

Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)**Meeting to be held at 9.00 am on 25th September 2013
at 148 Old Street, London, EC1V 9HQ in the Board Room**

0900	1	Progress Report on Government Funding and Strategic Plan	Sue Barton
1000	2	Cost Focus/ Value for Money	Chris Day/Sue Barton
	2a	Supply Chain Strategy	Sue Barton/Chris Day
	2b	IT Transformation/Procurement Sign Off	Lesley Sewell/ Chris Day
1230	3	Report on Industrial Action	Kevin Gilliland/Chris Day
1250		LUNCH	
1320	4	Chief Executive's Report	Paula Vennells
1340	5	Horizon update	Paula Vennells
1400	6	Financial Performance Update (including FY Forecast)	Chris Day
1430	7	Risk (update from ARC – session planned for Oct Board)	Alasdair Marnoch
1450	8	Minutes of Previous Meeting and matters arising Committee Minutes for noting Status report update	Alice Perkins
1500	9	<u>Items for Noting</u> <ul style="list-style-type: none">• Significant Litigation Report• Health and Safety Report• Sealings• Updates to the Post Office Limited and Postal Services Holding Company Articles of Association	Alwen Lyons
1510	10	Any other business	Alice Perkins

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Strictly Confidential**POST OFFICE LTD BOARD****Progress Report on Government Funding and Strategic Plan****1. Purpose**

- 1.1. This paper provides the Board with a reminder of the background and an update on the programme of work that is underway to secure agreement to the 2013/20 Post Office Strategic Plan and the associated Government Funding.

2. Background

- 2.1. On the 3rd May 2013, Post Office submitted its draft 2013/20 Strategic Plan and associated funding request to BIS. The plan set our strategy to transform Post Office into a commercially sustainable business through growth in our core markets and the continued transformation of our retail network. For Government, our commitment was that this could be done within the funding envelope that had been set out in the 2012/15 Strategic Plan.
- 2.2. To deliver against this funding commitment, Post Office required BIS agreement to one fundamental change; the network transformation programme would need to move from being a fully voluntary to a fully mandated programme, i.e. our scheduled modernise strategy. As we submitted the plan, we recognised that securing this agreement would be a challenge. The change in approach would generate 'noise' at a local and national level and this would be difficult for Government; especially as we approached a general election. However, we agreed it was Post Office's responsibility to deliver a plan that achieved the required outcome for the lowest funding ask – and submitted on this basis.
- 2.3. Over the past five months, the Strategic Plan and funding request has been scrutinised by BIS and their independent advisors. The strategic direction, the underlying assumptions and the associated financial projections have all been ratified with one exception, i.e. network transformation. Until we have resolution on this area, we will not secure agreement to either the full strategy or the associated funding. This is therefore the main focus of our current activity.
- 2.4. Our engagement with BIS on the need to move the network transformation programme to a mandated approach started on the 1st May with an initial meeting with the Minister to discuss the Strategy. Over the course of this and subsequent meetings with the Minister and the Secretary of State, we continued to promote and push our strategy. In spite of all the evidence and work we put into this activity, both in the pre-meets and the meetings, we failed to secure their agreement to mandation.
- 2.5. It is in this context, that we have been asked by the Minister and the Secretary of State to develop an approach to network transformation that can be supported by Post Office, the NFSP and BIS. They recognise that doing this will require us to improve the compensation offer to sub-postmasters and have committed that an additional £200m can be made available to enable us to deliver on this requirement. To access this funding we will need to demonstrate the NFSP are on board with the approach and that we can deliver a transformed post office network.

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2.6. The remainder of this paper sets out the work programme that is underway to address the challenge we have been set by the Minister and the Secretary of State. This is being done within a number of parameters that have been agreed with the Board and set out in the agreed Strategy and Funding negotiating mandate. The over-riding principle is that the alternative approach must deliver the outcomes we need for Post Office. If this is not possible, then we will need to revert back to our previous options and take on the associated political challenges.

3. Engagement with the NFSP

3.1. In early June, the NFSP signed a confidentiality agreement with the Post Office. This allowed us to provide them with a copy of the 2013/20 Strategic Plan and to start to engage them in the strategic agenda. While initial discussions focused on the broader strategy around income and costs, we very quickly moved on to the subject of network transformation. The NFSP understood the rationale for the scheduled modernise approach but made it clear that this was not something it could support. At the highest level, the specific issues were:

- The NFSP would be unable to secure the agreement of their members to a fully mandated programme and without this endorsement its position in support of the programme would be weakened.
- The concept of any form of mandated programme without enhanced compensation is not credible. Precedent has been set by previous programmes and if enhanced terms are not a part of the proposal, individual sub-postmasters will opt to 'stay as they are' believing that if they maintain their position in critical mass, the Post Office will have to back down at some stage and a better deal will be offered.

3.2. Over the past four months, we have therefore been working in partnership with the NFSP to develop an approach that, through a combination of enhanced compensation, semi-compulsion, and communications could deliver the required business outcome and secure the support of all stakeholders. In the sections below, we outline progress and current thinking.

3.3. Assuming a feasible approach emerges from these discussions, the intention would be to encapsulate the commitments of both the Post Office and NFSP in a Memorandum of Understanding. As part of this document, the NFSP are seeking a long term commitment from the Post Office to the NFSP. This would be a contractually binding agreement that would have consequences if either party failed on its commitments.

4. Enhanced compensation

4.1. The Board have provided a negotiating mandate that allowed the Strategy & Funding team to work within the limit of £200m additional funding provided by BIS and, if needed, an additional £80m of headroom from the Post Office Strategic Plan, i.e. a total funding envelope of £280m.

4.2. Early in our engagement, the NFSP set out a funding package that sought enhanced compensation across all areas of the programme. We estimated the total cost of this 'ask' could be in excess of £350m. The objective in terms of the

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negotiation was therefore to bring the NFSP 'ask' within the boundary of our mandate.

- 4.3. Significant progress has been achieved in this area with the table below summarising the latest position:

Compensation option	Latest negotiated position	Associated cost £m
Enhanced compensation for exit	26 months of compensation only applied to those who are yet to exit with payment capped at £200k.	£123m
Enhanced compensation for Locals conversion	12 months full pay to all converting locals applied retrospectively	£41m
	Protection of CTP to September 2016	£21m
Transformation related payments	£3,000 for converting and community branches	£18m
Cost of CTP associated with slower conversion		£30m
Grand total		£233m

- 4.4. As we have yet to finalise the detail of the implementation approach with the NFSP, it is likely that these numbers will change. However, we are now confident the agreement on the absolute funding will be well within the Board's negotiating mandate.

- 4.5. While the absolute value of the additional funding requirement is important, it is not the only aspect of concern; equally important is the profile of that funding. Specifically, we have been working to ensure that the funding:

- is profiled in a way that incentivises sub-postmasters to complete the transformation process as quickly as is feasible;
- is aligned within our affordability limits considering the availability of both Government funds and Post Office cash limits; and
- follows a trajectory that allows Post Office to deliver on its commitment to a downward trend in Government funding.

- 4.6. As we develop and refine our implementation approach, we are considering the extent to which we can utilise the profile of funding to incentivise the outcomes that we need. Specifically, we are:

- continuing with the existing compensation approach for exit, i.e. exiting sub-postmasters only receive their payment when the replacement branch is open and trading. This ensures they are incentivised to work with us to find replacement options and to support the transition.
- evaluating the extent to which enhanced compensation for conversion can be profiled to incentivise volunteers to come forward early in the process. For example, our enhanced compensation package for converters to the Local model includes 12 months of full pay and

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protection of core tier payment through to September 2015. For a volunteer in year one, we could offer that this payment as a single lump sum whereas for later volunteers, it could be paid in instalments over the programme.

- evaluating the extent to which enhanced payments for conversion can be linked to the opening of the branch. The challenge here is that many sub-postmasters may need the compensation payment to support the costs of transforming the retail part of their store. This therefore needs to be carefully managed or it could slow the process down.
- evaluating the extent to which transformation related payments could be used to incentivise sub-postmasters to complete certain elements of the process, e.g. provision of information to allow viability assessment or application for community funding to enhance the customer offer in community branches.

- 4.7. While we are yet to finalise the details of the application of the above factors, our current working assumptions combined with our implementation approach deliver the total funding profile set out in the table below. This is incremental to the Strategic Plan projections that were approved by the Board in May 2013.

£m	13/14	14/15	15/16	16/17	17/18	18/19	19/20	Total
Additional exceptional costs (no impact on P&L)	19	13	70	68	33	0	0	203
Additional on-going operating costs (impact on P&L)	2	1	5	7	5	5	5	30
Total	21	14	75	75	38	5	5	233
Cumulative total		35	110	185	223	229	233	

(please see section 6.4 below for the comparison to the Strategic Plan)

- 4.8. We will continue to update this profile as we progress our thinking and negotiations. Indications at this stage are that we can hold within the £200m of additional funding which BIS can provide, with £185m of additional funding being required through to the end of the proposed two year funding period, i.e. 2015/17.
- 4.9. We are currently evaluating the options around funding. While our funding requirement is for £185m over the period, we could seek to secure the full £200m available. In addition, BIS have indicated that a three year funding deal may be possible if we can provide a compelling case. We believe that the three year deal may be helpful in ensuring that the possibility, either perceived or real, of political intervention post a 2015 election is limited. We are in the process of assessing the risks and opportunities around funding options and will update the Board when we have this concluded.

5. Revised implementation approach

- 5.1. Sitting alongside the enhanced funding approach that is set out above, we have been developing a revised approach to implementation. While the discussions in

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this area with the NFSP have been long and protracted, they have brought a level of detail and practicality that has been both challenging and helpful. If we are to succeed with the transformation it is essential that we start from the perspective of the individual sub-postmaster. Ultimately our challenge is to get sub-postmasters to either convert to one of the new models or to leave our business; something which to date, they have not been inclined to do.

5.2. Our revised implementation approach proposes to achieve conversion through a combination of factors:

- **Mandated exit for all non-viable post offices:** while the NFSP are not prepared to support a fully mandated programme, they will support an approach that mandates exit for those that are not viable. They agree that many sub-postmasters and their post offices are not suited to retail and therefore are not capable of successfully operating the new model. They are willing to support mandated exit for this community and believe that 26 months compensation while less than that offered in previous programmes is a fair offer. *(agreed in principle with the NFSP)*
- **Controlled appeals process:** our concern around the mandated exit approach is that sub-postmasters would use the appeals process to escape the exit process and to ultimately 'stay as they are'. The NFSP are prepared to sign up to an appeals process that limits this risk. Specific criteria will be agreed along with a process of evaluation that controls the level of appeals that are possible. *(agreed in principle with the NFSP)*
- **Enhanced compensation for Locals conversion:** the NFSP believe that the enhanced compensation offer that we are proposing to offer to Locals will incentivise those that are viable and credible retailers to convert. However, we remain concerned around the extent to which there is inertia within the sub-postmaster community. At this stage we are exploring the extent to which profiling of compensation payments and messaging can address this concern. *(agreed in principle with the NFSP but with clear understanding that we have concerns around the extent to which this can deliver the outcome we need – will be revisited)*
- **Special conference support for the revised implementation approach:** while the NFSP gave their support to the current network transformation programme initially, this support evaporated over time. While it is impossible to ensure that every single NFSP member is on message, we can take steps to improve sustain their commitment. Ensuring that the NFSP take this proposal to a special conference and secure a 'yes' vote is one component of our approach to address this area. Additional areas are covered below in memorandum of understanding. *(agreed in principle with the NFSP)*
- **Implicit cliff:** as we worked through the detail of the explicit cliff (see details below) with the NFSP it became clear that this would become a barrier to securing a 'yes' vote at special conference. In that context, we are developing an approach that is based on an implied cliff. Through the communications material that is used to both announce the revised approach and the supporting questions and answers, we believe that

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compelling messages could be delivered. However for these to be credible BIS, NFSP and Post Office will need to stand shoulder to shoulder in their delivery. A paper on the implicit cliff is provided in the Board iPad reading room. *(agreed in principle with the NFSP)*

- **Explicit cliff:** Should the implicit cliff and the revised approach prove insufficient to get the transformation that we need, we want to ensure we have the option to introduce a visible cliff post-election in 2015. Our key requirements to secure this are twofold. Our requirement of the NFSP is it will not seek to re-open the deal, either by mounting a campaign or asking for a better deal. Our requirement from BIS is that the funding deal gives sufficient protection that a new Government cannot re-open the discussion. This has been discussed with BIS along with the extent to which a three year deal is possible/ could support this agenda. *(not yet agreed either with NFSP or BIS)*

5.3. While agreement on the above factors will structure an approach that underpins the implementation approach of the transformation programme, it is essential that we put in place measures that lock the NFSP and BIS into standing shoulder to shoulder with us from announcement through the implementation process. This is the focus of the above elements of our work programme:

- **Memorandum of understanding with the NFSP:** the second element of our approach to sustain the NFSP commitment to the programme is the development of a memorandum of understanding. Through this document we will seek to formally contract their commitment to the agreed approach, communications messaging, and any specific supporting activities that we expect them to perform. For the NFSP to commit to the document, they have made it clear that this will need to contain a long term commitment to the future of the NFSP; this must include a mechanism that secures their membership into the future. The detail of this is yet to be worked through. As we work through this process with the NFSP we will seek to link the performance of their activities to funding. *(the need for an MOU has been agreed in principle, however the detail is yet to be worked through)*
- **Joined up communications across BIS, NFSP and Post Office:** from the outset we have been clear that for Post Office to commit to this way forward, BIS and the NFSP must stand shoulder to shoulder with us. We must have joined up communications that are aligned and there must be a single message. If the implied cliff approach set out above is to be believable and compelling, we must take a firm position jointly, without this our ability to convince sub-postmasters to take action will be significantly weakened. *(in principle agreement with NFSP and BIS)*
- **Restructured programme team and resource:** the final element of our approach is related to the Network Transformation Programme and the associated team. As we redesign the implementation approach, we are reviewing the implementation approach across the entire end to end process. Combining the learning from the past year with the current thinking is allowing us to think differently around how we structure our resource and also utilise the expertise of third parties where possible to share both workload and risk. This is an internal activity which is being

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managed within the governance of the Post Office. *(No need for agreement with NFSP. Work currently underway internally on this area).*

- **Significantly changing how we secure replacement operators:** Finding suitable retailers to take on 2000+ Post Office locals is crucial to the success of the revised approach. Over the last few years, we have secured around 400 new locals from new operators, but less than 10% of these have been through moving the post office into one of our national multiple partner stores. We think there is a significant opportunity to increase this to 20-30% if we advertise opportunities in large batches and change the nature of our engagement. We will attempt to create competitive interest in the branches from multiples – and create tailored ‘deals’ where a major partner signs a contract to take, say, 100-200 locals into their nearby stores. This involves raising the strategic interaction we have with our partners as well as creating a process that is better balanced between independent and multiple partner needs. A linked but slightly different approach should be possible with the tighter-knit symbol groups (e.g. Spar) where the symbol group is able to pre-select their suitable independent members and persuade them to sign contracts to take on locals. *(No need for agreement with NFSP. Not tested with multiple partners. Process changes under discussion with Legal).*

5.4. A more detailed paper on the implementation approach is contained within the Board iPad reading room.

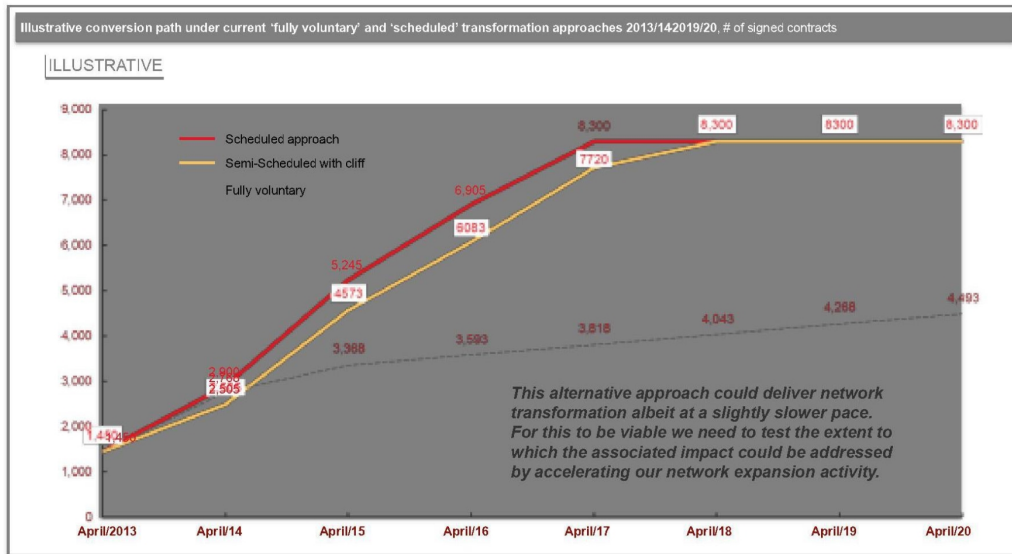
6. Delivering the required business outcome

6.1. While progress is being made in the development of this revised approach, we have been absolutely clear that for this to be an acceptable way forward, it must deliver the required business outcome. In the presentation to the Minister and the Secretary of State, we presented an implementation approach that assumed:

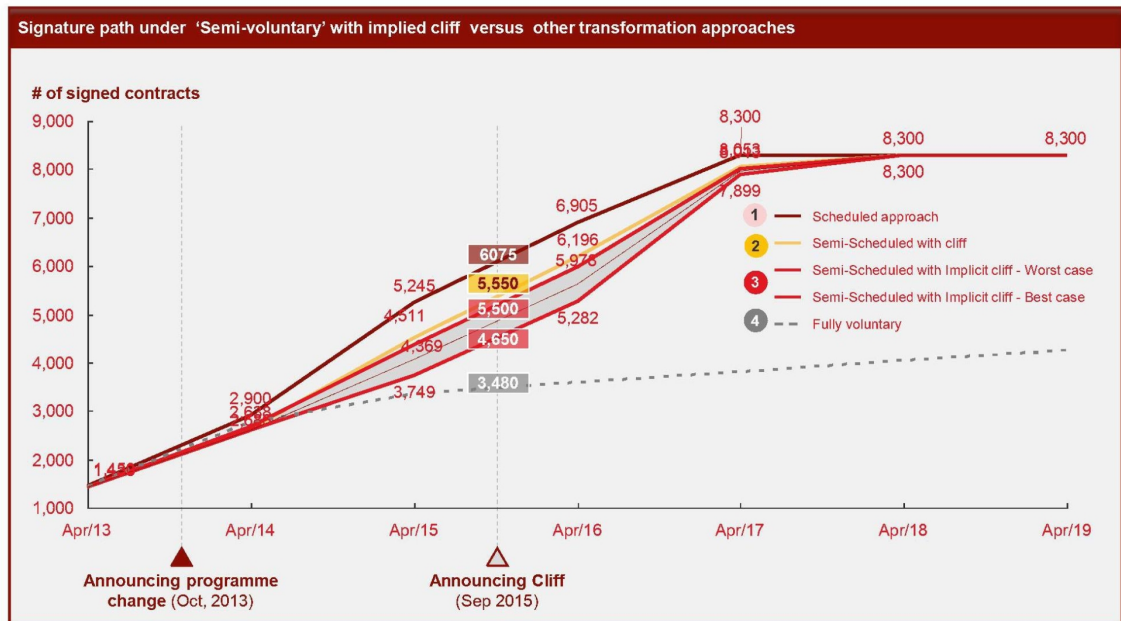
- Mandate for exit with compensation of 24 months
- Enhanced compensation of 12 months full pay for Locals conversion
- No enhanced compensation for Mains conversion
- No transformation payments
- Explicit cliff

6.2. The forecast outcome of this scenario was represented by the yellow line on the chart below.

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6.3. As we considered a scenario with an implicit cliff that only became explicit in September 2015, the Board were clear that this would only be acceptable if this alternative approach delivered the same outcome. This has been top of mind as we have conducted the negotiations and worked through our detailed implementation approach. The updated chart below presents our latest thinking on the rate of transformation that the implied cliff approach could deliver.



6.4. At this stage, we believe that the implied cliff approach, while still delivering the full transformation of the network will do so at a slower pace. Our assessment is that by the time we are able to introduce the explicit cliff in September 2015, the scale of the gap in profit before subsidy terms, i.e. EBITDAS, from the Strategic Plan could be in the order of £5m in 2015/16 and £30m cumulatively over the period through to 2019/20.

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£m	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Strategic Plan EBITDAS	-98	-63	0	53	92	105	115
Revised Strategy EBITDAS	-100	-62	-5	46	87	100	110
Gap to be mitigated	2	1	5	7	5	5	5

6.5. Our current view is that this gap is of a magnitude which could be mitigated. This would allow us to continue to deliver against our Strategic goal of achieving breakeven in 2015/16. It is important to note this is based on us achieving the mid-point of the range set out in the chart above.

7. Next steps

7.1. To drive our programme of activity forward, we are currently maintaining a five month project plan for the Strategic Plan and Funding work. To date this has largely focused on representing the Post Office's requirements. However as we approach what will hopefully be the final stages of this process, we are now developing a single integrated plan across all three organisations, i.e. Post Office, NFSP and BIS. This will be especially important to manage the choreography over the coming weeks. The key dates as currently understood are:

- Mid to end September: in principle agreement with the NFSP on financial aspects of the deal along with an outline memorandum of understanding. On the 25th September, we have a full day session with the NFSP to work through the remaining elements of the deal. The intention is to use this meeting to draw things to as close to a conclusion as is possible.
- Early to mid-October: over this period the NFSP have NC & EC meetings to secure approval. The EC meeting has been scheduled for the 14th October. Paula Vennells has been invited to attend.
- End October to early-November: the NFSP were targeting early November for the special conference. We have urged them to consider moving this to October; they are receptive to this and are exploring options.

7.2. We have had discussions with BIS around this timetable and they are comfortable with the outline approach, however, they need to consider the choreography of internal and external communications for the Minister. They will their plans this week and provide details to feed into the development of the integrated five month plan.

7.3. A copy of our draft five month plan which includes a more detailed five week activity plan has been included in the Board iPad reading room.

8. Communications

8.1. Given the criticality of communications to the successful conclusion of the Strategic Plan and Funding process and the subsequent implementation of the network transformation approach, this has been front of mind throughout our work. Early versions of our communications plan including stakeholder engagement and messaging were developed for the meetings we had with the Minister back in May. The communications team have continued to develop and

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evolve these documents as we progress our thinking. They are the guardians of the message and provide the team with the challenge needed to ensure that our approach is simple enough to be understood but compelling enough to encourage action. A copy of the communications overview document has been provided in the Board iPad reading room.

9. Horizon scanning/ risk assessment

9.1. Horizon scanning has and will continue to be a critical element of this programme of activity. In the table below we present the high level risks around securing agreement to the revised network transformation approach and associated funding.

Programme phase	Risk and management	Response
Securing agreement to the Strategy Plan and associated funding request	<p>Cannot develop an 'implicit' cliff option that delivers the outcome we need: there remains a risk that we will not be able to develop a scenario that delivers the business outcome that we need without either an explicit cliff or a fully compulsory programme.</p> <p><i>Likelihood: Medium</i> <i>Impact: High</i></p>	<p>In this scenario, we will need to go back to Government with a Plan B.</p> <p>Initially, we could try and get BIS to intervene with the NFSP to bring them to the table and secure agreement if that was the issue.</p>
	<p>Cannot secure support of the NFSP: while discussions with the NFSP are progressing well there are still a significant number of risks in this area. The NFSP may not be able to secure agreement at either their EC or Special conference</p> <p><i>Likelihood: Medium</i> <i>Impact: High</i></p>	<p>If bringing the NFSP to the table is not an option then we would push hard to revert back to our original strategy. We would propose to offer some enhanced compensation to smooth the way with sub-postmasters and help to reduce the level of 'noise' associated with the programme.</p>
	<p>Cannot secure the support of BIS: We are managing the BIS relationship closely and if we find a solution that brings the NFSP with us then we will have the support of BIS and the Minister.</p> <p><i>Likelihood: Low</i> <i>Impact: High</i></p> <p>However, if we cannot deliver the support of the NFSP and need to resort back to either the explicit cliff or fully mandated it is not clear if we will get their agreement to progress. The likelihood of securing agreement in this scenario will diminish the closer we get to an election date.</p>	<p>While scheduled modernise with some enhanced compensation would be our preferred option, we may need to concede to a mandated exit with explicit cliff post May 2015.</p> <p>We would hope that having invested significant effort with the NFSP and trying to arrive at a mutually acceptable way forward, Government may be willing to accept this as the only way forward to secure the future of the Post Office.</p> <p>The counter factual would play an important part in this process.</p>

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	<i>Likelihood: Medium to High Impact: High</i>	
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9.2. A copy of our working risk assessment document for revised network transformation approach has been included in the Board iPad reading room.

10. Conclusions

- 10.1. We are making good progress in our discussions with the NFSP and believe it is possible to develop a solution that delivers the transformation of our network within the funding envelope that is being made available from BIS.
- 10.2. The key uncertainty is whether the mutually acceptable solution will deliver the network transformation at the pace we require to sustain our business. The Commercial and Financial Services teams have confirmed that the slower pace of transformation will not affect their income projections. The key issue is therefore one of cost.
- 10.3. Our assessment is that the slower pace could create an EBITDAS gap of £5m in the 2015/16 financial year and would cumulatively reduce EBITDAS by £30m through to 2020. Our aim is to develop cost mitigation strategies to address this gap, so protecting our strategic goal of breakeven in 2015/16. Sensitivity and risk analysis is currently underway on this issue. This is evaluating the implication of different outcome scenarios in terms of the pace of transformation that is delivered and the ability to mitigate those implications.
- 10.4. Over the coming three weeks, we will conclude our discussions with the NFSP, the development of our alternative implementation approach, and the assessment of the implications of this approach on our Strategic Plan financials and the associated targets around signature and openings. If these all indicate a viable solution, we will develop a heads of agreement with the NFSP and progress forward with our timeline. The details of this will be shared with the Board to ensure the necessary authorisation is in place before any commitment is made and the NFSP progress through their approval process.
- 10.5. While resolution of this will be a positive step forward, it is important that the Board note that the network transformation programme will continue to be complex and challenging. Our intention is to on the successful conclusion of a deal, to undertake a detailed and comprehensive programme review and planning exercise. This will look at every aspect of the programme, its structure, resource profile and skillset. Getting this right will be critical to ensuring that the programme delivers the outcomes we need as a business. The key stages in this process are set out in our draft five month plan.
- 10.6. We ask the Board to note the progress that is being made and to endorse the work plan that is underway. The team continue to operate within the Strategy and Funding mandate agreed by the Board. At this stage we believe it is still possible that the alternative approach with the implicit cliff could deliver the outcome we require, however, there is still work to do to confirm this position. If this proves not to be the case, we will immediately notify the Board.

Sue Barton
25th September 2013

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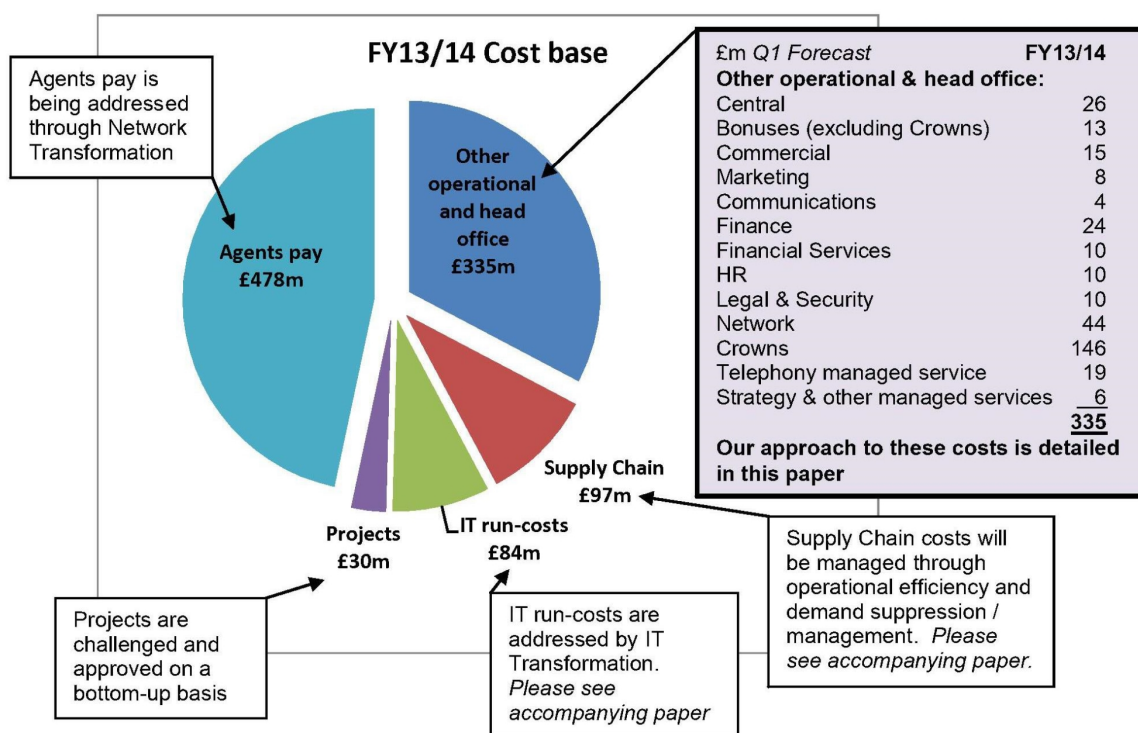
Cost Management Update September 2013

1. Purpose

1.1. The purpose of this paper is to provide the Board with an overview of the approach to and governance of cost reduction, delivery of current and future year cost reductions and future areas of opportunity.

2. Background

2.1. The total cost base of the Post Office is c£1.0bn. A high-level breakdown of POL's overall cost base is shown below:



2.2. The strategic plan demands a 25% reduction in central costs by 2020 plus savings in operational support costs and reductions due to existing programmes, namely Crown and Network Transformation, with the majority of the reductions being made in years FY14/15 and FY15/16.

2.3. The main subject of this paper is cost management within the 'Other operational and head office' area, with the accompanying papers 'Supply Chain Net Cost Management Programme and Future Roadmap' and 'IT Strategy Update September 2013' specifically addressing cost management in the Supply Chain and IT areas.

2.4. The Post Office has a coherent approach to cost management which aims to meet its the short, medium and long term targets across its business. This approach comprises of three types of activity:

- **Tactical** cost reductions in staff and non-staff costs to meet and exceed the in-year cost target.

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- **Improved efficiency** within the existing operating model which impacts this year and next.
 - **Strategic** initiatives which involve different ways of operating (eg outsourcing, or new ways of aligning goals with service providers) and often have significant cross-business implications. These initiatives will drive cost efficiency beyond FY14/15.
- 2.5. Previous Board papers have described the overall framework of these in detail. In addition, it has been recognised that specific, focussed governance is needed in order to ensure the business delivers its cost management objectives.
- 2.6. This governance consists of a Cost Management Steering Group with responsibility for moving strategic cost initiatives forward and comprised of Executive Committee members, and a cost management working group, led by Finance, consisting of an empowered representative from each Directorate. This working group has responsibility for:
- Holding the business to account on delivery of its commitments
 - Monitoring activity to ensure it is on track
 - Resolving cross-functional blockages
 - Challenging the business for new cost efficiencies to fill the forward pipeline.

It provides weekly updates and a monthly report to the Executive Committee and, together with the Steering Group, will inform quarterly cost updates to the Board.

3. Current cost reduction agenda

3.1 Cost management outturn in FY12/13

As part of the FY12/13 budget process, the Executive Committee targeted £20m of tactical cost reduction for the year:

- A non-staff cost challenge of £15m was included in the budget, and was overachieved with the final outturn being £3.9m under budget.
- A staff cost challenge of £5m was targeted, although not included in the budget. This was also overachieved with outturn being £11.5m less than budget; although c£4m of this was due to lower than budgeted LTIP payments.

3.2 Cost management targets incorporated into FY13/14 budget

For FY13/14, the Executive Committee adopted a rigorous approach to the budget, with each Directorate required to justify its projected spend for the year. As the budgets for both staff and non-staff costs have been set at a similar level to last year's outturn, the savings achieved in FY12/13 have been maintained in the current year.

As in FY12/13, the budget process included a cost reduction exercise, leading to a tactical cost reduction target for the current year of c£15m:

- In staff costs, an additional challenge of £4.7m emerged due to increased costs, mainly separation & strengthening (£6m) and additional pension charges (£5m), together with other smaller impacts (£8.7m), partially offset by savings from the Crown Transformation Programme (£15m).
- In addition, there is a non-staff cost challenge of £7m to offset expected increases, mainly the management charge for the new telephony supplier.

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- Separate to the savings under the Network Transformation Programme, a rate saving (mainly DVLA) has been built into the agents' pay budget which will give a full year saving of £3m against last year.

Across the board, these savings are currently on track, despite staff and non-staff costs being slightly over budget at Period 5 (as the causes of the adverse variances are not related to the cost reduction initiatives).

On top of the £15m cost challenge, "One-off" project expenditure has also been reduced from a peak of £53.4m in 2012/13 to £35m in 2013/14 (budget), with the most recent FY estimate being £33m.

3.3 Other Operational and Head Office costs FY13/14 and FY14/15

When the FY13/14 budget was set, £3m of the staff cost challenge was held centrally whilst work was carried out to detail precisely how it would be achieved. The Strategic Plan indicated that a further £40m of cost reductions were required in 2014/15. To address these, the cost management working group allocated cost reduction targets to each of the directorates. Proposals were submitted in early September.

The aggregate of the proposals (staff and non-staff savings) suggests that the targeted £3m reduction for FY13/14, and the £40m for FY14/15 are achievable, although some of the reduction in FY13/14 will come from non-staff rather than staff costs. It should be noted the proposals are in the process of being pressure tested for feasibility and overlaps, and contain tactical cost savings from Supply Chain. However, there are also a number of proposals that it is too early to put a value on (typically those with cross-business impacts) and which will be worked up over the coming weeks.

Aggregate reductions	2013/14	2014/15	Comment
Proposed staff cost reductions	£2m	£24m	The number of heads involved means that some kind of compulsory reductions would be needed. Of the FY14/15 total, £15m is delivered by the Crown Transformation Programme "CTP". Outside of CTP, the proposals mean a reduction of c200 FTE, with an average cost per FTE of £45k
Proposed non-staff cost reductions	£2m	£16m	The majority of savings are within directorate rather than cross business. Of the FY14/15 total, £2m is delivered by the Crown Transformation Programme.
Total proposed reductions	£4m	£40m	
Target	£3m	£40m	Equates to a c11% year on year cost saving
Better/(worse) than Target	£1m	-	

These savings will be incorporated into the upcoming Quarter 2 forecast for FY13/14 and into the budgets for FY14/15.

The table below segments the proposals by type. For FY13/14, they are broadly split 50:50 between Tactical and Improved operating efficiency. In FY14/15, £17m of the Strategic savings are delivered by the Crown Transformation Programme, leaving only £1m identified at this stage as coming from other Strategic initiatives. However, this relative lack of Strategic cost reduction ideas suggests there are opportunities still to be found. This will be a focus of the Cost Management Steering Group over the coming weeks.

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	2013/14	2014/15	Comment
Tactical	£2m	£11m	Tactical proposals for staff and non-staff costs to meet the 2013/14 target (eg reconfigure / reallocate work to avoid the need to fill vacancies).
Improved operating efficiency	£2m	£11m	Longer term efficiencies through reorganisations, pooling of work and reassessing existing business requirements. The lead times to implement these mean that they tend to have a limited impact in 2013/14, but have a full year effect in 2014/15. The working group will focus on how these can be pulled forward to maximise the 2013/14 impact.
Strategic	-	£18m	These are the types of initiative that will drive cost efficiency beyond FY14/15. In FY15/16 a further £40m of cost reductions will be required. Of the FY14/15 total, £17m is delivered by CTP. Whilst some other ideas of this type have been proposed, they are at an early stage. The focus of the working group is to drive their development and to generate more.

An important factor is the confidence we have of delivery and each of the proposals has been designated as High, Medium or Low as a broad indication of confidence. This measure takes into account how far the initiative has progressed, the difficulty of implementation, and the certainty around the value of the associated cost reduction. The expectation is that ratings will improve as more work is done to understand the opportunity, its implications, implementation plans and as it moves into delivery. Driving and challenging this work will be the main focus of the cost management working group.

Confidence	2013/14	2014/15	Comment
High	£3m	£24m	For the most part, these are Tactical initiatives, but the FY14/15 includes £17m of Crown Transformation Programme benefits
Medium	£0.5m	£14m	Improved operating efficiency proposals fall mostly in this category, but approximately 15% are in the Low category
Low	£0.5m	£2m	Strategic proposals currently fall into this category

4. Enablers

- 4.1. The approach described requires a significant decrease in headcount. Therefore we will need to concurrently conduct a people strand of the cost reduction programme to ensure that mechanisms for realising the identified savings are in place when required. This may include freezing recruitment, a reduction/embargo on contractor use, VR, etc.
- 4.2. However, the scale of the change is such that compulsory redundancies will be required and, given the lead-time involved in this, it is recommended that preparatory work on this strand is initiated immediately.
- 4.3. There are other potential one-off implementation costs associated with some of the proposals. These programmes will be challenged to ensure they make appropriate financial returns and will form part of the upcoming trade off process for project expenditure for FY14/15.
- 4.4. The success of removing costs and ensuring the business is run on the most efficient basis will require a consistent, cost-conscious mind-set across the entire organisation, role-modelled by Executive Committee and promoted through the appropriate use of targets and performance management. The existing framework and measures will be reviewed to ensure that the necessary focus is applied. A programme of internal communications will also be established.

Strictly Confidential**5. Strategic cost reduction beyond 2014**

- 5.1. It is recognised that there are limited opportunities to effect further significant improvements to the existing operating model. This means that, to meet our Strategic Plan targets in FY15/16 (requiring a further £40m of cost reductions) and beyond, a new approach to the way we operate is needed. The new Target Operating Model provides this by focussing the organisation on what we need to excel at in order to give our customers what they want when they want it, and on what services we need to do that.
- 5.2. Implementing the new Target Operating Model will drive us into transformational change, whether it is:
- Radically simplifying the customer journey (eg credit card approvals)
 - Outsourcing back office Finance and HR activities
 - Redesigning how branch and customer communications are produced and distributed
 - Developing win-win solutions with our business partners (eg Fujitsu, Bank of Ireland, Subpostmasters)
 - Implementing best in class management of our contracts and relationships with suppliers and Government.
- 5.3. We already have some of this type of transformational programme underway (NTP, CTP and IT). Work has been started to define the structure of the organisation under the Target Operating Model; understand the possibilities of outsourcing/offshoring; and to develop ways of sharing resource, risk and reward with partners (e.g. NTP, Franchising).
- 5.4. The bulk of opportunities are expected to come from the "Service Delivery" element of the Target Operating Model, but we will not restrict ourselves to this. Further work is required to produce coherent change plans and we will return to the board next quarter with these, together with deadlines, milestones, enablers and the constraints that need to be overcome (eg compulsory job losses, unions, resistance to change) for each strand. We will consider working with external parties on a 'gain share' basis where we believe that this will increase the likelihood of delivery or reduce timescales.
- 5.5. The cross-business and often fundamental nature of this work means that it is difficult to do, and strong governance is key to its success. This governance is the main focus of the Cost Management Steering Group, which it will provide through regular deep dives, challenge and holding account on commitments. In turn, it will report weekly and monthly to the Executive Committee and quarterly to the Board.

6. Conclusion

- 6.1. The Cost Management programme continues to deliver against its current year and next year targets. However, the longer-term opportunities from improving the existing operating model are limited and as a business we need to identify and implement strategic cost initiatives if we are to realise our future growth and profitability goals. The new Target Operating Model provides us with a framework to work within to achieve this by focusing the organisation on what we need to deliver and how we need to deliver it to give our customers what they want when they want it.
- 6.2. The responses to the cost challenge demonstrate that there is an emerging mentality of "cost efficiency" across the business and embedding this as part of the business culture is an important on-going task for the leadership of the business.

Chris Day
18 September 2013

Strictly Confidential**POST OFFICE LTD BOARD****Supply Chain Net Cost Management Programme and Future Roadmap****1. Purpose**

1.1. This paper sets out:

- The tactical cost-saving activities Supply Chain propose to implement in the coming 12-24 months.
- The findings of an independent strategic review of Supply Chain, which assessed the feasibility of two key areas; outsourcing and turning Supply Chain into a market pillar.
- The next steps for developing a roadmap to:
 - a) fundamentally change future demand for Supply Chain services and
 - b) reduce the cost to the business.

1.2. The Board is asked to note the conclusions and endorse the recommendations.

2. Background

2.1. Supply Chain's primary purpose is to provide a managed service to the Post Office network. This comprises the following services: cash demand estimating and management of cash and secure stock; secure delivery and collection of note and coin; replenishment of the Post Office ATM estate; delivery and collection of foreign currency; and secure and transitional stock distribution, including postage stamps, DVLA tax discs and POca cards.

2.2. There are three key products (POca, Business Banking deposits and ATMs) that require significant amounts of cash to be delivered to and collected from our branch network. Many other products require a secure means of delivering stock to the branch network (e.g. postage stamps, car tax discs, blank postal orders). The 13-20 Strategic Plan assumes that Post Office will continue to provide cash dependent products and reflects the expected decline in the POca product.

2.3. Supply Chain's direct costs, including the Equipment Team, Property and IT costs, are forecast to be ~£97m (~£55m are staff costs) in 2013/14. Direct costs are partially offset by revenue generated from providing cash collection and processing services for external clients. Forecast revenue in 13/14 is ~£29m, of which ~£13m comes from Royal Mail.

3. Cost Management Overview

3.1. Supply Chain has been making on-going cost reductions for several years (Supply Chain costs were ~£145m in 2003), without which the current cost of the operation would be substantially higher.

3.2. However, in 2010/11 the Supply Chain team recognised that the opportunity for further significant cost reduction would become limited, as to serve 11,500 post offices across the UK in both urban and rural locations requires a core infrastructure.

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- 3.3. Therefore, to maximise efficiencies and minimise the net cost of the operation, Supply Chain now also provides cash collection and processing services to external businesses.
- 3.4. In 2013/14, Supply Chain external revenue is forecast to be ~£16m reaching ~£31m pa by 2017. There is an additional ~£13m of revenue from Royal Mail, but this is forecast to reduce by ~£7m pa in 2015.
- 3.5. Supply Chain has traditionally focussed on the retail sector for external business and is now looking to expand into the ATM cash replenishment market to support this increase. Supply Chain is currently in discussions with two Independent ATM providers, which could lead to a potential £5m pa in new revenue.
- 3.6. A programme of tactical cost reduction remains in progress (which is further enhanced by increasing external business), details of which are Appendix A, but significant rationalisation is no longer feasible within the constraints of the current operation. Over the course of the strategic plan, tactical initiatives are expected to maintain costs at the current level and improve the overall net cost by growing external revenue within the current operating model.
- 3.7. However, given the magnitude of the Supply Chain costs, the risks to POca and Business banking products and the expected decline in Supply Chain income from Royal Mail, the quantum of net cost remains an area of challenge and options for a more fundamental change in the operations are being actively considered. To this end, an internal review of Supply Chain was recently conducted (the key conclusion are in Appendix B), followed up by an external review by an independent consultancy, Elix-IRR. The conclusions of the reviews are highlighted in the next section.

4. Independent Strategic Review

- 4.1. When ExCo and the Board were presented with the Strategic Plan, the assumptions around Supply Chain were challenged. While the internal review had concluded that outsourcing would be a more expensive option, to be entirely objective, it was felt that an independent external review was necessary. In that context, we recently engaged an independent consultancy (Elix-IRR) to conduct an assessment of Supply Chain. We specifically asked them to consider two strategic options:
 - **Market growth** – to assess the attractiveness of the Supply Chain market for Post Office so we could consider whether we should be turning Supply Chain into a market pillar and increasing our focus on generating income in this market; and
 - **Outsource service provision** – to assess the feasibility and attractiveness of sourcing our supply chain services from a third party provider.
- 4.2. This review has now concluded and a copy of the Elix-IRR full report is provided in the Board Pad reading room and a summary of the conclusions are in Appendix C.
- 4.3. The key takeaway from this assessment is that Supply Chain, **as currently structured and taking account of current branch demand**, is not suited to either outsourcing or positioning as a market pillar. However, this does not preclude a future outsourcing of a simpler / more generic enterprise.

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4.4. The outputs of the Elix-IRR review have been debated by ExCo with the following conclusions:

- **Supply Chain as a market pillar:** Elix-IRR concluded that the external market was not attractive and Supply Chain would struggle to take substantive market share. The question ExCo considered was - could Supply Chain provide a route to addressing some of the current short term income challenges and beyond? **ExCo concluded that the findings of Elix-IRR were correct and that this was not something Post Office should explore.** The investment and strategic implications of making a move into the external market does not align with our business strategy.

***ExCo conclusion:** Supply Chain's primary objective should continue to be the provision of service to the Post Office network with external income only being pursued where it helps to mitigate the costs of that activity by utilising existing capacity within the operational network, pending a more structural solution to cost reduction.*

- **Supply Chain as an outsourced service:** Elix-IRR had concluded that outsourcing of Supply Chain **as currently structured** was unattractive as it would increase the cost of the service to the business. While this is true, as we reviewed this conclusion, we recognised that this did not consider one of the fundamental challenges for Post Office, **i.e. whether demand can be managed in such a way as to enable a future outsourcing.**

A fundamentally different business model, which will drive down demand for Supply Chain services, has potential of reducing the cost-base and ultimately move us to a position where outsourcing becomes a commercially viable option.

***ExCo conclusion:** Strategy, Finance & Supply Chain teams should be tasked to explore the possibility of (a) accelerating / increasing 'tactical' demand reduction beyond that contained in the current Strategic Plan, and (b) deriving a 'strategic solution of an alternative operating / business charging model designed to reduce branch demand and give rise to a lower-cost (or possibly outsourced) Supply Chain model for Post Office Ltd. This will include the consideration of subpostmaster self-funding options. The conclusions of this analysis should be presented to ExCo and this Board for review and approval.*

5. Key risks / horizon scanning

5.1. There are many factors that could affect our Supply Chain strategy; these are highlighted below:

- **Loss of POca:** This would have a significant impact on the net cost of the Supply Chain operation. The POca contract generates around £59m¹ of net income per annum. The impact of losing the POca contract would be further compounded by an increase in the operational demand in the network, as it would drive up the number of branches who have cash surpluses and therefore the need for additional collections. The counterfactual that was developed as part of the Strategic Plan used this information to highlight to

¹ Net income value stated is after supplier and ATM interchange costs

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BIS the importance of securing an extension of the current contract. The Government Services team are progressing the contract extension strategy with DWP. In addition, Finance and Strategy are exploring the value of a project that develops a view of the action plan that would be needed to restructure our business to prepare for a future without POca, which will include considering the impact of other cash heavy products, i.e. Business Banking deposits and ATMs.

- **Industrial relations:** the current industrial relations activity may extend into the Supply Chain. This would affect our ability to deliver both cash and secure stock to the network. The Network and Supply Chain team have developed contingency plans to address this scenario and include:
 - Pre-funding the network with large amounts of cash and secure stock
 - Temporary agreement with a 3rd party provider, i.e. G4S or Loomis [REDACTED]
 - Agents self-funding

ExCo has debated the extent to which escalation of activity could present an opportunity to secure fundamental changes to the staffing model for Supply Chain operation and this will be evaluated urgently as part of the next package of work activities.

