



**EXECUTIVE COMMITTEE
AGENDA
for the meeting to be held on 15 January 2015 in Room 501**

Present: Paula Vennells (Chair), Alisdair Cameron, Gavin Lambert, Mark Davies, Lesley Sewell, Kevin Gilliland, Alwen Lyons, Martin George, Chris Aujard, David Ryan, Neil Hayward, Henk Van Hulle,

Apologies: Nick Kennett

In attendance: Paul Bleasby, Giles Dunning, Tom Moran and Julie George

Start time : 09.15hrs

End Time: 16.30hrs

Time	Item	ExCo Sponsor/Presenter
09.15-10.45	Technology Strategy and Transitional Plans incl. Fujitsu	Lesley Sewell / Paul Bleasby
10.45-11.00	BREAK	
11.00- 12.00	Scorecard & Financial Performance period 9 including Christmas Trading,	Alisdair Cameron
12.00-12.45	Mails Strategy Update	Martin George
12.45 - 13.15	LUNCH	
13.15 -14.00	Network Channel Update (incl. NT cliff)	Kevin Gilliland
14.00 - 15.00	Digital	Giles Dunning
15.00 - 15.15	BREAK	
15.15 - 15.45	Update on Sparrow - pre Board (Verbal)	Chris Aujard
15.45 - 16.00	Industrial Relations update (Verbal)	Neil Hayward / Tom Moran
16.00 - 16.15	Noting papers : <ul style="list-style-type: none"> • Cyber Security and Information Assurance Report • SME Update • Significant Litigation Report • Health and Safety Report • Strategic Risk 	Julie George/Lesley Sewell
16.15 - 16.30	AOB <ul style="list-style-type: none"> • Authorised Signatories 	Alwen Lyons
16.30	CLOSE	

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Post Office Ltd Executive Committee

Fujitsu Transition and Risk Management

1. Purpose

The purpose of this paper is to:

- 1.1 Update the ExCo on activities to manage the transition of Fujitsu as a key incumbent supplier.
- 1.2 Update the ExCo on the impact, key risks, mitigations and contingencies associated with migration from the existing Fujitsu Point of Service (POS) capability.

2. Background

- 2.1 As our primary incumbent supplier Fujitsu have been unsuccessful in securing any of our IT Tower procurements, including their largest source of annual Post Office revenue stream.
- 2.2 Fujitsu have formally stated to Post Office that they are working in 'exit mode' but they will fully support Post Office in achievement of a successful transition to a new supply chain. Continuity of the current service is not considered to be at risk.
- 2.3 Fujitsu supported the transition of Help Desk services to our Service Integrator, and are currently working on transition of Field Engineering services to our End User Computing provider. However, following their withdrawal from the Front Office procurement the risk profile associated with transition to a new provider has heightened.
- 2.4 Post Office is in the process of procuring a Front Office (POS) provider. The risk that Fujitsu would not win the bid, or could withdraw at any stage of the procurement was previously recognised as a potential outcome and a tolerable risk, which has now materialised. Regular updates have been prepared for ExCo and the Risk & Compliance Committee.
- 2.5 Fujitsu have communicated that it is their belief that the Post Office will be challenged to deliver its change initiatives. We have worked with Fujitsu to understand their concerns and perceived risks.

3. Activities/Current Situation

- 3.1 Transition to a new POS provider was a key component of the IT Strategy, and a managed exit from Fujitsu in part or in whole was a potential outcome of the IT Transformation.
- 3.2 Fujitsu will remain a key supplier to Post Office and we will continue to promote a close working relationship with them through the Home Phone Broadband contract, valued at £100m per annum. The current contractual term runs to September 2016, with an option to extend for a further two-years. This provides Fujitsu with an incentive to continue working collaboratively, and Post Office with some continued leverage.
- 3.3 Managing exit from a longstanding contract that has become intrinsically embedded in our business processes is not without risk, and it is recognised that this will need to be closely managed.

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- 3.4 The key risks that we envisage are that Fujitsu adopt a 'work to rule', or militant approach to working with the Post Office through transition.
- 3.5 We have taken action to prepare Post Office to mitigate and manage the risks. We have a plan and approach to developing our exit strategy and have appointed a dedicated Transition Manager for Post Office who will oversee all negotiations and interactions with Fujitsu through the transition period.
- 3.6 We are building risk mitigation plans for all services provided by Fujitsu to ensure that we drive value from operational service agreements, change requests and contract extensions.
- 3.7 Transition planning with bidders and the Tower providers is being reviewed to ensure we have a consistent and robust engagement strategy.
- 3.8 The Front Office procurement is in progress with three bidders remaining in the process: IBM, CSC (with Esher as a partner) and Accenture. Nomination of our Preferred Bidder is planned for Q4 FY2014/15. Dialogue to-date has confirmed that we have three credible solutions; the bidders have also demonstrated their ability to implement a suitable replacement for Horizon whilst delivering continuity of service within an acceptable risk appetite.
- 3.9 The Horizon solution we have today is complex, but comparable with POS solutions used by many other retailers in the market. The Front Office bidders have reinforced this view. In addition, through dialogue we have not currently identified a need to secure the Intellectual Property Rights (IPR) for Horizon. The option to commence IPR negotiations remains an option should this position change.
- 3.10 The transition from Horizon will be technically complex and this may challenge assumptions made by bidders. The Front Office bidders have stated that transition is achievable by March 2017 when the existing contract with Fujitsu expires.
- 3.11 To protect our business and provide contingency Post Office has started discussions with Fujitsu on the potential to secure a contract extension to ensure continuity of service.

4. Options Considered

- 4.1 Following the decision by Fujitsu to withdraw, consideration was given to suspend the procurement and enter into direct discussions with Fujitsu. This was rejected on the basis that the Towers had always carried the potential for Fujitsu not to be successful, and therefore managing exit was a known and accepted risk.

In addition, suspending the procurements carries a significant legal risk of a procurement challenge which would impede delivery of our strategic objectives.

5. Proposal

- 5.1 Complete planned activity on defining our exit strategy. This will include considering potential options to incentivise Fujitsu to work collaboratively with us through exit.

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- 5.2 Complete negotiations with Fujitsu to secure an extension to the existing contract end date. The period of the extension will be aligned to the transition plan from the Front Office bidder.
- 5.3 Review transition plans with Tower bidders to strengthen and stress test.
- 5.4 Provide regular updates to ExCo and the Board.

6. Commercial Impact/Costs

- 6.1 We are seeking a contract extension from Fujitsu as a contingency measure. Negotiations are in progress for periods of 6 to 18 months.

Should we extend the contract with Fujitsu this will delay benefit realisation from our Front Office, estimated at £7m. This will also lead to a requirement for additional investment to support continuity of the Horizon service for the period of the extension, estimated at £10-20m (a provision for this is not included in the BTr £269m of IT spend). The programme team are looking to mitigate any exposure by sharing any resulting exposure with the successful Front Office bidder.

7. Key Risks/Mitigation

The key risks and the associated mitigation actions are highlighted below:-

- 7.1 Fujitsu could adopt a 'work to rule', delaying or increasing the cost of achieving our strategy.

(Operations risk – Controlled)

Mitigation Actions

- Post Office are leveraging its wider relationship with Fujitsu and have appointed a dedicated Transition Manager to augment the current relationship management team;
 - To produce an agreed detailed plan of all of the 'transition activities' which can then be effectively monitored and controlled, in order to actively manage the relationship and incentive a positive transition;
 - A thorough Fujitsu related risk identification exercise has been carried out, with all risks being proactively managed (key risks only being presented as part of this paper);
 - To monitor Fujitsu performance against both agreed service levels and previous actual operating levels to assess and changes and to act accordingly.
- 7.2 There may be an IPR infringement during the Front Office procurement, as we will be required to provide bidders with an overview of the Horizon solution (this was initially asserted by Fujitsu). This could result in significant financial exposure.

Post Office believes it will not infringe IPR by sharing 'what' Horizon does; IPR extends only to the technical aspects, i.e. 'how' Horizon works. Fujitsu have agreed with this view.

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(Legal/Regulatory Risk – uncontrolled)

Mitigation Actions

- Gain further legal support throughout the front office procurement cycle to ensure the potential IPR risks are being effectively managed;
 - Continue to work with the three remaining Front Office bidders to gain feedback on their stance in relation to any potential IPR risks and to act accordingly.
- 7.3 Post Office is unable to award and transition to a new IT Network and Front Office provider within the remaining term of the TSS.

(Technology risk – controlled)

Mitigation Actions

- Drive the procurement cycle to optimise the time to implement in advance of need to extend the TSS agreement;
- Be proactive in progressing the contingency of the TSS extension to ensure Post Office have an enduring business capability;
- Acknowledge and accept this risk at the earliest opportunity (if justified) and re-plan accordingly.

The above risks and the associated risk mitigations are aligned with the Post Office risk appetite positions. For Operations, Technology and Legal/Regulatory risks these are risk neutral or risk averse.

8 Long term considerations – horizon scan

- 8.1 Delivering our strategic BTr objectives and EBITDAS outcomes requires a rigorous focus on managing change. Fujitsu has the potential to significantly impact delivery of our Lean IT outcomes. The actions underway will minimise the likelihood of unanticipated impact.

9 Communications Impact

- 9.1 IT will ensure full engagement with the Communications Team when both planning and executing the transition.
- 9.2 Communication with Fujitsu will need to be consistent and managed through one source, the Transition Manager.

10 Conclusion

- 10.1 Fujitsu withdrawing from the IT Towers increases our transition risk, but mitigation plans have been developing throughout the process.
- 10.2 The transition away from Fujitsu is technically and commercially challenging but can be managed.
- 10.3 Action has been taken to secure relevant expertise and to build an exit management and transition strategy.

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11 Recommendations

The ExCo is asked to:-

- 11.1 Note the activities to manage Fujitsu as a key incumbent supplier through transition and exit.
- 11.2 Note the associated impacts, key risks, mitigations and contingencies associated with transition from Fujitsu.
- 11.3 Approve the paper for submission to Board in January.

Lesley Sewell
15 January 2015

Strictly Confidential**Post Office Limited Executive Committee****IT Strategy Update – January 2015****1. Purpose**

The purpose of this paper is to:

- 1.1 Update ExCo on progress against the key IT initiatives to support the 2020 Strategy.
- 1.2 Update ExCo on the alignment of the IT strategy to support Business Transformation (BTr) and delivery of the EBITDAS target for 2015-2020.
- 1.3 Update ExCo on the major IT risks, mitigations and contingencies.

2. Background

2.1 The key tenants of the Post Office IT Strategy which have previously been presented to ExCo and Board included:

- Separation of IT services provided by Royal Mail Group (RMG) and establishing a standalone Post Office Capability.
- Implement a new IT Supply Chain, Operating Model and capability to support technology within Post Office.
- Secure service continuity to manage our risk profile through a Transitional Support Services agreement with Fujitsu (TSS).
- Establish our digital capability and transform our Point of Sale service (POS).
- Move from a fixed cost base to one which is variable and supports the target to reduce IT costs by 25%.
- Be agile, responsive and reduce the time to market for our products and services.

Separation

2.2 We have made significant progress on Separation, and we expect to complete by June 2015 in line with the end of the Master Services Agreement (MSA).

2.3 Separation has delivered a new Finance system, a new e-sourcing capability and has led the business separation of Facilities Management and Grapevine (alarms and security services) enabling significant business benefit. This has included the consolidation of three contact centres into one, simplification of IT systems and services, the rationalisation of premises and reduced headcount within our business.

2.4 Our new Core Finance system (CFS) is operational, enabling us to operate, independently of RMG. We also took the opportunity to improve our management information and financial reporting capability. Core Finance is a consumption-based platform and we have secured direct saving of circa £2m.

2.5 The Common Digital Platform (CDP) was implemented in November 2014 as our new strategic digital platform. CDP will provide our omni-channel capability and strategically we will build upon this to develop our POS. This is the first time that Post Office has full ownership of the 'front door' to its digital capability and our customers.

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- 2.6 Following the conclusion of the End User procurement we will be refreshing the laptop and desktop equipment in our central locations in early May 2015, to enable full separation from RMG for end user services.
- 2.7 We have also commenced the separation of our IT Network from RMG with over 150 of our 375 locations now being linked via Post Office IT Network capability. This has been achieved via a direct contractual relationship with BT which was concluded during 2014.
- 2.8 All of the Separation activity has successfully taken place whilst maintaining service continuity to our customers during a two-and half-year programme. This has been a major achievement for Post Office; we will not be reliant upon RMG for any IT services after June 2015.

IT Transformation

- 2.9 A key focus of the IT strategy was to transform our legacy estate by re-procuring our IT services. This assisted Separation from RMG, consolidated a significant number of out-dated and ineffective contracts. The benefits of which have enabled us to start to reduce our cost base, restructure contracts, and move to a flexible and variable charging model.
- 2.10 Three procurements have concluded; provision of Service Integration and Service Desk capability was awarded to Atos in October 2013. Provision of End User Computing services was awarded to Computacenter in October 2014. The Data Centre procurement was cancelled in February 2014.
- 2.11 We are in the final stages of the Front Office and Network procurements; the selection of preferred supplier will be complete during Q4 FY2014/15. The remaining Back Office procurement is currently on hold pending a review of the alignment of IT Services and potential Business Process Outsourcing.
- 2.12 As our Service Integrator, Atos, act as our managing agent for the IT supply chain and are working with Post Office to drive cost reductions through process efficiencies in parallel with delivering improvements to colleague and customer experiences of IT services.
- 2.13 Helpdesk services now operate through one contact number off-shore which has improved services to our colleagues and agents. We have moved first line help desk capability from Fujitsu to support our agents and Crown colleagues. We have started to see benefits in our day-to-day service management and operation.
- 2.14 Our IT Frameworks are in place, providing a panel of providers for solution delivery, consultancy and IT services. This has enabled a faster route to procure IT services. These have been used to award contracts for our CDP, CFS, Human Resource separation activities, Self Service Kiosks and other smaller applications to support Separation and business demand.

3. Activities/Current Situation

- 3.1 The IT strategy is evolving to align to the BTr programme and enable the realisation of our 2015-20 EBITDAS commitments.
- 3.2 At the November Board, Business Transformation identified thirteen enabling programmes that (with the exception of Crown Transformation 2) all require additional IT capability delivery.

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- 3.3 IT has engaged with the business to understand, at a high level, the future IT capability and enabling requirements from the thirteen initiatives. These are summarised below. How these will be utilised across the business is covered in detail in sections 3.4 to 3.24.

Enablers	Capability
Analytics	For Business Intelligence and Management Information
Data	Definition and consolidation of the corporate data model to enable customer, product and sales intelligence
Common Digital Platform	Investment in core digital platform
Customer Relationship Management	Implementation of strategic customer systems
Fraud Detection	For branch support (Financial Service delivered in BOI)
Integration Services	Core connectivity for connecting Post Office systems, partners, suppliers and clients
IT Operations	Maintenance, risk and resilience, development environments and processes
Product Design / Automation	Tools to enable process modelling, workflow, automation of business processes
Insurance	Integration across providers for customer data exchange
Security Services	Security enhancements to protect Post Office data (Information Security, Event Management, Data Loss Prevention)
Social	Enable exploitation of social networking internally and externally
Network Expansion	Deployment of new technology for access points
Front Office / POS Futures	Replacement of Horizon and migration
Towers & Networks	Award and transition of Towers contracts
Admin & Branch Refresh	Replace all End User Computing technology for branch counters and Head Office locations

Lean IT

- 3.4 IT Transformation will deliver lower cost solutions and enable a digital business. Cost-out activities are being driven by the re-procurement of our IT Supply Chain, moving from circa sixty suppliers to five. Our contracts will be consumption based and not inflation linked, this will enable us to plan our costs to be right-sized to mirror the organisation's footprint. We have tested the strategy to ensure it aligns to our BTr objectives.
- 3.5 We will no longer invest in 'heavy IT', we are focused on digitisation, using the cloud and out-sourced solutions. This will be achieved through utilising partners, suppliers and industry standard solutions.
- 3.6 Instead of making costly changes to achieve a bespoke solution, our business processes will be re-engineered to fit supplier's standard 'commercial off-the shelf' solutions (COTS). Platforms will be designed to be 'built once, and used by many'.

Front Office

- 3.7 We are in the process of procuring a Front Office (POS) provider and plan to have a Preferred Bidder by Q4 FY2014/15. The supporting contract will provide the required level of flexibility and variability to support our BTr objectives.
- 3.8 Our Front Office Horizon replacement will be developed in part on our digital platform. We are ensuring that the outline solutions proposed provide the

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flexibility in capability to meet anticipated future requirements, support and manage the complexity of integration with our clients, alignment with Post Office's back office systems and enable a smooth and risk averse transition from Fujitsu.

- 3.9 The Front Office procurement bidders are IBM, CSC (with Escher as a partner) and Accenture. The ExCo and Board have previously been advised that Fujitsu has formally withdrawn from the process. The impact of this is covered in detail in the Fujitsu Exit and Risk Management Strategy, presented separately to ExCo.
- 3.10 Through dialogue with all the bidders we have gained confidence that they have the capability to manage the changes that will be required to support and enable our BTr initiatives and transition from our current incumbent.
- 3.11 Bidders have indicated that they are confident that they can transition to a new solution ahead of March 2017 (Horizon contract end date). A key focus of evaluating proposed solutions will mandate that bidders are able to demonstrate, specific to Post Office, how they will achieve transition and maintain continuity of service. However, we cannot be complacent and a risk assessment has been completed.
- 3.12 Early cost indications from the Front Office Bidders show a new solution is within our affordability range.
- 3.13 To provide contingency during the transition period, Post Office has recently entered into discussions with Fujitsu regarding a further extension beyond March 2017.

Reduce central costs & Transform the organisation

- 3.14 Our central functions will need to be 'right-sized' for our transformed organisation. Outsourcing non-differentiating business processes will drive efficiencies, cost and headcount reductions.
- 3.15 Critical decisions regarding which functions will transform by Business Process Outsourcing (BPO) versus in-house processes and IT Outsourcing (ITO) will be reviewed in Q4 FY2014/15. Once known this could impact the approach to the delivery of the IT Strategy. The Back Office procurement has been paused pending the outcome of this review.
- 3.16 The commercial and digital strategies incorporate simplification through automation of business processes and customer journeys for both colleagues and external customers. The full extent of these is being defined as part of the on-going activity to mobilise BTr. The IT Strategy has identified the need for additional tools and capabilities to support this.
- 3.17 Our 2020 cost base is aligned to the BTr strategy for Post Office, presented to the Board in November 2014. We will be a digital organisation, with standardised processes, outsourced capability and a reduced headcount.

Reduce and variabilise network costs

- 3.18 Lean IT delivers new EUC technology and the new Front Office solutions supporting the objectives of Crown and Network transformation, and support to additional branch formats that are being considered.

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Win in Mails

- 3.19 Development has started on the implementation of a hand-held device that can be used stand alone or integrated with retailer point of sale solutions. This requires a range of new easy to deploy technology. This is due for launch in Q3 FY2015/16.
- 3.20 The new technology will package our existing mails, bill payment and financial products, such as Moneygram, into one device. It will have simplified customer and colleague journeys to address increasing competition in this market sector.
- 3.21 This will enable us to extend the reach of Post Office services to non-traditional locations, enabling customers to buy our services online and complete the transaction in branch, or at a convenient retailer.

Grow Financial Services (FS)

- 3.22 Identified as a requirement of delivering committed growth in FS, IT will provide the technology to enable interaction with customers at the counter, online, via mobile or through a virtual assistant (video conference).
- 3.23 The IT Strategy will exploit capabilities with business partners, including Bank of Ireland and Post Office Managed Services (POMS) to deliver new FS products.
- 3.24 Enhanced Customer Relationship Management, additional Customer Data capture and Analytics will enable the business to cross-sell and service customers.

4 Options Considered

- 4.1 The IT capability roadmap and sequencing of delivery into the new programmes has been driven by BTr. Options regarding delivery are being focused on balancing cost out, growth, risk management and time to benefit.
- 4.2 Work is continuing through Q4 FY2014/15 to refine and agree the delivery approach to align within affordability, and reflect clarifying business priorities.
- 4.3 To deliver the IT Strategy it is anticipated that we will require a range of IT delivery partners, some identified as part of the various Tower procurements, further exploitation of our arrangements with Atos, and selection of a partner to assist with IT architecture and planning

5 Proposal

- 5.1 As BTr moves from the 'Design Phase' into the 'Implementation Phase' the scope of the enabling business programmes and their complex interdependencies will need to be understood in greater depth. IT is working with each of the enabling programmes to develop a technology capability roadmap for the next five years. This will enable us to fully determine the capability, capacity and affordability requirements.
- 5.2 A key challenge for IT has been the management of additional cost as a consequence of integrating IT services procured within business initiated programmes. Going forward, if IT is to deliver its cost-out and business growth enablement initiatives, we will need to operate as 'one business' with one joined-up approach to IT. Governance of what we buy and how we contract for services will be key. IT will work with the Transformation Management Office (TMO) to

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ensure that we have a robust governance process for all IT spend, including the impact on future operational run costs.

- 5.3 The detailed IT Strategy, implementation plan/roadmap, and benefits realisation plan will be concluded in parallel and aligned to the TMO integrated implementation plan. An initial view of the roadmap is in the reading room materials and estimated investment plan is included in Appendix 1.

6 Commercial Impact/Costs

- 6.1 On a like for like basis IT is projecting £33m annualised savings in run costs (OPEX), reducing costs from £93m in FY2013/14 to £60m in FY2019/20, whilst supporting our Transformation growth and cost-out initiatives.
- 6.2 As a consequence of the investments we are making across our business, we will see additional (estimated) run costs (OPEX) of circa £19m. Any incremental impact on the IT cost base should be subject to a business case to ensure we see value in terms of reduced staff or non-staff costs, or against our income.
- 6.3 We are already seeing benefits from the Service Integrator and End User Computing contracts realising £1m and £7m of annualised benefits respectively. This is the first component of delivery of the committed £33m of savings. Embedded within the IT benefit is a £10m reduction as a consequence of business simplification and demand reduction realised through the impact of sourcing, location optimisation and right-sizing of the retained organisation.
- 6.4 As presented to the November Board by BTr, an IT investment spend of £269m has been identified, £84.5m to enable BTr initiatives and £184.5m to transform core IT services across the Post Office. The impact on future run costs is illustrated in Appendix 1.
- 6.5 The spend profile and run impact are based on IT's current understanding of the business roadmap. This will be refined through Q4 FY2014/15 through collaboration with BTr.
- 6.6 The IT Transformation Business Case has been impacted by the changes to our Back Office and the planned benefits realisation will be delayed, realisation was due to commence FY2015/16.

7 Key Risks/Mitigation

The key risks and the associated mitigation actions are highlighted below:-

- 7.1 There is a risk that we may have to make future changes to our requirements as our business strategy develops, impacting time and cost, and delaying benefit realisation. This is because our current Front Office and digital requirements are based on what we know of our business today, and acknowledge that changes that may emerge from BTr are not yet fully defined.

(Operations risk – Controlled)

Mitigation Actions

- Ensuring close working relationships and integrated governance between IT Transformation and Business Transformation;

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- Ensuring Post Office introduce a 'fit for purpose' level of flexibility and scalability into the Front Office procurement documentation;
- Ensuring that the IT Transformation Front Office initiative remains fully aligned with the Post Office 2020 vision.

7.2 A Post Office inability to adopt off the shelf solutions, leading to customisation, will drive cost and erode benefits. For any outsourced capability, a major challenge will be identifying and implementing the business processes which will need to change to enable the use of off the shelf solutions.

(Operations risk - uncontrolled)

Mitigation Actions

- To provide greater awareness and education on the need to change the culture of the organisation to acknowledge that customisation results in added costs and less flexibility;
- To provide direction at business requirements stage, on a clear delineation between Post Office 'need to have' requirements and 'nice to have' requirements.

7.3 There is a risk that if we do not adjust and effectively implement business process changes we will not optimise value from our new Front Office solution.

(Operations risk – uncontrolled)

Mitigation Actions

- Introduce a lean initiative, including the associated education activities to increase the likelihood of new ways of working being adopted;
- Be proactive in undertaking key process changes in advance of the Front Office implementation, thereby eliminating 'waste' and the associated costs prior to implementation;
- Ensure the IT Transformation lean process improvement initiatives are part of a Post Office wide consolidated process engineering picture to ensure an integrated approach.

7.4 Delays to sourcing decisions may result in the need for nugatory spend on platforms and services that may subsequently become obsolete following outsource. A large proportion of our current back office (HR, Supply Chain, Management Information) is reliant upon aged technology;

(Technology risk- controlled)

Mitigation Actions

- Undertake a review of all Back Office applications to determine the level of Operational risk versus the need to invest. Detailed analysis is underway and a recommendation will be made to the ExCo in February 2014.
- Be guided in the above review and recommendations by the Post Office risk appetite for Operations being risk neutral or adverse (we will not take a greater than normal level of risk)

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- 7.5 If we have to implement our Front Office contingency and extend the TSS agreement with Fujitsu (due to either not being able to commit to requirements or the partners cannot deliver to the required timescales in practice), this will delay benefit realisation from our Front Office, estimated at £7m per annum. This will also lead to a requirement for additional investment to support continuity of the Horizon service for the period of the extension, estimated at £10-20m (a provision for this is not included in the BTr £269m of IT spend).

(Technology risk – controlled)

Mitigation Actions

- Drive the procurement cycle to optimise the time to implement in advance of need to extend the TSS agreement;
- Be proactive in progressing the contingency of the TSS extension to ensure Post Office have an enduring business capability;
- Acknowledge and accept this risk at the earliest opportunity (if justified) and re-plan accordingly.

- 7.6 There is a risk that we will be unable to secure appropriate capability to manage the complexity and volume of planned change. Successful IT Strategy delivery will require a swift flexible approach to staff retention, partnering and recruitment to enable the scope of change to be delivered. IT will be increasing spend on delivery by nearly three times its current volume.

(People risk - uncontrolled)

Mitigation Actions

- Recruit outsourcing capability for key roles to enable the IT Strategy to be implemented effectively;
- Ensure any external resource have 'fit for purpose' retention clauses in their contracts;
- Be proactive in ensuring there is a programme of education and knowledge transfer into the permanent Post Office resource base;
- Establish the 'to be' Post Office capability in advance and leverage this capability to make the necessary organisational changes.

- 7.7 The above risks and the associated risk mitigations are aligned with the Post Office risk appetite positions. For Operations, Technology and People risks these are risk neutral or risk averse.

Where risks have been categorised as controlled, actions are already underway to effect mitigations, where they are categorised as un-controlled mitigations have not yet commenced, however once effected will bring the risk to an acceptable level.

8 Long term considerations – horizon scan

- 8.1 The transition away from Fujitsu will be technically and commercially challenging but can be managed. Risks associated with managing this incumbent supplier are addressed in the Fujitsu Exit Management Strategy paper.

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9 Communications Impact

- 9.1 IT will fully engage with the Communications Team when both planning and executing the IT Strategy to ensure that colleagues, suppliers and partners are aligned.
- 9.2 Key milestones will be communicated in conjunction with BTr to ensure we provide consistent and timely messaging.

10 Conclusion

- 10.1 The IT Strategy is delivering benefits; we have made significant progress in delivering our Separation and IT Transformation objectives.
- 10.2 The IT Strategy underpins and is aligned to the BTr aims, objectives and outcomes.
- 10.3 We have made good progress in identifying the capabilities and approach to support BTr. A key dependency is clarifying our simplified business operating processes to realising committed efficiencies and benefits.
- 10.4 Execution of the Strategy will be complex and technically challenging, with significant interdependencies. Having delivered similar complex change through our Separation programme IT's capability to deliver has been proven.
- 10.5 There are significant financial and non-financial benefits to delivering the IT Strategy; however there remain significant risks to be managed. Q4 FY 2014/15 is the key period to establishing the plan and mitigations alongside BTr.

11 Recommendations

The ExCo is asked to:

- 11.1 Note the progress against the key initiatives within the 2020 Strategy.
- 11.2 Note the progress on developing the Strategy and it's alignment with BTr
- 11.3 Note the key risks, mitigations and contingency plans.
- 11.4 Approve the paper for submission to Board in January.

