explained that meetings were planned to discuss Network Transformation with the NFSP with the proposal to bring the 'cliff' forward in the plan. She promised to come back

ACTION:
Company
Secretary

ACTION:
Belinda Crowe

ACTION:
Neil Hayward/

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Kevin Gilliland

to the Board in the New Year to discuss further.

The CEO suggested that she send a written update to the Board in December.

- (b) Tim Franklin, Chairman of the Post Office Advisory Council (POAC), informed the Board about the recent POAC meeting which had been another great success. He explained that individual members of the Council had given their time to help the Business on the SME proposition and on Branding.

The Council had visited the Design Lab and St. James' Church, West Hampstead which includes a new Mains Branch. Tim Franklin and Neil McCausland were both pleased to be involved in the POAC and regarded it as a valuable addition to mutual ways of working.

ACTION:
Tim Franklin

The Chairman asked Tim Franklin to consider how he could involve the Board in future meetings.

ACTION:
Martin George

- (c) The Board discussed the announcements in the telephony market and asked for a paper on the telephony strategy in the New Year.

POLB 14/145

BUSINESS TRANSFORMATION

- (a) The Board welcomed Kevin Gilliland, Network & Sales Director, Neil Hayward, Group People Director, David Ryan, Business Transformation Director, and Martin Edwards, Head of Financial Strategy and Planning, to the meeting.
- (b) David Ryan summarised the developments in the plan since the Board presentation in September. He explained that there were three phases to the plan: understanding the baseline (how the business operates today); identifying an end state design (delivering a £200-250m p.a. EBITDAS improvement by 2019/20, not including payment for social provision); and designing a plan for implementation. He explained that the work had analysed the interdependencies and investment needed to deliver the BTr within the existing funding envelope.
- (c) David Ryan explained the six themes used to structure the BTr:
 1. Reduce Costs
 2. Transform the organisation
 3. Lean IT
 4. Reduce and variabilise network costs
 5. Win in Mail
 6. Grow FS

ACTION: David Ryan

The Board asked for an update of what had changed in the plan since the September Board presentation.

- (d) Network
The main changes to the Network proposal were discussed. The Board supported the move away from franchising the whole Crown Office network and challenged whether, considering the return on investment and the management effort required, any further franchising made sense. Kevin Gilliland explained that 40% of Crown branches still made a loss and that the proposal was to work on these

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individual branches when opportunities arose, and to keep franchising as a lever to keep a focus on improvements in the Crowns.

Kevin Gilliland explained the rationale for the number of Mains branches in the plan. The initial plan had suggested an end state of 2500 Mains. However, it was now believed that, after product simplification and network extension, the most suitable and commercial route for getting to the 'ideal' state would be through working with agents to help them reduce costs and utilise their footfall.

ACTION:
Kevin Gilliland

- (e) The Board discussed the ruling by HMRC on the tax treatment for subpostmasters. Kevin Gilliland explained that this was not a problem with the new Locals contract, but some existing subpostmasters with Mains contracts would need to change and pay VAT instead of National Insurance. The Board asked for a note explaining the changes.

ACTION:
Kevin Gilliland

- (f) Supply Chain

The plan proposed significant cost reduction in the supply chain but retained an insourcing model. Kevin Gilliland explained that the strategy had not changed with an aggressive focus on cost reduction whilst still aiming to grow the business. He believed that before a more radical solution could be considered the Business should drive through self-funding branches and retailer cash. The Board acknowledged the planned improvements but would prefer the plan to include a business case for outsourcing as a future milestone.

- (g) Costs

David Ryan presented the costs of BTr and explained the breakdown of the £1.145 billion investment and its effect on EBITDAS, stressing that the promised returns were prudent. He highlighted that the two largest areas of spend were Network and IT transformation.

The Board discussed the overall return on investment of the proposed changes. It was noted that the aggregate figures were distorted by the low return for Network Transformation in absolute terms, although these figures did not capture the wider financial benefits such as the variabilisation of costs; the removal of contingent liabilities related to future compensation payments; and longer opening hours for customers. Network transformation also enabled the introduction of stronger retailing skills which would provide a more sustainable network and help to defend market share. Kevin Gilliland also noted that the Business' preferred compulsory approach would have delivered a different return.

ACTON:
Lesley Sewell

The Board acknowledged that the IT re-platform would be expensive but were surprised by the limited impact on cost reduction. The detail of the IT strategy would be considered at the January Board

ACTION:
David Ryan

The Board challenged the size of the overall investment for what appeared to be a small return. David Ryan explained that the aim of his presentation was to give an overview of BTr and the plan to 2020. The Board were not at this stage being asked to approve any investment, and that the Business would return to the Board

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highlighting the significant transformation programme investment proposals requiring Board approval.

The Board asked the Business to reconsider its approach and strip out the major programmes which were already underway, as business as usual, leaving BTr to focus on fundamental change. The Board asked for priority to given to initiatives based upon their relative return on investment and consider areas where we can leverage partners to execute business outcomes at their risk if this enables management to focus on fundamental change.

ACTION:
David Ryan

David Ryan presented the potential central cost reduction to March 2016 and an overview of the 30% central cost reduction by 2020. The Board asked for an extrapolation (by year to 2020) of the indicative cost profile of the business by function (before the uplift in costs to support business growth) with a commentary on the key differences. The analysis should include changes in relative costs, for example: IT in relation to people; and outsourced costs in relation to direct costs.

(h) Innovation and Growth

ACTION:
Martin George

The Board discussed the channel mix and the 25% target for digital transactions. Kevin Gilliland explained the change to a digital mails journey, which would mean that a significant part of the mails income would be for accepting mails items already purchased online. The Board asked for more clarity on innovation and growth and the CEO suggested that would form part of the Operating plan to be brought to the Board in March. The Board would also discuss the progress in digital at the January Meeting.

(i) Cash

ACTION:
CFO

The Board discussed the balance sheet position, including working capital, and stressed the importance of controlling the risks to the cash reserves. It was agreed that this would be considered in more detail with the Operating Plan and Budget in March.

(j) EBITDAS Flight path

The Board discussed the flight path of the three proposed scenarios. It was agreed that the 'do nothing' scenario was untenable as the counter-factual and it was suggested that the June awayday plan also be highlighted.

David Ryan explained that the 'full delivery' projection assumed that the FS strategy was delivered in full (reaching £508m of income by 2019/20), alongside full delivery of other cost savings and revenue growth initiatives identified as part of the Business Transformation Programme (with an underlying assumption that 'base' income would remain flat and costs would increase in line with inflation). The 'partial delivery projection' included a 30% reduction in cost savings, a lower projection for FS growth (reaching £459m income by 2019/20) and an assumption that network extension would only serve to defend existing income rather than deliver any incremental growth.

ACTION:
CFO

The Board asked for an additional flight path somewhere between the 'full' and 'partial' delivery projections. The CFO expected the initial budget for next year to be discussed at the January Board, by which

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time Christmas trading would provide a clearer view of the possible EBITDAS, and help define the additional flight path.

(k) Funding

The plans assumed no change to the funding agreement. Richard Callard suggested that it was unlikely that the current funding agreement would be reopened but that the Business needed to be ready with evidence to support any request for the continued social subsidy after 2017/18. This would be required in time for any spending review undertaken by a new government. The Board asked for a note setting out the precise basis for the promised funding through to 2018.

ACTION:
Chris Aujard

(l) Governance

David Ryan described the proposed governance and controls to be put in place including the development of a transformation management office (TMO), which he would lead, to provide portfolio management of the transformation. He explained that the TMO needed 4 or 5 additional people in key positions to add more rigour and challenge and help drive the Transformation.

ACTION:
David Ryan

Neil Hayward explained that the Business already manages large scale programmes and that many of the senior people who would deliver the 6 themes in the strategy were already in place. However, he recognised the need to increase the Business knowledge and expertise in 3 or 4 specific areas. The CEO agreed that, as part of the next phase of BTr, the Business would provide information on the clear ownership and accountability of roles, and a view of the additional resource required.

(m) Vision

The Board agreed that a clear vision and change narrative would help explain what the Business was trying to build for customers and staff. This would generate an emotional engagement with the end state and help emphasise the importance of BTr. The CEO agreed and suggested that this be discussed at the January Board.

ACTION:
**Neil Hayward/
Mark Davies**

(n) PwC Assurance

Chris Aujard introduced the PwC interim report, which highlighted their view of the BTr risks. He gave some comfort that the programme teams had identified many of the risks highlighted by PwC. The biggest risk highlighted had been the lack of a clear vision, an area which the Business was now addressing. Chris Aujard acknowledged that all parties agree that the project carries significant risk and needs appropriate governance and that the final PwC report would be circulated to the Board for their information.

ACTON:
Chris Aujard

(o) The Board noted the work to date and asked the Business to come back in January on the points raised.

ACTION:
David Ryan

(p) The CEO agreed to update the Board in December and include information on the 6 BTr themes in her report.

ACTION: CEO

(q) Chris Aujard, David Ryan, Kevin Gilliland, Neil Hayward and Martin Edwards left the meeting.

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POLB 14/146

FINANCIAL PERFORMANCE UPDATE

- (a) The Board received the financial performance update for October 2014.
- (b) The CFO reported that, despite income being below target in period 7, the mails performance had improved and delivered year on year growth. He remained confident in hitting the £880m income and £85m EBITDAS forecasts. If the POca contract was agreed there was the possibility that the outturn would be higher, which would also have a positive effect on the Crown P&L.
- (c) The Board asked for a note explaining the financial effect of the POca payment once the contract was agreed.
- (d) The CFO was confident of delivering the cost reduction target of £53m. Over £50m of this saving would be sustainable, but he acknowledged that there was very little discretionary spend left in this year's budget. He was also optimistic that the Business would reach its cumulative £100m target by March 2016.
- (e) The CEO explained that the Business was bring forward Wave 2 of the management structure changes with further headcount reductions. Tight cost control was now in place with the Cost Reduction Group which she attended and the CFO Chaired.
- (f) The CFO still believed that the Crown P&L would miss breakeven by around £2m, although Kevin Gilliland remained optimistic. The final outcome would depend on the Christmas trading. The Board asked for a reconciliation of the breakeven run-rate for the current position and the full year forecast.
- (g) The Board asked for a separate session on the working capital at the May Board.
- (h) The Board noted the financial performance update.

ACTION: CFO

ACTION:CFO

ACTION:CFO

IRRELEVANT

IRRELEVANT

POLB 14/148

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IRRELEVANT

IRRELEVANT

ACTION:
Chris Aujard/
POMS Board

POLB 14/149

UPDATE FROM THE AUDIT, RISK AND COMPLIANCE COMMITTEE

- (a) Alasdair Marnoch, Chairman of the Audit, Risk and Compliance Committee, gave an update to the Board on the last Committee meeting, the main business of which had been the Interim Report and Accounts.
- (b) He explained that the next meeting in January would discuss the Business Risk Appetite and Statements, which would then be considered at the January Board.

POLB 14/150

UPDATE FROM THE REMUNERATION COMMITTEE

- (a) Neil McCausland, Chairman of the Remuneration Committee, gave an update on the last Committee meeting, the main business of which had been the framework for the remuneration policy.
- (b) He explained that the February meeting would consider the remuneration and bonus approach for next year. He suggested that the Business and he work with Richard Callard to agree the best timing of the submission to the Shareholder.

POLB 14/151

UPDATE FROM THE NOMINATIONS COMMITTEE

- (a) Virginia Holmes and Alasdair Marnoch left the meeting.
- (b) The Board received a recommendation from the Nominations Committee to request shareholder consent to re-appoint Virginia Holmes and Alasdair Marnoch as non-executive directors.

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- (c) The Board agreed to request shareholder consent to reappoint both non-executive directors for 3 years from the date of expiry of the current contracts. It was noted that each director would also continue to hold their current chairmanships.
- (d) Virginia Holmes and Alasdair Marnoch re-joined the meeting.
- (e) The Chairman gave an update on the last Committee meeting, the main business of which had been the shortlisting of candidates for the Non-Executive Chairman of POMs and the additional Post Office NED positions.

POLB14/152

UPDATE FROM THE PENSIONS COMMITTEE

- (a) Virginia Holmes, Chairman of Pensions Committee, gave an update on the last Committee meeting, the main business of which had been to decide on the pension provider for the new DC scheme.
- (b) She explained that Friends Life had been selected after a process run by Mazars on behalf of the Business. The news that Friends Life were now to be taken over by Aviva may change that recommendation and this would be discussed at the next committee on 3rd December. The process may have progressed too far to change to an alternative, although Zurich who were the second choice and had also put forward a strong proposal would be acceptable.

POLB 14/153

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

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

POLB 14/154

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of:
 - the Audit, Risk and Compliance Committee held on 21 October 2014; and
 - the Pensions Sub-Committee meeting held on 28 October 2014.

POLB 14/155

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.
- (b) The Board noted the PwC Post Office Limited Risk Management Capability Report Executive Summary, which would be discussed at the January ARC.

ACTION:ARC

POLB 14/156

ITEMS FOR NOTING

- (a) The Board noted the IA status report summary as at 31 October.

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- (b) The Board noted the Significant Litigation report.
- (c) The Board noted the Health & Safety report.
- (d) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1131 to 1240 inclusive in the seal register was hereby confirmed.
- (e) Chris Aujard joined the meeting.

(f)



ACTION:
Kevin Gilliland

POLB 14/157

- (g) The Board asked for a note to explain the commission rates paid to a subpostmaster by Paypoint and Post Office.

DATE OF NEXT MEETING

- (a) It was noted that the next Board meeting would be held on 28 January 2014.

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POLB 14(13th)
POLB 14/158 -14/159

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

Minutes of a Board meeting held on 14 December 2014 by correspondence

Present:

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

In Attendance:

Alwen Lyons	Company Secretary
Martin George	Chief Marketing and Commercial Officer

POLB 14/158

INTRODUCTION

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

POLB 14/159

POST OFFICE CARD ACCOUNT (POCA) CALL-OFF AGREEMENT

- (a) The Board received a request from Martin George, Chief Marketing and Commercial Officer, to approve entering into the POca Call-Off Agreement (the Agreement) with the Department for Work & Pensions (DWP).
- (b) The Board noted that the proposed deal:
- was consistent with the Post Office Board Mandate agreed at the 28 October 2013 Board Meeting;
 - was consistent with existing Government services agreements;
 - provided a revenue stream to Post Office that resulted in an additional £9.8m in 14/15, £9.8m in 15/16 and £9.5m in 16/17 when compared to the current revenue projections;
 - gave the DWP a 10% saving over the life of the Call-Off Agreement; and
 - would be implemented via a call-off agreement under the FOCS framework agreement awarded to Post Office in 2012 by the DVLA.

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- (c) After full consideration of the proposal and with due regard to the risks raised, the Board agreed to enter into the 7 year POca Call-Off Agreement with DWP. It was noted that the commencement date of the Agreement was 1 December 2014.
- (d) The Board authorised the Agreement and any ancillary documents to be executed by the Company in accordance with s.44 of the Companies Act 2006: or for any one member of the Executive Committee to execute the Agreement and any ancillary documents on behalf of the Company.

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POST OFFICE LTD
(Company Number 2154540)

Meeting of a Sub-Committee of Directors
held at 148 Old Street, London EC1V 9HQ on Wednesday 19th November 2014

Present:

Alice Perkins	Chair
Alasdair Marnoch	Non-Executive Director (by telephone)
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Sarah Hall	Financial Controller

1 INTERIM REPORT AND CONDENSED FINANCIAL STATEMENTS FOR 2013-14

- (a) It was noted that the Sub-Committee had been constituted by a resolution of the Board, by correspondence, on 18th November 2014, to review and approve the final amendments of the Interim Report and Condensed Financial Statements for 2013-14 ("Interim Report 2013-14").
- (b) The Sub-Committee considered the final changes for the Interim Report 2013-14.
- (c) It was resolved that the final changes be approved, and noted that Chris Day would sign the Statement of Directors' responsibilities and the letter of representation on behalf of the Board.
- (d) It was noted that the Interim Report would be published on Friday 21st November 2014.
- (e) There being no further business the meeting was closed.