6. Next Steps leading to a Future Roadmap

- 6.1. Taking account of the Elix-IRR report (and ExCo outputs) and the key risks & outlooks, the internal team will now focus on developing alternative Supply Chain solutions which could be profoundly different to the status quo. The key driver is to address the level of demand for Supply Chain services, which will enable significant cost reduction and may lead to a commercially sustainable option to outsource.
- 6.2. The internal team has identified several areas which could fundamentally change demand for Supply Chain. These areas are briefly described below:
 - Cash and secure stock products, which will encompass:
 - re-engineering products that reduce the need for Supply Chain to source cash and secure stock, including how we could digitise printed stock;
 - assessing the risk of losing the POca and how it affects what we do with Business Banking deposits and ATMs;
 - reviewing product pricing strategy, taking account of requirements for supply chain support.
 - Moving subpostmasters (with a particular focus on Locals) to self-financing the cash required to fund the branch.
 - Moving to a model where subpostmasters pay for the cost of the supply chain service.
 - Assessing how other major networks (e.g. PayPoint) utilise supply chain services.
 - Investigating commercially sustainable sourcing options (including assessing the conditions that could be suited to outsourcing) taking account of:
 - the interplay with the risks and opportunities presented through industrial relations;

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- levels of staff pay – Elix-IRR reported that Post Office labour costs within Supply Chain are (on average) 16% higher than the market.
- 6.3. The internal team, comprising Supply Chain, Strategy, Finance and Network will vigorously, robustly and objectively assess the feasibility of how Post Office could introduce the above changes. The assessment will look at:
- what steps the business would need to take to move to a new model;
 - how long it would take;
 - how much it would cost;
 - dependencies, risk and issues.
- 6.4. Additionally (and in the context of the strategic plan) the internal team will review Supply Chain's existing roadmap of cost activities, with a view to:
- identifying additional cost-reduction activities - this will focus on both staff and non-staff costs (including property, vehicles and equipment);
 - accelerating, where possible, any of the cost-saving activities already identified by Supply Chain.
- 6.5. The internal team will present an update to ExCo and this Board in January 2014.

7. Conclusions

- 7.1. Supply Chain has successfully taken cost out of its operation over the past 10 years. Going forward, cost reduction continues to be a high priority and, in the short-term, Supply Chain's primary objective should continue to be the provision of service to the Post Office network, with external income only being pursued where it helps to mitigate the costs of that activity by utilising surplus capacity within the operational network.
- 7.2. Given the existing levels of demand, taking further significant cost out of Supply Chain without tackling network demand is now limited. We therefore need to develop a fundamentally different approach that will drive down branch demand and give the business the platform for moving to a lower-cost model and potentially lead to a more commercially viable route to outsourcing. An internal team has been put in place to action this.
- 7.3. ExCo will continue to review progress and assess if a change in strategic direction is needed/has value. The next review will take place by January 2014.

8. Recommendations

- 8.1. The Board is asked to note the conclusions of this paper and support the recommended strategic approach.

Chris Day, Sue Barton & Kevin Gilliland
25 September 2013

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Appendix A – Supply Chain Cost-Saving Activities

Activity	Type	From	Achieved already (may include roll on)	To Do	Totals		
					Achieved in the last 5 Years	Rolling Benefit to end of Plan	In plan to be delivered
Single Person: Specific SPVs implemented as part of the plan so far - 180	Staff	08/09	Rising from £6.3m in 08/09 to £8.3m in 19/20		£33.1m	£53.8m	
Swindon Stock Centre Reduction: 50 headcount	Staff	10/11	Rising from £1.5m p.a. to £1.9m p.a.		£4.6m	£12.2m	
Single Person Logistics (Trunking): 15 to date	Staff	11/12	Rising from £0.5m p.a. in 11/12 to £0.6m p.a.		£1.0m	£4.0m	
Single Person: 2 person vehicle conversion already implemented = 20	Staff	11/12	Rising from £0.7m in 11/12 to £0.9m in 19/20		£1.4m	£5.6m	
ATM insourcing from SSG	Non-Staff	12/13	£0.7m p.a. from 12/13		£0.7m	£4.6m	
Single Person: 30 headcount reduced through the conversion plan	Staff	14/15		£1.1m p.a. from 14/15			£6.6m
Online Ordering: realises an estimated 12 Headcount (in feasibility; needs validating).	Staff	14/15		£0.4m p.a. from 14/15			£2.5m
Single Person Logistics (Trunking): 20 more max (10 next year, 10 year after)	Staff	14/15	£0.4m p.a. in 14/15 and £0.7m p.a. in following years.				£3.9m
Cash Centre Reduction: 20 headcount reduction	Staff	14/15		£0.6m p.a. from 14/15			£3.6m
Fleet and Maintenance Service Provision Contract	Non-Staff	14/15		£2.0m p.a. from 14/15			£10.0m

Strictly Confidential**Appendix B – Key findings from the internal review**

While the net cost of Supply Chain has reduced significantly in recent years, both ExCo and the Board have challenged the cost of this service to the business. At a forecast net cost of £66m in 2013/14, this remains a significant proportion of our cost base. In that context, we conducted an internal review of the Supply Chain operation and cost base. This review concluded:

- **There was limited opportunity to further reduce the cost of service supply to the network for the current size / demand of the network:** analysis showed that the main cost driver for the Supply Chain operation is number of branches to be served. While the network remains static in size or indeed grows, further cost savings will be limited.
- **The main efficiency opportunities therefore relate to changing the demand within the network:** as demand/ service levels are managed from within the Supply Chain operation, there is opportunity to deliver efficiency savings in this area. Moving some branches to less frequent higher value cash deliveries opens up the opportunity to reduce costs. While interest rates remain low, early analysis indicates this could be an option for around 6,000 branches.
- **Outsourcing Supply Chain, given the current demand and set-up, is not a cost-effective option:** as Supply Chain provides services to third parties and this is won competitively, we do have insight to market rates. Using these rates and applying to the internal service, we were able to estimate the likely cost of an outsourced service. The internal analysis highlighted that an external service model could be more expensive. When this was considered alongside the likely industrial relations impact and the potential for creating a powerful Supplier duopoly, it was ruled out as a viable strategic option.

Strictly Confidential**Appendix C – High-level summary findings of the Elix-IRR Report**

We recently engaged an independent consultancy (Elix-IRR) to conduct an assessment of Supply Chain. We specifically asked them to consider two strategic options:

- **Market growth** – to assess the attractiveness of the Supply Chain market for Post Office so we could consider whether we should be turning Supply Chain into a market pillar and increasing our focus on generating income in this market; and
- **Outsource service provision** – to assess the feasibility and attractiveness of sourcing our supply chain services from a third party provider.

a) The Supply Chain market is not an attractive opportunity for Post Office

- With the exception of the ATM (market), the indications are that the industry is in slow decline with an industry average pre-tax profit of ~8%.
- While Post Office is a known and trusted brand and Supply Chain benefits from loyal, satisfied customers, there is low potential for differentiation and the current value proposition is not unique.
- Supply Chain's labour costs are ~16% higher than compared to the main players (G4S and Loomis) and the Operation, in its current form, is not geared up to compete at scale – without significant investment.
- The Supply Chain operation, specifically the cash management elements are 'impressive' and while revenue growth will be possible, it will be challenging to build significant market share

b) Outsourcing Supply Chain in its current form would not be attractive

- Outsourcing Supply Chain, in its current form, could increase Post Office's costs by as much as £25m per annum.
- There is no clear vendor business case to take on the scope of Supply Chain in its current form as even with a 15% discount applied; arithmetic payback (not NPV based) would take 4-7 years.
- There are currently only two organisations that could consider this outsourcing contract, G4S and Loomis and this raises Competition Commission concerns (in the case of G4S). However this risk may be lowered in a scenario where Supply Chain is a smaller operation.
- A decision to outsource would present a significant risk of industrial action from the CWU.

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POST OFFICE LTD BOARD

**Service Integrator/Service Desk
Contract Award**

1. Purpose

- 1.1 This paper provides the Board with an update on the procurement for a Service Integrator/ Service Desk (SISD) provider.
- 1.2 The Board is asked to note that the Executive Committee has approved the award of the SISD contract to ATOS IT Services Ltd.
- 1.3 The Board is asked to authorise the Chief Finance Officer to sign the SISD contract.

2. Background

- 2.1 The Board has previously approved the IT Transformation Programme, which included the re-procurement of the IT supply chain to meet the demands of our business strategy, Royal Mail Group Separation activities and to ensure continuity of services from end of life IT contracts.
- 2.2 In July, the Board was updated on our progress to procure a Service Integrator. The procurement activity for this component of our new IT supply chain has now completed and following a robust and rigorous selection and evaluation process we are now recommending signing the contract.
- 2.3 The SISD is a key part of transforming our IT. It will enable the realisation of the benefits which include an annual reduction of £26m in IT operating costs once all services have transitioned into the new supply chain.

3. Activities/Current Situation

- 3.1 The path to SISD selection has been run in accordance with Public Procurement law, overseen by our sourcing and legal experts.
- 3.2 Three suppliers were selected to participate in the procurement, ATOS, Capgemini, and CGI; all three submitted bids in response to our invitation to submit final tender.
- 3.3 In August the bids were evaluated against pre agreed cost and quality criteria, with scores moderated to ensure consistency. The subsequent supplier recommendation is based on a 'Most Economically Advantageous Tender' (MEAT) basis. MEAT is a value for money calculation based upon the evaluated/moderated quality score divided by cost.
- 3.4 ATOS was evaluated as providing the MEAT response, and following clarifications has been awarded preferred bidder status; all bidders were advised on 13 September on the outcomes of the evaluation. On 23 September a legally required 10 day stand still period completes, during which time all bidders and the market have the opportunity to review and challenge the outcome of the

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evaluation. Following this we are able, subject to this Board's approval, to sign the contract.

- 3.5 Due to the indicative size (£56m) and strategic impact of the award, approval from the IT Transformation Programme Board, Sourcing Council and Executive Committee has been given prior to this request to the Board.

4. Service Scope

- 4.1 We are seeking the Board's approval to sign the SISD contract to ATOS IT Services UK Limited.

- 4.2 Services will include:

- Implementation of a single Service Desk and transition of our incumbent IT supplier Service Desk capabilities.
- Establishing a Service Integrator to provide operational management of the new towers based IT supply chain and management of our incumbent IT suppliers as they transition into this model.
- Delivery and management of IT change originated by the Post Office.
- Transition of existing Service Management and Change colleagues from Post Office into ATOS under TUPE arrangements.
- Managing on behalf of the Post Office the implementation and successful delivery of the new IT supply chain.
- Delivering governance to ensure Post Office constrains internal IT costs in line with policy and drives value and efficiencies out of the IT supply chain.

5. Commercial Impact/Costs

- 5.1 The SISD is the first component of the strategic IT supply chain eco-system. The cost of this eco-system has been benchmarked and modelled against external and market standards. This benchmark, undertaken with the support of a specialist third party, Information Services Group (ISG), determined the potential benefit opportunity for Post Office and modelled the impact on our IT costs. The identified benefit from delivering the new supply chain (across the SISD and the towers) is £26m per annum once all services have transitioned.
- 5.2 The expected benefits and costs for this are embedded in the IT Strategic plan. Comparing this plan with the 2012/13 costs as a baseline delivers the following benefits.

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Reduction in OPEX (£m)	9	14	13	27	26	26

- 5.3 The costs for delivering the SISD services are in line with our benchmark expectations.
- 5.4 The Initial term of the contract is 4 years, with an option to extend for 2 years at the Post Office's discretion.
- 5.5 The committed value (excluding VAT) of the award over the initial 4 year term is £40.6m. There is no RPI increase allowed against these costs.

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- 5.6 In addition, there are a number of consumption based volume charges for delivery of change activity. Using the current Post Office change volumes this represents an additional £16.4m over the same term. This approach enables the Post Office to benefit from targeting efficiencies that improve process and reduce volumes in the IT supply chain.
- 5.7 In order to implement the SISD services, Post Office is committed to pay £8.8m to ATOS and will also incur £6.6m of costs which will cover our own internal team, staff transfer (TUPE) and our contractual obligations to incumbent suppliers. These costs are exclusive of VAT and have been agreed by the Investment Committee, in line with our Strategic Investment Plan.
- 5.8 The contract is subject to benchmarking, with an automatic reduction in charges if they are not aligned to the upper quartile benchmark. If Post Office is benefiting from lower charges than the market benchmark then the SISD has no entitlement to increase their charges.
- 5.9 Subject to Board approval the contract is to be signed on 27th Sept 2013.

6. Key Risks/Mitigation

- 6.1 The success of an SISD has a critical dependency upon contractual engagement with Post Office's incumbent suppliers and future Towers providers. Where contractual interoperability cannot be achieved with a supplier, the benefits from the model will be diminished. Signing the Transitional Support Services agreement with Fujitsu will significantly address this risk.
- 6.2 Post Office will need to provide the internal resource capability to govern the relationship and, in parallel, implement the business changes required. An Implementation Team is being mobilised and over the next 6 months we will begin to move to our retained organisation structure. As a result of transferring work to the SISD, around 80 colleagues are expected to move under TUPE arrangements to ATOS following the completion of due diligence. The efficiencies from this are incorporated in the benefits described in 5.1 above.
- 6.3 The cost of IT is driven by both the cost of supply and by the level of demand; to deliver the greatest efficiency both need to be actively managed. The SISD plays a key role in managing the cost of supply, but we need complementary engagement in the business to assess how demand for IT services is generated and managed. The IT Operating Model recognises the significance of this and incorporates capability to work with the business to develop and manage demand.

7. Long term considerations – horizon scan

- 7.1. The new IT Operating Model balances the responsibilities between the Post Office and the SISD, with Post Office retaining the commercial relationships with our supplier base while the SISD takes accountability for delivery.
- 7.2. A level of flexibility has been built into the SISD contract. However, future changes to the Post Office's operating model, such as further business process outsourcing, will generate an operational and financial impact that will need to be assessed as the scale of the SISD contract has been based on current volumes.

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8. Communications Impact

- 8.1. There is a requirement to communicate this award across internal and external channels, across the current supply chain and with the Unions. A communications plan is in place and we have expertise in the programme, reporting into the Communications function.
- 8.2. We have actively engaged with the Unions regarding the transfer of responsibilities and colleague impact. Following contract award we will be entering into a formal consultation period with both the CWU and CMA.

9. Conclusion

- 9.1. The procurement of our SISD partner is the first step in delivering our strategic IT supply chain which will allow us to deliver a reduced cost base in line with our strategic plan, whilst improving our customer and colleague experience.
- 9.2. The benchmarking we have completed has demonstrated that we can reduce our cost base and ensures that we can further benchmark our costs against the market over the life of the contract.
- 9.3. In tandem we will be implementing our retained organisation which will drive out efficiencies and increase our capability.

10. Recommendations

- 10.1. The Board is asked to authorise the SISD contract with ATOS IT Services UK Limited to be signed by the Chief Finance Officer.

Lesley Sewell
18 September 2013

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POST OFFICE LTD Board

IT Strategy Update September 2013

1. Purpose

- 1.1. The purpose of this paper is to update the Board on progress against our key initiatives within the 2020 IT Strategy demonstrating why it represents value for money and achieves our run-cost reduction targets.
- 1.2. The Board is asked to note this paper.

2. Background

- 2.1. There are a number of key change programmes delivering the 2020 IT Strategy, providing the building blocks for supporting our overall business strategy. Good progress is being made, and a number of key decision points have been met, or are imminent. Significant benefits are embedded in the Strategic plan, aligned to deliver our value for money agenda, realised through successful delivery of initiatives across:
 - Independence and Separation
 - IT Transformation (IT Operating Model and Supply Chain procurement)
 - Transitional Support Services with Fujitsu
 - Horizon Intellectual Property Rights (IPR)
 - Point of Service strategy

3. Current Situation

3.1. Independence and Separation

- Post Office continues to work closely with Royal Mail to deliver Separation in-line with the existing Master Services Agreement (MSA).
- Following recent discussions with Royal Mail, both businesses have agreed to review the time line for Separation and explore opportunities that deliver mutual benefit. This will be done in keeping with our aspiration to significantly reduce the cost base over the medium term. From a Post Office perspective, this gives us more time to assess the opportunities, benefits and risks of transferring services.
- Regardless of the outcome of the review, the IT Supply Chain remains a prerequisite to complete separation. The Board will be provided with a comprehensive update once the review is complete. We expect to have a view of this by mid-October.

3.2. IT Transformation

- The approach and strategy for delivering the IT Transformation has previously been approved by the Board.
- The IT cost base can be varied by managing the cost of supply and simplifying the IT contract framework. The new IT contract framework allows us to leverage economies of scale within the IT landscape and improve our ability to secure future benefits as we procure or re-procure IT services.

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- IT Transformation delivers a new IT supply chain together with a new IT Operating model which is optimised to manage the supply chain, enhance IT capability and maturity, and deliver sustainable cost efficiencies.
- The Board were updated in July on our plans to select and award a Service Integrator (SI). A separate paper accompanies this to provide an update on the outcome of the evaluation and selection process, and a request to approve the signature of the contract.
- We are making progress on procuring the new supply chain and, in addition to the SI which has been submitted for authorisation, we are expecting to seek authority to sign contracts for:
 - Data Centre in November 2013
 - End User Computing in March 2014
 - Application and Infrastructure in August 2014
 - IT Network in September 2014.
- The financial benefits from implementation of the IT Transformation are included in the Strategic plan. Benefits are targeted to achieve industry benchmarks, and contracts are structured to maintain alignment over time. The benchmark has been established through working with external specialists and has identified a circa 25% reduction in the run rate cost of IT by 2017/18. Across the term of the plan to 2020 this equates to £93m and annualised benefits of circa £26m against current spend.
- A review of the business case for delivering IT Transformation has been undertaken to take into consideration learning from progress to date, the impact of our Point of Service strategy and the award of the Transitional Support Services (TSS) agreement. The review has validated the approved strategy and approach.

3.3. Transitional Support Services (TSS)

- The TSS was approved by the Post Office Board on 19th July 2013 and following final negotiations, Fujitsu signed the TSS on 11th September 2013. Post Office will subsequently sign prior to 30th September.
- This major contract amendment extends the existing HNGx Agreement¹ with Fujitsu by 2-years from 1st April 2015 up to 31st March 2017 and provides a number of benefits. The benefits include:
 - Securing core Horizon services until 31st March 2017;
 - Reducing scope by 27% but maintaining the unit pricing points, ensuring overall run costs have reduced proportionally;
 - Supporting transition to the Towers model by introducing new obligations which enable Post Office's Service Integrator to manage the TSS;
 - Introducing additional partial termination rights and enhanced exit terms to support transition.
- The TSS is dependent upon Post Office and Fujitsu completing the Belfast Refresh project by 31st March 2015. This programme was approved at POLIC on 14th August 2013. The project is running to plan and there are no material risks to the completion date.

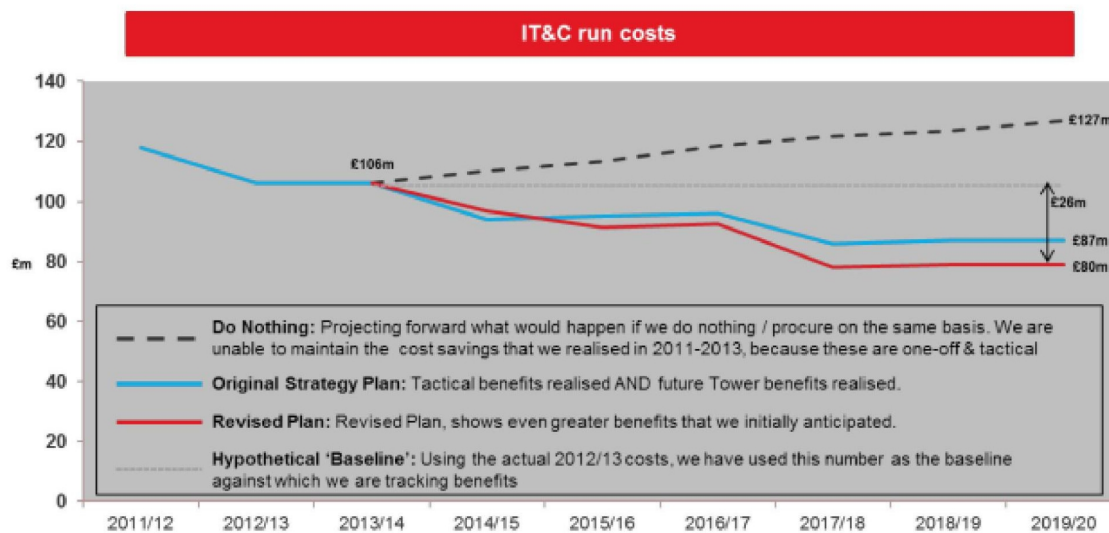
¹ The HNGx Agreement, originally signed on 28th July 1999 provides Horizon Online services to all Post Office counters in all branches. The agreement has been amended and extended during the term.

Strictly Confidential**3.4. Point of Service (POS) Strategy**

- POS will define Post Office's future Point of Service (including branch counter) experience and capabilities.
- The existing POS system, Horizon, is not aligned with our long-term business strategy in its current form. The POS initiative will either replace or evolve this system to better fit our IT and business strategies.
- Intellectual Property Rights (IPR) for the Horizon system is required to support the procurement of the Point of Service (POS) tower. Negotiations are on-going with Fujitsu to secure these rights.
- We intend to start the procurement by issuing an OJEU notice in October 2013.
- We expect to seek approval to award the contract in December 2014.

4. Commercial Impact/Costs

4.1. The benefits case for IT Transformation has been re-assessed since the 2013/20 Strategic Plan was developed. The impact of this assessment on the plan is included in the table below (figure 1).

**Figure1**

- 4.2. The revised plan delivers greater savings over the life of the strategy. This is a result of detailed analysis which demonstrates that Post Office can make use of more “off the shelf” products rather than implementing bespoke solutions.
- 4.3. Due to difficulties in exiting certain contracts, there is an anticipated increase above the Strategic Plan of £3m in FY 2014/15. We have put a plan in place to bring our run costs back into line with the original Strategic Plan, within the financial year.

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5. Long term considerations – horizon scan

- 5.1. The IT Strategy has been developed to support the overall business strategy and it is regularly reviewed to ensure it remains aligned. Any updates to the business strategy need to be impact assessed and reflected in the IT strategy.
- 5.2. Achieving alignment with benchmarks requires Post Office to exploit ‘off the shelf’ capability and avoid bespoke solutions. Strong internal governance is required to challenge and ensure we do not deviate from this.
- 5.3. The cost of IT is driven both by the cost of supply and by the level of demand; to deliver the greatest efficiency both need to be actively managed. The new IT Operating Model plays a key role in managing the cost of supply, but we need complementary engagement in the business to assess how demand for IT services is generated and managed. The IT Operating Model recognises the significance of this and incorporates capability to work with the business to develop and manage demand.

6. Communications Impact

- 6.1. The IT organisation has been fully engaged with the communications team when both planning and executing the IT Strategy. Key IT transformation milestones have been announced to IT and Change staff at a number of dedicated meetings, with follow up FAQs issued to reiterate key information or address specific concerns.
- 6.2. Regular engagement with Union leads reinforces the collaborative nature of the change process and allows for input into areas where people are most likely to be impacted.
- 6.3. As initiatives within the strategy develop specific communications activity plans for use both internally within Post Office, as well as to Unions and the wider market will be developed.
- 6.4. Specific communications activity planning for the SISD contract is being finalised, in anticipation of the authority to sign the contract. This level of activity planning is being applied to all key programme milestones; including the IT Operating Model and TSS signature, amongst others.

7. Recommendations

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

Lesley Sewell & Sue Barton
18 September 2013

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POST OFFICE LTD BOARD
Chief Executive's Report**1. Mails**

- As the Performance Report sets out, mails income is still performing below target, by around £10m over the year to date (not including retail and lottery). However, over the past fortnight we have taken some significant steps forward in our action plan to recover the parcels volumes that were lost as a result of the April tariff change. Firstly, on 2 September we launched a month-long price discount of up to 20% on certain formats through our Drop & Go service, supported by online advertising to target high volume senders who use eBay and Amazon. In the first week of the discount we achieved a 31% increase in Drop & Go sign-ups alongside a clear improvement in parcels volumes: 1st Class Labels were only down by 1% compared with the same week a year ago, having suffered a 19% decline over the year to date, and 2nd Class Labels were up by 6% following a flat performance over the year to date.
- Following the roll-out of the Drop & Go service to the entire network at the end of July and the launch of this promotion at the start of September, we now have over 8,000 customers signed-up to the service, 2,000 of which have joined in the last two weeks.
- The second major strand of activity has been our work with Royal Mail (RM) to introduce a large, shoebox sized format that will enable more items to be classed as 'small parcels'. The change was announced on 16 September, and following a month-long consultation (required by Ofcom) will be introduced in branches later in October. Our expectation is that this will enable us to recover around 50% of the volumes lost since April (225,000 parcels per week), and together with the Drop & Go campaign should mitigate the income losses by around £4.3m over the remainder of the financial year. (The additional dangerous good income for domestic parcels should offset the remaining mails shortfall, generating around £7.8m by year end.)
- Further progress has been made with RM in lining up retailers to use our new click and collect service. Negotiations have been finalised with MetaPack (a widely used delivery management intermediary) to create a platform that will enable their clients to link up with the service with minimal further integration work. Over the course of September and October we will be 'onboarding' a number of medium sized retailers (such as Paperchase, Wiggle and Pro-direct Soccer), in time for Christmas orders. RM has also secured provisional agreements with some larger retailers such as Amazon, Marks & Spencer and Asos to start using the service from the first quarter of 2014. Finally, we have achieved a strong improvement in our returns business with volumes up 17% year on year over the last 5 weeks, through a combination of increased awareness of our longer opening hours, a halo effect from the high profile click and collect announcements and good sales work by RM. On 16 September we delivered a joint pitch with RM for Ebay returns, which if successful would deliver a further significant increase in volumes.

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2. Financial services (FS)

- The new FS sales model and supervisory structure is on track for implementation from 1 October, in time to support the ramp-up of income targets over the remainder of this financial year and beyond. There are now 282 Financial Specialists deployed across the network, 40 of which have passed a rigorous assessment process to become Mortgage Specialists. Recruitment is underway for a further 60 Mortgage Specialists from outside of the business, which should be completed by the end of October. The Area FS Managers recruitment is also nearing completion, with 22 in post by the end of this month and the remainder in place by the end of October. We have launched a pilot for dedicated Financial Specialists in eight agency branches - an important initiative in exploring the scope to grow FS sales outside of the Crowns.
- The current account pilot is continuing with 1,256 applications to date and 625 accounts opened (as at 13 September). The number of applicants failing to meet the identity and anti-money laundering requirements has been higher than expected, although the rates are now improving following work with the Bank of Ireland to change the account opening procedures. Additional coaching is being provided to staff in the branches within the pilot area to test the full potential of the proposition for increasing cross sales. Following the launch of the industry wide 7 day accounting switching service on 16 September, we are also conducting a second wave of marketing activity and have received further positive media coverage (including in the Mail on Sunday) drawing attention to our competitive overdraft and fair and transparent fee structure.
- A separate noting paper is provided outlining our Payment Services Provider strategy to support SMEs, due to be launched on 1 October. We are also on track to launch a new pre-paid debit card before Christmas, having worked with FRES (our supplier) to mitigate the impact of their card issuer (Clydesdale) withdrawing provision due to a change in strategic direction. Finally, on 16 September we re-launched our online credit card application portal, which significantly streamlines the process for customers based on market leading approaches, helping to strengthen our credibility as a serious FS provider.

3. Government services

- We have continued to engage DWP with the aim of securing an extension to the POca contract beyond 2015. In particular, we have shared with them the outputs from our customer research which shows that a significant proportion of customers are heavily dependent on the use of cash to manage their budgets effectively. This research and DWP's own analysis have shown that complete closure in 2015 is not feasible as even the most aggressive migration plan would leave 1 million customers on POca by this date. On the back of this joint working, DWP are now re-working their migration plan with a 2017 end date and are contemplating the need for a new 'safety net' product beyond that date for customers who cannot be migrated (particularly pensioners). While there are undoubtedly risks, at this stage we therefore believe that the POca volumes and financials included in the strategic plan remain a credible base case scenario.
- The new Universal Credit Programme Director in DWP, Howard Shiplee, visited the model office on 7 August to view our capabilities first hand. Feedback confirmed that he was interested in using our online and face-to-face identity verification capabilities and this will

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be further supported by the recent National Audit Office report which highlighted the significant fraud risks associated with Universal Credit.

- On 30 August we signed the first call off under the Identity Assurance framework contract. Of an initial market of 8 providers, only 5 have signed the call off meaning that this contract is now worth approximately £2.5m over 18 months (the majority of which falls in 2014/15). The Government Digital Service (which is co-ordinating the process across departments) is planning to run a second procurement for the continuation of the service beyond 2015, with a forecast market of 75 million separate identities by 2017. This will include business identities, which are expected to require face-to-face verification where we have a clear advantage over our competitors.
- On 1 September HM Passport Office (HMPO) signed a new 7 year contract with Post Office using the DVLA Front Office Counter Services framework contract. In the first instance this will allow the continuation of the existing check and send service, although it also provides the flexibility to move to a digital based service creating additional income opportunities. We hosted a visit from the CEO of HMPO (Paul Pugh) on 13 September to demonstrate how a digital customer journey for passport applications might work in practice. He was clearly enthused about the potential, and we were informed that he briefed his Minister (Mark Harper) about the visit the same day.

4. Home services

- The migration of our telecoms services from BT Wholesale to Fujitsu took place over the weekend of 30 August to 2 September. The migration of data relating to our 470,000 existing customers was completed successfully, but there have been very long waiting times to get through to the call centre since the migration. This has been driven by increased demand for the enhanced services that became available, call handling times being longer than forecast and some specific technical issues which have now been resolved. We have been working urgently with Fujitsu and its partners to put in place measures to address the situation by increasing call centre capacity and managing demand more effectively. We will provide an update on the latest situation at the Board meeting.
- We have now entered into exclusive negotiations with Fujitsu and EE for the provision of mobile phone services. The market research broadly validates the customer numbers contained in our strategic plan and that average revenue per user looks strong. Work is also progressing on our plans to enter the energy market. We have completed the first phase of market engagement and have received proposals from four potential partners. Our plan is to short-list two suppliers in October and launch the service in early 2014/15.

5. Network Transformation

- The programme is on track to achieve the Q2 target of 1,853 contracts signed, with 1,804 achieved by 13 September. However, delivery of the year-end target of 3,000 remains challenging and there has been some slow down, particularly in the independent sector. Feedback from the field teams suggests that agents are stalling in the hope of a better deal, in light of recent communications from the NFSP around the future strategy and the possibility of increased levels of compensation. However, we have a strong pipeline of

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branches leaving the network, and a significant part of the effort in the second half of the year will be to convert the interest we have so far secured for these branches into contracts for the new operators.

- Last week marked the delivery of the 1000th branch opening, an achievement commemorated by a visit by Jo Swinson to a recently converted Main branch in Uddingston, Glasgow. We are increasing the weekly branch opening beat rate from around 20 in July and August to an average of around 30 from late September and through October, supported by the opening of more of the multiple branches that were signed last year. However, we are not yet seeing an acceleration in the average time taken to convert each branch: there is a fairly consistent pattern where half of branches open within 5 months or so of signature, while the other half extends over a much longer timeframe. As a result the programme is currently behind target with 1,038 branches completed as of 13 September, creating a significant risk to our ambition of 1,950 branch openings by year end.
- We have therefore reviewed every branch in the whole NT process to focus effort from all teams on those branches that want to sign and open within the financial year. In addition, we are proceeding with the pilot of using our own contractors to undertake branch works to speed up the implementation process. The initial focus is on 80 branches and feedback from the field so far has been that many sub-postmasters are keen. While we need to learn the lessons from the pilot, we have started preparing the public procurement exercise so we are ready move away next year from the default position that agents appoint their own builders.

6. Crown Transformation Programme (CTP)

- Current projections indicate a net shortfall of around £3m against the target to reduce the Crown losses to £23m by the year end, largely as a result of the adverse mails income detailed in the performance report. Work is underway to mitigate this shortfall, including through the additional actions highlighted in the mails section above.
- In addition to the five pilot branches that were modernised last year (Nottingham, Peterborough, Chester, New Malden and Birmingham), a further five have been transformed over the summer (Milton Keynes, Houndsditch, Derby, Sheffield and Wandsworth). Our target is to have 45 branches completed by Christmas and 117 by the end of 2013/14, with the remainder of the 292 retained branch network scheduled for modernisation next year. Members of staff are being consulted on the proposed re-designs ahead of each conversion.
- We are currently working with a pool of 35 branches that have the potential to franchise this financial year, subject to the successful completion of the application and public consultation process. Around 20 of these branches are expected to be delivered through an overarching franchising agreement with WH Smith which we are close to finalising (this will also include 82 Mains conversions).
- We recently commenced a 45-day collective consultation process on our proposed new voluntary redundancy scheme, which is a key element of our planned staff savings. More broadly, as part of a renewed drive to engage staff and promote a deeper understanding of our transformation activities 'super-briefers' have been deployed again across the

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Crown network over the last month and a new staff magazine has been launched. A separate update on the industrial relations situation will be provided at the Board meeting.

7. Marketing and multi-channel

- The first phase of the econometric evaluation of the brand orientated campaigns has now been completed. This demonstrated that the £12.9m spent during the first 6 months of the campaign (from October to March) generated additional income of £9.6m within 2012/13, with the expectation of greater cumulative effects in this financial year and beyond (although this is partly predicated on our ability to afford continued investment in marketing). This positive evaluation adds to the good initial movement of brand metrics, the increase in mortgage spontaneous awareness from 0 to 6% and the above average rates of consumer awareness and key message take out from the campaigns.
- The travel essentials brand campaign is still live and therefore has not yet been fully evaluated but the short-term indicators are positive. While the package holiday market is down 5 % year on year, for the first time in a number of years we are outperforming this indicator with our travel money transactions flat. Travel money overall is 100% of target over the year to date and 4% up year on year; travel insurance is 123% of target and up 6% year on year; and Passport Check and Send is 108% of target and also up 6% year on year.
- Progress with the multi-channel programme is continuing. The procurement process for the Common Digital Platform commenced last week, and once completed will provide an integrated solution to manage all of the requirements for online customer servicing across the business. The mobile-optimised version of the current Post Office website is expected to be launched on 25 October. Following engagement across the network we will be commencing pilots before the end of the year to test how a multi-channel customer experience can be successfully managed within different branch types, including the use of online appointment booking and meeter/greeters with mobile technology.

8. Public purpose engagement exercise

- On 30 August we started the public engagement and research exercise to test the public purpose statements produced by the Stakeholder Forum, to inform the final recommendations to the Board. The process is being run in two stages. The initial four week stage will gather opinions on the public purpose through a combination of focus groups and written questionnaires, with over 500 responses received by 18 September. We have taken additional steps to ensure a good response rate from our own staff, following the CWU and Unite's late decision to withdraw from the process. This qualitative input will then feed into a second stage targeting a statistically representative sample of members of the public. The evidence from the exercise will be presented to the Stakeholder Forum in December.

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9. Sub-postmaster engagement survey

- Further to the discussion at the June Board on improving sub-postmaster engagement, we will be launching the new sub-postmaster survey on 30 September. The questionnaire has been constructed through workshops and meetings with stakeholders across the business and interviews with a selection of sub-postmasters. The NFSP have also been consulted on the process. The survey will be issued to all independent sub-postmasters. We will be adopting a different approach with our multiple partners, conducting focus groups with key business contacts. The high level results will be ready by mid-November, and at that point the ExCo will discuss the key insights and our response.

10. Project Robin

- Following the two month consultation over the summer with employees in both Post Office and RM on the proposed changes to the pension scheme, on 6 September RM announced that it would be improving its offer by enabling promotions and increments within defined pay grade groupings to flow through into pensionable pay. If we were to replicate these changes for our staff it would bring forward the point at which the scheme surplus is exhausted by around two years (from 2021 to 2019). The issue was discussed with the Pensions sub-committee on 10 September, who agreed that on the basis that these financial impacts are manageable, the CFO should have the mandate to offer similar changes if deemed necessary to manage the industrial relations situation effectively. The CFO will provide an update on the latest situation at the Board meeting.

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POST OFFICE LTD BOARD

PROJECT SPARROW

1. Purpose

- 1.1 Update the Board on progress against the list of actions included in the Horizon Update paper sent to the board on 27th July 2013.

2. Background

In the update paper we said that we would aim to have completed the following by the end of August 2013:-

- 2.1 finalised the terms of reference for the process of mediation and resolution in relation to the existing cases and also identified a mediator, so we are ready to commence the process;
- 2.2 agreed the process for filtering any 'new historical' cases that emerge;
- 2.3 started engagement with key individual MPs on how we will be taking forward their cases;
- 2.4 completed the second sift of past prosecuted cases;
- 2.5 developed an initial position on the pros and cons of continuing to bring prosecutions ourselves;
- 2.6 identified 'quick wins' in relation to process improvements for sub-postmaster training and support, and started mapping the approach for longer-term improvements; and
- 2.7 established the terms of reference for the Branch User Forum.

All of the above actions are complete (details below) other than 2.5 which is in progress with a full review to be completed by the end of October.

3. Current Activities already underway

- 3.1 The Initial Mediation scheme was launched on 27th August and so far Second Sight have received 23 case submissions, 20 of these were reviewed formally on 11th September by the Working Group (Post Office, SS and JFSA) to establish how many were eligible to progress through the process. Of the 20 cases received one was a serving subpostmaster who had not exhausted Post Office's internal processes and was therefore not eligible for the scheme at this stage. The other 19 are eligible and will be advised that they can enter the next stage of the process which is to enlist the help of an advisor to present their case with a view to mediation.
- 3.2 The Initial Mediation scheme is designed to run until 31st March 2014, after that date it will be necessary to decide whether to keep this process in place, to discontinue it or to replace it with another process which permits independent oversight.
- 3.3 A briefing day for the Panel Advisors was held on 5th September. 25 advisors attended, a mix of lawyers and forensic accountants. The briefing was well received and about a third of the attendees indicated on the day that they would be signing up to become a panel advisor; the others wanted to reflect on the requirements of the role and whether they wanted to sign up. The Panel Advisor

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agreement for the advisors have been sent to the attendees of the briefing day. The list of Panel Advisors will be finalised on receipt of the signed agreement and communicated to the Sub postmasters who have submitted their case to the Scheme – they can choose one of these advisors or they are free to select another professional firm.

- 3.4 We have appointed the Centre for Effective Dispute Resolution to provide a panel of mediators for the Scheme and they are also going to provide administrative support; a representative also attended the training session.
- 3.5 One of our public commitments was to appoint an independent Chair for the working party, a candidate brief and job description has been prepared. Paula Vennells and Alasdair Marnoch are to meet with a candidate on 24th September.
- 3.6 Alice Perkins met with James Arbuthnot on 11th September that meeting went well, he was happy with our plans and said that given the progress that had been made he would recommend to the MPs that a meeting in October would not be required and that it should be postponed until the New Year.

4. Ways of Working/ Second Site

- 4.1 Angela Van Den Bogerd has pulled together a team of four experienced Network people to work alongside Second Sight to investigate the cases that are submitted to the Scheme.
- 4.2 A meeting has been held to establish how the two teams will work together to ensure an effective and efficient flow of information between the parties with a view to concluding the facts of the cases expediently. The findings of the case will then be presented to the Subpostmasters and their advisor for their consideration as to whether they want the case to progress to mediation. This team has also established a process to investigate live cases that have/are emerging from serving Subpostmasters. This approach will run in parallel with the Second Sight approach. Lessons learned from these cases will feed into the process improvement work.
- 4.3 A monthly cap on the Second Sight fees has been agreed and they have also agreed in principle, that provided the Post Office team is operating effectively, that they will hand over the investigation on a date to be agreed. It will be key to keep James Arbuthnot, MPs and the JFSA aligned in order to achieve this.

5. MP Engagement

- 5.1 All the MPs who have expressed an interest in this issue were contacted on 27th August (launch of the Mediation scheme) and our communications team have offered to meet and discuss the scheme and individual cases, no one has taken this offer up so far.

6. Criminal Case Review

- 6.1 Our external firm of solicitors who prosecute our cases have completed three sift reviews, have discontinued 4 cases and under their continuing obligation of disclosure have notified the defendants' legal representatives of the Second Sight report in 9 cases.
- 6.2 A meeting with Brian Altman QC was held on 9th September; his role is to oversee the review of our criminal cases. He had received the protocol that our external solicitors had developed and are using to inform their review process

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and he also looked at a sample of reviews that had been completed in a number of cases. He agreed with the approach taken by our external lawyers and confirmed that the protocol was well thought through being correctly applied in the cases he reviewed. After discussion he also understood the logic of 1st January 2010 being the start date for the review on the basis that this was implementation date for Horizon NG and that the branches had been audited on transition.

- 6.3 Brian Altman was also asked to advise on Post Office / external solicitors on its continued disclosure obligation with particular reference to concluded cases and on the basis that new facts which emerge on a regular basis. He gave initial advice and emphasised the importance of ensuring that this information is collated and communicated to our external firm on a regular basis.
- 6.4 The Terms of reference for his review will be agreed and will include an opinion on the Post Office's position as a public prosecutor and its prosecutions policy.
- 6.5 Meeting in Scotland with the Procurator Fiscal and our external lawyers to deal with their concerns re the impact of the SS report on prosecution evidence – satisfactorily resolved and new ways of working to be developed which will in any event be more effective.

7. Improvement Process

- 7.1 Defining the “As is” process work is on track to be completed by 30th Sept. From the 80 gaps/issues recorded so far there are common themes emerging: Training; Comms; Processes; Products; Horizon; Support; Ownership; Systems; Ownership and Leadership.
- 7.2 There are 26 quick wins that have been identified and whilst these are low level issues fixing these will have a positive impact on in-branch users and will reduce effort/duplication with the support/central functions. The relevant business owners have taken ownership of these quick wins and started to deploy/implement from 9th Sept onwards.
- 7.3 Stakeholder input/engagement continues with the project on track to complete the recommended future state by 20th Oct.

8. Branch Users Forum

- 8.1 The purpose of the Branch User Forum is to provide a way for sub-postmasters and others to raise issues and insights around business processes, training and support directly feeding into the organisation's thinking at the highest level. The forum is a forward looking mechanism to ensure the business processes and approaches are fit for purpose for users and are in keeping with Post Office behaviours and values.
- 8.2 The Branch User Forum terms of reference have been established.
- 8.3 It is intended to issue a communication to the network to raise awareness of the Branch User Forum and invite Subpostmasters and staff to put themselves forward to become Forum members with a view to holding the inaugural Branch User Forum in early/mid October

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9. Next Steps

- 9.1 Interview and appoint (subject to agreement on fees) the Independent Chair of the Working Group. Once this appointment has been made it will be necessary to finalise the terms of reference for the Working Group and plan for meetings.
- 9.2 Work with SS to manage the flow of cases through the mediation process and ensure that the new Post Office have sufficient resources to make the process timely and efficient.
- 9.3 Continue to engage with MPs.
- 9.4 Facilitate a discussion on remedies to be offered as part of mediation process..
- 9.5 Brian Altman's review to be completed by end October; including a recommendation on Post Offices prosecution policy; and whether it should continue to act as a public prosecution.
- 9.6 Implementation of process improvements in support the Post Office gives its subpostmasters.
- 9.7 Continue to monitor costs of programme (see appendix A).

10. Risks

- 10.1 Continued risk to reputation and brand if the mediation process is not successful, i.e. insufficient cases are reviewed, it should be noticed that media interest has been more balanced since the announcement of the mediation process.
- 10.2 Risk to NTP if concerns as to how subpostmasters are treated leads to lower take up of new models.
- 10.3 Potential of destabilising relationship with NFSP mitigated by Angela Van Den Bogerd who has regular meetings to keep them informed and they will be invited to take part in the Branch User Forum.
- 10.4 The process re-engineering that will be required for the IT training and support systems which may in the short term add further complexity and risk to the existing transformation programme.
- 10.5 The costs of the programme may over-run as the budget has been based on 75 cases going through the full mediation process and there may be more than that, it addition the criminal costs are front loaded as the main bulk of the reviews have been completed.

11. Recommendations

The Board is asked to note the update.

**Susan Crichton
18 September 2013**

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Appendix A

Budget – Forecast (Aug 2013 – March 2014)

Item	£k	£k total net VAT	inc VAT @ 20%	comment	Board Paper low	Board Paper high
Complete Cases (using Mediation)				Assumed number of cases:	75	
Second Sight	125			Second Sight at 25k per month (Aug-December)		100 150
Back fill for internal resources & external assistance	90			15k per month, 6 months		
Mediator(s)	225			Assumed 3k per case - will use a national company		
Mediator Expenses	50			travel, meeting rooms, training etc		
Legal support case preparation - BD	56			£750 per case assume all cases		
Legal support - case advice	28			£400 per case. assume all cases. £400 is their estimate for simple cases, but if we assume some will drop out this should average out.		
Legal support - mediation meeting	150			£2k per case - assume all cases - could recruit internal staff to reduce costs?		
Independent advisor for Subpostmasters	238			Per case: £1.5k case prep + £1k mediation meeting. Plus £50k contingency for more complex cases		
Total: Complete Cases (using Mediation)		962	1154		350	550
					450	700
Legal and Governance						
General External Legal Advice - BD	120			Advice on: preparing and agreeing mediation process and packs of information for SPMRs. Engaging and briefing mediators, attending working group meetings (ie. advising on rejecting cases; revising mediation process). Advising on Fujitsu related matters. £15K per month		
Case Review - CK	175			Includes QC, Bond Dickinson and Cartwright King	100	300
Kay Linnell/ Alan Bates	14			£2k per month (up to)		
Independent Chair	25				0	10
Total Legal and Governance		334	401		100	310
Improvement project						
Back Fill for Gayle Peacock and Ann Allaker	42			Back fill for 5 people to conduct the gap analysis across the business groups	200	200
Contact Centre	0			assumed this can be done with current resources	40	40
FSC	0			assumed this can be done with current resources	100	100
Total: Improvement project		42	50		340	340
Technology						
Horizon improvements	50			Funding needed beyond the £100k Fujitsu funded costs	0	0
Total: Technology		50	60		0	0
Total		1388	1665		890	1350

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POST OFFICE LIMITED

Performance Report

August 2013

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Headlines

August 2013

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Financials - YTD

Profit

Period 5 YTD operating profit was £37.9m, which was £1.5m adverse to budget of £39.4m, and £7.3m adverse to prior year of £45.2m.

- Net Income was £358.5m which was £14.9m adverse to budget and £15.3m adverse to prior year.
 - Versus budget - driven by Mails and lottery. Mails performance shows signs of improvement in P5, although another disappointing month for lottery.
 - Versus prior year, driven primarily by the stamps buy forward last year and the fall in Motoring, Card Account and NS&I income; partially offset by growth in FS commissions reflecting Eagle.
- Staff costs were £1.6m adverse due to budget due to bonus adjustments, and £4.1m adverse to prior year due to pay awards, higher pension costs, and increased headcount.
- Agents' costs were £11.8m favourable to budget. £8.4m of this relates to lower sales income and £1.6m relates to sales mix (parcels). The remainder relates primarily to timing. £10.1m favourable to prior year, £7.9m due to lower sales, predominantly Mails buy forward pre price increase and £1.9m lower fixed pay from unfreezing the Core Tier Payment and roll out of Locals.
- Non people costs were £1.1m adverse to budget, and £6.3m adverse to prior year. The adverse budget position is driven by Horizon costs which were budgeted to be taken last year. The prior year variance is due to increased IT costs mainly Horizon, timing of marketing spend and the removal of the FX bureau rebate received last year.
- Interbusiness expenditure was £1.3m lower to budget, driven by lower official mail costs and £0.7m favourable to prior year, due to services switching into POL from RM.
- Project costs were £1.8m favourable YTD. The underspend is driven by timing of marketing/brand expenditure and the Project Eagle sales capability investment. Unspent marketing/ brand budget is also covering the spend that was delayed from last year.

Cashflow

The YTD cashflow was an inflow of £233m which was £99m favourable to the £135m inflow budget (period 4 was £172m favourable).

The £99m favourable variance was driven by Client balances which was £56m favourable due to the new DVLA contract terms and delays to NTP expenditure.