**Author: Lesley Sewell, CIO
15 January 2015**

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Appendix 1 – Capability Cost Phasing

Estimated BTr IT Run Forecast - Aligned to TOM Forecast							
Service Delivery Supplier Forecast (T	Budget 2014/15	Budget 2015/16	Budget 2016/17	Budget 2017/18	Budget 2018/19	Budget 2019/20	Comment
Baseline Business Case (Towers)	£88,260,745	£78,922,788	£77,825,294	£60,147,603	£60,147,603	£60,147,603	Assumes Tower benefits deliver to Business Case
New Supplier Service Costs	£3,939,255	£12,370,193	£12,370,193	£12,370,193	£9,152,088	£8,152,088	Impact of new demand since business case
TSS				£34,500,000			Estimated cost of additional year of TSS
FO Dual Run				-£13,000,000			Estimate dual running costs to 7m due to TSS
Delayed BO Benefits		£2,000,000	£2,000,000				Delayed access to Back Office benefits to allow for BPO
New IT Services From BTr	£92,200,000	£93,292,981	£92,195,487	£94,017,796	£69,299,691	£68,299,691	This aligns to IT Tom forecast of (69.34m)
New IT Services From BTr							
IT Capability			£2,985,000	£4,870,000	£5,565,000	£5,710,000	Based on IT's view of BTr investment profile. To be validated with BTr in Q4 FY2014/15
Business Enablement			£6,700,000	£10,175,000	£12,450,000	£13,850,000	Based on IT's view of BTr investment profile. To be validated with BTr in Q4 FY2014/15
Potential impact of business volume reduction and simplification on IT			-£5,000,000	-£7,500,000	-£10,000,000	-£10,000,000	BTr - needs validating with BTr and finance. £10m becomes an annualised benefit
Sub Total for New Supplier Spend		£0	£4,685,000	£7,545,000	£8,015,000	£9,560,000	
Total Projected IT Supplier Spend	£92,200,000	£93,292,981	£96,880,487	£101,562,796	£77,314,691	£77,859,691	
Staff Costs	£6,500,000	£6,500,000	£6,500,000	£6,500,000	£2,600,000	£2,600,000	Likely that some people costs transfer out but these are not reflected here.
Total Direct Costs	£98,700,000	£99,792,981	£103,380,487	£108,062,796	£79,914,691	£80,459,691	
Tom Target						£78,000,000	Based on BTP IT submission.
Tom Delta						-£2,459,691	



The IT Strategy & Roadmap

Board Update – January 2015

Technology for a Digital Post Office

V1.3



Contents

1. Introduction & Context

2. Our IT Transformation Journey to-date

3. The Challenge Ahead – Where We Need to Be

4. Delivering the Change – How We Will Get There

5. Risks & Mitigations

6. Summary & Next steps



Introduction & Context

- The Business Strategy for 2015-20 is challenging and ambitious, with significant implications for IT
- As presented to the Board in November, Business Transformation has designed a blueprint to deliver **£300m** of EBITDAS improvement by 2020, and has estimated that **£180m** of that depends on IT enablement, requiring an IT investment of **~£269m** across 13 programmes.
- There are significant conflicting challenges - complex legacy systems and supplier landscape; the need to move fast in some areas e.g. Mails, and many future business uncertainties.
- **The purpose of this document is to update on:**
 - Our journey to-date
 - The challenge ahead
 - Our IT roadmap
 - Key risks and mitigations
 - Summary, decisions & next steps
- **Key Focus Areas for IT:**
 1. Reducing the cost of IT - by streamlining the technology landscape and business operating model
 2. Enabling growth through new & improved capabilities, e.g. CRM, Analytics, Omni-Channel
 3. Enabling business cost reduction & efficiency through digitisation and self service



Contents

1. Introduction & Context

2. Our IT Transformation Journey to-date

3. The Challenge Ahead – Where We Need to Be

4. Delivering the Change – How We Will Get there

5. Risks & Mitigations

6. Summary & Next steps



In September 2013 the IT Strategy approved by Post Office Board was to deliver Separation, Transform IT and secure business continuity

Where are we against the agreed objectives

The Board approved:-

What was delivered

What's left to do

Are we on track?

Separation of IT services provided by Royal Mail Group and establish Post Office Capability

The heavy lifting for Separation is now complete and Post Office has its own IT capability

Small changes in Q1 FY15/16 including End User Computing, completing transition to our own IT Network

On track
Full Separation to be complete by June 2015

Implement a new IT Supply Chain, Operating Model and capability to support technology within Post Office

All procurements to enable the new supply chain were initiated. 5 contracts awarded. Systems Integrator live; End User is in transition

Two enabling contracts, Front Office, Network will be awarded FY2014/15. Back Office is pending a strategic review

Some 'in year' delays, benefits remain on track
Strategy has been reviewed and it aligns to BTr objectives

Secure service continuity to manage our risk profile through a Transitional Support Services agreement with Fujitsu (TSS)

An Horizon support agreement to March 2017 was secured with Fujitsu

Complete

Complete

Establish our digital capability and set strategy to transform our Point of Sale service (POS)

Strategic digital capability delivered by Common Digital Platform (CDP). POS strategy being secured through Front Office procurement

Build on CDP through Business Transformation; transformation of our Point of Service (Front Office)

On track

Move from a fixed cost base to one which is variable and supports the target to reduce IT costs by 25%

Delivered £8m of the £27m committed benefits
Capability uplift through the Systems Integrator (Atos)

Transition the remainder of the Supply Chain

On track. some in year delays due to procurement process complexity, but tolerable and controlled

Be agile, responsive and reduce the time to market for our products and services

We have enabled digital capability

Transition to our new Supply Chain

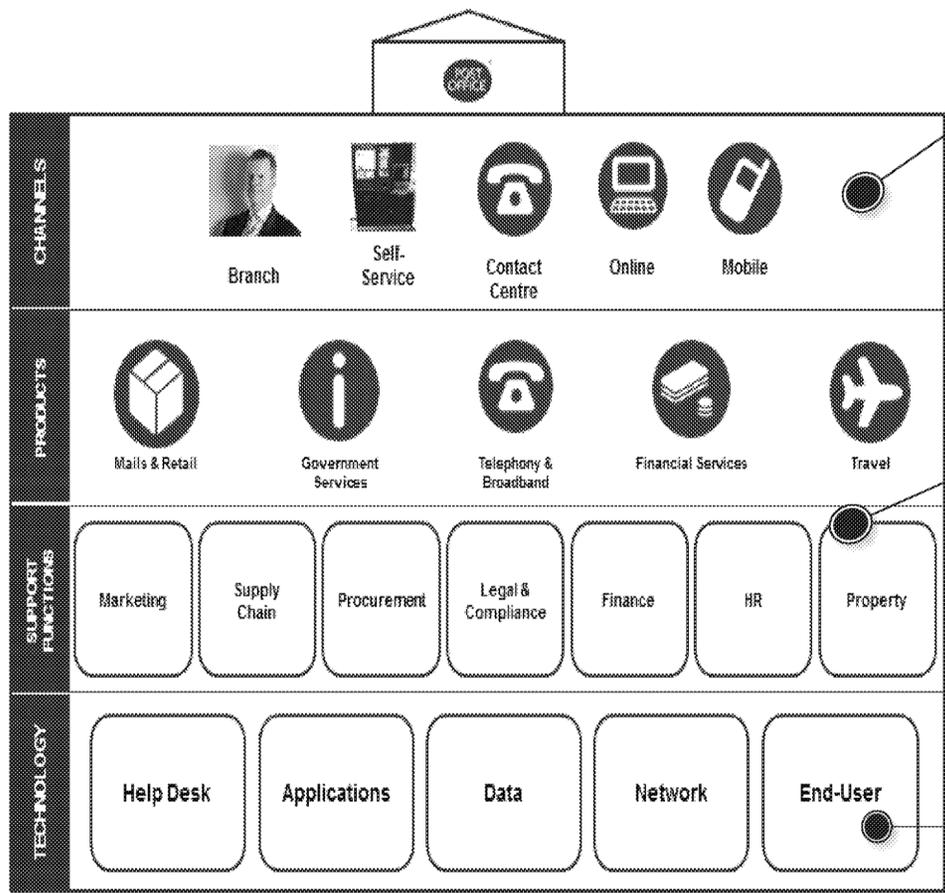
On track



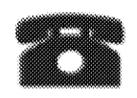
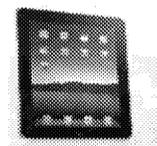
Our Journey To-Date

Strictly Private & Confidential – Draft for discussion

Our IT Transformation is therefore well underway and delivering significant benefits including new capability and independence from Royal Mail Group



- ✓ Self Service Kiosks improve customer experience and reduce costs in Crowns
- ✓ New Common Digital Platform now live for Postoffice.co.uk and provides a foundation for more digital services and for replacing Horizon
- ✓ New core finance, procurement, HR, procurement, fleet, property and contact centre systems live – we are independent & no longer depend on RMG for these
- ✓ Business Performance management greatly improved by new Financial MI & reporting tools
- ✓ A single IT Service provider means we now have one IT Help Line rather than 9
- ✓ IT supplier consolidation is progressing well and delivering cost reduction and new capability





Contents

1. Introduction & Context

2. Our IT Transformation Journey to-date

3. The Challenge Ahead – Where We Need to Be

4. Delivering the Change – How We Will Get There

5. Risks & Mitigations

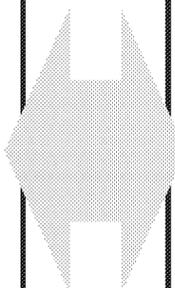
6. Summary & Next steps



The Business Strategy for 2015-20 is ambitious with significant dependency on technology for enablement and innovation

POL BUSINESS ACCELERATORS
to deliver £300m EBITDAS improvement

- Build our business around tomorrow's **customers**, not today's network
- Think digital** in everything we do
- Simplify and modernise our **Mails** offer
- Be the UK's leading challenger in **Financial Services**
- Exploit growth** opportunities, discard distractions
- A radical reshaping of the organisation to transform our **costs, efficiency & agility**



TECHNOLOGY ENABLEMENT
Key building blocks

- Access Point & Self Service devices
- Digital platform
- Digital tools for colleagues & branches
- Retailer EPOS integration
- Customer Relationship Management
- Data Analytics, Business Intelligence
- Business Process Automation / Cloud
- Streamlined IT landscape, new Front Office system replaces Horizon



2015-20 - The Challenge Ahead

For customers, colleagues and partners a technology-enabled digital Post Office will look and feel very different by 2020

For Customers

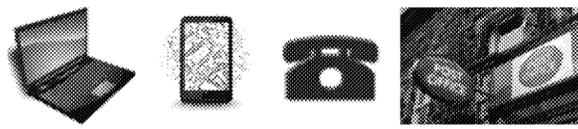
Through integrated digital and Omni-channel technology we will know the customer & ensure appropriate products, services and advice are available for Post Office customers: whoever they are, wherever they are and whenever they want

Inclusive & relevant



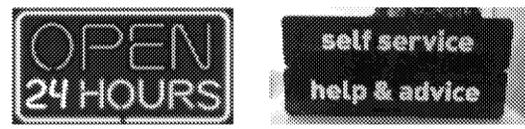
Appropriate & targeted or each core customer segment and individually: We leverage data to know the customer, target our marketing and to meet their specific needs.

Integrated & multi-channel



Seamlessly integrated products and experience. Cross-channel journeys – start online, complete in branch. Product & channel mix driven by commercial & customer need

Convenient & accessible

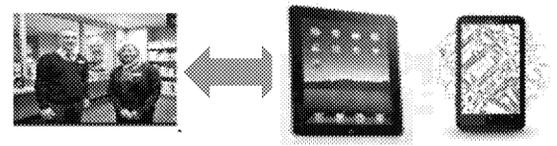


Sales, servicing & advice available 24/7 in digital channels and via assisted and self-service technology in-branch

For Colleagues

Digital Ways of Working and tools transform productivity, customer service and colleague engagement

Digital Ways of Working

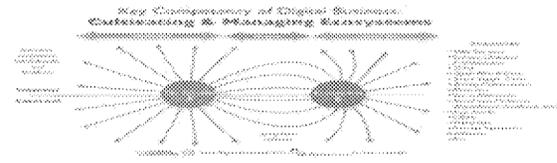


Digital tools and services for central and branch colleagues e.g. access to learning, product information, assisted customer service, queue management, collaboration. Manual and repetitive tasks digitised.

For Partners, Clients & Agents

Digitally connected business ecosystem transforms our efficiency, agility and speed to market

Digital Ecosystem



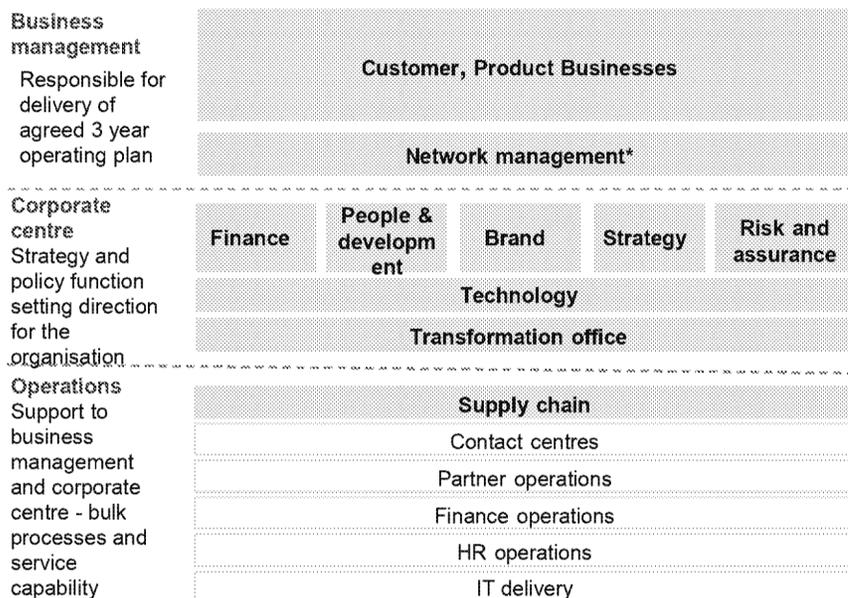
Digitally connected services across Post Office, clients, partners and agents allows us to leverage and integrate the best applications and capabilities from each business for competitive advantage in the digital age.



The reshaping of the organisation and operating model to transform our cost efficiency will have significant implications for technology

BTP Proposed Operating Model

■ Automate / lean □ Outsource / offshore



Radically simplified operating model with a lower, variable cost base and 75% less FTEs versus today
Total in-house FTEs: ~4000¹ (vs. 6,012 today)
Total costs: ~£1Bn (vs. £1.3Bn projection for 2020)
EBITDAS: ~£247m (vs. -£71m projection for 2020)

*Excludes Crowns / Reduce 50% Network Support and Support Functions

Target Operating Model implications for IT:

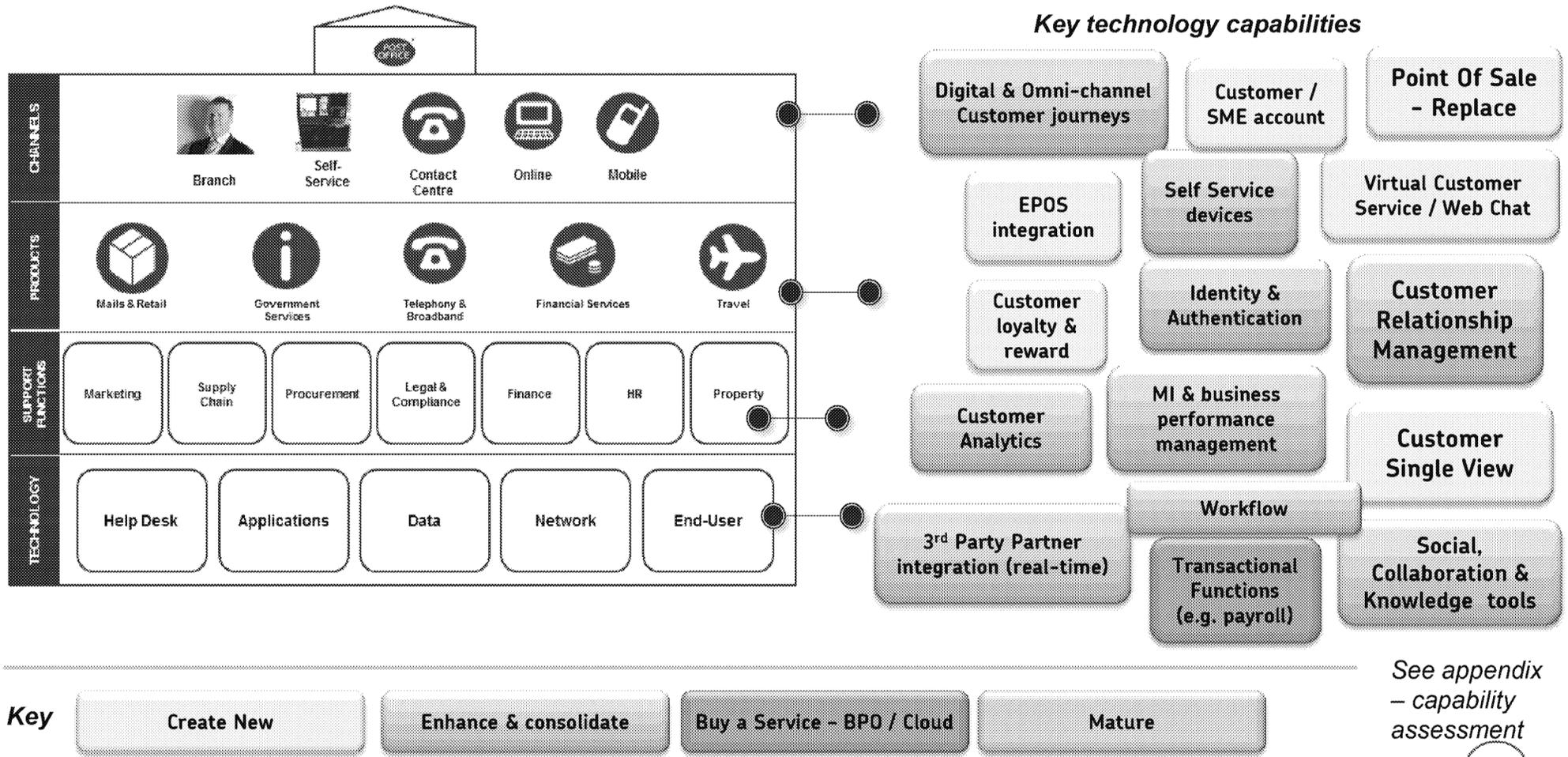
- Simpler products, processes and IT reduce costs by removing expensive customisation
- Standard & “Off the Shelf” technology will be key to enabling that simplification
- Sharing of IT across the business avoids duplication, cuts costs and builds centres of excellence
- BPO & Cloud services for transactional functions allow us to focus on market differentiators and reduces costs
- Digital services for customers and colleagues keeps us relevant in the modern world and can reduce costs
- Transformation delivery must be joined up across channels, products, process and IT to drive step-change
- Stopping unprofitable activities will allow us to retire IT we no longer need, to reduce costs
- Need to prioritise transformation of our IT architecture & supply chain for cost reduction and enablement reasons



2015-20 - The Challenge Ahead

Delivering the vision of a digital Post Office will require a transformation in technology capability across the whole business

Our assessment of existing capability and future needs across the accelerators shows some gaps but in the main a need to significantly enhance, consolidate and digitise across all areas – none are mature in the context of the strategy for 2015-20



See appendix – capability assessment



The technology design principles will ensure we are well placed to make the decisions necessary to deliver the transformation

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



Contents

1. Introduction & Context

2. Our IT Transformation Journey to-date

3. The Challenge Ahead – Where We Need to Be

4. Delivering the Change – How We Will Get There

5. Risks & Mitigations

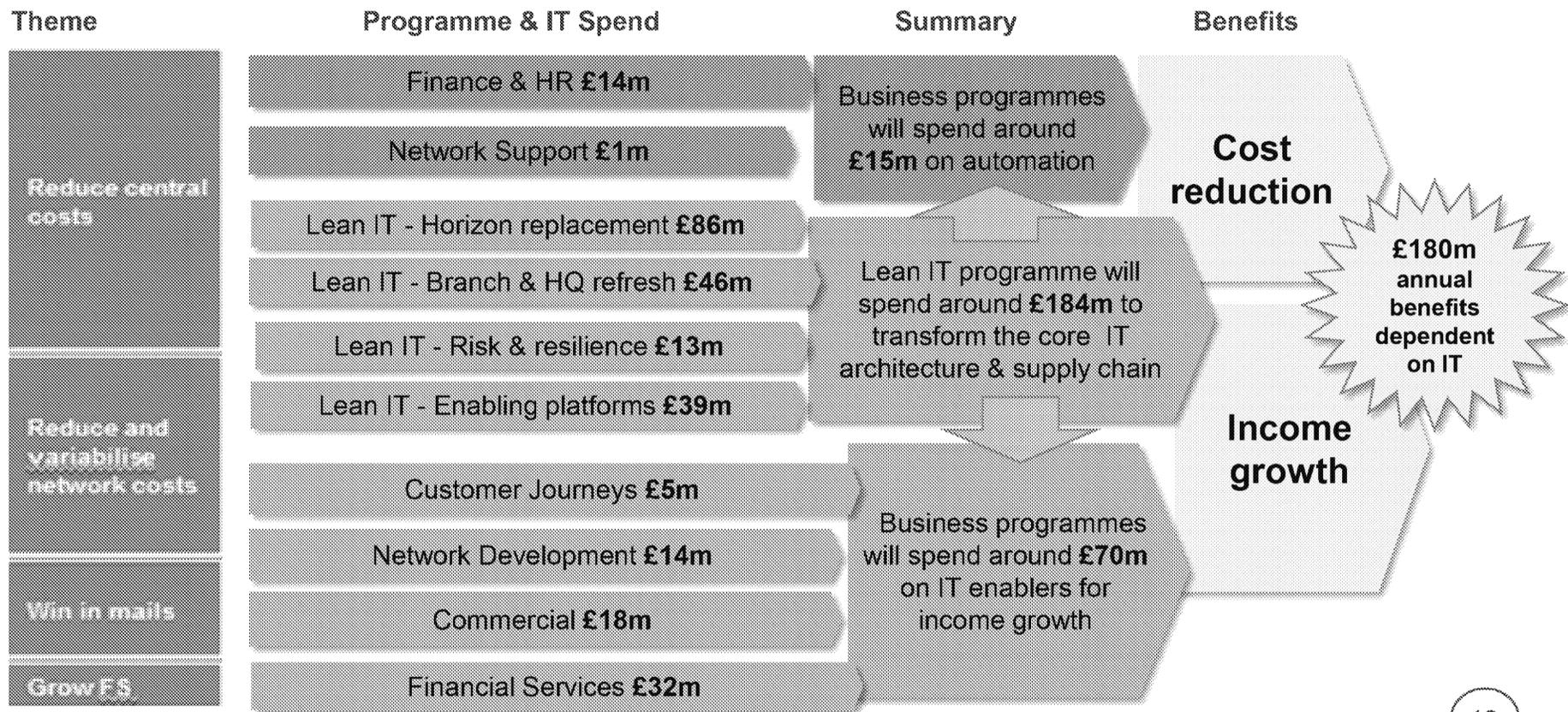
6. Summary & Next steps



Delivering the Change – Our IT Strategy & Roadmap

To create the revised IT roadmap we started by mapping the business and IT programme capability deliverables, budgets and outcomes

- Business Transformation identified £180m of business EBITDAS improvement directly dependent on IT
- This requires an IT investment of £269m spread across the business programmes for their specific needs and an IT programme which delivers a £27m reduction in IT costs in addition to enablers for growth and efficiency
- The overall level of investment is pitched at a transformation of cost and capability in line with these targets





Delivering the Change – Our IT Delivery Plan & Roadmap

Our IT plan and roadmap will ensure we have a realistic phased plan to delivery capability driven by required outcomes over 2015-20

To ensure a feasible phasing of capability delivery in line with business outcomes we are developing a roadmap to 2020 and a financial model. All will align with the emerging business transformation portfolio plan as that develops.

1 Capability needs and gap assessment

2 The IT roadmap is split into transitions over a 5 year period up to 2020.

3 The IT Financial Model covers our CAPEX and OPEX for IT Transformation and Enablers to 2020

	2015	2016	2017	2018	2019	2020
IT Capex	1,500,000	2,500,000	3,500,000	4,500,000	5,500,000	6,500,000
IT Opex	10,000,000	10,500,000	11,000,000	11,500,000	12,000,000	12,500,000
Total IT Spend	11,500,000	13,000,000	14,500,000	16,000,000	17,500,000	19,000,000

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

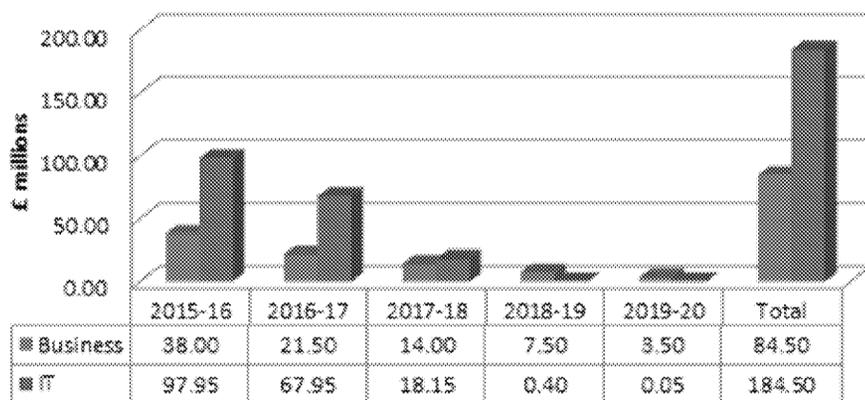
Programme	Financials (in millions)	IT requirements
1a: Near term cost out	-	No IT impact
1b: Finance/HM transformation	10.0	Maintain system resilience until they move to SPO cloud based system
1c: Network Support transformation	4	Move to self service and auto
1d: IT transformation	104.5	<ul style="list-style-type: none"> EB1m - Front Office mgmt EA1m - Branch counter re EA2m - Towers procurement EA3.5m - IT enablers and integration To be decided in 2016-17
1e: Long term efficiencies	4	No IT impact
1f: O&M people development	-	No IT impact
2a: Network Transformation	N/A	Equipment and support fees
2b: Crown Transformation 2	N/A	Equipment and network support
2c: Customer journey simplification	5.0	Integration and implementation
2d: Social presence (value not institutional)	-	No IT impact
2e: Network Development	14.4	CDP integration and operation
2f: Commercial strategy	17.8	Data and analytics, CDP and integration
3: Financial Services strategy	32.7	Data and analytics, CRM, CDP and integration



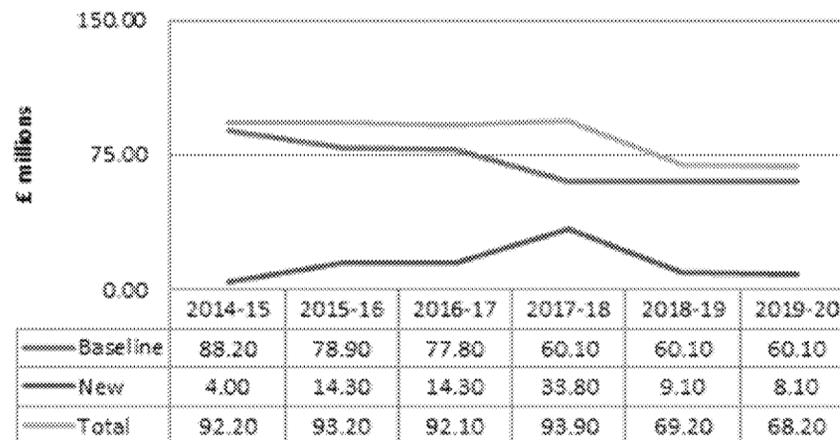
Technology Transformation Roadmap Cost Summary

The change (CAPEX) and run cost (OPEX) estimates and implications of the transformation are as below. In summary, we are looking at a substantial investment front-loaded over 2015-18 to deliver transformational benefits over the 2015-20 period.

Change Spend - CAPEX 2015-20



Run Spend - OPEX 2015-20



- **The change (CAPEX)** estimate covers the business and IT programmes and includes **(1) The preparation** including assessing implementation options and high level design **(2) The ‘unpicking of the current IT landscape’** consisting of the disintermediation of legacy and integration of future systems across the enterprise **(3) The implementation** of key systems to deliver the target architecture. figures consist of estimates for delivery resource cost, infrastructure upgrades and licences.
- **The run (OPEX)** cost estimate shows that we reduce the cost of IT through IT transformation (original estimate as per blue line) but further cost is added back in through addition of new capabilities e.g. for the business programmes. Overall we still cut OPEX.
- **Model assumes** a simpler operating model, reduction in legacy systems, a more cost efficient COTS landscape and contract re-negotiation that could be delivered by the transformation would impact OPEX costs.