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POLARC14 (5th)
14/37 - 14/46

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

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on 10 November 2014 at 148 Old Street, London, EC1V 9HQ**

Present:

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

In attendance:

Alice Perkins	Board Chairman
Paula Vennells	CEO
Chris Day	CFO
Chris Aujard	General Counsel (GC)
Alwen Lyons	Company Secretary
Sarah Hall	Financial Controller (Minutes 14/38– 14/42 only)
Malcolm Zack	Head of Internal Audit (Minute 14/38 – 14/42 only)
Gary Hooton	Internal Audit (Minute 14/38 – 14/42 only)
Steve Miller	Risk Management Business Partner (Minute 14/40 only)
Mark Davies	Communications Director (Minute 14/38 only)
Angus Grant	Partner, Ernst & Young (Minute 14/38 – 14/42 only)
Steve Lyon	Senior Manager, Ernst & Young (Minute 14/38 – 14/42 only)

POLARC
14/37

INTRODUCTION

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

POLARC
14/38

**INTERIM REPORT AND CONDENSED FINANCIAL STATEMENTS FOR
2014-15**

- (a) The ARC was invited to review the Post Office Limited Interim Report and Condensed Financial Statements for the 2014-15 half-year and to recommend their approval to the Board.
- (b) Sarah Hall, Financial Controller, highlighted specific parts of the Briefing Book for discussion. She explained the worsening profit position and the revenue bridge analysis for each product area. The ARC discussed the cost analysis and the Quality of Earnings.
- (c) Sarah Hall explained that the Pensions assumptions had been recommended by Towers Watson and approved by the Pensions Sub Committee.
- (d) The ARC discussed the Exceptional items and Provisions and asked the Business to make the reduction in Government Grant and its effect on the profit clear in the report.
- (e) The ARC discussed the Going Concern analysis and agreed that Post

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Office Limited will be able to meet its liabilities as they fall due in the foreseeable future. Based on the analysis there was available headroom until March 2018.

- ACTION:
CFO**
- (f) Angus Grant, EY, explained that as usual no external audit had been carried out at the half year, but that his comments were based on a review of the numbers, assumptions and accounting treatments. He pointed out the change in the exceptional items line where, unlike in previous years when the use of the Government grant had taken place fairly evenly through the year, this year the whole of the grant had been used in the first half of the year. He suggested that the Business could consider spreading spend across the whole year. The CFO explained that he preferred to recognise the grant to match the costs as they occur and reported that ShEx were also comfortable with this consistent approach. The ARC agreed the accounting and emphasised the importance of the CFO clarifying in the explanatory note that the second half of the year will be different, highlighting the reduction in year on year government grant.
- (g) Alice Perkins joined the meeting.
- ACTION:
CFO**
- (h) Angus Grant supported the prudent accounting treatment of POca and Telecoms Services. He asked the Business to ensure that exceptional Business Transformation Costs were documented clearly at year end to support their treatment and to ensure that no BAU costs were included.
- (i) The ARC discussed the front page narrative which had been amended to include input from ShEx and the Chairman of the ARC. The ARC agreed that the narrative should highlight the reduction of 20% in government grant and clearly show the underlying profit worsening of £10m. The ARC wanted the report to be Fair, Balanced and Understandable and suggested that it could include an explanation of the actions are being taken in the second half of the year, to give the reader a clearer view of performance. The ARC also asked the CFO to consider adding a forward looking statement to the report.
- ACTION:
CFO/MD**
- (j) The ARC asked the Business to consider including a comment about its people to recognise that times are challenging.
- ACTION:
MD**
- (k) The ARC agreed to recommend to the Board:
- that the approach to Going Concern be approved and the Going Concern status for the Company at the half year is agreed;
 - that the Interim Report and Condensed Financial Statements should be approved; AND
 - that, if final amendments are required, authority be delegated for reviewing these amendments and completing the Interim Report and Condensed Financial Statements on behalf of the Company to a Sub-Committee, the quorum for which to be comprised of any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch.
- ACTION:
AM**
- (l) The Chairman of the ARC agreed to provide a verbal update of this meeting to the Board.

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**ACTION:
CFO**

(m) The ARC reviewed EY's Audit Planning Report and Angus Grant explained the key areas to cover in the external audit 2014/15. He explained that the audit would be complicated because of the change in finance system part way through the year. He believed that the IT audit would also be more complex as it was not yet clear what audit assurances could be relied upon from the new providers. The CFO promised to involve EY in discussion to ensure any supplier certification would be fit for purpose.

(n) The CFO was asked to discuss the proposed audit fee with EY to understand what was driving the additional cost and to identify if any further efficiency savings could be identified.

**ACTION:
CFO**

(o) The ARC Chairman asked the Business to revisit the actions in last year's external audit report to ensure they have all been discharged.

(p) Mark Davies left the meeting.

**POLARC
14/39**

MINUTES OF THE LAST MEETINGS AND MATTERS ARISING

(a) The ARC approved the minutes of the meeting held on 21 October 2014 for signature by the Chairman of the Committee.

(b) The ARC noted the actions list dated 4 November 2014.

(c) The ARC noted the update on the performance of Video Mystery Shopping for Life Insurance.

**ACTION:
Jonathan
Hill**

(d) The ARC asked for a further paper for the January ARC covering the FS compliance risk, including the Band of Ireland position on Post Office compliance, and whether the Business is treating the customer fairly.

**POLARC
14/40**

RISK APPETITE STATEMENTS – MARKETS

(a) Steve Miller, Risk Business Partner joined the meeting.

(b) The Committee was invited to consider a modified risk appetite rating based on a 4 points scale; and an updated, more granular, narrative relating to the market risk appetite statement.

(c) Steve Miller explained that the Business' Commercial Committee had tested the new market risk statements and risk calibration to confirm that both were practical and useful for decision making.

(d) The ARC members challenged the Business' assertion that it was risk seeking in the financial services market and agreed that in their view the Business should be risk tolerant. The CEO agreed and suggested that the metrics behind each statement would give further clarification.

(e) The ARC approved the revised risk appetite rating score.

(f) It was noted that the risk function was working with the ExCo to finalise all the risk statements on the basis of the feedback provided. These statements would revert back to the Business Risk & Compliance

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Committee and then the ARC and Board in January.

- (g) Steve Miller left the meeting.

**POLARC
14/41**

ANNUAL SELF ASSESSMENT AND TERMS OF REFERENCE REVIEW

- (a) The ARC received a paper to establish annual self-assessment of its performance and to commence the annual review and approval of the terms of reference and the Internal Audit Charter.

**ACTION:
Malcolm
Zack**

- (b) The ARC noted the paper and agreed to complete the self-assessment and reviews accordingly.

**POLARC
14/42**

IA STATUS OF AGREED ACTIONS

- (a) The ARC noted an update on the status of agreed actions arising from formal audit and advisory activity.

**ACTION:
Lesley
Sewell**

- (b) The ARC was concerned with the status of the IT audit actions, and were unsure if the delays were predicated on sound business reasons, or highlighting issues. Lesley Sewell was asked to attend the ARC in January to explain the reasons behind the delays.

**ACTION:
Malcolm
Zack**

- (c) The ARC asked Malcolm Zack to include an additional measure in his status report, to track audit actions against their original deadline and also against any rebased deadline.

- (d) Malcolm Zack, Gary Hooton, Sarah Hall, Angus Grant and Steve Lyons left the meeting.

**POLARC
14/43**

RECRUITMENT UPDATE

- (a) The GC explained that the recruitment process for the Head of Internal Audit and Risk had progressed to a shortlist of 2 to 3 people. The CEO was pleased with the shortlist but explained that there may be an issue with the level of salary the Business is able to offer. The GC explained that candidates with an FS background were more expensive but that the best Post Office fit may not necessarily have an FS background.

**ACTION:
GC**

- (b) Alice Perkins suggested that the GC ask Virginia Holmes for her opinion on the necessity of an FS background for the role.

- (c) It was agreed that the CEO and Group People Director would undertake the interviews, with Alasdair Marnoch or another member of the ARC meeting the preferred candidate.

**POLARC
14/44**

PROPOSED DATES FOR 2015

**ACTION:
AM/CoSec**

- (a) The ARC Chairman and the Company Secretary would agree proposed dates for 2015 and circulate to the ARC.

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**POLARC
14/45**

DATE OF NEXT MEETING

The next meeting will take place in January, date to be advised.

**POLARC
14/46**

CLOSE

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

FS 14/42-14/46

POST OFFICE LIMITEDFINANCIAL SERVICES SUB-COMMITTEEMinutes of a meeting of the Financial Services Sub-Committee of the Board
held at 148 Old Street, London EC1V 9HQ on Tuesday 14 October 2014 at 12.00pm.

Present: Virginia Holmes (VH) Chair
Tim Franklin (TF)
Chris Day (CD)

In Attendance: Paula Vennells (PV) CEO
Chris Aujard (CA) Head of Legal
Nick Kennett (NK) Director, Financial Services
Jonathan Hill (JH) Head of FS Risk, Banking Regulation & Strategy
Jeremy Law Head of Sales (Minutes 14/40 and 14/41)
Paul Forster (PMF) Company Secretariat
Gordon Gourlay (GG) Managing Director, PO Businesses, Bank of Ireland
(Minutes 14/40 and 14/41)

FS 14/40

SALES CAPABILITY UPDATE

- a) JL and GG joined the meeting. VH welcomed GG to the meeting and commented that he will be in attendance for the Sale Capability and Business Updates which when provided to him are redacted to ensure no conflict of interest. The Committee considered the report on Sales Capability. Financial and mortgage sales teams were not delivering forecast sales figures because of challenges affecting the Crown offices being:
1. Crown transformation
 2. Business pressure on mails
 3. Funding

During the quarter mortgage management had focussed on the introduction of MMR away from sales. Learnings had been made from this experience and there was greater focus on sales and lead generation was improving. TF requested further information on this matter and JL informed the Board that the Bd processing centre had not been fully operational and did not have the capacity to cope with mortgage volumes which had run dramatically ahead of forecast; it was noted that the SLAs in place had proved not as robust as expected. VH queried whether the Post Office had received early warning indicators. JL responded that the matter had been raised within the weekly trading committee meeting with Bol and action was taken, however, that action had not been taken quickly enough. He commented that the problem had been compounded by giving 48 hours (rather than the industry norm of 24 hours) notice of the withdrawal of mortgage products which had resulted in intermediaries submitting a large volume of applications in the 48 hours prior to this deadline. GG explained that July had seen an extraordinary amount of mortgage applications and resources had been scaled to deal with 105% of sales and the actual level had hit 150%. Additionally, certain crucial employees had not been available in July. In response to these difficulties Bol had now increased the resources applied to Post Office business and had reopened a call centre. As a result since 5 July 2014 there had been no processing centre issues but the mortgage momentum had been halted and this needed building back up. GG confirmed that the 2015 Plan included increased levels of resources. NK elaborated that the communication process between Bol and PO had not worked in this period because the sales momentum had reached such a pace that it was too great before the mortgage products had been removed from the market.

- b) As a result of the issues in July 2014 the sales momentum had not built up through September which showed significantly decreased sales. NK reported that new financial products were being introduced in November and momentum would be built up. TF noted that seasonality was one issue however product pricing drove volumes and he asked how volumes were to be driven. NK replied that this would be achieved through the new products due to be launched later this year. However it should be recognised that the Post Office was a small player in the market and so was not driven by the macro market changes of our larger competitors. JL explained that spring and autumn were the best periods for product sales and the autumn sales period had now been missed. VH commented that new products were being launched and Post Office had the ability to sell these products, however, it relied on efficient processing capacity. JL confirmed that sales would be increased by product launches and product price changes.
- c) TF raised concern about the risk aspects and mis-selling issues. In response NK believed that there were good core skills in the sales force and training would be increased in order to minimise any mis-selling incidents.
- d) PV advised that she was comfortable with BoI service and had received assurances on service from the UK CEO. The question remained how JL can improve sales and to a run rate that he can deliver on.
- e) Turning to the FS compliance framework, analysis of video mystery shopping had revealed non-compliant sales methods being used by advisers across the whole product range. This was being picked up in further training for analysts. NK highlighted areas of sales performance which had caused concern mainly around conformance and sales advisers not reading out the correct wording to customers. Therefore mortgage and financial sales advisers will be further supported by technology and this had now been moved forward as a priority. Where staff did not have the relevant accreditation then sales staff were being trained up in order to pass and become sales qualified.
- f) In regard to sales targets NK advised that the target was to achieve 10000 customers by the end of the 2014/15 year. GG mentioned that BoI were seeking a Head of Current Accounts which when in place should increase the processing momentum.
- g) TF asked if the Incentive Schemes were in place and NK responded that discussions with Unions were in progress and this will be subject to their agreement; it was noted that this had been the situation since April 2014. GG commented that BoI were concerned at the impact of industrial relations issues on sales performance. NK confirmed that should a sales representative fail on a compliance matter then no bonus would be paid. VH asked JL to submit a report on the method of management to the next Committee meeting.

Action: JL

FS 14/41

BUSINESS UPDATE

- a) The FS Business Update October 2014 was considered. Total income for the half year was ahead of Plan although trading performance had been challenging. Overall revenue was 5% up year on year. The focus remained on improving sales effectiveness and compliance and improvements were being seen in the Video Mystery Shopping performance.
- b) NK reported that negotiations had commenced with BoI on commission/balance sheet management, entering the investment market and the buyout of the BoI share of the insurance business. In addition the Post Office Board had approved the 2020 FS strategy.
- c) The Business scorecard for October 2014 was tabled and was noted.
- d) NK highlighted that the challenge was to increase the sales figures and concern remained at the flow through for Mails to sales, whilst the introduction of incentives

would assist an increase in sales, GG noted that the challenges was also for FRES to increase sales numbers. Savings were running behind Plan volumes and whilst picking up momentum he confirmed that sales will not hit the £18bn target.

Action: NK/GG

e) TF cautioned that the product range needs to be consistent and constant changing would affect the Company's credibility in the market. The Committee requested Bol to report on sales savings at the next meeting. GG highlighted there was internal Bol concern at extending certain activities for the Post Office particularly since some had an implication on the Bol balance sheet. PV commented that she had received assurances from Bol that there was no ceiling to the post Office activities and she would examine this further. It was agreed that this be placed on the agenda for the next meeting.

f) It was agreed that TF would deal directly with NK on his queries in regard to products outside of the meeting. In particular, TF mentioned that current accounts were working properly and perhaps current accounts could be rolled out to staff.

Action: NK

g) The Visa debit card had been delayed and GG confirmed that this was on course for introduction in March 2015. NK would provide activation rates and incorporate this into future Business Updates.

Action: CA

h) VH raised the section 4 notifiable breach and it was noted that the matter had been considered at the recent Post Office Board meeting. JH outlined the situation and the remedial action that had been taken. NK confirmed that the matter had been notified to the FCA. JH reported that the matter will go back to the FCA and report that new procedures had been introduced with insurers to ensure that the customer is not treated detrimentally. He added that the Company has greater control of the ongoing business and confirmed that the Company will not be fined. PV added that the Risk and Compliance Committee has registered this matter as a formal event and was tracking it. It had been a learning experience. In response to a query from VH, CA responded that a structure should be put in place for FCA notified issues to be submitted to the FS Committee.

i) GG and JL left the meeting.

FS14/42 INTERCOMPANY AGREEMENTS

a) NK update the Committee on three intercompany agreements between Post Office Limited ("POL") and Post Office Management Services Limited ("POMS") which were being finalised and were being considered by the POMS board prior to submission to POL for approval. NK explained the governance process in regard to POMS which will be submitted directly to the Post Office board and proposals in relation to the following agreements

1. Distribution Agreement
2. Master Service Agreement; and
3. Sub-ordinated Loan.

c) In addition an informal meeting of TF and VH to discuss financial matters in relation to POMS and Post Office would be arranged on an ad hoc basis in order to receive VH and TF's views on pertinent financial issues prior to Post Office board meetings.

Action: PV

d) There was a discussion on Project Hawk and it was agreed that PV would provide and update at the Post Office Board on this project. VH commented that the choice to go to an independent expert was the Post Office's and not Bol's and that Bol had indicated it wished to hold a 25% rather than 10% stake in the investment entity. VH and TF felt that the Board needed to understand better the proposed investment business and PV would update the Post Office Board.

FS14/43 RISK

The Committee considered the draft FS Risk Map October 2014. JH emphasised that this was a draft Risk Map and had been submitted for Committee sign off prior to going to the Post Office board. He commented that no risk will be moved until the risk had been mediated. VH suggested that the risk map should be viewed in the context of an FCA ARROW. In response to VH's question whether a BCP existed, JH confirmed that there was not yet a BCP in place in respect of FS although one was being developed currently. There was a risk assurance plan in place with Bol and in particular with suppliers. PV requested CA to take action on the finalisation of a BCP. It was suggested that risk 10 would require a cultural shift and as this had not occurred should not move and that risk 11 on AML be moved to a less risk associated area which JH will determine.

Action: CA

The Committee agreed:

1. Not to move risk 3
2. Not to move risk 7
3. To move risk 8 as proposed
4. Not to move risk 10
5. Move 11 to a more appropriate space

FS14/43 MINUTES

The Minutes of 15 July and 16 September 2014 be approved for signature by the Chair.

FS14/44 ACTION LIST

Action: NK

The Action List was considered. TF commented that action FS4 related to the calculation of NPS which NK was to provide. Action FS 5 had resulted in the launch of Post office Money the new brand which would happen in January 2015. The Committee noted the Risk Responsibility and Mis-selling Risk Responsibility reports which had been requested in Action FS12.

FS14/45 FIRST RATE EXCHANGE SERVICES LIMITED

The Minutes of the meetings of the First Rate Exchange Services Limited Board held on 9 and 29 July 2014 were noted.