Crown Profit - YTD

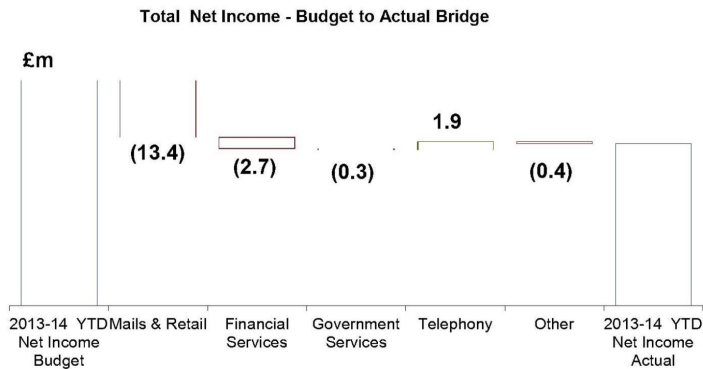
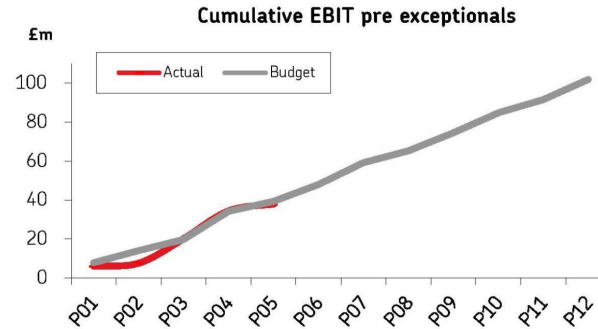
The Crown profit is £2.0m adverse to budget. Income was £1.4m adverse driven primarily by Mails, but offset by Government Services. Costs are £0.9m adverse driven by infrastructure costs and direct product costs.

Non financials - YTD

- Queue times in branches (less than 5 minutes) were 82.5% which was 4.9% favourable to target.
- YTD Network conversions were 9 ahead of the 1750 target, (P4 was 32 ahead of target).

FYF

This pack has been updated with the Q1 FYF presented earlier. As noted at the time there is a net risk of £12m to this FYF. A period 5 high level CFO forecast has been included in this pack. A full Q2 FYF is in progress for the October Board.



Financials

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

Non Financials

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

	Year to Date		
	Act	Target	Var
Total Net Income (excl NSP) £m (Bonus)	358.5	373.4	(14.9)
Operating profit £m (Bonus)	37.9	39.4	(1.5)
Free cashflow £m	233.1	134.6	98.6
Crown Profit (Loss) £m (Bonus)	(11.5)	(9.4)	(2.1)

Queue time % < 5 minutes - Top 1k branches	82.5%	77.6%	4.9%
Network Conversions (Mains & Locals) (Bonus)	1759	1750	9

Profit & Loss Statement

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August 2013

£m	Current Month			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year	Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	Outturn	Variance
External Income	46.6	50.4	(3.8)	52.4	(5.8)	263.5	272.0	(8.5)	276.6	(13.2)	638.3	643.3	(5.0)	651.3	(13.0)
Interbusiness Income	25.6	26.1	(0.5)	24.8	0.8	141.3	149.4	(8.1)	146.7	(5.4)	368.9	368.9	0.0	372.3	(3.4)
TOTAL GROSS INCOME	72.2	76.5	(4.3)	77.2	(5.0)	404.8	421.3	(16.5)	423.3	(18.5)	1,007.2	1,012.2	(5.0)	1,023.6	(16.4)
Cost of Sales	(7.9)	(9.4)	1.5	(9.5)	1.6	(46.3)	(48.0)	1.7	(49.5)	3.2	(112.2)	(112.2)	0.0	(121.2)	9.0
TOTAL NET INCOME	64.3	67.1	(2.7)	67.7	(3.4)	358.5	373.4	(14.9)	373.8	(15.3)	895.0	900.0	(5.0)	902.4	(7.4)
Staff Costs	(22.1)	(20.9)	(1.2)	(20.4)	(1.6)	(110.6)	(109.0)	(1.6)	(106.5)	(4.1)	(257.2)	(256.1)	(1.2)	(257.4)	0.2
Agents Costs	(34.1)	(36.2)	2.1	(34.7)	0.6	(189.8)	(201.6)	11.8	(199.9)	10.1	(478.3)	(480.0)	1.7	(478.1)	(0.2)
Non-Staff Costs	(16.4)	(13.8)	(2.7)	(13.4)	(3.0)	(69.1)	(68.0)	(1.1)	(62.8)	(6.3)	(160.5)	(160.0)	(0.5)	(162.3)	1.8
Interbusiness Expenditure	(5.8)	(6.4)	0.7	(7.0)	1.2	(34.1)	(35.4)	1.3	(34.8)	0.7	(83.9)	(83.9)	0.0	(83.6)	(0.4)
Depreciation	(0.0)	(0.1)	0.1	(0.1)	0.0	(0.2)	(0.5)	0.3	(0.4)	0.2	(0.9)	(0.9)	0.0	(0.4)	(0.5)
Total Expenditure (pre POOC)	(78.4)	(77.4)	(1.0)	(75.6)	(2.8)	(403.8)	(414.5)	10.7	(404.5)	0.7	(980.8)	(980.8)	0.0	(981.8)	1.0
FRES - Share Of Operating Profits	4.7	4.5	0.2	4.8	(0.1)	18.8	18.0	0.9	18.1	0.7	31.5	31.5	0.0	31.9	(0.4)
EBIT Pre Overhead Allocations	(9.4)	(5.8)	(3.6)	(3.1)	(6.3)	(26.4)	(23.2)	(3.3)	(12.5)	(13.9)	(54.3)	(49.2)	(5.0)	(47.5)	(6.7)
Group Overhead allocations	(1.1)	(1.1)	0.0	(1.2)	0.1	(5.7)	(5.7)	0.0	(6.2)	0.5	(13.8)	(13.8)	0.0	(14.9)	1.1
EBIT - BAU	(10.5)	(7.0)	(3.5)	(4.4)	(6.2)	(32.2)	(28.9)	(3.3)	(18.8)	(13.4)	(68.0)	(63.0)	(5.0)	(62.4)	(5.6)
One off Project costs (POOC)	(1.4)	(3.2)	1.8	(4.6)	3.1	(14.5)	(16.3)	1.8	(23.2)	8.7	(30.0)	(35.0)	5.0	(53.4)	23.4
EBIT - Post Project Costs	(11.9)	(10.2)	(1.7)	(8.9)	(3.0)	(46.7)	(45.2)	(1.5)	(41.9)	(4.7)	(98.0)	(98.0)	(0.0)	(115.8)	17.8
Network Payment	15.4	15.4	0.0	15.8	(0.5)	84.6	84.6	0.0	87.2	(2.6)	200.0	200.0	0.0	210.0	(10.0)
EBIT pre exceptionals items	3.5	5.2	(1.7)	6.9	(3.5)	37.9	39.4	(1.5)	45.2	(7.3)	102.0	102.0	(0.0)	94.2	7.8
Interest	0.4	0.0	0.4	0.0	0.4	1.5	(1.5)	3.0	(0.3)	1.8	(5.0)	(5.0)	0.0	(0.8)	(4.2)
Impairment	(4.3)	(11.5)	7.2	(2.3)	(1.9)	(28.2)	(48.3)	20.1	(28.8)	0.5	(167.5)	(167.5)	0.0	(65.6)	(101.9)
Exceptionals & Redundancy & Severance Costs	(52.6)	(61.2)	8.6	(3.9)	(48.7)	(41.6)	(60.3)	18.7	(10.9)	(30.7)	(184.4)	(184.4)	0.0	(77.0)	(107.4)
Government Grant Utilisation	55.6	77.2	(21.6)	6.3	49.3	99.0	133.4	(34.4)	28.5	70.5	316.9	316.9	0.0	98.2	218.7
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	0.0	0.0	2.5	0.0	2.5	0.0	2.5	0.0	0.0	0.0	(27.7)	27.7
Colleague Share/ Business Transformation Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.3)	3.3
Total Profit/(Loss) Before Tax	2.6	9.7	(7.1)	7.0	(4.4)	71.1	62.7	8.3	33.7	37.4	62.0	62.0	(0.0)	18.0	44.0

Period vs. Budget

Operating profit (EBIT) of £3.5m was £1.7m adverse to budget.

BAU was £3.5m adverse:

- Lower income of £2.7m due partly to the continuation of the trend in Mails and Retail, but this period there was also a shortfall in Financial Services related to Travel bureau, due to budget phasing.
 - Higher staff costs of £1.2m relating to bonus adjustments, and
 - Higher non-staff costs of £2.7m, which are largely timing related and some of which are correcting the YTD position. Specifically £0.9m relates to FX losses which will be offset by hedging and £0.4m relates to Fujitsu costs.
- Offset by:
- Lower Agents costs of £2.1m mainly due to reduced income.

One-off variance of £1.8m favourable - relates to timing of project spend.

Below EBIT

Impairments were favourable due to slower progress than plan on NTP.

YTD vs. Budget

Operating profit (EBIT) of £37.9m was £1.5m adverse to budget.

BAU variance of £3.3m adverse was mainly due to:

- Lower income of £14.9m, mainly Mails and Lottery
- Higher staff cost of £1.6m, due to bonus adjustments, and
- Higher non staff costs of £1.1m due to Horizon costs which were budgeted to be incurred last year, but incurred this year.

Offset by

- Lower agents costs of £11.8m due to; £8.4m of this is related to lower sales income and £1.6m relates to sales mix (parcels). The remainder is related to some timing difference.
- Lower IB of £1.3m driven by lower official mail costs, and
- Higher FRES JV income of £0.9m.

One-off variance of £1.8m favourable. The underspend is driven by timing of project spend. Unspent marketing/ brand budget is also covering the spend that was delayed from last year.

Below EBIT

The main variance was due to the slower pace of capital spend and operating exceptionals, including agents compensation, compared to budget. Government grant utilisation follows this trend, but also included utilisation against the remaining 2012/13 exceptional costs. The profit on sale related to the lease surrender of Midway House.

YTD vs. Prior Year

Operating profit (EBIT) of £37.9m was £7.3m adverse to prior year.

Like for like adverse variance of £13.4m was mainly due to:

- Lower net income of £15.3m primarily due to Mails (last year included high stamp sales in period 1 ahead of the price rise) and reduced DVLA income,
 - Higher staff cost of £4.1m due to increased pension charges, and bonus costs slippage into this year, and
 - Higher non staff costs of £6.3m due higher IT costs relating to Horizon, phasing of marketing expenditure and the removal of the FX bureau rebate received last year.
- Offset by:
- Lower agents costs of £10.1m mainly due to lower sales volumes,
 - Lower IB of £0.7m and
 - Higher JV income of £0.7m.

Non like for like favourable variance of £6.1m was due to:

- Lower project costs of £8.7m, and
- Lower Network payment of £2.6m.

Below EBIT

2012/13 capital expenditure included £11m property transfers from Group. NT exceptionals including compensation were ahead of the equivalent pace in 2012/13. 2013/14 grant utilisation includes £30m against 2012/13 exceptional costs not covered by the 2012/13 grant.

CFO High Level Profit Forecast At Period 5

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£'m	Income	JV Income	Costs	NSP	EBIT
Budget	900	32	(1,030)	200	102
<u>Downsides</u>					
Mails income	(24)				(24)
Gov't Services income	(3)				(3)
Telephony income	0				0
FS income	(6)				(6)
Other income	(5)				(5)
Staff efficiency			(2)		(2)
Fujitsu costs			(2)		(2)
IT&C efficiency task			(2)		(2)
Inter-business			(2)		(2)
Mails segregation penalty			(1)		(1)
Bonuses			(2)		(2)
Agents pay - sales impact			8		8
	(38)	0	(3)	0	(41)
<u>Mitigating actions</u>					
Mails income - dangerous goods	7				7
Mails income - format changes/campaigns	6				6
Lottery price rise	3				3
Gov't - UKBA Cost of Sales correction	1				1
Gov't - volume trends	2				2
FS income - Santander volumes	2				2
FS income - Junction deal	3				3
FRES upside (higher ATV's)		1			1
PhotoMe income	1				1
Telephony implementation			1		1
Pay award 12/13 not consolidated			2		2
No pay award for 13/14			2		2
POOC current forecast			1		1
VAT upside			5		5
Bonus upside			2		2
	25	1	13	0	39
Latest View at P5	887	33	(1,020)	200	100
Variance to budget	(13)	1	10	0	(2)

High level forecast PBIT of circa £100m.

Income £13m down is offset by agents costs savings of £8m and other net cost opportunities of £2m.

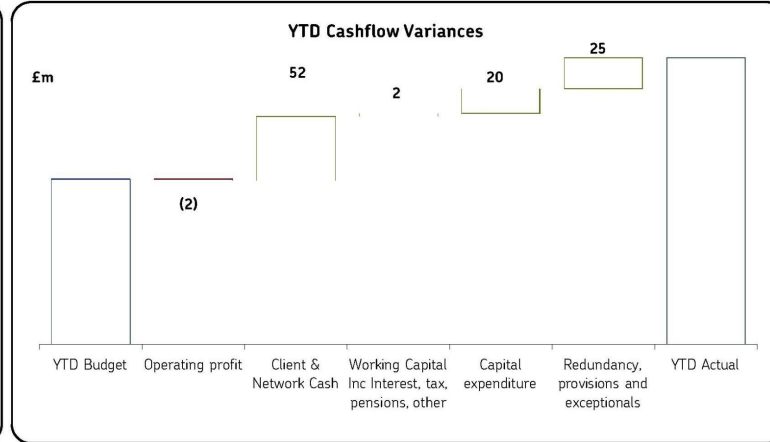
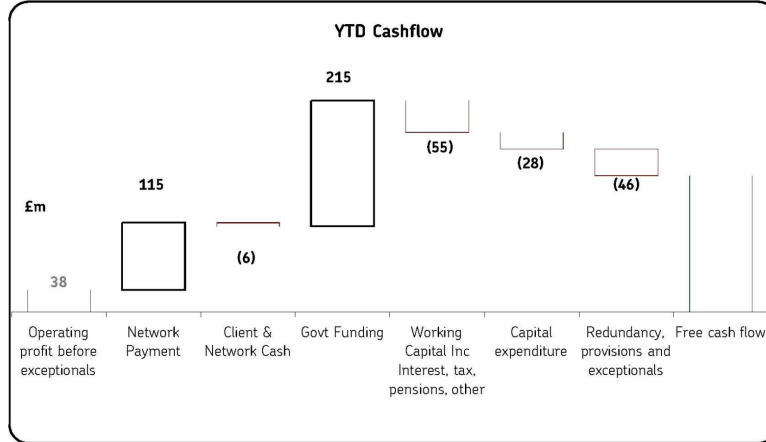
Cashflow Analysis & Balance Sheet Summary

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August 2013

Cashflow to period 5 was a cash inflow of £233m versus a budget of £135m inflow resulting in a favourable variance of £99m (period 4 £172m fav).



Balance Sheet

£m	P5			
	Mar-13	Actual	Budget	Variance
Fixed Assets	71	90	89	1
Debtors	122	109	109	0
Cash	870	876	872	4
Client Balances	(288)	(287)	(231)	(56)
Trade Creditors	(362)	(540)	(516)	(24)
Pension (deficit)/surplus	97	98	71	27
Provisions	(26)	(22)	(16)	(6)
Investments, Funding	95	34	86	(52)
Loan	(291)	0	(148)	148
Net Assets	288	358	316	42

Cashflow

The YTD cashflow was an inflow of £233m which was £98m favourable to the £135m budgeted.

The £98m variance was mainly due to:

- Client balances and Network Cash combined were £52m favourable. Client balances were £56m favourable of which DVLA contributes £55m resulting from new contract terms which were not budgeted. Network cash is £4m adverse to budget.
- Capital expenditure is £20m favourable driven by lower than planned expenditure on NTP.
- Exceptionals are £25m favourable primarily due to lower than planned NTP and CTP expenditure.

Reserves	Mar-13	Actual	Budget	Variance
Capital and Reserves	(288)	(358)	(316)	(42)
	(288)	(358)	(316)	(42)

Cash Management Table

£m	Prior Year	Mar-13		P5	
	P5	Opening	Actual	Budget	var
Retail, Cash Centres	620	650	636	660	24
Bureau	103	59	89	102	13
Cheques, debit cards	102	161	151	110	(41)
Network Cash	825	870	876	872	(4)

	Opening	P5
Headroom (£m)	838	898

Cash Management

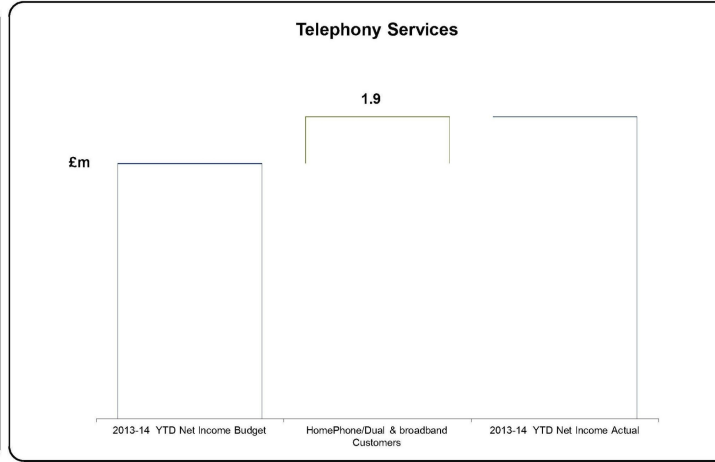
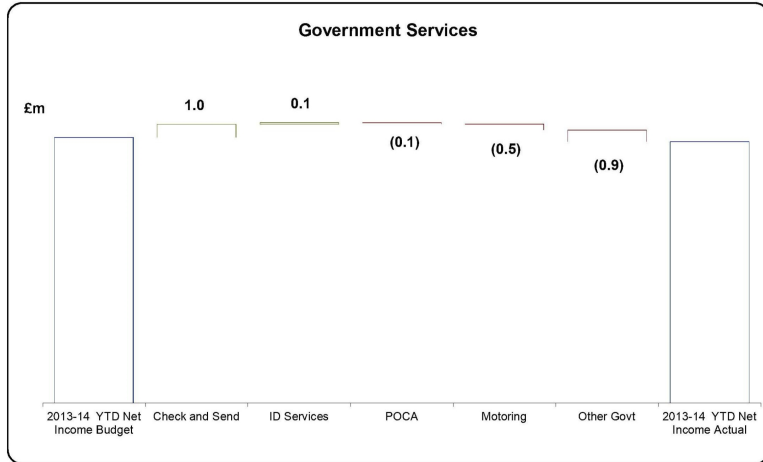
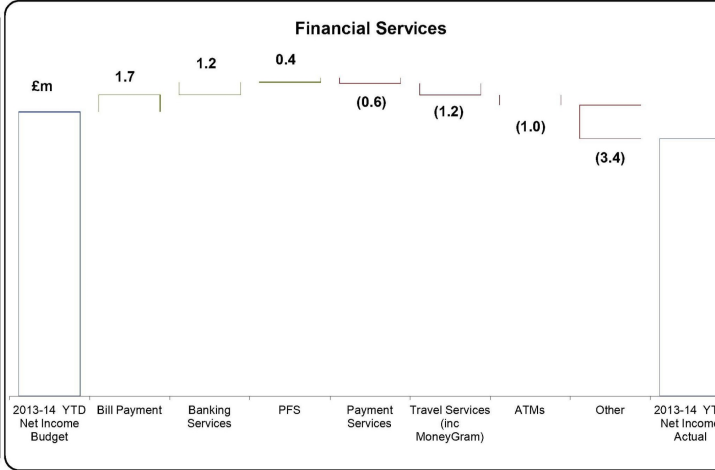
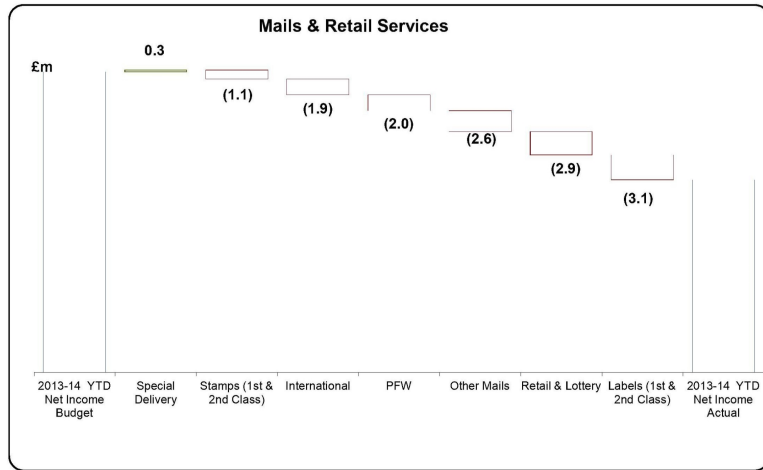
- Retail and Cash Centre cash (manageable cost) - £24m favourable to budget. Of this variance, branches were £2m adverse and cash centres were £26m favourable. Good performance despite earlier bank holiday, which leads to increased holdings.
- Bureau (manageable cost) - £13m favourable to budget but notably improved on the equivalent period in 2012/13, due to management action following the summer peak.
- Cheques and debit cards (customer driven) - £41m adverse to budget and also higher than 2012/13. Impaired by coinciding of period end with calendar month end which also increased client creditors and therefore cashflow neutral.

Net Income By Pillar vs Budget
August 2013

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Net Income (£m)	Period			Prior Year Period		Year to Date			Prior Year YTD		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	Outturn	Variance
Mails & Retail	27.4	29.2	(1.9)	28.5	(1.1)	153.9	167.3	(13.4)	164.8	(10.9)	414.6	414.6	0	404.0	10.7
Financial Services	20.4	22.7	(2.3)	23.2	(2.8)	115.8	118.6	(2.7)	114.2	1.6	277.4	277.4	0.0	279.6	(2.1)
Government Services	8.7	9.0	(0.3)	9.4	(0.7)	50.1	50.4	(0.3)	58.9	(8.8)	115.9	115.9	(0.0)	133.2	(17.4)
Telephony	4.6	3.1	1.5	3.5	1.1	22.6	20.6	1.9	19.0	3.6	50.4	50.4	0.0	45.0	5.4
Other	3.3	3.0	0.3	3.2	0.1	16.1	16.5	(0.4)	16.9	(0.8)	36.7	41.7	(5.0)	40.7	(4.0)
TOTAL NET INCOME	64.3	67.1	(2.7)	67.7	(3.4)	358.5	373.4	(14.9)	373.8	(15.3)	895.0	900.0	(5.0)	902.4	(7.4)
FRES - Share Of Operating Profits	4.7	4.5	0.2	4.8	(0.1)	18.8	18.0	0.9	18.1	0.7	31.5	31.5	0	31.9	(0.4)



Pillar Performance vs YTD Budget

Mails & Retail Services - (£13.4m) Adv
 1st Class Labels - (£2.5m) adv driven by lower parcel volumes.
 2nd class labels £0.6m adverse.
 Lottery - (£3.0m) adv due primarily to lower than planned volumes. The new terminals are not yet generating the expected income.
 Other Mails - (£2.6m) adv due to unallocated stretch and lower than planned volumes across the mails product range.
 PFW - (£2.0m) adv - due to lower volumes vs. budget, but £1.5m favourable to prior year indicating a stretching target.
 International - (£1.9m) adv due to lower volumes.

Financial Services - (£2.7m) Adv
 Other - (£3.4m) adv due to unassigned income targets including Sales Effectiveness still to be allocated to products.
 ATMs - (£1.0m) adv driven by lower volumes than planned.
 Travel Services - (£1.2m) adv driven by lower bureau.
 Offset by:
 Bill Payment - £1.7m fav driven by lower decline than expected.
 Banking Services - £1.2m fav driven by higher personal withdrawal volumes and higher business banking volumes.
 PFS - £0.4m fav driven by mortgages (budget ramps up later in the year), partially offset by an adverse timing variance in Savings that will unwind.

Government Services - (£0.3m) Adv
 Gov. Services Other - (£0.9m) adv driven by smaller variances, including new local authorities and rod licences.
 Motoring - (£0.5m) adv due to lower than planned volumes in line with latest DVLA forecasts.
 Offset by:
 Check & Send -£1.0m fav due to higher volumes.

Telephony Services - £1.9m Fav
 Homephone - £2.0m fav due to cost of sales correction relating to previous period and higher than planned customer numbers.

Other - (£0.4m) Adv
 This relates to the unassigned income stretch.

FRES Profit Share - £0.9m Fav.

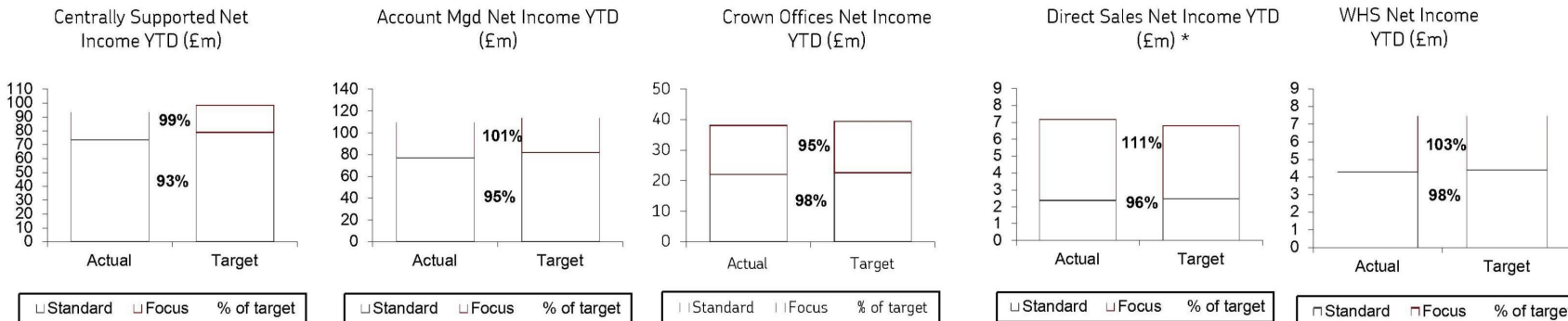
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Net Income By Channel
August 2013



Period 5 YTD – Focus products were on target, whilst Standard products were £10.3m adverse (mainly Mails and Lottery), with the Agency network driving the variance. The favourable Direct channel performance is driven by mortgage phasing as targets started to ramp up from period 4.

£m	Month			Year to date			Full Year
	Actual	Budget	Variance	Actual	Budget	Variance	Budget
Targeted Income							
Focus Products							
Crown Offices	2.7	2.8	(0.1)	16.2	17.1	(0.8)	39.0
WHS	0.5	0.5	0.0	3.1	3.1	0.1	6.7
Agents - Managed	5.5	5.4	0.1	32.5	32.0	0.5	74.0
Centrally Supported	3.3	3.3	0.0	19.6	19.8	(0.2)	49.6
Direct Sales	0.8	0.8	(0.0)	4.8	4.3	0.5	9.0
Central	0.1	0.10	(0.0)	0.2	0.1	0.0	0.5
Focus Products Total	12.9	12.9	0.0	76.4	76.4	(0.0)	178.8
Standard Products							
Crown Offices	3.7	4.3	(0.6)	22.1	22.5	(0.5)	58.1
WHS	0.8	0.8	(0.0)	4.3	4.4	(0.1)	10.6
Agents - Managed	13.9	14.9	(1.0)	77.0	81.4	(4.4)	191.2
Centrally Supported	12.4	13.6	(1.2)	73.5	78.7	(5.1)	198.1
Direct Sales	0.6	0.6	0.0	2.4	2.5	(0.1)	6.5
Central	0.4	0.5	(0.1)	0.5	0.6	(0.2)	0.6
Standard Product Total	31.8	34.6	(2.8)	179.8	190.2	(10.3)	465.3
TOTAL TARGETED INCOME	44.7	47.5	(2.8)	256.2	266.6	(10.4)	644.0
Other Income							
Cash Services	1.6	1.7	(0.2)	9.0	9.1	(0.1)	22.0
Gamma	0.8	0.8	0.0	8.8	8.4	0.4	8.4
Fixed Income & Other	13.3	14.4	(1.2)	65.2	72.3	(7.1)	185.0
Retentions	3.9	2.6	1.4	19.2	16.9	2.3	40.6
TOTAL POL NET INCOME	64.3	67.1	(2.7)	358.5	373.4	(14.9)	900.0
Network Payment	15.4	15.4	0.0	84.6	84.6	0.0	200.0
TOTAL POL NET INCOME	79.7	82.4	(2.7)	443.1	458.0	(14.9)	1,100.0



* Both target and actual exclude lead generation income

Crown Profit & Loss Statement

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August 2013

£m	Period			Prior Year Period		Year To Date			Prior Year YTD		Full Year	Prior Year
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Budget	Outturn
Income and Distributions												
Variable income												
- Mails	2.8	3.0	(0.3)	3.8	(1.0)	15.7	17.2	(1.5)	18.7	(3.0)	43.2	44.8
- Financial Services	2.3	2.5	(0.2)	2.5	(0.2)	12.5	13.1	(0.5)	13.4	(0.9)	29.6	30.4
- Government Services	1.5	1.4	0.1	1.8	(0.3)	9.6	8.9	0.8	10.7	(1.0)	19.9	26.4
- Telephony	0.0	0.1	(0.0)	0.1	(0.0)	0.3	0.4	(0.1)	0.6	(0.3)	1.3	1.3
Fixed income	1.6	1.9	(0.3)	2.8	(1.2)	10.1	10.1	(0.0)	12.3	(2.2)	24.8	28.2
Gamma/ Other	0.9	1.2	(0.3)	0.5	0.4	4.2	5.6	(1.4)	4.0	0.2	14.8	10.9
Renewals and Retentions	1.7	1.2	0.5	0.9	0.8	8.5	7.1	1.4	2.9	5.6	16.5	11.1
Total Income including Gamma/other	10.8	11.3	(0.5)	12.3	(1.5)	61.0	62.5	(1.5)	62.6	(1.6)	150.1	153.2
Direct Product Costs	(0.6)	(0.4)	(0.2)	(0.8)	0.3	(2.7)	(2.0)	(0.7)	(3.2)	0.6	(5.0)	(8.3)
Branch costs												
- Staff	(8.4)	(8.5)	0.1	(9.1)	0.7	(45.9)	(45.8)	(0.0)	(49.2)	3.4	(106.0)	(117.9)
- Property	(2.7)	(2.7)	0.1	(2.7)	(0.0)	(14.8)	(14.8)	(0.0)	(14.5)	(0.3)	(35.4)	(36.9)
- Other branch costs	(0.6)	(0.3)	(0.3)	(0.6)	0.0	(1.8)	(1.6)	(0.2)	(2.6)	0.8	(4.7)	(6.3)
Infrastructure costs	(1.8)	(1.8)	(0.0)	(1.8)	0.0	(9.0)	(8.6)	(0.4)	(9.2)	0.2	(22.9)	(22.5)
Allocated central costs	(0.9)	(0.8)	(0.1)	(0.7)	(0.1)	(3.8)	(4.3)	0.4	(3.3)	(0.5)	(8.4)	(7.7)
Total Expenditure	(14.9)	(14.5)	(0.4)	(15.8)	0.8	(78.0)	(77.1)	(0.9)	(82.0)	4.0	(182.2)	(199.7)
JV Share of Profits	1.4	1.3	0.1	1.2	0.1	5.5	5.2	0.3	4.7	0.8	9.1	9.6
Statutory PBIT	(2.8)	(1.9)	(0.8)	(2.2)	(0.6)	(11.5)	(9.4)	(2.1)	(14.7)	3.2	(23.0)	(37.0)

Summary

- Income £1.5m less than plan.
 - Adverse Mails performance continues to be impacted by a change in customer behaviour as a result of size based pricing, Targets for Parcelforce 24/48 have now been adjusted but this is offset by an increase in target on 2nd class. Priority Mails £0.2m, 1st class and 2nd class £0.7m, International Standard £0.3m are products most impacted by PIP. Retail sales are also underperforming against target by £0.1m.
 - Main drivers of favourable Government income are UKBA (due to backlog in applications) £0.6m, ID Services £0.4m and Passports £0.2m, offset by Motorist services (DVLA Licences and AEI) which are £0.3m behind target.
 - Savings £0.5m and Life Insurance £0.1m are the main drivers in the shortfall against Financial Services netted off against the Travel portfolio delivering a £0.2 upside.
- Costs are £0.9m greater than plan:
 - Of the overall £0.9m variance, there are timing issues of £0.5m which will be corrected next period.
 - Direct product costs are adverse by £0.7m as a result of Brand spend early in the year, but this is offset by the allocated central costs.
 - Branch Staff costs - Remain on target with industrial action savings compensating for the budgeted CTP savings that have not been achieved year to date.

Business Scorecard

August 2013

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Key Performance Indicators	Current Month			Year to Date			Prior Year	Full Year			2012-13 Outturn
	Act	Target	Var	Act	Target	Var		F'cast	Target	Var	
Growth											
Total Net Income (excl NSP) £m (Bonus)	64.3	67.1	(2.7)	358.5	373.4	(14.9)	373.8	895.0	900.0	(5.0)	902.4
Operating profit £m (Bonus)	3.5	5.2	(1.7)	37.9	39.4	(1.5)	45.2	102.0	102.0	0.0	94.2
Earnings before ITDA and Subsidy £m*	(11.9)	(10.1)	(1.8)	(46.5)	(44.7)	(1.8)	(41.5)	(97.2)	(97.2)	0.0	(115.4)
Free cashflow £m	(46.8)	27.1	(73.8)	233.1	134.6	98.6	235.7	(16.3)	(16.3)	0.0	132.2
Customer											
Customer Satisfaction**	87%	88%	(1)%	88%	88%	(0.1)%	86%	88%	88%	0%	87%
Easy to do business with (Bonus)**	38%	44%	(6)%	45%	44%	1%	N/A	44%	44%	0%	N/A
Net Promoter score**	(6)	5	(11)	(1)	5	(6)	N/A	5	5	0	N/A
Queue time % < 5 minutes - Top 1k branches	84.7%	81.8%	2.9%	82.5%	77.6%	4.9%	77.9%	81.0%	81.0%	0.0%	80.7%
Horizon availability	99.9%	99.7%	0.2%	99.9%	99.7%	0.2%	99.8%	99.7%	99.7%	0.0%	99.8%
Branch - Compliance (new basket)	TBC	98.0%	-	TBC	98.0%	-	97.8%	98.0%	98.0%	0.0%	97.8%
People											
Engagement Index % (Once a year) (Bonus)	55%	56%	(1)%	55%	56%	(1)%	55%	56%	56%	0%	55%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	0%	4%	(4)%	10%	4%	6%	N/A	4%	4%	0%	N/A
(No.) % of Female appointments over total recruits at senior leadership and senior manager	25%	40%	(15)%	52%	40%	12%	N/A	40%	40%	0%	N/A
Modernisation											
Crown Profit (Loss) £m (Bonus)	(2.8)	(1.9)	(0.8)	(11.5)	(9.4)	(2.1)	(14.7)	(23.0)	(23.0)	0.0	(37.0)
Network Conversions (Mains & Locals) (Bonus)	74	97	(23)	1,759	1,750	9	243	3,000	3,000	0	1,450

Bonus worthy metrics

* ITDA Interest, Tax, Depreciation, Amortisation

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

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Cost Management Report

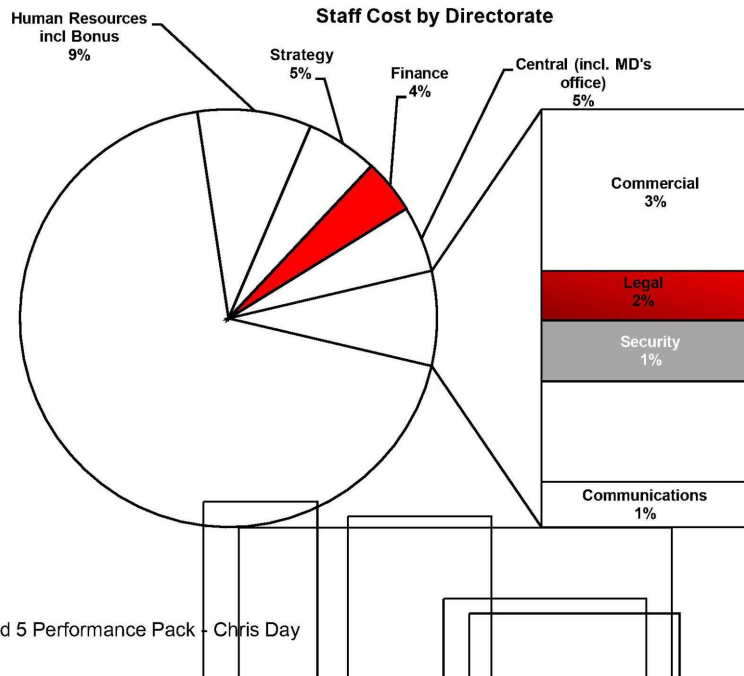
Staff Cost By Directorate
August 2013

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£m	Year to Date			Prior Year YTD		Full Year			YTD Headcount				
	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance	%	Actual	Budget	Variance	
Staff Cost by Directorate													
Central (incl. MD's office)	(5.8)	(4.0)	(1.8)	(1.9)	(3.9)	(10.8)	(9.6)	(1.2)	0%	14	15	1	
Commercial	(3.1)	(3.1)	(0.1)	(2.6)	(0.5)	(7.4)	(7.4)	0.0	1%	116	111	(5)	
Communications	(0.9)	(0.9)	0.1	(0.7)	(0.1)	(2.3)	(2.3)	0.0	1%	46	35	(11)	
Human Resources	(1.9)	(2.0)	0.1	(2.0)	0.1	(4.8)	(4.8)	0.0	1%	112	110	(2)	
HR - Centrally Held Bonus Payments	(7.9)	(7.5)	(0.4)	(7.4)	(0.4)	(18.0)	(18.0)	0.0	-	-	-	-	
Financial Services	(1.9)	(1.9)	(0.1)	(0.7)	(1.3)	(4.5)	(4.5)	0.0	3%	225	70	(155)	
Finance	(4.6)	(4.9)	0.2	(4.1)	(0.6)	(11.8)	(11.8)	0.0	3%	245	264	19	
Network	(76.2)	(76.7)	0.5	(79.7)	3.6	(178.5)	(178.5)	(0.0)	87%	6,918	7,185	267	
Supply Chain	(23.7)	(23.5)	(0.2)	(23.3)	(0.4)	(55.1)	(55.1)	0.0	20%	1,593	1,574	(19)	
Crowns	(44.2)	(44.3)	0.2	(48.4)	4.2	(102.1)	(102.1)	(0.0)	54%	4,351	4,471	120	
Other Network	(8.3)	(8.9)	0.6	(8.1)	(0.2)	(21.3)	(21.3)	0.0	5%	439	501	62	
CTP and NTP Heads (Costs in exceptionals)									7%	535	639	104	
Legal	(1.0)	(1.0)	0.1	(0.9)	(0.1)	(2.5)	(2.5)	0.0	0%	28	30	2	
Security	(1.2)	(1.1)	(0.1)	(1.1)	(0.0)	(2.7)	(2.7)	0.0	1%	55	57	2	
Strategy	(6.1)	(5.9)	(0.3)	(5.2)	(0.9)	(14.1)	(14.1)	0.0	3%	231	239	8	
Total Staff Costs	(110.6)	(109.0)	(1.6)	(106.5)	(4.1)	(257.3)	(256.1)	(1.2)	100%	7,990	8,116	126	

PY Actual **7,893**
PY Variance **(97)**



YTD Staff Costs are £1.6m adverse to budget. This variance to budget includes higher bonus payments relating to the prior year.

Vs. Prior Year
The staff costs are £4.1m adverse to prior year including the impact of the higher bonus payments and the higher IAS19 pension rate reflecting market conditions at March 2013.

Headcount of 7,990 is 126 below plan and is due to vacancies within the Network directorate, both Crowns and transformation projects. The adverse variance in Financial Services (FS) is offset by a favourable variance in Network. This is due to some of the Financial Specialists transferring from Network to FS. The remainder are due to transfer next month and once complete the headcount budget will also be transferred.

Vs. prior year headcount has increased by 97 primarily due to NTP and separation strengthening.

Note: The budget is flat for all directorates, with only the Crown savings being the difference between each month.

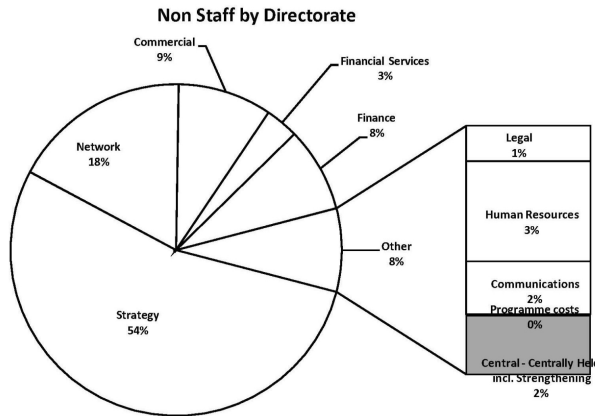
Non Staff Cost by Directorate & Type
August 2013

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£m	Year to Date			Prior Year YTD		Full Year		
	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance
Non- Staff Cost by Directorate								
Central - Centrally Held incl. Strengthening	(1.3)	(2.6)	1.3	(0.4)	(0.9)	4.6	1.3	3.3
Commercial	(6.2)	(6.5)	0.2	(7.0)	0.8	(15.5)	(15.5)	0.0
Communications	(1.2)	(1.0)	(0.2)	(0.7)	(0.5)	(2.1)	(2.1)	0.0
Finance	(5.6)	(5.3)	(0.4)	(2.6)	(3.1)	(12.6)	(12.6)	0.0
Financial Services	(2.2)	(3.0)	0.8	(2.5)	0.3	(5.3)	(5.3)	0.0
Human Resources	(2.2)	(2.6)	0.3	(1.6)	(0.7)	(6.1)	(6.1)	0.0
Network	(11.9)	(10.9)	(0.9)	(12.4)	0.5	(27.9)	(27.9)	0.0
Supply Chain	(5.7)	(5.7)	0.0	(6.5)	0.9	(15.4)	(15.4)	(0.00)
Crowns	(1.5)	(1.2)	(0.2)	(1.6)	0.1	(2.1)	(2.1)	0.0
Other Network	(4.7)	(4.0)	(0.7)	(4.3)	(0.4)	(10.4)	(10.4)	(0.00)
Legal	(0.8)	(0.76)	(0.0)	(0.6)	(0.2)	(1.9)	(1.9)	0.0
Security	(1.1)	(0.86)	(0.2)	(1.1)	0.0	(2.5)	(2.5)	0.0
Programme costs	0.0	0.0	0.0	0.3	(0.3)	0	0	0.0
Strategy	(36.6)	(34.5)	(2.0)	(34.3)	(2.3)	(91.2)	(87.4)	(3.8)
Total Non Staff Costs	(69.1)	(68.0)	(1.1)	(62.8)	(6.3)	(160.5)	(160.0)	(0.5)

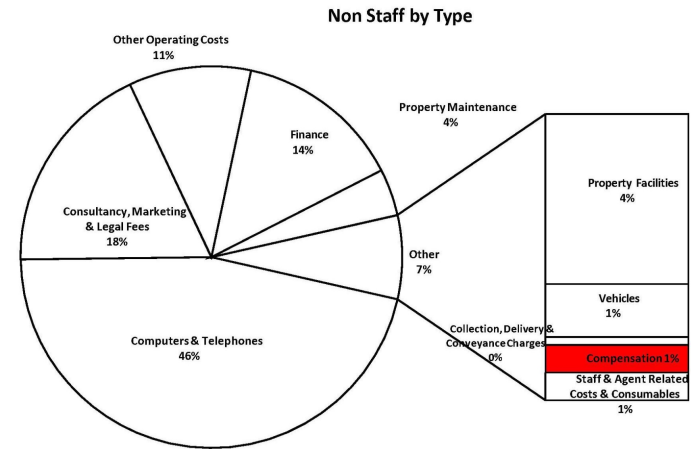
£m	Year to Date			Prior Year YTD		Full Year		
	Actual	Budget	Variance	Actual	Variance	Q1 Forecast	Budget	Variance
Non- Staff Cost by Type								
Computers & Telephones	(31.9)	(30.1)	(1.8)	(30.2)	(1.7)	(75.9)	(75.9)	(0.0)
Other Operating Costs	(7.1)	(7.0)	(0.2)	(7.9)	0.7	(16.1)	(15.6)	(0.5)
Consultancy, Marketing & Legal Fees	(12.5)	(12.4)	(0.2)	(10.5)	(2.0)	(29.5)	(29.5)	(0.0)
* Skills Group external contractors	(5.8)	(5.0)	(0.8)	(4.9)	(0.8)	(11.9)	(11.9)	0.0
Remainder	(6.8)	(7.4)	0.6	(5.6)	(1.2)	(17.6)	(17.6)	(0.0)
Finance	(9.8)	(9.9)	0.2	(7.1)	(2.7)	(17.2)	(17.2)	(0.0)
Property Facilities	(2.9)	(2.2)	(0.7)	(2.7)	(0.2)	(6.2)	(6.2)	0.0
Property Maintenance	(2.7)	(2.8)	0.1	(2.6)	(0.2)	(6.9)	(6.9)	(0.0)
Vehicles	(0.9)	(1.0)	0.1	(1.0)	0.1	(2.4)	(2.4)	0.0
Compensation	(0.5)	(1.0)	0.5	(0.6)	0.1	(2.6)	(2.6)	(0.0)
Collection, Delivery & Conveyance Charges	(0.1)	(0.1)	0.0	(0.5)	0.4	(0.3)	(0.3)	0.0
Staff & Agent Related Costs & Consumables	(0.5)	(1.4)	0.9	0.2	(0.7)	(3.4)	(3.4)	0.0
* Skills Group off-charges to projects	6.7	6.3	0.4	6.6	0.1	0.0	0.0	0.0
Remainder	(7.1)	(7.7)	0.6	(6.4)	(0.8)	(3.4)	(3.4)	0.0
Total Non Staff Costs	(69.1)	(68.0)	(1.1)	(62.8)	(6.3)	(160.5)	(160.0)	(0.5)



Variance
YTD non people costs were £1.1m adverse to budget and £6.3m adverse to prior year.

Vs. Budget
Costs were £1.1m adverse to budget and this is driven by Horizon/ Fujitsu costs, which were budgeted for the prior year, but have been incurred this financial year.

Vs. Prior Year
Cost were £6.3m adverse to prior year. Half of this increase is driven by the FX bureau rebate received in previous years, but which ceased from period 6 last year. The remainder is due to higher Fujitsu costs this year as outlined in the explanation vs. budget above, increased marketing costs and increased legal costs driven by litigation; Horizon and public liability which is now managed in house.



* Skills group is the internal 'consultancy' providing project resource made up of a mixture of employees topped up with contractors. If demand is high the contractor spend increases but this is offset by higher recharges to projects.

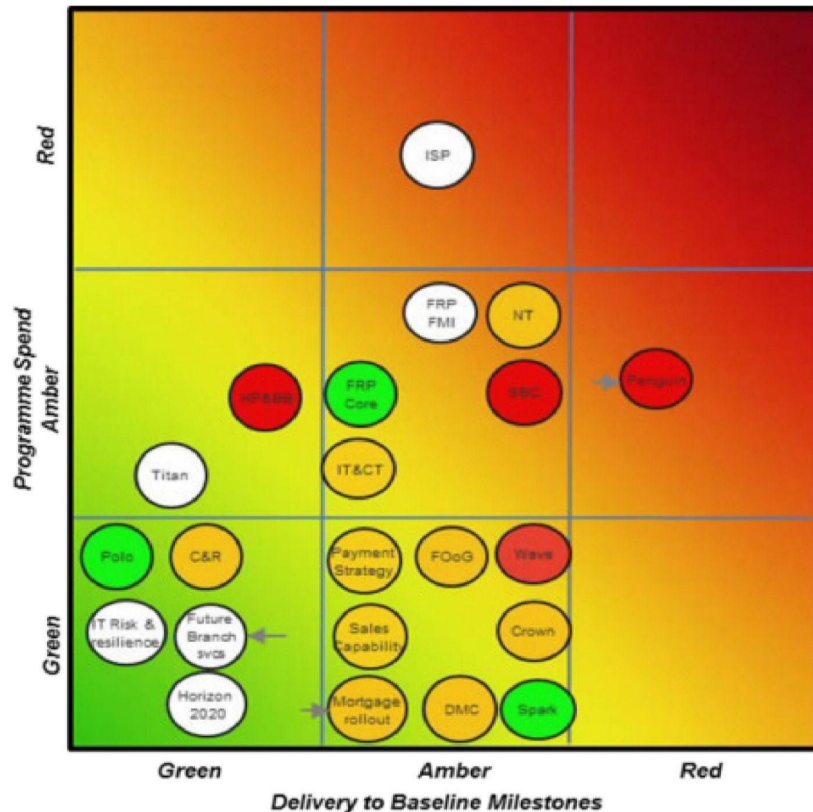
Transformation Delivery Heat-map

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August 2013

Highlights heatmap status of key transformation programmes, and points of escalation to Transformation Board on selected projects including resulting Transformation Board action / guidance. Also highlights wider points of discussion / action.