Contents

1. Introduction & Context

2. Our IT Transformation Journey to-date

3. The Challenge Ahead – Where We Need to Be

4. Delivering the Change – How We Will Get There

5. Key Risks & Mitigations

6. Summary & Next steps



Key Risks and Mitigations

There are a number of significant risks for IT, we are working closely with the relevant parties to impact assess, mitigate and manage these

Theme	Risk of non-delivery	Specific risks	Mitigation Approach
Lack of Clarity of Business Requirements	Moderate	<ul style="list-style-type: none"> Business capability needs unclear Lack of agreement across POL Slow decision making 	<ul style="list-style-type: none"> Business engagement on capability needs Assumptions and Hypotheses to be agreed Prioritisation based on benefits & risk
Lack of Clarity of Target Operating Model (TOM)	High	<ul style="list-style-type: none"> BPO uncertainty impacts Back Office IT IT dependency on product & process consolidation and simplification No detailed TOM design impacts IT design 	<ul style="list-style-type: none"> Back Office strategic review initiated Assess IT impacts & considerations Assumptions to be made and agreed Revise IT strategy based on BO review
Supplier & partner issues	Very high	<ul style="list-style-type: none"> Fujitsu hamper Front Office Transition Other incumbents cause issues Partner and client issues cause delays 	<ul style="list-style-type: none"> Accelerate Front Office procurement Fujitsu / Horizon extension (TSS2) Focus on supplier & partner management
Complexity and Volume of Change	Very high	<ul style="list-style-type: none"> Front-Loading of Change demand Capability & Capacity to deliver Complex inter-deoependencies 	<ul style="list-style-type: none"> Develop IT roadmap IT Delivery plan & capability needs Align to Transformation Portfolio
Current Risks		<ul style="list-style-type: none"> Known risks around IT resilience Cyber Security is a small risk due to limited digital footprint but will grow as Digital extends across channels 	<ul style="list-style-type: none"> We are developing our Information Security capability, and will address key resilience issues in the Back office driven from the outcomes of the Back Office strategy review,

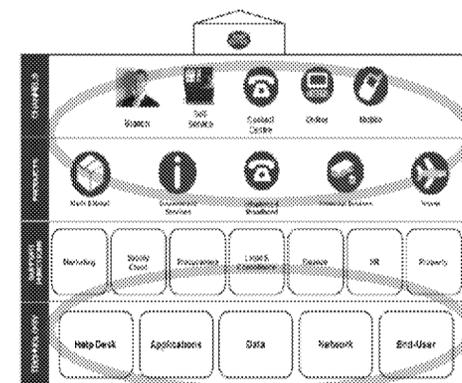


Key Risks and Mitigations

Focus on Front Office - we have an approach to mitigate the risks around the Fujitsu exit and Horizon replacement

Background

- Post Office is procuring a Front Office IT provider as part of IT Transformation
- Fujitsu were part of that process, but have now withdrawn
- There was always a risk they would withdraw, which we have planned for
- We have 3 credible bidders for Front Office – CSC, IBM and Accenture



Key elements of our Risk Mitigation plan:

- Proactive management of Fujitsu exit - Lead appointed and has started work
- Fujitsu service extension being negotiated, 6 months segments from March 2017 to Sept 2018
- Simplification of functionality, allowing us to use standard “ready-made” IT components for faster delivery
- The technology solution will develop and extend our Common Digital Platform rather than starting afresh
- Selection of a capable supplier – all three bidders are credible, we will sign contract in May:
 - **Accenture** propose extending CDP, supplementing with commercial off-the-shelf (COTS) components to fill gaps e.g. Point of sale. Current Horizon functions replaced March 2017, further enhancements from April 2017
 - **CSC** are partnering with Escher to implement the Riposte product which they claim can support 72% of the required functionality out-of-the box. Riposte will be integrated with CDP and rolled by November 2016
 - **IBM** are propose extending the CDP platform, supplementing with commercial off-the-shelf (COTS) components including some proprietary IBM solutions. All requirements live by March 2017



Key Risks and Mitigations

We also need to ensure we have the right skills, capacity and environment for large scale business and IT change delivery

There are a number of further areas to address in our internal and external environment to ensure we have the right conditions for delivery of the IT to support and enable a significant business and operating model transformation:

Change Capability – People & Skills:

We need to invest to build the skills, knowledge and capacity to deliver large scale change. This is likely to require:

- Developing and investing in our people
- Adding specialist skills via recruitment and consultancy
- Skills needed in – Digital, Cloud, Agile, Data Architecture
- Digital transformation leadership skills are a key call-out
- Ensuring our suppliers have the right skills and capacity
- A clear roadmap to inform future skills and capacity needs

Summary – We need to invest in and grow our capability in several areas to deliver the change required. A substantial team with some key new skills will be required to design and deliver the business and IT change described in in this document

Organisational:

- **Governance:** Complex governance environment with multiple concurrent large scale business and Technology projects
- **Resources:** change on the scale described in this roadmap will require the correct capability and capacity of resource available and engaged in a timely fashion

Change Delivery – business & IT combined

- Dependencies between product, process, and IT simplification requires a fully integrated programme of change designed and managed centrally.
- Front Office and the Horizon replacement in particular should be managed as a combined business and IT programme, given the need to radically simplify products, customer journeys and process alongside IT delivery

External stakeholders:

- **Partners/product providers:** the increased emphasis on integrating with 3rd party partners/suppliers and the collaboration needed to achieve this may delay projected time frames due to 3rd party dependency
- **Suppliers:** We needs to carefully manage the termination / exit of contracts with current incumbent suppliers that might not be retained in the target state, as a poor transition could lead to operational service impacts, programme slippage, additional costs and weakened future negotiation position



Contents

1. Introduction & Context

2. Our IT Transformation Journey to-date

3. The Challenge Ahead – Where We Need to Be

4. Delivering the Change – How We Will Get There

5. Key Risks & Mitigations

6. Summary & Next steps



Summary & Next Steps

Summary

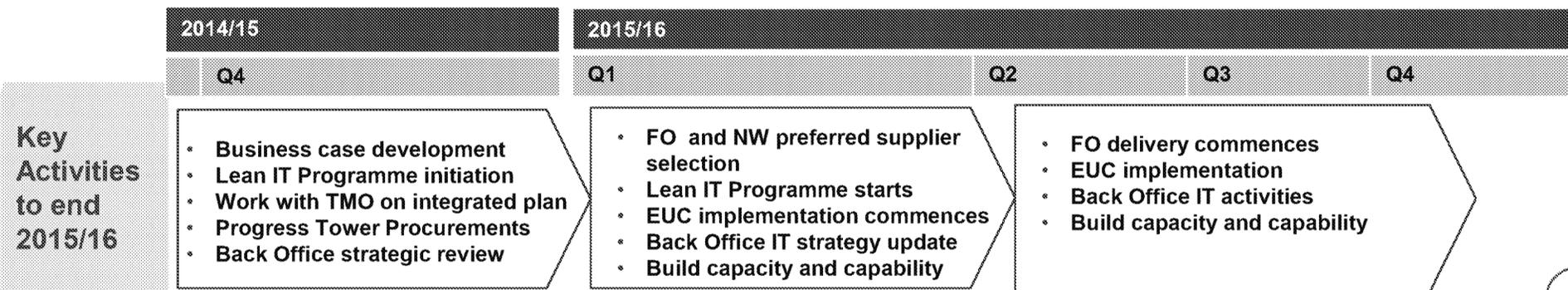


- Our IT Strategy is delivering and will be a key capability and cost enabler for the 2015-20 strategy
- The overall £269m investment is our assessment of what it will take to deliver a transformation in line with the £300m EBITDAS improvement – lower investment scenarios will have benefit implications
- We will need to take calculated risks and a long term business-wide view of investment in strategic enablers
- There are considerable risks and challenges, which we will manage proactively and collaboratively

Our Approach – To position is for success we will:

- Transform the IT architecture and supply chain, driven by and enabling the business outcomes required
- Build the Plan – Work with TMO to develop a fully integrated delivery plan aligning proposition, process and IT
- Evolve the Way We Work – embedding our design principles, investing in new skills and capability
- Invest strategically, looking ahead and across, benefits-driven - for transformation rather than incremental change

Next Steps



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POST OFFICE LIMITED

Performance Report

December 2014

Produced By : Financial Control

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Contents

	Page
Headlines	3
Profit & Loss Statement	4
Crown Profit & Loss Statement	5
Cost Management update	6
Cashflow Analysis	7
Business Scorecard	8
Metrics To Focus On (ExCo remedial action discussion page)	9
Network Transformation Scorecard - Mains	10
Network Transformation Scorecard - Locals	11
 Appendices	
Income Report	
Net Income By Pillar vs Budget	14
Net Income By Pillar vs Prior Year	15
 Cost Report	
Staff Cost By Function	17
Non Staff Cost by Type	18
 Transformation Expenditure Report	
Project Costs (OpEx)	20
Project Costs (CapEx)	21
 Supplementary Information	
Cashflow Statement & Balance Sheet Summary	23
Income By Product Groups & Pillar	24

Headlines

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December 2014

Headlines

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

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

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

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

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

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

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

CFO Forecast

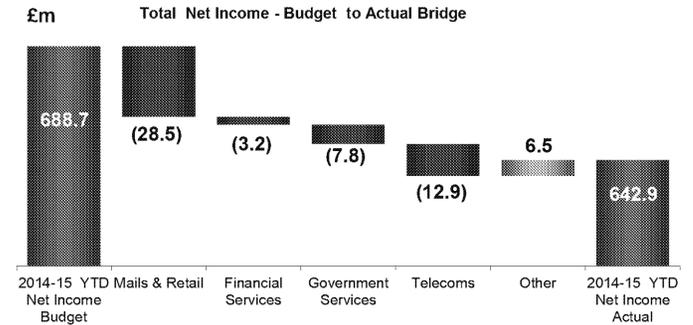
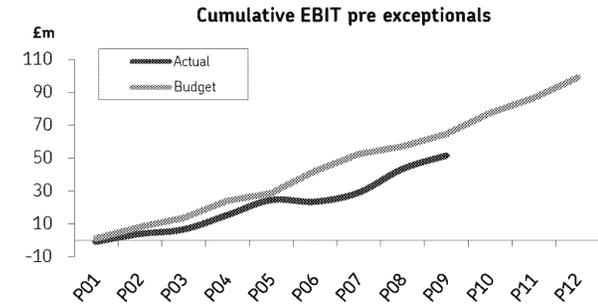
The CFO forecast remained the same as the half year forecast for periods 7 and 8. The Q3 forecast is currently under review and will be shared shortly.

Crown Profit

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

Network Transformation

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



Financials

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

Non Financials

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

	Year to Date		
	Act	Target	Var
Total Net Income (excl NSP) £m (Bonus 20%)	642.9	688.7	(45.8)
Operating profit £m (Bonus 25%)	51.5	64.7	(13.2)
Free cashflow £m	(253.6)	(276.0)	22.4
Crown Profit (Loss) £m (Bonus 12.5%)	(13.7)	(3.9)	(9.8)

Queue time % < 5 minutes - Top 1k branches	76.1%	80.6%	(4.5%)
NT Branches Transformed In Year (Bonus 12.5%)	1,521	1,190	331

Profit & Loss Statement

Strictly Confidential



December 2014

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

Period vs. Budget

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

BAU was £1.4m favourable:

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

Offset by:

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

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

Below EBIT

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

YTD vs. Budget

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

BAU was £9.9m adverse:

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

Offset by:

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

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

Below EBIT

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

YTD vs. Prior Year

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

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

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

Offset by:

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

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

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

Below EBIT

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

Crown Profit & Loss Statement

Strictly Confidential



November 2014

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

Summary

Income:

Income is £7.4m less than plan.

At a business level this is predominantly driven by adverse variances in Mails, including Labels, Home Shopping Returns and Lottery, Government Services and Telecoms, with a favourable variance in Financial Services.

Line by Line variances are as follows:

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

Costs:

Costs are £2.6m higher than plan.

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

Cost Management update
December 2014

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Progress since P8 update

Value and confidence

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

Original Cost Management Programme	£34.2m
Additional Cost Challenge to achieve budget	£ 6.0m
Central Stretch to achieve budget	£ 5.9m

Total Budget Cost Challenge £46.1m

Additional Challenge from Q1 EBITDAS gap	£ 7.0m
Q2 underperformance adjustment	£ 6.9m

Total Current Cost Challenge £60.0m

Current "Line of Sight" forecast	£59.6m
Gap to £60.0m	£0.4m

Delivery and governance

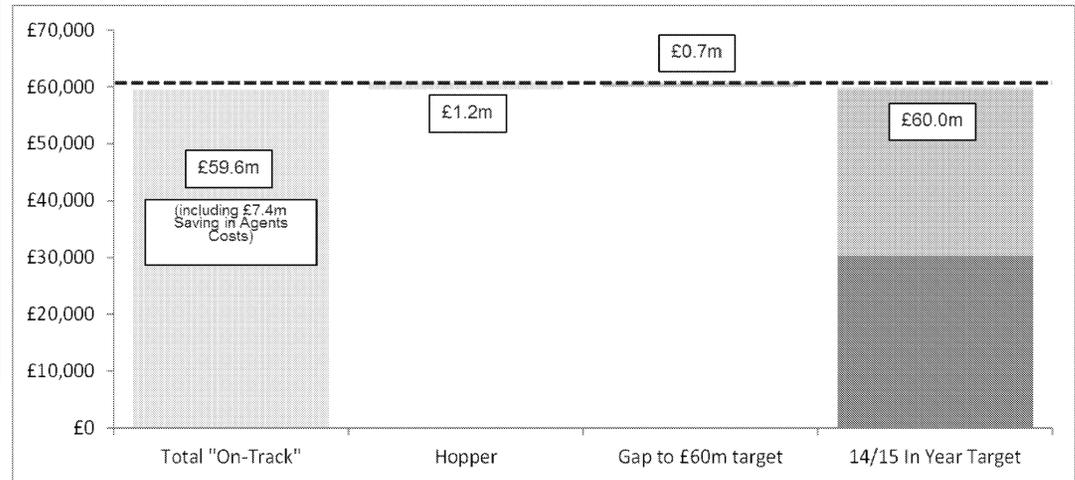
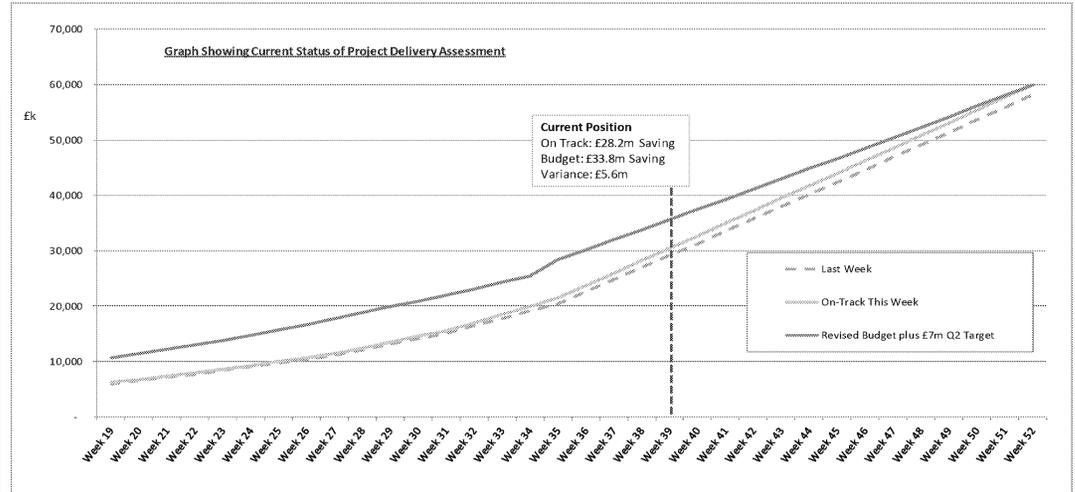
Regular 121 meetings continue to drive focus on in-year cost management opportunities and delivery of existing initiatives. The weekly CRG reviews business wide opportunities and potential acceleration of the 2015/16 BTP benefits into 2014/15. Work continues to ensure benefits are built into operational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

Strategic initiatives for FY15/16 and beyond

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

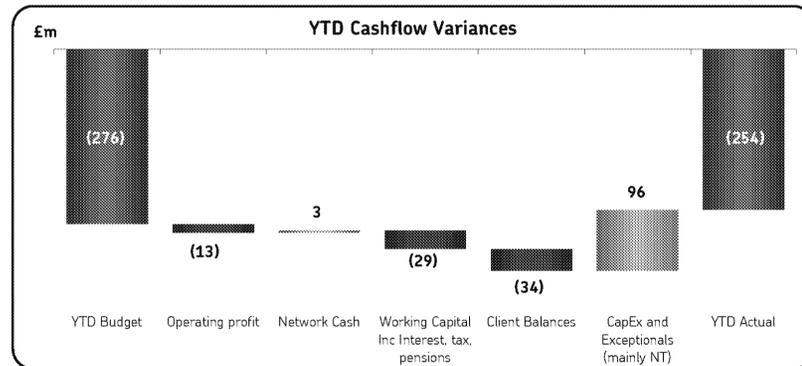
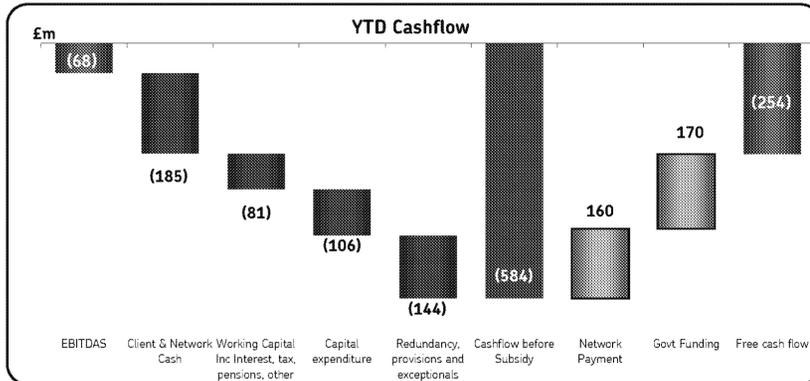
Work is ongoing to:

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



Cashflow Analysis
December 2014

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Network Cash

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

	Opening	P9
Headroom (€m)	854	677

Cashflow

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

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

The favourable variance is mainly due to:

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

Offset by:

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

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

Business Scorecard

December 2014

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Key Performance Indicators	Current Month			YTD			YTD	Full Year			2013-14 Outturn
	Act	Target	Var	Act	Target	Var	Prior Year	Q2 F'cast	Target	Var	
Growth											
Total Net Income (excl NSP) £m (Bonus 20%)	76.4	82.4	(5.9%)	642.9	688.7	(45.8)	650.3	880.0	925.1	(45.1)	866.7
Operating profit £m (Bonus 25%)	8.1	7.7	0.5	51.5	64.7	(13.2)	86.1	85.0	99.0	(14.0)	107.1
Earnings before ITDA and Subsidy £m*	(4.1)	(4.6)	0.5	(68.1)	(54.8)	(13.3)	(63.6)	(74.4)	(60.4)	(14.0)	(92.5)
Free cashflow £m	(32.2)	(120.6)	88.4	(253.6)	(276.0)	22.4	121.2	(158.4)	(200.0)	41.6	179.7
Customer											
Customer Satisfaction**	85.8%	89.0%	(3.2)%	86.8%	89.0%	(2.2)%	87.5%	87.5%	89.0%	(1.5)%	87%
Easy to do business with (Bonus 15%)**	28%	47%	(19)%	26%	47%	(21)%	43.0%	26%	47%	(21)%	41%
Net Promoter score**	5.8	2.0	3.8	2.3	2.0	0.3	-3	0.5	2.0	(1.5)	(4)
Queue time % < 5 minutes - Top 1k branches	64.1%	62.0%	2.1%	76.1%	80.6%	(4.5)%	81.5%	77.5%	81.2%	(3.7)%	82.1%
Branch Compliance - Financial Services - basket of 11 measures	30	<=50	-	69	<=50	-	N/A	110>	<=50	-	N/A
Branch Compliance - Inland Dangerous Goods **** ^	74.0%	80.0%	(6.0)%	74.0%	80.0%	(6.0)%	TBC	80.0%	80.0%	0.0%	TBC
Branch Compliance - International Dangerous Goods **** ^	87.0%	85.0%	2.0%	87.0%	85.0%	2.0%	TBC	85.0%	85.0%	0.0%	TBC
People											
Engagement Index % (Once a year April) (Bonus 15%)^^	58%	58%	0%	58%	58%	0%	55%	58%	58%	0%	57%
Subpostmaster Engagement Index % (Once a year)^^	47%	48%	(1)%	47%	48%	(1)%	N/A	48%	48%	0%	45%
Post Office Values the diversity of the workforce (Once a year April)^^	54%	66%	(12)%	54%	66%	(12)%	N/A	66%	66%	0%	52%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	100%	7%	93%	12%	7%	5%	9.8%	7%	7%	0%	11%
(No.) % of Female appointments over total recruits at senior leadership and senior manager	50%	45%	5%	38%	45%	(7)%	49.2%	45%	45%	0%	46%
Modernisation											
Crown Profit (Loss) £m	(0.7)	0.8	(1.4)	(13.7)	(3.9)	(9.8)	(22.1)	(13.8)	(8.9)	(4.9)	(25.7)
Crown Profit (Loss) Run Rate £m (Bonus 12.5%)^	N/A	N/A	N/A	(11.7)	(6.7)	(5.0)	N/A	(2.0)	0.0	(2.0)	N/A
NT Transformations - contract signatures ***	115	139	(24)	4,622	4,226	396	2,407	4,800	4,800	0	3,246
NT Branches Transformed In Year (Bonus 12.5%)	41	70	(29)	1,521	1,190	331	148	1,800	1,650	150	1,551

Bonus worthy metrics

* ITDA Interest, Tax, Depreciation, Amortisation.

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

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

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

^ Target is the year end exit rate.

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

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Metrics To Focus On (ExCo remedial action discussion page)

December 2014

Key metrics to focus on (YTD below target) include:

Net Income: (Martin/ Kevin) (Bonus)

Net income is £45.8m adverse and is driven primarily by Mails, Telecoms and POCA income. The Mails variance was driven by Labels, Collections & Returns, Special Delivery, Dangerous Goods and Lottery.

Operating Profit: (All) (Bonus)

Operating Profit is £13.2m adverse due to lower income of £45.8m, higher POOC of £3.3m, higher staff costs of £1.3m and higher non staff costs of £4.1m, offset by favourable subpostmaster costs of £40.6m.

Cashflow

Cashflow is £24m favourable due primarily to investment underspends.

Customer Metrics

Please note that this data is based on 3 month rolling data and includes people who may not have visited a branch in the recent period. Voice of Customer data which is based on December only has seen a drop in performance and we may therefore expect to see an impact on the overall customer metrics in the coming months, as we capture more people who visited a branch in December.

Customer Satisfaction - Top 3 box (combination of those answering Extremely, Very, Fairly satisfied): (Martin)

Top 3 box remains stable in P9 at 85.8%. - YTD performance below target at 86.8% (target of 89.0%).

- **Score explanation:** There has been a slight uplift in the number of customers in top 2 box, extremely/very satisfied.
- **Insight:** The increase in extremely/very satisfied customers seen in the single month data in December reflects the increase in the 'Easy to do business with' measure.

Easy To Do Business With (% think we are low effort minus % think we are high effort) 3 month rolling measure): (Martin) (Bonus)

P9 3 month rolling score at 27.5% which is 3.4pp up on P8. - YTD performance below target at 26.3% (target of 47.0%). The single month performance in December is the highest since June 14 and improved by 3.4% from November to 28.7%.

- **Score explanation:**
 - The number of people who think we are hard work has not moved significantly but more people think we are low effort (46% in P8 vs 48% in P9) so the movement in P9 has been seen from neutral into low.
 - Q3 14/15 has seen a 6pt improvement in Ease vs. Q2 14/15 (21% vs. 27%).

Why (performance on the drivers of Ease):

There have been marginal gains across different drivers.

Improvements on staff measures/customer (3m rolling)

- o 'Staff go the extra mile to provide a good service' (+1) - (although this dipped slightly during the month of December)

Improvements on wait time measures (3m rolling)

- o 'The time I have to wait is always acceptable' +2
- o 'They make me wait too long no matter how I choose to contact them' (-2)
- o 'I can deal with them through whatever channel I want' +2

Improvement on technology/product (3m rolling)

- o 'They use technology to make things easier for customers' + 1
- o 'They have the highest quality products' +1

- **Where:** Improvements are biggest for Crown branches (steady improvement from P6 up to 34% in P9) Score for Agency branches is 37% in P8. Perceptions of ease improve the more recently a customer has visited. Those who have visited within the last month, the ETDBW score is 33% vs 21% among those who have visited in last 1-6 months. (n.b only a small number will have visited in December and we will capture more December visits in the P10 reporting)

- **Insight:** SSKs may be achieving some cut through as we see perceptions of wait time improve, in tandem with perceptions of technology making it easier for customers. Customers who have visited more recently are more likely to think we are easy to deal with suggesting that experience of new initiatives is impacting on brand perceptions.

Continued

Net Promoter Score: (Martin)

P9 3 month rolling score at 5.8 (improvement of 0.7) - YTD performance is now 2.3 which is 0.3 above target of 2.0.

- **Score explanation:** NPS scores in December have held steady which has resulted in Q3 14/15 seeing a 7pt improvement vs. Q2 14/15 with NPS reaching its highest score since Q4 12/13. These improvements have come as a result of gains in both Promoters and a decline in Detractors and are in line with recent improvements in the Ease measure.
- **Why:**
 - o **Reasons for recommending (promoters)**
 - Good customer service
 - Provide needed/useful service
 - Post is delivered quickly/efficiently
 - o **Reasons for not recommending (detractors)**
 - Neither good nor bad, just average
 - Queues/always busy
 - Expensive/prices always increase
- **Insight: Improvements in customer service measures during Q3 will be positively impacting the NPS score.** Reasons for recommending/not recommending echo the reasons for movement in ease measures (service as a positive, speed/queues as a negative)

Queue time % < 5 minutes - Top 1k branches: (Kevin)

P9 score was 64.1% which is 2.1pp above the December target of 62.0%. - YTD performance is 76.1% which is 4.5pp below target of 80.6%.

Where:

- o % queued under 5 minutes dropped for all branch types in December (by 9.3 percentage points for Crown, by 12.4 percentage points for Agency and by 21.8 points for WHSmith)
- o Despite fewer customers in Crown branches being served within 5 minutes, the drop from November to December in performance was less marked than for Crown and WHSmith branches.
- **How:** 77.1% of SSK customers tell us they waited less than 5 minutes (Voice of Customer), vs. 61.7% of non-SSK Crown customers.
- **Insight:** The difference between SSK and non SSK wait times remained stable in December, indicating that SSKs are continuing to decrease wait times for customers during our busiest periods.

Branch Compliance - FS: (Nick)

This is made up of 11 weighted metrics: Mystery Shopping, Significant upheld complaints, Customer validation calls, Financial promotions, Limits on staff permissions, Staff product knowledge, Life Insurance cancellations, Savings cancellations, Credit card usage, Complaints process knowledge, Suitability of mortgage advice. The measures that are not green are: Mystery Shopping (Amber), Customer validation calls (N/A), Life Insurance cancellations (Amber) and Credit card usage (Amber).

Branch Compliance - Mails: (Martin/ Kevin)

The targets shown are the full year exit rates. Inland (exit target 80%) has increased from 69% to 74%, and International (exit target 85%) has decreased from 93% to 87%.

Measured annually with some additional 'Pulse surveys':

- **Engagement Index: (Neil) (Bonus)** - The Engagement Index target is 1% greater than prior year outturn of 57%. The November Pulse survey was 58%.
- **Subpostmaster Engagement Index: (Neil)** - The Subpostmaster Engagement Index was last taken in December 2013 at 45%. The 48% target is the aspiration for the current year driven by the expected impact of the Branch Support Programme. November Pulse score shown on scorecard of 47%.
- **Post Office values diversity: (Neil)** - Survey from April shows 52% and the target is to get this to 66% driven by the business spotlight on diversity through various programmes such as the Diversity Forum, Women in Leadership and the introduction of directorate level diversity objectives. November Pulse shows 54%.

Appointments: (Neil)

68 appointments YTD (5 April, 7 May, 14 June, 15 July, 7 August, 7 September, 3 October, 8 November, 2 December), 26 female appointments YTD - 38.2% (2 April, 2 May, 7 June, 9 July 1 August, 1 September, 1 October, 2 November, 1 December), 8 BME appointments YTD - 11.8% (3 June, 1 July, 1 August, 1 November, 2 December), 2 undeclared ethnicity appointments (2 November).

Crown Profit: (Kevin) (Bonus)

The Crown loss is primarily driven by the lower Mails income and higher staff and property costs.

Network Transformation Scorecard - Mains

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December 2014

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

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

Mains

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

The following products are performing particularly well:

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

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

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

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

Network Transformation Scorecard - Locals

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

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

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

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

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

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

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

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Appendices

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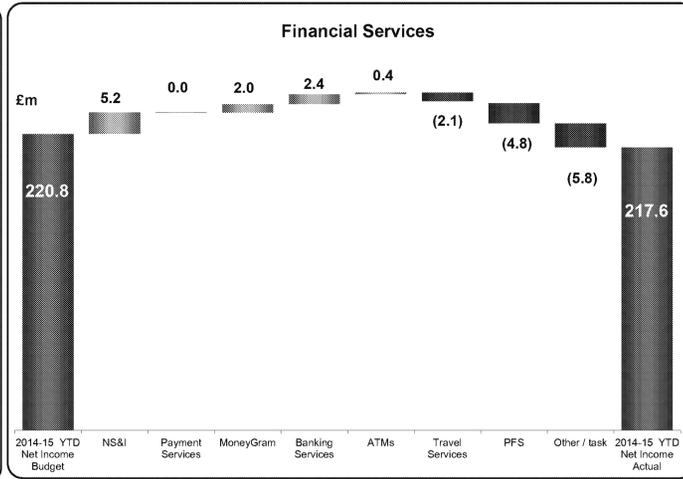
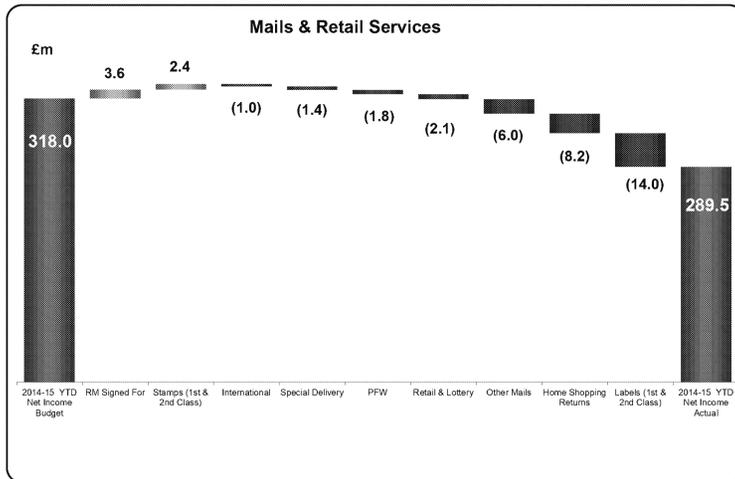
Income Report

Net Income By Pillar vs Budget
December 2014

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Net Income (£m)	Period			Prior Year Period		YTD			Prior Year		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Outturn	Variance
Mails & Retail	40.3	44.3	(3.9)	39.4	0.9	289.5	318.0	(28.5)	289.9	(0.4)	389.1	424.1	(35.0)	386.0	3.1
Financial Services	22.6	25.1	(2.4)	22.4	0.2	217.6	220.8	(3.2)	211.3	6.3	297.1	295.2	2.0	278.6	18.6
Government Services	7.0	7.2	(0.1)	6.4	0.6	75.7	83.4	(7.8)	82.1	(6.5)	105.2	116.6	(11.4)	116.1	(10.9)
Telecoms	3.2	5.0	(1.9)	4.1	(0.9)	32.3	45.2	(12.9)	36.8	(4.5)	52.5	61.9	(9.4)	46.0	6.5
Other	3.3	0.8	2.5	3.2	0.0	27.8	21.4	6.5	30.0	(2.2)	36.1	27.3	8.8	40.1	(4.0)
TOTAL NET INCOME	76.4	82.4	(5.9)	75.5	0.9	642.9	688.7	(45.8)	650.0	(7.2)	880.0	925.0	(45.1)	866.7	13.2
FRES - Share Of Operating Profits	1.9	1.8	0.1	1.5	0.4	29.9	29.3	0.7	28.3	1.7	35.0	35.0	0.0	33.1	1.9



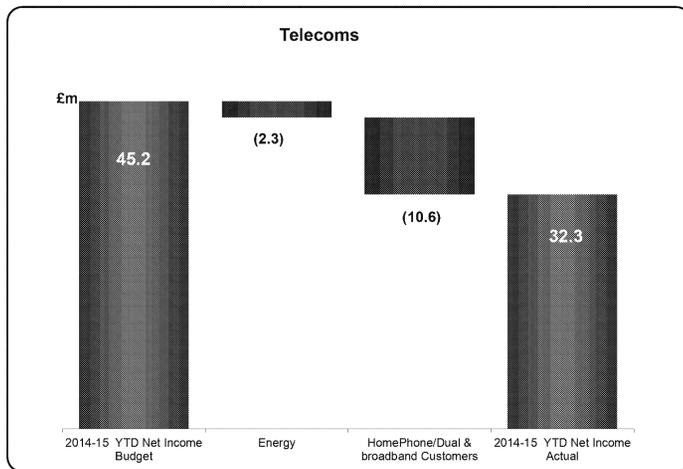
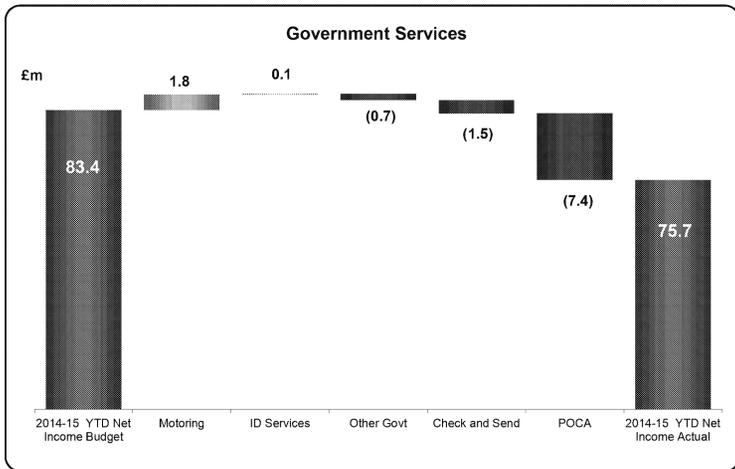
Pillar Performance vs. YTD Budget

Mails & Retail Services - (£28.5m) Adv
Labels - (£14.0m) adv driven by lower parcel volumes.
Home Shopping Returns - (£8.2m) adv - due to delayed launch of ebay returns and RM not yet winning a major 'Click & Collect' customer.
Other Mails - (£6.0m) adv driven by Philatelic and Dangerous Goods.
Lottery - (£2.1m) adv - due to lower Camelot Euromillions volumes.
Special Delivery - (£1.4m) adv due to lower volumes.
PFW - (£1.8m) adv due primarily to lower PF 24 & 48 and International volumes.
 Offset by:
RM Signed For - £3.6m fav due to higher volumes.
Stamps - £2.4m fav due to lower than anticipated volume declines.