FS 14/46 NEXT MEETING AND CLOSE

The Committee noted that the next meeting will be held on 3 December 2014 at 1.30pm.

There being no further business, the meeting closed.

.....
Chair

FS 14/47-14/55

POST OFFICE LIMITED (Company)**FINANCIAL SERVICES SUB-COMMITTEE****Minutes of a meeting of the Financial Services Sub-Committee of the Board
held at 148 Old Street, London EC1V 9HQ on Wednesday 3 December 2014 at 1:30pm.**

Present:	Virginia Holmes (VH)	Chair
	Tim Franklin (TF) (by telephone)	Member and Director
	Chris Day (CD)	Member and CFO
In Attendance:	Paula Vennells (PV)	CEO
	Chris Aujard (CA)	General Counsel
	Nick Kennett (NK)	Director, Financial Services
	Jonathan Hill (JH)	Head of FS Risk, Banking Regulation & Strategy
	Jeremy Law (JL)	Head of Sales (Agenda items 14/47 and 14/48)
	John O'Neil (JON)	Area Performance Manager, Operations (Agenda Items 14/47 and 14/48)
	Chris Judd (CJ)	Acting Interim Deputy Company Secretary
Gordon Gourlay (GG)	Managing Director, PO Businesses, Bank of Ireland (BoI) (Agenda items 14/47 – 14/49)	

FS 14/47

QUORUM AND CONFLICTS OF INTEREST

All three Committee members were present either in person or on the telephone and the Chairman declared the meeting quorate and open.

Each of the members was asked in their respective capacities as directors of the Company to declare the nature and extent of any of their interests in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's articles of association and no such conflicts were declared.

FS 14/48

SALES PERFORMANCE, MANAGEMENT AND CAPABILITY

JL presented a live walk through of the Salesforce management system used to manage the sales team and subsequently spoke to his paper.

He explained the pages he would take the Committee to would give an overview and could also give a granular view to whatever level the Committee would like to explore relating to how the sales business and process was managed. The system utilised was a point of sales tool for customer relationship management (CRM) and was used in all interactions with customers.

The first information displayed average meetings per day, by region combined with the number of customers created (ie those who were not existing customers of the Company), which fed into numbers of opportunities created per day and finally numbers of opportunities per day converted into sales. These metrics helped measure activity, productivity and effectiveness. It could be interrogated down to individual Financial Specialist (FS) level to determine where a particular FS could improve performance (for example by holding more meetings, successfully converting more opportunities or collecting better quality data). Data quality was particularly important as it demonstrated whether FS' were accessing the right sort of information to convert into sales and create other cross selling opportunities.

JL gave live examples of each of the areas and explained that managers used the data in meetings with FS' to discuss improvement areas. They had also introduced dashboards relating to training and development, which showed training individual

FS' had received and how this cross referenced to their performance so the most effective training could be targeted.

Daily warm down meetings were held with FS' dealing with counter referrals, meetings that had taken place, new relationships and where those opportunities had arisen from. A challenge was made as to how the Company could be confident such meetings were taking place. A query was also raised as to whether the sales information gained was shared with the marketing and other teams to enable them to better target their efforts. The answer to the first point was all the data was monitored and ultimately it was not possible to alter sales figures, which meant that anomalies between what was being reported and sales figures would be noticed. As for other teams using the system, it was noted that whilst the system was under a Company licence and was not exclusive to Financial Services, it was primarily a specialist sales tool and so it was not easily translated into other areas, although certain other teams did use the system to a limited degree.

JL then referred to the internal social media tool "Chatter" that had been introduced. This was proving highly successful in bringing teams together and encouraging the sharing of successes and best practice. In addition, given the speed at which multiple users could access information it was also an excellent method of transmitting information quickly, which enabled teams to react swiftly. Chatter was monitored, but not to a standard that was considered satisfactory at this point. Whilst it was acknowledged as a very useful tool, there should be a monitoring system in place so that a person from each team was tasked to monitor it daily, so that if there were any postings that required action, they could be dealt with immediately.

Action: JL

In relation to the Salesforce management tool, JL explained it had first been launched in August 2012, but had not gained sufficient traction, so was re-launched in approximately May/June 2014. It was still therefore bedding in and further work needed to be done to ensure it was utilised to its maximum efficiency. JL was tasked to identify the top three or four issues that required focus to ensure the system was utilised properly and to mandate the appropriate team members to ensure these issues were addressed.

Action: JL

JL then spoke to his paper.

In short, sales were significantly behind target in just about all areas apart from credit cards. JL reported however that progress was being made. NK added that the sales figures were as expected. He explained that for example in certain key areas such as savings accounts, a conscious decision had been taken to allow certain products to wind down and that approach had been supported by Bol. The Company's income was therefore increasingly based on a back book in mortgages and insurance and there was therefore at first appearance a disparity between sales and revenue. He further explained that the insurance market was becoming increasingly commoditised and pricing was key. The Company had optimised its online model and value so that it made little on initial sales, but would benefit upon renewal in years two and/or three.

GG commented that the performance of the sales team had been disappointing and that it was a concern to Bol. It was noted that the only areas in which there was a year on year increase were mortgages and credit cards.

Home insurance was showing a general downwards trend, though it was reported that November 2014 was the best ever recorded month in this area. The challenge was raised whether, if pressure was being put on the sales pipeline, the Company was increasing the risk of not considering customers' best interests. The response was that all of the figures were measured against the original targets for 2014/15 and that those targets had now been re-set to be realistic and achievable.

JL's presentation showed that the top 10-15% of FSs were achieving in the range of 12-15 sales per week, but that there was a large number of FSs below that level

where there appeared to be room for improvement in their conversion rates. JL acknowledged that his key focus was to work to improve the performance of the ostensibly underperforming specialists. NK also commented that since JL had been in post, active steps had been taken to identify the worst performing specialists and that thirty four were currently engaged in the "leaving with dignity" programme. He also commented that some skilled and talented salespeople were being recruited, but it was not easy to attract the best talent as the Company pay rates were not competitive with the banks.

The challenge was also raised as to whether there was a risk of adverse behaviours amongst sales staff if they were being pushed to perform better. Whilst the team was always aware of this issue they reported they had focused on compliance during the last six months and the results from the mystery shopper process had given them a far greater degree of confidence the Company's products were being sold in accordance with required standards and with the customer's best interests in mind.

IT WAS NOTED that the vast majority of sales remained counter sales through the Crown Offices and agencies. It was also agreed that budgeting for 2015/16 had to be realistic, but that once realistic targets had been set, they would need to be achieved.

The Committee thanked JL and JON for their presentation.

JL AND JON LEFT THE MEETING (14:10)

FS 14/49

BUSINESS UPDATE (including Balanced Scorecard)

NK spoke to his tabled paper.

He opened by reporting a number of updates post circulation of his paper:

- An arrangement had been put in place with Bol for 2015 to manage savings and that commissions were to be re-based. The arrangement demonstrated alignment between the two businesses. VH acknowledged the progress for 2015/16, but questioned when the 2020 targets would be developed as a joint plan. NK acknowledged this was the next stage of development of the relationship and that thought was already being given to such longer term plans.
- NK had received a notification from the Valuation Office Agency (VOA) that Company automated teller machines (ATMs) would not be subject to a separate business rate levy. This related to external ATMs only. He clarified that this waiver did not relate to ATMs in Company premises for which customers had to pay to remove cash, nor to non-Company external ATMs. This gave the Company a commercial advantage at corporate level, but not at retail level. It would save the Company £20m in the current financial year and £4m per annum on an ongoing basis.
- A consideration of core products would follow together with discussions regarding the launch of market leading products in Q4 of 2014/15 and Q1 of 2015/16.
- Discussions with Bol regarding entering the Investments market place had been deferred pending resolution of discussions regarding Project Hawk. Online ISA development was continuing well and was due to go live in Q4, in time for the new ISA season. All these products were cash ISAs, save for a specific child ISA.
- There was a £4bn target for mortgages in what remained an extremely competitive market. Branch targets would be achieved during the following week. The products being sold were rated as "best buy" most of the time.

Achievement of these targets represented a good start which accounted for approximately 2% of market share. This represented a real success in the relationship between the Company and Bol and was the standard to try and replicate in other areas. There was a real momentum in the mortgage business and whilst Bol had made mistakes, they had not done this volume of work with the Company previously and they had learned some valuable, positive lessons from those mistakes. A good January 2015 would see the business miss final target in March 2015, but only by a small margin.

- Current accounts switching incentives of £100 were being offered. This was regarded as absolutely normal in the market and by comparison Yorkshire and Clydesdale were offering switching incentives of £150. It was acknowledged by Bol and the Company that the present current account offering was not achieving what had been anticipated. Oliver Wyman Consultancy were therefore assisting with a complete product review to assess how best to take this product forward. This was a root and branch review to challenge the existing concept of what such an account should look like. The results of that review would be brought back to the Committee.

Action: NK

- The credit card products were going well.
- Insurance had already been dealt with. Post Office Management Services Limited (POMS) was on track for launch on 1 January 2015. The strategic system was at best and final offer stage and contingency plans were in place to maintain Financial Conduct Authority (FCA) coverage due to delays in the FCA process.
- Travel money was performing well and had been voted the best Travel Money provider by the public at the British Travel Awards for the eighth consecutive year. Which Magazine had also awarded the products recommended status. August 2014 had been a poor month, but September 2014 had been back on track, with October 2014 and November 2014 both being good months. Overall this area was back on budget.
- Similarly, Post Office was voted Best Travel Insurance Provider for the ninth year in a row at the British Travel Awards.
- NK had attended a round table discussion with Vince Cable, which was also attended by representatives from The Big Six banks, charities, the British Banking Association (BBA) and other industry interested parties. Bol had not attended as they were aware that NK would be attending. It had become increasingly clear that the banks were using the Company to support their branch closure programmes. It was acknowledged that the Company had provided this service, but NK had made the point the Company could only continue to provide this service on a commercial basis. Vince Cable had acknowledged this general proposition and had recognised it as an opportunity for the Company and the community. He had written a letter to the banks acknowledging the role the Company had in these closure programmes and suggested that the banks should contribute to the service that was being provided. The BBA were representing the interests of the various banks and NK would be meeting with them on 4 January 2015 to discuss The Company's proposition, which would need to be multi-structured.
- IT WAS NOTED the customer experience data demonstrated improvements, but there was a continuous need to drive improvement in this area.
- Mystery shopping was proving very effective in detecting instances where FSs were failing to follow approved sales processes.

- There was one issue the Committee needed to be aware of, which had already taken to the Board. This related to a mis-selling risk going back to 2008 in that 9,411 customers had been identified who may have purchased excessive cover for their declared travel destinations. The Company had agreed to refund the difference between what they should have paid and what they actually paid, which averaged out to £17.23 per customer. Those refunds were now ready to be processed. Tax at the appropriate rate would be deducted and remitted to HMRC. A further initial six customers (now five) had been identified who had claims denied in circumstances where the inadequate geographical cover may have been a factor in insurers' decision to refuse to indemnify. There were no "medical" claims in this category and the average level of these claims was in the region of £500 per customer. Bol were aware of these issues and were comfortable with how they were being dealt with. The FCA were also aware of the issues and were similarly comfortable.
- The Company's ATM network expansion programme had been challenging legally and operationally. The Company had offered the Utilities a simple and cost effective payment solution product which was being accepted by the Utilities. Paypoint were raising objections, but CA explained that the issue was really a contractual one between Paypoint and the Utilities providers.
- There was an acknowledgement of the spirit of cooperation between the two organisations. It was explained that as the Company was currently only registered for Consumer Credit with the FCA on an interim basis, following the change of regulator in April 2014, they did not have an assigned contact. The FCA were clamping down on certain aspects of payday lenders' operations. This indirectly affected the Company in that it had to change some of the wording in its literature and the initial requirement was that all these changes be implemented by 2 January 2015. The Bol team had made representations to the FCA who were minded to support the Company bringing in the changes on a phased basis over a period of time. This could not have been achieved without the assistance of the Bol team for which GG was offered the Company's thanks.

GG LEFT THE MEETING (15:00)

FS14/50

PROJECTS TITAN AND HAWK

It was reported that the present position relating to Project Titan had been presented to the Board. The project itself had now been formally adopted by POMS. At time of presentation there remained four key areas that the Board needed POMS to resolve before they were content for POMS to begin trading. Three of those items, (financial management, call centre and governance) had been satisfactorily dealt with, leaving one area, contractual, to be resolved before the decision could be taken to proceed with trading. CA explained the various contractual issues were largely resolved, but there remained an issue with the underwriting agreement as there was a difference of view as to how the relationship should be structured. The commercial terms within the schedule(s) also needed to be resolved and discussions were ongoing.

IT WAS NOTED that upon resolution of the outstanding issues, if FCA approval had not been received, POMS had a contingency plan which it would activate whereby a regulated third party would act as agent for POMS.

IT WAS NOTED that before POMS would be in a position to proceed, they would need formal confirmation from Grant Thornton that the four areas referred to had been satisfactorily dealt with.

There had been little development in Project Hawk since the last Board meeting. NK would be meeting John Tudor from Bol tomorrow to try and agree terms of reference for the Independent Expert (IE). The current sticking point was Bol wanted the IE to interview Rob Clarkson from Bol as part of his data gathering exercise to enable him to form a view on valuation. The Company's position was that the IE should base his determination on a consideration of the facts alone and not be influenced by individual views from Bol representatives. Once the terms were agreed, NK was confident the process could move forward relatively swiftly. Concern was expressed about the process and reassurances were given that the Company had far more control over the process than Bol, though CA made the point that within any contractual dispute mechanism, there was the potential for either party to prevaricate and cause delay. The ultimate sanction if agreement could not be reached was to request the President of the Institute of Accountants in England and Wales (ICEAW) to appoint an IE, though on balance that may not suit either party.

FS14/51 BANK OF IRELAND (UK) PLC (Bol UK) CAPITAL AND LIQUIDITY

IT WAS NOTED that the Bol UK parent had passed recent capital and liquidity tests and that Bol UK had passed similar tests on both a standard and adverse basis.

FS14/52 RISK

IT WAS NOTED that what was being presented was an impact chart and that accordingly certain risks could never be mitigated to the point where they fell within the green zone. The risk process was discussed and it was confirmed that the risks were tested and verified. JH and Paul Beaumont had direct meetings with each team each month during which the risks and mitigating actions were discussed. There was continuous dialogue with the Head of Risk and Compliance, who would report any risks that did not appear to be consistent with Group risk. CA indicated his team was content with the identified risks, but noted that as presented they did not take account of the mitigating factors.

The Committee asked to be presented with the report in a slightly amended fashion, so that where it was compiled with initial risks categorised red, amber or green, those risks be accompanied with the actions required to move them to green (if they were amber or red), that responsibility for those actions be assigned to a named individual and that a date be included for completion of those actions. (It was acknowledged that certain of the risks would never be mitigated to "green").

Action: JH

Of the identified risks, Risk 1 whilst it remained, was reducing on the basis of improvements in the relationship with Bol and the levels of cooperation now being demonstrated. Risk 2 had been dealt with during JL's presentation. It was acknowledged why Risk 4, (breach of exclusivity arrangements with Bol) needed to be mitigated as the impact would be significant if there was a breach. It was noted that in relation to Risk 7, an effective Business Continuity Programme was imperative. CA would address this issue as action point FS18. IT WAS AGREED that Risk 8, (reliance upon other business initiatives) needed to be mitigated so that it was a decreasing, not increasing risk.

FS14/53 MINUTES AND ACTION LIST

The minutes from 14 October 2014 were approved for signature by the Chair, subject to a typographical error being amended on the final page.

Action: CJ

Action FS10 was noted and could be removed.
Action FS13 was noted and could be removed.
Action FS14 had been completed and could be removed.
Action FS15 – activation dates for Visa debit could be removed.
Action FS16 – CA reported that the structure had been put in place but that there had been no issues reported to the FCA. The action could be removed.
Action FS17 – update on Project Hawk had been given to the Board and the action

could be removed.

Action FS18 – CA reported that there was a business continuity run through exercise scheduled for 16 January 2015 across the business, to include Financial Services. The issue of Bol's stability was also raised and an assurance was given that the position was now very different to when Bol had encountered significant difficulties in 2010.

Papers for Actions FS4 and FS13 were noted.

The minutes of the FRES meeting of 1 October 2014 were noted.

FS14/54

ANY OTHER BUSINESS

IT WAS NOTED that there would be a major campaign in Q4 with significant press coverage that could be discussed at the next Committee meeting.

**Action:
NK/CJ**

A presentation would be given to the Board in January 2015 regarding the campaign and the general Company view of digital media. A report should be presented to the next Committee meeting as an agenda item.

FS 14/55

NEXT MEETING AND CLOSE

The Committee noted that the next meeting would be held on 3 March 2015 at 3.00pm.

Subsequent meetings for 2015 would be held on:

3 June 2015 at 10:00am

9 September 2015 at 10:00am

9 December 2015 at 10:00am.

There being no further business, the meeting closed.