○ Colour of Circle reflects 13-14 financial benefits
→ Shows movement from last period

Transformation Board (TB)- Key Points of Focus

IT&C Transformation: Systems Integrator Service Delivery (SISD) preferred partner selected with alcatel period to start imminently. Decision to restart A&I Tower procurement and commence a second POS tower procurement confirmed by the programme board. Transformation Board discussed outstanding commercial agreements in relation to Data Centre procurement and required negotiation mandate to progress this to conclusion. Sponsor now comfortable that team in place with correct remit to progress with these negotiations.

Crown Transformation: Transformation Board discussed risks to the ability of the Crown Transformation programme to meet its P&L targets as a result of wider income challenges especially around mails. It was agreed that mitigating activity in response to this should continue (including the set of responses around Bentley), that Crown Board should continue to track this risk proactively and that Trading Board should make this a specific point of focus in its next meeting.

HP&BB - Data migration complete but Transformation Board discussed key issue around high call levels into the call centre and resulting long waiting times. Agreed actions in response include:
1) Re-focus on performance against agreed SLAs, additional focus on accurate call time monitoring and customer complaints with Fujitsu,
2) Additional resourcing by Fujitsu into both in the call centre and the back office, and
3) Assessment of mid term automation options to reduce impact on call centre.

Penguin - Go live date subject to change due to a late change in the third party BIN sponsor. Transformation Board discussed importance of revised FRES plan to agree launch timescales - the project remains confident of a pre-Christmas launch. Transformation Board agreed that assessment of the impact on delivery timing and benefits will follow delivery of FRES plans, but confirmed that 2013-14 benefits are under review; the 2014/15 benefits remain unchanged.

Separation: RMG and POL have agreed it would be mutually beneficial to consider alternative approaches to deliver separation. Two streams of activity to complete this, 1) A joint replanning exercise to assess best approach / timings in a scenario unconstrained by MSA deadlines 2) Confirmation of alignment of current workstream approaches and solutions against the 2020 vision, organisational operating model and associated 25% cost reduction. As part of 2), discussion is taking place with a small number of external service providers to gain their views on alternative approaches (including BPO) and the potential risks / benefits of this.

FS Sales Capability - 2013/14 benefits of £2.2M are at risk, potentially due to CWU action towards Financial Services. Transformation Board discussed key initiatives needed to deliver the benefits, including the placement of FS Area Managers along with a changed incentive scheme (due 1st Oct), changed Sales Process (1st Oct) and relaunch of Salesforce (1st Oct); these initiatives are progressing to delivery but Board and executive sponsor recognised importance of next few weeks to their delivery.

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Appendices

Cashflow Statement

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**August 2013**

£m	YTD			Full Year		
	Actual	Budget	Variance	Forecast	Budget	Variance
Operating Profit	38.0	39.5	(1.5)	102.0	102.0	0.0
Depreciation	0.1	0.4	(0.3)	0.9	0.9	0.0
Working Capital	(49.9)	(49.3)	(0.6)	(41.2)	(41.2)	0.0
Client Balances	(0.3)	(56.4)	56.1	(44.4)	(44.4)	0.0
Network Cash	(6.1)	(2.4)	(3.7)	114.6	114.6	0.0
Dividends	(18.8)	(18.0)	(0.8)	(4.5)	(4.5)	0.0
Capital Expenditure	(28.2)	(48.3)	20.1	(167.5)	(167.5)	0.0
Government funding	215.0	215.0	0.0	215.0	215.0	0.0
NSP in advance	115.4	115.4	0.0	0.0	0.0	0.0
Exceptional Items	(45.8)	(71.2)	25.4	(198.8)	(198.8)	0.0
Pensions	1.6	0.9	0.7	2.3	2.3	0.0
Proceeds from asset sales	2.5	0.0	2.5	0.0	0.0	0.0
				0.0	0.0	0.0
Free cashflow before interest, tax	223.5	125.6	97.9	(21.6)	(21.6)	0.0
Interest	(0.6)	(1.5)	0.9	(5.0)	(5.0)	0.0
Tax	10.2	10.3	(0.1)	10.3	10.3	0.0
Free Cashflow	233.1	134.6	98.5	(16.3)	(16.3)	0.0

Income By Product Groups & Pillar

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August 2013

Adverse; Mails is £13.4m, Financial Services is £2.3m, other income is £0.8m and Government Services is £0.3m adverse. Only Telephony is favourable by £1.9m.



Net Income £m	Current Month			Prior Year		Year to date			Prior Year		Full Year			Prior Year
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)	Actuals	Budget	Variance	YTD Actual	YTD (Yr On Yr)	Q1 Forecast	Budget	Variance	2012/13 Outturn
Parcelforce	1.6	2.1	(0.5)	1.3	0.3	9.1	11.1	(2.0)	7.5	1.7	30.7	30.7	0.0	19.9
Special Delivery	3.8	3.6	0.2	3.8	0.0	21.5	21.2	0.3	21.9	(0.4)	50.0	50.0	0.0	53.2
International Priority & Standard	2.3	2.4	(0.1)	2.2	0.1	13.2	15.1	(1.9)	13.5	(0.4)	37.3	37.3	0.0	34.9
Stamps (1st & 2nd Class plus other stamps)	1.8	2.1	(0.2)	1.6	0.2	10.2	11.3	(1.1)	15.3	(5.1)	33.8	33.8	0.0	35.2
Labels (1st & 2nd Class)	6.8	6.6	0.2	6.4	0.4	37.7	40.8	(3.1)	40.8	(3.0)	100.0	100.0	0.0	100.2
RM Mail Fixed	4.3	4.3	0.0	4.4	(0.1)	23.7	23.7	0.0	24.0	(0.3)	56.0	56.0	0.0	57.9
Retail & Lottery	2.9	4.1	(1.2)	3.8	(0.9)	18.3	21.2	(2.9)	19.1	(0.8)	51.6	51.6	0.0	45.7
Mails Other	3.8	4.0	(0.2)	5.0	(1.2)	20.3	22.9	(2.6)	22.8	(2.5)	55.3	55.3	0.0	57.0
Total Mail Services	27.4	29.2	(1.9)	28.5	(1.1)	153.9	167.3	(13.4)	164.8	(10.9)	414.6	414.6	0.0	404.0
Total Telephony Services	4.6	3.1	1.5	3.5	1.1	22.6	20.6	1.9	19.0	3.6	50.4	50.4	0.0	45.0
Motoring Services	1.8	1.6	0.2	2.3	(0.5)	7.5	8.0	(0.5)	14.3	(6.8)	21.4	21.4	0.0	31.8
Card Account	4.6	5.0	(0.3)	5.5	(0.8)	25.5	25.6	(0.1)	28.4	(2.9)	59.4	59.4	0.0	65.8
Check and Send	1.3	1.2	0.1	1.3	(0.0)	11.4	10.4	1.0	10.6	0.8	20.4	20.4	0.0	21.4
AEI (DVLA & UKBA)	0.6	0.6	(0.0)	(0.2)	0.8	3.3	3.1	0.1	3.5	(0.2)	7.9	7.9	(0.0)	10.1
Other Government Services	0.4	0.6	(0.2)	0.5	(0.1)	2.4	3.3	(0.9)	2.1	0.3	6.7	6.7	(0.0)	4.2
Total Government Services	8.7	9.0	(0.3)	9.4	(0.7)	50.1	50.4	(0.3)	58.9	(8.8)	115.9	115.9	(0.0)	133.2
Bill Payment Services Direct	0.7	0.8	(0.1)	0.8	(0.1)	4.4	4.3	0.1	4.6	(0.2)	11.1	11.1	0.0	11.8
Bill Payment Services Reseller	2.6	1.9	0.7	2.1	0.5	11.8	10.16	1.64	12.3	(0.5)	24.9	24.9	0.0	27.6
Postal Orders	1.5	1.6	(0.0)	1.7	(0.2)	8.8	8.7	0.1	9.6	(0.9)	20.2	20.2	0.0	23.1
Payment Services	0.4	0.6	(0.2)	0.45	(0.1)	2.2	2.8	(0.6)	2.2	(0.1)	8.9	8.9	(0.0)	6.3
Personal Banking Clients	2.2	1.9	0.3	2.0	0.2	11.4	10.6	0.8	11.4	(0.0)	25.4	25.4	0.0	26.4
DWP Exceptions	(0.0)	0.0	(0.0)	0.3	(0.3)	0.0	0.1	(0.1)	1.8	(1.8)	0.1	0.1	0.0	3.9
Business Banking	1.9	1.8	0.0	2.7	(0.8)	11.6	11.1	0.5	14.6	(3.0)	26.6	26.6	0.0	34.8
ATM	1.8	2.6	(0.8)	2.3	(0.4)	12.7	13.7	(1.0)	12.6	0.2	33.2	33.2	0.0	30.2
PFS-Savings	4.2	4.0	0.2	4.4	(0.2)	20.3	20.5	(0.2)	12.1	8.2	50.5	50.5	0.0	40.6
PFS-Insurance	(0.2)	0.5	(0.7)	0.3	(0.4)	2.7	2.8	(0.2)	1.8	0.9	6.7	6.7	0.0	5.3
PFS-Lending	0.7	0.4	0.2	0.3	0.4	2.4	1.6	0.8	1.2	1.3	4.9	4.9	0.0	4.7
Bureau (excl profit share) (incl Travel Money Card)	2.0	3.1	(1.1)	2.5	(0.6)	12.1	13.7	(1.6)	11.9	0.2	25.0	25.0	0.0	24.4
Travel Insurance	0.8	1.2	(0.4)	0.9	(0.2)	5.9	5.4	0.5	5.4	0.5	9.0	9.0	0.0	9.1
MoneyGram	1.3	1.2	0.1	1.2	0.1	6.7	6.8	(0.0)	6.1	0.6	16.6	16.6	0.0	15.4
NS&I	0.3	0.3	0.0	1.0	(0.7)	1.7	1.7	0.0	5.6	(3.8)	3.9	3.9	0.0	13.3
Other	0.2	0.8	(0.6)	0.2	0.0	1.0	4.4	(3.3)	1.0	0.0	10.4	10.4	0.0	2.5
Total Financial Services	20.4	22.7	(2.3)	23.2	(2.8)	115.8	118.6	(2.7)	114.2	1.6	277.4	277.4	0.0	279.6
Other Income	1.1	0.7	0.4	0.7	0.34	4.0	4.4	(0.4)	4.2	(0.2)	7.5	12.5	(5.0)	10.7
Supply Chain	2.2	2.3	(0.1)	2.5	(0.26)	12.1	12.1	0.0	12.7	(0.6)	29.2	29.2	0.0	30.0
Net Income	64.3	67.1	(2.7)	67.7	(3.4)	358.5	373.4	(14.9)	373.8	(15.3)	895.0	900.0	(5.0)	902.4

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Top Board Risks

1. **FS** – our plan depends on FS growth which is fairly risky due to the complexities of the BOI relationship and our ‘uncertain’ shape of distribution channels

Financial Services does not deliver – weak implementation and unforeseen risks

Macro – Financial Service markets move more rapidly than anticipated in our current plans and we are unable to respond in time

Failure to deliver FS strategy and maintain our reputation for ‘trust’

Banking partner – failure to provide pipeline of competitive FS products to deliver our branded retailer ambitions

Financial Services compliance

The Financial services strategy fails to deliver the revenue requirements of the strategic plan
2. **Delivery of NT** i.e. it is too slow/expensive/noisy

Inability to deliver network conversions in time: e.g. NFSP and inability to implement conversions in a timely fashion and hence competitive pressure make business non-viable

NT does not work. We need it to transform the network into a viable competitive estate – at good value for money for the taxpayer. It might not work – either because the strategy is flawed or because it is badly executed

Failure to transform agency network effectively – missing the once in a generation (lifetime!!) opportunity to optimise public value delivery
3. **IT change** – slippage/expense/security/reliability

IT transformation – cost over-runs/customer data inadequate

Weak IT/IT failure/digital offering weak

Systems
4. **Top team capability and succession** – specifically, pace and in transforming the position

Lack of succession plan for the CEO

Top team - the people on our leadership team are not good enough/don't stay to do what needs to be done

Insufficient management bandwidth and siloed thinking
5. **Royal Mail** – privatisation will change our contract/their priorities and endanger our plan

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Royal Mail

Missing mails opportunity SME'S

6. **Politics** – our shareholder won't make tough decisions for good political reasons (NT especially)

Political – current political goodwill dissipates over time perhaps exacerbated by PO mistakes (rather like the Police and now NHS) – AM

Slowing down of NT as a result of short-term stakeholder/political reluctance

Support from the Shareholder for our strategy, especially in relation to NTP and requiring subpostmasters 'to choose'

Post Office is unable to convince stakeholders of the need to effect the changes required to deliver financial sustainability

Government ownership

7. **Operations issues** - Fallout from Horizon issues seriously damages public and government confidence in the Post Office

Further operational issues uncovered (but considered lower risk and lower impact)

Unforeseen shock (cf unexpected network problems, rainbow, SS) [Mitigation better Horizon scanning and good forward looking KPI]

Brand reputation takes a serious blow and damages news areas of expansion, e.g. SME

8. **Strategy** - Post Office is unable to cope with the change required to deliver the strategy
unable to achieve growth targets

Execution – management bandwidth limitations with a small number (50?) critical to the delivery of the PO strategy

9. Development of the **digital channels** happens too slowly and we fail to engage younger customer groups and maximise our business opportunities in growth areas

Failure to deliver multichannel solutions/left as physical/exceptions channel

10. **Cost reduction** is too difficult to deliver due to union opposition

Financial – unable (unwilling) to reduce costs sufficiently quickly to both achieve targets and also mitigate against revenue shortfalls

11. Failure to accelerate topline growth in mails and FS in the next 2/3 years, in order to underpin the business ambitions

12. **Competition**

13. **IA** backdrop distracts management and hampers financial turnaround

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**POST OFFICE LIMITED BOARD
Status Report**

No.	REFERENCE	ACTION	BY WHOM	STATUS
1. Network Transformation and Crown Offices				
1a	January 2013 POLB 13/03(h)	Idea of high profile event suggested for early adopters being planned.	Mark Davies	Discussions have been held with No10 and BIS but this remains ongoing. BIS keen to reach Strategy conclusion before taking further.
1b	July 2013 POLB 13/54	Full report on Strike Action to September Board.	Kevin Gilliland	September Board
2. Finance				
2a	July 2013 POLB 13/48(g)	Produce analysis to explain economics of the Crown and agents network models and set up a workshop for those NEDs who would find it helpful.	Chris Day	November Board for Crown; January Board for Agents.
2c	July 2013 POLB 13/56(b)	Check with corporate insurers to ensure that the planned changes to structure of the wider Group to facilitate an IPO of RMG had no detrimental effect on the cover or cost.	Chris Day	The RMG transaction will have no impact on any of the Insurance policies except D&O. Discussions continue with ShEx and RMG to ensure the outcome on D&O is optimal from Post Office's point of view.
3. Strategy				
3a	November 2012 Strategy Evening	"Point person" to be identified for SME's, across pillars	Nick Kennett	I have interviewed three candidates. We are awaiting feedback from the Hays on two candidates that have been passed for assessment. I think that this is due at the end of this week. The working assumption is that the leading candidates will meet Martin George for final review etc.

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3b	May 2013 POLB 13/32	Prepare simple crib sheet of 4-5 communication points to be used for engaging with stakeholders around Post Office's strategy for 2013-2020. To ensure that any statements used left room for manoeuvre in case circumstances changed in the future.	Mark Davies	A key issues briefing pack is being developed for Board and senior management and will be introduced in w/c 16 September.
3c	May 2013 POLB 13/38	Update Stakeholder Plan to make better use of DVLA framework contract. To be shared with CEO and CFO to agree how the Board can support the Stakeholder engagement.	Kevin Seller	
3d	July 2013 POLB 13/50(f)	Write to BIS setting out alternative approach for the strategic plan.	Sue Barton	
3e	July 2013 POLB 13/50(k)	Provide note to the Board setting out the expected timeline and milestones over the next two months.	Sue Barton	
3f	July 2013 POLB 13/52(b)	Noting paper to the Board setting out the Mercer Recommendation for the new Financial Services Strategy update paper.	Nick Kennett	Noting paper to October Board
3g	July 2013 POLB 13/52(d)	Draw up Terms of Reference for FS Board Sub-Committee with input from Tim Franklin and Virginia Holmes	Nick Kennett/Alwen Lyons	September
4. Personal Injury Referral Fees				
4a		Post Office Insurance will work with BGL to evaluate the impact on the business model (including income and incentives) and management proposes to update the board later in 2013 of any changes.	Nick Kennett	I have evaluated the position and with the regulatory changes having being implemented only in April it is rather early to have seen the impact - I suggest that this would be better presented back to the Board in the autumn when we will have seen both a better understanding of the market impact and how BGL has responded. To October Board.
5. NFSP & Trade Association				
5a	May 2013 POLB 13/33	Present the detail of the subpostmaster engagement satisfaction measure when available.	Kevin Gilliland	January
6. Information Security				
6a	July 2013	Review of Second Sight report to be provided to ARC explaining how we	Paula Vennells	Lessons learned review to

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	POLB 13/51(g)	awarded and managed the contract. This should be prepared asap.		take place October/November. Interim report to November ARC – Action: Belinda Crowe/Alwen Lyons
6b	July 2013 POLB 13/51(i)	Ensure both RMG and the Business' Insurers were given notice of the Second Sight review findings.	Chris Day	Post Office's insurers have been notified of the Second Sight report.
7. Board Effectiveness				
7a	July 2013 POLB 13/48(f)	A future Board to be held at Camden Branch	Alwen Lyons	October Board to be held at the Camden office.
7b	July 2013 POLB 13/48(i)	Advise Board members of dates of SLT Quarterly Business Updates	Alwen Lyons	SLT and Quarterly Business Update dates to be confirmed. Dates will be circulated once finalised.
7c	July 2013 POLB 13/48(j)	Addition of an index for the Reading Room	Alwen Lyons	Index by Board date to be produced by the end of October. Index alphabetically by topic by end of November.
7d	July 2013 POLB 13/48(h)	Provide a paper highlighting the processes in place for monitoring the use of advisors, procuring advisors and negotiating their terms.	Chris Day	Paper to be brought to November Board.

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POST OFFICE LIMITED BOARD AWAY DAY ACTION LOG

No.	ACTION	BY WHOM	STATUS
	1. Mutualisation overview		
1.1	Updated Rothschild Report to be circulated	Chris Day	Completed
1.2	Ensure Strategic Plan refers to commercial sustainability and not mutualisation and change of ownership	Sue Barton	Completed
	2. New ways of working		
2.1	Ask Franchise Partners what they do to engage branches	Mark Davies/Kevin Gilliland	Network Communications team has taken this on.
2.2	Look at introducing a 'members' council of 20-30 people, with unions/staff/subpostmasters and customers all represented. Return to the Board with a full proposal in line with the agreed timeline	Sue Barton	
2.3	Final proposal on ways of working to be circulated, excluding Trade Association (although this may be necessary, so a TA proposal to be developed off the page for now)	Sue Barton	
2.4	Check where the term 'hold the business to account' is used, and come back with options for taking this forward without introducing additional governance.	Sue Barton	
	3. People		
3.1	Show how many people in each business area as a %	Fay Healey	Chris Day – a % column will be added to the staff costs page of the monthly performance report.
3.2	Business to consider whether POCA should sit within FS in the new structure	Fay Healey	
3.3	The Business had three possible internal candidates for Service Delivery but was asked also to search the market for possible external candidates	Fay Healey	
3.4	Send the Board the proposed structure charts for the final and interim stages of the People Strategy	Fay Healey	
3.5	ExCo succession plan to return to RemCom	Fay Healey	
3.6	Outstanding questions to return to NomCom	Fay Healey	
	4. Outsourcing		
4.1	It is not always necessary to sort out the business processes before OS, as long as the business produces clear requirements; clear rules and then manages the relationship.	Chris Day/Susan Barton	

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4.2	Sue Barton/ Lesley Sewell to meet Tim to revisit the SI Terms of Reference and the relationship with the Towers. Neil McCausland was unsure that the Board should be revisiting a decision it had already made.	Sue Barton	
4.3	Chris to send a note to the Board before the next meeting setting out a timeline for the next steps including: defining core; defining requirements; procurement; the effects of separation; and management information.	Chris Day	Completed
4.4	Return to the November Board with the plan and milestones, showing direction of travel and the prize, having consulted Tim Franklin & Alasdair Marnoch.	Chris Day/Sue Barton	
5. Mails			
5.1	Investigate options to incentivise quicker growth	Paul Brown	Drop & Go was incentivised throughout August with SPMRs receiving £5 per sign up to coincide with launch to the whole Network. This produced a weekly run rate of well over 500 sign ups. Customers have been incentivised since 2 nd Sept with a 20% medium parcel discount this promotion is currently driving well in excess of 1000 sign ups per week.
5.2	Spend time in branch to understand the barriers in the sales process and make it as easy as possible for people	Paul Brown	Following feedback from branches several changes were made to the Drop & Go service including lower qualification limits and minimum deposits. A you tube video was produced following feedback demonstrating the most effective ways to manage the service and complete the application process. There have now been some 6000+ sign ups to Drop & Go since the end of June.

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5.3	Once we have a story to communicate make sure we do so loudly!	Paul Brown	<p>Drop & Go has been featured heavily in industry press and across the key internet sites including eBay, and via social media. Several newspapers have also run stories and there has been a substantial in branch campaign. Collect+ actually copied the discount within a week of our launch but have now discontinued, their discount does not seem to have deflected from our success.</p> <p>We are now preparing to integrate the first retailers to click and collect and will announce jointly (and loudly) with RMG when the services are ready for launch.</p>
5.4	Think radically about how we would respond to changes in the USO. Are there any opportunities for us	Paul Brown/Sue Barton	<p>Paul and Sue have been working on potential risks and opportunities related to potential changes to the USO. These include Post Offices acting as collection points, local delivery hubs and the potential need to contract with multiple carriers in the longer term future. It is also becoming clear that short to medium term change to the USO looks increasingly unlikely. The planning for the possible impacts of RMG privatisation and future regulatory changes will</p>

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			continue as part of ongoing mails strategy review.
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SEPTEMBER 2013

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

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/HF/RW	Susan Crichton	<p>This is also a separate agenda item for the September 2013 Board meeting.</p> <p>POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes.</p> <p>These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made through:</p> <ul style="list-style-type: none"> - SPMs' MPs; - the "Justice for Subpostmasters Alliance" (JFSA); - defences to court proceedings brought by POL to recover debts from SPMs; and - direct contact with POL. <p>An independent investigator Second Sight Support Services Ltd (Second Sight) has been reviewing these allegations in consultation with James Arbuthnot MP and JFSA.</p> <p>On 08.07.13, Second Sight published an Interim 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 Interim Report, on 27.08.13 POL launched a Mediation Scheme aimed at finally resolving individual complaints made about Horizon. Submissions to the scheme close on 18.11.13.</p> <p>Second Sight is continuing to investigate the SPMs' concerns. POL is cooperating with those investigations.</p> <p>POL is also reviewing past and present criminal prosecutions brought against SPMs to ensure they continue to satisfy the evidential, public interest, and disclosure standards required for prosecutions.</p> <p>POL is not issuing any new criminal summons pending the instruction of a new, independent expert who can give evidence to support the Horizon system. The process of identifying this expert is underway.</p> <p>To date, no claim has been made against POL in the civil courts, and no appeal has been made to the Court of Appeal against any conviction obtained in the criminal courts, following the Interim Report.</p>	Bond Dickinson

Significant Litigation Report

Susan Crichton
16 September 2013

Page 1 of 4

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Claim for Judicial Review	POL/HF/RW	Angela Van-Den-Bogerd	<p>A former subpostmaster (SPM) has sought "judicial review" of POL's decision to terminate his SPM contract.</p> <p>The SPM claimed that POL's termination process was flawed and infringed his Human Rights. He has asked the court to review POL's decision and find that it was unlawful and/or an abuse of power.</p> <p>POL is asking the Court to dismiss the claim on the grounds that it is a commercial matter which the Court cannot review, and in any event POL did not breach the SPM's rights.</p>	<p>POL and the SPM will attempt to settle the dispute at mediation on 11 October 2013.</p> <p>The matter has been listed for hearing in the High Court, Birmingham on 12 and 13 December 2013, unless it is settled earlier.</p> <p>POL will continue to explore options for resolving the claim before any Court hearing.</p>	DAC Beachcrofts

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

DESCRIPTION	STATUS
Two assistant sub postmasters accused of covering shortages by delaying the processing of business deposits to Santander. Case concerned 40 deposit slips being suppressed with a total value of £34,115.50.	Both defendants pleaded guilty, and were sentenced to 5 months and 6 months imprisonment (suspended for 12 months) respectively.
Sub postmaster accused of theft of £78,660.63.	Defendant pleaded guilty on 05.02.13 and was sentenced to 2 years imprisonment. The parties are now awaiting a date from the Court to determine recovery of funds under the Proceeds of Crime Act (POCA).
Sub postmasters accused of theft of £85,000.	Case discontinued on public interest grounds.
Subpostmaster accused of theft of £77,905.02.	The case has been committed to the Crown Court, which is yet to fix a date for trial. POL has recovered £62,992.78 to date.
Subpostmaster accused of theft of £57,811.79.	Defendant pleaded guilty and on 28.11.12 was sentenced to 9 months imprisonment (suspended for 18 months) and 180 hours unpaid community work. The parties are now awaiting a date from the Court to determine recovery of funds under POCA. POL has recovered £43,988.03 to date.
Subpostmaster accused of two offences of theft of £9,999.43 and £175,260, and two offences of false accounting.	The case has been committed to the Crown Court, which is yet to fix a date for trial. A restraint order has been obtained to assist recovery of the financial loss under POCA.
Subpostmaster accused of fraud of £115,172.11.	Defendant pleaded guilty and on 03.05.13 was sentenced to 16 months imprisonment. A final hearing has been set for 20.09.13 to determine the sum payable to POL.

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DESCRIPTION	STATUS
	under POCA. POL has recovered £61,000 to date.
Subpostmaster accused of theft of £197,107.36.	The parties are awaiting a date from the Court for a hearing to determine the details for trial. Defendant has stated that he intends to repay loss in full if no POCA proceeding are commenced.
Subpostmaster accused of theft of £115,000.	The Court has set a timetable to address recovery of funds under POCA. POL has recovered £61,000 to date

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

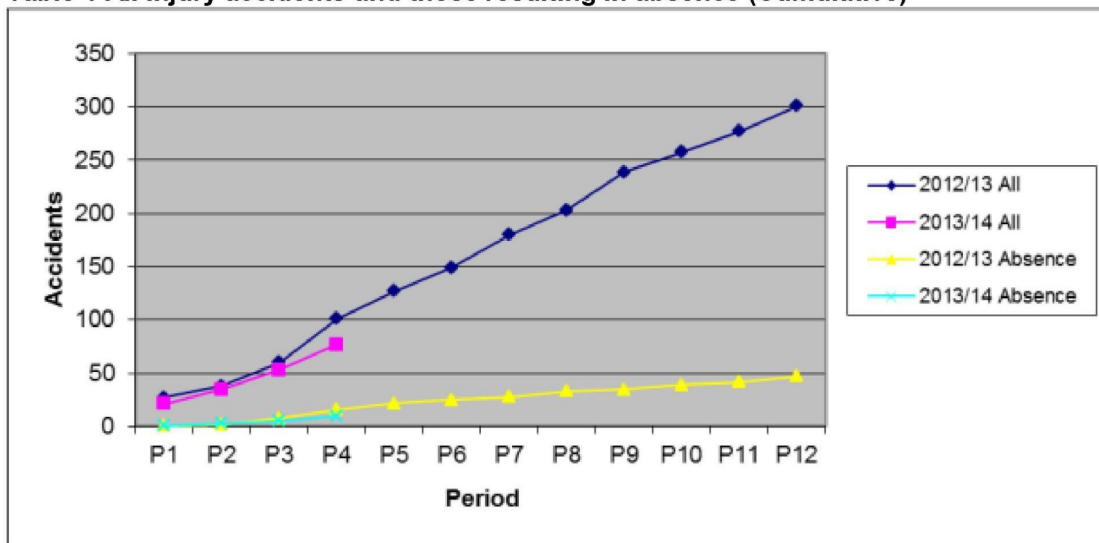
The purpose of this paper is to:

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

2. Current Situation

2.1 Injury accidents, up to period 4, are showing a positive trend against last year, and against the target reduction of 5%. Accidents involving absence have decreased from 16 to 10 compared to the same period last year. The “per 1000 staff in post” comparison indicator, which takes account of head count fluctuation year on year, is showing a favourable trend for ‘all accidents’.

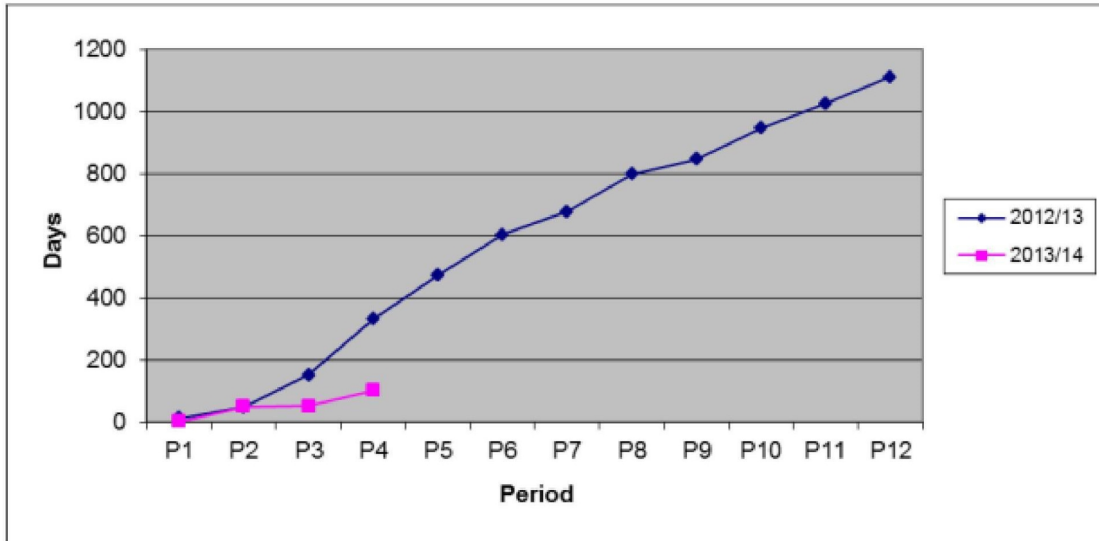
Table 1 All Injury accidents and those resulting in absence (Cumulative)



2.2 The number of days lost due to accidents is showing a significant reduction compared to last year and against a target reduction of 5%. (Table 2) This indicates that not only is there a positive trend of frequency of incidents there is also positive trend in the severity of those accidents.

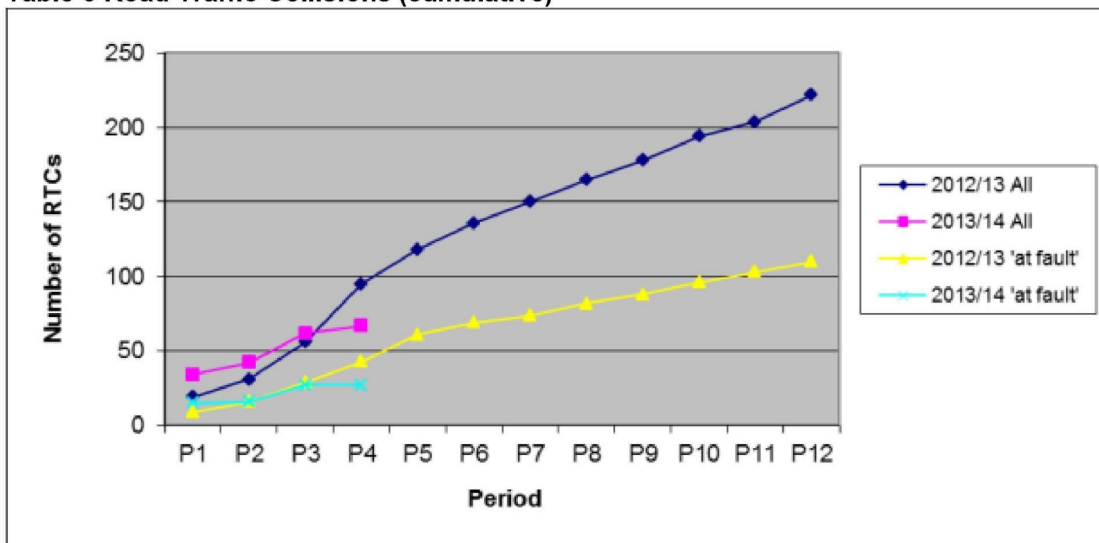
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Table 2 Days lost resulting from injury accidents (Cumulative)



2.3 The total number of road traffic collisions (RTCs) during period four was significantly down on last year resulting in a cumulative effect of a reduction against the same period to date last year. The number of 'at fault' incidents is showing an improving trend against the same year to date period as last year. 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) Injuries as a result of road traffic collisions are infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss.

Table 3 Road Traffic Collisions (cumulative)



2.4 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency

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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 during robberies and road traffic collisions. .

- 2.5 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down 2 from 16 to 14 cumulative for the first four months. Physical injuries during robberies, of which there have been 2, a reduction of 3 on last year, remain relatively minor in severity. Three of the fourteen robberies were enabled by the presence and/or threat of use of fire arms however the firearms were not discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.6 The robbery risk assessment and associated assessment of the provision and use of body armour was endorsed during August by all members of the Post Office ExCo Sub Committee for Health and Safety and can be found at Appendix 2.
- 2.7 Robberies and attempted robberies on the Post Office network, cumulative to period 4, are lower than last year – 29 compared to 33 – 13 of the 29 were successful. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers)

Burglaries and attempted burglaries (which do not involve personal attack) have reduced from 24 to 23 compared to the same four month period last year.

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

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

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the general increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. Smartwater – 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

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- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas
- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Programme of visits to all Post Office sites to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing
- Plans in place to re-visit all Post Office Crown Branches and Supply Chain sites within 18 months
- Health and wellbeing 'Team Talk' modules
- Health and wellbeing poster themed campaigns
- Online wellbeing monitoring tool to support health check initiative
- Enhanced Occupational health service provision from January 2013

4. Residual Risks

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

5. Recommendation

The Post Office Ltd Board is asked to:

- 5.1 Note the overall safety performance
- 5.2 Note the risk reduction activities
- 5.3 Note the outcome of the robbery risk assessment (App 2).

**Susan Crichton
September 2013**

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Appendix 1

Significant Incidents (Period 4)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
<h1>GRO</h1>				

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Appendix 2

Post Office Robbery Risk Assessment 2013/14 including associated assessment for the provision and use of body armour as personal protective equipment (PPE)



Robbery Risk
Assessment 2013-14

POST OFFICE LIMITED BOARD

Sealings 10 July – 16 September 2013 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 1059 to 1074 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 1059 to 1074 inclusive in the seal register is hereby confirmed.”

**Alwen Lyons
Company Secretary
16 September 2013**

POST OFFICE LIMITEDDate
16/09/2013**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
1059	10/07/2013	09/07/2013	Lease of Cygnet House, 111 Taylorson Street South, Salford, M5 3BL between POL and Bredale Properties Limited.	Gill Catcheside	Jean Reynolds
1060	11/07/2013	10/07/2013	Service Tenancy Agreement relating to Blackheath Village Post Office, Black Heath Grove, Blackheath, London SE3 0AU between POL and Manish Garg.	Gill Catcheside	Jean Reynolds
1061	11/07/2013	10/07/2013	Lease of 18 Harben Parade Finchley Road, Hampstead, NW3 between the London Borough of Camden and POL.	Gill Catcheside	Jean Reynolds
1062	24/07/2013	23/07/2013	Lease of 199/201 High Street Southend between POL and Threadneedle Pensions Limited	Alwen Lyons	Jean Reynolds
1063	25/07/2013	25/07/2013	Deed of novation of BoardPad Software contract between POL, ICSA Software International Limited, ICSA Boardroom Apps Limited	Gill Catcheside	Gill Catcheside
1064	26/07/2013	25/07/2013	Licence to underlet relating to Post Office, 67 Victoria Street, Grimsby between Corncrake Properties Limited, Argos Limited and POL	Alwen Lyons	Jean Reynolds
1065	26/07/2013	25/07/2013	Underlease of 67/71 Victoria Street, Grimsby between Argos Limited and POL	Alwen Lyons	Jean Reynolds
1066	01/08/2013	01/08/2013	Lease renewal - 122-124 Field End Road, Eastcote between POL and the trustees of the will of Sir G M M Mallaby Deeley Deceased	Susan Crichton	Jean Reynolds
1067	01/08/2013	01/08/2013	Licence to carry out works at 5 - 7 London Street, Basingstoke between POL, the Wardens and the Commonalty of the Mystery of the Goldsmiths of the City of London and National Westminster Bank plc	Susan Crichton	Jean Reynolds
1068	12/08/2013	07/08/2013	Licence to assign premises at Willesdon Post Office, 78 High Road, London, NW10 2PX between POL, Vijay Parekh and Gita Parekh acting by the Receivers Michael Daniel Worsley Hardy and Mark Swiers of Sanderson Weatherall LLP, and Denton & Co. Trustees Limited, Sunil Suryakant Badiani, Suryakant Nanji Badiani and Sheila Suryakant Badiani	Susan Crichton	Jean Reynolds
1069	15/08/2013	15/08/2013	Licence for alterations and additions by Tenant relating to	Susan Crichton	Jean Reynolds

POST OFFICE LIMITEDDate
16/09/2013

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
			premises on Ground Floor and Basement of 26 Spring Gardens Manchester between POL, British Overseas Bank Nominees Limited and WGTC Nominees Limited.		
1070	29/08/2013	28/08/2013	Updated plan for 18 Harben Parade	Gill Catcheside	Jean Reynolds
1071	12/09/2013	11/09/2013	Underlease of premises at First Floor Offices, 57/58 High Street, Banbury, Oxfordshire, OX16 5LB between POL and Office Angels Limited	Gill Catcheside	Jean Reynolds
1072	12/09/2013	11/09/2013	Licence to Underlet relating to First Floor Offices, 57/58 High Street, Banbury, OX16 5LB between Panbrook (Banbury) Limited, POL and Office Angels Limited	Gill Catcheside	Jean Reynolds
1073	16/09/2013	13/09/2013	Lease of Post Office, 191 High Road, Wood Green N22 between the Mayor and Burgesses of the London Borough of Haringey and POL	Alwen Lyons	Jean Reynolds
1074	16/09/2013	13/09/2013	Service Tenancy Agreement of Unit 35c, The Galleries, Washington, NE38 7SB between POL and Potent Solutions Limited	Alwen Lyons	Jean Reynolds

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POST OFFICE LTD BOARD

New Articles of Association for Post Office Limited and Postal Services Holding Company plc

1. Purpose

The purpose of this paper is to:

- 1.1 update and inform the Board that the Post Office and Postal Services Holding Company plc (PSHC), formerly Royal Mail Holdings plc (RMH), have adopted new Articles of Association.

2. Background

- 2.1 At July's Board meeting, the Board received a paper on the planned changes to the structure of the wider Group to facilitate an IPO of Royal Mail Group Limited.
- 2.2 At this same meeting, the Board delegated authority to approve and execute any documents necessary to remove the references to the RMG Special Share and the RMH Special Share in the Post Office's Articles of Association

3. Activities/Current Situation and Conclusion

- 3.1 On 9 September 2013, the Shareholder Executive granted its consent to the adoption of new Articles of Association for the Post Office and on 12 September, the Articles were adopted by written resolution.
- 3.2 Similarly, PSHC adopted its new Articles of Association at a general meeting convened on 10 September and changed its name from RMH with effect from 11 September.
- 3.3 Copies of these new Articles are attached as Appendix A and Appendix B to this Board paper and will be available in the Reading Room.

4. Recommendations

The Board is asked to:

- 4.1 note the adoption of new Articles of Association for the Post Office and PSHC; and
- 4.2 note that the company formerly named Royal Mail Holdings plc is now called Postal Services Holding Company plc.

Alwen Lyons
17 September 2013

Company No. 2154540

THE COMPANIES ACT 2006

A PRIVATE COMPANY LIMITED BY SHARES

NEW

ARTICLES OF ASSOCIATION

of

Post Office Limited

(adopted by a written resolution passed on 12 September 2013)

Registered office
148 Old Street
London
EC1V 9HQ

Company No. 2154540

ARTICLES OF ASSOCIATION

of

Post Office Limited

(adopted by a written resolution passed on 12 September 2013)

INTERPRETATION

1. EXCLUSION OF MODEL ARTICLES

No regulations set out in any statute, or in any statutory instrument or other subordinate legislation made under any statute concerning companies shall apply as the regulations or articles of the company.

2. DEFINITIONS

In these articles unless the context otherwise requires -

"the Act" means the Companies Act 2006 (including any orders, regulations or other subordinate legislation made under it) to the extent from time to time in force;

"the articles" means these articles of association of the company as altered from time to time by special resolution and the expression "this article" shall be construed accordingly;

"the board" means the board of directors from time to time of the company or the directors present at a meeting of the directors at which a quorum is present;

"business day" means any day which is not a Saturday or Sunday or a public holiday;

"clear days" in relation to the period of a notice, means that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect;

"Enlarged Group" means the company, its ultimate parent company and all subsidiaries of such ultimate parent company, but excluding any subsidiary of the ultimate parent company which is a USP Listco (and its subsidiaries);

"executed" includes any mode of execution;

"group" means the company and its subsidiary undertakings (as defined in Section 1162 of the Companies Act 2006) from time to time;

"the holder" in relation to shares means the member whose name is entered in the register of members as the holder of the shares;

"member" means a member of the company;

"network subsidiary" means any subsidiary of Royal Mail Holdings plc (other than any subsidiary of Royal Mail Holdings plc which is a USP Listco (and its subsidiaries)) which is, or any of whose wholly owned subsidiaries is, engaged in the provision of a network of places from which postal services and/or services provided under arrangements between a UK government department and that subsidiary or any of its wholly owned subsidiaries, are provided directly to the public;

"office" means the registered office of the company;

"Parent" means the parent undertaking of the company (as defined in Section 1162 of the Companies Act 2006);

"Primary Territories" means all those countries or parts of the world being members of the Organisation for Economic Co-operation and Development, and (whether or not the same are or become members of the said organisation) each of the Isle of Man, the Channel Islands and Gibraltar, together with such other territories as shall be agreed in writing between the Special Shareholder and the company;

"public holiday" has the meaning given to that term in the Postal Services Act 2000;

"the register" means the register of members of the company;

"Relevant Decision" has the meaning given to that term in article 13(A);

"Relevant Issue" has the meaning given to that term in article 13(D);

"relevant transaction" means any actual or proposed acquisition, sale or other disposition (whether by security or otherwise) or parting with or sharing of ownership (including, without limitation, by partnership, joint venture or otherwise) of any assets, rights or property whatsoever by any member of the group, other than:

- (a) any transaction in the ordinary course of business (including without limitation the taking of assets on lease or hire purchase);

- (b) any transaction between the company and any other member of the Enlarged Group or between members of the Enlarged Group; and
- (c) any transaction approved in any Strategic Plan;

"Royal Mail Holdings plc" means the company incorporated in England and Wales with registered number 4074919;

"the seal" means the common seal of the company;

"secretary" means the secretary of the company or any other person appointed to perform the duties of the secretary of the company, including a joint, assistant or deputy secretary;

"Secretary of State" means one of Her Majesty's Secretaries of State;

"share rights" has the meaning given to such term in section 15 of the Postal Services Act 2011;

"shares" shall be interpreted in accordance with section 15 of the Postal Services Act 2011;

"Special Share" means the one special rights redeemable preference share of £1.00 in the capital of the company;

"Special Shareholder" means the holder of the Special Share;

"Strategic Plan" means the strategic plan relating to the operation and overall strategic direction of the group described in article 72;

"Trade Mark" means the registered trade mark "The Post Office" anywhere in the world;

"the United Kingdom" means Great Britain and Northern Ireland;

"USP Listco" means a company:

- (a) shares in which are or have been admitted to the premium listing segment of the Official List of the Financial Conduct Authority of the United Kingdom (acting in its capacity as the competent authority for the purpose of Part VI of the Financial Services and Markets Act 2000) and admitted to trading on the main market for listed securities of the London Stock Exchange plc; and
- (b) which is or has been, or a subsidiary of which is or has been, designated as the universal service provider under section 35 of the Postal Services Act 2011; and

"wholly owned by the Crown" shall be interpreted in accordance with Part 1 of the Postal Services Act 2011.

Unless the context otherwise requires, words or expressions contained in these articles bear the same meaning as in the Act but exclude any statutory modification thereof not in force when these articles become binding on the company. Subject to the foregoing sentence, references to any provision of any enactment or any subordinate legislation (as defined by section 21(1) of the Interpretation Act 1978) include any modification or re-enactment of that provision for the time being in force.

References to **"writing"** include references to any method of representing or reproducing words in a legible and non-transitory form, whether in electronic form or otherwise.

References in articles 82, 83 and 94 to (i) a contract include references to any proposed contract and to any transaction or arrangement or proposed transaction or arrangement whether or not constituting a contract; and (ii) a conflict of interest include a conflict of interest and duty and a conflict of duties.

Headings are included only for convenience and shall not affect meaning.

If, and for so long as, the company has only one member, these articles shall (in the absence of any express provision to the contrary) apply with such modification as may be necessary in relation to the company.

FORM OF RESOLUTION

3. FORM OF RESOLUTION

A resolution in writing executed by or on behalf of each member who would have been entitled to vote upon it if it had been proposed at a general meeting at which he was present shall be as effectual as if it had been passed at a general meeting properly convened and held and may consist of several instruments in the like form each executed by or on behalf of one or more of the members.

LIMITED LIABILITY

4. LIMITED LIABILITY

The liability of members of the company is limited to the amount, if any, unpaid on the shares in the company held by them.

SHARE CAPITAL

5. RIGHTS ATTACHED TO SHARES

Subject to the provisions of the Act and to any rights conferred on the holders of any other shares, any share may be issued with or have attached to it such rights and

restrictions as the company may by ordinary resolution decide or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the board may decide.

6. REDEEMABLE SHARES

Subject to the provisions of the Act, shares may be issued which are to be redeemed or are to be liable to be redeemed at the option of the company or the holder.

7. PAYMENT OF COMMISSION

The company may exercise the powers of paying commissions conferred by the Act. Subject to the provisions of the Act, any such commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one way and partly in the other.

8. TRUSTS NOT RECOGNISED

Except as required by law, no person shall be recognised by the company as holding any share upon any trust and (except as otherwise provided by the articles or by law) the company shall not be bound by or recognise any interest in any share except an absolute right to the entirety thereof in the holder.

9. VARIATION OF CLASS RIGHTS

Subject to the provisions of the Act, if at any time the capital of the company is divided into different classes of shares, the rights attached to any class may be varied, either while the company is a going concern or during or in contemplation of a winding-up:

- (A) in such manner (if any) as may be provided by those rights; or
- (B) in the absence of any such provision, with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class,

but not otherwise. The provisions of these articles relating to general meetings shall, with any necessary modifications, apply to every such separate general meeting, except that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons together holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question (unless there is only one person who holds issued shares in the class, in which case the quorum shall be one person) and at an adjourned meeting shall be one person holding shares of the class in question or his proxy.