Financial Services - (£3.2m) Adv
NS&I - £3.2 fav due to new contract.
Payment Services - £2.7m fav due to postal order uncashed benefit policy moving to 12 months, from 24 months.
Banking Services - £1.8m fav due to higher than budgeted volumes.
MoneyGram - £2.0m fav due to higher MoneyGram sales and new contractual terms.
ATMs - £0.4m fav.
 Offset by:
Other / Task - (£8.0m) adv due to Sales Effectiveness target.
PFS - (£4.8m) adv driven primarily by lower insurance related additional commissions.
Travel Services - (£2.1m) adv.

Government Services - (£7.8m) Adv
POCA - (£7.4m) adv reflecting fewer active accounts, lower LIBOR rate, and budget stretch task.
Passport Check & Send - (£1.5m) adv lower volumes in August.
Gov. Services Other - (£0.7m) adv driven by lower than planned volumes of Rod & Game licences.
 Offset by:
Motoring - £1.8m fav higher volumes vs. budget.

Telecoms - (£12.9m) Adv
HomePhone - (£10.6m) adv mainly driven by lower customer numbers c.20k adverse, call usage and higher cost of sales relating to customer broadband usage and higher BT wholesale costs.
Energy - (£2.3m) adv relates to the budget anticipating sales from PO Energy.
Other - £6.5m Fav income contingency (FY £9.4m).
FRES Profit Share - £0.7m Fav.

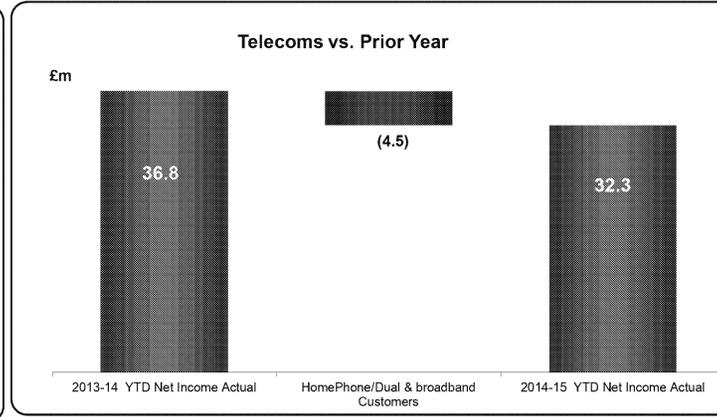
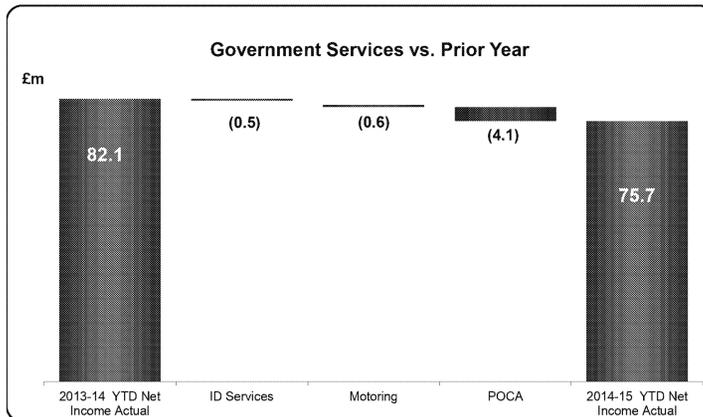
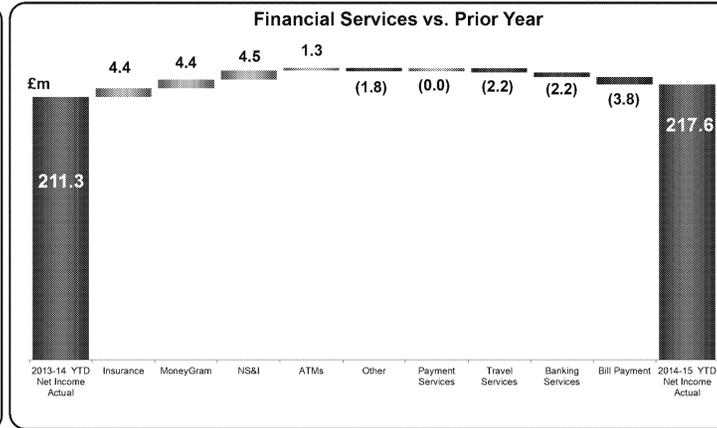
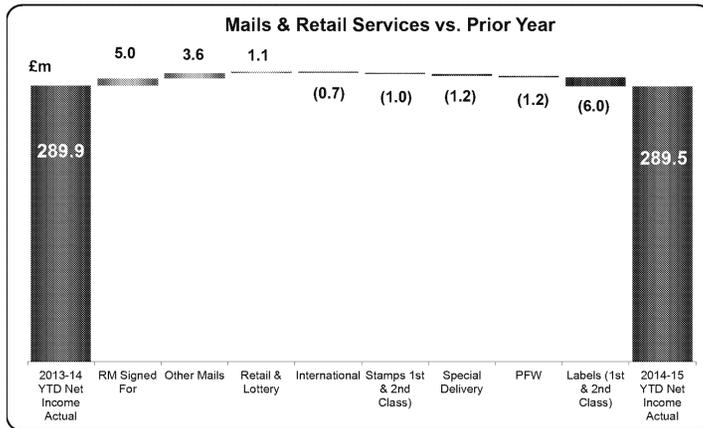


Net Income By Pillar vs Prior Year
December 2014

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Net Income (£m)	Period			Prior Year Period		YTD			Prior Year		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Actual	Budget	Variance	Actual	Variance	Q2 Forecast	Budget	Variance	Outturn	Variance
Mails & Retail	40.3	44.3	(3.9)	39.4	0.9	289.5	318.0	(28.5)	289.9	(0.4)	389.1	424.1	(35.0)	386.0	3.1
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TOTAL NET INCOME	76.4	82.4	(5.9)	75.5	0.9	642.9	688.7	(45.8)	650.0	(7.2)	880.0	925.0	(45.1)	866.7	13.2
FRES - Share Of Operating Profits	1.9	1.8	0.1	1.5	0.4	29.9	29.3	0.7	28.3	1.7	35.0	35.0	0.0	33.1	1.9



Pillar Performance - Year on Year Variances

Mails & Retail Services - (£0.4m) Adv
Overall volumes are lower than prior year but offset by dangerous goods.

1st and 2nd Class (£7.0m) adv - due to lower volumes, but volume has switched to signed for. Combined therefore is net £2m adverse.

International (£0.7m) adv - driven by lower volumes.

Special delivery (£1.2m) adv and **PFW (£1.2m) adv** - driven by lower volumes.

Offset by:
RM Signed For £5.0m fav due to higher volumes. (offset with labels).

Other Mails £3.6m fav - driven by dangerous goods income.

Financial Services - £5.3m Fav
Insurance £4.4m fav - driven by new insurance contract.
MoneyGram £4.4m fav - driven by higher MoneyGram volumes.
Premium Bonds (NS&I) £3.5m fav - driven by higher volumes.
ATMs £1.3m fav.

Offset by:
Bill Payment (£3.8m) adv.
Banking (£2.2m) adv - loss of FS Brand Income.
Travel (£2.2m) adv.

Government Services - (£6.5m) Adv
POCA (£4.1m) adv - due to fall in number of live accounts.
Motoring (£0.6m) adv - due to lower priced new contract and continued volume falls as migration to online continues.

Telecoms - (£4.5m) Adv
Homephone (£4.5) adv - Revenue is lower due to lower customer numbers.

Other - (£2.0m) Adv.

FRES Profit Share - £0.9m Fav.

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Cost Report

Staff Cost By Function

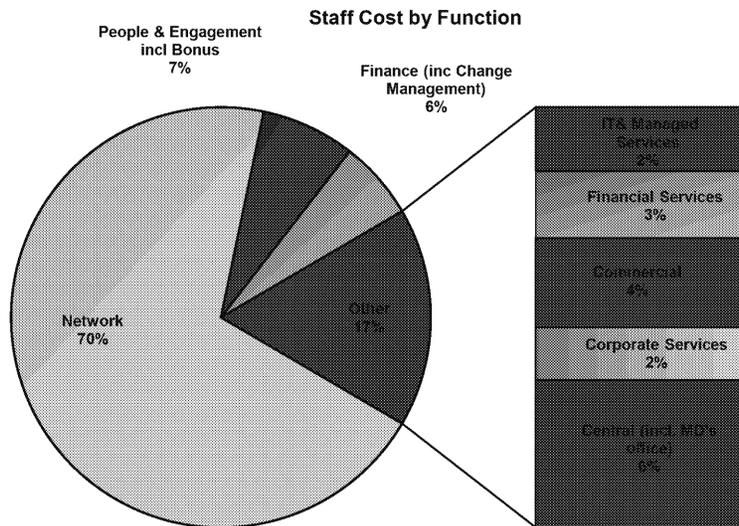
December 2014

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£m	YTD			Prior Year		Full Year			YTD Headcount				Total NT & CTP Heads Memorandum
	Actual	Budget	Variance	Outturn	Variance	Q2 Forecast	Budget	Variance	%	Actual	Budget	Variance	
Staff Cost by Function													
Central (incl. MD's office)	(10.8)	(9.4)	(1.4)	(8.2)	(2.5)	(12.5)	(12.5)	0.0	0%	13	15	2	
Commercial	(6.5)	(5.1)	(1.4)	(5.8)	(0.7)	(8.3)	(6.8)	(1.5)	2%	113	127	14	1
People & Engagement	(6.8)	(6.1)	(0.6)	(6.3)	(0.5)	(8.2)	(8.2)	0.0	3%	191	172	(19)	33
HR - Centrally Held Bonus Payments	(6.4)	(11.4)	5.0	(13.5)	7.1	(7.7)	(15.3)	7.6	-	-	-	-	
Finance (inc Change Management)	(11.0)	(10.8)	(0.3)	(12.8)	1.7	(14.0)	(14.3)	0.3	4%	298	310	12	7
IT& Managed Services	(4.7)	(5.3)	0.6	(5.7)	1.0	(6.3)	(7.2)	0.9	1%	97	115	18	2
Financial Services	(4.8)	(4.6)	(0.3)	(3.4)	(1.5)	(6.3)	(6.3)	0.0	2%	116	122	6	
Network	(127.1)	(124.0)	(3.1)	(134.0)	6.9	(165.4)	(162.9)	(2.5)	87%	6,265	6,192	(73)	602
Supply Chain	(42.3)	(40.1)	(2.1)	(42.0)	(0.2)	(53.5)	(53.5)	0.0	22%	1,546	1,549	3	
Crowns	(70.6)	(68.6)	(2.0)	(78.3)	7.7	(96.0)	(96.0)	0.0	49%	3,539	3,360	(179)	
Other Network	(14.2)	(15.2)	1.0	(13.7)	(0.6)	(12.9)	(12.9)	0.0	7%	533	602	69	
CTP and NTP Heads (Costs in exceptionals)									9%	647	681	34	
Corporate Services	(3.8)	(4.1)	0.2	(4.0)	0.2	(5.0)	(5.2)	0.3	1%	71	88	17	2
Total Staff Costs	(181.9)	(180.6)	(1.3)	(193.6)	11.7	(233.6)	(238.7)	5.1	100%	7,164	7,141	(23)	647

PY Actual	8,017
PY Variance	853



YTD Staff Costs are £1.3m adverse.

Higher staff costs of 1.3m are mainly due to the savings task not being achieved (£2.2m from Supply Chain and £0.5m from Commercial), the Crown pay deal and the CMA pay award, offset by a lower bonus accrual.

Vs. Prior Year

The staff costs are £11.7m favourable to prior year driven by the lower bonus accruals this year, lower Crown costs and IT Outsourcing.

Headcount of 7,164 is 23 adverse to budget.

The adverse variance is driven by Crowns as the headcount budget reflects the savings headcount profile expected.

Vs. prior year headcount has decreased by 853 primarily due to the Crown efficiency savings.

Non Staff Cost by Type
December 2014

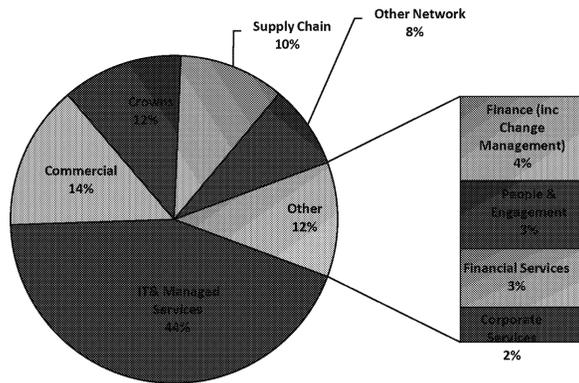
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£m	YTD			Prior Year		Full Year		
	Actual	Budget	Variance	Outturn	Variance	Q2 Forecast	Budget	Variance
Non- Staff Cost by Function								
Central - Centrally Held	5.1	8.5	(3.3)	3.4	1.8	6.0	7.6	(1.6)
Commercial	(30.7)	(24.8)	(5.9)	(12.9)	(17.8)	(31.7)	(30.7)	(1.0)
Finance (inc Change Management)	(8.4)	(7.1)	(1.2)	(14.3)	5.9	(12.1)	(10.1)	(2.0)
IT & Managed Services	(94.2)	(93.9)	(0.2)	(78.4)	(15.8)	(129.4)	(125.9)	(3.5)
Financial Services	(5.8)	(4.8)	(1.0)	(3.9)	(1.9)	(6.8)	(6.8)	0.0
People & Engagement	(6.7)	(8.3)	1.6	(6.0)	(0.8)	(9.6)	(10.6)	1.0
Corporate Services	(3.5)	(3.0)	(0.5)	(3.2)	(0.3)	(4.1)	(4.1)	0.0
Network	(65.7)	(72.2)	6.4	(74.3)	8.6	(92.9)	(92.9)	0.0
Supply Chain	(22.4)	(24.5)	2.1	(23.5)	1.1	(32.5)	(32.5)	0.0
Crowns	(25.6)	(24.3)	(1.3)	(2.5)	(23.1)	(2.4)	(2.4)	0.0
Other Network	(17.7)	(23.4)	5.7	(48.3)	30.6	(58.0)	(58.0)	0.0
Total Non Staff Costs	(209.8)	(205.7)	(4.1)	(189.6)	(20.2)	(280.6)	(273.5)	(7.1)

£m	YTD			Prior Year		Full Year		
	Actual	Budget	Variance	Outturn	Variance	Q2 Forecast	Budget	Variance
Non- Staff Cost by Type								
Legal Costs	(1.3)	(2.0)	0.7	(1.9)	0.6	(2.4)	(2.4)	0
Staff & Agent Related Costs	(7.7)	(9.5)	1.8	(8.5)	0.8	(11.3)	(12.3)	1.0
Consultancy and Advisory Services	1.0	(0.8)	1.8	1.9	(0.9)	(1.6)	(1.6)	0
Skills Group Offcharge	4.8	1.4	3.3	12.5	(7.7)	1.6	1.9	0
Consultancy and Advisory Services	(3.8)	(2.3)	(1.5)	(10.6)	6.8	(3.2)	(3.5)	0
Brand & Marketing	(28.1)	(25.3)	(2.8)	(11.0)	(17.1)	(28.1)	(30.9)	2.8
Property & Facilities	(45.5)	(45.8)	0.2	(49.2)	3.6	(61.0)	(61.0)	0
Vehicles	(5.1)	(5.9)	0.8	(5.9)	0.9	(7.8)	(7.8)	0
IT Infrastructure & IT services	(67.7)	(67.8)	0.1	(57.0)	(10.7)	(90.9)	(89.9)	(1.0)
Finance & Losses	1.8	(12.6)	14.4	(9.6)	11.4	(5.2)	(18.2)	13.0
Other Operating Costs	(57.2)	(45.0)	(12.2)	(48.4)	(8.8)	(77.6)	(60.9)	(16.7)
Non-Staff Costs Efficiency Target	0.0	8.9	(8.9)	0.0	0.0	5.5	11.6	(6.1)
Total Non Staff Costs	(209.8)	(205.7)	(4.1)	(189.6)	(20.2)	(280.6)	(273.5)	(7.0)

Non Staff by Function



Variance

YTD non people costs were £4.1m adverse to budget and £20.2m adverse to prior year.

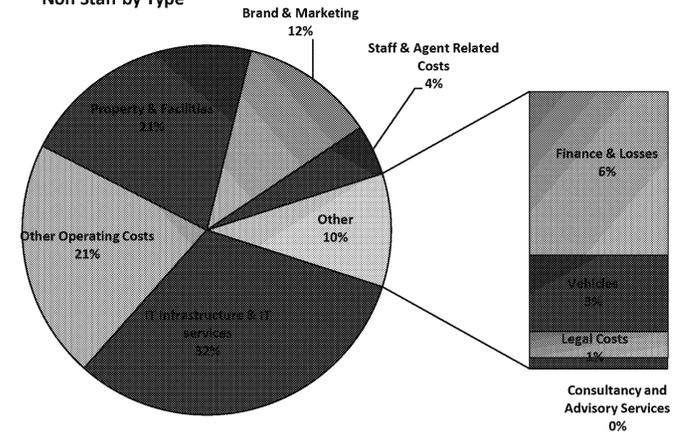
Vs. Budget

Higher non staff costs of £4.1m driven primarily the £10m provision for client compensation, impact of the centrally held savings task of £4.6m not being achieved, £3.0m accrued for Mails Segregation penalty payment and higher postage costs offset by improved VAT recovery of £12m (relating to the prior year) and £4.3m relating to this years improved VAT recovery rate.

Vs. Prior Year

Higher non staff costs of £20.2m due primarily to £10m client compensation provision this year, IT costs (mainly Horizon and ATOS) and the marketing fees have also been moved from POOC to non staff this year with a FY impact of £9m. This is partly offset by staff savings following the outsourcing and the improved VAT recovery this year. Note: PY POOC offset against other operating costs.

Non Staff by Type



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Transformation Report

Project Costs (OpEx)

December 2014

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The overall expenditure is £3.2m higher than budget, due primarily to unbudgeted cost, specifically Sparrow and Commercial Strategy, which was partially budgeted.

OpEx	£m	Current Month			YTD			Full Year		
		Actual	Budget	Var	Actual	Budget	Var	Outlook	FY Budget	POLIC Approved
Function	Programme									
Commercial	Digital & Multi Channel	(0.0)	(0.1)	0.0	(0.4)	(0.9)	0.5	(0.5)	(1.1)	(0.7)
	Mails	(0.4)	(0.1)	(0.2)	(1.0)	(2.4)	1.4	(1.6)	(3.5)	(2.5)
	Telephony	(0.3)	(0.1)	(0.2)	(3.4)	(2.5)	(0.9)	(2.4)	(3.4)	(3.6)
	Government Services	(0.1)	(0.1)	(0.0)	(1.2)	(1.9)	0.7	(1.3)	(2.1)	(0.5)
	Customer Engagement	0.2	(0.0)	0.2	0.1	(0.0)	0.1	(0.6)	(0.0)	(0.5)
	Brand Marketing	(0.0)	(0.0)	0.0	0.1	(0.0)	0.1	0.1	(0.0)	0.0
	Commercial Strategy	0.0	(0.0)	0.0	(0.8)	(0.0)	(0.8)	(0.9)	(0.0)	(0.1)
Financial Services	Financial Services	(0.7)	(0.5)	(0.2)	(4.0)	(7.3)	3.3	(3.4)	(8.7)	(3.4)
	Financial Services_ Eagle	(0.2)	(0.0)	(0.2)	(2.6)	(0.0)	(2.6)	(4.0)	(0.0)	(4.0)
Corporate Services	Compliance	0.0	0.0	0.0	(0.3)	0.0	(0.3)	(0.2)	(0.0)	(0.0)
	Mutualisation	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Finance	Finance	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.1)	(0.0)	(0.0)
	Business Transformation	(0.4)	(0.1)	(0.3)	(2.3)	(0.6)	(1.7)	(1.0)	(0.8)	(6.0)
Network	Network Other	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)	(0.0)	0.0
	Property	0.0	0.0	0.0	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.2)
	Supply Chain	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.1)	(0.1)	(0.0)	(0.0)
IT & Managed Services	Independence & Separation	0.0	0.0	0.0	(0.1)	0.0	(0.1)	(0.1)	(0.0)	(0.0)
	IT	0.0	0.0	0.0	(0.1)	0.0	(0.1)	(0.4)	(0.0)	(0.0)
People & Engagement	Communications	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
	HR (Inc Sparrow)	(0.1)	0.0	(0.1)	(3.1)	0.0	(3.1)	(5.0)	(0.0)	(0.0)
	Flow Through Projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Centrally Held	Centrally Held	0.0	0.1	(0.1)	0.0	2.0	(2.0)	0.0	2.4	0.0
Financial Services_ Eagle	T/F to Provision	0.2	0.0	0.2	2.6	0.0	2.6	0.0	0.0	4.0
Opex Total		(1.8)	(0.8)	(1.0)	(16.9)	(13.7)	(3.2)	(21.6)	(17.3)	(17.5)

OpEx - £3.2m Over Spend YTD

Headlines: The overspend of £3.2m is driven by the unbudgeted projects; Sparrow and Commercial Strategy. The projects which are behind planned activities are FS & Mails, and their YTD underspend is off setting the overspend in other areas.

Mails: £1.4m favourable, projects tracking behind plan.

Telephony: £0.9m adverse due to majority of the costs yet to be amortised.

Commercial Strategy development £0.8m adverse due to this being an unbudgeted activity.

Financial Services: £3.3m favourable due to various projects being behind planned activities.

Financial Services (Eagle): £2.6m adverse, but is offset against the existing provision (shown lower down).

Business Transformation: £1.7m adverse due to the majority of this spend being unbudgeted. To date £1.9m has been exceptionalised.

Sparrow: (Horizon Litigation) £3.1m adverse. £0.2m of cost have been exceptionalised. The remainder was under classification review and will now remain in OpEx.

Centrally Held: £2.0m adverse, this is the overlay required to achieve the overall Target of £17.3m excluding unbudgeted projects which is yet to be allocated out to programmes, work in progress.

FY Outlook is at £17.6m after the Eagle provision is moved to the provision.

Project Costs (CapEx)

December 2014

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Capital and Exceptional Expenditure is £84.6m underspent, driven by FS, IT and Network projects.



CapEx	£m	Current Month			YTD			Full Year			
		Actual	Budget Rebased	Var	Actual	Budget Rebased	Var	Outlook	FY Budget Rebased	Board Approved Budget	POLIC Approved
Commercial	Digital & Multi Channel	(0.0)	(0.8)	0.8	(0.6)	(7.1)	6.5	(0.6)	(9.5)	(9.5)	(1.2)
	Mails	(0.2)	(0.1)	(0.1)	(1.3)	(1.1)	(0.2)	(1.7)	(1.3)	(1.0)	(2.4)
	Telephony	(0.9)	(0.1)	(0.8)	(2.2)	(1.5)	(0.7)	(2.4)	(1.8)	(2.0)	(1.4)
	Government Services	0.3	(0.1)	0.4	(1.0)	(2.2)	1.2	(1.5)	(2.4)	(2.4)	(0.5)
	Customer Engagement	(0.2)	0.0	(0.2)	(0.9)	0.0	(0.9)	(3.2)	0.0	0.0	(2.3)
Corporate Services	Compliance	0.0	(0.1)	0.1	0.0	(0.6)	0.6	0.0	(0.9)	(0.9)	0.0
Finance	Finance	(0.0)	(0.1)	0.1	(0.3)	(0.8)	0.5	(0.8)	(1.2)	(1.2)	(0.4)
Financial Services	Financial Services	(0.0)	(2.8)	2.8	(2.6)	(19.5)	16.9	(2.6)	(27.8)	(27.8)	(4.3)
IT & Managed Services	Independence & Separation	(1.8)	(0.8)	(1.0)	(15.3)	(17.8)	2.5	(21.7)	(19.9)	(18.9)	(18.8)
	IT Transformation	0.0	0.0	0.0	(0.1)	0.0	(0.1)	(5.3)	0.0	0.0	(1.3)
	IT	(2.1)	(4.5)	2.4	(18.4)	(40.4)	22.1	(23.3)	(53.7)	(54.5)	(21.8)
Network	Crown Transformation	(3.3)	(0.4)	(2.9)	(30.0)	(30.4)	0.3	(30.0)	(30.4)	(30.4)	(30.4)
	Network Other	0.0	(0.1)	0.1	(0.9)	(0.9)	(0.0)	(0.9)	(1.2)	(1.2)	0.0
	Network Transformation	(2.1)	(2.6)	0.5	(25.9)	(28.2)	2.3	(28.3)	(35.0)	(46.9)	(32.5)
	Property	(1.6)	(2.1)	0.5	(5.3)	(9.3)	4.0	(10.2)	(11.2)	(11.2)	(5.0)
	Supply Chain	0.1	(0.5)	0.6	(1.1)	(9.5)	8.4	(12.3)	(12.6)	(12.7)	(0.4)
	Out of Programme - Other	(0.0)	0.0	(0.0)	(0.1)	0.0	(0.1)	(0.2)			
People & Engagement	HR	(0.0)	0.0	(0.0)	(0.2)	(0.3)	0.1	(0.2)	(0.3)	(2.8)	(0.1)
Old Projects	Old Projects	0.0	0.0	0.0	(0.2)	0.0	(0.2)	(0.2)	4.0	18.2	0.0
Centrally Held	Centrally Held	0.0	0.3	(0.3)	0.0	3.0	(3.0)	0.0	0.0	0.0	0.0
Capex Total		(11.9)	(14.7)	2.8	(106.3)	(166.5)	60.2	(145.4)	(205.2)	(205.2)	(122.7)

CapEx £60.2m underspend YTD

Commercial: The £5.8m favourable variance year to date is mainly driven by Digital & Multi Channel £6.5m and Government £1.2m favourable due to changes in activity profile and timings since the plan was presented.

Financial Services: £16.9m favourable, various projects behind planned activities.

Independence & Separation: £2.5m favourable, mainly due to a combination of projects being behind schedule.

IT: £22.1m favourable due to various large capital projects being behind plan.

Network Transformation: £2.3m favourable mainly as a result of re-categorising planned spend to Exceptional.

Property: £4.0m favourable, various projects behind planned activities.

Supply Chain: £8.4m favourable, various projects have slipped and have been re-forecast.

Centrally Held: £3.0m adverse, £4m savings overlay to be allocated out to programmes in due course to achieve full year target.

Exceptional	£m	Current Month			Year To Date			Full Year			
		Actual	Budget Rebased	Var	Actual	Budget Rebased	Var	Outlook	FY Budget Rebased	Board Approved Budget	POLIC Approved
IT & Managed Services	Independence & Separation	0.0	(0.2)	0.2	(4.1)	(3.4)	(0.7)	(5.0)	(4.0)	(2.4)	(2.5)
	IT Transformation	(1.2)	(0.3)	(0.9)	(10.2)	(14.3)	4.1	(15.1)	(15.4)	(14.4)	(21.6)
	IT (CDP)	0.0	(0.2)	0.2	0.0	(2.0)	2.0	0.0	(2.6)	(2.6)	(2.2)
Network	Crown Transformation	(0.7)	(1.3)	0.6	(15.9)	(28.4)	12.5	(23.0)	(29.6)	(34.6)	(29.6)
	Network Transformation	(15.4)	(9.8)	(5.6)	(104.5)	(112.0)	7.5	(151.9)	(163.6)	(149.2)	(163.6)
	Supply Chain	0.0	(0.5)	0.5	0.0	(1.7)	1.7	0.0	(3.0)	(2.9)	
People & Engagement	HR (Inc Sparrow)	0.0	0.0	0.0	(0.2)	(5.0)	4.8	(0.2)	(5.0)	(0.0)	0.0
Finance	Business Transformation	0.0	0.0	0.0	(1.9)	0.0	(1.9)	(6.5)	(0.0)	(0.0)	(27.0)
Centrally Held	Centrally Held	0.0	0.5	(0.5)	0.0	5.5	(5.5)	0.0	7.0	(10.0)	0.0
Exceptional Total		(17.3)	(11.8)	(5.5)	(136.8)	(161.2)	24.4	(201.8)	(216.1)	(216.1)	(246.5)

Exceptional - £24.4m underspend

Crown and Network Transformation: £20.0m favourable mainly driven by the timing of the accounting of compensation payments for sign ups. Forecast suggests a significant increase in spend for Q4.