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Chair

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PC 14/44-14/53

POST OFFICE LIMITED ("POL")

PENSIONS SUB-COMMITTEE

**Minutes of a meeting of the Pensions Sub-Committee of the Board
held at 148 Old Street, London EC1V 9HQ on at 10am on Wednesday 3 December 2014**

Present: Virginia Holmes (VH) Chair
Chris Day (CD) Committee Member
Richard Callard (RC) Committee Member

Apologies: Neil Hayward (NH)

In Attendance: Keith Murdoch (KM) Head of Reward and Pensions
Harpreet Singh (HS) Pensions Manager
Tim Giles (TG) Aon Hewitt (Aon) (Items 14/44 – 14/48)
Ross Mitchell (RM) Aon (Items 14/44 – 14/48)
Ian McKnight (IMK) Royal Mail Pension Trustees Limited
(RMPTL) (Item 14/48)
Chris Judd (CJ) Acting Interim Company Secretary

PC 14/44 OPENING OF MEETING

VH noted a quorum was present and declared the meeting open.

PC 14/45 MINUTES AND ACTION POINTS

The minutes of the 8 October 2014 meeting were not an adequate representation of the meeting and required significant amendment. VH would supply those amendments to the Company Secretary who would amend as required and re-table for consideration by the Committee at the next Committee meeting.

Action: VH/CJ

The minutes of the 28 October 2014 meeting were approved for signature by the Chair as tabled.

The Action List dated 28 October 2014 was considered:

P5, P12 and P13 would be dealt with as agenda item 3 and were closed as a result of the discussion within the Review of Investment position discussion. It was noted that P13 was in conjunction with the Mercer report on Risk Monitoring.

CD reported on P14 that he had attended a meeting relating to proposed private equity investment with IMK, TG, HS and Mercers (Stephen Woodcock). The conclusions from those discussions were:

- POL supported the underlying principles of the private market investments, but concerns remained over the consequences of any potential split of the Royal Mail Pension Plan ("the Plan") on the tax blocker arrangements. IMK had agreed to obtain further details on the implications of any split, however the POL Section already had investments utilising the tax blocker, notably the Oaktree investment in emerging market debt. Subsequent assurances had been received that the tax blocker arrangements

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adequately covered these investments.

- Hamilton Lane – It was agreed that POL would support the purchase of these assets from the Government, given their short expected run-off period (approximately three to four years) and their attractive risk-return characteristics.
- Direct private debt funds – It was agreed that POL would support the purchase of these assets given their typical tenure (approximately seven years) and POL also acknowledged the investment case for these assets.
- Direct private equity funds – Due to the lengthy tenure of these funds (up to thirteen years) it was not currently deemed appropriate given the uncertainty surrounding the splitting of the investments and sale on the primary or secondary markets.
- POL had asked to be kept abreast of any future investments of this type.

The remaining actions had been satisfactorily addressed.

PC14/46

REVIEW OF INVESTMENT POSITION

TG reported on his discussion with RMPTL on liability hedging. The latest Trustee Risk Monitoring Report suggested that because of exceptionally low gilt yields, the “crossover” point where the POL section of the Plan could return to deficit was being brought forward to as early as 2017. The crossover point is based on the six years strategic hedge and instead of the median outcome “cross over” it uses the 5% “cross over” as it was more conservative measure selected by the Trustee.

POL’s position regarding liability hedging was discussed. TG highlighted that in short, there had been recent concerns regarding Eurozone weakness and falls in commodity pricing and Aon’s view was it was likely that central banks would move more slowly to increase short term interest rates than the market had previously anticipated. The consequence of that was that gilt yields were likely to remain lower for longer, with more gradual rises than had been assumed. As the previous set of yield triggers were significantly higher than gilt and swap yields they were unlikely to be triggered in the near future. The basis of the triennial valuation in 2012 was on the assumption that gilt yields would improve. HS stated that following the last IWG, the Trustee had agreed to put half of the outstanding hedge in place at the end of November 2014 and would consider the remainder for the year at the end of March 2015. A further discussion would take place at the next IWG to see if the market was performing any better.

The implication of this was that POL needed to start thinking about whether to pay higher contributions into the scheme, extending current hedging or closing the scheme earlier than previously anticipated. There were a number of factors to weigh up in such deliberations, not least industrial relations issues. It was noted that all decisions regarding the future of the Plan would need to be taken by the Board. IT WAS AGREED that an initial note would be provided to the Board and further in-depth conversations would occur once the position was clearer following the next triennial valuation results. HS informed the Committee this was likely to be the summer of 2015.

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The decision immediately facing the Committee therefore was whether to extend liability hedging. TG made the point that without growth in the market, yields were likely to remain at their current level and the longer the market remained in its current state, the more pressing a problem it would become. CD made the point there was very limited appetite for POL to increase contributions into the scheme.

In conclusion, whilst the Committee were extremely reluctant to extend hedging, having carefully weighed up all the factors, they came to the conclusion that to do so was the only real alternative open to them. IT WAS ACCORDINGLY AGREED:

- A short paper should be presented to the Board detailing the situation and the potential implications for the Plan.
- POL should take a more proactive stance on hedging at this point and would formally write to the Plan Trustee, explaining that POL would be looking to move towards the six year hedge and why they had taken that position. IMK would be advised of the position when he attended the meeting later.

**Action: CD/HS/
TG**

TG highlighted Aon's views on asset allocation for the Plan. In the medium term, Aon's view was generally positive on growth assets. With regards to corporate bonds, Aon felt the benefits of corporate bonds over gilts had virtually disappeared and no longer warranted the extra risk premium. They still held the belief that the current overweight position should be invested in either an Absolute Return portfolio or a temporary DGF while assets are drawn down into assets such as property and private market assets. It was acknowledged that the current risk budget did not allow for this. They also continued to maintain a negative outlook on high yield debt and had a preference for asset classes such as bank loans.

**Action: CD/HS/
TG**

IT WAS NOTED that the Plan Trustee was to provide a report relating to the investment time lag issue. TG stated that a draft report had been compiled and on balance it demonstrated that in some areas there had been a loss due to the time lag, but overall it was neutral. VH would ask IMK for an update when he attended the meeting.

PC 14/47

REPORT ON INVESTMENT SUBCOMMITTEE ("ISC")

CD and HS reported that hedging and POL's stance on the future of their section of the Plan were discussed. CD re-iterated that POL's commitment to the pension scheme could not be defined in terms of time but that POL was committed to keeping the Plan open for as long as was economically viable.

The hedging and triggers issue had also been discussed and it had been agreed by the ISC that the triggers would remain at eighteen months rather twelve months out. HS stated that eighteen months was set as it was felt that if the Plan were to close it would take about eighteen months to undertake the required actions.

The ISC had considered development of a long term strategy for the Plan and one of the issues discussed was how best to de-risk the Plan to the point where it became self-sufficient. One of the options considered by the Trustee to reduce equity risk was to sell equities and invest in derivatives and put options.

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TG commented that the two realistic long term strategies were for the Plan to become self-sufficient or insure against the investment risk, but noted that the premium for such insurance would likely be prohibitive.

The discussion returned to the liabilities of the Plan and the fact the "crossover" point may be reached sooner than anticipated. The situation had arisen because gilt yields had fallen far lower and are expected to remain so for far longer than the market had previously anticipated. VH asked that this point be emphasised in the paper that would be sent to the Board in item PC 14/46 as the Section performance had met benchmark. A query was raised as to what other public sector pension schemes were doing. RC advised that the Plan was a funded arrangement whereas the majority of other public sector schemes were unfunded. He would make enquiries with the few schemes that were funded in a similar manner to the Plan.

Action: RC

IMK JOINED THE MEETING (10:50)

PC 14/48

INVESTMENTS

IMK reported that he intended to concentrate on the executive summary provided and highlights from the Quarterly Investment Report (QIR) unless there were any specific questions on the QIR.

IMK indicated he had a draft copy of the report on the investment time lag which he received on 2 December 2014 and that he would give a verbal update. He reported that the basis of the report highlighted that there had been a timing issue on the implementation of the investment strategy, but that due to the time lag a gain had been made, in part due to the investment in debt at the bottom end of the market. He believed that had the investments been made in line with the strategy, there would have been a slight loss.

IMK advised the Committee that since September 2014, steps had been taken to start to re-balance the strategy as agreed with the ISC. Investments would be made into the Absolute Return Portfolio. There would be investments of £1.3m and £2.4m cash into private debt and equity, drawn down over twelve months. The ISC was looking to move credit into infrastructure debt, but further research was required before doing so, with a decision to be taken in or around February 2015. The proposed actions were in line with the agreed investment strategy.

IT WAS AGREED that the outlined strategy was acceptable to the Committee.

IMK provided highlights from the executive summary and indicated the POL assets had marginally underperformed in the quarter ending 30 September 2014 but had outperformed on a year to date basis. In terms of the of the individual managers:

- Active bond management had been retained through Hermes, who were currently the number one investment manager in this area and this had worked out well.
- The property fund was performing well and there were further investments in the pipeline.
- The Lazard investment was a cause for concern and the Trustee had raised these concerns with Lazard. Until a satisfactory

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response had been received the investment had been flagged as a “red” risk.

- Dodge & Cox continued to perform well.

IMK was then advised about the Committee's thoughts on the Section's hedging strategy and was advised POL would be submitting a formal letter providing POL's view on hedging and that they would like to be moving towards the six year hedge, whilst acknowledging that the market and “prices” were not as favourable as they could be.

IMK noted the Committee position and thanked the Committee for the advance warning of the letter. IMK indicated the Trustee had decided to generally suspend the hedging programme and whilst there was a window within which to implement further hedging, RMPTL would be very uncomfortable about putting a hedge in place at this stage as they did not want to purchase hedging investments in the current market conditions. The point was made that whilst that was noted, POL remained of the view that it should keep “nibbling away” at hedging and moving towards the six year hedge. It was noted that Royal Mail were more advanced in their hedging and their position was more towards the five year hedge.

IMK LEFT THE MEETING (11:10)

A short discussion ensued relating to IMK's report. In brief, IT WAS NOTED inflation was the factor that was likely to bring recovery to the market and increases in inflation were not foreseeable in the immediate future. On that basis, whilst it was acknowledged that it was currently not a good market to buy hedging instruments, the Committee had little alternative other than to take the view previously discussed on hedging, which was justified in the wider context of moving towards the six year hedging point. The action for CD and TG (assisted by HS) to prepare a very clear letter to RMPTL was reaffirmed.

IT WAS FURTHER NOTED that RMPTL had completed the action requested of them in relation to the investment time lag issue. Whilst the results of this were debatable, the final report would be taken as read.

TG AND RM LEFT THE MEETING (11:15)**PC 14/49****DEFINED CONTRIBUTION PENSION (DCP) SCHEME UPDATE**

HS reported that as matters stood, Mazars' previous recommendation that Friends Life (FL) should be the Group Pension Plan (GPP) provider had changed as they felt they could no longer support the recommendation due to the uncertainty of FL's future ownership by Aviva. Mazars had acknowledged that FL were initially selected on the basis of the public procurement process, but their earlier recommendation had been made prior to the announcement relating to FL's takeover by Aviva. It was noted that Aviva had been placed seventh out of ten in the procurement exercise. The Executive Committee (ExCo) had accepted the Committee's previous recommendation, but now awaited clarification on the Committee's position.

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Assurances had been sought from FL about their ability to deliver the terms offered during the tender process, but doubts remained as to whether the ability to deliver such terms would remain within their control post takeover.

The Committee acknowledged the situation had now changed and further that there were a number of factors they had to consider if they were to amend their recommendation. Those factors included:

- As things stood, Mazars could not recommend the appointment of FL and as a GPP was a regulated product a recommendation from a regulated adviser was required.
- Aviva's bid had been one of the lowest ranking in the tender exercise.
- There was no guarantee that assurances given by FL about their ability to deliver tender terms (accepting those assurances were given in good faith at the time they were made) could in fact be delivered.
- Concerns over the future investments, on the basis FL predominantly offered investments from Blackrock within the standard default, but Aviva had their own investments.
- The current industrial relations situation and the fact that the Trades Unions (the Unions) had raised their concerns over the appointment of FL and future uncertainty.
- A potential procurement challenge by FL if they were not awarded the contract.

Having discussed all the factors IT WAS AGREED that given the uncertainty surrounding FL's position and the fact that Mazars no longer recommended appointing FL, it was in the best interests of the business to appoint Zurich as the GPP provider. The Committee acknowledged the potential procurement challenge risk by FL, but considered the risk of such a challenge to be low.

HS indicated he would seek legal advice on the procurement risks and table a paper to ExCo with the revised recommendation.

**Action: DC/HS
PC 14/50**

PENSIONS FORUM UPDATE

HS reported that discussions had taken place with the Unions, whose primary position was they believed their members' interests would be best served by remaining in the Royal Mail Defined Contribution Plan (RMDCP).

Both Unions had asked for clarification on why a change of provider would bring benefits to their members and what the potential drawbacks would be. A response had been provided, but the Unions' concerns remained.

The Unions would also prefer the scheme to be a trust based scheme and they wished to be appointed as one of the trustees. In order to deal with this matter, it was POL's intention to set up a Governance Group in which the Unions would be invited to participate. The exact details of the Governance Group remained to be agreed by the business.

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HS indicated consultation would continue with the Unions regarding the changes with a view to securing Union support for the changes.

PC 14/51

PROFESSIONAL FEES UPDATE AND REQUEST FOR AUTHORITY

SH was not in attendance, but her tabled paper was considered in her absence. Discussion around the level of fees ensued including the fact that the fees had been charged according to standard agreed rates, they were within budget and believed to deliver good value for money. IT WAS AGREED to further consider how best to maximise the efficient usage of external advisor resource..

Action: CD

As requested within the paper, the Committee:

- Approved the fees as proposed within paragraph 2.2 of SH's paper
- Noted the fees incurred to date.

PC 14/52

ANY OTHER BUSINESS

There was no further business apart from noting the following meeting dates:

11 March 2015 at 10.00am
26 June 2015 at 10.00am
1 October 2015 at 10.00am
3 December 2015 at 10.00am

PC 14/53

CLOSE

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

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Chair

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PC 14/28-14/41

POST OFFICE LIMITED

PENSIONS SUB-COMMITTEE

**Minutes of a meeting of the Pensions Sub-Committee of the Board
held at 148 Old Street, London EC1V 9HQ on Tuesday 8 October 2014 at 10.00am**

Present:	Virginia Holmes (VH) Chris Day (CD) Richard Callard (RC)	Chair
In Attendance:	Neil Hayward (NH) Keith Murdoch (KM) Harpreet Singh (HS) Tim Giles (TG) Ross Mitchell (RM) Ian McKnight (IM) Chris Hogg (CH) Paul Forster (PMF) Sarah Hall (SH)	Group People Director Head of Reward and Pensions Pensions Manager Aon Hewitt (Minutes 14/31-14/34) Aon Hewitt (Minutes 14/31-14/34) RMPTL (Minute 14/32) RMPTL (Minute 14/32) Secretariat Financial Controller (Minute 14/39)

PC 14/28 OPENING OF MEETING

A quorum being present, VH opened the meeting and welcomed Richard Callard to the meeting.

PC 14/29 APPOINTMENT OF NEW COMMITTEE MEMBER

It was noted that that Post Office Limited Board had nominated Richard Callard as a member of the Committee and the Committee approved this appointment.

PC 14/30 MINUTES AND ACTION POINTS

The Minutes of 25 June 2014 were considered. VH referred to Minute 14/19 highlighting that the cost of the execution lag in implementing the SAA was an action point outstanding. Subject to this, the Minutes of 25 June were approved for signature by the Chair.

Action: Secretary

The Minutes of the meeting held on 22 July 2014 were approved for signature by the Chair.

Action: Secretary

The Action list as at 17 September 2014 was noted.

Action Point P3: PMF was requested to recirculate the relevant information on the DGF.

Action Point P5: TG explained that he had met with CH to discuss how the Trustees and Sponsor might better communicate and he was awaiting a meeting with CH in order to discuss how to involve AON in the discussions regarding the risk budget.

Action Point P6: the Committee had received the RMPTL's Committee structure, terms of reference and members and attendees.

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Action Point P9: The Committee noted that Neil Hayward now provides regular updates on the DC project to the Exco which tracks this Plan in the Business Transformation project and a further update was expected in November.

Action: TG

VH had raised above a further action point in relation to Minutes PC14/19 and 14/20 where the Committee had agreed that it would be helpful to receive a formal metric to monitor the execution lag of the Dollar effect stripped out of the Quarterly Investment Report. TG had suggested the easiest way to understand the effect would be to evaluate the performance for the last two quarters of 2013/14 excluding the exchange rate effect and would arrange for this to be completed. TG would ensure this was reported at the next meeting.

PC14/31

REVIEW OF INVESTMENT POSITION

TG and RM joined the meeting.