THE SPECIAL SHARE**10. SPECIAL SHAREHOLDER**

- (A) The Special Share may only be issued to the Secretary of State and may be transferred to and held by the Treasury, another Minister of the Crown or any other duly authorised person (including, without limitation, any nominee) acting on behalf of the Crown.
- (B) The Special Shareholder shall be entitled to receive notice of, and to attend and speak at, any general meeting or any meeting of any other class of shareholders of the company, but the Special Share shall carry no right to vote nor any other rights at any such meeting.
- (C) On a distribution of capital in a winding-up of the company the Special Shareholder shall be entitled to repayment of the lower of (i) the capital paid up on the Special Share; and (ii) an amount equal to 24% of the assets available for distribution to equity holders of the company. Any such distribution will be made in priority to any repayment of capital to any other member. In this article 10(C) the term "equity holders" shall have the meaning given by sections 158 and 159 of the Corporation Tax Act 2010 and the "assets available for distribution to equity holders" shall be determined in the same manner as they are determined for the purposes of section 166 of the Corporation Tax Act 2010.
- (D) Save as provided above, the Special Share shall confer no right to a dividend or any other right to participate in the capital or profits of the company.
- (E) The Special Shareholder may, subject to the provisions of the Act, require the company to redeem the Special Share at par (such sum being payable on redemption) at any time by serving written notice upon the company and delivering to the company the relevant share certificate. The company shall not be able to redeem the Special Share without the prior consent of the Special Shareholder.
- (F) In the event that:
 - (i) the Special Shareholder shall give directions to Royal Mail Holdings plc under section 72 of the Postal Services Act 2000; and
 - (ii) Royal Mail Holdings plc requires the company or any member of the group to do anything to comply with those directions

then for such time as the company remains wholly-owned by the Crown the company shall take all steps within its power to do what those directions require to be done by the company, and exercise such rights as it has over any subsidiary to procure that such subsidiary does what those directions require to be done by such subsidiary, within the timeframe so required.

(G) The provisions of this article 10 shall be subject to article 116.

11. VARIATION OF SPECIAL SHARE RIGHTS

11.1 Matters requiring consent

Notwithstanding any provision in these articles to the contrary (save for article 116 to which this article 11 shall be subject), each of the following shall be deemed to be a variation of the rights attaching to the Special Share and accordingly shall occur and be effective only with the prior written consent of the Special Shareholder:

- (A) the alteration or deletion of, or the ratification of any breach of, all or any part of these articles;
- (B) the voluntary winding-up of any member of the group, the passing of a special resolution to the effect that any member of the group should be wound-up by the court, the presentation (whether solely or jointly with any other person) of a petition for the winding-up of any member of the group, or any proposal for any of the foregoing;
- (C) the presentation (whether solely or jointly with any other person) of a petition applying for the appointment of an administrator of any member of the group, or any proposal therefor;
- (D) the issue or allotment of any shares or granting of any share rights in the company;
- (E) the variation of any rights attached to any shares in the company in so far as such variation affects the rights attached to the Special Share;
- (F) the declaration or payment of any dividend or the making of any distribution by the company other than in accordance with the Strategic Plan;
- (G) any distribution, payment or return to shareholders of the company out of capital of the company;
- (H) the redemption or purchase by the company of any share in itself or the reduction of the share capital of the company, or any uncalled or unpaid liability in respect thereof, capital redemption reserve or share premium account of the company or the passing of any resolution authorising any of the foregoing;
- (I) the adoption of any accounting reference date or any material variation of the accounting practices and policies to be applied in the preparation of the accounts of any member of the group, if different from the practices or policies then adopted or applied by other members of the group (other than any accounting practice or policy required to be adopted by law or required by generally accepted accounting principles applying in the place of incorporation of the company or the relevant member of the group);

- (J) the:
- (a) appointment or removal from office of any director of the company; or
 - (b) appointment or removal of any person as chief executive of the company (whether or not immediately prior to that appointment he was a director of the company and whether or not immediately after his removal he continues to be a director of the same), and "chief executive" shall refer to any person carrying out the general management functions of a chief executive officer of the company or the group,
- or any change in the prescribed minimum number of directors of the company or the appointment of any person other than a director of the Parent or the company as an alternate director of any director of the company;
- (K) the adoption of a Strategic Plan or any material variation or amendment of a Strategic Plan previously adopted;
- (L) save as specifically provided for in the approved Strategic Plan, any substantial alteration in the nature of the business carried on by the company;
- (M) the entry into any relevant transaction under which the company, directly or indirectly, ceases to own or retain any such interest as it may have in any asset in the absence of which the group might reasonably be considered to be unable to continue to perform the business of the company as provided for in the Strategic Plan, except in circumstances under which the relevant asset remains available for exclusive use by any one or more members of the group for the remainder of its useful economic life or until it is fully depreciated;
- (N) any arrangement whereby the directors of any member of the group shall cease to determine the general policy of the relevant member of the group and the scope of the activity and operation of the relevant member of the group or cease to determine all matters involving major or unusual decisions material to the business of the group taken as a whole or otherwise whereby the control of the management of the relevant member of the group shall pass from the directors thereof to any third party or body;
- (O) the entry into or implementation of a relevant transaction by any member of the group which involves or is likely to involve (either individually or when taken together with all other related relevant transactions (other than any related relevant transaction previously approved under this article 11.1(O) entered into or implemented in the previous 12 months)) the incurrence of a commitment or liability, or the payment of a sum, by any member of the group which is an amount in excess of £50,000,000;

- (P) the entry by any member of the group into any relevant transaction which is not on commercial terms and is not considered by the directors of that member to be in the interests of that member;
- (Q) (i) the sale, assignment, charging, mortgaging or outright disposal by any member of the group of any Trade Mark in any of the Primary Territories (ii) the granting of an exclusive licence by any member of the group which prevents the group from using any Trade Mark in any of the Primary Territories (iii) the taking of any action by any member of the group with the intention of jeopardising any Trade Mark in any of the Primary Territories (iv) the taking of any action by any member of the group which has the effect of causing any Trade Mark in any of the Primary Territories to cease to subsist, or (v) the taking of any decision or action which has the effect of allowing rights in respect of any Trade Mark in any of the Primary Territories to lapse;
- (R) the approval of or agreement to or any material variation or amendment to:
- (a) the remuneration (including, without limitation, salary, share options, bonuses, benefits in kind and pension rights) paid or granted by any member of the group to any director of the company if that director was appointed by the Special Shareholder or the appointment of that director was duly consented to or deemed consented to by the Special Shareholder in accordance with the provisions of article 11.1(J); or
- (b) the terms and conditions of employment or engagement by any member of the group of any of the directors of the company if that director was appointed by the Special Shareholder or the appointment of that director was duly consented to or deemed consented to by the Special Shareholder in accordance with the provisions of article 11.1(J);
- (S) (a) the incurring of (or entry into of any commitment to incur) any borrowing by any member of the group in circumstances where the borrowing:
- (i) (1) individually; or
- (2) taken together with the aggregate principal amount in respect of borrowings already incurred in the same accounting period without approval under this article 11.1(S); or
- (3) if part of any series of related borrowings to finance a single investment, then taken together with the aggregate principal amount incurred in respect of such related borrowings
- exceeds £75,000,000; or

- (ii) is to be provided from any source other than another member of the Enlarged Group, the National Loans Fund or the Crown, save in respect of borrowings which are due from the Secretary of State, the Bank of England and (other) Monetary Financial Institutions, a Local Authority or a Public Corporation; or
 - (iii) if taken together with the aggregate principal amount outstanding of all money borrowed by the group from any source (excluding amounts borrowed by any member of the group from any other member of the Enlarged Group, other than amounts to be taken into account under article 11.1(S)(b)(v) below) exceeds an amount equal to the lesser of £2,000,000,000 and 2.5 times the aggregate of:
 - (1) the amount paid up on the issued share capital of the company; and
 - (2) the total of the capital and revenue reserves of the group, including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to outside shareholders in subsidiary undertakings of the company and deducting any debit balance on the profit and loss account, all as shown in the then latest audited consolidated balance sheet and profit and loss account of the group (or if consolidated financial statements are not prepared, as would have been shown in such consolidated financial statements had they been prepared), but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account or capital redemption reserve of the company since the date of that balance sheet and further adjusted as may be necessary to reflect any change since that date in the companies comprising the group;
- (b) for the purposes of this article 11.1(S), but without prejudice to the generality of the terms "borrowing" and "borrowed":
- (i) amounts borrowed for the purpose of repaying the whole or any part of any amounts previously borrowed and then outstanding (including any premium payable on final repayment) and to be applied for that purpose within six months of the borrowing shall not, pending such application, be taken into account as money borrowed;
 - (ii) the principal amount (including any premium payable on final repayment) of any debt securities issued in whole or in part for

a consideration other than cash shall be taken into account as money borrowed by the member of the group issuing them;

- (iii) money borrowed by any member of the group and not owing to another member of the group shall be taken into account as money borrowed and money borrowed by any member of the group and owing to another member of the group shall not be so taken into account;
- (iv) borrowings of an undertaking which became a subsidiary undertaking of the company after the date as at which the latest audited balance sheet was prepared shall not, pending the date of the next consolidated audited balance sheet, be taken into account as money borrowed to the extent that the amount of those borrowings does not exceed their amount immediately after such undertaking became a subsidiary undertaking;
- (v) amounts outstanding under any arrangement entered into in the ordinary course of its business by any member of the group for the leasing or hire purchase of any assets shall not be taken into account as money borrowed; and
- (vi) any amounts outstanding under sections 71(2)(b), (c), (d) and (e) of the Postal Services Act 2000 shall be taken into account as moneys borrowed.

- (c) for the purposes of this article 11.1(S) the following phrases shall have the following meanings:

"Local Authority" has the meaning given to it in sections 1(2) and (3) of the Local Government Act 1999 extended to include any district, island or regional council in Scotland or any county or district council in Northern Ireland;

"Public Corporation" means any body within the definition of that expression in the edition of the "Classification of Accounts Guide Part III — Sector Categories" current at the time that the relevant borrowings are made; and

"The Bank of England and (other) Monetary Financial Institutions" means any body within the definition of that expression in the edition of "Classification of Accounts Guide Part III — Sector Categories" current at the time that the relevant borrowings are made;

- (d) in calculating the aggregate amount of borrowings for the purpose of this article 11.1(S), money borrowed by any member of the group which is denominated or repayable in a currency other than sterling shall be treated as converted into sterling;

- (i) at the rate of exchange used for the conversion of that currency in the latest audited balance sheet of that member; or
 - (ii) if no rate was so used, at the middle-market rate of exchange prevailing in London at the close of business on the date of that balance sheet, but if the amount in sterling resulting from conversion at that rate would be greater than that resulting from conversion at the middle-market rate prevailing in London at the close of business on the business day immediately preceding the day on which the calculation falls to be made, the latter rate shall apply instead;
- (e) no debt incurred or security given in respect of money borrowed in excess of the above limit shall be invalid or ineffectual except in the case of express notice to the lender or the recipient of the security at the time when the debt was incurred or security given that the limit hereby imposed had been or was thereby exceeded, but no lender or other person dealing with the company shall be concerned to see or enquire whether such limit is observed;
- (T) the appointment or removal of any person as chairman of the company; and
- (U) any action taken by the company or the board (including any appointment, removal or re-designation) which would have the effect that the board ceased to include directors appointed to the post of Chairman, Chief Executive and Finance Director (or directors carrying out the general functions denoted by such posts).

11.2 Approval Procedure

- (A) Whenever the company wishes to obtain the Special Shareholder's consent to any matter set out in article 11.1 (other than article 11.1(S)):
 - (a) the company shall give notice to the Special Shareholder, such notice to:-
 - (i) be in writing;
 - (ii) be addressed to such persons as the Special Shareholder shall, from time to time, notify in writing to the company;
 - (iii) be delivered by hand or such other means (which may include electronic means) to which the Special Shareholder has provided (and not revoked) its written consent specifically for the purpose of receiving such notices;
 - (iv) clearly state that it is important and requires immediate attention;

- (v) clearly identify itself as a notice served pursuant to this article 11.2(A) and that failure to respond within ten business days will result in the Special Shareholder being deemed to have given his consent to the matter in question; and
 - (vi) contain or annex such information as can reasonably be expected to enable the Special Shareholder to consider the matter being proposed.
- (b) On or before the date which falls ten business days after the date of receipt of such notice (the "**Initial Expiry Date**") the Special Shareholder shall give written notice to the secretary stating:
 - (i) his consent to the matter contained in the notice; or
 - (ii) his refusal to consent to the matter contained in the notice (providing in reasonable detail and on a confidential basis the reasons for such refusal); or
 - (iii) that he requires a further ten business days in which to consider the matter, commencing on the business day following the Initial Expiry Date.
- (B) If on or before the Initial Expiry Date the Special Shareholder gives written notice to the company pursuant to article 11.2(A)(b)(iii) the Special Shareholder shall, on or before the date which falls ten business days after the Initial Expiry Date, give a further written notice to the secretary stating:
 - (a) his consent to the matter contained in the notice; or
 - (b) his refusal to consent to the matter contained in the notice (providing in reasonable detail and on a confidential basis the reasons for such refusal).
- (C) The Special Shareholder may, at any time, request from the company such further information as it reasonably requires in order to assist it to consider the matter being proposed and the company shall deliver such information to the Special Shareholder as soon as reasonably practicable thereafter.
- (D) If the company does not receive any notice from the Special Shareholder pursuant to article 11.2(A)(b) on or before the Initial Expiry Date or pursuant to article 11.2(B) within the further period referred to therein, the company shall be entitled to undertake the matter contained in the notice issued by it pursuant to article 11.2(A)(a) and the consent of the Special Shareholder shall be deemed irrevocably given to such matter.
- (E) In favour of any third party dealing with any member of the group a certificate by any director or the secretary to the effect that the Special Shareholder shall

have been deemed to have given his consent to any matter as a result of the operation of article 11.2(D) above shall be conclusive and binding as to that fact.

- 11.3** (A) Whenever the company wishes to obtain the Special Shareholder's consent to any matter set out in article 11.1(S), the company shall give notice to the Special Shareholder in accordance with articles 11.2(A)(a)(i) to (iv) and (vi), such notice to clearly identify itself as a notice served pursuant to this article 11.3 and that failure to respond within 28 business days will result in the Special Shareholder being deemed to have given his consent to the matter in question.
- (B) On or before the date which falls 28 business days after the date of receipt of such notice (the "Expiry Date") the Special Shareholder shall give written notice to the secretary stating:
- (a) his consent to the matter contained in the notice; or
- (b) his refusal to consent to the matter contained in the notice (providing in reasonable detail and on a confidential basis the reasons for such refusal).
- (C) The Special Shareholder may, at any time before the Expiry Date request from the company such further information as it reasonably requires in order to assist it to consider the matter being proposed and the company shall deliver such information to the Special Shareholder as soon as reasonably practicable thereafter.
- (D) If the company does not receive any notice from the Special Shareholder pursuant to article 11.3(B) on or before the Expiry Date the company shall be entitled to undertake the matter contained in the notice issued by it pursuant to article 11.3(A) and the consent of the Special Shareholder shall be deemed irrevocably given to such matter.
- (E) In favour of a third party dealing with any member of the group a certificate by any director or the secretary to the effect that the Special Shareholder shall have been deemed to have given its consent to any matter as a result of the operation of article 11.3(D) above shall be conclusive and binding as such.
- 11.4** Delivery of any notice served upon the Special Shareholder under articles 11.2 or 11.3 shall be evidenced by a receipt acknowledging delivery signed and dated by one of the addressees of the relevant notice and such notice shall be deemed to have been received on the date on which the receipt acknowledging delivery of the same is signed.
- 11.5** The directors of the company will exercise all powers exercisable by the company in relation to group subsidiaries so as to ensure that no subsidiary shall take any action which (either alone or when taken together with any other

action) would result in the variation of any of the rights attached to the Special Share.

11.6 The provisions of this article 11 shall be subject to article 116.

12. INFORMATION

- (A) Notwithstanding any other provision of these articles, the Special Shareholder shall be entitled to request such information in relation to the affairs of the group (or any particular member of the group) as it may consider necessary or desirable. The company shall use its reasonable endeavours to comply promptly with such requests for information from time to time, but only in so far as the company has such information within its possession or such information can reasonably be obtained by it.
- (B) Notwithstanding any other provision of these articles the company shall, at the request of the Special Shareholder, procure that such specified or other relevant directors and senior managers of the company shall meet with the Special Shareholder (or its representatives) to discuss the affairs of the group (or any particular member of the group) and the company shall release such directors or managers from any obligation of confidentiality owed to the company for the purpose of these discussions.

13. NOTIFICATION

- (A) The board shall, prior to taking any final decision on a Relevant Issue (a "Relevant Decision"), give to the Special Shareholder notice in writing setting out details of the Relevant Issue and the preliminary decision (if any) reached by the board in relation thereto.
- (B) Any notice given pursuant to article 13(A) shall be given not less than ten business days before the Relevant Decision is taken unless, as a result of the urgency of the Relevant Issue, it would, in the opinion of the board, be materially prejudicial to the company or the group to delay making a decision on the Relevant Issue, in which case the notice may be given on shorter notice but not less than three business days prior to the taking of the Relevant Decision.
- (C) Any notice provided to the Special Shareholder under article 13(A) shall:
 - (i) be in writing;
 - (ii) be delivered by hand;
 - (iii) clearly identify that it is important, requires immediate attention, and that it is a notice served under article 13; and
 - (iv) contain or annex such information as is reasonably necessary to enable the Special Shareholder to consider the Relevant Issue.

- (D) An issue is a Relevant Issue if, in the reasonable opinion of the board:
- (i) it is not set out in reasonable detail in an approved Strategic Plan;
 - (ii) it is an issue which may have material adverse effect upon the business or financial prospects of either a USP Listco (or any of its subsidiaries) or any network subsidiary and a corresponding benefit to the other of them; and
 - (iii) it is an issue which involves the entry by the company into any arrangement which falls within either of the following categories, namely:
 - (a) it involves or is likely to involve the incurring of a capital commitment or liability, or the payment of a capital sum, in each case by a USP Listco (or any of its subsidiaries) or network subsidiary, of an amount in excess of £20,000,000 (and for this purpose a series of related transactions in any six month period shall be aggregated); or
 - (b) it has or is likely to have a net impact on the annual net revenues after tax of a USP Listco (or any of its subsidiaries) or network subsidiary in excess of £20,000,000 per six months.
- (E) For the purposes of this article, the board shall procure that any Relevant Issue is referred to the board for consideration.

SHARE CERTIFICATES

14. RIGHT TO SHARE CERTIFICATES

Every member, upon becoming the holder of any shares, shall be entitled without payment to one certificate for all the shares of each class held by him (and, upon transferring a part of his holding of shares of any class, to a certificate for the balance of such holding) or several certificates each for one or more of his shares upon payment for every certificate after the first of such reasonable sum as the board may determine. Every certificate shall be executed under the seal or otherwise in accordance with the Act or in such other manner as the board may approve and shall specify the number, class and distinguishing numbers (if any) of the shares to which it relates and the amount or respective amounts paid up thereon. The company shall not be bound to issue more than one certificate for shares held jointly by several persons and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

15. REPLACEMENT OF SHARE CERTIFICATES

If a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and payment of the expenses reasonably incurred by the company in investigating evidence as the board may determine but

otherwise free of charge, and (in the case of defacement or wearing out) on delivery up of the old certificate.

LIEN

16. COMPANY'S LIEN ON SHARES NOT FULLY PAID

The company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) payable at a fixed time or called in respect of that share. The board may at any time declare any share to be wholly or in part exempt from the provisions of this article. The company's lien on a share shall extend to any amount payable in respect of it.

17. ENFORCING LIEN BY SALE

The company may sell in such manner as the board may determine any shares on which the company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within fourteen clear days after notice has been given to the holder of the share or to the person entitled to it in consequence of the death or bankruptcy of the holder, demanding payment and stating that if the notice is not complied with the shares may be sold. To give effect to a sale, the board may authorise some person to execute an instrument of transfer of the shares sold to, or in accordance with the directions of, the purchaser. The title of the transferee to the shares shall not be affected by any irregularity in or invalidity of the proceedings in reference to the sale.

18. APPLICATION OF PROCEEDS OF SALE

The net proceeds of the sale, after payment of the costs, shall be applied in payment of so much of the sum for which the lien exists as is presently payable, and any residue shall (upon surrender to the company for cancellation of the certificate for the shares sold and subject to a like lien for any moneys not presently payable as existed upon the shares before the sale) be paid to the person entitled to the shares at the date of the sale.

CALLS ON SHARES AND FORFEITURE

19. CALLS

Subject to the terms of allotment, the board may make calls upon the members in respect of any moneys unpaid on their shares (whether in respect of nominal value or premium) and each member shall (subject to receiving at least fourteen clear days' notice specifying when and where payment is to be made) pay to the company as required by the notice the amount called on his shares. A call may be required to be paid by instalments. A call may be revoked in whole or part and payment of a call may be postponed in whole or part as the board may decide. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect whereof the call was made. A call shall be deemed to

have been made at the time when the resolution of the board authorising the call was passed.

20. LIABILITY OF JOINT HOLDERS

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

21. INTEREST DUE ON NON-PAYMENT

If a call remains unpaid after it has become due and payable the person from whom it is due and payable shall pay interest on the amount unpaid from the day it became due and payable until it is paid at the rate fixed by the terms of allotment of the share or in the notice of the call or, if no rate is fixed, at the appropriate rate (as defined by the Act) but the board may waive payment of the interest wholly or in part.

22. SUMS DUE ON ALLOTMENT TREATED AS CALLS

An amount payable in respect of a share on allotment or at any fixed date, whether in respect of nominal value or premium or as an instalment of a call, shall be deemed to be a call and if it is not paid the provisions of the articles shall apply as if that amount had become due and payable by virtue of a call.

23. POWER TO DIFFERENTIATE

Subject to the terms of allotment, the board may make arrangements on the issue of shares for a difference between the holders in the amounts and times of payment of calls on their shares.

FORFEITURE OF SHARES

24. NOTICE IF CALL OR INSTALMENT NOT PAID

If a call remains unpaid after it has become due and payable the board may give to the person from whom it is due not less than fourteen clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

25. FORFEITURE FOR NON-COMPLIANCE WITH NOTICE

If the notice is not complied with any share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the board and the forfeiture shall include all dividends or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

26. SALE OF FORFEITED SHARES

Subject to the provisions of the Act, a forfeited share may be sold, re allotted or otherwise disposed of on such terms and in such manner as the board determines either to the person who was before the forfeiture the holder or to any other person and at any time before sale, re allotment or other disposition, the forfeiture may be cancelled on such terms as the board thinks fit. Where for the purposes of its disposal a forfeited share is to be transferred to any person the board may authorise some person to execute an instrument of transfer of the share to that person.

27. ARREARS TO BE PAID NOTWITHSTANDING FORFEITURE

A person any of whose shares have been forfeited shall cease to be a member in respect of them and shall surrender to the company for cancellation the certificate for the shares forfeited but shall remain liable to the company for all moneys which at the date of forfeiture were presently payable by him to the company in respect of those shares with interest at the rate at which interest was payable on those moneys before the forfeiture or, if no interest was so payable, at the appropriate rate (as defined in the Act) from the date of forfeiture until payment but the board may waive payment wholly or in part or enforce payment without any allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal.

28. STATUTORY DECLARATION AS TO FORFEITURE

A statutory declaration by a director or the secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the share and the declaration shall (subject to the execution of an instrument of transfer if necessary) constitute a good title to the share and the person to whom the share is disposed of shall not be bound to see to the application of the consideration, if any, nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture or disposal of the share.

TRANSFER OF SHARES**29. EXECUTION OF TRANSFER**

The instrument of transfer of a share may be in any usual form or in any other form which the board may approve and shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee.

30. RIGHT TO DECLINE REGISTRATION

The board may refuse to register the transfer of a share which is not fully paid to a person of whom they do not approve and they may refuse to register the transfer of a share on which the company has a lien or where such transfer is restricted by the Act or the articles. They may also refuse to register a transfer unless -

- (A) it is lodged at the office or at such other place as the board may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer;
- (B) it is in respect of only one class of shares; and
- (C) it is in favour of not more than four transferees.

31. NO FEE FOR REGISTRATION

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share.

32. RETENTION OF INSTRUMENT OF TRANSFER

The company shall be entitled to retain any instrument of transfer which is registered, but any instrument of transfer which the board refuses to register shall be returned to the person lodging it when notice of the refusal is given.

TRANSMISSION OF SHARES

33. TRANSMISSION ON DEATH

If a member dies the survivor or survivors where he was a joint holder, and his personal representatives where he was a sole holder or the only survivor of joint holders, shall be the only persons recognised by the company as having any title to his interest; but nothing herein contained shall release the estate of a deceased member from any liability in respect of any share which had been jointly held by him.

34. ELECTION OF PERSON ENTITLED BY TRANSMISSION

A person becoming entitled to a share in consequence of the death or bankruptcy of a member may, upon such evidence being produced as the board may properly require, elect either to become the holder of the share or to have some person nominated by him registered as the transferee. If he elects to become the holder he shall give notice to the company to that effect. If he elects to have another person registered he shall execute an instrument of transfer of the share to that person. All the articles relating to the transfer of shares shall apply to the notice or instrument of transfer as if it were an instrument of transfer executed by the member and the death or bankruptcy of the member had not occurred.

35. RIGHTS OF PERSON ENTITLED BY TRANSMISSION

A person becoming entitled to a share in consequence of the death or bankruptcy of a member shall have the rights to which he would be entitled if he were the holder of the share, except that he shall not be entitled to attend or vote at any meeting of the company or at any separate meeting of the holders of any class of shares in the

company, in respect of the share before being registered as the holder of the share, unless authorised to do so by the board.

ALTERATION OF SHARE CAPITAL

36. SUB-DIVISION

The company may by ordinary resolution sub-divide its shares, or any of them, into shares of smaller amount provided that none of the shares resulting from the sub-division may have any right, preference or advantage not attached to the shares immediately prior to the sub-division.

37. FRACTIONS

Whenever as a result of a consolidation, consolidation and sub-division, or sub-division of shares any members would become entitled to fractions of a share, the board may deal with the fractions as it thinks fit, including by aggregating and selling them or by dealing with them in some other way. The board may sell shares representing fractions to any person (including, subject to the provisions of the Act, the company) and may authorise some person to execute an instrument of transfer of the shares to, or in accordance with the directions of, the purchaser. The transferee shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity in or invalidity of the proceedings in reference to the sale.

GENERAL MEETINGS

38. OMISSION OR NON-RECEIPT OF NOTICE

The accidental omission to give notice of a meeting to, or the non receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

A member present in person or by proxy at a meeting shall be deemed to have received proper notice of that meeting and, where applicable, of the purpose of that meeting.

39. POSTPONEMENT OF GENERAL MEETINGS

If the board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, it may postpone the general meeting to another date, time and place. When a meeting is so postponed, notice of the date, time and place of the postponed meeting shall be given to the members. Notice of the business to be transacted at such postponed meeting shall not be required.

PROCEEDINGS AT GENERAL MEETINGS**40. QUORUM**

No business shall be transacted at any meeting unless a quorum is present. Two persons entitled to vote upon the business to be transacted, each being a member or a proxy for a member or a duly authorised representative of a corporation, shall be a quorum. If, and for so long as, the company has only one member, that member or the proxy for that member or, where that member is a corporation, its duly authorised representative shall be a quorum at any general meeting of the company or of the holders of any class of shares.

41. PROCEDURE IF QUORUM NOT PRESENT

If such a quorum is not present within half an hour from the time appointed for the meeting, or if during a meeting such a quorum ceases to be present, the meeting shall stand adjourned to the same day in the next week at the same time and place or to such time and place as the board may determine.

42. CHAIRMAN OF GENERAL MEETING

The chairman, if any, of the board or in his absence some other director nominated by the board shall preside as chairman of the meeting, but if neither the chairman nor such other director (if any) be present within fifteen minutes after the time appointed for holding the meeting and willing to act, the directors present shall elect one of their number to be chairman and, if there is only one director present and willing to act, he shall be chairman. If no director is willing to act as chairman, or if no director is present within fifteen minutes after the time appointed for holding the meeting, the members present and entitled to vote shall choose one of their number to be chairman.

43. ORDERLY CONDUCT

The chairman shall take such action as he thinks fit to promote the orderly conduct of the business of the meeting as laid down in the notice of the meeting and the chairman's decision on matters of procedure or arising incidentally from the business of the meeting shall be final as shall be his determination as to whether any matter is of such a nature.

44. ENTITLEMENT TO ATTEND AND SPEAK

Each director shall be entitled to attend and speak at any general meeting of the company and at any separate general meeting of the holders of any class of shares in the company. The chairman may invite any person to attend and speak at any general meeting of the company whom the chairman considers to be equipped by knowledge or experience of the company's business to assist in the deliberations of the meeting. In addition, the chairman may invite any person who has been nominated for the purpose by a member, where the chairman is satisfied that such time as the chairman may determine, the member holds any shares in the company as such person's nominee, to

attend and, if the chairman considers it appropriate, to speak at any general meeting of the company.

45. ADJOURNMENTS

The chairman may, with reasonable cause but without requiring the consent of the meeting (whether or not it has commenced or a quorum is present), adjourn any meeting from time to time and from place to place, but no business shall be transacted at an adjourned meeting other than business which might properly have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen days or more, at least seven clear days' notice shall be given specifying the time and place of the adjourned meeting and the general nature of the business to be transacted. Otherwise it shall not be necessary to give any such notice.

46. AMENDMENTS RULED OUT OF ORDER

If an amendment proposed to any resolution under consideration is ruled out of order by the chairman, the proceedings on the resolution shall not be invalidated by any error in the ruling.

VOTING

47. VOTES OF MEMBERS

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held and to any other provisions of these articles, on a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative or by proxy shall have one vote and on a poll every member shall have one vote for every share of which he is the holder. For this purpose, where a proxy is given discretion as to how to vote on a show of hands, this shall be treated as an instruction by the relevant member to vote in the way in which the proxy elects to exercise that discretion.

48. METHOD OF VOTING

A resolution put to the vote of a meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands a poll is duly demanded. Subject to the provisions of the Act, a poll may be demanded -

- (A) by the chairman; or
- (B) by at least two members having the right to vote on the resolution; or
- (C) by a member or members representing in the aggregate not less than one tenth of the total voting rights of all the members having the right to vote on the resolution; or

(D) by a member or members holding shares conferring a right to vote on the resolution being shares on which an aggregate sum has been paid up equal to not less than one tenth of the total sum paid up on all the shares conferring that right;

and a demand by a person as proxy for a member shall be the same as a demand by the member.

49. PROCEDURE IF POLL NOT DEMANDED

Unless a poll is duly demanded a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost, or not carried by a particular majority and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

50. WITHDRAWAL OF DEMAND FOR POLL

The demand for a poll may, before the poll is taken, be withdrawn but only with the consent of the chairman and a demand so withdrawn shall not be taken to have invalidated the result of a show of hands declared before the demand was made.

51. PROCEDURE IF POLL DEMANDED

A poll shall be taken as the chairman directs and he may appoint scrutineers (who need not be members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

52. WHEN POLL TO BE TAKEN

A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either forthwith or at such time and place as the chairman directs not being more than thirty days after the poll is demanded. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll was demanded. If a poll is demanded before the declaration of the result of a show of hands and the demand is duly withdrawn, the meeting shall continue as if the demand had not been made.

53. NO NOTICE OF POLL

No notice need be given of a poll not taken forthwith if the time and place at which it is to be taken are announced at the meeting at which it is demanded. In any other case at least seven clear days' notice shall be given specifying the time and place at which the poll is to be taken.

54. VOTES OF JOINT HOLDERS

In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and seniority shall be determined by the order in which the names of the holders stand in the register of members.

55. VOTING ON BEHALF OF INCAPABLE MEMBER

A member in respect of whom an order has been made by any court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder may vote and may exercise any other right conferred by membership in relation to general meetings by or through any receiver, curator bonis or other person authorised in that behalf appointed by that court (and that person may vote by proxy). Written evidence to the satisfaction of the board of the authority of the person claiming to exercise the right to vote shall be hand-delivered to the company's registered office, or delivered by such other means (which may include electronic means) as the board may accept, not less than forty eight hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised and in default the right to vote shall not be exercisable.

56. NO RIGHT TO VOTE WHERE SUMS OVERDUE ON SHARES

No member shall vote at any general meeting or at any separate meeting of the holders of any class of shares in the company, either in person or by proxy, in respect of any share held by him unless all moneys presently payable by him in respect of that share have been paid.

57. OBJECTIONS OR ERRORS IN VOTING

(A) If:-

- (i) any objection shall be raised to the qualification of any voter, or
- (ii) any votes have been counted which ought not to have been counted or which might have been rejected, or
- (iii) any votes are not counted which ought to have been counted,

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless it is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be conclusive.

(B) The company shall not be obliged to ascertain whether a proxy or representative of a corporation has voted in accordance with a member's instructions and the failure of a proxy or representative so to do shall not vitiate the decision of the meeting or adjourned meeting or poll on any resolution.

PROXIES

58. APPOINTMENT OF PROXY

Votes may be given either personally or by proxy. A member may appoint more than one proxy to attend on the same occasion.

59. FORM OF PROXY

An instrument appointing a proxy shall be in writing, executed by or on behalf of the appointor and shall be in the following form (or in a form as near thereto as circumstances allow or in any other form which is usual or which the board may approve)-

"Post Office Limited

I/We, _____, of _____,

being a member/members of the above named company, hereby appoint of _____, or failing him, _____ of _____, as my/our proxy to vote in my/our name[s] and on my/our behalf at the general meeting of the company to be held on _____ 20 _____, and at any adjournment thereof.

Signed on _____ 20 _____."

60. INSTRUCTIONS TO PROXY

Where it is desired to afford members an opportunity of instructing the proxy how he shall act the instrument appointing a proxy shall be in the following form (or in a form as near thereto as circumstances allow or in any other form which is usual or which the board may approve) -

"Post Office Limited

I/We, _____, of _____,

being a member/members of the above named company, hereby appoint of _____, or failing him, _____ of _____, as my/our proxy to vote in my/our name[s] and on my/our behalf at the general meeting of the company to be held on _____ 20 _____, and at any adjournment thereof.

This form is to be used in respect of the resolutions mentioned below as follows:

Resolution No.1 *for *against

Resolution No.2 *for *against.

*Strike out whichever is not desired.

Unless otherwise instructed, the proxy may vote as he thinks fit or abstain from voting

Signed on 20 ."

61. DELIVERY OF PROXIES

The instrument appointing a proxy and any authority under which it is executed may be delivered:

- (A) in hard copy form at the office (or such other place in the United Kingdom as may be specified by the company for the receipt of appointments of proxy in hard copy form) to be received not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote together with (if required by the board) any authority under which it is made or a copy of the authority, certified notarially or in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the board;
- (B) by electronic means, to be received at the address specified by the company for the receipt of appointments of proxy by electronic means not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote. Any authority pursuant to which such an appointment is made or a copy of the authority, certified notarially or in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the board, must, if required by the board, be received at such address or at the office (or such other place in the United Kingdom as may be specified by the company for the receipt of such documents) not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote;
- (C) in the case of a poll taken more than 48 hours after it was demanded, to be received as aforesaid not less than 24 hours (or such shorter time as the board may determine) before the time appointed for the taking of the poll;
- (D) in the case of a poll taken following the conclusion of a meeting or adjourned meeting but not more than 48 hours after it was demanded, to be received as aforesaid before the end of the meeting at which it was demanded (or at such later time as the board may determine),

and an appointment of a proxy which is not, or in respect of which the authority or copy thereof is not, received in a manner so permitted shall be invalid. When two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting or poll, the one which is last received (regardless of its date or of the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the company is unable to determine which was last received, none of them shall be treated as valid in respect of that share. The appointment of a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned. The proceedings at a general meeting shall not be invalidated where an appointment of a proxy in respect of that meeting is sent in electronic form as provided in these articles, but it cannot be read by the recipient because of a technical problem.

62. CANCELLATION OF PROXY'S AUTHORITY

A vote given or poll demanded by proxy or by the duly authorised representative of a corporation shall be valid notwithstanding the previous determination of the authority of the person voting or demanding a poll unless notice of the determination was received by the company before the commencement of the meeting or adjourned meeting at which the vote is given or the poll demanded or (in the case of a poll taken otherwise than on the same day as the meeting or adjourned meeting) the time appointed for taking the poll. Such notice of determination shall be received either in hard copy form by the office or such other place within the United Kingdom as may be specified by the company in accordance with article 61(A) or in electronic form at the address (if any) specified by the company in accordance with article 61(B), regardless of whether any relevant proxy appointment was effected in hard copy form or in electronic form.

APPOINTMENT, RETIREMENT AND REMOVAL OF DIRECTORS

63. NUMBER OF DIRECTORS

Unless otherwise determined by ordinary resolution and subject to the articles, the number of directors (other than alternate directors) shall not be subject to any maximum but shall be not less than two.

64. ALTERNATE DIRECTORS

- (A) Any director (other than an alternate director) may appoint any other director, or, subject to the articles, any other person approved by the resolution of the board and willing to act, to be an alternate director and may remove from office an alternate director so appointed by him.
- (B) An alternate director shall be entitled to receive notice of all meetings of the board and of all meetings of committees of the board of which his appointor is a member, to attend and vote at any such meeting at which the director appointing him is not personally present, and generally to perform all the functions of his appointor as a director in his absence but shall not be entitled to receive any remuneration from the company for his services as an alternate

director. But it shall not be necessary to give notice of such a meeting to an alternate director who is absent from the United Kingdom.

- (C) An alternate director shall cease to be an alternate director if his appointor ceases to be a director; but, if a director retires but is reappointed or deemed to have been reappointed at the meeting at which he retires, any appointment of an alternate director made by him which was in force immediately prior to his retirement shall continue after his reappointment.
- (D) Any appointment or removal of an alternate director shall be by notice to the company signed by the director making or revoking the appointment or in any other manner approved by the board.
- (E) Save as otherwise provided in the articles, an alternate director shall be deemed for all purposes to be a director and shall alone be responsible for his own acts and defaults and he shall not be deemed to be the agent of the director appointing him.

65. PERSONS ELIGIBLE AS DIRECTORS

No person shall be appointed or reappointed a director at any general meeting unless-

- (A) he is recommended by the directors;
- (B) not less than fourteen nor more than thirty-five clear days before the date appointed for the meeting, notice executed by a member qualified to vote at the meeting has been given to the company of the intention to propose that person for appointment or reappointment stating the particulars which would, if he were so appointed or reappointed, be required to be included in the company's register of directors together with notice executed by that person of his willingness to be appointed or reappointed; or
- (C) he is nominated by the Parent.

66. NOTICE OF APPOINTMENT OR REAPPOINTMENT

Not less than seven nor more than twenty eight clear days before the date appointed for holding a general meeting notice shall be given to all who are entitled to receive notice of the meeting of any person who is recommended by the directors for appointment or reappointment as a director at the meeting or in respect of whom notice has been duly given to the company of the intention to propose him at the meeting for appointment or reappointment as a director. The notice shall give the particulars of that person which would, if he were so appointed or reappointed, be required to be included in the company's register of directors.

67. POWER OF BOARD TO APPOINT DIRECTORS

Subject to the articles, the board may appoint a person who is willing to act to be a director, either to fill a vacancy or as an additional director, provided that the appointment does not cause the number of directors to exceed any number fixed by or in accordance with the articles as the maximum number of directors. A director so appointed shall hold office only until the next following annual general meeting. If not reappointed at such annual general meeting, he shall vacate office at the conclusion thereof.

68. POSITION OF RETIRING DIRECTORS

Subject as aforesaid, a director who retires at an annual general meeting may, if willing to act, be reappointed. If he is not reappointed, he shall retain office until the meeting appoints someone in his place, or if it does not do so, until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in his place.

69. DISQUALIFICATION AND REMOVAL OF DIRECTORS

- (A) Without prejudice to the provisions of the articles and in addition to any power of removal conferred by the Act, the company may, by special resolution, remove any director before the expiry of his period of office and may (subject to these articles) by ordinary resolution appoint another person who is willing to act to be a director in his place.
- (B) The office of a director shall be vacated if -
- (a) he ceases to be a director by virtue of any provision of the Act or he becomes prohibited by law from being a director; or
 - (b) he becomes bankrupt or makes any arrangement or composition with his creditors generally; or
 - (c) he is, or may be, suffering from mental disorder and either -
 - (i) he is admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 or, in Scotland, an application for admission under the Mental Health (Scotland) Act 1960, or
 - (ii) an order is made by a court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs; or
 - (d) he resigns his office by notice to the company;

- (e) he is removed pursuant to article 69(A) or article 70; or
- (f) he shall for more than six consecutive months have been absent without permission of the board from meetings of the board held during that period and the directors resolve that his office be vacated.

If the office of a director is vacated for any reason, he shall cease to be a member of any committee or sub committee of the board.

70. APPOINTMENT OF CHAIRMAN AND DIRECTORS

(A) Chairman

The Special Shareholder shall be entitled from time to time to appoint and remove any person as chairman of the company by notice in writing delivered to the company and signed on behalf of the Special Shareholder.

(B) Directors

The Special Shareholder shall be entitled from time to time to appoint and to remove any person as a director of the company by notice in writing delivered to the company and signed on behalf of the Special Shareholder. The chairman shall be required to consult with and obtain the approval of the Special Shareholder in relation to the appointment and the removal of any person as a director.

POWERS OF THE BOARD

71. GENERAL POWERS OF COMPANY VESTED IN THE BOARD

Subject to the provisions of the Act, these articles and to any directions given by the company by special resolution (including without limitation article 11.1), the business of the company shall be managed by the board who may exercise all the powers of the company. No alteration of these articles and no such special resolution shall invalidate any prior act of the board which would have been valid if that alteration had not been made or that resolution had not been passed. The powers given by this article shall not be limited by any special power given to the board by the articles.

72. STRATEGIC PLAN

(A) Preparation and approval of Strategic Plan

No later than 31 December each year (or such other time as the Special Shareholder may from time to time agree with the board) the board shall submit to the Special Shareholder a draft Strategic Plan in relation to the group for the following five financial years, complying with the principles set out in article 72(C) below.

(B) Consultation with the Special Shareholder

(a) Further information

Within 10 business days (or such other time as the Special Shareholder may from time to time agree with the board) following receipt by the Special Shareholder of the draft Strategic Plan pursuant to article 72(A) above, the Special Shareholder shall be entitled to request such further information as may reasonably be necessary in order for it to reach an informed view as to the content, reasonableness and prudence of the draft Strategic Plan. The board shall, in so far as it is able to do so, comply with any such request within 10 business days of its receipt (or such other time as the Special Shareholder may from time to time agree with the board).

(b) Consultation

Following the receipt by the Special Shareholder of the draft Strategic Plan pursuant to article 72(A) above, and, as appropriate, any further information supplied pursuant to article 72(B)(a) above, the Special Shareholder and the board shall promptly consult upon the content of the plan (such consultation period to end no later than 20 Business Days (or such other time as the Special Shareholder may from time to time agree with the board) after receipt by the Special Shareholder of the draft Strategic Plan and further information provided pursuant to article 72(B)(a) as the case may be).

(c) Approval

The Special Shareholder shall within 20 Business days (or such other time as the Special Shareholder may from time to time agree with the board) of the end of the consultation period referred to in article 72(B)(b) above, approve the Strategic Plan, subject to such qualifications as the Special Shareholder may determine, or shall inform the board of its reasons for not approving the Strategic Plan, in which event the Special Shareholder shall request that the board prepare a new Strategic Plan to be submitted to the Special Shareholder within such time as shall be agreed with the Special Shareholder and in respect of which the provisions of this article 72 shall apply (*mutatis mutandis*).

(d) Amendments to the Strategic Plan

The board may from time to time request any changes to be made to any Strategic Plan approved by the Special Shareholder. Any such request shall be made to the Special Shareholder. The Special Shareholder may request further information and consult with the board about the proposed change in accordance with articles 72(B)(a) and (b) above, and shall then approve (or reject) the change in accordance with article 72(B)(c)

(C) Principles Governing the Strategic Plan

(a) Fundamental Objectives:

The Strategic Plan shall:

- (i) clearly set out the group's objectives and contain such information as can reasonably be expected to enable the Special Shareholder to give consideration to the strategic direction of the group's activities; and
- (ii) provide targets, expressed in terms of both cashflow and accounting rate of return and sufficient other financial information in order to enable the Special Shareholder to set the group's profit target and dividend floor and consider the framework of the group's borrowings.

(b) In particular the Strategic Plan shall:

- (i) include a statement of the overall commercial direction and goals of the group;
- (ii) summarise the way in which it has evolved from the previous Strategic Plan, including a high level evaluation of the value added by the new Strategic Plan;
- (iii) analyse the commercial and regulatory environment in which the group operates, including the board's view of the way in which the market is evolving and the development of competitors' activities;
- (iv) set out the group's strategic response to the commercial and regulatory environment, including:
 - (1) its principal strategic options;
 - (2) its proposals for meeting the universal service obligation;
 - (3) its proposals for managing the nationwide network of post offices;
 - (4) the key issues to be resolved in the Strategic Plan for the following financial year;
 - (5) its strategic approach to remuneration of employees, including an expected ceiling on the aggregate level of employee remuneration;

- (6) the resources needed, in particular personnel, technology and funding;
- (7) its high level financial and performance projections, at both the corporate and line-of-business level, with sensitivity analyses of the major risks;
- (8) outline possibilities and plans for entering into partnerships and alliances;
- (9) clear performance indicators which will enable the group's performance, in achieving its strategic objectives, to be measured; and
- (10) any proposals for entering into relevant transactions or for making any substantial alterations in the nature of the business carried on by any member of the group.

(D) Quarterly Information and Performance

The board shall prepare and discuss each quarter progress reports of the group's performance in relation to the Strategic Plan, and at the end of each quarter submit to the Special Shareholder its assessment of the group's performance in comparison with the Strategic Plan.

(E) Variations from Strategic Plan

If the information provided pursuant to article 72(D) above demonstrates a significant departure from the Strategic Plan, the board shall prepare a revised Strategic Plan for the remainder of the relevant financial year and the following four years which shall be submitted to the Special Shareholder within such time as shall be agreed with the Special Shareholder. The provisions of article 72(B)(d) above shall apply to such revised Strategic Plan.

(F) Effect of Approval of Strategic Plan

The approval of any Strategic Plan shall be deemed to be an approval of any matter within that Strategic Plan which would have required approval in accordance with article 11.1 if such matter is specifically identified with reasonable detail in that Strategic Plan as being proposed for approval in accordance with that aforementioned article.

73. BORROWING POWERS

The board may exercise all the powers of the company to borrow and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the company, but subject to the restrictions contained in the articles.

74. APPOINTMENT OF AGENT

The board may, by power of attorney or otherwise, appoint any person to be the agent of the company for such purposes and on such conditions as it determine, including authority for the agent to delegate all or any of his powers.

75. POWER TO PROVIDE FOR EMPLOYEES

The board may by resolution exercise any power conferred by the Act to make provision for the benefit of persons employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or the transfer to any person of the whole or part of the undertaking of the company or that subsidiary.

76. POWER TO RECEIVE UNCALLED MONEYS

The board may, if it thinks fit, receive from any member willing to advance the same all or any part of the moneys uncalled and remaining unpaid on any shares held by him.

77. DELEGATION OF THE BOARD'S POWERS

The board may delegate any of its powers to any committee consisting of one or more directors with power to sub-delegate. It may also delegate to any managing director or any director holding any other executive office such of its powers as it considers desirable to be exercised by him. Any such delegation may be made subject to any conditions the board may impose, and either collaterally with or to the exclusion of its own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee with two or more members shall be governed by the articles regulating the proceedings of the board so far as they are capable of applying.

REMUNERATION OF DIRECTORS**78. DIRECTORS' FEES**

Subject to the articles, each of the directors shall be paid a fee at such rate as may from time to time be determined by the board provided that the aggregate of all fees so paid to directors (excluding amounts payable under any other provision of these articles) shall not exceed £400,000 per annum or such higher amount as may from time to time be decided by ordinary resolution of the company.

79. ADDITIONAL REMUNERATION

Subject to the articles, any director who performs services which in the opinion of the board or any committee authorised by the board go beyond the ordinary duties of a director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board or any committee authorised by the board may in its discretion decide in addition to any remuneration provided for by or pursuant to any other article.

80. DIRECTORS' EXPENSES

The directors may be paid all travelling, hotel, and other expenses properly incurred by them in connection with their attendance at board meetings or committees of directors or general meetings or separate meetings of the holders of any class of shares or of debentures of the company or otherwise in connection with the discharge of their duties.