IT: £6.1m favourable, £7.9m of this is the ATOS setup cost payments which were accounted for in 2013-14 but budgeted in 2014-15.

Sparrow: £4.8m favourable. Sparrow costs in OpEx, have been reviewed and will remain in OpEx.

Business Transformation: The majority of Business Transformation spend was unbudgeted. To date £1.9m has been exceptionalised, whilst a further £2.3m remains in OpEx.

Centrally Held: £5.5m adverse, £7m savings overlay to be allocated out to programmes in due course to achieve full year target.

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Supplementary Information

Cashflow Statement & Balance Sheet Summary

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December 2014

Balance Sheet

£m	Mar-14	P9		
		Actual	Budget	Variance
Fixed Assets	71	71	65	6
Debtors	154	171	140	31
Cash	708	854	857	(3)
Client Balances	(279)	(240)	(274)	34
Trade Creditors	(303)	(278)	(279)	1
Pension (deficit)/surplus	148	164	143	21
Provisions	(78)	(76)	(60)	(17)
Investments, Funding	(18)	141	45	96
Loan	0	(412)	(340)	(72)
Net Assets	403	395	298	97

Reserves	Mar-14	Actual	Budget	Variance
Capital and Reserves	(403)	(395)	(298)	(97)
	(403)	(395)	(298)	(97)

Cash Management Table

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

	Opening	P9
Headroom (£m)	854	677

Cashflow Statement

£m	YTD			Full Year			Board Approved Budget	Variance
	Actual	Budget	Variance	Forecast	Budget*	Variance		
Operating Profit	51.5	64.7	(13.2)	85.0	99.0	(14.0)	99.0	14.0
Depreciation	0.4	0.5	(0.1)	0.6	0.6	0.0	0.6	0.0
Working Capital	(93.8)	(68.3)	(25.5)	49.5	27.0	22.5	18.7	30.8
Client Balances	(39.3)	(5.0)	(34.3)	(3.0)	17.0	(20.0)	(9.0)	6.0
Network Cash	(145.3)	(148.6)	3.3	(91.6)	(57.6)	(34.0)	(10.0)	(81.6)
Dividends	0.1	5.7	(5.6)	0.0	0.0	0.0	(4.5)	4.5
Capital Expenditure	(106.4)	(166.4)	60.0	(145.0)	(205.2)	60.2	(205.2)	60.2
Government funding	170.0	170.0	0.0	170.0	170.0	0.0	170.0	0.0
NSP in advance	40.0	40.0	0.0		0.0	0.0	0.0	0.0
Exceptional Items	(144.1)	(179.7)	35.6	(213.4)	(240.3)	26.9	(216.1)	2.7
Pensions	4.3	2.9	1.4	3.0	3.0	0.0	3.0	0.0
Proceeds from asset sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business transformation	0.0	0.0	0.0	(10.5)	(10.5)	0.0	(10.5)	0.0
Operating Cashflow	(262.6)	(284.3)	21.7	(155.4)	(197.0)	41.6	(164.0)	8.6
Interest	(1.6)	(1.8)	0.2	(3.0)	(3.0)	0.0	(3.0)	0.0
Tax	10.6	10.0	0.6	0.0	0.0	0.0	0.0	0.0
Free Cashflow	(253.6)	(276.0)	22.4	(158.4)	(200.0)	41.6	(167.0)	8.6

* Budget has been updated to reflect year end outturn and a reconciliation is shown in the final two columns and explained below.

Cashflow budget

The 2014-15 budget was approved by the Board at £167m outflow, prior to the 2013-14 year end and noting the year end outturn may result in changes being required. The budget of £200m shown in this pack reflects the year end outturn impacts, namely:

- higher provision balances at March 2014 than anticipated (£24m),
- lower network cash outturn at March 2014 than expected and not assumed to repeat at March 2015 due to Easter timing (£48m),
- refinement to client creditor budget reflecting timing of Easter 2015 £26m, and
- other minor rebalancing £13m.

Income By Product Groups & Pillar

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December 2014

All pillars are adverse; Mails is £28.5m, Telecoms is £12.9m, Government Services is £7.8m and Financial Services is £3.2m. Other income is favourable by £6.0 and Supply Chain by £0.4m.



Net Income £m	Current Month			Prior Year		YTD			Prior Year		Full Year			Prior Year
	Actuals	Budget	Variance	Period Actual	Month (Yr On Yr)	Actual	Budget	Variance	Outturn	YTD (Yr On Yr)	Q2 Forecast	Budget	Variance	2013/14 Outturn
Parcelforce	2.6	2.8	(0.2)	2.7	(0.1)	16.3	18.1	(1.8)	17.5	(1.2)	23.8	23.8	0.0	22.8
Special Delivery	4.6	4.4	0.1	4.5	0.1	37.5	39.0	(1.4)	38.7	(1.2)	51.8	51.8	0.0	51.4
International Priority & Standard	5.0	4.6	0.4	4.6	0.4	25.6	26.5	(1.0)	26.2	(0.7)	34.6	34.6	0.0	34.1
Stamps (1st & 2nd Class plus other stamps)	6.5	5.5	1.0	6.3	0.1	22.8	20.4	2.4	23.7	(1.0)	26.2	26.2	0.0	30.6
Labels (1st & 2nd Class)	6.1	10.9	(4.8)	9.1	(3.0)	63.8	77.7	(14.0)	69.8	(6.0)	103.3	103.3	0.0	92.4
RM Signed For	4.6	1.7	2.8	1.5	3.0	19.3	15.7	3.6	14.2	5.0	21.1	21.1	0.0	18.4
RM Mail Fixed	4.4	4.4	0.02	4.4	0.01	42.8	42.7	0.1	42.0	0.9	56.9	57.2	(0.3)	56.7
Retail & Lottery	3.1	3.3	(0.2)	3.1	(0.0)	30.6	32.7	(2.1)	29.5	1.1	44.0	43.6	0.4	43.7
Home Shopping Returns	0.8	1.8	(1.1)	0.6	0.2	6.7	14.9	(8.2)	5.8	1.0	22.7	22.7	0.0	7.7
Mails Other	2.8	4.8	(1.9)	2.6	0.2	24.1	30.3	(6.2)	22.4	1.7	4.7	39.9	(35.1)	28.0
Total Mails & Retail	40.3	44.3	(3.9)	39.4	0.9	289.5	318.0	(28.5)	289.9	(0.4)	389.1	424.1	(35.0)	386.0
Energy	0.0	0.3	(0.3)	0.0	0.0	0.0	2.3	(2.3)	0.0	0.0	0.0	3.0	(3.0)	0.0
HomePhone /Dual & Broadband Customers	3.2	4.8	(1.6)	4.1	(0.9)	32.3	42.9	(10.6)	36.8	(4.5)	52.5	58.9	(6.4)	46.0
Total Telecoms Services	3.2	5.0	(1.9)	4.1	(0.9)	32.3	45.2	(12.9)	36.8	(4.5)	52.5	61.9	(9.4)	46.0
Motoring Services	1.7	0.5	1.2	0.7	1.0	12.7	10.9	1.8	13.3	(0.6)	17.6	15.3	2.3	19.9
Card Account	4.0	4.9	(0.9)	4.3	(0.3)	38.2	45.6	(7.4)	42.3	(4.1)	49.7	60.2	(10.5)	59.2
Check and Send	0.6	0.8	(0.1)	0.7	(0.0)	14.7	16.2	(1.5)	15.6	(0.9)	23.6	25.8	(2.2)	23.0
AEI (DVLA & UKBA)	0.5	0.6	(0.1)	0.6	(0.1)	6.6	6.5	0.1	7.1	(0.5)	8.5	9.5	(1.0)	8.3
Other Government Services	0.2	0.4	(0.2)	0.1	0.1	3.5	4.2	(0.7)	3.7	(0.2)	5.7	5.8	(0.0)	5.8
Total Government Services	7.0	7.2	(0.1)	6.4	0.6	75.7	83.4	(7.8)	82.1	(6.5)	105.2	116.6	(11.4)	116.1
Bill Payment Services Direct	0.8	0.8	(0.0)	1.0	(0.2)	7.1	7.2	(0.1)	8.4	(1.3)	9.8	9.8	0.0	10.9
Bill Payment Services Reseller	2.0	1.8	0.2	2.7	(0.7)	19.0	19.3	(0.3)	21.5	(2.5)	24.5	24.5	0.0	26.9
Postal Orders	1.5	1.7	(0.2)	1.7	(0.2)	19.0	16.0	3.0	17.9	1.0	20.7	20.7	0.0	20.8
Payment Services	0.8	2.0	(1.2)	0.9	(0.1)	3.1	6.1	(3.0)	2.4	0.6	8.8	8.4	0.4	7.4
Personal Banking Clients	2.3	2.2	0.2	2.5	(0.2)	21.6	19.9	1.6	21.1	0.5	26.8	26.8	0.0	28.4
DWP Exceptions	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	0.03
Business Banking	2.3	2.0	0.3	2.3	0.0	20.0	19.3	0.7	22.7	(2.7)	26.8	25.1	1.7	29.3
ATM	2.6	2.6	0.0	2.6	0.0	24.9	24.5	0.4	23.6	1.3	32.7	32.7	0.0	31.4
PFS-Savings	4.3	4.6	(0.3)	3.9	0.4	38.1	38.9	(0.8)	37.5	0.6	52.6	52.6	0.0	50.0
PFS-Insurance	0.8	1.1	(0.4)	0.5	0.3	8.1	11.1	(3.0)	6.9	1.2	17.2	17.2	0.0	9.0
PFS-Lending	0.6	1.5	(0.9)	0.6	0.0	7.0	8.0	(1.0)	4.4	2.6	11.1	11.1	0.0	6.0
Bureau (excl profit share) (incl Travel Money Card)	1.6	1.6	0.0	1.5	0.1	19.7	19.9	(0.3)	19.8	(0.1)	25.1	25.1	0.0	24.3
Travel Insurance	(0.9)	0.4	(1.3)	0.3	(1.2)	5.4	7.3	(1.9)	7.5	(2.1)	8.9	8.9	0.0	9.6
MoneyGram	1.9	1.7	0.2	1.5	0.4	16.8	14.8	2.0	12.5	4.4	20.1	20.1	0.0	16.3
NS&I	2.0	0.2	1.8	0.3	1.7	7.7	2.5	5.2	3.2	4.5	3.1	3.1	0.0	6.7
Other	(0.0)	0.9	(0.9)	0.2	(0.2)	0.1	5.9	(5.8)	1.9	(1.8)	8.9	8.9	0.0	1.3
Total Financial Services	22.6	25.1	(2.4)	22.4	0.2	217.6	220.8	(3.2)	211.3	6.3	297.1	295.2	2.1	278.6
Other Income	0.3	(1.7)	2.1	0.8	(0.5)	3.6	(2.5)	6.0	7.3	(3.7)	4.1	(4.7)	8.8	9.2
Supply Chain	2.9	2.5	0.4	2.4	0.6	24.2	23.8	0.4	22.7	1.6	32.0	32.0	(0.0)	30.9
Net Income	76.4	82.4	(5.9)	75.5	0.9	642.9	688.7	(45.8)	650.0	(7.2)	880.0	925.0	(45.0)	866.7

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POST OFFICE LTD BOARD

Winning in Mails Update

1. Purpose

The purpose of this paper is to:

- 1.1. Update the Executive Committee (ExCo) on the latest developments regarding Post Office Ltd (POL) plans for Winning in Mails.

2. Background

- 2.1. At the June 2014 Board we presented a strategy outlining how POL would respond to the growing competitive challenges and threats in the Mails market. At its core this strategy centred on a rapid expansion of the POL network through low cost Mails access points aided by radical product simplification and partnerships with key multiple and many independent retailers.
- 2.2. At the September 2014 Board we presented an update on initial progress in turning this strategy into detailed plans for network expansion. The general theme of the update was that progress had been made, but that significant risks to the delivery of these plans remained.
- 2.3. Foremost amongst those risks was securing active support for our network expansion plans and product simplification from Royal Mail Group (RMG) and securing an agreement with the National Federation of Subpostmasters (NFSP).
- 2.4. Work has been continuing at pace to address these risks and develop a solution which will deliver the overarching ambition to protect Mails market share and £82m of revenue per year by 2020 through expanding the network to compete directly with the stated expansion plans of our major competitors. The Winning in Mails programme has been focused on further refining network expansion economics, Project Ivy (launch of the first POL access points), product simplification, defining the technology solution, engagement with the NFSP and arriving at an interim agreement with RMG to enable the first retailer contracts for access points to be agreed.

3. Current Situation

- 3.1. To accurately reflect the challenges presented by expanding the network we have structured the Winning in Mails programme into the following work streams: Solution (designing the commercial and technical solution for access points), Engagement (achieving support and agreement from the key stakeholders), Sales (delivering the retailer partnerships required to achieve the network scale ambitions) and Deployment (designing and implementing the operational processes required to deliver and run access points). The overall programme roadmap is included in Annex 1, Item 1.
- 3.2. **Solution** – the key objectives of the Solution work stream are: define the access point model and associated commercial proposition, define the products and

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required simplification needed for access points, develop the technical solution for access points and align access point design and implementation with the digital strategy and plan.

- The launch proposition has been finalised including the products which will be available in access points and for Mails products the digital channels through which they will be sold. This proposition is informed by a substantial piece of customer research and has been agreed with RMG.
- The launch will be in three phases. Phase one is a mails only acceptance model where the products are purchased online in advance and dropped off at an access point. Phase two will also see the inclusion of bill payment. Phase three is planned to include mails purchased in store and cash withdrawals. More detail on the products included is included in Annex 1, Item 2.
- The technical solution has been defined. The supplier (Ingenico) is engaged and working on detailed designs for release of phase one (Mails products only) in April/May 2015 and phase two (Mails products and bill pay) in November 2015. The technical solution will be a new Paystation device which has the capacity to deliver Electronic Point of Sale (EPOS) integration with multiple retailers systems. This was assessed against, and selected ahead of, the tablet solution indicated in the September 2014 update. The selection of Paystation was made based upon the relatively low cost of the device compared to a tablet combined with the relative ease with which EPOS integration can be achieved and feedback from potential retail partners on its simple usability. The new Paystation terminals can also be used to replace the legacy equipment in the existing branch network and generate benefits from the increased functionality and simplified transactions.
- Digital customer journeys and a development roadmap have been aligned and agreed with RMG.

The launch solution has been identified from a technical and operational perspective.

3.3. Engagement – the key objectives of the Engagement work stream are: reach a position with the NFSP that enables the roll out of access points at scale, reach an agreement with RMG on the required product journey, operational simplifications and commercials to enable a viable access point model.

- The September 2014 update indicated that we expected agreement with the NFSP to be reached by the end of 2014; this has not materialised and negotiations on access points continue. It is believed that the NFSP are keen to reach an agreement but at a cost to POL. An options paper is currently being considered by ExCo along with a request for a negotiating mandate.
- Operational requirements have been agreed with RMG which include agreement in principle to remove the need for weighing, sizing and segregating of parcels in access points. A joint online strategy has also been agreed with RMG (although details of data ownership are still outstanding). These are both significant steps forward as they allow POL to compete on operator and product simplicity with its main competitors.

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- The financial performance of the solution is dependent upon the shape of the commercial agreement with RMG. Commercials are yet to be agreed with RMG and are proving to be a significant sticking point. RMG are not yet convinced by the benefits to them of network expansion and as such are not yet willing to invest any money over and above the current value of the Mails Distribution Agreement (MDA).
- RMG have to date not been willing to commit resource to a proposed exercise to review the cost base of both organisations and establish how network expansion, and the simplification associated with it, can reduce costs.
- We plan to revive negotiations early in 2015 as we recognise that the RMG team have been understandably distracted by handling the Christmas peak.

As a result of the current situation with RMG, the POL team is now able to build the desired solution in a way which is sufficiently attractive to customers and retailers from a customer journey and operational perspective. However we are not able to do so with absolute confidence about the commercial return to POL given the reluctance shown by RMG to invest in network expansion and their scepticism over the amount of cost reduction which can be achieved through simplification. As a result of this the POL team have been working on plans to mitigate this risk and still deliver network expansion to defend POL's position within the Mails market. A brief update on these plans is included in section 4.

3.4. **Sales** – the key objectives of the Sales work stream are: manage the sales funnel to meet the commercial objectives, secure agreements with multiple partners for access points, develop the required propositions, pitch packs and contracts.

- Good progress has been made with establishing and understanding the needs of a broad pipeline of potential retail partners. A brief summary of the opportunities to agree contracts or trials with retailers, based upon the phased product release described in 3.2 above is included in Annex 1, Item 3.
- We plan for detailed commercial negotiations with the first partners to commence early in 2015 now that the solution and development timescales have been established. The first of these negotiations will be with McColl's Retail Group, the critical path for this contract is included in Annex 1, Item 4.
- Our main competitor failed to reach their own self-imposed expansion targets in 2014.
- It is becoming clear that retailers are holding out before committing to one single partner, this makes the competitive environment more critical as deals will depend upon the relative strength of the commercial proposition. It is also possible that retailers will ultimately want a carrier agnostic approach where they host more than one supplier in their premises.
- Some retailers are very open to trialling with several providers at once in different parts of their estates making whole estate agreements difficult to reach in the short term. To respond to this we are leveraging resource from the Network Transformation team to help deliver our overall network

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expansion plans through agreements with independent retailers to supplement the multiples.

The competition in the market is such that retailers are looking at all of the viable propositions including ours, Collect+/Paypoint and MyHermes. This may have prevented retailers from signing up to long term deals and given us more time than we originally expected but has highlighted the need for a very competitive commercial proposition which may lead POL to pay more in agents' pay than originally anticipated in order to win these deals. POL will need to assess each deal on its strategic and commercial merits in order to protect the programme financials. Given the current position with regard to reaching a commercial agreement with RMG, POL may need to withdraw from agreements with some retailers if the cost of funding them is unsustainable.

3.5. **Deployment** – the key objectives of the Deployment work stream are: define the detailed operational processes to support access points, define the deployment strategy (including trials, locations, phasing approach), ensure that capabilities are in place to roll out access points in line with targets and manage the Project Ivy trials.

- It has been agreed that access point roll out will be deployed through the Network Transformation multiples and independents teams; full time resource is being allocated to the programme in January 2015.
- The operational process design will commence in January 2015 using a blended team of experienced POL resource and external expertise provided by Accenture.
- Project Ivy trial outlet volumes remain extremely low despite the marketing and communications efforts. This has been due to the dispersed nature of the access points, difficulties in including communications in outbound parcels from upstream retail clients and the very limited product range. However, much has been learnt from the Ivy deployment particularly regarding the requirements for technical support and training.

While Ivy trial volumes have been disappointing the learning points from them have been substantial. In particular it is now planned to flood an area with access points once the phase one solution is available in May 2015. This will allow for more targeted marketing and communications, including more chance of including information about their existence in outbound parcels. As a result of the low volumes experienced through the 150 Ivy sites it is recommended that the programme does not roll out any further Ivy trials but instead uses the time and resource to gain agreement with the NFSP for full access point roll out. The risk associated with this is that this decision will almost certainly mean that POL will not achieve a network of 12k outlets by April 2015. This position will need to be agreed with the Shareholder Executive.

4. RMG risk mitigation

4.1. As mentioned above and in the September 2014 Winning in Mails update the key risk to network expansion is that we are unable to reach a commercial agreement with RMG which sustains the business case for network expansion.

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- 4.2. The business case is based upon POL achieving a 55p per item payment from RMG for parcels accepted in access points with RMG agreeing to mitigate the increased operational costs of collecting from access points by working on broad business wide cost saving initiatives.
- 4.3. The current situation is that RMG are unwilling to make any additional investment in access points over and above the current value of the MDA and are also unwilling to resource work to identify cost savings as a result of simplification that could potentially fund network expansion. POL considers network expansion to be critical to defending market share in Mails, and as such, intends to press on with plans even in the absence of RMG concurrence through the following course of action:
- Negotiate strongly with RMG to achieve the lowest possible operational cost and the highest possible rate per parcel accepted.
 - Fully cost alternative options for mail collection services including local Subpostmasters collecting from access points or ensure that outlets get to the parcel volumes required to qualify for free collections.
 - Agree the initial multiple retailer contracts and flood an area (e.g Birmingham) with independent retailers accepting the risk of a potential funding gap which would need to be covered by POL from business as usual budgets.
 - Use the learning points from the initial contracts and area flooding exercise to strengthen the case for network expansion and re-engage with RMG on the basis of more compelling evidence for network expansion.
 - Govern this activity by setting limits on the number of access points that we would be willing to fund and applying break points to contracts with retailers enabling POL to pull back if costs become prohibitive.

Our research has shown that convenience is the battleground and that POL must be easy to buy from and easy to sell for. Although this approach may cost POL in the short term, the long term strategy must be to secure our position in the Mails market through network expansion or risk very significant loss of market share to competitors.

- 4.4. Work continues to further understand the potential opportunities in the broader Mails market for POL. A team has been tasked with scoping the scale of those opportunities and considering the trigger points and circumstances under which we would wish to substantially alter our current arrangement with RMG. This work is commencing in earnest in January 2015 with an update for ExCo and the Board in March 2015. The scope of this work has been defined and agreed as follows:
- Establish further clarity on the Mails market(s) size, trends and key players combined with agreement on which markets we will target and the size of market share and income/profit we expect to win/retain.
 - Define a clearly segmented customer base and customer needs by segment. Agree the target segments for POL, their relative value and a clear marketing strategy for each.
 - Understand and factor in the retail partner perspective and requirements.
 - Identify the optimal product portfolio and gap analysis from current state.

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- Develop and agree a clear pricing strategy.
- Conduct a partner/supplier suitability analysis taking account of the nature of the partnership that we currently have with RMG and want in an ideal state.
- Confirm the commercial and financial arrangements needed to underpin our proposition to create a growing and profitable Mails business.

5. Financial case

5.1. The business case for access points has been updated based upon the progress made in defining the launch and end state solution. For an investment of £23.8m (includes £22m capex and £1.8m opex) over the next five years, the programme expects to deliver the following recurring financial benefits from 8k access points each year from 2020:

- £38.2m income per year (40% of which is cannibalised from the current network the remainder of which is new income achieved through win back from competitors and modest growth in the Mails market).
- £9.6m in net profit per year.

The steady state financials and payback are detailed in the table below. A detailed profit and loss and cash flow table is included at Annex 2.

	NPV ¹ (£m)	IRR (%)	Payback (yrs)	Capex (£m)	2020 Total Income (£m)	2020 Cash Flow (£m)
Base Case						
Medium growth (3%) / medium roll out (8k)	15.8	31%	5.3	22.0	38.2	9.6

5.2. The numbers detailed above and in Annex 2 are based upon a 55p payment per parcel from RMG and no extra costs for additional mail collections charged by RMG. As explained in sections 3.3 and 4 above this does not represent an agreed commercial position. The impact that these potential costs could have on the network expansion business case are shown in the example below which demonstrates the impact of incremental mail collection costs.

Sensitivity rate		Sensitivity	NPV (£m)	IRR (%)	Payback (yrs)
RMG charge for collections	Post Office bears additional £500 operational cost per access point per year	Mail collection fee	0.3	12%	7.4

¹ NPV calculated over 10 years and excludes £3.6m sunk cost.

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5.3. Any additional costs make the financial case for network expansion extremely marginal. The rationale for continuing with network expansion on a marginal basis is the risk of losing £82m in Mails revenue in a do nothing scenario.

6. Changes since the September 2014 update

6.1. As work has progressed since the last Board update in September 2014 the Winning in Mails programme has evolved. This has challenged some of the early assumptions and milestones which we set out in the update.

6.2. The timescales for the development of our chosen technical solution for Mails access points are longer than originally anticipated. This is partly because we decided (based in part upon feedback from potential retail partners) to switch from a tablet based solution to a new Paystation terminal solution. We will have new equipment available to roll out to outlets from May 2015. We originally expected this to be available in February 2015.

6.3. It has become very clear following engagement with most of the target multiple retailers that our Mails access point proposition is most attractive to them, and their customers, when combined with bill payment capability. This has demonstrated that we must at least match the proposition provided by Paypoint to be competitive. We know that MyHermes are paying retailers a fee per parcel of at least twice Collect+ as a result of their lack of a bill pay proposition. The addition of bill payment to our chosen technical solution means that the full Mails and bill pay service will not be available to roll out to retailers until November 2015. Despite this we know that there are still some retailers who are interested in the Mails only proposition, this means that there is still value in launching our Mails only proposition when it is available in May 2015, the main target retailers for each phase are summarised in Annex 1, Item 3.

6.4. Although we have achieved the roll out of 150 home shopping returns access point trials (Project Ivy), it is clear that they are not a commercially sustainable model as volumes are very low due to the restricted product range and low customer awareness. We had originally expected to have a broader Mails product range available in February 2015 which would have enabled us to add more access points to achieve a 12k total network size by April 2015. It now appears inadvisable to deliver 12k outlets by April 2015 as we do not recommend the roll out of any further access points which offer only the home shopping returns product.

6.5. We have yet to reach full agreement/alignment with the NFSP or RMG on the roll out of access points. Although this is disappointing it does not impact negatively upon roll out plans at present as the longer technical development timescales outlined above have lessened the immediate urgency of these agreements.

6.6. Although the longer timescales are disappointing it appears that our activity in the market has given us more time than we originally anticipated. Our main competitor failed to meet its self-imposed target for expansion in 2014 and potential retail partners are telling us that they are considering all providers before deciding to enter into medium term contracts. Furthermore our ability to offer Electronic Point of Sale (EPOS) integration through the new Paystation terminal solution has been very well received by potential partners. It is worth noting that as far as we are aware we have not yet lost a potential contract with any target multiple partners.

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6.7. Finally, as a result of our work to understand and refine the potential economics of network expansion we have reduced the number of access points we expect to roll out by 2018 from 12.5k to 8k. This is not a significant issue as the ultimate number of additional outlets will be determined by market conditions.

7. Conclusion

7.1. Although significant progress has been made, it is clear that substantial risk remains and continues to be focused upon the potential commercial exposure created by the difficulties of reaching a commercial agreement with RMG.

7.2. The team are confident that POL can create a proposition that will compete favourably with the competition and has the capacity to roll it out at scale despite some of the longer than originally anticipated development timescales mentioned above. This confidence is based upon good levels of engagement with our potential retail partners and detailed knowledge of our competitor's proposition.

8. Next steps

8.1. Negotiations will continue with RMG on the basis that we get the best deal possible for POL that allows the first access points to be delivered with minimal commercial exposure to POL. We will aim to reach an interim agreement with RMG prior to initial roll out in May. If this is not possible, it is proposed that we press ahead with expansion even if that creates short term cost as the financial risk of doing nothing is much more significant. It is calculated that if POL does not progress with network expansion then it could stand to lose up to £82m per year of Mails revenue by 2020.

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

8.3. Detailed commercial negotiations will commence with the first multiple retail partners in January 2015.

8.4. Planning for initial roll out (including area flooding) will commence in January 2015. This will be concluded to align with the first phase roll out in May 2015.

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

9. Recommendations

9.1. ExCo is asked to note progress against the network expansion plans and agree to the next steps including the decision to press ahead without full RMG commercial cover.