The Committee considered Aon Hewitt's overview of the RMPP Quarterly Investment Report at 30 June 2014 which provided an overview of the Post Office Section's investment portfolio together with Aon Hewitt's view on the Section's strategic allocations.

It was noted that the underweight position of the Section relative to return seeking assets had significantly reduced since 31 March 2014. This had been achieved by investment in alternative assets and investment grade corporate bonds. However, certain individual asset classes remained underweight relative to the SAA. AON continued to believe that the temporary investment of cash holdings into a DGF allocation or UCITs compliant liquid hedge fund would be more beneficial than RMPP's current approach of investment grade corporate bonds, given the current credit spreads available in this asset class.

RMPP advised that it will review the liability hedge at the end of October 2014 at the 3.5 year point. TG expressed concern that Post Office would be pushed into taking hedging action in March 2015 as a result. It was agreed that the Trustee should be encouraged to adopt a less aggressive target than March 2015 and to extend beyond this.

Action: TG

CD reported that the RMPP Investment Sub-Committee had decided not to support Post Office's request to invest cash holdings in a short-term DCF because they felt this was not within the risk budget of the Post Office section. The committee re-iterated its view that retaining large holdings in cash and investment grade credit at the current time was too conservative. It was agreed that the RMPP Investment Sub-Committee should be asked to re-consider its decision.

Action: CD

VH reported on the discussions at the recent RMPP ISC regarding specific private equity investments for the POL section of the Plan. It was agreed that the Committee was not opposed to such investments in principle but that it was unsure of their merits for the POL section at this time. It was agreed that if CD could obtain appropriate assurances from the Trustee, then agreement would be given to the initial investment. No further investments would be made without consultation with the

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Committee. It was further agreed that no investments in fund of fund structures in this asset class would be considered.

TG commented on the current corporate bond allocation. He felt that credit spreads had fallen to such a degree that the attraction of corporate bonds over gilts had diminished and therefore recommended that the current overweight be reduced.

Action: TG

The Committee requested a paper on the crossover point (when pension payments begin to exceed contributions) and HS and TG will submit.

VH thanked TG and RM for their report.

PC 14/32**INVESTMENTS**

CH and IM of RMPTL joined the meeting.

IM presented the QIR as at 30 June 2014 which was noted by the Committee. The Section's assets had returned 1.8% overall in Q1 and had outperformed the liability benchmark by 0.2% and the strategic benchmark by 0.1% over the 3 months to 30 June 2014. The absolute contribution over the 3 months from return-seeking assets was 0.2% and from liability-hedging assets was 1.6%. Total plan performance had increased assets from £270m to £300m at the end of August. In addition circa £2m in contributions were received on a monthly basis.

VH drew the Committee's attention to minute 14/20 regarding the proposal to invest into a DGF: IM confirmed that he would forward the paper prepared by Mercers for the RMPP ISC.

IM highlighted that the relative return on liability hedging on 5 year forward rates was -0.02%.

IM tabled the Company's Pre-rebalancing position at 30 June and 31 August 2014 together with the Company's position at 31 August 2014 including the allocation to absolute return and property. The transfer of cash into property assets was shown at the end of June. Alternative investments and property were underweight and the fund was overweight in investment grade credit. At the end of August the ISC had confirmed that the cash held against underweight assets should be reinvested in a property fund. A further investment in Property would occur this month.

IM expected the Section to have lower than forecasted returns as the overall strategy was targeting gilts at +1.5% and IM was concerned about the leveraging of the gilts portfolio.

IM reported that the positive performers in the quarter were Beach Point (High Yield Credit), Hermes (Index Linked Bonds), Lazard (Emerging Markets Equities) and Gramercy (Emerging Markets Debt). Absolute return managers showed a positive performance on the whole, however there were a couple of detractors.

VH asked for information on the risk budget the Trustee applies to the Post Office section, VH felt it was important for the Committee to review the information so they can have a greater understanding of the

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decisions that are made by the ISC. VH clarified that seeing the risk budget would also give a greater understanding as to why the Trustee did not want to invest the surplus cash in a short term DGF. IM agreed to supply this information. IM stated that if there was a switch from investment grade credit to a short term DGF, the returns would be marginal due to the time they would be invested.

Action: IM

Turning to liability hedging, CH recommended that the Post Office review its position regarding liability hedging which is currently set 18 months in advance. TG felt that the trigger levels should be less aggressive and asked if IM thought it would be appropriate to revisit these. CH responded that this would be considered at the next IWG meeting which HS and TG were scheduled to attend, including taking the hedge for this cycle beyond March 2015.

PC 14/33**PRIVATE EQUITY INVESTMENT**

VH informed the Committee that she and CD had attended the recent ISC and the investment in Private Equity investments was discussed. Based upon the recommendation from AON, Post Office's view was that due to the amounts involved and the possible complexities surrounding the duration of the investments and the disposal on the secondary markets of the investment, this type of investment would not be appropriate for Post Office.

Action: CD

IM explained that the letter sent by the Chair of the RMPP had probably not been clear on what was involved and that he had arranged for Mercers to attend a meeting with CD to discuss the matter further. After further discussion it was agreed that CD would attend the meeting with TG and HS.

CH and IM left the meeting.

PC 14/34**ACTIVE MANAGEMENT FEES**

The committee noted the paper on active management and the fees paid to each manager.

TG and RM left the meeting

PC 14/35**DEFINED CONTRIBUTION PENSION SCHEME**

HS reported that the process for choosing an administrator for the Defined Contribution Scheme was on schedule. Mazars will score the potential administrators and a shortlist of providers will be drawn up based upon the scoring. The shortlist providers will be invited to a presentation day where further due diligence will be undertaken before a final recommendation is provided by Mazars.

VH stated that if Standard Life were on the short list then she would need to declare a conflict of interest. This was noted.

PC 14/36**INVESTMENT SUB COMMITTEE**

The Committee received a verbal report of the ISC meeting held on 18 September 2014 which was attended by CD and VH. CD explained that

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Royal Mail and Post Office were both present at the meeting and both sections' investment strategies were discussed openly. It was noted that the Post Office represented only 7/8% of the total assets of RMPP. CD felt that despite the size of Post office's asset size, his and VH's attendance brought greater focus to the strategy for the Post Office Section.

PC 14/37

PENSIONS FORUM UPDATE

The Minutes of the meeting of the Pensions Forum held on 23 July 2014 were noted. NH provided an update on the Pensions Forum and the following were noted:

1. A joint Pension Forum had been established with the view of working collaboratively with the Unions on pension matters. The first meeting was constructive in laying out the purpose of the Forum; discussions are on-going with regards to the final terms of reference. NH stated that he made the commitment to bring issues to the Committee if they were appropriate.
2. In the spirit of "working together", the Unions will be invited to join in with the selection of the new pension provider and will be invited to attend the presentations.

PC 14/38

SALARY SACRIFICE UPDATE

HS stated that a paper and a feasibility report are due to go to the Pay and Reward committee with regards to the implementation of salary sacrifice for members of the DC pension arrangement, the main highlight from the feasibility report was that Post Office would make approximately £270k in savings p.a. and the employees on a collective basis would save £187.5k p.a. It was envisaged that if the proposal is approved this project would run alongside the implementation of the new DC scheme.

HS stated that he has requested a feasibility report to look at the DB scheme membership; this project would be more complex as it would involve a change to the Trust Deed & Rules of the RMPP.

PC14/39

HALF YEAR IAS19 ASSUMPTIONS

SH joined the meeting and presented the Report on Setting the IAS19 assumptions for the financial half year ending 28 September 2014.

The Key changes from those at 30 March 2014 were:

1. Discount Rate decrease from 4.5% to 4.1%
2. Inflation-RPI decrease from 3.3% to 3.1%
3. Inflation CPI decrease from 2.3% to 2.1%
4. Pension increases – unchanged at 0.1%
5. Other pension increases unchanged in line with RPI and CPI
6. General salary increases – unchanged at RPI less 0.1%

SH commented that the real discount rate decrease had increased liabilities, which had been offset by an equal increase in asset values.

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SH was comfortable with the recommend the changes put forward by Towers Watson. The Committee approved the assumptions as laid out in the paper.

SH left the meeting.

PC 14/40

NEXT MEETING

It was noted that the next Pensions Committee meeting would be held on 28 October 2014 at 148 Old Street at 4pm, the meeting will be to agree the recommendation on the provider for the new DC pension arrangement..

The Committee approved the following meeting dates:

- 3 December 2014 at 10.00am
- 11 March 2015 at 10.00am
- 26 June 2015 at 10.00am
- 1 October 2015 at 10.00am
- 3 December 2015 at 10.00am

PC 14/41

CLOSE

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

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Chair



DRAFT - POST OFFICE ADVISORY COUNCIL MINUTES
London South Bank University & St James' Church, West Hampstead
Wednesday, 12th November 2014

Attending: Tim Franklin, Chair POAC
Paula Vennells, Chief Executive, Post Office Limited

Council Members: Marcus Buck
Andy Burrows
Tim Coomer
Pardeep Duggal
Chris Feliciello
David Foley
Farida Iqbal
Nilesh Joshi
Marc Kidson
Ismail Loonat
Ben Lucas
Neil McCausland
Andrew Moys
Brian Scott
Lynn Simpson
Nick Stuart
Donna Underhill

Apologies: Elizabeth Armstrong
Theo Bertrum
Rebecca Glenapp
Bill Keown
Kevin Twynholm

Post Office Limited:
Mark Davies, Communications and Corporate Affairs Director
Alwen Lyons, Company Secretary
Jane Hill, Head of Public Affairs
Andrea da Gama, Public Affairs Manager

St James' Church, West Hampstead:
Father Andrew
Jane Edwards

Visit to the Post Office Design Lab, London Southbank University

Members of the Council were invited to visit the Design Lab and see the work underway. The Business plans to have several new concept stores in place by the 31st March and the Council will be informed about the location of these when they are opened. **ACTION: MD**

The Council were assured that there would still be a role for the traditional counter serving position and that the Business recognised more vulnerable customers were reliant on this support.

The Council reconvened at St. James' Church.

Welcome and Chair's Update: Tim Franklin, POAC Chairman

The Chair welcomed the members of the Council and thanked them all for attending. He updated those Council members who had not been able to attend the Design Lab. He explained that Council members continued to help the Business between meetings and thanked Marcus Buck whose support for the Brand team had been greatly appreciated and Rebecca Glenapp for her work on the SME proposition.

The Chair explained that Bill Keown was unwell and unable to attend the meeting and wished him well for a speedy recovery. He welcomed Andy Burrows, from Consumer Focus, who was attending his first meeting.

The Chair updated the Council on the actions from the last meeting:

Action 1) To consider how the Business might increase its support for community projects, and how sub-postmasters could be further encouraged to share their ideas and innovative approaches - possibly with a prize fund for great ideas.

- The Chair reported that Post Office has recently launched a new scheme called 'Your Charity, Your Community'. This was designed to encourage and support Postmasters who are currently involved in their community – or want to start a new project - to apply for matched funding for something that benefits their local community.
- Post Office has been a supporter of Children in Need for many years, but this year we are their chief corporate sponsor. Last year over 7,000 branches actively raised money for Children in Need, raising almost £1.3m – the largest amount ever. This year the Business hoped to raise even more.

Action 2) To consider staggered closing days in community branches to afford better coverage for customers:

- The Chair reported that Post Office had approximately 3,400 Community Branches and that about 30% of these are Outreach types which have a very wide range of opening hours: from 5 hours a week to in some cases over 50 hours a week. He said that this year the Business had launched a £20 million Community Fund to help these Postmasters invest and develop

their branches. Many applications are for moving to an open plan format giving them the opportunity to serve Post Office customers at the main till for as long as their store is open.

- Many community branches are serving small towns and villages with very low numbers of customers. With investment the Post Office does expect opening hours to increase, as long as this provides a sustainable business for everyone.
- The Chair said there would continue to be regular updates on the Community Branch scheme in Subspace magazine and Subspace online which members all now have access to.

Action 3) A discount price for Christmas Stamps for the elderly was raised and the CEO promised to discuss this with Royal Mail:

- The Chair said the Business is always committed to ensuring that the voice of the customer is shared with Royal Mail in their pricing decisions. He said the Post Office had recently won valuable concessions from Royal Mail regarding price reductions but regretfully had not been successful in securing a Christmas discount for inland stamps this year.
- Any discount in stamp prices would currently have to be funded by the Post Office costing millions of pounds, which would be very difficult in the current economic climate.

Action 4) Nick Kennett promised to circulate information about the PO Travel Money Card, the Credit Card and the Current Account to the Council.

- Copies of all the relevant leaflets and application forms have been sent to Members.

Action 5) Nick Kennett promised the Council a copy of the slides he had used for the presentation. He said he was happy to respond to any questions or ideas and promised to return with an update in the New Year.

- A copy of the slides had been emailed to Members.

The Chair thanked the Business for their responses to the actions and welcomed Paula Vennells, CEO, to give the Business Update.

Business Update: Paula Vennells, Chief Executive (CEO)

The CEO began by thanking the members of the Council, and specifically those who had been helping the Business since the last meeting. She thanked Father Andrew for agreeing to hold the POAC at St. James' Church and hoped that the Council found the location as inspiring as she did. It was important that projects like this one were commercially sustainable as well as serving the community.

The CEO gave an overview of the first half of the year:

- The forthcoming Post Office Interim Report 2014/15 would show that the Business had received a reduction of £20m in the network subsidy from Government, with a £40m

reduction by the end of the Financial Year.

- Mails and Retail sales were broadly flat year on year and the Business was seeing the parcels market rapidly opened up to competition. She acknowledged that Mails was tough with new players taking a share and that Royal Mail and Post Office needed to work hard to maintain their lead in this market. The CEO thanked the Postmasters who were working hard to retain their SME mails business and prospecting for new customers and asked Nilesh Joshi to pass her thanks on to his fellow members in the NFSP.
- Government Services and Telecommunications were both down year on year with continued pressure from the reduction in pensions paid. The CEO recognised the need to embrace digital innovation and was pleased that the Business had been chosen as one of the five government providers for Identity Verification. Telecomms had migrated to a new platform and should soon be back on track.
- Financial Services was very successful and was 11% up year on year, albeit from a low base. The CEO was pleased that Post Office mortgages frequented the best-buy tables, and that banks were now referring to Post Office as an alternative when they shut branches. Vince Cable had recently promoted Post Office as an alternative to banks which was helpful, but the CEO stressed she had responded to Vince Cable explaining that this had to be on a sound commercial basis which made sense for Post Office.
- The CEO stressed another key priority was to keep up the momentum of modernisation. The pace has continued to increase with almost 4,000 branches now modernised, providing an additional 85,000 hours of opening every week; 2000 branches open on a Sunday; 150 additional drop off points being trialled for home shopping returns; and 1,000 Postmasters signed up for transformation - all helping to ensure we're available for our customers.
- The CEO stated that in her view the biggest achievement this year had been the transformation of the Crown Post Offices. She explained that three years ago these branches were losing £60m a year and that they were now close to break even. She thanked all of the people working in this part of the Network and asked Lynn Simpson and Brian Scott to accept her thanks on behalf of the staff and managers.
- The CEO explained that whilst there was a focus to take costs out of the Business there was still a need to advertise, and she shared one of the three Christmas adverts with the Council. It was agreed that Business Transformation and cost reduction should be a topic for the next Council meeting. **ACTION: David Ryan (Transformation Director)**

The Chair thanked the CEO for her update and asked Neil McCausland to lead the questions and discussion.

Questions and discussion: Neil McCausland, POAC and Post Office Senior Independent Director

Neil McCausland explained that there were three areas he would like to cover - an update on work carried out between the meetings; feedback on the Design Lab; and any questions for the CEO.

Neil McCausland thanked those Council members who had given their time since the last meeting to further support the Business. He shared feedback from Rebecca Glenapp, who could not be at the meeting, on the work she had done with the consultants who were developing the Business' SME strategy.

In summary Rebecca said:

- Post Office is really playing to its strengths by leveraging so much of its offering in assisting SMEs: from the branch space; to showcase events for customers; to a one-stop mails and returns account, etc.
- For the time being, I would not try and extend beyond these however, as auxiliary offerings like investor networking events are hard to do well and require specific existing networks.
- From my experience SMEs are looking for a trusted and reliable partner for core business services like banking and in the case of e-commerce, mails - I feel this is enough of a differentiator in itself for the PO.
- The Post Office is such a natural fit for e-commerce businesses, these should be (at least one of) the core initial targets.

Neil McCausland also thanked Marcus Buck for support given to the Brand team.

Marcus explained that the Business had put a lot of thought into how to change perceptions both digitally and in branch, and that they realised they needed to get through to the person on the street. He was impressed by the simplicity of what the Business was trying to achieve, with four themes - community; making life simple; doing life's admin perfectly; and helping get the to-do list done. He was impressed with the thought process and the focus on the customer. The emphasis was that the customer would choose the Post Office to sort out the small things which needed to get done so that the customer can get on with their day.