DIRECTORS' APPOINTMENTS AND INTERESTS**81. MANAGING DIRECTOR AND EXECUTIVE OFFICE**

Subject to the provisions of the Act and the articles, the directors may appoint one or more of their number to the office of managing director or to any other executive office under the company and may enter into an agreement or arrangement with any director for his employment by the company or for the provision by him of any services outside the scope of the ordinary duties of a director. Any such appointment, agreement or arrangement may be made upon such terms as the directors determine and they may remunerate any such director for his services as they think fit. Any appointment of a director to an executive office shall terminate if he ceases to be a director but without prejudice to any claim to damages for breach of the contract of service between the director and the company.

82. CONFLICTS OF INTEREST REQUIRING BOARD AUTHORISATION

- (A) The board may, subject to the quorum and voting requirements set out in this article, authorise any matter which would otherwise involve a director breaching his duty under the Act to avoid conflicts of interest (a "Conflict").
- (B) A director seeking authorisation in respect of a Conflict shall declare to the board the nature and extent of his interest in that Conflict as soon as is reasonably practicable. The director shall provide the board with such details of the relevant matter as are necessary for the board to decide how to address the Conflict together with such additional information as may be requested by the board.
- (C) Any director (including the relevant director) may propose that the relevant director be authorised in relation to any matter the subject of a Conflict. Such proposal and any authority given by the board shall be effected in the same way that any other matter may be proposed to and resolved upon by the board under the provisions of these articles save that:
 - (i) the relevant director and any other director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority; and
 - (ii) the relevant director and any other director with a similar interest may, if the other members of the board so decide, be excluded from any board meeting while the Conflict is under consideration.

- (D) Where the board gives authority in relation to a Conflict:
- (i) the board may (whether at the time of giving the authority or subsequently) (a) require that the relevant director is excluded from the receipt of information, the participation in discussion and/or the making of decisions (whether at meetings of the board or otherwise) related to the Conflict; and (b) impose upon the relevant director such other terms for the purpose of dealing with the Conflict as it may determine;
 - (ii) the relevant director will be obliged to conduct himself in accordance with any terms imposed by the board in relation to the Conflict;
 - (iii) the board may provide that where the relevant director obtains (otherwise than through his position as a director of the company) information that is confidential to a third party, the director will not be obliged to disclose that information to the company, or to use or apply the information in relation to the company's affairs, where to do so would amount to a breach of that confidence;
 - (iv) the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded); and
 - (v) the board may revoke or vary such authority at any time but this will not affect anything done by the relevant director prior to such revocation or variation in accordance with the terms of such authority.

83. OTHER CONFLICTS OF INTEREST

- (A) If a director is in any way directly or indirectly interested in a proposed contract with the company or a contract that has been entered into by the company, he must declare the nature and extent of that interest to the directors in accordance with the Act.
- (B) Provided he has declared his interest in accordance with article 83(A) a director may:
- (i) be party to, or otherwise interested in, any contract with the company or in which the company has a direct or indirect interest;
 - (ii) hold any other office or place of profit with the company (except that of auditor) in conjunction with his office of director for such period and upon such terms, including as to remuneration, as the board may decide;
 - (iii) act by himself or through a firm with which he is associated in a professional capacity for the company or any other company in which the company may be interested (otherwise than as auditor);

- (iv) be or become a director or other officer of, or employed by or otherwise be interested in any holding company or subsidiary company of the company or any other company in which the company may be interested; and
 - (v) be or become a director of any other company in which the company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other company.
- (C) A director shall not, by reason of his office or of the fiduciary relationship thereby established be liable to account to the company for any remuneration, profit or other benefit realised by reason of his having any type of interest authorised under article 82(A) or permitted under article 83(B) and no contract shall be liable to be avoided on the grounds of a director having any type of interest authorised under article 82(A) or permitted under article 83(B).

DIRECTORS' GRATUITIES AND PENSIONS

84. DIRECTORS' GRATUITIES AND PENSIONS

Subject to the articles, the board may exercise all the powers of the company to provide benefits, either by the payment of gratuities or pensions or by insurance or in any other manner whether similar to the foregoing or not, for any director or former director or the relations, connections or dependants of any director or former director who holds or has held any executive office or employment with the company or with any body corporate which is or has been a subsidiary of the company or with a predecessor in business of the company or of any such body corporate and may contribute to any fund and pay premiums for the purchase or provision of any such benefit. No director or former director shall be accountable to the company or the members for any benefit provided pursuant to this article and the receipt of any such benefit shall not disqualify any person from being or becoming a director of the company.

PROCEEDINGS OF DIRECTORS

85. BOARD MEETINGS

Subject to the provisions of the articles, the board may regulate its proceedings as it thinks fit. A director may, and the secretary at the request of a director shall, call a meeting of the board.

86. NOTICE

Notice of a meeting of the board shall be deemed to be properly given to a director if it is given to him personally or by word of mouth or sent in writing to him at his last known address or any other address given by him to the company for this purpose, or by any other means authorised in writing by the director concerned. Notice shall be given in this manner to all directors including any director who is for the time being absent from the

United Kingdom. A director may waive notice of any meeting either prospectively or retrospectively.

87. VOTING

Questions arising at a meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a second or casting vote. A director who is also an alternate director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.

88. QUORUM

The quorum for the transaction of the business of the board may be fixed by the board and unless so fixed at any other number shall be two. A person who holds office only as an alternate director shall, if his appointor is not present, be counted in the quorum.

89. DIRECTORS BELOW MINIMUM THROUGH VACANCIES

The continuing directors or a sole continuing director may act notwithstanding any vacancies in their number, but, if the number of directors is less than the number fixed as the quorum, the continuing directors or director may act only for the purpose of filling vacancies or of calling a general meeting.

90. CHAIRMAN

The chairman shall be the person appointed pursuant to article 70. In the absence of such appointment the directors may (subject to article 11) appoint one of their number to be the chairman of the board and may at any time remove him from that office. Unless he is unwilling to do so, the chairman shall preside at every meeting of the board at which he is present. But if there is no director holding that office, or if the director holding it is unwilling to preside or if the chairman is not present within five minutes after the time appointed for the meeting, the directors present may appoint one of their number to be chairman of the meeting.

91. VALIDITY OF ACTS OF BOARD OR COMMITTEE

All acts done by the board, or by a committee of directors, or by a person acting as a director or member of a committee shall, notwithstanding that it be afterwards discovered that there was a defect in the appointment of any director or member of a committee or person so acting or that any of them were disqualified from holding office, or had vacated office, or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified and had continued to be a director or member of the committee and had been entitled to vote.

92. RESOLUTION IN WRITING

A resolution in writing signed by all the directors entitled to receive notice of a meeting of the board (if that number is sufficient to constitute a quorum) or by all the members of

a committee of directors shall be as valid and effectual as if it had been passed at a board meeting or (as the case may be) a committee of directors duly convened and held and may consist of several documents in the like form each signed by one or more directors; but a resolution signed by an alternate director need not also be signed by his appointor and, if it is signed by a director who has appointed an alternate director, it need not be signed by the alternate director in that capacity.

93. PARTICIPATION IN BOARD MEETINGS BY TELEPHONE

All or any of the members of the board or any committee of the board may participate in a board meeting or that committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear each other. A person so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly. Such a meeting shall be deemed to take place where the largest group of those participating is assembled, or, if there is no such group, where the chairman of the meeting then is.

94. PERMITTED INTERESTS AND VOTING

- (A) Save as otherwise provided by the articles, a director shall not vote at a meeting of the board or of a committee of directors on any resolution concerning a matter in which he has, directly or indirectly, an interest or duty unless that interest or duty cannot reasonably be regarded as likely to give rise to a conflict of interest or his interest or duty arises only because the case falls within one or more of the following paragraphs -
- (a) the resolution relates to the giving to him of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him for the benefit of, the company or any of its subsidiaries; and/or
 - (b) the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of the company or any of its subsidiaries for which the director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security; and/or
 - (c) his interest arises by virtue of his subscribing or agreeing to subscribe for any shares, debentures or other securities of the company or any of its subsidiaries, or by virtue of his being, or intending to become, a participant in the underwriting or sub underwriting of an offer of any such shares, debentures, or other securities by the company or any of its subsidiaries for subscription, purchase or exchange; and/or
 - (d) the resolution relates in any way to a retirement benefits scheme which has been approved, or is conditional upon approval, by the HM Revenue and Customs for taxation purposes.

For the purposes of this article, in relation to an alternate director, an interest of his appointor shall be treated as an interest of the alternate director without prejudice to any interest which the alternate director has otherwise.

- (B) A director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.
- (C) The company may by ordinary resolution suspend or relax to any extent, either generally or in respect of any particular matter, any provision of the articles prohibiting a director from voting at a meeting of the board or of a committee of directors.
- (D) Where proposals are under consideration concerning the appointment of two or more directors to offices or employments with the company or any body corporate in which the company is interested the proposals may be divided and considered in relation to each director separately and (provided he is not for another reason precluded from voting) each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.
- (E) If a question arises at a meeting of the board or of a committee of directors as to the right of a director to vote, the question may, before the conclusion of the meeting, be referred to the chairman of the meeting and his ruling in relation to any director other than himself shall be final and conclusive.

SECRETARY

95. APPOINTMENT AND REMOVAL OF COMPANY SECRETARY

Subject to the provisions of the Act, the secretary shall be appointed by the directors for such term, at such remuneration and upon such conditions as they may think fit; and any secretary so appointed may be removed by them.

MINUTES

96. KEEPING OF MINUTES

The directors shall cause minutes to be made in books kept for the purpose-

- (A) of all appointments of officers made by the directors; and
- (B) of all proceedings at meetings of the company, of the holders of any class of shares in the company, and of the board, and of committees of directors, including the names of the directors present at each such meeting.

DIVIDENDS**97. DECLARATION OF DIVIDENDS**

Subject to the provisions of the Act and the articles, the company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the board.

98. PAYMENT OF INTERIM AND FIXED DIVIDENDS BY BOARD

Subject to the provisions of the Act and the articles, the board may pay interim dividends if it appears to it that they are justified by the profits of the company available for distribution. If the share capital is divided into different classes, the board may pay interim dividends on shares which confer deferred or non preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, but no interim dividend shall be paid on shares carrying deferred or non preferred rights if, at the time of payment, any preferential dividend is in arrear. The board may also pay at intervals settled by them any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment. Provided the directors act in good faith they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non preferred rights.

99. CALCULATION OF DIVIDENDS

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid but no outstanding amount paid up on a share in advance of the applicable call date shall be treated for the purposes of this article as paid up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is issued on terms provided that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

100. DIVIDENDS NOT IN CASH

Without prejudice to article 98 above, a general meeting declaring a dividend may, upon the recommendation of the board, direct that it shall be satisfied wholly or partly by the distribution of assets and, where any difficulty arises in regard to the distribution, the board may settle the same and in particular may issue fractional certificates and fix the value for distribution of any assets and may determine that cash shall be paid to any member upon the footing of the value so fixed in order to adjust the rights of members and may vest any assets in trustees.

101. PAYMENT OF DIVIDENDS

Any dividend or other moneys payable in respect of a share may be paid by cheque sent by post to the registered address of the person entitled or, if two or more persons

are the holders of the share or are jointly entitled to it by reason of the death or bankruptcy of the holder, to the registered address of that one of those persons who is first named in the register of members or to such person and to such address as the person or persons entitled may in writing direct. Every cheque shall be made payable to the order of the person or persons entitled or to such other person as the person or persons entitled may in writing direct and payment of the cheque shall be a good discharge to the company. Any joint holder or other person jointly entitled to a share as aforesaid may give receipts for any dividend or other moneys payable in respect of the share.

102. NO INTEREST ON DIVIDENDS

No dividend or other moneys payable in respect of a share shall bear interest against the company unless otherwise provided by the rights attached to the share.

103. AMOUNTS DUE ON SHARES MAY BE DEDUCTED FROM DIVIDENDS

The board may deduct from any dividend or other moneys payable to a member by the company on or in respect of any shares all sums of money (if any) presently payable by him to the company on account of calls or otherwise in respect of shares of the company.

104. FORFEITURE OF UNCLAIMED DIVIDENDS

Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall, if the directors so resolve, be forfeited and cease to remain owing by the company.

ACCOUNTS

105. RECORDS TO BE KEPT

The board shall cause to be kept accounting records sufficient to show and explain the company's transactions, and such as to disclose with reasonable accuracy at any time the financial position of the company at that time, and which accord with the Act.

CAPITALISATION OF PROFITS

106. POWER TO CAPITALISE RESERVES AND FUNDS

The board may with the authority of an ordinary resolution of the company-

- (A) subject as hereinafter provided, resolve to capitalise any undivided profits of the company not required for paying any preferential dividend (whether or not they are available for distribution) or any sum standing to the credit of the company's share premium account or capital redemption reserve (including retained earnings);

- (B) appropriate the sum resolved to be capitalised to the members who would have been entitled to it if it were distributed by way of dividend and in the same proportions and apply such sum on their behalf either in or towards paying up the amounts, if any, for the time being unpaid on any shares held by them respectively, or in paying up in full shares or debentures of the company of a nominal amount equal to that sum, and allot the shares or debentures credited as fully paid to those members, or as they may direct, in those proportions, or partly in one way and partly in the other; but the share premium account, the capital redemption reserve, retained earnings and any profits which are not available for distribution may, for the purposes of this article, only be applied in paying up shares that are then to be allotted and distributed to members credited as fully paid;
- (C) resolve that any shares so allotted to any member in respect of a holding by him of any partly paid shares shall so long as such shares remain partly paid rank for dividend only to the extent that the latter shares rank for dividend;
- (D) make such provision by the issue of fractional certificates or by payment in cash or otherwise as they determine in the case of shares or debentures becoming distributable under this article in fractions; and
- (E) authorise any person to enter on behalf of all the members concerned into an agreement with the company providing for the allotment to them respectively, credited as fully paid, of any shares or debentures to which they are entitled upon such capitalisation, any agreement made under such authority being binding on all such members.

RECORD DATES

107. RECORD DATES

Notwithstanding any other provision of these articles, but without prejudice to the rights attached to any shares, the company or the directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made. Where such a record date is fixed, references in these articles to a holder of shares or member to whom a dividend is to be paid or a distribution, allotment or issue is to be made shall be construed accordingly.

NOTICES

108. NOTICES IN WRITING

Any notice to be given to or by any person pursuant to the articles shall be in writing except that a notice calling a meeting of the board need not be in writing.

109. SERVICE OF NOTICES

Subject to the articles, the company may give any notice to a member either personally by post in a prepaid envelope addressed to the member at his registered address or by leaving it at that address or such other means (which may include electronic means) to which the member has provided (and not revoked) its written consent for the receipt of such notices. In the case of joint holders of a share, all notices shall be given to the joint holder whose name stands first in the register of members in respect of the joint holding and notice so given shall be sufficient notice to all the joint holders. A member whose registered address is not within the United Kingdom and who gives to the company an address within the United Kingdom at which notices may be given to him shall be entitled to have notices given to him at that address, but otherwise no such member shall be entitled to receive any notice from the company.

110. DEEMED RECEIPT OF NOTICE BY MEMBERS PRESENT AT MEETING

A member present, either in person or by proxy, at any meeting of the company or of the holders of any class of shares in the company shall be deemed to have received notice of the meeting and, where requisite, of the purposes for which it was called.

111. SHAREHOLDERS BOUND BY NOTICE

Every person who becomes entitled to a share shall be bound by any notice in respect of that share which, before his name is entered in the register of members, has been duly given to a person from whom he derives his title.

112. TIME OF SERVICE

- (A) Any notice, document or other information, if served, sent or supplied by the company by post, shall be deemed to have been received on the day following that on which it was posted if first class post was used or 48 hours after it was posted if first class post was not used and, in proving that a notice, document or other information was served, sent or supplied, it shall be sufficient to prove that the notice, document or other information was properly addressed, prepaid and put in the post.
- (B) Any notice, document or other information not served, sent or supplied by post but left by the company at a registered address or at an address (other than an address for the purposes of communications by electronic means) notified to the company in accordance with these articles by a person who is entitled by transmission to a share shall be deemed to have been received on the day it was so left.
- (C) Any notice, document or other information served, sent or supplied by the company using electronic means shall be deemed to have been received on the day on which it was sent notwithstanding that the company subsequently sends a hard copy of such notice, document or information by post. In proving that a notice, document or other information served, sent or supplied by electronic

means was served, sent or supplied, it shall be sufficient to prove that it was properly addressed.

- (D) Any notice, document or other information served, sent or supplied by the company by any other means authorised in writing by the member concerned shall be deemed to have been received when the company has carried out the action it has been authorised to take for that purpose.

113. SERVICE OF NOTICE ON PERSON ENTITLED BY TRANSMISSION

A notice may be given by the company to the persons entitled to a share in consequence of the death or bankruptcy of a member by sending or delivering it, in any manner authorised by the articles for the giving of notice to a member, addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt or by any like description at the address, if any, within the United Kingdom supplied for that purpose by the persons claiming to be so entitled. Until such an address has been supplied, a notice may be given in any manner in which it might have been given if the death or bankruptcy had not occurred.

WINDING UP

114. DISTRIBUTION OF ASSETS OTHERWISE THAN IN CASH

If the company is wound up, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he with the like sanction determines, but no member shall be compelled to accept any assets upon which there is a liability.

INDEMNITY

115. INDEMNITY OF DIRECTORS

To the extent permitted by the Act, the company may indemnify any director, former director or company secretary of the company against any liability and may purchase and maintain for any director, former director or company secretary of the company insurance against any liability. No director or former director or company secretary of the company shall be accountable to the company or the members for any benefit provided pursuant to this article and the receipt of any such benefit shall not disqualify any person from being or becoming a director of the company.

PROVISIONS RELATING TO ARTICLES 10 AND 11**116. ARTICLES SUBJECT TO RELEVANT LAW**

- (A) Nothing contained in articles 10 and 11 shall have effect so as to require the company or any of the directors to (i) take any action; (ii) omit to take any action; or (iii) procure that any subsidiary of the company takes or omits to take any action which action or omission would, in the reasonable opinion of the board of the company or of such subsidiary, give rise to criminal or civil liability on the part of the company, such subsidiary or any of the directors of the company or such subsidiary, or any liability on any of the aforesaid for breach of any statutory or common law duty or requirement (for the purposes of this article 116, a "relevant breach").
- (B) If a relevant breach is capable of ratification by the shareholders of the company or subsidiary concerned, and such ratification would have the effect of removing or avoiding the consequences of the relevant breach (insofar as such consequences affect or would affect the company or subsidiary or any of their respective directors), then subject to the shareholders concerned providing a written undertaking to the company or subsidiary, as the case may be, that the requisite ratification will be provided, the action or omission which would (but for ratification), have given rise to the relevant breach shall be effected or, as the case may be, procured by the company as though this article 116 did not apply in relation thereto.
- (C) For the purposes of this article 116, the "reasonable opinion of the board" in relation to a matter shall mean the reasonable opinion of the board of directors of the company or subsidiary concerned, having (i) as soon as is reasonably practicable taken and having had due regard to appropriate legal and/or financial advice, (ii) following the receipt of such advice, having promptly provided the same to the Special Shareholder and consulted with the Special Shareholder in relation to the said advice, and to the formation of the board's opinion on the relevant matter, and having had due regard to the views (if any) of the Special Shareholder notified to it in relation thereto, and (iii) where the Special Shareholder gives notice under article 116(D), having had due regard to the independent advice consequently received and having consulted the Special Shareholder in relation thereto.
- (D) If in any case where the company or the directors seek to rely upon article 116(A) in respect of any matter, the Special Shareholder has within 7 days of receipt of legal and/or financial advice pursuant to article 116(C) notified the company that it requires independent advice to be taken in relation to the relevant matter(s) from an independent legal and/or financial adviser approved by the Special Shareholder, such advice to be addressed to the company, its directors and the Special Shareholder, the company shall (i) obtain such advice and (ii) (subject to article 116(A)) not take any decision or action in relation to the relevant matter, until such advice shall have been obtained and the board shall have consulted the Special Shareholder in relation thereto.

- (E) Nothing in this article 116 shall fetter any statutory power, or remove or alter any obligation imposed on any person by statute.

Company No. 4074919

ARTICLES OF ASSOCIATION

of

POSTAL SERVICES HOLDING COMPANY PLC

(adopted by a special resolution passed on 10 September 2013)

INTERPRETATION

1. EXCLUSION OF MODEL ARTICLES

No regulations set out in any statute, or in any statutory instrument or other subordinate legislation made under any statute concerning companies shall apply as the regulations or articles of the company.

2. DEFINITIONS

In these articles unless the context otherwise requires:

the *Act* means the Companies Act 2006 (including any orders, regulations or other subordinate legislation made under it) to the extent from time to time in force;

the *articles* means these articles of association of the company as altered from time to time by special resolution and the expression “this Article” shall be construed accordingly;

the *board* means the board of directors from time to time of the company or the directors present at a meeting of the directors at which a quorum is present;

business day means any day which is not a Saturday or Sunday or a public holiday;

clear days in relation to the period of a notice, means that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect;

executed includes any mode of execution;

government securities means such securities, cash deposits, investments or assets as the company may agree in writing with the Special Shareholder from time to time;

group means the company and its subsidiary undertakings [(as defined in section 1162 of the Companies Act 2006)] from time to time;

the *holder* in relation to shares means the member whose name is entered in the register of members as the holder of the shares;

major transaction means an acquisition or disposal by the company or a network subsidiary (excluding a transaction in the ordinary course of business) where the size of the transaction is such that the percentage ratio resulting from any of the calculations set out in Article 10.1(O) is 10 per cent. or more;

member means a member of the company;

network subsidiary means any subsidiary of the company (other than a subsidiary which is a USP Listco (and any of its subsidiaries)) which is, or any of whose wholly owned subsidiaries is, engaged in the provision of a network of places from which postal services and/or services provided under arrangements between a UK government department and that subsidiary or any of its wholly owned subsidiaries, are provided directly to the public;

office means the registered office of the company;

POL Special Share means the share defined as the “Special Share” in the articles of association of Post Office Limited from time to time;

Primary Territories means all those countries or parts of the world being members of the Organisation for Economic Co-operation and Development, and (whether or not the same are or become members of the said organisation) each of the Isle of Man, the Channel Islands and Gibraltar, together with such other territories as shall be agreed in writing between the Special Shareholder and the company;

public holiday has the meaning given to that term in the Postal Services Act 2000;

the **register** means the register of members of the company;

relevant transaction means any actual or proposed acquisition, sale or other disposition (whether by security or otherwise) or parting with or sharing of ownership (including, without limitation, by partnership, joint venture or otherwise) of any assets, rights or property whatsoever, other than:

- (a) any transaction in the ordinary course of business or of a revenue nature (or both) (including without limitation the taking of assets on lease or hire purchase); and
- (b) any transaction between the company and a wholly-owned subsidiary of the company;

the **seal** means the common seal of the company;

Secondary Territories means all those countries or parts of the world not within the Primary Territories;

Secretary of State means one of Her Majesty’s Secretaries of State;

secretary means the secretary of the company or any other person appointed to perform the duties of the secretary of the company, including a joint, assistant or deputy secretary;

share rights has the meaning given to such term in section 15 of the Postal Services Act 2011;

shares shall be interpreted in accordance with section 15 of the Postal Services Act 2011;

Special Share means the one special rights redeemable preference share of £1 in the capital of the company;

Special Shareholder means the holder of the Special Share;

Strategic Plan means a strategic plan adopted by the network subsidiary in accordance with the network subsidiary's articles of association;

Trade Mark means the trade mark "The Post Office" anywhere in the world;

the **United Kingdom** means Great Britain and Northern Ireland. ; and

USP Listco means a company:

- (a) shares in which are or have been admitted to the premium listing segment of the Official List of the Financial Conduct Authority of the United Kingdom (acting in its capacity as the competent authority for the purpose of Part VI of the Financial Services and Markets Act 2000) and admitted to trading on the main market for listed securities of the London Stock Exchange plc; and
- (b) which is or has been, or a subsidiary of which is or has been, designated as the universal service provider under section 35 of the Postal Services Act 2011.

Unless the context otherwise requires, words or expressions contained in these articles bear the same meaning as in the Act but exclude any statutory modification thereof not in force when these articles become binding on the company. Subject to the foregoing sentence, references to any provision of any enactment or any subordinate legislation (as defined by section 21(1) of the Interpretation Act 1978) include any modification or re-enactment of that provision for the time being in force.

References to "**writing**" include references to any method of representing or reproducing words in a legible and non-transitory form, whether in electronic form or otherwise.

References in Articles 77, 78 and 89 to (i) a contract include references to any proposed contract and to any transaction or arrangement or proposed transaction or arrangement whether or not constituting a contract, and (ii) a conflict of interest include a conflict of interest and duty and a conflict of duties.

Headings are included only for convenience and shall not affect meaning

If, and for so long as, the company has only one member, these articles shall (in the absence of any express provision to the contrary) apply with such modification as may be necessary in relation to the company.

LIMITED LIABILITY

3. LIMITED LIABILITY

The liability of members of the company is limited to the amount, if any, unpaid on the shares in the company held by them.

SHARE CAPITAL

4. RIGHTS ATTACHED TO SHARES

Subject to the provisions of the Act and to any rights conferred on the holders of any other shares, any share may be issued with or have attached to it such rights and restrictions as the company may by ordinary resolution decide or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the board may decide.

5. REDEEMABLE SHARES

Subject to the provisions of the Act, shares may be issued which are to be redeemed or are to be liable to be redeemed at the option of the company or the holder.

6. PAYMENT OF COMMISSION

The company may exercise the powers of paying commissions conferred by the Act. Subject to the provisions of the Act, any such commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one way and partly in the other.

7. TRUSTS NOT RECOGNISED

Except as required by law, no person shall be recognised by the company as holding any share upon any trust and (except as otherwise provided by the articles or by law) the company shall not be bound by or recognise any interest in any share except an absolute right to the entirety thereof in the holder.

8. VARIATION OF CLASS RIGHTS

Subject to the provisions of the Act, if at any time the capital of the company is divided into different classes of shares, the rights attached to any class may be varied, either while the company is a going concern or during or in contemplation of a winding-up:

- (A) in such manner (if any) as may be provided by those rights; or
- (B) in the absence of any such provision, with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class,

but not otherwise. The provisions of these articles relating to general meetings shall, with any necessary modifications, apply to every such separate general meeting.

THE SPECIAL SHARE**9. HOLDER OF THE SPECIAL SHARE**

- (A) The Special Share may only be issued to the Secretary of State and may be transferred to and held by the Treasury, another Minister of the Crown or any other duly authorised person (including, without limitation, any nominee) acting on behalf of the Crown.
- (B) The Special Shareholder shall be entitled to receive notice of, and to attend and speak at, any general meeting or any meeting of any other class of shareholders of the company, but the Special Share shall carry no right to vote nor any other rights at any such meeting.
- (C) On a distribution of capital in a winding-up of the company the Special Shareholder shall be entitled to repayment of the capital paid up on the Special Share in priority to any repayment of capital to any other member.
- (D) The Special Shareholder shall be entitled at any time to require:

- (I) the directors to declare and pay a dividend to the holders of the shares and the Special Shareholder (or their nominees) in accordance with their respective rights as members; and/or
- (II) the company to procure that any of the members of the group (other than a subsidiary which is a USP Listco (and any of its subsidiaries)) declare and pay a dividend to its shareholders,

of such an amount and to be satisfied in such manner (whether in cash, *in specie* or otherwise) as may be determined by the Special Shareholder at its discretion in order to give effect to, or otherwise in connection with, the powers vested in the Secretary of State under section 72 of the Postal Services Act 2000 (and, in the event of any request being received pursuant to this Article 9(D), the directors and/or the company shall do all such things as are duly required by the Special Shareholder to be done (and, where appropriate, shall procure that they are done) (including if so required by the Special Shareholder making application to the court to effect any reductions of share capital, share premium account or capital redemption reserve) as soon as is reasonably practicable, and in any event, (save where any such reduction of share capital, share premium account or capital redemption reserve has been applied for) the company will pay any dividend required in accordance with Article 9(D)(I), (and, as required by the Special Shareholder, shall have procured the payment to the company of any dividend) within 40 days of the Special Shareholder notifying the requirement that the said dividend be paid by the company).

- (E) Save as provided above, the Special Share shall confer no other right to participate in the capital or profits of the company.
- (F) The Special Shareholder may, subject to the provisions of the Act, require the company to redeem the Special Share at par (such sum being payable on redemption) at any time by serving written notice upon the company and delivering to the company the relevant share certificate. The company shall not be able to redeem the Special Share without the prior consent of the Special Shareholder.
- (G) The provisions of this Article 9 shall be subject to Article 112.

10. VARIATION OF SPECIAL SHARE RIGHTS

10.1 Matters requiring consent

Notwithstanding any provision in these articles to the contrary other than Article 112, each of the following shall be deemed to be a variation of the rights attaching to the Special Share and accordingly the company shall not do any of the following without the prior written consent of the Special Shareholder:

- (A) the alteration or deletion of, or the ratification of any breach of all or any part of these articles;
- (B) the voluntary winding-up of the company, the passing of a special resolution to the effect that the company should be wound-up by the court, the presentation by the company (whether solely or jointly with any other person) of a petition for its winding-up, or any proposal for any of the foregoing;

- (C) the presentation by the company (whether solely or jointly with any other person) of a petition applying for the appointment of an administrator or any proposal therefore;
- (D) the issue or allotment of any shares or granting of any share rights in the company;
- (E) the variation of any rights attached to any shares in the company in so far as such variation affects the rights attached to the Special Share;
- (F) the declaration or payment of any dividend or the making of any distribution by the company;
- (G) any distribution, payment or return to shareholders of the company out of capital;
- (H) the issue or allotment of any shares or share rights in any network subsidiary other than to the Secretary of State, the Treasury, any nominee of either of them or to the company or any other network subsidiary or any nominee of either of them;
- (I) the transfer or other disposal of any issued shares or share rights in any network subsidiary other than to the Secretary of State, the Treasury or any nominee of either of them, or to the company or any other network subsidiary or any nominee of either of them;
- (J) the redemption or purchase by the company of any share in itself or the reduction of the share capital of the company or any uncalled or unpaid liability in respect thereof, capital redemption reserve or share premium account of the company or the passing of any resolution authorising any of the foregoing;
- (K) ceasing to produce consolidated accounts of the group which consolidate the results of the company with those of the network subsidiary;
- (L) the adoption of any accounting reference date or any material variation of the accounting practices and policies to be applied in the preparation of the accounts of any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)), if different from the practices or policies then adopted or applied by other members of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)) (other than any accounting practice or policy required to be adopted by law or required by generally accepted accounting principles applying in the place of incorporation of the company or the relevant member of the group);
- (M) the:
 - (i) appointment or removal from office of any non-executive director of the company;
 - (ii) appointment or removal from office of any executive director of the company;

- (iii) appointment or removal from office of any director of the company designated or re-designated at any time as chief executive officer of the company or otherwise carrying out the general management functions of a chief executive officer of the company or the group;
 - (iv) appointment or removal of any person as chief executive of the company (whether or not immediately prior to that appointment he was a director of the company and whether or not immediately after his removal he continues to be a director of the same), and “chief executive” shall refer to any person carrying out the general management functions of a chief executive officer of a company or the group; or
 - (v) any change in the prescribed maximum or minimum number of directors of the company or the appointment of any person other than a director of the company as an alternate director of any director of the company;
- (N) save as specifically provided for in the approved Strategic Plan (if any), any substantial alteration in the nature of the business carried on by the company or any network subsidiary;
- (O) the entry into or implementation of a relevant transaction by the company in relation to which (either individually or when taken together with all other relevant transactions (other than any relevant transaction previously approved under this Article 10.1(O)) entered into or implemented by the Company in the previous 12 months) the percentage ratio resulting from any of the following calculations is 25 per cent. or more:
- (I) the gross assets the subject of the relevant transaction divided by the gross assets of the group;
 - (II) the profit attributable to the assets the subject of the relevant transaction divided by the profits of the group;
 - (III) the turnover attributable to the assets the subject of the relevant transaction divided by the turnover of the group.

For the purposes of this Article 10.1(O):

- (a) the “**gross assets of the group**” means the total fixed assets of the group plus the total current assets of the group;
- (b) in the case of:
 - (1) an acquisition of an interest in an undertaking which will result in consolidation of the net assets of that undertaking in the consolidated accounts of the group; or
 - (2) a disposal of an interest in an undertaking which will result in the net assets of that undertaking no longer being consolidated in the accounts of the group,

the “**assets the subject of the relevant transaction**” means the value of 100 per cent. of that undertaking’s assets irrespective of what interest is acquired or disposed of;

- (c) in the case of an acquisition or disposal of an interest in an undertaking which does not fall within Article 10.1(O)(II), the “**assets the subject of the relevant transaction**” means:
 - (1) for an acquisition, the value of the consideration; and
 - (2) for a disposal of an interest, the value attributed to that interest in the group’s accounts;
- (d) in the case of an acquisition of assets other than an interest in an undertaking the assets the subject of the relevant transaction means the consideration or, if greater, the book value of those assets;
- (e) in the case of a disposal of assets other than an interest in an undertaking, the assets the subject of the relevant transaction means the book value of the assets;
- (f) “**profits**” means profits after deducting all charges except taxation and extraordinary items. In the case of an acquisition or disposal of an interest in an undertaking which falls within Article 10.1(O)(II), profits means 100 per cent. of the profits of the undertaking irrespective of what interest is acquired or disposed of;
- (g) “**consideration**” is the amount paid to the vendors in the relevant transaction including amounts corresponding to the assumption by the purchaser of any liabilities whether actual or contingent (including the repayment of inter-company or third party debt) as part of the terms of the transaction;
- (h) if deferred consideration is or may be payable or receivable by the relevant member of the group in the future, the “**consideration**” is the maximum total consideration payable or receivable under the agreement;
- (i) except as stated below the figures used for the calculation of the percentage ratios must be:
 - (1) in the case of “**assets**” and “**profits**”, the figures shown in the latest published audited consolidated accounts or, where the company has, or will have, published a preliminary statement of annual results at the time the terms of a relevant transaction are agreed, the figures shown in that preliminary statement;

- (2) in the case of consideration in the form of listed or quoted securities, the aggregate market value of all those securities.

Where the company has published a half-yearly report comprising, *inter alia*, a balance sheet, that balance sheet must be used for classification purposes when calculating the percentage ratios for the purpose of this Article 10.1(O);

- (P) the entry by the company into any relevant transaction which is not on commercial terms and is not considered by the directors of the company to be in the interests of the company;
- (Q) (i) the sale, assignment, charging, mortgaging or outright disposal by the company of the Trade Mark in any of the Primary Territories, (ii) the granting of an exclusive licence by the company which prevents the group (excluding for this purpose a subsidiary which is a USP Listco (and its subsidiaries)) from using the Trade Mark in any of the Primary Territories, (iii) the taking of any action by the company with the intention of jeopardising the Trade Mark in any of the Primary Territories, (iv) the taking of any action by the company which has the effect of causing the Trade Mark in any of the Primary Territories to cease to subsist, or (v) the taking of any decision or action which has the effect of allowing rights in respect of the Trade Mark in any of the Primary Territories to lapse;
- (R) (i) the sale, assignment, charging, mortgaging or outright disposal by the company of the Trade Mark in any of the Secondary Territories, (ii) the granting of an exclusive licence by the company which prevents the company from using the Trade Mark in any of the Secondary Territories, or (iii) the taking of any action by the company with the intention of jeopardising the Trade Mark in any of the Secondary Territories (save that nothing in this Article 10.1(R) shall prevent the company from allowing the Trade Mark to lapse in any of the Secondary Territories, or from ceasing to assert its rights in respect of the Trade Mark in the Secondary Territories);
- (S) the approval of or agreement to or any material variation or amendment to:
- (I) the remuneration (including, without limitation, salary, share options, bonuses, benefits in kind and pension rights) paid or granted by the company or any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)), to any director of the company or of any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)), if that director was appointed by the Special Shareholder or the appointment of that director was duly consented to or deemed consented to by the Special Shareholder in accordance with the provisions of Article 10.1(M) (save where approval has been granted by the holder of the POL Special Share); or
- (II) the terms and conditions of employment or engagement by any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)), of any of the directors of the company if that director was appointed by the Special

Shareholder or the appointment of that director was duly consented to or deemed consented to by the Special Shareholder in accordance with the provisions of Article 10.1(M);

- (T) the incurring of (or entry into of any commitment to incur) any borrowing or indebtedness in the nature of borrowing (including without limitation by way of loan stock, bonds, debentures, notes, overdrafts or any other similar arrangements the purpose of which is to raise money, credit offered by suppliers and inter-company debt) by the company;
- (U) the sale, transfer or disposal of or other dealing (together referred to as “dealing”) with all or any part of the shares or share rights in the company, or any network subsidiary, or a USP Listco (or any other interest therein);
- (V) (save for dealings in the ordinary course of business which result in compliance with the requirement of Article 100(B) at the close of business each day), the sale, transfer or disposal of, or other dealing with (or the creation (or permission to subsist) of any mortgage, pledge, lien, charge, equitable interest, third party right, assignment, hypothecation or other agreement or arrangement which has the effect of granting security over) government securities held by any member of the group (for the avoidance of doubt, not including a subsidiary which is a USP Listco and its subsidiaries) for the purpose described in Article 100(B);
- (W) the company or any subsidiary (other than a subsidiary which is a USP Listco (and its subsidiaries)) applying or reallocating all or any part of any reserve created in compliance with a direction given pursuant to section 72 of the Postal Services Act 2000;
- (X) where required, the approval of or any agreement to any variation or amendment to the definition of “government securities”, as that term is defined in or in accordance with the articles of association of any subsidiary of the company; and
- (Y) the exercise by the company of any voting rights the company has as a shareholder in a USP Listco (at a general meeting of the USP Listco or otherwise), or the entry into or amendment of any undertaking given with respect to the exercise of such voting rights (including any restriction on the company’s free exercise of such voting rights in a USP Listco).

10.2 Approval Procedure

- (A) Whenever the company wishes to obtain the Special Shareholder’s consent to any matter set out in Article 10.1 (other than 10.1(T)):
 - (I) the company shall give notice to the Special Shareholder, such notice to:
 - (aa) be in writing;
 - (bb) be addressed to such persons as the Special Shareholder shall, from time to time, notify in writing to the company;

- (cc) be delivered by hand or such other means (which may include electronic means) to which the Special Shareholder has provided (and not revoked) its written consent specifically for the purpose of receiving such notices;
 - (dd) clearly state that it is important and requires immediate attention;
 - (ee) clearly identify itself as a notice served pursuant to this Article 10.2 and that failure to respond within ten business days will result in the Special Shareholder being deemed to have given his consent to the matter in question; and
 - (ff) contain or annex such information as can reasonably be expected to enable the Special Shareholder to consider the matter being proposed.
- (II) On or before the date which falls ten business days after the date of receipt of such notice (the "Initial Expiry Date") the Special Shareholder shall give written notice to the secretary stating:
 - (aa) his consent to the matter contained in the notice; or
 - (bb) his refusal to consent to the matter contained in the notice (providing in reasonable detail and on a confidential basis the reasons for such refusal); or
 - (cc) that he requires a further ten business days in which to consider the matter, commencing on the business day following the Initial Expiry Date.
- (B) If on or before the Initial Expiry Date the Special Shareholder gives written notice to the company pursuant to Article 10.2(A)(II)(cc) the Special Shareholder shall, on or before the date which falls ten business days after the Initial Expiry Date, give a further written notice to the secretary stating:
 - (I) his consent to the matter contained in the notice; or
 - (II) his refusal to consent to the matter contained in the notice (providing in reasonable detail and on a confidential basis the reasons for such refusal).
- (C) The Special Shareholder may, at any time, request from the company such further information as it reasonably requires in order to assist it to consider the matter being proposed and the company shall deliver such information to the Special Shareholder as soon as reasonably practicable thereafter.
- (D) If the company does not receive any notice from the Special Shareholder pursuant to Article 10.2(A)(II) on or before the Initial Expiry Date or pursuant to Article 10.2(B) within the further period referred to therein, the company shall be entitled to undertake the matter contained in the notice

issued by it pursuant to Article 10.2(A)(I) and the consent of the Special Shareholder shall be deemed irrevocably given to such matter.

- (E) In favour of any third party dealing with any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)) a certificate by any director or the secretary to the effect that the Special Shareholder shall have been deemed to have given his consent to any matter as a result of the operation of Article 10.2(D) above shall be conclusive and binding as to that fact.

10.3

- (A) Whenever the company wishes to obtain the Special Shareholder's consent to any matter set out in Article 10.1(T) the company shall give notice to the Special Shareholder in accordance with Articles 10.2(A)(I)(aa) to (dd) and (ff) such notice to clearly identify itself as a notice served pursuant to this Article 10.3 and that failure to respond within 28 business days will result in the Special Shareholder being deemed to have given his consent to the matter in question.
- (B) On or before the date which falls 28 business days after the date of receipt of such notice (the "Expiry Date") the Special Shareholder shall give written notice to the secretary stating:
 - (I) his consent to the matter contained in the notice; or
 - (II) his refusal to consent to the matter contained in the notice (providing in reasonable detail and on a confidential basis the reasons for such refusal).
- (C) The Special Shareholder may, at any time before the Expiry Date request from the company such further information as it reasonably requires in order to assist it to consider the matter being proposed and the company shall deliver such information to the Special Shareholder as soon as reasonably practicable thereafter.
- (D) If the company does not receive any notice from the Special Shareholder pursuant to Article 10.3(B) on or before the Expiry Date the company shall be entitled to undertake the matter contained in the notice issued by it pursuant to Article 10.3(A) and the consent of the Special Shareholder shall be deemed irrevocably given to such matter.
- (E) In favour of a third party dealing with any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)) a certificate by any director or the secretary to the effect that the Special Shareholder shall have been deemed to have given its consent to any matter as a result of the operation of Article 10.3(D) above shall be conclusive and binding as such.

10.4 Delivery of any notice served upon the Special Shareholder under Articles 10.2 or 10.3 shall be evidenced by a receipt acknowledging delivery signed and dated by one of the addressees of the relevant notice and such notice shall be deemed to have been received on the date on which the receipt acknowledging delivery of the same is signed

10.5 The directors of the company will exercise all powers exercisable by the company in relation to group subsidiaries so as to ensure that no subsidiary shall take any action which (either alone or when taken together with any other action) would result in the variation of any of the rights attached to the Special Share. For the avoidance of doubt no action taken by a subsidiary which is a USP Listco (or its subsidiaries) would result in the variation of any of the rights attached to the Special Share.

10.6 The provisions of this Article 10 shall be subject to Article 112.

11. INFORMATION

- (A) Notwithstanding any other provision of these articles, the Special Shareholder shall be entitled to request such information in relation to the affairs of the group (or any particular member of the group) as it may consider necessary or desirable. The company shall use its reasonable endeavours to comply promptly with such requests for information from time to time, but only in so far as the company has such information within its possession or such information can reasonably be obtained by it.
- (B) Notwithstanding any other provision of these articles the company shall, at the request of the Special Shareholder, procure that such specified or other relevant directors and senior managers of the company and any network subsidiary shall meet with the Special Shareholder (or its representatives) to discuss the affairs of the group (or any particular member of the group) and the company shall release and procure that any network subsidiary shall release such directors or managers from any obligation of confidentiality owed to the company or such subsidiary for the purpose of these discussions.

SHARE CERTIFICATES

12. RIGHT TO SHARE CERTIFICATES

Every member, upon becoming the holder of any shares, shall be entitled without payment to one certificate for all the shares of each class held by him (and, upon transferring a part of his holding of shares of any class, to a certificate for the balance of such holding) or several certificates each for one or more of his shares upon payment for every certificate after the first of such reasonable sum as the board may determine. Every certificate shall be executed under the seal or otherwise in accordance with the Act or in such other manner as the board may approve and shall specify the number, class and distinguishing numbers (if any) of the shares to which it relates and the amount or respective amounts paid up thereon. The company shall not be bound to issue more than one certificate for shares held jointly by several persons and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them

13. REPLACEMENT OF SHARE CERTIFICATES

If a share certificate is defaced, worn-out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and payment of the expenses reasonably incurred by the company in investigating evidence as the board may determine but otherwise free of charge, and (in the case of defacement or wearing-out) on delivery up of the old certificate.

LIEN

14. COMPANY'S LIEN ON SHARES NOT FULLY PAID

The company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) payable at a fixed time or called in respect of that share. The board may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The company's lien on a share shall extend to any amount payable in respect of it.

15. ENFORCING LIEN BY SALE

The company may sell in such manner as the board may determine any shares on which the company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within fourteen clear days after notice has been given to the holder of the share or to the person entitled to it in consequence of the death or bankruptcy of the holder, demanding payment and stating that if the notice is not complied with the shares may be sold. To give effect to a sale, the board may authorise some person to execute an instrument of transfer of the shares sold to, or in accordance with the directions of, the purchaser. The title of the transferee to the shares shall not be affected by any irregularity in or invalidity of the proceedings in reference to the sale.

16. APPLICATION OF PROCEEDS OF SALE

The net proceeds of the sale, after payment of the costs, shall be applied in payment of so much of the sum for which the lien exists as is presently payable, and any residue shall (upon surrender to the company for cancellation of the certificate for the shares sold and subject to a like lien for any moneys not presently payable as existed upon the shares before the sale) be paid to the person entitled to the shares at the date of the sale.

CALLS ON SHARES AND FORFEITURE

17. CALLS

Subject to the terms of allotment, the board may make calls upon the members in respect of any moneys unpaid on their shares (whether in respect of nominal value or premium) and each member shall (subject to receiving at least fourteen clear days' notice specifying when and where payment is to be made) pay to the company as required by the notice the amount called on his shares. A call may be required to be paid by instalments. A call may be revoked in whole or part and payment of a call may be postponed in whole or part as the board may decide. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect whereof the call was made. A call shall be deemed to have been made at the time when the resolution of the board authorising the call was passed.

18. LIABILITY OF JOINT HOLDERS

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

19. INTEREST DUE ON NON-PAYMENT

If a call remains unpaid after it has become due and payable the person from whom it is due and payable shall pay interest on the amount unpaid from the day it became due and payable

until it is paid at the rate fixed by the terms of allotment of the share or in the notice of the call or, if no rate is fixed, at the appropriate rate (as defined by the Act) but the board may waive payment of the interest wholly or in part.

20. SUMS DUE ON ALLOTMENT TREATED AS CALLS

An amount payable in respect of a share on allotment or at any fixed date, whether in respect of nominal value or premium or as an instalment of a call, shall be deemed to be a call and if it is not paid the provisions of the articles shall apply as if that amount had become due and payable by virtue of a call.

21. POWER TO DIFFERENTIATE

Subject to the terms of allotment, the board may make arrangements on the issue of shares for a difference between the holders in the amounts and times of payment of calls on their shares.

FORFEITURE OF SHARES

22. NOTICE IF CALL OR INSTALMENT NOT PAID

If a call remains unpaid after it has become due and payable the board may give to the person from whom it is due not less than fourteen clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

23. FORFEITURE FOR NON-COMPLIANCE WITH NOTICE

If the notice is not complied with any share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the board and the forfeiture shall include all dividends or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

24. SALE OF FORFEITED SHARES

Subject to the provisions of the Act, a forfeited share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the board determines either to the person who was before the forfeiture the holder or to any other person and at any time before sale, re-allotment or other disposition, the forfeiture may be cancelled on such terms as the board thinks fit. Where for the purposes of its disposal a forfeited share is to be transferred to any person the board may authorise some person to execute an instrument of transfer of the share to that person.

25. ARREARS TO BE PAID NOTWITHSTANDING FORFEITURE

A person any of whose shares have been forfeited shall cease to be a member in respect of them and shall surrender to the company for cancellation the certificate for the shares forfeited but shall remain liable to the company for all moneys which at the date of forfeiture were presently payable by him to the company in respect of those shares with interest at the rate at which interest was payable on those moneys before the forfeiture or, if no interest was so payable, at the appropriate rate (as defined in the Act) from the date of forfeiture until payment but the board may waive payment wholly or in part or enforce payment without any allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal.

26. STATUTORY DECLARATION AS TO FORFEITURE

A statutory declaration by a director or the secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the share and the declaration shall (subject to the execution of an instrument of transfer if necessary) constitute a good title to the share and the person to whom the share is disposed of shall not be bound to see to the application of the consideration, if any, nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture or disposal of the share.

TRANSFER OF SHARES**27. EXECUTION OF TRANSFER**

The instrument of transfer of a share may be in any usual form or in any other form which the board may approve and shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee.