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

Martin George and Kevin Gilliland

January 2015



Win in Mails

Annex 1

January 2015

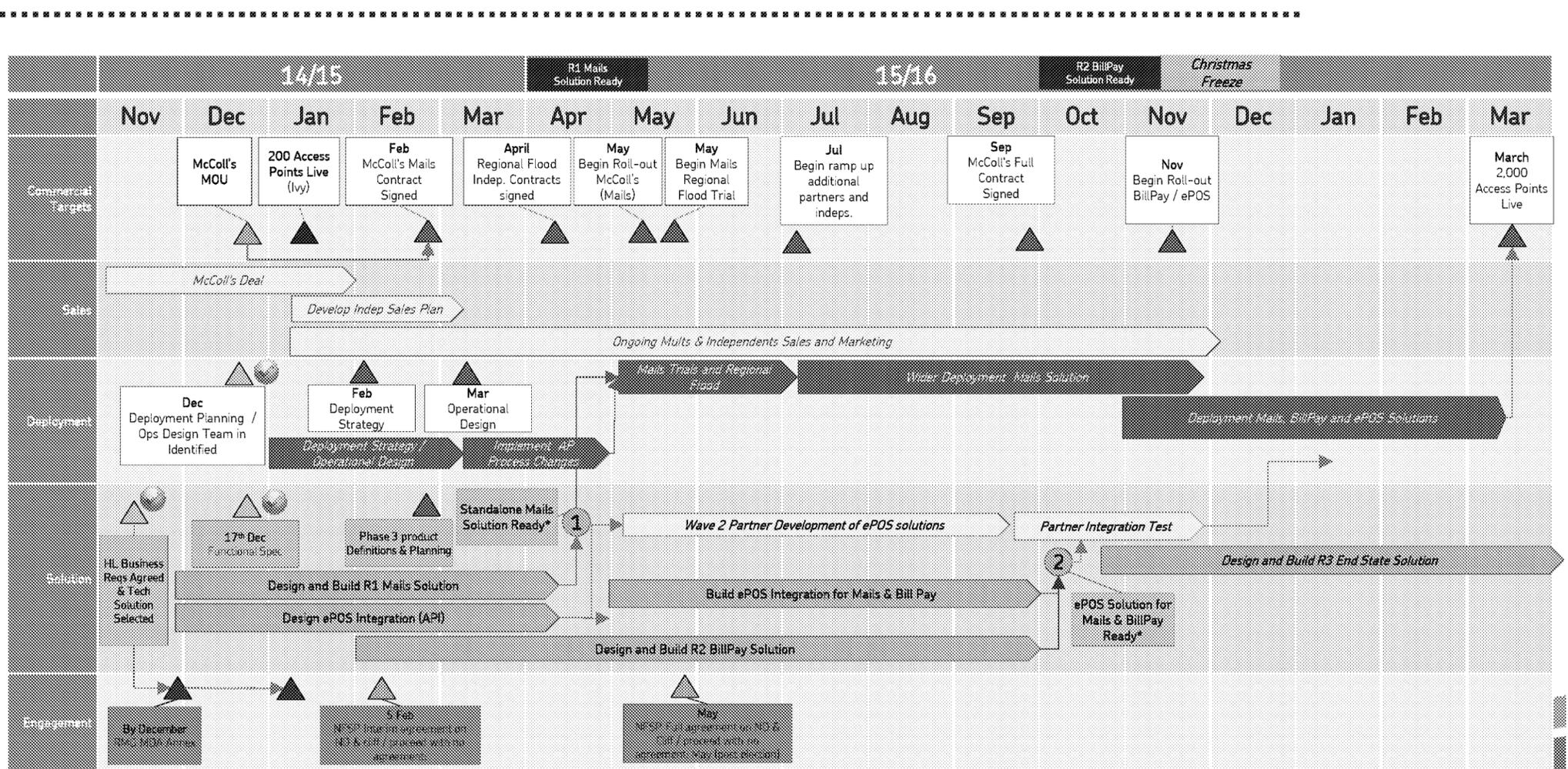


Contents

#	Item
1	Programme Roadmap
2	Ingenico Solution Roadmap
3	Retailer Opportunities by Release
4	McColl's Critical Path

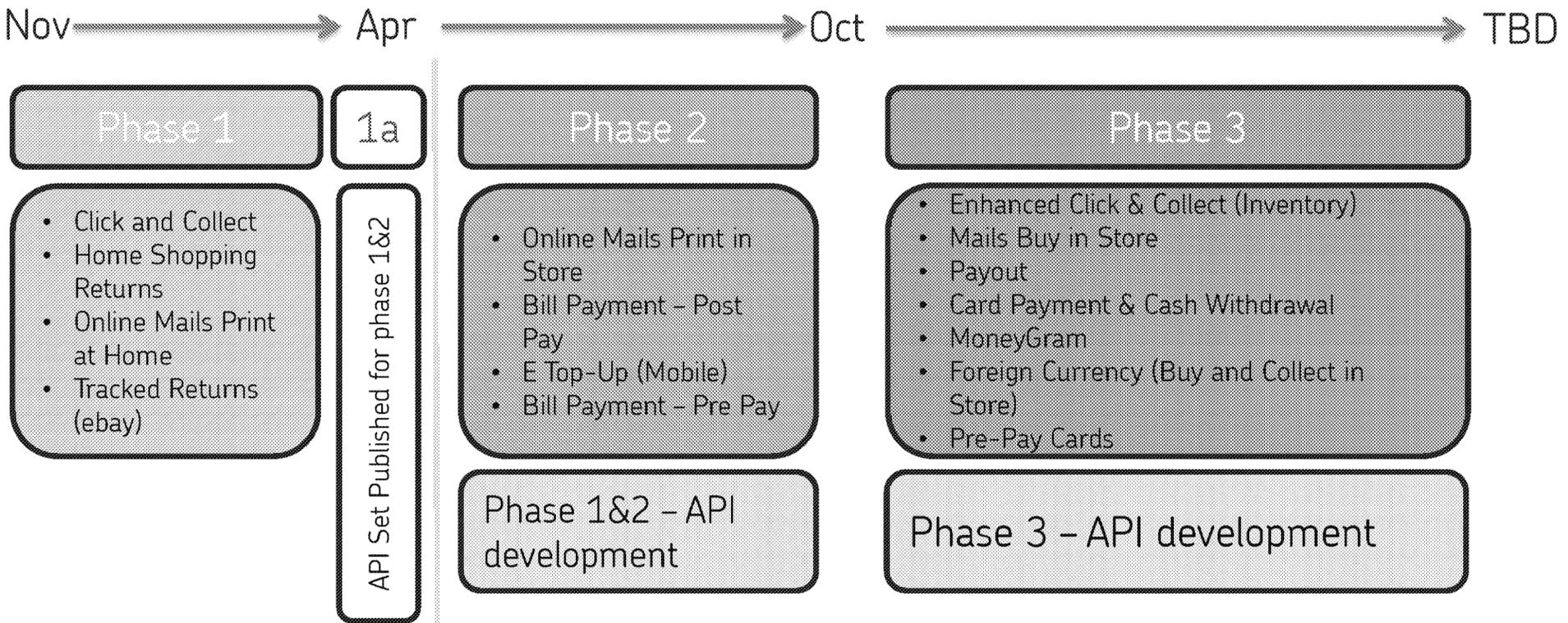


1. Overall Programme Roadmap





2. Ingenico Solution Roadmap



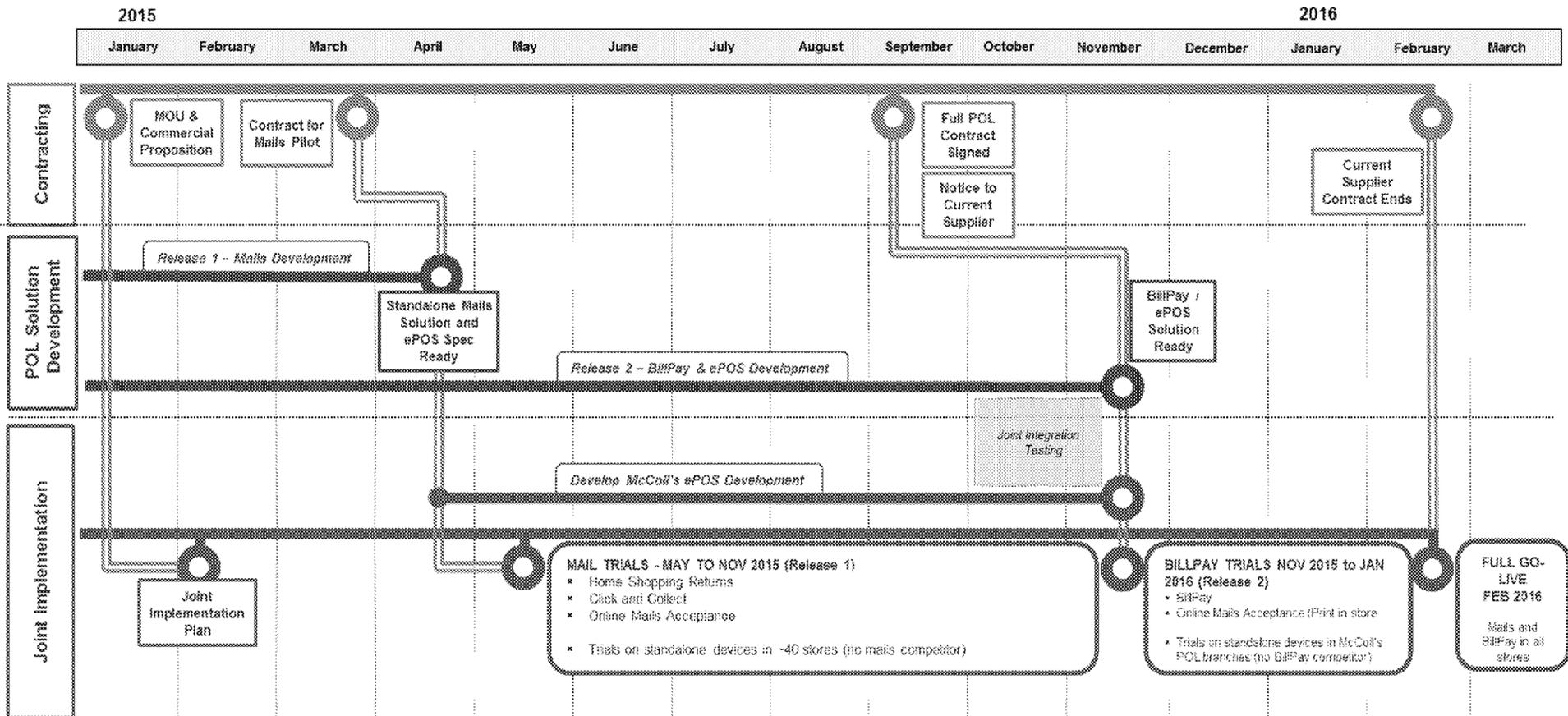


3. Retailer Opportunities by Product Release

Release	Products	Technology	Target Multiple Partner	Solution Ready	Begin Roll Out
1	<ul style="list-style-type: none"> Click and Collect Home Shopping Returns Online Mails Print at Home Tracked Returns (ebay) 	<ul style="list-style-type: none"> Standalone Only (no ePOS) 	<ul style="list-style-type: none"> Asda BP Esso Little Waitrose Morrisons Musgrave Nisa Sainsbury's Shell Spar UK TCG Tesco WHSmith 	Apr 2015	From May 2015
2	<ul style="list-style-type: none"> Online Mails Print in Store Bill Payment – Post Pay E Top-Up (Mobile) Bill Payment – Pre Pay 	<ul style="list-style-type: none"> Standalone ePOS 	<ul style="list-style-type: none"> Blakemore SPA Eurogarages McColl's Plus upgrade of partners from wave 1 above 	Oct 2015	Nov 2015
3	<ul style="list-style-type: none"> Enhanced Click & Collect (Inventory) Mails Buy in Store Payout Card Payment & Cash Withdrawal MoneyGram Foreign Currency (Buy and Collect in Store) Pre-Pay Cards 	<ul style="list-style-type: none"> Standalone ePOS 	Upgrade of partners from wave 1/2 above	TBC	TBC



4. McColl's Critical Path



Annex 2: Profit and Loss and Total Cash Flow

	14/15	15/16	16/17	17/18	18/19	19/20	TOTAL	
Income	0.07	2.73	10.97	23.39	34.43	38.20	£109.79	
Agents Pay	(0.05)	(1.61)	(6.08)	(13.05)	(19.41)	(21.77)	(£61.97)	
Direct Operating costs	(0.10)	(0.67)	(1.84)	(3.32)	(4.06)	(4.37)	(£14.36)	
Direct Operating Profit	(0.09)	0.45	3.05	7.02	10.96	12.06	£33.45	
Churn costs	-	(0.38)	(0.95)	(1.52)	(1.52)	(1.52)	(£5.89)	
Post Office Support	(0.19)	(0.50)	(0.70)	(0.70)	(0.70)	(0.70)	(£3.49)	
Total Network Profit	(0.28)	(0.42)	1.40	4.80	8.74	9.84	£24.08	
INVESTMENT COSTS								Exceptional?
Branch Setup Investment	(0.64)	(1.55)	(3.28)	(3.28)	0.00	0.00	(£8.75)	No
Support and Roll out Team	(0.80)	(0.88)	(1.07)	(1.07)	(0.01)	(0.01)	(£3.84)	No
Program Control	(0.52)	(0.60)	(0.25)	(0.15)	(0.15)	(0.15)	(£1.82)	No
Product Design	(2.25)	(4.75)	-	-	-	-	(£7.00)	Yes ¹
Sales team (multiples)	(0.11)	(0.32)	(0.16)	(0.16)	0.00	0.00	(£0.75)	No
Sales team (independents)	(0.30)	(1.09)	(2.11)	(2.11)	0.00	0.00	(£5.61)	No
Network modelling	(0.05)	(0.10)	(0.10)	(0.05)	-	-	(£0.30)	No
Customer and Retailer Research	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(£0.60)	No
MDA Renegotiation	(0.35)						(£0.35)	No
TOTAL CAPEX (Excluding Exceptional Spend)	(2.87)	(4.63)	(7.06)	(6.92)	(0.26)	(0.26)	(£22.00)	

¹ Although initially used on Access Points, the long term intent is for all product simplifications and technology development to be re-used across the wider network, therefore this cost is classed as exceptional spend and is excluded from the key programme financials.

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POST OFFICE LTD BOARD

Network Transformation, Model Performance and Crown Transformation Q3 2014

1. Purpose

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

2. Network Transformation – converting mains and locals

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

2.2. Throughout Q3 branch opening rates have been consistently strong: despite the slow-down in activity leading up to Christmas, an average weekly beat rate of 37 has been achieved. Strong performance is set to continue in Q4. The end of year target of 3,708 (1,650 during the financial year) should be achieved in late January, with the forecast at year-end above 3,900 branch openings. The programme also remains on track to meet the overall end of year target of 4,800 contracts signed.

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

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

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

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3.1. The principle of the cliff, as agreed in 2013, was to add further aspects of compulsion to Network Transformation in order to maintain the momentum of the programme through to the end. Good progress has been made with NT, so more than half of the remaining contracts needed to complete the transformation from next year will not require additional compulsion: they are replacements for leavers that will already be in process (either from volunteers or the transitional locals process above). However, the cliff remains an important tool to complete the transformation. There will likely be around 1,500 branches in scope for additional compulsion who have not engaged with Network Transformation:

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

3.2. The proposal is simple and straightforward:

- Notice will be served on these branches that they will be moved onto fully variable main or local pay six months later (the optimum operational time between announcement and action to allow branches to convert voluntarily).
- Any branch who has not signed a contract or committed to leave by the deadline will receive 18 months' worth of their loss in pay (if any) in compensation at the contractual change date (e.g. 1.5 times the loss of core tier payment for locals)

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

3.4. In terms of timing, Post Office's preferred approach is to serve notice on subpostmasters as soon as practical after the election i.e. in June 2015. Delaying to September 2015 – as per the intention of the 2013 agreement with NFSP and BIS – or beyond has significant cost, at just under £2m in P&L impact per quarter's delay.

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

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

4. Network Transformation – performance of the new models

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

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session growth also remains strong, as both models offer increased hours and convenience.

- 4.2. We are beginning to reach the peak of improvement that can be generated by an improved customer environment and hours alone, and so have begun the next phase of performance improvement, focussing on individual branch performance. We have developed an individual branch scorecard that we have sent out to a trial group of 50 branches. This balanced scorecard focuses on customer, remuneration and performance metrics to help identify areas for each branch to improve. It also points them to relevant training and promotion material online, giving them the tools to improve in a cost effective way.
- 4.3. By focussing on individual branch performance in this way, we anticipate getting a greater lift on overall performance through a low cost and repeatable mechanism. We are currently taking feedback from the trial branches on areas to improve and refine the scorecard before rolling it out more widely. The encouraging results so far have been the ease of attracting volunteers for the trial (nearly 70 volunteers replied in one weekend to an advert placed on Subspace online, with many claiming that such a mechanism would be very beneficial to them) and the willingness for postmasters to interact indirectly (through email and Subspace), rather than the traditional and relatively expensive methods of direct visits.

5. Crown Transformation- Programme delivery progress

- 5.1. CTP plan to deliver a total of 302 physical branch transformations. Of this, 287 projects had completed prior to the start of the 2014 Christmas trading peak, in line with plan. The remaining projects are running during Q4.
- 5.2. Also prior to the Christmas trading peak, over 3200 staff had been trained under the two-day CTP training programme. This formally completes delivery of the CTP training project and this has now transitioned into business-as-usual ownership.
- 5.3. Income performance in those branches that have completed transformation has consistently outperformed that of non-transformed branches. On average, income in transformed Crowns has been increasing 3.6% year-on-year (YoY), versus a 0.7% YoY decline in non-transformed branches. A particular highlight is the 17% YoY growth in Financial Services income in the transformed branches, a growth rate that is 2.1 times faster than in non-transformed branches.
- 5.4. Despite some positives on income growth, the breakeven plan has needed to evolve over the life of the programme to shift increasingly from income growth towards cost reduction. A reminder of how the shape of the breakeven plan has changed from its original shape is shown in the table below:

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

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- 5.5. Over the three years of the programme, the total staffing of the Crown network has moved from c3900FTE to c2600FTE, a reduction of 1/3, through a combination of efficiencies enabled in retained Crowns and staff exiting franchised Crowns.
- 5.6. CTP has delivered the reduction in the retained Crowns' staff cost base of £20m across the three years of the programme. Against the target of ending 503 full time equivalent (FTE) counter staff roles from retained Crowns across FY13/14 and FY14/15, 500 roles have so far been removed, and the balance will be removed during Q4. There has also been a reduction of over 65FTE branch manager positions from branch templates, in line with plan. Staff have exited the business under voluntary redundancy (VR).
- 5.7. A large proportion of the staff saving benefit was enabled through the rollout of over 500 of the new generation self-service kiosks. The rollout is substantively complete and support of the devices has moved into business-as-usual IT. Branches with the kiosks are, on average, conducting 60% of their mails and retail sales through the devices, as opposed to requiring customer interaction with a counter clerk. During the peak Christmas trading period, over 2 million items per week were sold through the devices.
- 5.8. New duty sets have gone live in branches, synchronised with both the transformation of the branch and the exit of colleagues under VR. Customer satisfaction has been closely monitored through Voice of the Customer feedback whilst the new duties embed, with "rapid response" teams in place to resolve any teething issues. The overall satisfaction score in the transformed branches was 82% during Q3, a level marginally higher than before staff exits from the same branches began in April 2014. The "acceptability of wait time" score in the same branches was 85%, which is the same score as in April 2014 despite the staff exits in the intervening period.
- 5.9. Work to progress the remaining mergers and relocations within CTP's scope is progressing well. November 2014 saw branch relocations go live in central Manchester and Edinburgh, as well as the closure of High Street Sutton branch, with its services transferred into Sutton's Grove Road branch. A relocation of the Crown branch in central Glasgow is also planned by CTP for delivery during Q1 of FY15/16. An eviction notice received for our King's Walk (Chelsea) branch has resulted in a planned force majeure closure in February 2015, on which a public consultation has now completed.
- 5.10. In terms of franchising, of the 70 branches originally planned to be franchised:
- 31 branches have so far gone live as franchises.
 - A further 12 branches are planned to go-live during Q4.
 - Between 8 and 13 further branches are expected to have contracts signed by the end of Q4, for go-lives in the first half of FY15/16.
 - 12 branches have so far been informed that they will be retained as Crowns. Whilst applications were received for running these branches, none were able to meet all three of the success criteria required for an appointment to be made (suitable premises, credible business plan and successful interview).
 - In any other cases where a suitable franchise partner cannot be found before the end of the programme, the most likely contingency will be to retain the branch on a minimised staff and property cost base. This could be up to 7 further branches retained.

A number of mitigations have been put in place to reduce the Crown P&L impact of this gap, meaning that despite the fact that not all branches will be franchised, over

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90% of the planned Crown P&L benefits associated with franchising will be realised (c£7.3m of £8.0m).

6. Crown Transformation- Forecast Crown P&L position

- 6.1. Despite the programme's delivery successes and the outperformance of transformed Crowns versus non-transformed, the rate of income growth required this financial year has not been achieved. Full year Crowns income is forecast to be £7m below in-year budget. (A £7m outturn below budget would broadly align to a whole-business outturn of £880m.) The primary drag is underperformance on mails, where income has declined 4% YoY in transformed Crowns and 6% YoY in non-transformed Crowns; against a budgeted 9% YoY growth.
- 6.2. The in-year shortfall on income will also impact the breakeven run-rate calculation. This combined with the shortfall against franchising benefits, and the impact of allocated costs of the central business not reducing to plan, would result, if unmitigated- with a **£8m** gap against the Crown P&L breakeven objective.

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

- 7.1. A number of mitigations against the emerging income gap were mobilised during Q3, some of which included new areas of programme scope. These are currently expected to deliver **£5-6m** of additional run-rate benefit by March 2015 (down from £6-£7m forecast in October):
 - Changes have been made to the distribution of Financial Services (FS) specialists' costs between the Crown network and FS management teams. This has reduced resource costs on the Crown P&L by £2.2m.
 - Property maintenance budgets have been reduced and further reallocations of property costs have been made for any space in Crown branches that is in use by other parts of the business. This has delivered £0.9m of benefits.
 - Further counter staff savings are being generated through the "Leaving the Business with Dignity" programme. 120FTE are planned to leave the business and be replaced by new hires during February and March. The differential in cost between leavers and new joiners will generate £0.6m of benefits.
 - The force majeure closures completed at Albermarle Street (Mayfair) and planned for Kings Walk (Chelsea) will generate £0.4m of benefits.
 - Losses in those Crown branches which are not open to the public are being significantly reduced. New contracts have been agreed with Royal Mail which will eliminate POL's losses for the two branches in The Royal Household. A bespoke contract has also been agreed for the Post Office service in the Scottish Parliament, which has eliminated that branch's losses. With regards to the three branches in The Palace of Westminster, a number of different options are in negotiation with the Palace of Westminster authorities. These options have ShEx and ministerial backing, and are designed to result in a break-even position. This effect of all these changes results in £0.5m of Crown P&L benefits.
 - Four branches are being transformed into Post Office Concept stores, sponsored by the Commercial directorate. This will mean £0.3m of costs off-charged from the Crown P&L.
 - New product launches during this financial year provide only a part-year income effect in-year. The full-year effect of this income was previously expected to allow POL to justify an additional £2m income flow-through in the run rate calculation. Although the budgeting process for 15/16 is still in progress, it is clear that business-wide income will be budgeted to grow less from 14/15 to 15/16 than

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originally planned. In such an environment, it is not possible for POL to claim such a significant upward trend in Crowns income in the run-rate calculation. Income flowthrough is now expected to be a maximum of £1m, driven by UKVI and Mortgage product growth which disproportionately advantages Crowns over other channels.

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

- 7.2. In the event that income targets for this financial year had been met, the above additional actions would mean the Crown P&L would be at a runrate of a £4-£5m profit by the end of this financial year. It should also be remembered that CTP's franchising project delivers an additional bottom-line benefit to POL that is not visible on the Crown P&L. If we consider the overall change in profitability of Post Office services at the 370 Crown locations that existed at the start of the programme; then it is useful to also consider the £2.5-£3m of additional profit on the Agency P&L that is forecast to be delivered from CTP successfully franchising Crown branches.
- 7.3. Although it is now unlikely for the breakeven run-rate to be achieved by March 2015, CTP has nonetheless demonstrated that retained Crowns are able to grow income (+4%) whilst operating on a staff and property cost base that has reduced by c25%. It is now forecast that a breakeven run-rate will instead be achieved by the end of September 2015. This will be through the delivery of additional new initiatives to reduce costs by at least a further **£2-3m** during the first half of FY15/16.
- 7.4. If 15/16 income targets are met, the programme team is confident that cost savings can be realised in this timeframe to surpass the breakeven runrate. Over £1m of the new savings required will come from efficiency projects already identified and in train, with the balance primarily coming from new changes to the network shape and staffing. The formal closure of CTP in March 2015 means that the commitments made to staff and stakeholders at the start of the programme regarding CTP's scope come to an end. These commitments covered the planned levels of staff redundancy, branch mergers, closures, relocations and franchising within the programme.
- 7.5. The scope of changes to the Crown network shape under CTP was set out during FY12/13. This set out a target network size and shape considering, amongst other things; a forecast £8m of income growth (which has since not been fully realised); and which properties had lease breaks coming up before March 2015. As we move towards FY15/16, the changed income position and the availability of lease breaks or expiries beyond April 2015 mean that further changes to the network shape to eliminate losses should be made in FY15/16 onwards. Although no wholesale franchising programme is planned on the scale of CTP, it is likely that a small number carefully selected mergers, relocations, franchises and closures will assist in delivering this cost saving.
- 7.6. Furthermore, we are assessing the market for new technology to automate POCA and business banking transactions, with a view to these being used in projects to further increase branch profitability in 15/16 and beyond. This will build on our CTP experiences with very quick customer adoption of new technology such as SSKs, and our proven ability to reduce our staff cost base through technology enablers.
- 7.7. These concepts form part of the development of the long term Crown strategy for 2015-2020 and a more comprehensive update on this will be shared with the March Board. This will require a programme of investment (albeit smaller than CTP) to

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generate further savings, and this investment will be sought as part of Business Transformation.

Kevin Gilliland

January 2015

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POST OFFICE LTD Executive Committee

Digital update – January 2015

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Executive Committee (Exco) on the Post Office Limited (POL) digital roadmap and seek support for the ambition to generate 30% of Post Office income through online journeys by 2019/20, subject to full business case.

2. Background

- 2.1 Post Office has been slow to fully exploit the opportunity that digital provides. This is demonstrated by our Mails product not being available at postoffice.co.uk and only 3% of variable income (FY 14/15) coming from digital channels.
- 2.2 Our vision is for a digitally powered Post Office, allowing customers to buy and access their products how and when they choose and allowing Post Office to drive more profitable income and take greater control of margins.

3. Activities/Current Situation

- 3.1 The focus for the last year has been on separation from Royal Mail's digital platform which has been completed with the delivery of the Common Digital Platform.
- 3.2 We have also made improvements to some of our key sales journeys online and that has driven significant uplift in performance; we have already delivered over £12m of revenue this year (Wk 39), compared to £10m for the whole of last year and are on track for £15m full year, an uplift of 50% on last year.
- 3.3 We have a portfolio of projects in 15/16 to support income retention (in Mails and Government Services) and growth opportunities (in Financial Services, Telecoms).

4. Next 12 months activity

- 4.1 Our focus in Mails is to deliver an online service in Q4 14/15 which will support our ambition to sell 15m items of postage online in 2015/16, equating to £6m in income. In some cases this will be business and customers who might otherwise be lost to the Royal Mail online channel. Our ambition by 2020 is to have 25% of customers buying their postage online and a further 25% using self service in branch, meaning half of all transactions (c£170m) being influenced by digital.

Digital Update

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- 4.2 In Financial Services, our short-term focus is on improving our existing capabilities to drive revenue. We will improve conversion rates by providing better customer experiences, targeting 9% of all sales via online in 15/16, rising to 30% in 19/20.
- 4.3 Our Telephony products are already sold online, with around 15% of total sales in 2014/15 coming through digital channels. We will focus on driving greater conversion rates which will allow us to deliver 20% of sales online in 15/16, rising to 50% by 19/20. The launch of the Mobile proposition in 15/16 is ostensibly online.
- 4.4 We plan to launch a number of new Government Services in 2015/16. Identity Assurance launches in 2015 and we will also launch an online road tax service, allowing us to retain customers who would otherwise be lost to the Post Office. We will also develop capability in branch to enable passport applications to be completed digitally. We predict digital activity will account for around 4% of income in 15/16, rising to 40% by 19/20.
- 4.5 We will also look at new income opportunities on the website and anticipate being able to generate an incremental £1m in 15/16 with a target of £10m in 19/20.
- 4.6 The above activity will ensure we are on track at the end of 2015/16 to be able to deliver 30% of our variable income through digital channels by 2019/20. We will achieve this through channel migration from Network and Telephony channels and through growth within the online channel. A full business case is being developed to show the split between cannibalisation and new income from new online customers. This will be presented to Exco in March. This will also inform the financial and channel plans in the 3 year operating plan being developed.

5. Conclusion

We are building our capability and commercial propositions on the foundations now in place and have plans to increase online revenue significantly in 15/16 from £19m to £30m. We have set the aspiration of significantly more channel share by 19/20 and are developing the business case to understand the revenue and cost impact of that shift.

6. Recommendation

The Executive Committee is asked to support the roadmap and the digital ambition to deliver 30% of business income through the digital channel by 2019/20, recognising this will be part cannibalisation but of customers who would otherwise migrate away from the Post Office.

Martin George
January 2015

Digital Update



Towards A Digitally Powered Post Office

Exco update



Executive Summary

- Good progress has been made in the last 12 months in building the foundations for digital growth.
 - Delivered Common Digital Platform
 - Improved key customer online journeys
 - Significant income uplift year on year
- Our plan for the next 12 months builds on the foundations and focuses on income growth.
 - Protect Mails income by launching an online service and enabling better multi-channel experience.
 - Improve Financial Services/telecoms customer journeys to grow sales.
 - Establish key Government Services journeys online/in-branch to protect income.
 - Establish 'trading' mentality around [postoffice.co.uk](https://www.postoffice.co.uk)
- We anticipate a significantly greater percentage of income online in 19/20, and our now focused on the detailed strategy, impact and business case, including the investment required.



Towards A Digitally Powered Post Office

Laying the foundations



As an accelerator, digital is a key focus and an enabler of other workstreams

Supporting the **customer** and **commercial** agendas



CUSTOMER

Making it easier for customers to buy and interact with us; enabling them to do:

- what they want
- when they want
- and where they want to do it

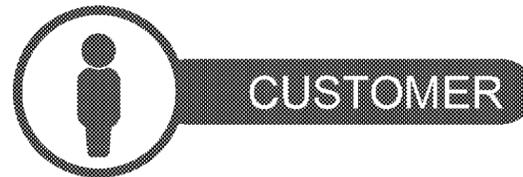


COMMERCIAL

Driving more, and more profitable, income by reducing costs of doing business and taking greater control of margins



How we will achieve this



Re-engineer transactions
Online services, accessible across devices in and out of branch

Products and services can be bought or serviced in branch, out of branch, or in combination, providing more convenient and efficient interactions. MyAccount becomes customer 'hub'

Easier processes drive increased cross-sell, increased throughput in branch and greater self serve enabling lower cost per transaction.

Data at the heart
Growth in online usage creates more data, driving the customer and commercial experience

Capture, store and remember details to make interactions more efficient and personalised. Put 'MyAccount' at the heart of the relationship.

The 17m customer opportunity. Data brings insight and knowledge, informing sales and marketing activity and therefore new accounts / revenues.

Widen the audience
Developing more seamless online services to appeal to a wider online customer base

Customer experiences that are aligned to people's expectations and deliver easy and convenient use with a choice of channels.