Neil McCausland thanked Marcus. Before asking the Council for feedback on their visit to the Design Lab he shared some of the comments that Theo Bertram emailed following his visit to the Design Lab, as he was also unable to join the POAC today.

In summary Theo said:

- The Design Lab is a terrific initiative and I hope that the real-life versions roll out quickly.
- It is good to have a facility away from Head Office where people can try different things.
- On the ID verification opportunity it would be interesting to consider the fees payment structure, with a possible sliding scale with higher payments for those harder to get verified and online.
- Main feedback is to just get on with it, move faster, and get more things out there.

Neil McCausland opened up the discussion on the Lab to the Council.

The Council felt that the Lab:

- Had more focus on digitisation of current services rather than true innovation.
- It felt too polished to be experimental.
- Needed to move more quickly – taking more of a ‘quick and dirty’ approach to innovation.

The CEO acknowledged that innovative thinking was a key risk for the Business. She thought the Business did well in some areas including Identity, Travel Money Card and the Travel app but accepted the challenges. She explained the need for a more flexible cost base to enable more investment in innovation. However she said Post Office was unlikely to be a leading innovator but needed to be a better, faster follower.

The Council asked if Post Office was working with Royal Mail on more innovative products. The CEO explained that both Businesses were aware they needed to innovate, and that she and the Post Office Chairman had met with their counterparts in RMG to discuss how they work more innovatively and quickly.

Brian Scott recognised that the Design Lab work highlighted the need for staff and managers to change the way they worked. He acknowledged the investment in the Crown managers’ leadership programme which was helping managers to work differently.

The Council asked for the progress on mutual ways of working. The CEO reported that the latest engagement scores for both staff and Postmasters had slightly improved, which considering the challenges in the year and Crown industrial action had been a good result. It was acknowledged that the Business was on a journey but that there had been some progress.

Farida Iqbal thanked Andrew Moys for helping her connect with the John Lewis engagement group to see how they structured their employee engagement. Andrew offered to organise more contact for the CEO and Business if it would be helpful.

Neil McCausland thanked the Council for their input.

The Chair welcomed Father Andrew and Jane Edwards, his Business Manager. He congratulated them on an inspiring community initiative with the Post Office at its heart. The Chair thanked them again for hosting the Advisory Council here today, and for making the time to talk to the Council.

Putting the Post Office into St. James’ Church: Father Andrew and Jane Edwards

Father Andrew explained his vision for as a destination for the local community, an attractive shop and Post Office, with all profits going to the Sherriff Centre Charity. He had four bodies he had to persuade before he could go ahead - the congregation; the Diocese; the wider community; and the Post Office.

There were several challenges, adapting a grade II listed building; the cost of £600k; the logistical issues; timescales and trying to project manage everything at once.

He acknowledged that for the Post Office he needed to widen the customer base and raise the profile so that he not only got the old customers back after the move, but attracted new customers through leafleting and word of mouth. His staff were also learning the large product range for this Mains branch.

He explained that St. James' sat in the between two other churches which had the advantage of being aligned to local schools and that this congregation was about 40 people. That is why he needed something to attract people to the church alongside the religious services. This is the first Church with a Post Office and he has used that fact to promote the Post Office, shop, children's play area and other services available.

The Committee agreed that the transformation in the church was inspiring and wished Father Andrew and Jane Edwards luck with the venture. The Chair thanked them again for their presentation and hospitality.

Summary and Conclusions

The Chair thanked the POAC members for their contributions which were adding real value to the Business. He apologised that the meeting had not included as much feedback time as previously but asked for any further thoughts or comments to be sent to the Business. He encouraged everyone to use the microsite and promised the logon details would be re-circulated. **ACTION: AdG**

He explained that other locations outside of London, had been considered for the meeting as promised, but that the costs had been much higher. However the Business would continue to consider venues outside London for future meetings.

The date of the next meeting was confirmed as **Thursday, 19th March 2014**, which would be the 1st anniversary of the Council. The Chair was pleased to announce that Jo Swinson MP, the Post Office Minister, had agreed to attend the next meeting in London, and everyone was hopeful this would be possible.

The Chairman thanked all those involved for a very successful meeting.

PS 15/01-15/03

POST OFFICE LTD

SPARROW SUB-COMMITTEE

**Minutes of a meeting of the Project Sparrow Sub-Committee of the Board
held at 148 Old Street, London EC1V 9HQ on 12 January 2014**

Present:	Alice Perkins (AP)	Chair
	Alasdair Marnoch (AM)	Non-Executive Director
	Richard Callard (RC)	Non-Executive Director
	Paula Vennells (PV)	CEO
	Chris Aujard (CA)	General Counsel
In Attendance:	Alwen Lyons (AL)	Company Secretary
	Belinda Crowe (BC)	Programme Director, Project Sparrow
	Mark Davies (MD)	Communications and Corporate Affairs
		Director
	Rodric Williams (RW)	Litigation Lawyer
	Patrick Bourke (PB)	Project Sparrow

PS 15/01 OPENING OF MEETING

A quorum being present, the Chair opened the meeting of the Sparrow Sub-Committee (the "Committee") and welcomed Mark Davies, Belinda Crowe, Rodric Williams and Patrick Bourke.

PS 15/02 INITIAL COMPLAINT REVIEW AND MEDIATION SCHEME

- (a) The Committee received a paper on the current position of the Initial Complaint Review and Mediation Scheme (the "Scheme").
- (b) The Committee discussed the immediate steps being taken by the Business in relation to the Scheme, with Post Office investigation into all cases now complete and 22 cases resolved.
- (c) MD explained that after the recent Westminster Hall debate the Business proposed to offer face to face meetings with each MP involved and, where appropriate, take them through their constituent's case. The Committee supported this approach and recommended that consideration be given to making a similar offer to all MPs who have a case in the scheme.
- (d) CA reported that changes to business processes had resulted in a reduction in current litigation cases. Post Office was not bringing a material number of new prosecutions, but in blatant cases of theft where large amounts had been stolen the police continued to prosecute the cases. The Committee was assured that cases were being prosecuted where appropriate.
- (e) The Committee discussed the Judicial Review (JR) advice provided by Tom Weisselberg QC, and asked whether it was inconsistent with the Beachcroft advice received in the summer. CA explained that the two sets of advice were not inconsistent, with the Beechcroft advice having

been given before the Working Group had started considering individual cases and Post Office had completed its investigations of all cases. Any decision to change the Scheme at that time would therefore have been based on Post Office's assessment of what might have happened, rather than on the facts, increasing the JR risk. Since then, the approach adopted by the Working Group of discussing each case on a case by case basis had reinforced the positioning that affairs of Working Group were now (given that all cases had been investigated by Post Office) a matter of private law – that is disputes between Post Office and individual applicants - as opposed to “network wide” issues more susceptible to a JR claim.

(f) The Committee discussed Second Sight and their 'Part Two' report due to be finalised in April. The Committee agreed that the Business was unlikely to be able to stop this report from being produced but should press Second Sight to complete the individual case reviews by the end of March i.e. giving the cases priority.

**ACTION:
MD**

(g) The Committee asked the Business to produce an options paper to analyse the most effective ways to bring the Scheme to a sensible conclusion, taking into consideration; time; financial implications; PR and stakeholder management (MPs and the Minister); and JFSA.

(h) The Committee asked that the steps set out in the paper be taken quickly to mitigate recent activities of JFSA and the media, including:

- Providing a robust response to allegations in the media including writing to BBC lawyers where appropriate and engaging at a senior level with Programme editors;
- Writing to individual MPs who participated in the Westminster Hall debate to offer a meeting to discuss their constituents case and Post Office's position;
- Compiling a 'dossier' addressing the general accusations made against Post Office in the Westminster Hall debate and liaising with RC about how best to handle that with the Minister.

(i) The Committee agreed that the Business should:

**ACTION:
CA/BC/MD**

- continue to take a robust approach at the Working Group, focussing on the agreed TOR in an attempt to set the Scheme back on track, but with no presumption regarding the next steps for the Scheme;
- consider the most effective options to draw a line under the Scheme for consideration at a future Sparrow Sub-Committee; and
- provide a general update for the January Board

PS15/03

CLOSE

There being no further business the meeting was closed.

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**POST OFFICE LIMITED BOARD
Status Report**

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

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

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

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

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POST OFFICE LTD BOARD

Project Ultra: Voluntary contract change for traditional contract holders.

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Board on recent taxation changes to Postmaster fees and the potential benefits to Postmasters and the Post Office
- 1.2 Outline the details of a pilot which we are proposing to use to test how these benefits might be secured at pace, along with analysis of the associated risks

2. Background

- 2.1 Postmasters on NT contracts and nationally managed multiples charge Post Office VAT on their fees. Postmasters on traditional contracts pay income tax and National Insurance Contributions (NIC) on their fees.
- 2.2 As a consequence of separation from RM, Post Office has had to negotiate its own VAT recovery method with HMRC, as a result of which it can now recover 100% of VAT on agents' fees (compared to ~30% under RM's pre-separation method) which is financially beneficial for Post Office.
- 2.3 Because it is not possible for us to recover any employers' NIC, there is now a financial benefit if agents charge VAT rather than Post Office being required to pay employers' NIC.
- 2.4 Postmasters benefit from a VAT contract in terms of cash flow, and as a company Director, they also benefit from reducing their personal NIC deductions.
- 2.5 It makes sense to offer contract change now, as the **mutual benefit** is that Postmasters can avoid employees NIC being taken from their fees, and help Post Office to avoid employers NIC, by agreeing to contract with us as a Partnership or Company, moving the relationship into VAT.
- 2.6 The National Federation of Subpostmasters have been consulted and agree that company and partnership type relationships on a voluntary basis are a good idea; analysis by Deloitte shows smaller sites will not financially be in any different position than today (but will be better off than if the concession detailed at 2.7 is removed), but an agent in an average size branch with remuneration of £40k will be better off by £3k to £4k pa for almost no outlay; there are also additional cash flow benefits for Postmasters.
- 2.7 HMRC are now reviewing a concession they introduced many years ago which allows agents to treat their Post Office income as part of their retail business income for income tax purposes. If, as seems likely, HMRC remove this concession, it will be disadvantageous for Postmasters because they will not be

Project Ultra: Voluntary contract change for traditional contract holders.

Kevin Gilliland

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

3. Activities/Current Situation

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

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

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

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

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

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

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

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

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

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

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

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

4. Risks/Mitigation

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

Project Ultra: Voluntary contract change for traditional contract holders.

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5. Recommendations

The Board is asked to:

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

Kevin Gilliland
20th January 2015

POST OFFICE LIMITED BOARD

Future Dates and Proposed Agenda Items

Meeting / Action	Date	Proposed Agenda Items
Board	25 March	<p>CEO report</p> <p>Main items:</p> <ul style="list-style-type: none"> • Approval of 1 year operating plan and budget • Approval of 2015/16 scorecard • Telephony Strategy • Sparrow – Branch Improvements • Board Effectiveness Review <p>Updates:</p> <ul style="list-style-type: none"> • Financial Performance, including Crown Transformation year end • Business Transformation • Sparrow
Board	21 May	<p>CEO report</p> <p>Main items:</p> <ul style="list-style-type: none"> • 3 year Business plan – Mails Plan B • Annual Report and Accounts (<i>to be discussed at the ARC on 20 May</i>) • Approval of STIP and LTIP payments and performance conditions (<i>to be discussed at the RemCom on 13 May</i>) • People & Engagement road map next 12-18 months • Network & Channels update including Sales Capability • Working capital <p>Updates:</p> <ul style="list-style-type: none"> • Financial Performance • Win in Mails Update • Financial Services
Board Sub-Committee	TBC	<ul style="list-style-type: none"> • Final approval of the Annual Report and Accounts
Board Awayday(s)	17-18 June	<p>17th Post-Election strategic review (possible slot for new Minister)</p> <p>18th to be decided possibly Market review & Strategic plan FS deep-dive including POMS Digital</p>
Board	15 July	<p>CEO report</p> <p>Main items:</p>

		<ul style="list-style-type: none"> • IT strategy • Business Transformation <p>Updates:</p> <ul style="list-style-type: none"> • Financial Performance <p>Sparrow</p>
Board	22 September	<p>CEO report</p> <p>Main items:</p> <ul style="list-style-type: none"> • Risk (<i>after discussion at the ARC on 10 September</i>) • Win in Mails Strategy <p>Updates:</p> <ul style="list-style-type: none"> • Financial Performance • Business Transformation • Sparrow
Board	28 October	<p>CEO report</p> <p>Main Items:</p> <ul style="list-style-type: none"> • Network & Sales • Financial Performance update, including Half Year results <p>Updates:</p> <ul style="list-style-type: none"> • Telephony • Government • FS/POMS
Board	25 November	<p>CEO report</p> <p>Main items:</p> <ul style="list-style-type: none"> • People and Engagement (half year review) • Interim report and accounts (<i>to be discussed at the ARC on 10 November</i>) <p>Updates:</p> <ul style="list-style-type: none"> • Financial Performance • Win in Mails • Sparrow • Business Transformation

POST OFFICE LIMITED AUDIT, RISK AND COMPLIANCE COMMITTEE

Future Dates and Proposed Agenda Items

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

**POST OFFICE LIMITED BOARD
PENSIONS SUB-COMMITTEE
FORWARD AGENDA**

Recurring Items	
Occurrence	Item
Standing Items	Minutes of Previous Meeting and Actions List
	Investments
	<ul style="list-style-type: none"> • Review of Investment Position by Aon Hewitt • Report on Investment Subcommittees (ISC and IWG) • Investment Report from RMPP Trustee (currently presented by Ian McKnight)
	Report from GPP Governance Group
	Pensions Forum update
	Professional fees update
	Future Agenda Items
	Any other business
Annually	Proposed Subcommittee dates for following year
	Committee Effectiveness Review (including review of Terms of Reference)

MEETING AGENDAS

Meeting Date	Agenda Items
Board 28 January 2015	<i>Board update 28 January 2015</i>
11 March 2015	Standing Items, plus: <ol style="list-style-type: none"> 1. Defined contribution scheme update 2. Committee Effectiveness Review (including Terms of Reference)
Board 25 March 2015	<i>Board update 25 March 2015</i>
Board 21 May 2015	
26 June 2015	Standing Items, plus: <ol style="list-style-type: none"> 1. Defined contribution scheme update 2. Proposed Subcommittee dates for 2016
Board 15 July 2015	<i>Board update 15 July 2015</i>
Board 22 September 2015	
1 October 2015	Standing Items
Board 28 October 2015	<i>Board update 28 October 2015</i>
Board 25 November 2015	
3 December 2015	Standing Items

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POST OFFICE LTD REMUNERATION COMMITTEE

Future Dates and Proposed Agenda Items

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

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POST OFFICE LTD AUDIT, RISK AND COMPLIANCE COMMITTEE

ARC – Self Assessment for 2014

1. Purpose

The purpose of this paper is to:

- 1.1 Summarise the results of the committee's second annual self assessment.
- 1.2 The committee is requested to note and determine the next steps with the Board and Executive committee as appropriate.

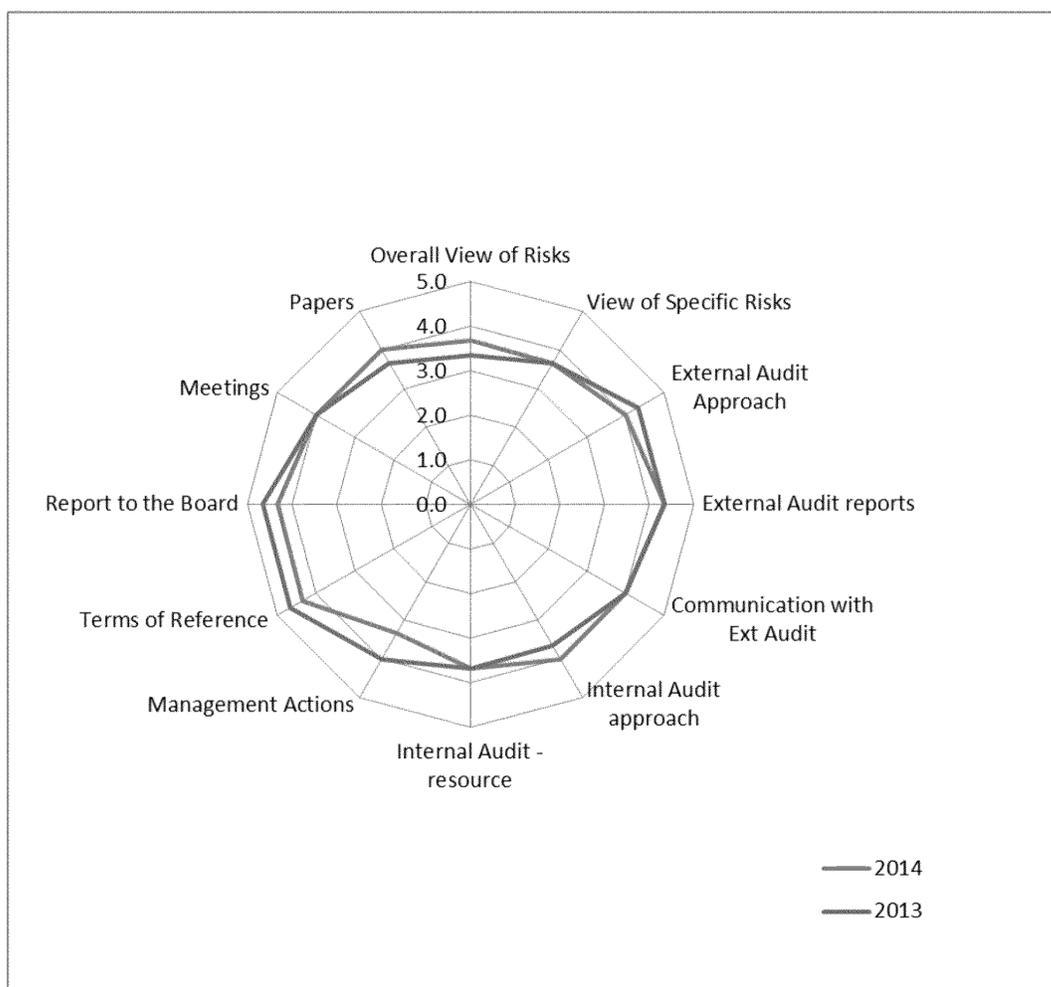
2. Background

- 2.1 The terms of reference require the audit committee to conduct a self assessment of its activities and performance annually and share the outcomes with the Board.
- 2.2 There is no prescribed method of conducting a self assessment. Most organisations will use either an in-house designed questionnaire or the services of an external independent source such as interviews with an external audit partner.
- 2.3 It was agreed to reuse the prior year questionnaire approach based on an excel template to enable comparison with the 2013 results. Twelve questions were agreed and using a drop down menu members assessed the questions using a score of 1 – 5. Each score had a qualifying comment and a free form box to add any additional views. There were also three additional questions with free form answers. A copy of the template is in the appendix.