28. RIGHT TO DECLINE REGISTRATION

The board may refuse to register the transfer of a share which is not fully paid to a person of whom they do not approve and they may refuse to register the transfer of a share on which the company has a lien or where such transfer is restricted by the Act or the articles. They may also refuse to register a transfer unless:

- (A) it is lodged at the office or at such other place as the board may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer;
- (B) it is in respect of only one class of shares; and
- (C) it is in favour of not more than four transferees.

29. NO FEE FOR REGISTRATION

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share.

30. RETENTION OF INSTRUMENT OF TRANSFER

The company shall be entitled to retain any instrument of transfer which is registered, but any instrument of transfer which the board refuses to register shall be returned to the person lodging it when notice of the refusal is given.

TRANSMISSION OF SHARES**31. TRANSMISSION ON DEATH**

If a member dies the survivor or survivors where he was a joint holder, and his personal representatives where he was a sole holder or the only survivor of joint holders, shall be the only persons recognised by the company as having any title to his interest, but nothing herein contained shall release the estate of a deceased member from any liability in respect of any share which had been jointly held by him.

32. ELECTION OF PERSON ENTITLED BY TRANSMISSION

A person becoming entitled to a share in consequence of the death or bankruptcy of a member may, upon such evidence being produced as the board may properly require, elect either to become the holder of the share or to have some person nominated by him registered as the transferee. If he elects to become the holder he shall give notice to the company to that effect. If he elects to have another person registered he shall execute an instrument of transfer of the share to that person. All the articles relating to the transfer of shares shall apply to the notice or instrument of transfer as if it were an instrument of transfer executed by the member and the death or bankruptcy of the member had not occurred.

33. RIGHTS OF PERSON ENTITLED BY TRANSMISSION

A person becoming entitled to a share in consequence of the death or bankruptcy of a member shall have the rights to which he would be entitled if he were the holder of the share, except that he shall not be entitled to attend or vote at any meeting of the company or at any separate meeting of the holders of any class of shares in the company, in respect of the share before being registered as the holder of the share, unless authorised to do so by the board

ALTERATION OF SHARE CAPITAL**34. SUB-DIVISION**

The company may by ordinary resolution sub-divide its shares, or any of them, into shares of smaller amount provided that none of the shares resulting from the sub-division may have any right, preference or advantage not attached to the shares immediately prior to the sub-division.

35. FRACTIONS

Whenever as a result of a consolidation, consolidation and sub-division, or sub-division of shares any members would become entitled to fractions of a share, the board may deal with the fractions as it thinks fit, including by aggregating and selling them or by dealing with them in some other way. The board may sell shares representing fractions to any person, including the company, and may authorise some person to execute an instrument of transfer of the shares to, or in accordance with the directions of, the purchaser. The transferee shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity in or invalidity of the proceedings in reference to the sale.

GENERAL MEETINGS**36. OMISSION OR NON-RECEIPT OF NOTICE**

36.1 The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

36.2 A member present in person or by proxy at a meeting shall be deemed to have received proper notice of that meeting and, where applicable, of the purpose of that meeting.

37. POSTPONEMENT OF GENERAL MEETINGS

If the board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time or place specified in the notice

calling the general meeting, it may postpone the general meeting to another date, time and place. When a meeting is so postponed, notice of the date, time and place of the postponed meeting shall be given to the members. Notice of the business to be transacted at such postponed meeting shall not be required.

PROCEEDINGS AT GENERAL MEETINGS

38. QUORUM

No business shall be transacted at any meeting unless a quorum is present. Two persons entitled to vote upon the business to be transacted, each being a member or a proxy for a member or a duly authorised representative of a corporation, shall be a quorum. If, and for so long as, the company has only one member, that member or the proxy for that member or, where that member is a corporation, its duly authorised representative shall be a quorum at any general meeting of the company or of the holders of any class of shares.

39. PROCEDURE IF QUORUM NOT PRESENT

If such a quorum is not present within half an hour from the time appointed for the meeting, or if during a meeting such a quorum ceases to be present, the meeting shall stand adjourned to the same day in the next week at the same time and place or to such time and place as the board may determine.

40. CHAIRMAN OF GENERAL MEETING

The chairman, if any, of the board or in his absence some other director nominated by the board shall preside as chairman of the meeting, but if neither the chairman nor such other director (if any) be present within fifteen minutes after the time appointed for holding the meeting and willing to act, the directors present shall elect one of their number to be chairman and, if there is only one director present and willing to act, he shall be chairman. If no director is willing to act as chairman, or if no director is present within fifteen minutes after the time appointed for holding the meeting, the members present and entitled to vote shall choose one of their number to be chairman.

41. ORDERLY CONDUCT

The chairman shall take such action as he thinks fit to promote the orderly conduct of the business of the meeting as laid down in the notice of the meeting and the chairman's decision on matters of procedure or arising incidentally from the business of the meeting shall be final as shall be his determination as to whether any matter is of such a nature.

42. ENTITLEMENT TO ATTEND AND SPEAK

Each director shall be entitled to attend and speak at any general meeting of the company and at any separate general meeting of the holders of any class of shares in the company. The chairman may invite any person to attend and speak at any general meeting of the company whom the chairman considers to be equipped by knowledge or experience of the company's business to assist in the deliberations of the meeting. In addition, the chairman may invite any person who has been nominated for the purpose by a member, where the chairman is satisfied that such time as the chairman may determine, the member holds any shares in the company as such person's nominee, to attend and, if the chairman considers it appropriate, to speak at any general meeting of the company.

43. ADJOURNMENTS

The chairman may, with reasonable cause but without requiring the consent of the meeting (whether or not it has commenced or a quorum is present) adjourn any meeting. From time to time and from place to place, but no business shall be transacted at an adjourned meeting other than business which might properly have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen days or more, at least seven clear days' notice shall be given specifying the time and place of the adjourned meeting and the general nature of the business to be transacted. Otherwise it shall not be necessary to give any such notice.

44. AMENDMENTS RULED OUT OF ORDER

If an amendment proposed to any resolution under consideration is ruled out of order by the chairman, the proceedings on the resolution shall not be invalidated by any error in the ruling

VOTING**45. VOTES OF MEMBERS**

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held and to any other provisions of these articles, on a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative or by proxy shall have one vote, and on a poll every member shall have one vote for every share of which he is the holder. For this purpose, where a proxy is given discretion as to how to vote on a show of hands, this shall be treated as an instruction by the relevant member to vote in the way in which the proxy elects to exercise that discretion.

46. METHOD OF VOTING

A resolution put to the vote of a meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands a poll is duly demanded. Subject to the provisions of the Act, a poll may be demanded:

- (A) by the chairman; or
- (B) by at least two members having the right to vote on the resolution; or
- (C) by a member or members representing in the aggregate not less than one-tenth of the total voting rights of all the members having the right to vote on the resolution; or
- (D) by a member or members holding shares conferring a right to vote on the resolution being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right,

and a demand by a person as proxy for a member shall be the same as a demand by the member.

47. PROCEDURE IF POLL NOT DEMANDED

Unless a poll is duly demanded a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost, or not carried by a particular majority and an entry to that effect in the minutes of the meeting shall be

conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.

48. WITHDRAWAL OF DEMAND FOR POLL

The demand for a poll may, before the poll is taken, be withdrawn but only with the consent of the chairman and a demand so withdrawn shall not be taken to have invalidated the result of a show of hands declared before the demand was made.

49. PROCEDURE IF POLL DEMANDED

A poll shall be taken as the chairman directs and he may appoint scrutineers (who need not be members) and fix a time and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

50. WHEN POLL TO BE TAKEN

A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken either forthwith or at such time and place as the chairman directs not being more than thirty days after the poll is demanded. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll was demanded. If a poll is demanded before the declaration of the result of a show of hands and the demand is duly withdrawn, the meeting shall continue as if the demand had not been made.

51. NO NOTICE OF POLL

No notice need be given of a poll not taken forthwith if the time and place at which it is to be taken are announced at the meeting at which it is demanded. In any other case at least seven clear days' notice shall be given specifying the time and place at which the poll is to be taken.

52. VOTES OF JOINT HOLDERS

In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members.

53. VOTING ON BEHALF OF INCAPABLE MEMBER

A member in respect of whom an order has been made by any court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder may vote and may exercise any other right conferred by membership in relation to general meetings by or through any receiver, curator bonis or other person authorised in that behalf appointed by that court (and that person may vote by proxy). Written evidence to the satisfaction of the board of the authority of the person claiming to exercise the right to vote shall be hand-delivered to the company's registered office, or delivered by such other means (which may include electronic means) as the board may accept, not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised and in default the right to vote shall not be exercisable.

54. NO RIGHT TO VOTE WHERE SUMS OVERDUE ON SHARES

No member shall vote at any general meeting or at any separate meeting of the holders of any class of shares in the company, either in person or by proxy, in respect of any share held by him unless all moneys presently payable by him in respect of that share have been paid.

55. OBJECTIONS OR ERRORS IN VOTING

(A) If:

- (i) any objection shall be raised to the qualification of any voter; or
- (ii) any votes have been counted which ought not to have been counted or which might have been rejected; or
- (iii) any votes are not counted which ought to have been counted,

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless it is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be conclusive.

(B) The company shall not be obliged to ascertain whether a proxy or representative of a corporation has voted in accordance with a member's instructions and the failure of a proxy or representative so to do shall not vitiate the decision of the meeting or adjourned meeting or poll on any resolution.

PROXIES

56. APPOINTMENT OF PROXY

Votes may be given either personally or by proxy. A member may appoint more than one proxy to attend on the same occasion.

57. FORM OF PROXY

An instrument appointing a proxy shall be in writing, executed by or on behalf of the appointor and shall be in the following form (or in a form as near thereto as circumstances allow or in any other form which is usual or which the board may approve):

“Postal Services Holding Company plc

I/We, _____, of _____, being a member/members of the above-named company, hereby appoint _____ of _____, or failing him, _____ of _____, as my/our proxy to vote in my/our name[s] and on my/our behalf at the general meeting of the company to be held on _____ 20____, and at any adjournment thereof

Signed on _____ 20____ ”

58. INSTRUCTIONS TO PROXY

Where it is desired to afford members an opportunity of instructing the proxy how he shall act the instrument appointing a proxy shall be in the following form (or in a form as near thereto as circumstances allow or in any other form which is usual or which the board may approve):

“Postal Services Holding Company plc

I/We, _____, of _____, being a member/members of the above-named company, hereby appoint _____ of _____, or failing him, _____ of _____, as my/our proxy to vote in my/our name[s] and on my/our behalf at the general meeting of the company to be held on _____ 20 _____, and at any adjournment thereof.

This form is to be used in respect of the resolutions mentioned below as follows:

Resolution No 1 *for *against

Resolution No 2 *for *against

*Strike out whichever is not desired

Unless otherwise instructed, the proxy may vote as he thinks fit or abstain from voting

Signed on _____ 20 _____ ”

59. DELIVERY OF PROXIES

The instrument appointing a proxy and any authority under which it is executed may be delivered:

- (A) in hard copy form at the office (or such other place in the United Kingdom as may be specified by the company for the receipt of appointments of proxy in hard copy form) to be received not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote together with (if required by the board) any authority under which it is made or a copy of the authority, certified notarially or in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the board;
- (B) by electronic means, to be received at the address specified by the company for the receipt of appointments of proxy by electronic means not less than 48 hours (or such shorter time as the board may determine) before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote. Any authority pursuant to which such an appointment is made or a copy of the authority, certified notarially or in accordance with the Powers of Attorney Act 1971 or in some other manner approved by the board, must, if required by the board, be received at such address or at the office (or such other place in the United Kingdom as may be specified by the company for the receipt of such documents) not less than 48 hours (or such shorter time as the board may determine) before the

time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote;

- (C) in the case of a poll taken more than 48 hours after it was demanded, to be received as aforesaid not less than 24 hours (or such shorter time as the board may determine) before the time appointed for the taking of the poll;
- (D) in the case of a poll taken following the conclusion of a meeting or adjourned meeting but not more than 48 hours after it was demanded, to be received as aforesaid before the end of the meeting at which it was demanded (or at such later time as the board may determine),

and an appointment of a proxy which is not, or in respect of which the authority or copy thereof is not, received in a manner so permitted shall be invalid. When two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting or poll, the one which is last received (regardless of its date or of the date of its signature) shall be treated as replacing and revoking the others as regards that share, if the company is unable to determine which was last received, none of them shall be treated as valid in respect of that share. The appointment of a proxy shall not preclude a member from attending and voting in person at the meeting or poll concerned. The proceedings at a general meeting shall not be invalidated where an appointment of a proxy in respect of that meeting is sent in electronic form as provided in these articles, but it cannot be read by the recipient because of a technical problem.

60. CANCELLATION OF PROXY'S AUTHORITY

A vote given or poll demanded by proxy or by the duly authorised representative of a corporation shall be valid notwithstanding the previous determination of the authority of the person voting or demanding a poll unless notice of the determination was received by the company before the commencement of the meeting or adjourned meeting at which the vote is given or the poll demanded or (in the case of a poll taken otherwise than on the same day as the meeting or adjourned meeting) the time appointed for taking the poll. Such notice of determination shall be received either in hard copy form by the office or such other place within the United Kingdom as may be specified by the company in accordance with Article 59(A) or in electronic form at the address (if any) specified by the company in accordance with Article 59(B), regardless of whether any relevant proxy appointment was effected in hard copy form or in electronic form.

APPOINTMENT, RETIREMENT AND REMOVAL OF DIRECTORS

61. NUMBER OF DIRECTORS

Unless otherwise determined by ordinary resolution and subject to the articles, the number of directors (other than alternate directors) shall not be subject to any maximum but shall be not less than two.

62. ALTERNATE DIRECTORS

- (A) Any director (other than an alternate director) may appoint any other director, or, subject to the articles, any other person approved by resolution of the board and willing to act, to be an alternate director and may remove from office an alternate director so appointed by him.

- (B) An alternate director shall be entitled to receive notice of all meetings of the board and of all meetings of committees of the board of which his appointor is a member, to attend and vote at any such meeting at which the director appointing him is not personally present, and generally to perform all the functions of his appointor as a director in his absence but shall not be entitled to receive any remuneration from the company for his services as an alternate director. But it shall not be necessary to give notice of such a meeting to an alternate director who is absent from the United Kingdom.
- (C) An alternate director shall cease to be an alternate director if his appointor ceases to be a director, but, if a director retires but is reappointed or deemed to have been reappointed at the meeting at which he retires, any appointment of an alternate director made by him which was in force immediately prior to his retirement shall continue after his reappointment.
- (D) Any appointment or removal of an alternate director shall be by notice to the company signed by the director making or revoking the appointment or in any other manner approved by the board.
- (E) Save as otherwise provided in the articles, an alternate director shall be deemed for all purposes to be a director and shall alone be responsible for his own acts and defaults and he shall not be deemed to be the agent of the director appointing him.

63. PERSONS ELIGIBLE AS DIRECTORS

No person shall be appointed or reappointed a director at any general meeting unless:

- (A) he is recommended by the directors; or
- (B) not less than fourteen nor more than thirty five clear days before the date appointed for the meeting, notice executed by a member qualified to vote at the meeting has been given to the company of the intention to propose that person for appointment or reappointment stating the particulars which would, if he were so appointed or reappointed, be required to be included in the company's register of directors together with notice executed by that person of his willingness to be appointed or reappointed.

64. NOTICE OF APPOINTMENT OR REAPPOINTMENT

Not less than seven nor more than twenty eight clear days before the date appointed for holding a general meeting notice shall be given to all who are entitled to receive notice of the meeting of any person who is recommended by the directors for appointment or reappointment as a director at the meeting or in respect of whom notice has been duly given to the company of the intention to propose him at the meeting for appointment or reappointment as a director. The notice shall give the particulars of that person which would, if he were so appointed or reappointed, be required to be included in the company's register of directors.

65. POWER OF BOARD TO APPOINT DIRECTORS

Subject to the articles, the board may appoint a person who is willing to act to be a director, either to fill a vacancy or as an additional director, provided that the appointment does not cause the number of directors to exceed any number fixed by or in accordance with the

articles as the maximum number of directors. A director so appointed shall hold office only until the next following annual general meeting. If not reappointed at such annual general meeting, he shall vacate office at the conclusion thereof.

66. POSITION OF RETIRING DIRECTORS

Subject as aforesaid, a director who retires at an annual general meeting may, if willing to act, be reappointed. If he is not reappointed, he shall retain office until the meeting appoints someone in his place, or if it does not do so, until the end of the meeting, or (if earlier) when a resolution is passed to appoint someone in his place.

67. DISQUALIFICATION AND REMOVAL OF DIRECTORS

- (A) Without prejudice to the provisions of the articles and in addition to any power of removal conferred by the Act, the company may by special resolution remove any director before the expiration of his period of office and may (subject to these articles) by ordinary resolution appoint another person who is willing to act to be a director in his place.
- (B) The office of a director shall be vacated if:
- (i) he ceases to be a director by virtue of any provision of the Act or he becomes prohibited by law from being a director; or
 - (ii) he becomes bankrupt or makes any arrangement or composition with his creditors generally; or
 - (iii) he is, or may be suffering from mental disorder and either:
 - (a) he is admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 or, in Scotland, an application for admission under the Mental Health (Scotland) Act 1960; or
 - (b) an order is made by a court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs; or
 - (iv) he resigns his office by notice to the company;
 - (v) he is removed pursuant to Article 67(A) or 68; or
 - (vi) he shall for more than six consecutive months have been absent without permission of the board from meetings of the board held during that period and the directors resolve that his office be vacated.

If the office of a director is vacated for any reason, he shall cease to be a member of any committee or sub-committee of the board.

68. APPOINTMENT OF CHAIRMAN AND DIRECTORS

- (A) Chairman

The Special Shareholder shall be entitled from time to time to appoint and remove any person as chairman of the company by notice in writing delivered to the company and signed on behalf of the Special Shareholder

(B) Directors

The Special Shareholder shall be entitled from time to time to appoint and to remove any person as a director of the company by notice in writing delivered to the company and signed on behalf of the Special Shareholder. The chairman shall be required to consult with and obtain the approval of the Special Shareholder in relation to the appointment and the removal of any person as a director.

POWERS OF THE BOARD

69. GENERAL POWERS OF COMPANY VESTED IN THE BOARD

Subject to the provisions of the Act, these articles and to any directions given by the company by special resolution, the business of the company shall be managed by the board who may exercise all the powers of the company. No alteration of these articles and no such special resolution shall invalidate any prior act of the board which would have been valid if that alteration had not been made or that resolution had not been passed. The powers given by this Article shall not be limited by any special power given to the board by the articles.

70. BORROWING POWERS

The board may exercise all the powers of the company to borrow and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the company, but subject to the restrictions contained in the articles.

71. APPOINTMENT OF AGENT

The board may, by power of attorney or otherwise, appoint any person to be the agent of the company for such purposes and on such conditions as it determine, including authority for the agent to delegate all or any of his powers.

72. POWER TO PROVIDE FOR EMPLOYEES

The board may by resolution exercise any power conferred by the Act to make provision for the benefit of persons employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or the transfer to any person of the whole or part of the undertaking of the company or that subsidiary.

73. POWER TO RECEIVE UNCALLED MONEYS

The board may, if it thinks fit, receive from any member willing to advance the same all or any part of the moneys uncalled and remaining unpaid on any shares held by him.

74. DELEGATION OF THE BOARD'S POWERS

The board may delegate any of its powers to any committee consisting of one or more directors with power to sub-delegate. It may also delegate to any managing director or any director holding any other executive office such of its powers as it considers desirable to be exercised by him. Any such delegation may be made subject to any conditions the board may

impose, and either collaterally with or to the exclusion of its own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee with two or more members shall be governed by the articles regulating the proceedings of the board so far as they are capable of applying.

DIRECTORS' EXPENSES

75. DIRECTORS' EXPENSES

The directors may be paid all travelling, hotel, and other expenses properly incurred by them in connection with their attendance at board meetings or committees of directors or general meetings or separate meetings of the holders of any class of shares or of debentures of the company or otherwise in connection with the discharge of their duties.

DIRECTORS' APPOINTMENTS AND INTERESTS

76. MANAGING DIRECTOR AND EXECUTIVE OFFICE

Subject to the provisions of the Act and the articles, the directors may appoint one or more of their number to the office of managing director or to any other executive office under the company and may enter into an agreement or arrangement with any director for his employment by the company or for the provision by him of any services outside the scope of the ordinary duties of a director. Any such appointment, agreement or arrangement may be made upon such terms as the directors determine and they may remunerate any such director for his services as they think fit. Any appointment of a director to an executive office shall terminate if he ceases to be a director but without prejudice to any claim to damages for breach of the contract of service between the director and the company.

77. CONFLICTS OF INTEREST REQUIRING BOARD AUTHORISATION¹

- (A) The board may, subject to the quorum and voting requirements set out in this Article, authorise any matter which would otherwise involve a director breaching his duty under the Act to avoid conflicts of interest (a "Conflict").
- (B) A director seeking authorisation in respect of a Conflict shall declare to the board the nature and extent of his interest in that Conflict as soon as is reasonably practicable. The director shall provide the board with such details of the relevant matter as are necessary for the board to decide how to address the Conflict together with such additional information as may be requested by the board.
- (C) Any director (including the relevant director) may propose that the relevant director be authorised in relation to any matter the subject of a Conflict. Such proposal and any authority given by the board shall be effected in the same way that any other matter may be proposed to and resolved upon by the board under the provisions of these articles save that:
 - (i) the relevant director and any other director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority; and

¹ FF note: To discuss conflicts. Situational conflicts to be approved on appointment.

- (ii) the relevant director and any other director with a similar interest may, if the other members of the board so decide, be excluded from any board meeting while the Conflict is under consideration.
- (D) Where the board gives authority in relation to a Conflict:
- (i) the board may (whether at the time of giving the authority or subsequently) (a) require that the relevant director is excluded from the receipt of information, the participation in discussion and/or the making of decisions (whether at meetings of the board or otherwise) related to the Conflict, and (b) impose upon the relevant director such other terms for the purpose of dealing with the Conflict as it may determine;
 - (ii) the relevant director will be obliged to conduct himself in accordance with any terms imposed by the board in relation to the Conflict;
 - (iii) the board may provide that where the relevant director obtains (otherwise than through his position as a director of the company) information that is confidential to a third party, the director will not be obliged to disclose that information to the company, or to use or apply the information in relation to the company's affairs, where to do so would amount to a breach of that confidence;
 - (iv) the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded); and
 - (v) the board may revoke or vary such authority at any time but this will not affect anything done by the relevant director prior to such revocation in accordance with the terms of such authority.

78. OTHER CONFLICTS OF INTEREST

- (A) If a director is in any way directly or indirectly interested in a proposed contract with the company or a contract that has been entered into by the company, he must declare the nature and extent of that interest to the directors in accordance with the Act.
- (B) Provided he has declared his interest in accordance with Article 78(A) a director may:
 - (i) be party to, or otherwise interested in, any contract with the company or in which the company has a direct or indirect interest;
 - (ii) hold any other office or place of profit with the company (except that of auditor) in conjunction with his office of director for such period and upon such terms, including as to remuneration, as the board may decide;
 - (iii) act by himself or through a firm with which he is associated in a professional capacity for the company or any other company in which the company may be interested (otherwise than as auditor);

- (iv) be or become a director or other officer of, or employed by or otherwise be interested in any holding company or subsidiary company of the company or any other company in which the company may be interested; and
 - (v) be or become a director of any other company in which the company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other company.
- (C) A director shall not, by reason of his office or of the fiduciary relationship thereby established be liable to account to the company for any remuneration, profit or other benefit realised by reason of his having any type of interest authorised under Article 77(A) or permitted under Article 78(B) and no contract shall be liable to be avoided on the grounds of a director having any type of interest authorised under Article 77(A) or permitted under Article 78(B).

DIRECTORS' GRATUITIES AND PENSIONS

79. DIRECTORS' GRATUITIES AND PENSIONS

Subject to the articles, the board may exercise all the powers of the company to provide benefits, either by the payment of gratuities or pensions or by insurance or in any other manner whether similar to the foregoing or not, for any director or former director or the relations, connections or dependants of any director or former director who holds or has held any executive office or employment with the company or with any body corporate which is or has been a subsidiary of the company or with a predecessor in business of the company or of any such body corporate and may contribute to any fund and pay premiums for the purchase or provision of any such benefit. No director or former director shall be accountable to the company or the members for any benefit provided pursuant to this Article and the receipt of any such benefit shall not disqualify any person from being or becoming a director of the company.

PROCEEDINGS OF DIRECTORS

80. BOARD MEETINGS

Subject to the provisions of the articles, the board may regulate its proceedings as it thinks fit. A director may, and the secretary at the request of a director shall, call a meeting of the board

81. NOTICE

Notice of a meeting of the board shall be deemed to be properly given to a director if it is given to him personally or by word of mouth or sent in writing to him at his last known address or any other address given by him to the company for this purpose, or by any other means authorised in writing by the director concerned. Notice shall be given in this manner to all directors including any director who is for the time being absent from the United Kingdom. A director may waive notice of any meeting either prospectively or retrospectively.

82. VOTING

Questions arising at a meeting shall be decided by a majority of votes. A director who is also an alternate director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.

83. QUORUM

The quorum for the transaction of the business of the board may be fixed by the board and unless so fixed at any other number shall be two. A person who holds office only as an alternate director shall, if his appointor is not present, be counted in the quorum.

84. DIRECTORS BELOW MINIMUM THROUGH VACANCIES

The continuing directors or a sole continuing director may act notwithstanding any vacancies in their number, but, if the number of directors is less than the number fixed as the quorum, the continuing directors or director may act only for the purpose of filling vacancies or of calling a general meeting.

85. CHAIRMAN

The chairman shall be the person appointed pursuant to Article 68(A). In the absence of such appointment the directors may appoint one of their number to be the chairman of the board and may at any time remove him from that office. Unless he is unwilling to do so, the chairman shall preside at every meeting of the board at which he is present. But if there is no director holding that office, or if the director holding it is unwilling to preside or if the chairman is not present within five minutes after the time appointed for the meeting, the directors present may appoint one of their number to be chairman of the meeting.

86. VALIDITY OF ACTS OF BOARD OR COMMITTEE

All acts done by the board, or by a committee of directors, or by a person acting as a director or member of a committee shall, notwithstanding that it be afterwards discovered that there was a defect in the appointment of any director or member of a committee or person so acting or that any of them were disqualified from holding office, or had vacated office, or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified and had continued to be a director or member of the committee and had been entitled to vote.

87. RESOLUTION IN WRITING

A resolution in writing signed by all the directors entitled to receive notice of a meeting of the board (if that number is sufficient to constitute a quorum) or by all the members of a committee of directors shall be as valid and effectual as if it had been passed at a board meeting or (as the case may be) a committee of directors duly convened and held and may consist of several documents in the like form each signed by one or more directors, but a resolution signed by an alternate director need not also be signed by his appointor and, if it is signed by a director who has appointed an alternate director, it need not be signed by the alternate director in that capacity.

88. PARTICIPATION IN BOARD MEETINGS BY TELEPHONE

All or any of the members of the board or any committee of the board may participate in a board meeting or that committee by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to hear each other. A person

so participating shall be deemed to be present in person at the meeting and shall be entitled to vote or be counted in a quorum accordingly. Such a meeting shall be deemed to take place where the largest group of those participating is assembled, or, if there is no such group, where the chairman of the meeting then is.

89. PERMITTED INTERESTS AND VOTING

- (A) Save as otherwise provided by the articles, a director shall not vote at a meeting of the board or of a committee of directors on any resolution concerning a matter in which he has, directly or indirectly, an interest or duty unless that interest or duty cannot reasonably be regarded as likely to give rise to a conflict of interest or his interest or duty arises only because the case falls within one or more of the following paragraphs:
- (i) the resolution relates to the giving to him of a guarantee, security, or indemnity in respect of money lent to, or an obligation incurred by him for the benefit of, the company or any of its subsidiaries; and/or
 - (ii) the resolution relates to the giving to a third party of a guarantee, security, or indemnity in respect of an obligation of the company or any of its subsidiaries for which the director has assumed responsibility in whole or part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security; and/or
 - (iii) his interest arises by virtue of his subscribing or agreeing to subscribe for any shares, debentures or other securities of the company or any of its subsidiaries, or by virtue of his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of any such shares, debentures, or other securities by the company or any of its subsidiaries for subscription, purchase or exchange; and/or
 - (iv) the resolution relates in any way to a retirement benefits scheme which has been approved, or is conditional upon approval, by the HM Revenue and Customs for taxation purposes.

For the purposes of this Article, in relation to an alternate director, an interest of his appointor shall be treated as an interest of the alternate director without prejudice to any interest which the alternate director has otherwise.

- (B) A director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.
- (C) The company may by ordinary resolution suspend or relax to any extent, either generally or in respect of any particular matter, any provision of the articles prohibiting a director from voting at a meeting of the board or of a committee of directors.
- (D) Where proposals are under consideration concerning the appointment of two or more directors to offices or employments with the company or any body corporate in which the company is interested the proposals may be divided and considered in relation to each director separately and (provided he is not for another reason precluded from voting) each of the directors concerned shall be entitled to vote and

be counted in the quorum in respect of each resolution except that concerning his own appointment.

- (E) If a question arises at a meeting of the board or of a committee of directors as to the right of a director to vote, the question may, before the conclusion of the meeting, be referred to the chairman of the meeting and his ruling in relation to any director other than himself shall be final and conclusive.

SECRETARY

90. APPOINTMENT AND REMOVAL OF COMPANY SECRETARY

Subject to the provisions of the Act, the secretary shall be appointed by the directors for such term, at such remuneration and upon such conditions as they may think fit, and any secretary so appointed may be removed by them.

MINUTES

91. KEEPING OF MINUTES

The directors shall cause minutes to be made in books kept for the purpose:

- (A) of all appointments of officers made by the directors; and
- (B) of all proceedings at meetings of the company, of the holders of any class of shares in the company, and of the board, and of committees of directors, including the names of the directors present at each such meeting.

DIVIDENDS

92. DECLARATION OF DIVIDENDS

Subject to the provisions of the Act and the articles, the company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the board. Save in respect of dividends paid pursuant to Article 9(D), the aggregate dividends paid in any accounting period of the company shall not exceed the greater of 40 per cent. of the company's net profits after tax in such accounting period and any dividend floor set by the Special Shareholder for such accounting period (as communicated by the Special Shareholder to the company in writing (in accordance with these articles) for the five financial years commencing with such accounting period).

93. PAYMENT OF INTERIM AND FIXED DIVIDENDS BY BOARD

Subject to the provisions of the Act and the articles, the board may pay interim dividends if it appears to it that they are justified by the profits of the company available for distribution. If the share capital is divided into different classes, the board may pay interim dividends on shares which confer deferred or non-preferred rights with regard to dividend as well as on shares which confer preferential rights with regard to dividend, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear. The board may also pay at intervals settled by them any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment. Provided the directors act in good faith they shall not incur any liability

to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

94. CALCULATION OF DIVIDENDS

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, but no outstanding amount paid up on a share in advance of the applicable call date shall be treated for the purposes of this Article as paid up on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but, if any share is issued on terms provided that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.

95. DIVIDENDS NOT IN CASH

A general meeting declaring a dividend may, upon the recommendation of the board, direct that it shall be satisfied wholly or partly by the distribution of assets and, where any difficulty arises in regard to the distribution, the board may settle the same and in particular may issue fractional certificates and fix the value for distribution of any assets and may determine that cash shall be paid to any member upon the footing of the value so fixed in order to adjust the rights of members and may vest any assets in trustees.

96. PAYMENT OF DIVIDENDS

Any dividend or other moneys payable in respect of a share may be paid by cheque sent by post to the registered address of the person entitled or, if two or more persons are the holders of the share or are jointly entitled to it by reason of the death or bankruptcy of the holder, to the registered address of that one of those persons who is first named in the register of members or to such person and to such address as the person or persons entitled may in writing direct. Every cheque shall be made payable to the order of the person or persons entitled or to such other person as the person or persons entitled may in writing direct and payment of the cheque shall be a good discharge to the company. Any joint holder or other person jointly entitled to a share as aforesaid may give receipts for any dividend or other moneys payable in respect of the share.

97. NO INTEREST ON DIVIDENDS

No dividend or other moneys payable in respect of a share shall bear interest against the company unless otherwise provided by the rights attached to the share.

98. AMOUNTS DUE ON SHARES MAY BE DEDUCTED FROM DIVIDENDS

The board may deduct from any dividend or other moneys payable to a member by the company on or in respect of any shares all sums of money (if any) presently payable by him to the company on account of calls.

99. FORFEITURE OF UNCLAIMED DIVIDENDS

Any dividend which has remained unclaimed for twelve years from the date when it became due for payment shall, if the directors so resolve, be forfeited and cease to remain owing by the company.

100. RESERVES AND SECTION 72 OF THE POSTAL SERVICES ACT 2000

Upon receipt by the company or any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)) of a direction made pursuant to section 72 of the Postal Services Act 2000 (a “**section 72 direction**”) the company shall and shall procure that any member of the group to whom that section 72 direction applies shall:

- (A) forthwith comply with the terms of the section 72 direction;
- (B) (unless the Special Shareholder shall have expressly consented to the contrary in accordance with Article 10.1) keep government securities of a value at least equal to the amount allocated or re-allocated to the reserve in compliance with the section 72 direction (together with interest accruing from time to time on such government securities) deposited to be held against and back such reserve; and
- (C) within 3 business days of the latest date specified in the section 72 direction pursuant to section 72(2) of the Postal Services Act 2000 confirm in writing to the Special Shareholder that:
 - (I) it, or the relevant member of the group (as appropriate), has duly complied with the terms of the section 72 direction;
 - (II) the allocations or re-allocations to the reserve described in the section 72 direction have been duly effected; and
 - (III) the government securities referred to in Article 100(B) above have indeed been duly deposited to be held against and back such reserve,
 - (IV) and the provisions of this Article 100(A) and (C) shall apply mutatis mutandis in respect of the receipt by the company or any member of the group (other than a subsidiary which is a USP Listco (and its subsidiaries)) of a direction made pursuant to section 74 of the Postal Services Act 2000.

ACCOUNTS**101. RECORDS TO BE KEPT**

The board shall cause to be kept accounting records sufficient to show and explain the company’s transactions, and such as to disclose with reasonable accuracy at any time the financial position of the company at that time, and which accord with the Act.

CAPITALISATION OF PROFITS**102. POWER TO CAPITALISE RESERVES AND FUNDS**

The board may with the authority of an ordinary resolution of the company:

- (A) subject as hereinafter provided, resolve to capitalise any undivided profits of the company not required for paying any preferential dividend (whether or not they are available for distribution) or any sum standing to the credit of the

company's share premium account or capital redemption reserve (including retained earnings);

- (B) appropriate the sum resolved to be capitalised to the members who would have been entitled to it if it were distributed by way of dividend and in the same proportions and apply such sum on their behalf either in or towards paying up the amounts, if any, for the time being unpaid on any shares held by them respectively, or in paying up in full shares or debentures of the company of a nominal amount equal to that sum, and allot the shares or debentures credited as fully paid to those members, or as they may direct, in those proportions, or partly in one way and partly in the other, but the share premium account, the capital redemption reserve, retained earnings, and any profits which are not available for distribution may, for the purposes of this Article, only be applied in paying up shares that are then to be allotted and distributed to members credited as fully paid;
- (C) resolve that any shares so allotted to any member in respect of a holding by him of any partly paid shares shall so long as such shares remain partly paid rank for dividend only to the extent that the latter shares rank for dividend;
- (D) make such provision by the issue of fractional certificates or by payment in cash or otherwise as they determine in the case of shares or debentures becoming distributable under this Article in fractions; and
- (E) authorise any person to enter on behalf of all the members concerned into an agreement with the company providing for the allotment to them respectively, credited as fully paid, of any shares or debentures to which they are entitled upon such capitalisation, any agreement made under such authority being binding on all such members.

RECORD DATES

103. RECORD DATES

Notwithstanding any other provision of these articles, but without prejudice to the rights attached to any shares, the company or the directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared, paid or made. Where such a record date is fixed, references in these articles to a holder of shares or member to whom a dividend is to be paid or a distribution, allotment or issue is to be made shall be construed accordingly.

NOTICES

104. NOTICES IN WRITING

Any notice to be given to or by any person pursuant to the articles shall be in writing except that a notice calling a meeting of the board need not be in writing

105. SERVICE OF NOTICES

Subject to the articles, the company may give any notice to a member either personally, by post in a prepaid envelope addressed to the member at his registered address or by leaving it at that address or such other means (which may include electronic means) to which the

member has provided (and not revoked) its written consent for the receipt of such notices In the case of joint holders of a share, all notices shall be given to the joint holder whose name stands first in the register of members in respect of the joint holding and notice so given shall be sufficient notice to all the joint holders. A member whose registered address is not within the United Kingdom and who gives to the company an address within the United Kingdom at which notices may be given to him shall be entitled to have notices given to him at that address, but otherwise no such member shall be entitled to receive any notice from the company.

106. DEEMED RECEIPT OF NOTICE BY MEMBERS PRESENT AT MEETING

A member present, either in person or by proxy, at any meeting of the company or of the holders of any class of shares in the company shall be deemed to have received notice of the meeting and, where requisite, of the purposes for which it was called.

107. SHAREHOLDERS BOUND BY NOTICE

Every person who becomes entitled to a share shall be bound by any notice in respect of that share which, before his name is entered in the register of members, has been duly given to a person from whom he derives his title.

108. TIME OF SERVICE

- (A) Any notice, document or other information, if served, sent or supplied by the company by post, shall be deemed to have been received on the day following that on which it was posted if first class post was used or 48 hours after it was posted if first class post was not used and, in proving that a notice, document or other information was served, sent or supplied, it shall be sufficient to prove that the notice, document or other information was properly addressed, prepaid and put in the post.
- (B) Any notice, document or other information not served, sent or supplied by post but left by the company at a registered address or at an address (other than an address for the purposes of communications by electronic means) notified to the company in accordance with these articles by a person who is entitled by transmission to a share shall be deemed to have been received on the day it was so left.
- (C) Any notice, document or other information served, sent or supplied by the company using electronic means shall be deemed to have been received on the day on which it was sent notwithstanding that the company subsequently sends a hard copy of such notice, document or information by post. In proving that a notice, document or other information served, sent or supplied by electronic means was served, sent or supplied, it shall be sufficient to prove that it was properly addressed.
- (D) Any notice, document or other information served, sent or supplied by the company by any other means authorised in writing by the member concerned shall be deemed to have been received when the company has carried out the action it has been authorised to take for that purpose.

109. SERVICE OF NOTICE ON PERSON ENTITLED BY TRANSMISSION

A notice may be given by the company to the persons entitled to a share in consequence of the death or bankruptcy of a member by sending or delivering it, in any manner authorised by the articles for the giving of notice to a member, addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt or by any like description at the address, if any, within the United Kingdom supplied for that purpose by the persons claiming to be so entitled. Until such an address has been supplied, a notice may be given in any manner in which it might have been given if the death or bankruptcy had not occurred.

WINDING UP**110. DISTRIBUTION OF ASSETS OTHERWISE THAN IN CASH**

If the company is wound up, the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the Act, divide among the members *in specie* the whole or any part of the assets of the company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he with the like sanction determines, but no member shall be compelled to accept any assets upon which there is a liability.

INDEMNITY**111. INDEMNITY OF DIRECTORS**

To the extent permitted by the Act the company may indemnify any director, former director or company secretary of the company against any liability and may purchase and maintain for any director or former director or company secretary of the company insurance against any liability. No director or former director or company secretary of the company shall be accountable to the company or the members for any benefit provided pursuant to this Article and the receipt of any such benefit shall not disqualify any person from being or becoming a director of the company.

PROVISIONS RELATING TO ARTICLES 9 AND 10**112. ARTICLES SUBJECT TO RELEVANT LAW**

- (A) Nothing contained in Articles 9 or 10 shall have effect so as to require the company or any of the directors to (i) take any action, (ii) omit to take any action, or (iii) procure that any subsidiary of the company takes or omits to take any action which action or omission would, in the reasonable opinion of the board of the company or of such subsidiary, give rise to criminal or civil liability on the part of the company, such subsidiary or any of the directors of the company or such subsidiary, or any liability on any of the aforesaid for breach of any statutory or common law duty or requirement (for the purposes of this Article 112, a “**relevant breach**”).
- (B) If a relevant breach is capable of ratification by the shareholders of the company or subsidiary concerned, and such ratification would have the effect of removing or avoiding the consequences of the relevant breach (insofar as such consequences affect or would affect the company or subsidiary or any of their respective directors), then subject to the shareholders concerned

providing a written undertaking to the company or subsidiary, as the case may be, that the requisite ratification will be provided, the action or omission which would (but for ratification), have given rise to the relevant breach shall be effected or, as the case may be, procured by the company as though this Article 112 did not apply in relation thereto.

- (C) For the purposes of this Article 112, the “**reasonable opinion of the board**” in relation to a matter shall mean the reasonable opinion of the board of directors of the company or subsidiary concerned, having (i) as soon as is reasonably practicable taken and having had due regard to appropriate legal and/or financial advice, (ii) following the receipt of such advice, having promptly provided the same to the Special Shareholder and consulted with the Special Shareholder in relation to the said advice, and to the formation of the board’s opinion on the relevant matter, and having had due regard to the views (if any) of the Special Shareholder notified to it in relation thereto, and (iii) where the Special Shareholder gives notice under Article 112(D), having had due regard to the independent advice consequently received and having consulted the Special Shareholder in relation thereto.
- (D) If in any case where the company or the directors seek to rely upon Article 112(A) in respect of any matter, the Special Shareholder has within 7 days of receipt of legal and/or financial advice pursuant to Article 112(C) notified the company that it requires independent advice to be taken in relation to the relevant matter(s) from an independent legal and/or financial adviser approved by the Special Shareholder, such advice to be addressed to the company, its directors and the Special Shareholder, the company shall (i) obtain such advice, and (ii) subject to Article 112(A) not take any decision or action in relation to the relevant matter until such advice shall have been obtained and the board shall have consulted the Special Shareholder in relation thereto.
- (E) Nothing in this Article 112 shall fetter any statutory power or remove or alter any obligation imposed on any person by statute.

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Post Office Limited – Strictly ConfidentialPOLARC13 (1st)
POLARC13/1- 13/8**POST OFFICE LIMITED**
(Company no. 2154540)**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held on
Wednesday 13 February 2013 at 1.15pm
at 148 Old Street, London EC1V 9HQ****Present:**

Alasdair Marnoch	Chairman of Committee
Neil McCausland	Senior Independent Director
Susannah Storey	Non-Executive Director

In attendance:

Alice Perkins	Chairman, Post Office Limited
Paula Vennells	Chief Executive (CEO)
Chris Day	Chief Financial Officer (CFO)
Susan Crichton	HR & Corporate Services Director
Sarah Hall	Head of Financial Control and Compliance
Alwen Lyons	Company Secretary
Mark Davies	Communications Director (item 13/4 only)
Malcolm Zack	Head of Internal Audit

Stephen Collins	Audit Manager, Royal Mail Group Internal Audit (item 13/5 only)
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Apologies for absence: Tim Franklin

POLARC13/1		INTRODUCTION
	(a)	A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present.
POLARC13/2		MINUTES OF THE LAST MEETING AND MATTERS ARISING
ACTION: Chris Day	(a)	The minutes of the meeting held on 13 November 2012 were <u>approved</u> for signature by the Chairman of the Committee.
	(b)	The CFO reported that there was one final item to agree before he could confirm the external audit fees payable for 2012/2013 but he was content with the value being offered and would report the final fee to the Committee once it had been finalised.
	(c)	The following minutes were <u>noted</u> :- Post Office Limited and Bank of Ireland (UK) Regulatory Risk Committee held on 16 November 2012 Post Office Limited and Bank of Ireland (UK) Regulatory Risk Committee held on 12 December 2012 Post Office Risk & Compliance Committee held on 21 January 2013.

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<p>ACTION: Susan Crichton</p> <p>ACTION: Susan Crichton</p>	<p>(d) It was agreed that in future, instead of the minutes of the above Risk Committees being presented to the ARC for noting, Susan Crichton, as Chair of the Risk & Compliance Committee would provide a summary of the key issues covered.</p> <p>(e) Susan Crichton explained the changes to the Post Office's Speak Up Policy (Whistleblowing) and the plan to communicate to Staff in April. The policy was <u>noted</u> by the Committee who requested a report on the issues raised at the end of 2013-2014, with any significant matters highlighted in the interim.</p>
POLARC13/3	RISK MANAGEMENT WITHIN POST OFFICE LIMITED
<p>ACTION: Susan Crichton/ Alasdair Marnoch</p> <p>ACTION: Susan Crichton/ Alasdair Marnoch</p>	<p><u>Risk Management Strategy 2013-2014</u></p> <p>(a) Malcolm Zack presented the Post Office Limited's Risk Management Strategy for 2013-2014. The current status of the Enterprise Risk Management (ERM) framework was <u>noted</u>.</p> <p>(b) The next stage of the ERM development was <u>agreed</u> and would be <u>recommended</u> to the Post Office Limited Board.</p> <p>(c) The Committee discussed the Risk Management Strategy for 2013-2014 and the relationship between the Risk & Compliance Committee, the Audit and Risk Committee, the Executive Committee and the Board. It was <u>agreed following</u> the completion of the Strategy both the Business and the Board would identify the key material risks (top 5-10) which would be brought back to the ARC in the autumn for consideration.</p> <p>(d) <u>Regulatory Risk Framework and Controls</u> The Committee considered the Regulatory Risk Framework currently in place for Post Office Limited and thanked the Business for the comprehensive list of regulation identified.</p> <p>(e) Susan Crichton stressed the need for a clear view on risk appetite and the costs involved with assurance and mitigation. She asked the Committee to recognise that this was work in progress. The Committee <u>endorsed</u> the proposed approach to monitoring, and <u>agreed</u> that the Committee should review the Regulatory Risk Framework later in the year once the risk appetite work had been completed.</p> <p>(f) <u>Treasury Risk Management</u> The CFO presented the Treasury risk management framework, policies and authorities to the Committee. The Chairman thanked him for the full report and the Committee discussed each principal treasury risk, as set out below.</p>

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<p>ACTION: Susan Crichton</p>	<p>(g) <u>Foreign exchange Risk</u> The CFO explained that, although large volumes of currency were held by the Business, the value at risk was relatively small. Tim Franklin had asked the Business to consider the effect of reducing the number of currencies held as this would reduce complexity and cost. The CFO acknowledged that the ‘long tail’ of currencies with relatively few sales did add complexity.</p> <p>The Chairman asked if forward hedging a month was effective. The CFO explained that the current regime was very risk averse and time consuming and was an area which he would reconsider.</p>
<p>ACTION: Chris Day</p>	<p>(h) <u>Interest Rate Risk</u> The CFO explained that the Business was affected by both sides of the interest rate market and that he would only be concerned if the market became volatile.</p>
<p>ACTION: Malcolm Zack</p>	<p>(i) <u>Insurance Risk</u> The Committee asked the Business to consider the need for Professional Indemnity Insurance cover as it moved into the area of financial services advice.</p>
<p>ACTION: Chris Day</p>	<p>(j) <u>Counterparty Risk</u> The CFO presented the list of counterparties and reassured the Committee that any proposed additions would be presented to the Committee for approval. The Committee asked that the list be updated to show the parent company and highlight where a parent company guarantee existed. The list of counterparties was noted.</p> <p>The Committee discussed the flow of Government funds and the possible advantage for the Business and the Government of a different approach. The CFO was asked to explore the possibility with ShEx but ensuring this would not put receiving the agreed funding at risk.</p>
<p>POLARC13/4</p>	<p>ANNUAL REPORT AND ACCOUNTS</p>
	<p>Mark Davies joined the meeting</p>
	<p>(a) The Committee considered the plans for the publication of the Post</p>

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<p>ACTION: Mark Davies</p> <p>ACTION: Neil McCausland/ Susannah Storey</p> <p>ACTION: Mark Davies</p> <p>ACTION: All</p> <p>ACTION: Mark Davies/ Alwen Lyons</p>	<p>Office's Report and Accounts (R&A) for the financial year 2012/2013 which included the key messages, together with a proposed timeline for clearance of the report. It was agreed that the R&A should aim to change people's perception of the Business by being concise and engaging, showing solid progress but with a sense of realism and excitement.</p> <p>The Chairman advised the Business to compare the R&A to those produced by mid-cap or small private limited companies as these were often more concise than those produced by big corporations.</p> <p>(b) Neil McCausland explained the pressure from Government for full disclosure in the Directors' Remuneration Report. The Remuneration Committee had agreed with advice from New Bridge Street (Remuneration Consultants) an appropriate level of disclosure. Susannah Storey recommended checking with ShEx that we are in line with the other companies in which they hold a share.</p> <p>The Committee stressed the need to be prepared for the questions which would be raised by the disclosures in the Directors' Remuneration Report.</p> <p>(c) The first draft of the Board Chairman's Foreword had been circulated and the Committee were asked to provide comments to Mark Davies and Alice Perkins.</p> <p>Tim Franklin had asked that the Business consider if there was a subject on which it would want to make a public statement in the R&A. He gave, as an example, the easy way in which customers were able to move their bank current accounts.</p> <p>The plans for the publication of the Post Office's Report and Accounts for the financial year 2012/2013 were <u>noted</u>. The Committee asked for a high level detailed milestone plan showing when the Board would be required to input and who was signing off which parts of the document.</p> <p>Mark Davies left the meeting.</p>
POLARC13/5	INTERNAL AUDIT
	<p>(a) Stephen Collins joined the meeting.</p> <p>(b) Malcolm Zack presented the activity report for the internal audit function, which the Committee <u>noted</u>.</p> <p>(c) The Chairman asked that future Internal Audit Reports include the outcomes required from the Audit and a timeline showing when those outcomes would be delivered so that they could be tracked. Susan Crichton explained that this detail was scrutinised by the Risk and Audit Committee and it would be included in the summary requested by the ARC. (POLARC 13/2 (d)).</p>

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<p>ACTION: Malcolm Zack</p> <p>ACTION: All</p> <p>ACTION: Malcolm Zack</p> <p>ACTION: Malcolm Zack</p>	<p>(d) Malcolm Zack reported the progress in setting up the Post Office internal audit team and how this would enable a more flexible approach.</p> <p>The proposed internal audit plan for the financial year 2013/2014 was considered and reviewed. The Business was asked to ensure it had enough focus on the major transformation programmes in both Network and IT.</p> <p>The Chairman asked that any other comments be forwarded to the Head of Internal Audit.</p> <p>It was <u>agreed</u> that</p> <p>(i) the remaining contracted 100 man days from the Royal Mail Internal audit function be utilised in the first quarter of the 2013/2014 financial year, with a view to exiting from the Royal Mail support by 30 June 2013 at the latest;</p> <p>(ii) the Internal audit plan for 2013/2014 be <u>approved</u> subject to an increased focus on transformation programmes; and</p> <p>(iii) a copy of the approved Internal Audit plan be circulated to the Risk and Compliance Committee, and the Executive Committee.</p> <p>Stephen Collins left the meeting</p>
POLARC13/6	MATTERS REFERRED TO ARC BY THE BOARD
<p>ACTION: Lesley Sewell</p> <p>ACTION: Lesley Sewell</p>	<p><u>Update report on Information Security</u></p> <p>(a) The Committee <u>noted</u> the paper on Information Security. The Chairman explained that he had already asked Lesley Sewell to focus on the immediate actions required to ensure the matter was progressed to mitigate the significant risks.</p> <p>The Committee asked for an update in the CEO's Board Report explaining the specific actions being taken.</p> <p>(b) <u>Bank of Ireland (UK) plc Capital and Liquidity</u> The Committee <u>noted</u> Bank of Ireland (UK) plc's capital and liquidity position against its regulatory and Eagle contract requirements, which had met the terms of the joint venture agreement. Tim Franklin had assured the Chairman that he was comfortable with the current position and the on-going agreed monitoring.</p>
POLARC13/7	ANY OTHER BUSINESS
	None was reported.
POLARC13/8	CLOSE
	There being no further business, the meeting was declared closed.