Increasing volumes and revenues through online channels results in income uplift and a greater proportion of lower cost transactions.



How we will measure our success

Online income	Visitor satisfaction	Visitor volumes	Channel mix																								
Reported at product level	'Voice of the visitor' scores*	Unique visitors	% variable income from online channel																								
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* Satisfied/completely satisfied																											

+ Appropriate operational measures e.g. Availability, Response times



How we will measure our success?

Online income			Visitor satisfaction			Visitor volumes			Channel mix			Operational
Reported at product level			'Voice of the visitor' scores*			Unique visitors			% variable income from online channel			Site performance
13/14	14/15	19/20	13/14	14/15	19/20	13/14	14/15	19/20	13/14	14/15	19/20	
£10m	£19m	£250m	---	64%	85%	40m	50m	100m	1%	3%	30%	<ul style="list-style-type: none"> • Site uptime and availability • Site response times
<ul style="list-style-type: none"> • % of product online/mobile • Sales conversion rates • Customer retention rate • Cost of acquisition 			<ul style="list-style-type: none"> • Number of 'shares' • Positive site comments • Social networking footprint • Social media reputation • Customer complaints • Speed of response 			<ul style="list-style-type: none"> • Return visitors • Time on site • Search engine ranking • Unique customer records held • Number of online accounts set up 			<ul style="list-style-type: none"> • Time spent per transaction • Online account accessed in branch 			

* Satisfied/
completely satisfied

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Recent progress towards digital maturity



Taking ownership of our infrastructure has been a major focus and achievement

We have built an infrastructure called the Common Digital Platform that forms the foundation for delivering our multi-channel experience

Common Digital Platform



Moved off the Royal Mail platform to give us control over our website and release schedule (now limited only by our ambition/resources)



Build it once, so other product areas in Post Office can benefit e.g. 'My account', 'payment functionality'. Can be deployed across channels.

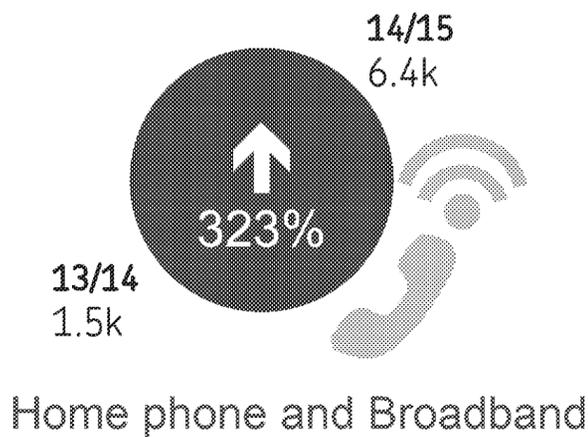


Device agnostic website built on the CDP, so whether you are using a smartphone or tablet the postoffice.co.uk designs adapt to suit your device and journey – potential to extend to Self Serve in branch

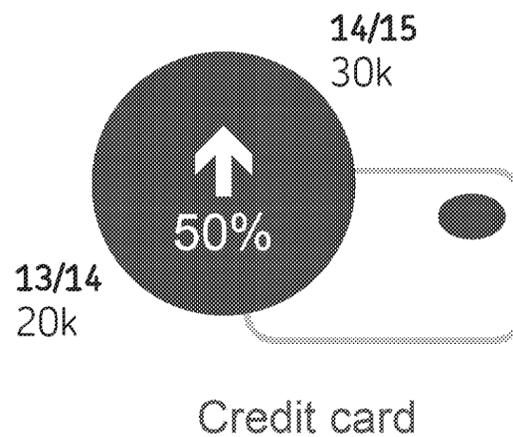


Improvements to some of our key online journeys have contributed to sales growth

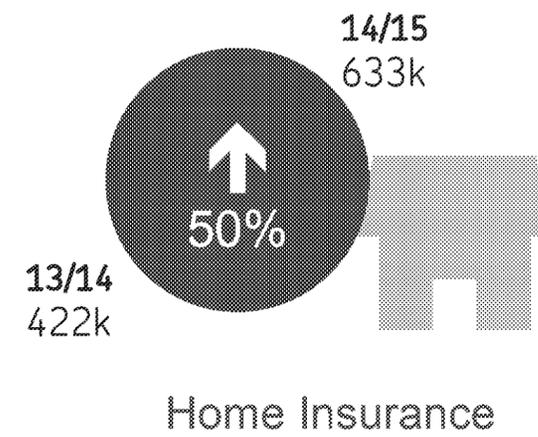
TOP 3 SALES VOLUME GROWTH PRODUCTS, COMPARED TO PREVIOUS YEAR



April to June 2014 campaign, moneysaver recommendation and improved online customer journey



New application journey went live in August 2013



Changes to product, price and improved customer journey

Source: Week 37 and 39 Sales Reports

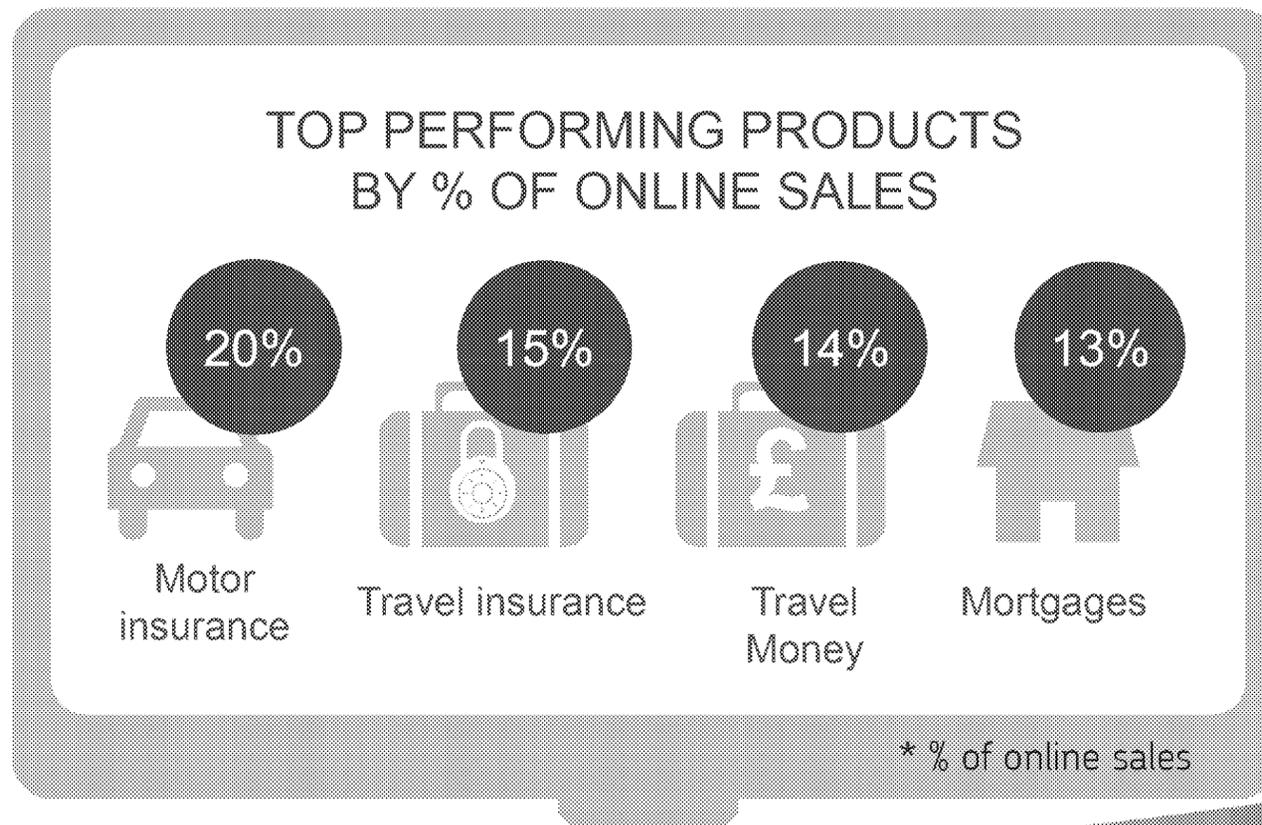


Generated £12m online so far this year

Last year's total of **£10m** has already been surpassed

By Wk39 14/15 online income was £12m

Our online products generate only 1% of Post Offices total revenue.





Delivered some key customer experience improvements

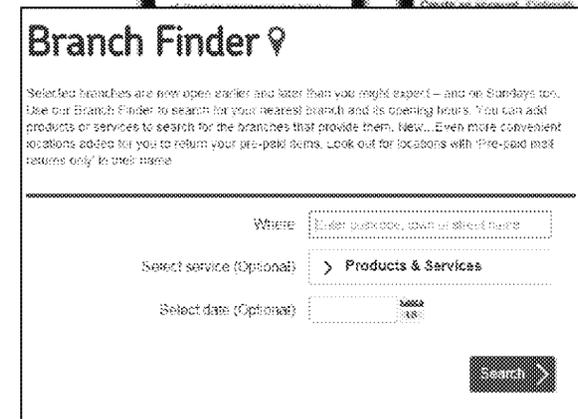
Mobile

- ✓ Mobile optimised version of the site
- ✓ Mobile responsive application journeys for:
 - Travel money
 - Travel insurance
 - Rod Fishing License
 - Pet Insurance
 - Homephone and Broadband
- ✓ Usage of mobile devices have increased:
 - 260k unique homepage visits in Dec 2014
 - 25% of visits to homepage (up from 20% six months ago)
 - 47% of views of branch finder (up from 34%)
 - 41% of views to RFL (20%)



Branch finder

- ✓ Branch finder is one of the highest visited pages on website
- ✓ Added date search to show Sunday opening hours for appropriate branches.
- Ave weekly visits to branch finder in Q4 2014 was 150k
- #LoveSundays campaign drove a 866% increase in branch finder page views





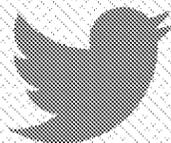
Digital marketing – a vital part of the marketing mix to drive growth

Digital marketing has helped drive online performance

- Website visits up 9% and digital revenues up over 50% year on year
- Key focus channels are PPC (paid search), SEO (natural search), affiliates, aggregators, online display, email and social media



56.7k likes



27.6k followers



Winners - best response time via social media in 2014

Future areas of focus for delivering success

Ongoing strategic partnerships:

- Promote relevant products and services to customers at the right time



Social media opportunities to drive brand credibility and response:

- Real time responses to showcase great customer service e.g. #LoveSundays
- Creating great content for customers to share e.g. BuzzFeed
- Testing and deploying new tools to provide a richer customer engagement e.g. Vine
- Deployment of new tools that allow us to drive improved response e.g. Crimson Hexagon
- Continue to look for added value ways to innovate for the customer e.g. tweet to donate

lastminute.com



Vine



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Digital ambition: next 12 months and beyond



The next 12 months targets growth in online sales revenue, but a step change is expected by 2020 to have a significant impact

Product Pillar	Full Income target 14/15	Variable Income* 14/15	Target for 14/15	Online Sales Target 14/15	Target for 15/16	Online Sales Target 15/16	Target for 19/20
Financial Services	£328m	£223m	6.9%	£15.4m	9%	£19.5m	30%
Telecom	£72m	£9.4m	3.6%	£337k	7%	£2.8m	40%
Government	£116m	£90m	0.7%	£653k	4%	£2.6m	40%
Mails & Retail	£417m	£334m	0.9%	£3.2m	2.5%	£6.7m	28%
TOTAL	£935m	£656m	3%	£19.5m	5%	£31.6m	30%

Moving from 3% of product income sales generated online to 5% in 15/16 through:

- Improved financial services online customer journeys
- Mails products being available online for customers
- Launch of Mobile proposition online
- Better conversion through postoffice.co.uk

Moving from £10m of sales generated online in 13/14 to £31m in 15/16

...and c. £250m in 19/20

* Variable income excludes social network payment, fixed fees, back book



Mails: Short term: fill key capability gap. Longer term: become standout partner for multi-channel mails purchase and acceptance



Current performance

- No capability to purchase mails products online at postoffice.co.uk

Market benchmark

- myHermes, Collect+ offer the ability to purchase postage online and a quick drop off experience



- 0% revenue generated online
- Only approximately 190k weekly visits to Post Office mails pages

- 1.4m customers now visit myHermes every week (a 40% increase since late July)
- 1.8m visit the Royal Mail website

Objectives / outcome	
15/16	19/20
<p>Get online, protect and grow revenue</p> <p>Deliver SME prop.</p> <p>Launch Click & Drop via postoffice.co.uk</p> <p>Launch fast-drop and print in branch</p> <p>Renegotiate RMG rates</p> <p>c. 15m items sold online</p> <p>£6m income online</p>	<p>Best in class multi-channel service.</p> <p>Online customer base</p> <p>25% customers served online</p> <p>50% of in-branch transactions 'digitised'</p> <p>..and c. £100m income.</p>



Financial Services: Short term: improve online CX and drive sales.
Longer term: richer and more profitable multi-channel relationships



Current performance

- Sub-optimal application and servicing processes (no online application for Current Account)

Market benchmark

- Compared to industry standards Post Office online applications are 12% down for Credit Cards and 6% down for Motor Insurance.*



- £15.4m revenue target
- 6.9% of FS sales online
- 8% average conversion rate (10% with FX)

- 60% of product sales influenced by online and online marketing in 2015
- Barclays have cut down average time to set-up an account online to three minutes**

Objectives / outcome

15/16	19/20
-------	-------

<p>Benchmark online conversion through:</p> <ul style="list-style-type: none"> • Launch of PO Money with improved UX • Take ownership & optimise application journeys • Mobile optimised pages for all products <p>£20m income online</p>	<p>Data-driven multi-channel relationships</p> <p>Multi-product holding customers acquired and serviced online</p> <p>£76m income online (30% of total income target)***</p>
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Telecoms: Short term: improve online applications and servicing.
Longer term: build on optimised online experience to further lower cost of sale and service



Current performance

- Sub-optimal homephone and broadband application and servicing experience

Market benchmark

- Telecoms sector average customer satisfaction score is 72.2 (UKCSI)



- £770k revenue generated online
- 3.6% of sales generated online
- 13.1% conversion rate

- Talk Talk Group now makes 44% of its sales through online sales channels – up from 33% on the previous year

Objectives / outcome

15/16	19/20
-------	-------

<p>Drive higher online sales through better conversion:</p> <ul style="list-style-type: none"> • Rebuild application journey for Homephone & broadband launching in March • Launch Mobile proposition <p>£4m income online</p>	<p>Best in class online applications and servicing</p> <p>Benchmark lowest cost to acquire and serve</p> <p>£39m income online (40% of total)</p>
---	--

Source: ; Talk Talk Group, 2014 Results



Government Services: Short term: Create online service for most popular products. Longer term: seamless online and in-branch journeys for relevant services and exploit new digital revenue sources



Current performance

- Customers can only apply for Rod Fishing License online

Market benchmark

- 25 'exemplar' Government services moved onto Gov.uk*
- Approx. 1.5 bn annual transactions on Gov.uk*



- 1.6% revenue generated online
- 58% conversion rate (for RFL)

- £979m savings achieved by digitising services**
- 'Digital by Default' estimated to save the Government £1.7b to £1.8b***

Objectives / outcome	
15/16	19/20
<p>Digitise most popular services to protect revenue:</p> <ul style="list-style-type: none"> • Online road tax purchase service • In-branch digital passport application service • Launch Identify Assurance (IDA) service <p>2m customers served online</p> <p>£2.6m income online</p>	<p>Optimised 'Government front office' digital services</p> <p>IDA opportunities maximised</p> <p>5m served online</p> <p>£36m income through digital (40% of total)</p>



Postoffice.co.uk: Short term: improve website to increase traffic volumes and drive conversions across pillars. Longer term: Make MyAccount a critical customer touchpoint and deliver new revenue



Current performance

- New responsive design website provides a good experience
- Only 2 in 3 visitors satisfied with website experience

Market benchmark

- Amazon customer satisfaction score is 83/100*
- Highly satisfied customers 63% more likely to buy online



- 1% of income generated on postoffice.co.uk
- 29p generated per visit
- 50% of traffic goes to non-revenue generating pages

- Cross-industry online conversion rates in the UK in 2014 are an average of 4.2%
- 30% of John Lewis sales are online*

Objectives / outcome	
15/16	19/20
<p>Drive conversions:</p> <ul style="list-style-type: none"> • Improve content to drive SEO • Deliver benchmark conversion rates • Develop 'My Account' for all products • Monetise high traffic pages • Improved support pages & live-chat <p>60m customers served online</p> <p>£1m additional income online</p>	<p>Fully digitised journeys support cross-product sales/interactions</p> <p>New revenue-generating services</p> <p>100m served online</p> <p>£10m new income from digital services</p>

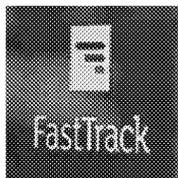
Source: *Foresee, 2013; **Capgemini, eRetail Sales Index 2014, JLP 2014



Digital in-branch and multichannel experiences: We are delivering capabilities to improve both the online and in-branch experience

1 Concept Branches

The competition offer the ability to purchase postage online alongside a quick drop off experience. We this with a number of additional features.



- ✓ Quick Drop Off
- ✓ Buy & Print in-branch
- ✓ 24/7 Drop Off Zone

There are 4 concept branches which will be trialling the above customer journeys starting 31 March 2015.

2 Wi-Fi

To help customers purchase our products online, we are providing FREE Wi-Fi to specific branches.



- ✓ Assist customers
- ✓ Showcase online journeys

There are 18 branches that will be trialling Wi-Fi starting in January 2015.

3 Easier drop-off

Through the Click & Drop online journey, customers will be given quicker and more convenient choices to drop off their item.



- ✓ Quick Drop Off
- ✓ Longer opening hours

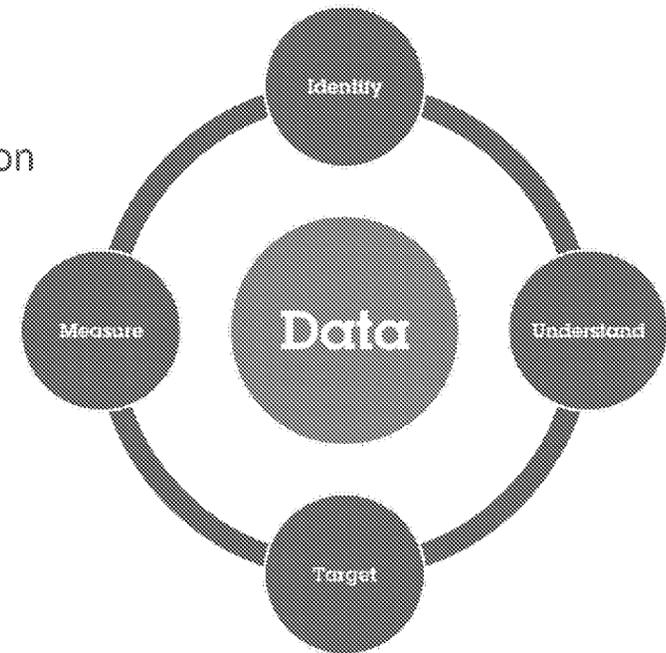
New 'fast drop' points in branches for pre-paid items.

New Access Points give greater numbers of drop off points.



Our Customer Management program moves us to advanced use of data, supporting our digital aspirations

1. Financial Services lead generation and conversion from existing branch and online interactions
 - Delivery in Q4 – Monthly income uplift £300k
2. Improved lead generation & cross-sell of Financial Services products on Government Services transactions:
 - Car tax renewals / Driving licence renewals / Passport renewals
 - Delivery in Q4 – Monthly income uplift £150k
3. Increased acquisition and cross-sell for SME customers
 - Delivery in Q4 – Monthly income uplift £115k
4. Improved acquisition, retention and cross-sell for Telecoms customers
 - Delivery in Q4 – Monthly income uplift £115k
5. Increased marketable customer base:
 - Improved in branch and online data capture to increase size of the customer base
 - Delivery in Q4 – Monthly income uplift £50k



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Roadmap to digital maturity



There is still significant effort required to reach digital maturity, and significant opportunity

Digital propositions – what we do

We are not yet doing different things; our near term focus is doing things differently. Future opportunities include:

- Price/proposition differentiation
- Online retailer, ecommerce proposition
- Personal Identity Management / digital vault
- Selling Advertising on Post Office media
- Local Post Office app

£ Direct – new revenue streams and models.
Indirect – Valuable data captured to drive up-sell or as asset to sell to/share with 3rd parties.

Delivery timescale	Potential benefit
1-3 years	£5-10m

Digital delivery - how we do it

Becoming a digital first business and optimising our delivery operations.

- Run digital shadow P&L / profit centre
- Lowest cost delivery – lower reliance on 3rd parties
- Constant focus on optimisation
- Partnering within our ecosystem
- Constant R&D operation
- Analytically driven in everything

£ Direct – reduced costs of delivery
Valuable data captured to drive up-sell or as asset to sell/share to 3rd parties.

Delivery timescale	Potential benefit
1-2 years	£2-5m



Summary of short term actions required to deliver the digital ambition

- Deliver short term project portfolio
- Develop a full business case for digital, detailing revenue and profitability impact of proposed channel shift.
- Work closely with our **partners** (eg Royal Mail / Bank of Ireland) and require action from them to deliver capability or allow Post Office to take ownership of the online experience; key to moving us from our historical disjointed journeys to a more seamless experience.
- Focus digital team, while upskilling the wider Post Office team to capitalise on digital capability.
- Invest in significant **customer behaviour change** to drive online/self-serve.
- We need a greater focus on **online customer experience** to ensure success of our digital propositions as part of a multi-channel proposition.
- Work closely with **Postmasters** ensure that they benefit from greater online activity and are advocates for digital.

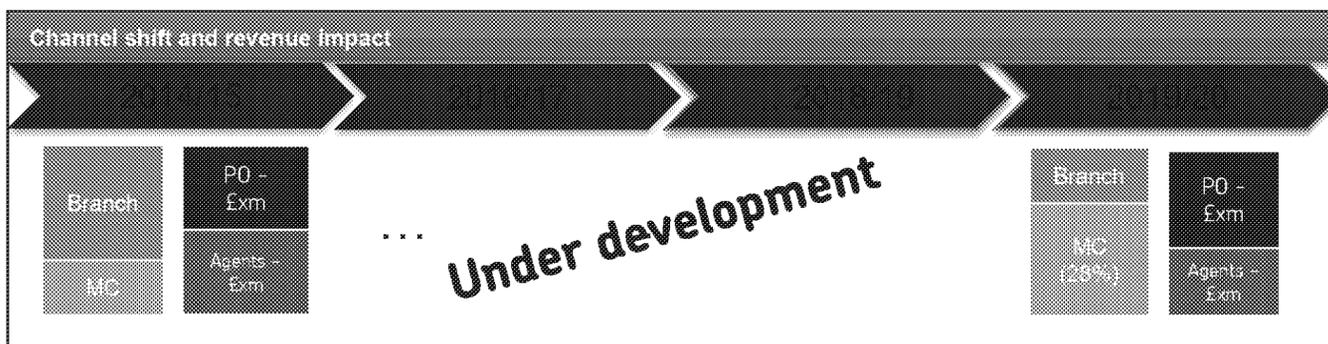
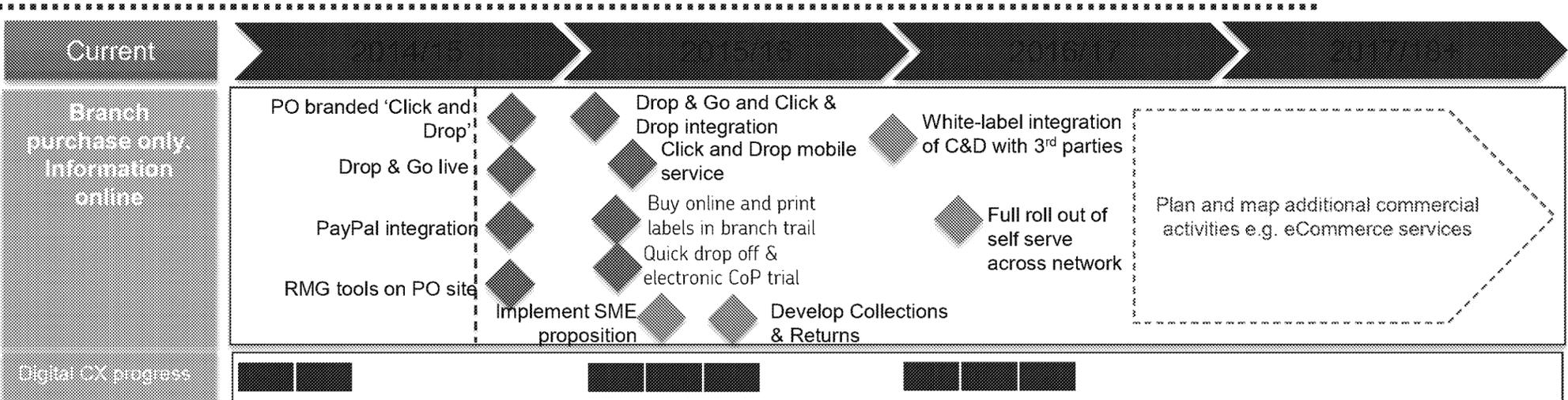


Appendix 1

Detailed product roadmaps



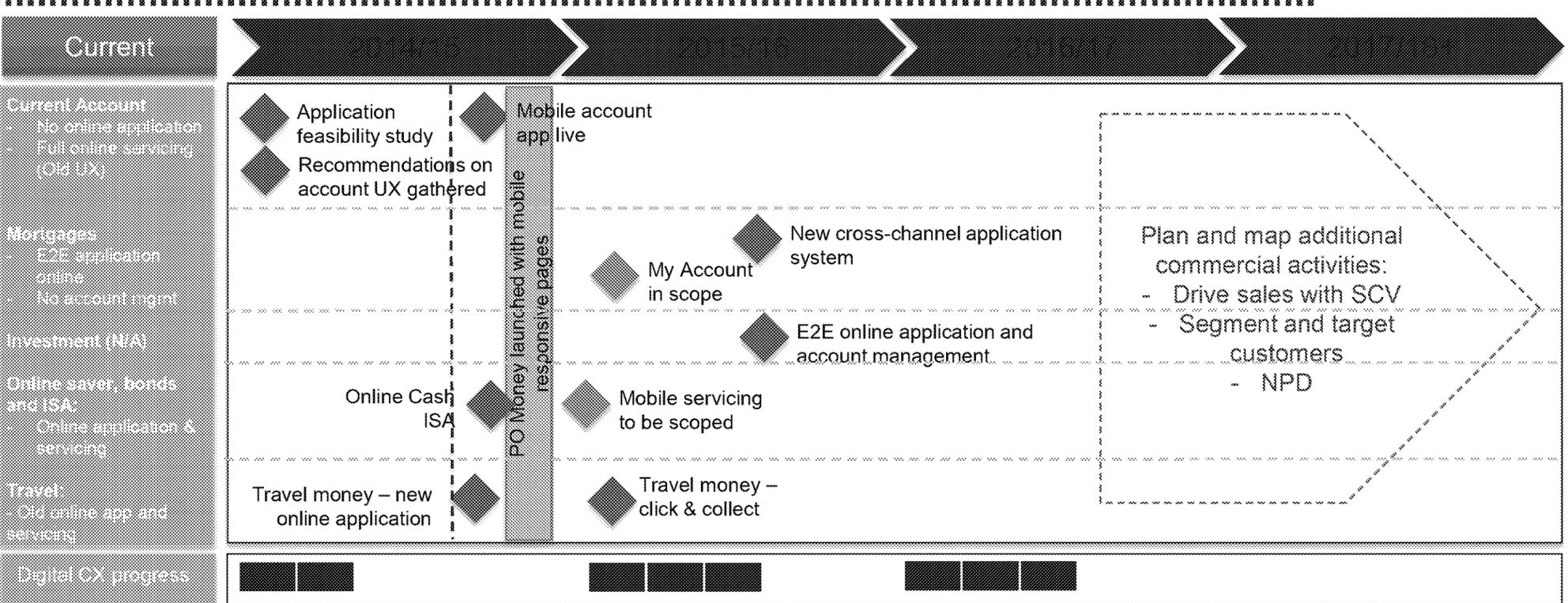
Mails roadmap



KEY ◆ In dev/planned ◆ Proposed



Financial Services roadmap

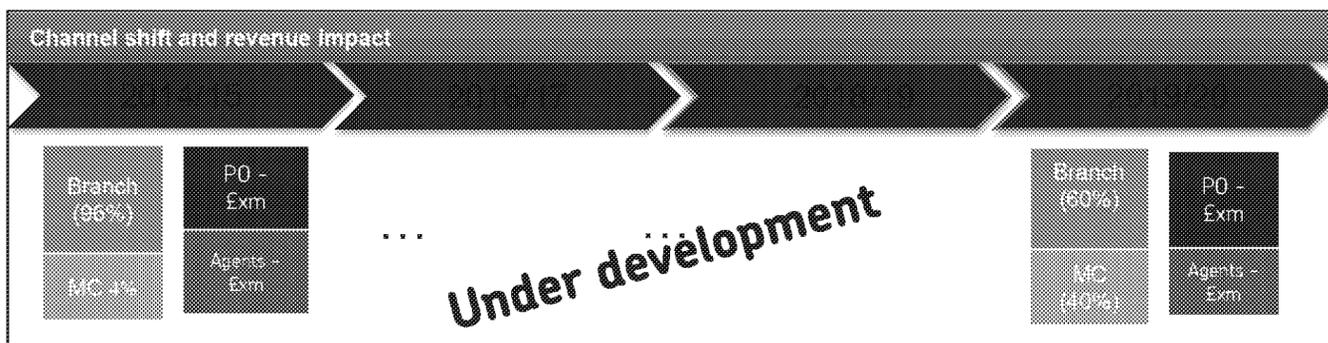
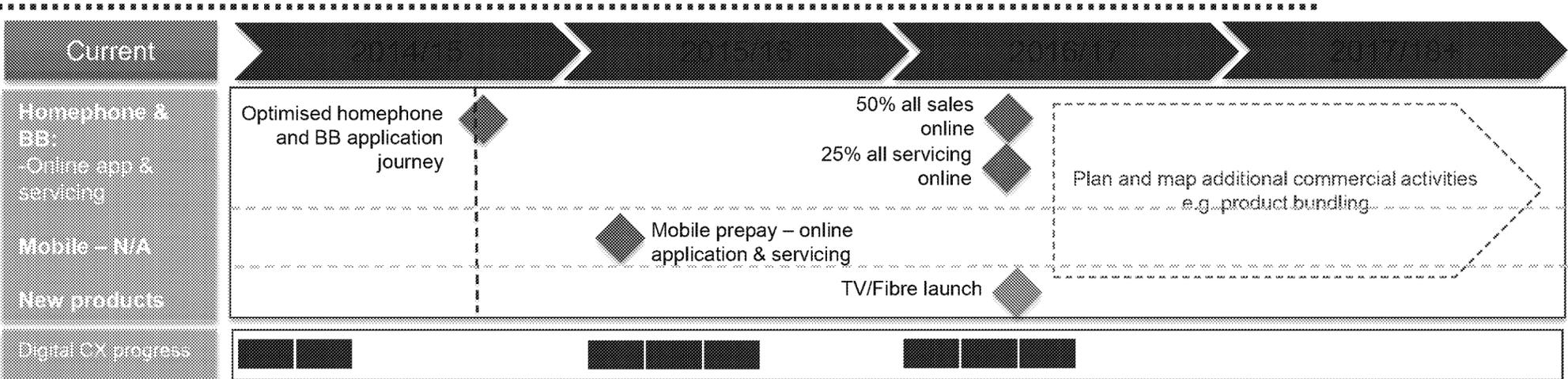