3. Results

- 3.1 Table 1 in the appendix summarises the results with comments where these were made. The template assigned green to scores 4 or 5, amber to 3 and red to scores of 1 or 2.
- 3.2 Table 2 in the appendix details the responses to three further free form questions which were not scored. ARC member attention is particularly drawn to this table as the comments effectively underscore the overall sentiment and areas for development in 2015.
- 3.3 The graph overleaf illustrates the overall average for the areas assessed with a comparison to 2013.

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3.4 Graph – comparison with 2013 self -assessment

- The overall average score for 2014 is 3.9 vs. 4.0 for 2013. There is a slight improvement in risk management reflecting that progress has been made over the last 12 months by the business/ExCo and Risk Team although detailed commentary suggests that patience is being tested and the framework needs to finalise.
- External audit remains at a strong score as do the general governance and reporting processes of the committee. Internal Audit is seen to be improving over 2013 as the team gradually built up to its higher head count and its overall performance and approach is well received.
- There is concern over the pace of management actions in response to audit findings, although these are predominantly in IT, but other areas do need to pick up pace in 2015.
- Detailed analysis follows.

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3.5 Risk Management

- There is a consistent theme across the ARC members. In 2013 the ARC raised the need for more detail and information in specific business areas especially for more information over Financial Services and IT. In 2014 the progress is recognised although pace is an issue and there is concern mainly over IT and information security.
- It is accepted by the comments made that the work is heading in the right direction, but there was consistent message in requiring the owners of the risks to be visible to the committee and to discuss these more directly.
- In last years' Self Assessment summary paper Internal Audit recommended that Executive Committee members be invited to attend the ARC and suggested a timetable as follows:
 - *February 2014 – Financial Services*
 - *March 2014 – IT*
 - *May 2014 – Network and Supply Chain*
 - *September 2014 – Commercial*
 - *November 2014 – Finance, Legal and HR*

This action was not undertaken by the ARC although the Risk and Compliance committee did commence invites to selected meetings on selected topics during 2014.

3.6 Internal Audit

- There is recognition of the strengthening of the team, although this has taken longer than desired due to internal business processes. It is felt that the team of HIA plus 5 experienced managers supported by the Co-Source arrangement is about right. One member however queried if the level of IT/Transformation experience was enough.
 - To provide assurance, it is brought to the committee's attention that the team has always maintained a full time IT audit manager even through the recent maternity period and that because the interim manager has since accepted a full time role, IA will have two managers in its team with considerable IT audit experience from January when the individual on maternity returns full time.
 - In addition the PwC Co-source resource has been used on IT Risk work and continues to do so.
 - As a result, 40% of the in-house IA management staff have detailed IT audit experience this should be sufficient to address assurance needs going forward complimented by the Co-source arrangement.

3.7 Meetings and general ARC processes

- Whilst generally favourable, the committee repeated the 2013 concerns about process vs. content. It was not clear if this was due to the frequency of meetings or if the agendas did not allow sufficient time to discuss all items to

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the quality needed. Four meetings are currently scheduled for the 2015/16 year. Whilst this is in line with the terms of reference and FRC practice, the committee is free to hold additional meetings if necessary. These could be focused on one or two agenda items only, which will allow time for the discussion and may be by conference call or video if the technology becomes available.

3.8 External Audit

- There was general satisfaction with the external audit approach and improved coordination with internal audit which was a request from the previous year.
- There is a new challenge for the external audit team to get closer to the risk management framework and to consider the risks relevant to its external audit. (Chiefly financial and IT)

3.9 Other

- Other areas were assessed as either good or very good by the ARC members.
 - In addition to the twelve questions, ARC members were asked three free form questions. See the appendix for detail but the trend for 2015 and forward is for improved focus on risk and greater visibility of management's assessment and actions.

4. **Conclusions**

- 4.1 The committee remains generally satisfied with overall governance, processes and procedures. It is expressing less satisfaction with risk management and the pace of management in addressing audit findings.
- 4.2 As concluded last year, the committee requires management to step up the visibility, content and discussion of the risk agenda. In 2013 it required the Executive to complete its current assessment with the assistance of the Head of Risk and to commence discussing the risks in detail including Directorate presentations at ARCs in 2014. However feedback from comments raised in 2014 review suggests that the ARC members require more detail and discussion of risks and to bring the current framework design to a conclusion so that more discussions can take place about the risks themselves.
- 4.3 The committee recognises the challenges facing the small internal audit team in providing independent assurance over the management of key risks in the business. Resources are now considered at the right level providing the balance is correct and the co-source remains financed.

5. **Actions**

- 5.1 The committee is requested to consider the outcomes of the self assessment and discuss the next steps with the Board and Executive committee as appropriate.

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Proposed Recommendations

- 5.2 Should the committee decide to invite executive management to present their risk assessments to the committee is requested to consider the recommendation made by Internal audit following the 2013 review and consider the following running order based on assumed ARC dates.
- May 2015 - Business Transformation
 - September 2015 – Financial Services
 - November 2015– Network and Supply Chain
 - January 2016 – Commercial
 - Spring 2016 – Finance, Legal and HR
- These may be part of a normal ARC meeting or, could be separate short meetings to address concerns raised about having enough time to discuss issues rather than manage process.
 - Require that the Finance and Risk Teams coordinate around the planning time for the External Audit so that EY are more informed around the risks that may impact their work in addition to their own analysis.
 - It is further recommended that for 2015, the ARC members consider a facilitated discussion as part of the input to the assessment.

Malcolm Zack
Head of Internal Audit
Garry Hooton
Acting Head of Internal Audit
(From January 2015)

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Questions assessed		ARC1	ARC2	ARC3	Comments made by respondents in 2014 assessment.	<i>Memo: - Comments made by respondents in 2013 assessment.</i>
Risk Management						
<p>1. The Committee has a good overall view of risks in the business, is confident that management is actioning plans and that the framework is balanced, practical and easy to understand.</p>		4	4	3	<p>I am concerned about risks in IT as there is considerable delay in clearing down outstanding audit recommendations.</p> <p>Much improved. Better view of risk. Gaining confidence in management. Still inconsistent implementation.</p> <p>Agreed but the process of development has been slow particularly as we embed the risk management process</p>	<p><i>Risk management process still being refined by the Exec team so WIP but heading in the right direction.</i></p> <p><i>Lots of good effort to put process in place which was necessary. Not enough time spent yet agreeing the risks, or how to manage them</i></p>
<p>2. The committee has a sufficient view of specific risk areas such as Information Technology, Legal, Fraud detection, operational and financial risk. The committee has oversight on management processes and controls to manage these areas</p>		4	4	3	<p>Same as in question 1 about IT risks.</p> <p>Generally good - still worried about IT and cyber security.</p> <p>Again much more work to do in this area</p>	<p><i>Follows on from number 1.</i></p> <p><i>Overall I agree, but I think we need a more granular appreciation of the specific risks we face in IT as we move into the transformation programme. Also need more oversight of matters relating to delivery of the Financial Services Strategy and the risks there, given the importance of this pillar to delivery of the overall plan.</i></p>

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Questions assessed		ARC1	ARC2	ARC3	Comments made by respondents in 2014 assessment.	<i>Memo: - Comments made by respondents in 2013 assessment.</i>
External Audit						
3. The committee has a good understanding of the external audit approach, risk assessment, its scope and audit approach.		4	4	4	Agreed but we need further linkage between external and the PO risk management when it develops	
4. The committee is able to understand the financial reports from external audit, comment upon disclosures, accounting policies or adjustments		4	5	4		
5. There is an effective communication and liaison process between the committee, external audit and management		4	4	4		
Internal Audit						
6. The committee has a good understanding of the internal audit scope, approach, its risk based focus and methods employed by the IA team		5	4	3	Good improvements in the last 12 months as we have matured as an organisation	<i>New Head of Audit in place and putting in place good processes/procedures</i>
7. The IA team is appropriately resourced, able to respond to requests from the committee and the business and is sufficiently independent and led.		4	3	4	<p>Unsure. Have run much of the year with an understrength team, so unproven.</p> <p>Unsure they can be met due to resource. May well be ok with new recruits?</p> <p>I believe we are appropriately resourced</p>	<p><i>However we will need to continue to review as the PO changes shape including the role of the Field Audit teams.</i></p> <p><i>I am still unsure that there is adequate and appropriate resource.</i></p>

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Questions assessed		ARC1	ARC2	ARC3	Comments made by respondents in 2014 assessment.	Memo: - Comments made by respondents in 2013 assessment.
					following the agreement to extend the team. However this needs to be monitored. One possible gap is on IT/Transformation expertise	<i>Not sure how it could be really if I feel as I do about answer number 1.</i>
Actions by Management						
8. The committee is confident that actions agreed with external and internal auditors are implemented in a timely fashion with regard to risks, costs and benefits.		3	4	3	See IT Comments Q1 and Q2 Further work required on the speed of implementation of actions particularly in the IT area	
Governance						
9. The ARC terms of reference are clear, can be met annually and are properly reviewed with the Board		5	4	4	Subject to my question on the pension element of the ToR.	
10. Reporting to the Board by the Audit Committee is sufficient, highlighting key risks and control issues to provide the Board with the level of assurance required.		5	4	4		
Meetings						
11. Meetings are well structured, allow sufficient time for all items, and reach		4	4	4		<i>Maybe too much emphasis on discussing process, with not enough on risks/actions</i>

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Questions assessed		ARC1	ARC2	ARC3	Comments made by respondents in 2014 assessment.	<i>Memo: - Comments made by respondents in 2013 assessment.</i>
appropriate conclusions and actions.						
12. Papers are available in good time, well presented and clear in their purpose and intent.		4	4	4	The papers are well presented and timely	

Free form questions

Free Form Comments 2013 review	Free form comments 2014 review	Commentary by Internal Audit
<p>What are the top two items you wish the committee to change or improve in 2014?</p> <p>Agree risks between the Board, ExCo and ARC and then start managing them better.</p> <p>More visibility of risks in IT and Financial Services.</p> <p>Further development on Risk Management.</p> <p>Further develop the role of the ARC as the PO changes</p>	<p>What are the top two items you wish the committee to change or improve in 2015?</p> <p>Reduce still further outstanding audit actions.</p> <p>Less ad hoc papers outside of committee.</p> <p>Continue to develop the risk framework. Increase the focus on IT - risks and actions.</p> <p>More focus on substantive points and less on process i.e. risk. Significant improvement in our risk processes in the PO and a properly embedded risk management culture in the PO</p>	<p>The primary focus of the ARC members is to increase the content and discussion of risk. Whilst day to day oversight of the risks is managed by the risk and compliance committee which is a management committee, the linkage between the two may not be operating as it was designed to.</p> <p>It has taken a long time to design and begin to implement the risk framework and it is probably trying to be too sophisticated for the maturity of the organisation. IA has had to defer its own internal audit of the framework from the 2014/15 plan to accommodate for the pace of change at the ExCo level.</p>

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Free Form Comments 2013 review	Free form comments 2014 review	Commentary by Internal Audit
<p>What should it stop doing or what should it do more of?</p> <p>Less process to be discussed at the ARC. Needs to take less time and spend more on content.</p> <p>See more of the Executive Members with specific risk accountability to talk about their risks and the mitigating actions. This would create more direct line of sight between the AC and the risk owners and create a greater sense of accountability.</p>	<p>Spend less time on the process as it is now largely OK - and more time on the content.</p> <p>More chance to interact directly with risk owners at committee.</p>	<p>Following the 2013 review IA recommended a sequence of risk owners to attend the committee to discuss risk in there areas.</p> <p>This was not implemented by the committee, other than invites to the ARC for specific items such as IT security. The Risk and Compliance Committee has invited senior management (The Executives/SLT members) to its meetings instead although the content and frequency varies...</p> <p>However the lack of <u>regular</u> upwards reporting by the R&CC to the ARC about its activities means this has not been visible to the ARC as intended.</p>

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Free Form Comments 2013 review	Free form comments 2014 review	Commentary by Internal Audit
<p>How does this committee compare with others you have worked on in the past or currently? What are its relative strengths and relative weaknesses?</p> <p>This is young and evolving, so not really a valid comparison. The journey we are on is necessary; we probably just need to go a bit faster. That may happen naturally now that we have our first year under our belts.</p> <p>Stronger than most. Good representation of people with financial background. Only suggestion for improvement is in relation to more interaction between committee and risk owners. I have seen this work very effectively elsewhere.</p> <p>Strengths - good understanding of the business and strong links with the Exec team and Board. Weaknesses - further work required to tie down Risk Management with the Exec team</p>	<p>We are on a journey still - others are mature so not really a fair comparison.</p> <p>Could be more integrated with the business</p> <p>Could hold people to account more but overall a lot of good progress has been made</p> <p>Clear mandate from board. Good interaction with IA and Ext Audit. Full participation by members. Compares very favourably with other ACs I sit on.</p> <p>The Risk process has been very slow to get going and we are still off the pace. Otherwise the committee works well and is effective supporting the Board and PO.</p>	<p>Some divergence on how the committee compares with other audit committees but there is a consistent theme for the ARC to be closer to the business and meet with other senior management in meetings other than current main attendees and Finance management.</p>

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NAME

INSTRUCTIONS: Answer each of the 12 questions using the drop down box
If possible please add a comment to your score to aid the assessment process using the box to the right of the drop down
The final 3 questions are general and require freeform answers.
Please complete and return to malcolm.zack@GRO by October 25th 2013

	Level of effectiveness	COMMENT
Risk Management		
The Committee has a good overall view of risks in the business, is confident that management is actioning plans and that the framework is balanced, practical and easy to understand.	3. Agree In place, but needs improvement	3 Risk management process still being refined by the Exec team so WIP but heading in the right direction
The committee has a sufficient view of specific risk areas such as Information Technology, Legal, Fraud detection, operational and financial risk. The committee has oversight on management processes and controls to manage these areas	4. Generally agree. In place and generally effective	4
External Audit		
The committee has a good understanding of the external audit approach, risk assessment, its scope and audit approach.	5. Fully Agree. Good visibility and debate.	5
The committee is able to understand the financial reports from external audit, comment upon disclosures, accounting policies or adjustments	5. Fully Agree. Policies and accounting well explained	5
There is an effective communication and liaison process between the committee, external audit and management	4. Agree. Meets needs.	4
Internal Audit		
The committee has a good understanding of the internal audit scope, approach, its risk based focus and methods employed by the IA team	4. Agree. Items are discussed.	4 New Head of Audit in place and putting in place good processes/procedures
The IA team is appropriately resourced, able to respond to requests from the committee and the business and is sufficiently independent and led.	4. Agree for the most part	4 However we will need to continue to review as the PO changes shape including the role of the Field Audit teams
Actions by Management		
The committee is confident that actions agreed with external and internal auditors are implemented in a timely fashion with regard to risks, costs and benefits.	4. Agree. Management tends to act well.	4
Governance		
The ARC terms of reference are clear, can be met annually and are properly reviewed with the Board	5. Strongly Agree. Scope is appropriate and fit for purpose	5
Reporting to the Board by the Audit Committee is sufficient, highlighting key risks and control issues to provide the Board with the level of assurance required.	5. Fully Agree. Committee report is comprehensive	5
Meetings		
Meetings are well structured, allow sufficient time for all items, and reach appropriate conclusions and actions.	4. Agree	4
Papers are available in good time, well presented and clear in their purpose and intent.	4. Agree. Overall good information.	4

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POST OFFICE LTD BOARD

Change of Registered Office

1. Purpose

The purpose of this paper is to:

- 1.1 seek approval for the change of registered office for Post Office Limited (the Company);
- 1.2 seek written consent for the change of registered office for Post Office Management Services Limited (POMS); and
- 1.3 ask the Board to note the change of registered office for Postal Services Holding Company Limited (PSHC).