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PC 13/18-13/25

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

**Minutes of a meeting of the Pensions Sub-Committee of the Board
held at 148 Old Street, London EC1V 9HQ on Wednesday 1 May 2013**

Present: Virginia Holmes (VH) – in the Chair
Chris Day (CD)
Susannah Storey (SS)

In Attendance: Susan Crichton (SC) HR & Corporate Services Director
Sarah Hall (SH) Head of Financial Control and Compliance
Ken Potter (KP) Pensions Adviser
Harpreet Singh (HS) Pensions Adviser
Tim Giles (TG) AON Hewitt (from item 13/23)
Zoe Taylor (ZT) AON Hewitt (from item 13/23)
Gill Catcheside (GC) Secretariat

PC 13/18 OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 13/19 MINUTES OF PREVIOUS MEETING AND MATTERS ARISING

The minutes of the meeting held on 4 March 2013 were approved for signature by VH subject to the following amendment:

Minute PC13/08(c) Delete penultimate sentence and insert "It was agreed that pension risk matters would be a separate item reported by ARC to the Board as required."

The minutes of the meeting held on 8 April were approved for signature by VH.

The actions list as at March 2013 was noted.

The following matters arising from the minutes were discussed:

- a) PC13/08(c) – It was noted that the Audit, Risk & Compliance, and Risk & Compliance, committees had accepted responsibility for pension risks.
- b) PC13/12 – CD reported that the use of equity options had not yet been explored, and a review of the investment criteria was still outstanding. It was noted that the issue would be discussed at the May meeting of the Investment Working Group. CD undertook to report back to VH/SS offline.

ACTION: CD

PC 13/20 PROJECT ROBIN

SC reported that Royal Mail was trying to get Union support for the Project Robin proposals. Whilst conversations with CMA (Communications Manager's Association) had been broadly positive, the CWU (Communication Workers Association) was generally not supporting

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Project Robin in RMG or Post Office in the context of other issues. The CWU was already involved in strike action over pay issues with the Post Office. SC reported that the consultation document paper had been delayed as RMG wanted to carry out the consultation with the support of the unions. There had been problems trying to engage with the unions (the CWU had not turned up to the last meeting arranged) as to why Project Robin was broadly a good thing, and the unions wanted confirmation that all other options had been considered. The Committee was advised that RMG were planning to issue the warm up letter and consultation document after the 22 May. The reason for the delay was that the CWU was sending out a ballot to its members for support with regards to pay and privatisation, and RMG felt it would prefer that pensions and Wren were not added to the strike action ballot. It was noted that if Post Office wanted to consult at a different time from RMG it would be best to discuss this with the Trustee and RMG in the first instance. CD/SC would decide whether to engage with the Trustee regarding the consultation process, with a view to discussing the issue at Executive Committee and then Board level.

ACTION: CD

The Committee discussed whether the valuation would be delayed because of the issues with Project Robin, SC replied it probably would. VH asked whether the valuation could be signed on the current basis without the consultation documents being issued. Chris Day stated that he was meeting with Chris Hogg and he would discuss valuation and obtain the Trustee's view. VH offered to accompany Chris Day if a meeting with Joanna Mathews was required.

PC 13/21

PENSION IMPLICATION OF POTENTIAL SALE OF RMG

The paper on the pension implications arising from a potential sale of RMG was considered by the Committee. HS confirmed that should RMG be sold or privatised, RMG only had to serve three months' notice to Post Office to cease its participation in the Scheme. Should this occur Post Office would need to be ready to establish its own Defined Benefit (DB) and Defined Contribution (DC) Schemes. On a DB basis, the new Scheme would have to "mirror" the benefits of the current Scheme.

ACTION: KP/HS

The Committee was advised that it was difficult to estimate the potential costs involved in setting up the new Schemes, but that these could be in the region of £2 million. It was noted that one of the issues that would need to be examined if the Post Office was allowed to remain in the existing Scheme what was the basis on which it would be permitted to do so. For example, would Post Office cease to be a participating employer and become an associated employer? If the latter were to occur, it was envisaged that the Post Office would no longer necessarily have a legal entitlement to have a say in the pension policy of the Scheme. It was agreed that a paper should be prepared setting out the various scenarios that could occur based upon the sale or partial sale of RMG.

ACTION: KP/HS

VH asked that any approaches to potential providers in order to complete this initial paper should involve the Post Office procurement team who would also need to be involved in any subsequent full RFP process

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PC13/22

REPORT ON RECENT INTERACTION WITH THE TRUSTEES

CD reported that he had met with Gerry Degaute and his successor, Chris Hogg. CD confirmed that Post Office's business aims had been discussed. CD also stated it had been indicated that the Trustee would agree to a 17.1% contribution rate from Post Office to the Scheme. The Committee noted that engagement meetings with the Trustee Executive had been positive; it was however recommended that CD also endeavour to meet with Joanna Matthews in the near future.

PC13/23

INVESTMENTS

Tim Giles and Zoe Taylor of AON Hewitt joined the meeting.

(a) The Committee considered the draft letter to Trustee regarding the investment allocation and hedging strategies for the Post Office section of the Scheme. It was noted that the extension of the liability hedge had been reduced from six to three years. The trigger points were discussed. It was noted that a hard trigger would result in an automatic action when an event occurred, whereas a soft trigger would result in action only after consultation between the Trustee and the Post Office. The Committee noted that all trigger points within the strategy were now agreed as being soft.

ACTION: CD

It was agreed that, subject to the last sentence on page one being taken out, and the word "any" being taken out of the last sentence of the Return Seeking Assets section, the draft letter be approved and sent to the Trustee. VH queried whether it would be appropriate to state in the letter what the actual target was. TG stated that it was broadly the same; Post Office was targeting a 3-4% return above cash, whilst the Trustee was looking for a return of 1.5% above Gilts. It was noted that the two returns were comparable so adding to the letter was not necessary.

It was noted that the Trustee would, following receipt of the letter, prepare the transition plan, and the Committee would be looking for the proposed transition strategy to be specified/clarified.

ACTION: TG

(b) The Committee discussed with AON Hewitt whether it was appropriate for Post Office to seek external validation of the performance reporting and monitoring carried out by the Trustee as the Committee felt that current investment reporting was very superficial. It was agreed that a qualitative review would be useful, with a commentary on whether the strategy was delivering what was required.

TG undertook to provide (i) set-up costs of getting the Investment reporting from the Trustee to a standard acceptable to Post Office and (ii) on-going costs of providing a qualitative review of the Investment Report.

It was noted that the half year figures would be reported at the September Committee meeting.

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PC 13/24

ANY OTHER BUSINESS

(a) IAS 19

SH reported that following the application of the IAS 19 assumptions agreed at the April meeting, the surplus on the balance sheet was approximately £97 million. It was noted that the assumptions agreed were consistent with those used by Royal Mail.

(b) Date of next meeting

It was agreed that the next meeting would take place at 10am on Tuesday 10 September 2013 at 148 Old Street, London EC1V 9HQ.

PC 13/25

CLOSE

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

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POLARC13 (3rd)
POLARC13/16-13/22

POST OFFICE LIMITED
(Company no. 2154540)

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on Tuesday 21 May 2013
at 148 Old Street, London EC1V 9HQ**

Present:

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

In attendance:

Alice Perkins	Chairman, Post Office Limited
Paula Vennells	Chief Executive (13/16 – 13/19 only)
Chris Day	Chief Financial Officer (13/16 – 13/19 only)
Sarah Hall	Head of Financial Control and Compliance (13/16 – 13/19 only)
Alwen Lyons	Company Secretary
Angus Grant	Ernst & Young
Jeremy Midkiff	Ernst & Young

Apologies for absence:

Susan Crichton	HR & Corporate Services Director
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POLARC13/16

INTRODUCTION

- (a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed all those present emphasising the that the Committee had been called to review the first set of Annual Accounts as a business operating independent of Royal Mail Group, which they would then recommend to the Post Office Board for approval.
- (b) It was noted following the Board meeting on the 20th March Susannah Storey had relinquished her role on the Audit and Accounts Committee.

POLARC13/17

PRESENTATION OF DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 31 MARCH 2013

- (a) The CFO introduced the Post Office Limited Annual Report and Financial Statements for the 2012-13 financial year and the supporting briefing book. He explained that the accounts had been prepared as a stand-alone group to best practice plc reporting standards.
- (b) The CFO led the Committee through key points of note in the briefing book. They discussed the rise in 'other operating costs' driven by investment in brand and future growth and asked the business to ensure that a clear explanation was included in the document. The Committee discussed the segmental analysis of product pillar costs and the possible misunderstanding about the direct allocations of costs

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- to products. It was agreed that the information had to be included but that the introduction of product P&L reporting would help to make things clearer in the future although this might take 2-3 years to complete. The Chairman asked the business to expand on the explanation of the cost of sales to make it clear that they are directly attributable costs only.
- ACTION: Sarah Hall**
- ACTION: Sarah Hall**
- (c) The increase in headcount was raised and Sarah Hall explained that this was partly driven by the Network Transformation programme and that a further disclosure note breaking down the headcount was required and would be added.
- (d) The Quality of Earnings section of the briefing book was discussed and it was noted that, excluding the increased investment in projects of £27m, the earnings had improved by £30m. Once adjustments for timing and other corrections were made the underlying earnings improvement was reduced to £24m. It was noted that this was internal analysis for information and was agreed that the Quality of Earnings would not be included in this year's Report and Accounts but would be monitored by the business, along with benefit realisation, for possible inclusion in a future year's accounts.
- ACTION: CFO**
- (e) Sarah Hall was asked to include an explanation on the movement in the client receivables and payables within working capital in the Financial Review
- ACTION: CFO**
- (f) The Committee discussed the proposed changes to the Going Concern evaluation in the Corporate Governance Code and the possible effect on the business in future years. Angus Grant reported that the changes were still out to consultation. The Chairman asked that the proposals be brought to a future Committee for discussion.
- ACTION: Chairman**
- (g) The Committee agreed the Annual Report and Financial Statements and agreed that the Chairman of the Committee would give a verbal recommendation to the Board that:
- the Annual Report and Financial Statements should be approved; and
 - authority be delegated for reviewing final amendments and completing the Annual Report and Financial Statements on behalf of Post Office Limited to a Sub-Committee, the quorum for which to comprise any three of Alice Perkins, Paula Vennells, Chris Day and Alasdair Marnoch, with final signoff from the Board Chairman.

POLARC13/18

AUDIT RESULTS REPORT

- (a) Copies of the report produced by Ernst & Young, setting out the external auditor's preliminary conclusions on the financial position and results of operations of POL for the financial year ended 31 March 2013, had been circulated to all those present at the meeting..
- (b) Angus Grant confirmed the independence of the external auditor and

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commented on the approach to the audit and its scope.

- (c) The significant audit and accounting issues set out in the report were discussed in detail, together with the key internal control findings. It was recognised that despite the significant challenges facing the business in separating from Royal Mail Group and delivering Network Transformation, Ernst & Young reported a very smooth audit process and anticipated that an unqualified audit report would be issued
- (d) The auditors had reviewed and agreed the appropriateness of the Going Concern basis for preparation of the financial statements.
- (e) They congratulated the business for the improvements in the IT controls, stressing that this had been driven by good governance and a tight control framework. The co-ordinated audit between Finance and IT was highlighted as a success and Sarah Hall and Lesley Sewell were to be thanked for their input.
- (f) The auditors raised one legacy issue which had been highlighted in the HRSAP (an RMG system) with in appropriate access available to individuals. The change had been requested of RMG but would take some time to deploy, so check controls had been put in place in the interim.
- (g) There was discussion around the classification of accruals and provisions for Subpostmasters and Crown staff payments. The business explained that the amounts were measureable and were intended to be paid after negotiations with the CWU and NFSP were completed and therefore stood by their classification as an accrual.
- (h) Angus Grant summarised that the audit was complete. There would be a review for post balance sheet events just prior to signing. He expected the report to show a clean audit. He congratulated the business on the progress in the last year, with all issues closed off and tighter controls in place.
- (i) The Chairman thanked Ernst & Young for their report, which would now be made final.
- (j) Angus Grant reiterated the independence of the external auditor and explained that he had contacted the Chairman of the Committee to report that a different team at Ernst & Young were bidding for work which might cause a possible conflict. The Chairman was comfortable with the independence and thanked Angus for the transparency in highlighting the possible issue.
- (k) The Committee noted the report.

POLARC13/19

**UPDATE ON VARIOUS FINANCIAL SERVICES MATTERS,
INCLUDING BANK OF IRELAND (UK) PLC CAPITAL & LIQUIDITY**

- (a) The Committee noted the update on various Financial Services matters, including Bank of Ireland (UK) plc capital & liquidity.

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The Post Office Limited executives left the meeting.

POLARC13/20

OPPORTUNITY FOR AUDITOR COMMENTS

- (a) The auditors reported that the business always engaged in good constructive dialogue and was easy to work with. The Committee asked how the control environment would benchmark against the market. Angus Grant reported that in his opinion, after the improvements in the IT controls, both the control environment and management capability were on the border of 1st and 2nd top quartile. Even whilst managing the separation the controls had remained in place.
- (b) When asked where improvements could be made Jeremy Midkiff suggested that the business could further develop its skills in the tax/treasury area. Angus Grant also proposed that the Business focus on developments in the regulatory landscape, and suggested he brief the CFO and Susan Crichton (HR & Corporate Services Director).

ACTION: CFO

ACTION: CFO

- (c) The Chairman asked the CFO to update the Board in September.

POLARC13/21

DATE OF NEXT MEETING

- (a) Wednesday 5 June 2013 14.00-16.00

POLARC13/22

CLOSE

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

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POLARC13 (4th)
13/23-13/26

POST OFFICE LIMITED
(Company no. 2154540)

**Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held
on Wednesday 5 June 2013
By correspondence**

Present:

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

In attendance:

Alwen Lyons	Company Secretary
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POLARC **INTRODUCTION**
13/23

- (a) It was noted that a meeting of the Committee was to be held by correspondence to consider three items of business.

POLARC **BENEFITS REALISATION GOVERNANCE**
13/24

- (a) A Benefits Realisation Governance paper had been circulated to the Committee on 30 May 2013 for its consideration and input. The Committee noted the recommended approach for the measurement of financial benefits and post investment reviews.
- (b) Tim Franklin asked that, emphasis be given, through personal objectives, to ensure individuals understood their responsibility for benefits realisation.
- (c) Committee members responded in writing to the Company Secretary approving the proposed governance approach for managing and reviewing the delivery of financial benefits derived from business investments.

POLARC **INTERNAL AUDIT ACTIVITY UPDATE AND REVISED Q2 PLAN**
13/25

- (a) The Internal Audit Activity Update and Revised Q2 Plan had been circulated to the Committee on 30 May 2013 for its consideration and input.
- (b) Committee members responded in writing to the Company Secretary noting the Internal Audit Activity update and revised Q2 plan.

POLARC **INTERNAL AUDIT TRANSITION - AUDIT DEFINITIONS AND REPORTING**
13/26

- (a) The Internal Audit Transition – Audit Definitions and Reporting paper had been circulated to the Committee on 30 May 2013 for its consideration and input.
- (b) Committee members responded in writing to the Company Secretary noting the changes of reporting styles from Royal Mail to Post Office Internal Audit.

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PC 13/26-13/27

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

**Minutes of a meeting of the Pensions Sub-Committee of the Board
on Wednesday 5 June 2013
Held by Correspondence**

Present: Virginia Holmes (VH)
Chris Day (CD)
Susannah Storey (SS)

In Attendance: Gill Catcheside (GC) Secretariat

PC 13/26

INTRODUCTION

It was noted that a meeting of the Committee was to be held by correspondence to consider an additional assumption for the Post Office Limited's year-end financial statements.

PC 13/27

ADDITIONAL ASSUMPTION FOR FRS 17

A paper on an additional assumption for FRS 17 had been circulated to the Committee on 3 June 2013 for its consideration and input. It was noted that, in preparing the Annual Accounts it had emerged that the UK standard FRS 17 had not been updated to align with the change in IAS 19. It was further noted that the change required a return on assets assumption which the Committee were asked to consider.

Committee members responded in writing to the Company Secretary approving the proposed FRS 17 return on assets assumption disclosure as outlined in the paper.

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POLB 13(6th)
POLB 13/47-13/50

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

Minutes of a Board meeting held on 24 June 2013
Held by conference call

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Mark Davies	Communications Director
Sue Barton	Strategy Director
Kevin Gilliland	Network and Sales Director

POLB 13/47

INTRODUCTION

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

POLB 13/48

2013/20 STRATEGIC PLAN – CURRENT STATUS

- (a) The Board received an update on the progress being made to obtain Shareholder approval for the 2013/2020 Strategic Plan (the Strategic Plan). The Board were informed that KPMG's formal report was due for submission that day and that the focus was now on engaging with the Department for Business, Innovation and Skills (BIS) on outstanding issues.
- (b) The Board discussed the negotiating mandate, agreed at the May Board, and focussing on the key topics which had been circulated in advance of the meeting. They discussed amendments to the mandate in relation to the Government's desire to ensure NFSP support for the Strategic plan; access points; the future of the NFSP and mutualisation.

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- (c) The Board agreed that they would prefer any additional money to be funded by BIS but accepted that the business may need to find part of the additional investment, but only to the level agreed in the original mandate. They stressed that any increase in compensation could not increase the long-term cost base of the business and that the NFSP would need to show active support for Network Transformation.
- (d) The Board would require a Letter of Understanding to lay out the NFSP commitments to get the maximum possible benefit for any additional investment.
- (e) The Board clarified the assumptions in the plan mandate:
 - 1. Any additional funding for NFSP support should be provided by BIS
 - 2. The Business could commit to growing the Network by 2000 access points by 2020
 - 3. Include the Future of the NFSP 'low down' in the memorandum/ commitment letter with commitments kept to a minimum
 - 4. Mutualisation timeline as agreed at the away day to be re-circulated to the Board before it is shared with BIS
- (f) The Board agreed that authority would be required from the Strategy and Funding Board Sub-Committee to move to a position of:
 - 1. Post Office funding up to a maximum of £40m in 2015/16 and £40m in 2016/17
 - 2. Commitment to a target for additional access points before 2020.
- (g) Any changes beyond these assumptions and mandate would need to return to the Board
- (h) The original and amended mandates are shown as an Appendix to these minutes.
- (i) The Chairman summarised that the Board position. They were reluctant to offer more money for compensation and would like to stick to the original strategic plan. If additional Post Office investment became unavoidable the Board wanted this kept to a minimum within the mandate agreed with the maximum benefit possible and the NFSP specific agreement that they would support the process.

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POLB 13/49

NETWORK TRANSFORMATION PROGRAMME

- (a) The Board discussed the Business's capacity to deliver the scheduled approach to Network Transformation and whether it could commit to a target of conversions completed for this year, to give the Board and the Minister more confidence in the delivery of both contracts signed and branches opened.
- (b) Kevin Gilliland explained the danger in pushing sub postmasters to open too quickly and achieving a suboptimal result. However he recognised the need to move with pace and was expecting the vast majority of contracts signed last year to be open by November. The Board suggested a split of the investment money to encourage the sub postmaster to complete the project more quickly. Kevin Gilliland was asked to consider different ways to incentivise the sup postmasters to try to reduce the time from contract signature to the branch being open.
- (c)

ACTION:
Kevin Gilliland

The Board would have preferred a formal target for branch openings for the financial year 2013/14 but accepted the difficulty of setting such a target. Kevin Gilliland and the CFO were asked to present the NT scorecard (including value for money) to the September Board.

ACTION: Kevin
Gilliland/ CFO

POLB 13/50

CLOSE

There being no further business the meeting was declared closed

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POLB 13(7th)
POLB 13/51-13/55

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

Minutes of a Board meeting held on 1st July 2013
held by conference call

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer
Chris Day	Chief Financial Officer

In Attendance:

Alwen Lyons	Company Secretary
Mark Davies	Communications Director
Sue Barton	Strategy Director
Kevin Gilliland	Network and Sales Director

POLB 13/51

INTRODUCTION

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

POLB 13/52

HORIZON

- (a) The CEO apologised for the short notice in keeping the Board updated but explained that issues had arisen over the last couple of days. She gave an update on the Horizon review which was being undertaken by Second Sight and their interim report which was to be presented at a meeting of MPs on the 8th July. The investigation to date had found no systemic issues with the Horizon computer system but had highlighted areas for improvement in support areas such as training.
- (b) The CEO explained that the Horizon, like any large computer system, would occasionally have anomalies and two were known over recent years. The Business had dealt with these anomalies to ensure no sub postmaster was out of pocket and these anomalies had not affected any of the cases which Second Sight had reviewed. Second Sight had been told of these anomalies and they would include them in their report.

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- (c) The CEO was concerned that the report from the independent forensic accountants was not as factual as expected and could lead to loose language at the MP meeting.

ACTION:
CEO/
Mark Davies

- (d) The Board asked the Business to challenge Second Sight to ensure changes were made to the report where possible and asked the Business to prepare their communication to combat any inaccuracies.

POLB 13/53

MUTUALISATION TIMELINE

- (a) Sue Barton reported that all the changes discussed at the Board Awayday had been incorporated into the mutualisation timeline and that it would clearly show that the strategic plan milestones referred to the year-end dates for 2013-2020. It had been agreed with BIS that the report would timeline would be an internal document not for publication.

POLB 13/54

2013/20 STRATEGIC PLAN – CURRENT STATUS

- (a) Sue Barton gave an update on the NFSP sessions underway where she and Kevin Gilliland had shared the strategic plan. It was clear that their main concern was the enhanced compensation although the NFSP understood that there was no headroom in the plan for additional payments.

- (b) The Chairman explained that the Secretary of State had agreed to a meeting and was now getting involved in the process and that she and the CEO were meeting him and the Minister on the 11th July. He understands the scheduled approach but wants the Business to consider a 'cliff' to incentivise the sub postmasters to convert or loose the opportunity for investment. Sue Barton explained that this would not persuade Sub postmasters to move until the date of the 'cliff' as they would want to retain their Core Tier Payment for as long as possible.

- (c) The Board discussed the need to move at pace to defend the position especially in the mails market, and whether the move to network expansion could be the solution. Sue Barton explained that although the advantage of Network expansion was speed and cost, the increasing the network could cannibalise the work from existing branches and make them even less viable.

ACTION: Sue Barton

- (d) Sue Barton was asked to develop an option which incorporated the idea of a 'cliff' as suggested by the Secretary of State but ensuring that there were levers to ensure sub postmasters were incentives to leave early. This was to be presented to the Board before the

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meeting with SoS on the 11th July

POLB 13/55

CLOSE

There being no further business the meeting was closed

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POLB 13(8th)
POLB 13/56-13/58

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

Minutes of a Board meeting held on 9th July 2013
held by conference call

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer

In Attendance:

Alwen Lyons	Company Secretary
Mark Davies	Communications Director
Sue Barton	Strategy Director
Kevin Gilliland	Network and Sales Director

POLB 13/56

INTRODUCTION

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

POLB 13/57

2013/20 STRATEGIC PLAN – CURRENT STATUS

- (a) Sue Barton reported to the Board that after further negotiations it was clear that the NFSP would not support a mandated approach to conversion. She explained the current discussions taking place, which sought to secure NFSP support for a mandated exit approach.
- (b) This scenario, a semi-compulsory approach could deliver the same outcome as the strategic plan albeit at a higher cost. The Mandated Exit comprised, incentive conversion with enhanced compensation and short term protection of Core Tier Payment, but with a 'cliff' where conversion becomes mandatory towards the end of 15/16
- (c) Sue Barton explained that comparing the profile of the two options, highlights a small shortfall in the number of conversions through to April 2018, however the Business believed this could be addressed through network expansion activity.

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ACTION:
Sue Barton

- (d) The Board asked for a summary page to explain the mandated exit approach and its effect on investment cost and timing. This summary is shown as an appendix to these minutes.
- (e) The Board agreed that the Business should present two alternatives to the Secretary of State and the Minister, at their meeting on the 11th July.
 - 1. The preferred Board option as laid out in the strategic plan, with enhanced compensation.
 - 2. A second approach of mandatory exit including the 'carrot and cliff' for conversion as discussed.

The presentation should be as short as possible but with two slides articulating the different outcomes for cost and timing and stressing the need for a solution which enables the Transformation to be completed at pace, because of the rapid changes in the market.

POLB 13/58

CLOSE

There being no further business the meeting was closed

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POLB 13(6th)
POLB 13/47-13/63

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

Minutes of a Board meeting held on 16 July 2013
at 148 Old Street, London EC1V 9HQ

Present:

Alice Perkins	Chairman
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer
Chris Day	Chief Financial Officer

Apologies for Absence:

Neil McCausland	Senior Independent Director
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In Attendance:

Alwen Lyons	Company Secretary
Sue Barton	Strategy Director (items 13/49-13/50)
Lesley Sewell	Chief Information Officer (13/49 only)
Nick Kennett	Director of Financial Services (13/52)

POLB 13/47

INTRODUCTION

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

POLB 13/48

BOARD EFFECTIVENESS REVIEW

- (a) The Board received the report of the Board Effectiveness review carried out in June/July 2013.
- (b) The Chairman thanked the Board for their time and explained the process for one to one feedback. The Board discussed the balance between challenge, rigour and support and the CEO stressed that the Business expected to be challenged. She would be disappointed if the Board did not support through challenge while being open to the Executives challenging back where they thought appropriate.
- (c) The Board discussed the papers received from the Executive Committee members and agreed that in future the content of the papers would not be presented at the Board meeting so as to free

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**ACTION:
The Board**

up time for discussion. The papers needed to be clear, not overly optimistic, and commercially focussed so questions of fact would not be necessary. They should also arrive in good time. The Chairman asked the Board to contact the ExCo member responsible for a paper before the meeting if they were unclear or didn't have the necessary detail. The Board also asked for earlier warning when risks and issues arise to ensure that they were not 'blindsided'.

- (d) The Board thought that it would be valuable to have some discussions with the minimum of paperwork where the NEDs shared their own thinking rather than reacting to the Executives' proposals e.g. on strategic risk.
- (e) The Board discussed the use of their time and agreed that the frequency and length of Board meetings was right and where possible Sub Committees should not be held on the same day as Board meetings.
- (f) The focus on risks at the September meeting could help form the forward agendas for the following year. It was also agreed that the Board could help with stakeholder engagement, with more exposure to the unions and the shareholder. The Chairman reminded the Board that Mark Russell was to return to a meeting in the autumn and that she had invited Robin Budenberg, Chairman of UKFI and formerly with UBS where he oversaw the banks' relationships with HM Treasury, to the November Board.
- (g) The Board asked for more exposure to the network and expressed a need to understand the economics of the different network models. The Company Secretary was asked to organise individual branch visits for NEDs if required. The Board agreed that a future meeting would be held at the Camden Branch including a discussion with the Branch Manager about the economics of running a Crown Office.

**ACTION:
Company Secretary****ACTION:
CFO**

- (h) The CFO was asked to produce a piece of analysis to explain the economics of the network models and set up a workshop for those NEDs who would find it helpful.

**ACTION:
CFO**

- (i) The Board discussed the use of advisors and the CFO was asked to provide a paper highlighting the processes in place for monitoring the use of advisors, procuring advisors and negotiating their terms.
- (j) The Board's relationship with the ExCo and the SLT was discussed and it was agreed that Board members would be advised of the

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ACTION:
Company Secretary

dates of SLT Quarterly Business Updates and they would be welcome if they wanted to attend but no other formal SLT engagement would be put in place.

(k) The Board noted the Board Effectiveness Review and agreed the actions in the paper along with:

- the Board would continue with 2 away days a year
- the Board would be offered opportunities to attend NT openings or meetings with stakeholders if they were available
- the production of a forward look for future agendas
- the addition of an index for the Reading Room and a log of decisions taken at the end of the Board minutes.

ACTION:
Company Secretary

POLB 13/49

IT SUPPLY CHAIN PROCUREMENT ACTIVITY

(a) Sue Barton, Strategy Director, and Lesley Sewell, Chief Information Officer joined the meeting.

IT&C Transformation Programme

(b) Lesley Sewell updated the Board on the current status of the procurements for a Service Integrator (SI) and a Strategic Data Centre. The Board asked if the proposed solution would enable further outsourcing in the future. Lesley Sewell explained that the change would reduce the headcount by 50% whilst giving a foundation for further outsourcing and enable the Business to move to more stable suppliers. The Board questioned the timing and whether the SI could be in place before the sub-contracts are awarded. Lesley Sewell explained that the Business was being pushed by RMG separation deadlines and this was the reason that the SI and sub-contractor had to be done concurrently.

(c) The Board would be asked to approve the award of contracts for the Data Centre and Service Integrator/Strategic Data Centre to the Post Office's selected bidders at the September 2013 meeting. It was noted that the Service Integrator award would also require approval from the Shareholder Executive.

Transitional Support Services with Fujitsu

(d) Lesley Sewell presented a paper on the Transitional Support Services supplied by Fujitsu. She explained that there were few options apart from remaining with Fujitsu in the short term.

(e) The CEO flagged two risks to the Board - the first around RMG and

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the preparedness for separation and the second the Horizon risk around Fujitsu. She explained that the legacy contract had to be normalised through proper public procurement but that there were short term issues which were difficult to resolve such as IP, ownership of which was mixed between the two businesses.

- (f) Before it could make a decision on the extension of the contract for two years the Board asked for more detail on the economics of the deal being negotiated with Fujitsu, the changes from the current contract, and its impact on the Strategic plan numbers. Lesley Sewell and CFO were asked to circulate a paper seeking agreement by correspondence once the Board members were comfortable.

ACTION:
CFO/Lesley Sewell

POLB 13/50

PROGRESS REPORT ON GOVERNMENT FUNDING AND STRATEGIC PLAN

- (a) The Board received a verbal update from Sue Barton and the CEO on the progress with the Government funding and Strategic Plan. The CEO explained that the meeting with Secretary of State (SOS) and Minister had enabled the Business to explain that inaction or delay was not an option. The feeling was that if the Minister would support mandated exit the SOS would also do so.
- (b) Sue Barton assured the Board that BIS and the Minister realised that a mandatory approach as set out in the strategic plan was still the Board's and the Business's preferred option. She explained that the alternative approach, which the Business had considered after pressure from the NFSP and the shareholder, could have some benefits. Ministers would need to be advised as to whether to alternative approach has the Board's backing before their meeting with officials the following day.
- (c) Sue Barton explained the alternative approach as set out in appendix A of these minutes. The Board agreed to the following recommendations provided they stayed within the Board mandate and were positioned as a last resort:
1. To continue to position £218m as the amount necessary to deliver a mandated exit option
 2. That no deferral be offered as part of the solution, as this would leave the Business exposed in the later years of the plan and put breakeven back by a year.
 3. To position the incremental cost of this alternative option as investment which BIS would need to fund.
- (d) The Board agreed to the principles of the alternative approach subject to the conditions that:
- There is a cliff within the alternative solution. This is transparent, clearly communicated both at a national and

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individual sub-postmaster level, backed by Government. Individual letters would be sent out to sub-postmasters

- Cost of the option is covered by additional Government funding. A shortfall can be covered by the business within the agreed mandate
- NFSP support must be clearly set out in a MOU and must include agreement to support openly and unconditionally
- Must have a mandate to exit sub-postmasters.

ACTION:
Sue Barton

(e) The CFO confirmed that he remained comfortable that the headroom of £40m in 2015/16 and 2016/17 would be available and therefore supported the mandate.

(f) Sue Barton would write to BIS setting out the alternative approach as agreed by the Board. The Chairman offered to write to the SOS at an appropriate time to explain that while the Board understood the political difficulties, this alternative was not our preferred approach and the risks it brought to the business.

(g) The Board discussed the protection of community offices and Sue Barton explained the conflict for the NFSP as some of their members who run offices which will be designated 'community' would be restricted from exiting. This was still being worked through with the NFSP.

(h) The CEO explained that the Business was working on the proof of concept for network extensions and that although this was politically very attractive there were many interdependencies which needed to be understood and it would be the last quarter of the year before the Business could sign up to any targets.

(i) The Board asked whether the Business could sign up to a conversions target by 2014/15, either a number or percentage of branches converted. Sue Barton said it would be difficult to suggest a target without NFSP co-operation to the programme. The NFSP were calling a special conference to agree any proposal so any agreement was likely to be at the beginning of September.

ACTION:
Company Secretary

(j) The Board agreed to weekly Board calls over the summer whilst the negotiation continues and requested a paper 24 hours before any call setting out an update and the substance of any discussion.

ACTION:
Sue Barton

(k) The Chairman asked for a note setting out the expected timeline and milestones over the next two months.

(l) The Chairman thanked Sue Barton for some excellent work and Sue Barton left the meeting

(m) The Chairman asked the CEO to consider additional support for the Strategy Director during the negotiations. The CEO explained that things had been moving very quickly but accepted that the Business needed to be better at anticipating and 'horizon-scanning'.

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POLB 13/51

HORIZON UPDATE

- (a) The CEO explained that although the Second Sight report had been challenging it had highlighted some positive things as well as improvement opportunities. The Business had been praised in Parliament for setting up the independent review; the proportionality of the tiny number of cases had been emphasised; and no systemic issues had been found with the Horizon computer system. However there were cultural issues which had to be addressed to improve the support we gave to sub-postmasters. The CEO stressed that this was now a catalyst to make changes in the Business.
- (b) The Board were concerned that the review opened the Business up to claims of wrongful prosecution. The Board asked if Susan Crichton, as General Counsel, was in anyway implicated in the prosecutions. The CEO reported that, up until eighteen months ago, Royal Mail Group Limited (RMG) had run the criminal law team and many of the cases in the review had arisen before separation. The CEO explained that the Business was a prosecuting authority and as such brought its own prosecutions. However since separation the General Counsel had proposed moving to the more normal position of using the CPS for prosecutions; this was being explored.
- (c) The Board expressed strong views that the Business had not managed the Second Sight review well and stressed the need for better management and cost control going forward.
- (d) The Board accepted that this was an independent review and therefore things could happen that were beyond the control of the Business.
- (e) However the things that could be managed by the Business needed to be well managed with strong leadership and the Board asked the CEO if she had considered changing the person leading for the Business.
- (f) The CEO had considered this and recognised that the Business did not have good governance in place around Second Sight, but that the independence of the review, and the input from MPs and Justice for Sub-Postmasters (JFSA) had made this complicated.
- (g) The Chairman asked for a review, a post mortem, to report to the ARC explaining how we awarded and managed the contract. This should be put in hand swiftly.

**ACTION: Susan
Crichton**

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ACTION: CEO (h) The Board asked the CEO to decide on the way forward in terms of the leadership of this work based on the option which had least risk for the Business.

ACTION: CFO (i) The CFO was asked what the insurance position was. He promised the Board a note on this. He was also asked to ensure the both RMG and the Business' insurers were given notice of the review findings.

POLB 13/52

FINANCIAL SERVICES STRATEGY UPDATE

ACTION: (a) Nick Kennett, Financial Services Director, joined the meeting and took questions on the Financial Services Strategy update paper.

Nick Kennett (b) The Board asked for a noting paper setting out the Mercer recommendation for the new Financial Services Sales incentive scheme.

(c) The Board congratulated Nick on the pace at which things were changing and suggested that, because of the scale of the contributions to the strategic plan and the reputational risk of the manner of delivery, a Board Sub-Committee be convened to support the executive team.

ACTION: (d) Nick Kennett was asked to work with the Company Secretary and the CFO (with input from Tim Franklin and Virginia Holmes) to draw up Terms of Reference for the FS Board Sub-Committee.

Nick Kennett (e) Nick Kennett explained the work being undertaken to enhance the Brand and make the Post Office a destination point for FS products.

(f) The Board asked when the Business would know if the strategy to move up the value chain with its additional benefits, costs and risks was working. Nick Kennett suggested it would be Autumn 2015 before this was clear.

ACTION: (g) Nick Kennett was asked for a note to be circulated to the Board explaining the impact on the strategic plan in 2015/16 and 2016/17 of the transition from Junction for general insurance, and the effect on the bottom line.

Nick Kennett

The Directors noted the Financial Services Strategy update, and the Success Criteria for Project Polo.

POLB 13/53

FINANCIAL PERFORMANCE UPDATE

(a) The Board received a financial performance update for period 2 2013, and the flash results for Period 3 from the CFO.

(b) The CFO explained that the results for period 3 had seen an

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improvement on period 2, although the greatest risk to the plan remained in mails income. The Mails team were still comfortable that they would recover the position after what had been a significant downturn in small packets after the price rise.

- (c) The CFO explained that the risk to income has put more pressure on cash and the need to reduce the cost of service delivery support functions by 20% over the next 3 years. He explained that the ExCo were going through a reforecasting exercise and this would make it clearer how much pressure would need to be put on reducing spend.
- (d) The Board asked for visibility of the decisions being taken by the ExCo. The CFO was asked to produce a note to the Board by the end of July beginning of August showing the reforecast and the list of optional spend decisions which the Business has taken, or could take if required. This would be spend which didn't drive revenue this year or next year.

ACTION: CFO

POLB 13/54

CHIEF EXECUTIVE'S REPORT

- (a) The Board noted the Chief Executive's report and discussed the following specific items:
- (b) The CWU had called a half day strike on the 17th July and were holding a rally, with MPs invited at Portcullis House. The feedback has been that, so far, this is not causing any lasting detriment to customers or the Business. There will a full report to the September Board with options on the way forward.

**ACTION: Kevin
Gilliland**

POLB 13/55

PENSIONS

- (a) Chris Day updated the Board on three Pensions issues.
- (b) The pension actuarial valuation has been delayed and the Trustee has informed the pensions regulator. The final date for the valuation is set at 30th September.
- (c) The formal consultation for changes to the pension scheme started on the 21st June and will run until the 25th August. To date the CMA are engaged with the process but do not support the changes, and the CWU have not engaged with the process.
- (d) The Business has agreed the investment allocation with the Trustee who were rebalancing the asset allocation.

POLB 13/56

GROUP STRUCTURE

- (a) The Board received a paper on the planned changes to the structure of the wider Group to facilitate an IPO of RMG.
- (b) The CFO was asked to check with the corporate insurers to ensure this had no detrimental effect to the cover or cost.

ACTION: CFO

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ACTION: CFO

- (c) The CFO was asked for a note to the Board explaining the implications for Tax and VAT of any structure changes and subsequent total separation
- (d) The Board:-
- (i) noted the planned changes to the structure of the wider Group to facilitate an IPO of RMG;
 - (ii) noted the anticipated changes to the operation of Royal Mail Holdings plc (RMH);
 - (iii) noted the additional duties that were likely to become Post Office Limited's responsibilities and that they would incur additional cost; and
 - (iv) approved delegation of authority to Alwen Lyons, the Company Secretary, and/or Susan Crichton, HR & Corporate Services Director (in the form set out in Appendix 1) to approve and execute any documents necessary to remove the references to the RMG Special Share and the RMH Special Share in the Company's Articles of Association and to do any act or thing required to be done by the Company to give full effect to, or in connection with, the actions outlined in the Board paper.

**ACTION:
Company Secretary**

POLB 13/57

MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

- (a) The minutes of the Board meeting held on 21 May 2013 were approved for signature by the Chairman.
- (b) The notes of the discussions and actions from the Board Awayday held on 18 and 19 June 2013 were noted.

The CFO reported that the work on outsourcing, discussed at the Awayday, was progressing and the India visit was set for September. This would be brought back to the September Board.

POLB 13/58

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the minutes of the Remuneration Committee meeting held on 1 May 2013.

POLB 13/59

STATUS REPORT

- (a) The Status Report, showing matters outstanding from previous Board meetings, was noted.

POLB 13/60

ITEMS FOR NOTING

- (a) The Board noted the Health and Safety report.

The Board asked if there was a reason for the increase in Road Traffic accidents. The CEO explained that this had already been identified by the Business and the issue was being reported back to

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the September 'Road Forum' for investigation. Any actions would be reported to the Board in a future Health and Safety report.

- (b) The Board noted the Significant Litigation report.
- (c) 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 1040 to 1058 inclusive in the seal register was hereby confirmed.

POLB 13/61

PROPOSED BOARD DATES 2014 AND Q1 2015

- (a) The Company Secretary tabled proposed Board, and some Committees, dates for 2014 and Q1 2015. The Board members were asked to feed back any issues by 19th July.

ACTION: ALL

POLB 13/62

ANY OTHER BUSINESS

The CFO reported that the Report & Accounts had been signed with a target date of the 7th August for publication.

POLB 13/63

CLOSE

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

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POLB 13(6th)
POLB 13/64

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

Minutes of a Board meeting held by Correspondence on 26 July 2013

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Alasdair Marnoch	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer
Chris Day	Chief Financial Officer
Alwen Lyons	Company Secretary

POLB 13/64

Transitional Support Services with Fujitsu

It was noted that a meeting of the Board was to be held by correspondence to consider more fully the contract negotiations for Transitional Support Services ("TSS") with Fujitsu.

It was further noted that at the meeting of the Board held on 16 July 2013, the Board had asked for additional detail on the economics of the deal being negotiated with Fujitsu, the changes from the current contract, and its impact on the Strategic plan numbers, before it could make a decision on the extension of the contract for two years. Lesley Sewell and CFO had circulated a paper to all Directors setting out the requested information on 19 July 2013.

Having considered the information, the Board recognised that the Business had little choice other than to renew.

The Board therefore:

- (a) approved the 2 year TSS agreement with Fujitsu valued at up to £83M; and
- (b) noted that approval for authority to contract the TSS agreement with Fujitsu would need to be sought from the Shareholder Executive in July, which would allow the Business to conclude negotiations and execute the TSS agreement with Fujitsu before 30 September 2013.

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POLB 13(10th)
POLB 13/65-13/67

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

Minutes of a Board meeting held on 31st July 2013
held by conference call

Present:

Alice Perkins	Chairman
Neil McCausland	Senior Independent Director
Alasdair Marnoch	Non-Executive Director
Chris Day	Executive Director

In Attendance:

Sue Barton	Strategy Director
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Apologies for absence:

Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Susannah Storey	Non-Executive Director
Paula Vennells	Chief Executive Officer

POLB 13/65

INTRODUCTION

A quorum being present, the Chairman opened the meeting.

POLB 13/66

2013/20 STRATEGIC PLAN – STATUS UPDATE

- (a) The Board noted the Status Update dated 29 July 2013 for the 2013/20 Strategic Plan. Sue Barton advised that it was now clear that including a commitment around the future of the NFSP would be essential to securing agreement. It was reported that the team were progressing on the basis of the negotiating mandate which had been given by the Board. This was noted by the Board with the view that being proactive and having some control on this activity could be beneficial.
- (b) The Board discussed the form and timing of the cliff. There was concern around the extent to which this could impact upon our ability to deliver the outcome we need on the transformation of the network. Having heard more detail from the team around the context, possible alternative approaches and the testing/evaluation which the team were progressing, the Board agreed the following:
 - (i) The team can continue to explore alternative options around conversion.
 - (ii) The outputs of this analysis activity must be clear for any

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proposed option:

- The timing and format of any future compulsion
- The impact of the approach in terms of numbers and profile of conversion (update of red/grey/yellow line graph)
- The impact of the approach in terms of funding
- The underlying assumptions and conditions
- The conditions we would put in place to ensure we get 'bite' in commitment from NFSP and Government.

(iii) The realpolitik of securing a NFSP special conference 'yes' vote should be considered – testing the reaction of different populations to the future network transformation proposals.

(c) The Board agreed that the next weekly call should take place on 19 August 2013.

POLB 13/67

CLOSE

There being no further business the meeting was closed.

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PC 13/28-13/29

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board
on 1 August 2013
Held by Correspondence

Present: Virginia Holmes (VH)
Chris Day (CD)
Susannah Storey (SS)

In Attendance: Larissa Wilson (LW) Secretariat

PC 13/28

INTRODUCTION

It was noted that a meeting of the Committee was to be held by correspondence to consider an update on the professional fees incurred since last discussed on 4 March 2013 and to seek authority for new fees arising.

PC 13/29

PROFESSIONAL FEES

The Committee received a paper on the professional fees for Aon Hewitt and Towers Watson (the Paper) on 25 July 2013 for its consideration and input.

Committee members responded in writing to LW. They noted the fees incurred to date and approved the fees proposed in paragraph 2.2 of the Paper.

**Action: Secretariat/
Sarah Hall**

However, VH and SS raised concerns over the quantum of fees. It was agreed that the approach to professional fees be considered at the next Pensions Committee in the Autumn. VH recommended that the Business consider negotiating a fixed fee structure or a fee cap.