2. Proposal

- 2.1 On 23 March 2015, it is proposed that the Company will change its registered office from 148 Old Street London EC1V 9HQ to 20 Finsbury Street, London EC2Y 9AQ as part of Project Slaid. This change of registered office requires Board approval.
- 2.2 POMS and PSHC also need to change their registered offices from 148 Old Street London EC1V 9HQ to 20 Finsbury Street, London EC2Y 9AQ, consistent with the changes made by the Company. PSHC will change its registered office by a written resolution of its Board of directors.
- 2.3 Within article 4 of POMS' Articles there are specified powers reserved to the Company which preclude POMS from undertaking certain actions without written consent of the Company. Pursuant to that article, the Company is requested to provide written consent to POMS to change its registered office.

3. Recommendations

The Board is asked to:

- 3.1 approve the change of registered office for the Company;
- 3.2 provide written consent for the change of registered office for POMS in the form annexed, giving a duly appointed director or company secretary authority to sign the consent.;
- 3.3 note the change of registered office for PSHC; and
- 3.4 authorise the Company Secretary to make all necessary filings with Companies House.

Alwen Lyons
20 January 2015

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Annex 1

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

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

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

.....

Signature

.....

Name

.....

Date

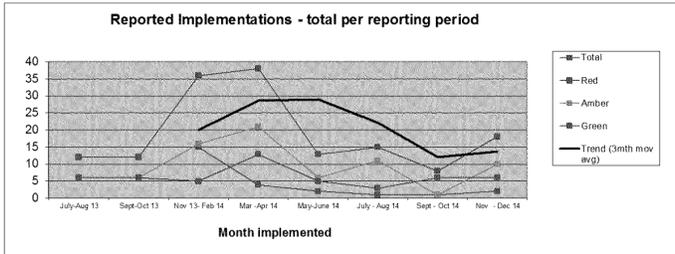
Status as at December 31st 2014

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

Analysis of Carried forward

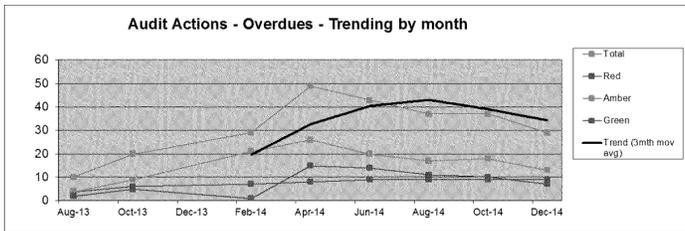
Overdue - Work in progress	29	9	13	7
Not yet due	13		10	3
	42	9	23	10

Trends



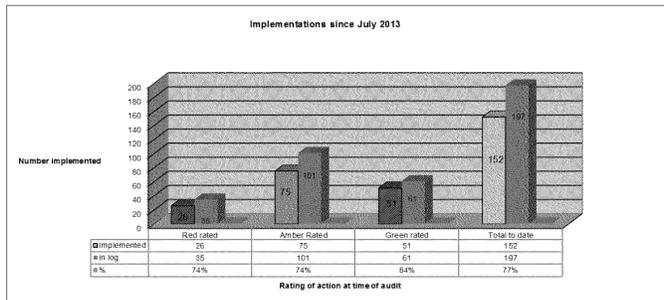
Reported Implementations	Total	Red	Amber	Green
July-Aug 13	12	6	6	0
Sept-Oct 13	12	6	6	0
Nov 13- Feb 14	36	15	16	5
Mar-Apr 14	38	4	21	13
May-June 14	13	2	6	5
July-Aug 14	15	1	11	3
Sept-Oct 14	8	1	1	6
Nov-Dec 14	18	2	10	6
Cumulative	152	25	77	50

Implementations rate improved through December 2014.



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

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



Implementations achieved (from July 2013)

Rating	Implemented	Total in log	%
Red rated	25	35	74%
Amber Rated	75	101	74%
Green rated	51	61	84%
Total to date	152	197	77%

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

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January 2014

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

PART (A) – CIVIL LITIGATION

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

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				Communications team is engaged.	
					

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Employment	POL/NM	Colin Stretch	In addition to the claim noted above, there is one claim against POL proceeding before the Employment Tribunals. Claims allege race discrimination. Potential exposure to POL is c.£15,000.	Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress. POL's Communications team is engaged in the event these claims are of interest to the media.	Weightmans

PART (B) – CRIMINAL LITIGATION

PROSECUTION CASES

There are number of cases which could have been prosecuted (e.g. those with full and frank admissions to theft /fraud), but prosecutions were not commenced to avoid adverse judicial comment.

Several cases have also been terminated while POL obtains an independent expert report on the Horizon branch accounting system (see below).

There are currently 14 cases which are being kept under review as to whether a prosecution (supported by an expert report) can be commenced.

EXPERT REPORT

New experts from Imperial College London have prepared a scope of work on which formal instructions and a protocol for requesting and receiving information will be based.

Appropriate individual confidentiality agreements will be prepared for both the experts and POL employees involved in preparing the report.

Meetings to progress the report are taking place between the experts, POL and Fujitsu.

PROSECUTION POLICY

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

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

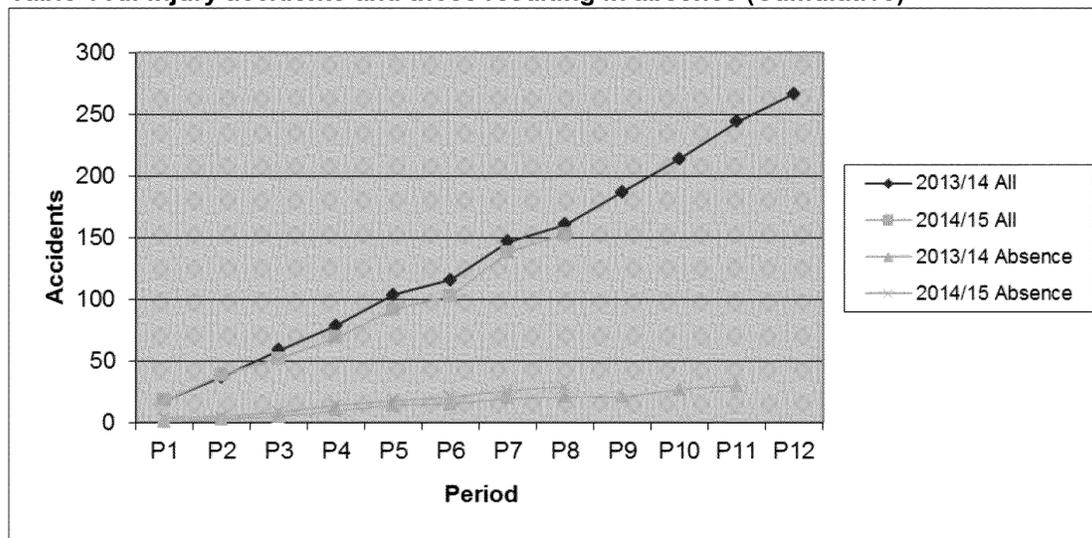
The purpose of this paper is to:

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

2. Current Situation

- 2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are higher frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.
- 2.2 Performance up to and including P8 for 2014/15 indicates that 'all accidents' are tracking on target and are forecast to outturn on the 5% reduction target. Absence accidents are tracking adverse to target and as a result of two relatively weak periods are now unlikely to achieve target reduction at year end. However severity of the accidents, measured by 'days lost', is currently well ahead of target and forecast to outturn ahead of the 5% reduction target.

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

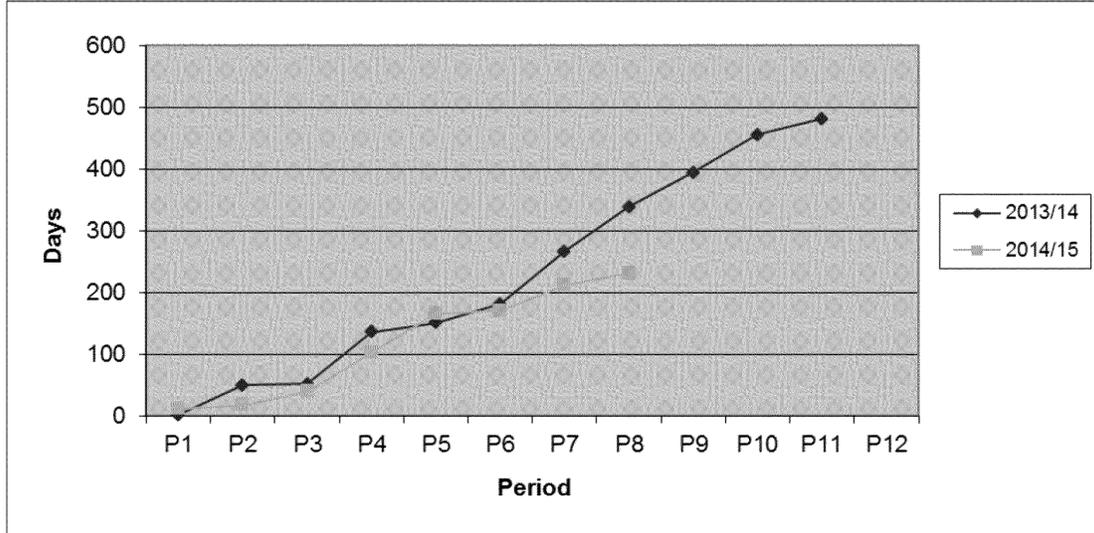


- 2.3 Personal injury compensation claims remain at a low level having reduced significantly from previous years and in line with the low number of accidents that result in sick absence. Claims involving members of the public have also reduced. Comparison with a similar retail organisation indicates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

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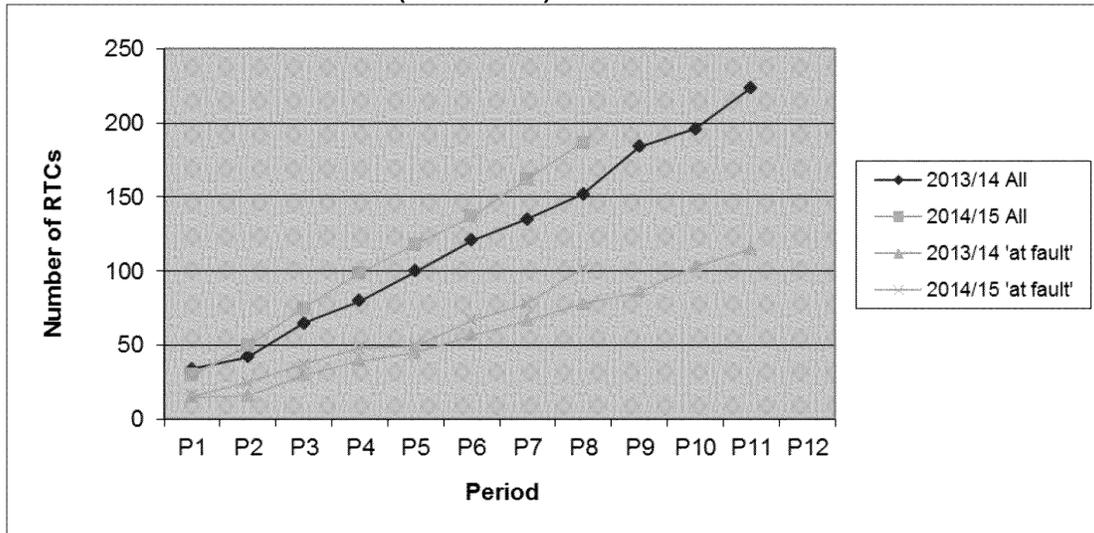
2.4 The number of days lost due to accidents is currently well ahead of target and forecast to outturn ahead of the 5% reduction target. (Table 2 below refers)

Table 2 Days lost resulting from injury accidents (Cumulative)



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

Table 3 Road Traffic Collisions (cumulative)



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- 2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down four on last year from 27 to 23 for the past 8 months. Physical injuries during robberies, of which there have been 6, 1 less than last year for the same year to date period, remain relatively minor in severity. The level of use of firearms is down 1 on last year with 4 of the 23 robberies enabled by the presence and/or threat of use of fire arms and on no occasions were the firearms discharged. Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.7 Robberies and attempted robberies on the Post Office network, up to and including period 8, are up 4 on last year to 67 of which 55% were successful. Injuries sustained during robberies are down from 12 to 10. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected. Supporting activities have been introduced to continue to mitigate the robbery risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

3. Activities

3.1 Road Risk

Current longer term activities to mitigate road risk are:

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

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police to understand 'at risk' areas and to deploy surveillance teams
- Increased use of 'advertising' on vehicles of new deterrent technologies e.g. DNA taggant – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Trialling new point of transfer arrangements to reduce exposure at Post Office counters - the majority of robberies take place at the point of transfer which in Post Office's is the counter where there is ready public access. The new arrangements allow for the cross pavement protection box to be emptied / filled in a secure location.
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles – single person vehicles eliminate the

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

3.3 Health and Wellbeing

Healthcare interventions:

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

3.4 Safety

The Post Office occupational health and safety management system (OHSMS) is certified by external auditors to the standards required by British Standard OHSAS 18001.

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

4. Residual Risks

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

5. Recommendation

The Board is asked to:

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

Neil Hayward
January 2015

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Appendix 1

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

POST OFFICE LIMITED BOARD

Sealings 19 November 2014 – 20 January 2015 inclusive

Register of Sealings

The Directors are invited to consider the seal register and approve the affixing of the Common Seal of the Company to the documents set out against items numbered 1241 to 1261 inclusive in the seal register.

“The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1241 to 1261 inclusive in the seal register is hereby confirmed.”

**Alwen Lyons
Company Secretary
20 January 2015**

POST OFFICE LIMITEDDate
20/01/2015**Register of Sealings**Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1241	21/11/2014	19/11/2014	Underlease of Unit 39, Kingsway Shopping Centre, Newport, Gwent between Kingsway Investments LLP and Post Office Limited	Piero D'Agostino	Jean Reynolds
1242	21/11/2014	19/11/2014	Licence to Alter relating to Unit 39, Kingsway Shopping Centre, Newport, Gwent	Piero D'Agostino	Jean Reynolds
1243	24/11/2014	24/11/2014	Amendment of the Authorised Officer for the Escrow Agreement dated 29 August 2014 between Royal Mail Group Limited, Post Office Limited and BNP Paribas SA, London branch	Alwen Lyons	Jean Reynolds
1244	01/12/2014	01/12/2014	Transfer deed relating to 13 and 14 High Street, Southampton, SO14 2DF between Post Office Limited and Harklam Estates Limited	Alwen Lyons	Jean Reynolds
1245	09/12/2014	10/12/2014	Agreement for Sale of property at 90 High Street, Stockton-on-Tees, Cleveland, TS18 1AD between Post Office Limited and The Council of the Borough of Stockton-on-Tees	Alwen Lyons	Jean Reynolds
1246	10/12/2014	09/12/2014	TR1 relating to 90 High Street, Stockton-on-Tees, Cleveland, TS18 1AD between Post Office Limited (the transferor) and The Council of the Borough of Stockton-on-Tees	Alwen Lyons	Jean Reynolds
1247	10/12/2014	08/12/2014	Section 278 Agreement by Letter relating to the proposed development at The Post Office, 19 Grove Road, Sutton, SM1 1DX between TfL and Post Office Limited	Alwen Lyons	Jean Reynolds
1248	10/12/2014	08/12/2014	Underlease of premises at First Floor 199/201 High Street Southend SS1 1LL between Post Office Limited and Think Business Sales Limited	Alwen Lyons	Jean Reynolds
1249	10/12/2014	08/12/2014	Licence to underlet for First Floor 199/201 High Street Southend-on-Sea, Essex between Threadneedle Pensions Limited, Post Office Limited and Think Business Sales Limited	Alwen Lyons	Jean Reynolds
1250	22/12/2014	17/12/2014	Licence to Underlet Part of the premises at Chorlton Post	Alwen Lyons	Jean Reynolds

POST OFFICE LIMITEDDate
20/01/2015**Register of Sealings**Company Number
2154540

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

Register of Sealings

Alwen Lyons
20 January 2015

Page 3 of 4

POST OFFICE LIMITEDDate
20/01/2015

Register of Sealings

Company Number
2154540

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