KEY

- In dev/planned
- Proposed



Telecoms roadmap



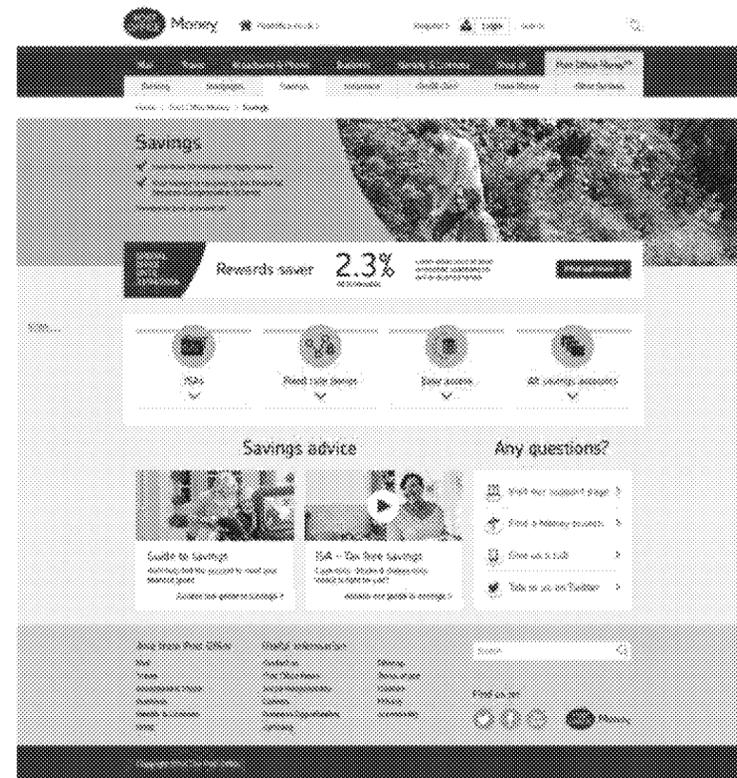
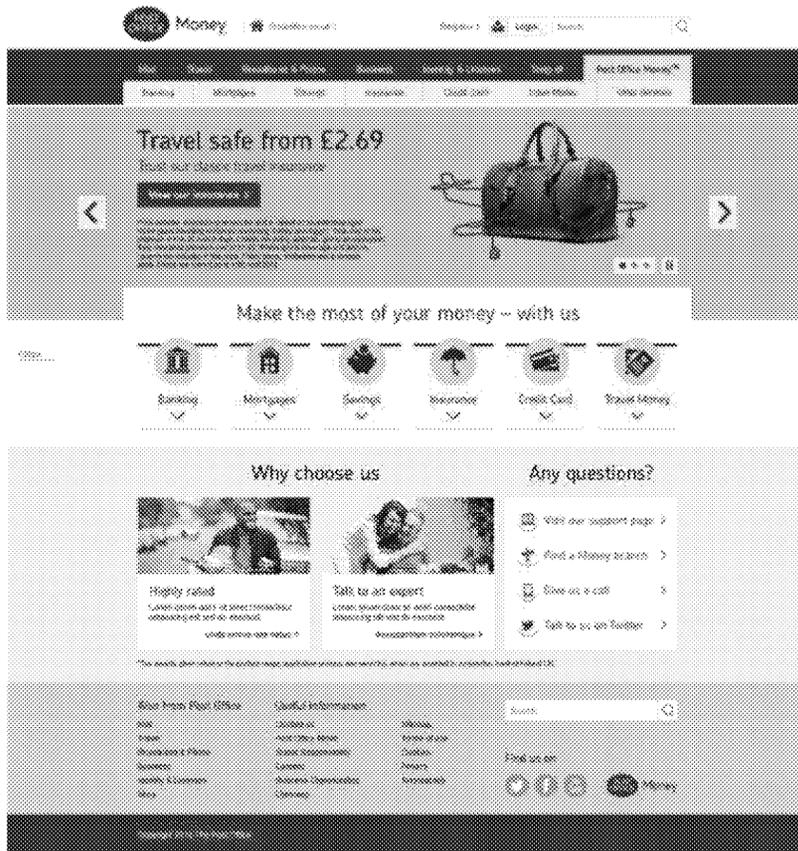
KEY In dev/planned Proposed



Appendix 2

Website re-brand and new
functionality designs

Financial Services – Post Office Money





Appendix 3

Summary dashboard



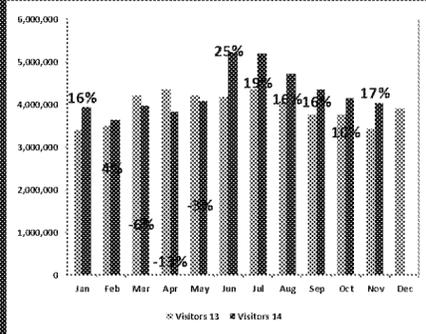
Postoffice.co.uk summary dashboard

Digital Dashboard Nov 14

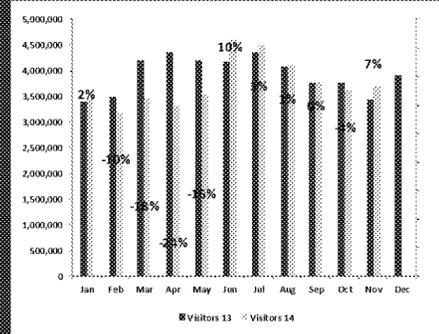
Traffic Summary

	Nov-14	%LM	%LY
Visits	5,370,853	▲ 2.5%	▲ 6.7%
Pageviews	20,183,999	▲ 10.6%	▲ 6.3%
Visitors	3,693,361	▲ 2.2%	▲ 7.1%
Time on Site	4.3	▼ -13.7%	▼ -7.9%
BR	35%	▼ -14.2%	▲ 1.1%
Sales	46,791	▼ -39.8%	▲ 19.5%
File Downloads	119,856	▲ 9.3%	▲ 29.4%
Site Searches	155,582	▼ -10.2%	▼ -30.6%

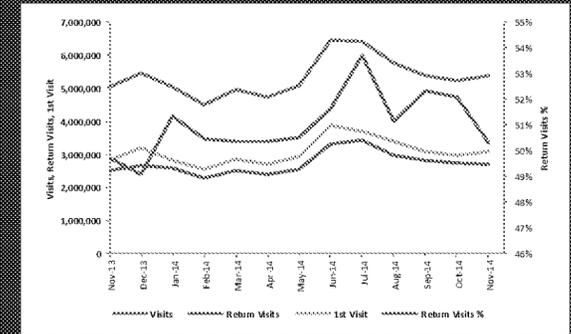
Unique Visitors Desktop and Mobile Site



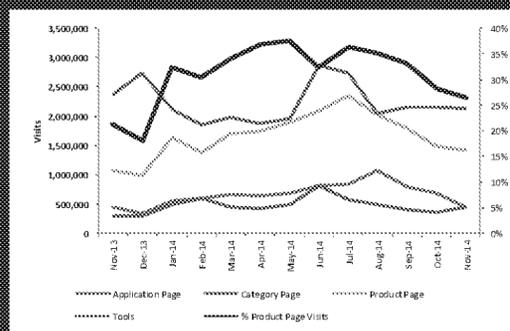
Unique Visitors



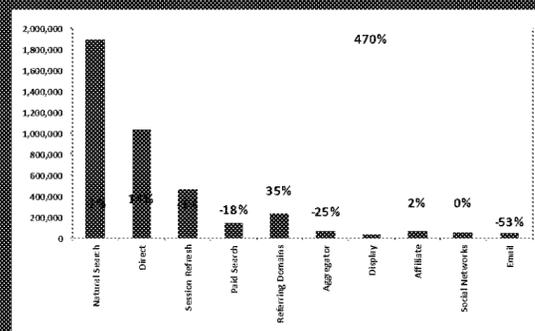
New/Returning Visits



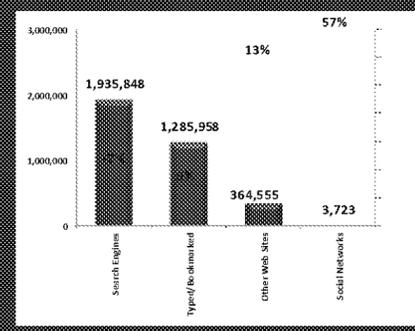
Site Engagement



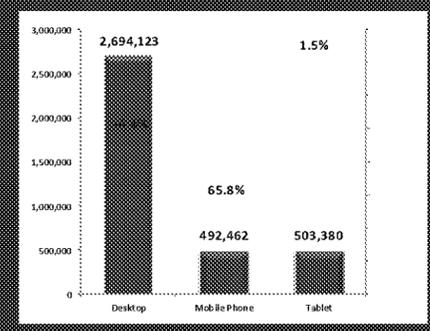
Unique Visitors by Last Touch Channel



Unique Visitors by Source



Unique Visitors by Device





Appendix 4

Alignment with Business Transformation



Digital activities are central to delivering the process re-engineering required in Business Transformation

-  Strong link
-  Partial link
-  No link/Not yet defined

A 'digital first' approach

		Digital enabled outcomes
1: Reduce Central Costs	1A: Near term cost out	More efficient ways of working e.g. online records reduces task duplication
	1B: Finance and HR Transformation	Network wide online services enable more efficient and accurate data & process management
	1C: Network Support Transformation	Delivery of more automated and self serve support
	1D: Long term efficiencies	Activities to be defined. Anticipated that digital will play a key role.
2. OD and people development		Recruitment and (lower cost) training that meets the needs of a digitally mature Post Office
3. Lean IT		Enables digital: IT developments provide the infrastructure with which to deliver better digital experiences e.g. POS software, Branch Counter devices
4: Reduce and Variabilise costs	4A: Network Transformation	Access to online service in branch and self/assisted serve modernises & lowers cost of network
	4B: Crown Transformation 2	Online services enables consistent service delivery in non-Crown branches
	4C: Customer journey simplification	Online, self-serve and automated services simplify journeys across products
5: Win in Mails	5A: Network Development	Digitization of mails services extends delivery to lower cost physical channels (also core to Mails Roadmap – see Section 1)
	5B: Commercial Strategy	
6: FS Strategy		See section 1 - Digital forms the bedrock of product commercial plans



Specific digital enablers will deliver outcomes for key Business Transformation areas

	'Digital first' enabler	Outcomes
Finance and HR Transformation	Online systems that connect the entire network and enable 360 view of HR and finance data, automation of key processes and comms	<ul style="list-style-type: none"> • Process quality improvements • Operational efficiencies • Better decision making
Network support transformation	Network wide portal (on CPD) to process queries largely through self-serve/automation. Other handling through direct online channels e.g. IM, video chat, eTutorials	<ul style="list-style-type: none"> • Support operation efficiencies • Faster and more accurate resolutions
OD and People development	Defining job roles with skills in line with digital operating principles. Using digital tools to deliver training/culture change.	<ul style="list-style-type: none"> • Digital first principles embedding in organization • Training efficiencies and improvements
Network transformation	Integration of services on CDP enables service delivery through any channel. Online/self-serve terminals in branches.	<ul style="list-style-type: none"> • Shift to smaller/cheaper branches • Staff efficiencies • Modernised network
Customer journey simplification	Online applications and account management Access to online services in branch for cross-channel journeys and self serve	<ul style="list-style-type: none"> • Faster & more convenient CX • Agent role targeted on necessary activities/customers – reduced pay
Network development	Digital enables self-serve and customer experience (services, account, design) to be extended across channels Services built on CDP enables bundling for Mails+	<ul style="list-style-type: none"> • Lower cost access points • More compelling customer propositions • Attractive agent propositions = uptake



Appendix 5

Data to Value – project roadmap



Customer Management Project: Multi-year programme gets us to advanced use of data to support digital aspirations

H2 14/15

Establish Foundations

January

Basic online NBA & improved data capture across CDP pages

February

Basic, logical Horizon NBA deployed across relevant branch transactions

Data feeds between Brands & CDP / Drop & Go / Salesforce / Telecoms contact centre

March

Digital receipts PoC across relevant branch transactions

Improved SME targeting

15/16

Scale & Industrialise

- Scale logical Horizon NBA across branch network & tune performance

- Scale online NBA across digital content & tune performance

- Enhance Brands data feeds & data quality to improve customer targeting (esp. SMEs)

- Scale digital receipts across customer transactions and link to NBA models

16/17

Exploit new data opportunities

- BAU led optimisation of existing tools & new data opportunities:

- Deploy analytical NBA for relevant transaction types

- Develop cross-channel analytical NBA capabilities

- Support design of new data-driven propositions across business areas



Appendix 6

Digital team structure



Digital Team – Core team built across key pillars to support commercial and customer objectives.

Digital

Digital Strategy –
own the digital plan
across Commercial.
Be the thought
leader for digital.

Digital experience –
deliver a best in class
digital experience across
digital channels.

Digital performance –
maximise the
profitability of Post
Office digital channels

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POST OFFICE LTD EXCO

CYBER SECURITY AND INFORMATION ASSURANCE

Bi-Monthly Update

1. Purpose

The purpose of this paper is to:

- 1.1. Update ExCo on Global UK and Industry Cyber Security and Information Assurance (CSIA) initiatives.
- 1.2. Update ExCo on key Information Security and Assurance Group (ISAG) activities.
- 1.3. Outline risk reduction activities being implemented at Post Office in respect of CSIA.

2. Cyber Security Update

2.1. Summary of Cyber Findings for 2014¹

- Organisations of all sizes continue to suffer from external attacks. Attacks by outsiders continue to cause the most security breaches to all organisations.
- 55% of large businesses were attacked by an unauthorised outsider in the last year (down from 66% a year ago).
- 73% of large organisations suffered from infection by viruses or malicious software in the past year (up from 59% a year ago).
- 38% of large organisations were hit by denial of service attacks in the last year (similar to 39% a year ago).
- 24% of large organisations detected that outsiders had successfully penetrated their network in the last year (up from 20% a year ago).
- 16% of large organisations know that outsiders have stolen their intellectual property or confidential data in the last year (up from 14% a year ago).

2.1.1. Key Observations of the Year within this Survey

- While the number of Security Breaches has decreased, the scale and cost has nearly doubled. Nearly 10% of respondents changed the nature of their business as a result of their worst breach.
- The overall investment in security as part of total IT budget is increasing across all sectors with even the most frugal sector's investment increasing.

¹ Information from the BIS sponsored "PWC 2014 Information Security Breaches Survey"

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- There has been a marked increase in spending on Information Security in small businesses.
- Organisations are making risk-based decisions about the introduction of mobile devices in order to facilitate more flexible ways of working.
- Confidence about the availability of security resources has increased.
- 70% of organisations keep their worst security incident under wraps.

3. Activities/Current Situation

3.1. Fujitsu Exit Risks

Fujitsu have informed Post Office that they are withdrawing from the Front Office procurement process. To support the wider business impact and mitigation activity, ISAG have put together a list of IT and Information risks associated with the withdrawal and the report has now been shared with the CIO for further review and risk mitigation planning.

3.2. ISAG Resourcing

Reduction in staff numbers is an on-going concern within the ISAG team due to 1 permanent employee resignation, 1 contractor and the unknown amount of change, however we have approval to replace one contractor (fixed term) and are going through process to recruit a replacement the permanent templated role. Due to the nature of the skills set this can take 6 months or more.

3.3. CiSP and CERT-UK

We are now receiving regular information and updates from the Cyber-Security Information Sharing Partnership (CiSP)², part of the UK National Computer Emergency Response Team (CERT-UK).

We continue to share all relevant information with our Corporate Services and Financial and Regulatory colleagues. They will be advised where any overlap or intelligence has been received that may impact the fraud aspects of their remit.

3.4. Cyber Security Directive

In preparation for the European Directive on Networks and Information Security (known colloquially as the Cyber-Security Directive) our strategy has been clearly communicated with the Technology Office to include in their Strategic Roadmap. In order to ensure we can provide all relevant reporting requirements to meet the directive and provide accurate intelligence and reporting to ExCo and Board.

3.5. Cyber Security Profession

ISAG continue to participate in external speaking events, forums and associated workshops. We are heavily involved in the PCI Council (Payment Card Industry) and sit on the PCI-ISAG (Information Security and Assurance Group) committee

² CiSP is part of UK National Computer Emergency Response Team (CERT-UK), is a joint industry and Government initiative to increase overall situational awareness of the threat environment and therefore reduce the impact on UK interests.

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that was formed to shape the way forward in terms of cyber security. The PCI Council is also responsible for the development of the new CBEST ³financial requirements.

We are also on the steering group for the e-Skills council for the development of the cyber security profession

3.6. General Data Protection Regulation

The proposed new European Union (EU) data protection regime seeks to support Data Protection legislation by providing a consistent framework and to make it easier for non-EU countries to comply with the harmonised regulations. It should be acknowledged that this will introduce to EU countries an expectation of greater controls on the processing, storage, retention and consent to use of personal information.

Further areas of change are likely to be, but not limited to:

- Easily accessible details of Data Controller, and a suitably qualified and experienced Data Protection Officer (DPO);
- Privacy by design and by default in business and IT strategy and change;
- 72 hour rule for notifying any breach to the Information Commissioner's Office (ICO) also referred to as the UK Data Protection Authority (DPA);
- Sanctions for a breach could be a fine up to 100million Euro or up to 5% of a corporation's worldwide turnover.

Jean-Claude Juncker, the new EU Commission President has recently stated that he wants General Data Protection Regulation (GDPR) ratified by 2015, which will give our business(es) 18 – 24 months to prepare.

The technical requirements of the new regulation (including data loss prevention and data management) have been passed to the Technology Office for inclusion in their Strategic Roadmap, ISAG will continue to engage with the Technology Office on an on-going basis. A Security Information and Event Management solution is being sought as is a Data Leakage Prevention solution to provide a holistic security model, this will provide better trend analysis for ISAG to work with, this is done manually at the moment.

Additional training will be completed for all relevant staff during 2015.

3.7. Technical and Security Operation Initiatives

ISAG have been working on clear separation of 1st and 2nd Line Defence activities throughout 2014 and recently confirmed via further analysis security operational tasks that should be in the remit of an IT security operational function. (1st Line of Defence).

³ Intelligence - Cyber Bank of England Security Testing Standard
Cyber Security Update Julie George

Strictly Confidential**3.8. Governance Risk and Compliance (GRC)**

The information we have been collecting from ExCo and their designated SLT members has been utilised to develop and inform the Information Security and Assurance GRC tool which is on track to go live this month.

3.9. Project and Change

ISAG have created an Information Security business impact and risk process that includes Data Protection and Payment Card industry requirements and this has been adopted by the Project and Change community as part of the Gating design principles and acceptance.

3.10. Cyber Essentials

Cyber Essentials is a government-backed, industry supported scheme to help organisations protect themselves against common cyber-attacks and ISAG participated as part of the consultation group. It is backed by industry including the Federation of Small Businesses, the CBI and a number of insurance organisations which are offering incentives for businesses to reduce the costs of their insurances.

The Government has worked with the Information Security Forum (ISF) to develop Cyber Essentials, a set of basic technical controls for organisations to use.

In anticipation of this scheme becoming mandated by our Government clients and partners ISAG are working towards compliance to this scheme as part of our "business as usual" activities. This will enhance our current activities and provide a better audit trail/assurance of technical measures undertaken to protect our data.

3.11. Management of Information Security Incident Activities

There are currently six active incidents with a further six submitted for closure at the next Information Security Committee. Of these, 67% relate to the incorrect handling of personal data, as stated further in the report we propose to introduce Information Security Champions in each business area to support the annual CBT training that each employee undertakes.

3.12. Data Protection Complaints and Data Subject Access Requests

A new complaint was received from the Information Commissioners Office (ICO) on 9 December 2014. A response was submitted to the ICO on 6 January 2015, this has been assessed as a low risk at this stage:

- A customer has complained that hers and her sister's personal data has been 'mixed up' on Post Office's systems and that we did not respond to her requests to rectify this and suppress her details for marketing purposes in a timely manner.
- Upon investigation it appears to be an issue with the travel insurance records held by Aon, that have then fed incorrectly into Brands. This has now been rectified, but we are still investigating the root cause of the original mistake.

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During the submission process we have engaged with all the relevant stakeholders and where appropriate via our legal colleagues engaged with specialist Legal Counsel. A further update will be provided in due course.

3.13. Supplier/Joint Venture

The Information Security Management Forum (ISMF) process was created to manage the relationship between Post Office and its major suppliers. The meetings are formally recorded and involve discussions on the state of their Information Governance Risk and Compliance in relation to our business requirements.

Since the last CSIA paper; eleven such meetings have been held with suppliers at the top of our fifteen heat map index. Atos are in the process of taking over management of the Fujitsu Forum and will eventually manage a further five main suppliers once the Operational Working Agreements (OWA's) have been delivered. Sign-off of the OWA's are taking longer than expected and we continue to monitor the risks to our information.

3.14. Risk Acceptance Notices

All Risk Acceptance Notices are reported to Risk Governance and are processed through the Risk and Compliance Committee. We are working with our Corporate Risk colleagues to update the process and ensure it is fit for purpose.

3.15. Commercial and Marketing

There continues to be good engagement with the Commercial and Marketing team to support and improve the commercial and legal use of personal and Post Office owned data.

3.16. 2015/2016 CSIA Training and Awareness

We are in the process of reviewing last year's CBT (Computer Based Training) and intend to ensure, for 2015/2016 that it is compatible with devices such as tablets.

The Information Security and Data Protection e-learning annual training module for 2014/2015 was completed by 97% of colleagues which is an industry leading result. The proposed Information Security Champions (see 3.11) will ensure each area completes their training in a much more effective way than is currently being undertaken by ISAG, which is a joint manual process with HR colleagues.

3.17. Long Term Considerations

ISAG have been involved in the development of Information Security requirements for Post Office subsidiaries such as Post Office Money Services (POMS). ISAG will be responsible for the delivery of strategic and tactical Information Security/Data Protection requirements (including resourcing) for POMS. ISAG will use the POMS process as a template for any further subsidiary support requirements, Post Office ISAG recharge costs to subsidiary organisations and will be recharging all other project costs at a day rate in the future.

ISAG will be working with the business to identify Information Security Champions (ISC's) within each area. The role of the ISC's is to be the main point of contact for ISAG on any updates or changes that may need to be communicated to the

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business. Training and regular updates will be provided to all ISC's in 2015. We will work with our Corporate Risk colleagues to ensure we join up this process where applicable.

4. Recommendations

ExCo is asked to:

- Note the update set out above and approve the transition of the Paper to the Board on 28th January 2015.

Name of Author: Julie George
08/01/2014

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POST OFFICE LTD

SME Proposition Strategy Update

1. Purpose

The purpose of this paper is to:

- 1.1 Update Executive Committee (ExCo) on progress made in development of Post Office Limited (POL) Small Medium Enterprise (SME) proposition since last update in September 2014.
- 1.2 Provide an overview of the next steps in Q4 of FY2014/15.

2. Background & Our Approach

- 2.1 Currently POL SME revenue is primarily driven through mails services, though limited customer data is held currently due to the small proportion of these customers registering for Drop & Go.
- 2.2 Other POL products and services are available for SMEs but have not historically been launched based on segment needs. As a result, POL does not have a cohesive and relevant proposition for this market and is not currently perceived as a credible business services provider.
- 2.3 The SME and Market Place Sellers' market is becoming increasingly competitive with POL losing 5% market share on mails in this market place in the last 10 months. If this trend continues, by 2019, POL will have lost around 250k SME customers, equating to £16m of annualised income. For POL, standing still without a strong, robust and sustainable proposition for this segment is no longer an option.
- 2.4 The main competitive threat comes from myHermes and CollectPlus who already have higher customer satisfaction ratings than POL (POL = 20%; myHermes = 42%, CollectPlus = 33%) and have a broader and more omni channel product and service offering e.g. myHermes collect parcels from SMEs and have a full online mails capability.
- 2.5 These competitors are also working to strengthen their SME propositions to ensure improved data collection, customer loyalty and long-term sustainable customer relationships.
- 2.6 Given the size of opportunity and scope that POL has to win in this market, a programme of work started in Q2 2014 consisting of four phases to deliver a new POL proposition for the SME market.

3. Segments & Proposition Development

- 3.1 95% of all SMEs are micro SMEs (4.7m in total) and represent the largest opportunity for POL based on business type and the level of their interaction and need for postal services. This group also has a natural bias for online trading.
- 3.2 Within micro SMEs, three main target segments have been identified depending on: size, maturity of the business and attitude to growth (Starts Ups, Lifestyle and Growth).

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- 3.3 Through extensive research, over one hundred ideas were identified based on depth interviews with SMEs and internal ideation. These ideas were grouped into fifteen potential opportunity areas and mapped against POL capabilities, time to deliver and market attractiveness. This phase narrowed the focus to Mails and Financial Services. More importantly, it also identified a need to build credibility with SMEs through additional services that aid the success of their business (e.g. financial services).
- 3.4 The customer needs analysis highlighted that customers expect a core set of services that 'Help me Win' by segment, which include: 'help me manage my costs', 'help make it simple', 'help me to give me back time so I can focus on my products and customers.'
- 3.5 Insight has consistently highlighted that SMEs do not currently see the Post Office as a credible business services provider. Therefore, it is business critical that the core mails' offering is fit for purpose, before SMEs consider POL for a wider range of products and services (including Financial Services). To succeed, it is critical that the Winning in Mails and Online Mails must deliver for this to be viable proposition fit for market (notably with online mails and mails tracking functionality as well as more convenient opening hours/locations).

4. An Overview of the Proposition

- 4.1 The proposition was designed, iterated and retested with over one hundred SMEs from across the three segments, including Market Place Sellers.
- 4.2 The proposition is a monthly online subscription service that focuses on providing SMEs with services that help run and develop their business. Three tiers were created to specifically meet the parcel needs of each segment, as customer feedback confirmed that each segment would utilise different parts of the package and would transact different volumes of parcels to meet their business needs.
- 4.3 For modelling purposes three monthly price points were created. However, more detailed pricing analysis will take place on Q4 of 2014/15 to ensure the price points are right for the segments and commercially attractive for POL.
- 4.4 The key features which appealed to SMEs included an SME mails account (tracking, pricing discounts, improved service), SME ambassador features (tools to run their business and added value non-core POL services) and Financial Services (e.g. payment services).
- 4.5 The proposition was seen as compelling by SMEs and a cause for them to re-evaluate POL, buy additional products and services and retain their mails services with POL as main provider (rather than consider moving to the competition).

5. Commercial Impact/Costs

- 5.1 Detailed commercial impacts and development costs will be determined in Q4 of 2014/15.
- 5.2 An initial high level forecast indicates the SME segment could be a significant revenue and profit generator for POL and help stem the flow of current SME

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customer losses for POL, as well as help to re-grow the POL SME customer base.

6. Key Risks/Mitigation

- 6.1 An initial launch date will be set once the project has been road mapped in Q4 2014/15 and post a meeting with eBay in January 2014 to discuss a wider partnership with particular focus on SME (which might provide the best short term launch platform for the new proposition).
- 6.2 This project is dependent on a number of other key projects delivering across the business, namely: Winning in Mails and Online Mails.
- 6.3 The proposition requires engagement and buy-in from existing key third parties, including: Royal Mail Group, Bank of Ireland and WorldPay.
- 6.4 It also requires building relationships and securing deals with new third-parties to build and iterate the proposition in its entirety or to build individual component parts e.g. customised packaging.
- 6.5 Existing POL SME propositions need to be reviewed such as Drop & Go and payment services to ensure these are optimised to serve this market segment.

7. Next Steps

- 7.1 In Q4 of 2014/15, work will be completed on the detailed business case that includes: a roadmap of delivery, resource requirements, accountabilities, governance and budget required to deliver this project. The aim is for the POL SME proposition to launch in the first half of 2015/16 to ensure maximum in-year benefit.
- 7.2 A detailed investment case modelled through over a 5 year period. In addition, detailed pricing analysis on price points for the SME proposition will be undertaken in Q4 2014/15.
- 7.3 Explore potential build/buy opportunities with myparceldirect and parcel2go. Further discussions will also take place with eBay in January 2015 to explore the opportunity to build and partner the new proposition with eBay. This also provides an option to potentially develop the next generation of Drop & Go with eBay.
- 7.4 The presentation at March ExCo (and then POL Board) will articulate the 5 year commercial impact, risks and dependencies and 'go to market' plan.



SME Proposition

ExCo Update: Noting Paper
Post Office Marketing
January 2014



Contents

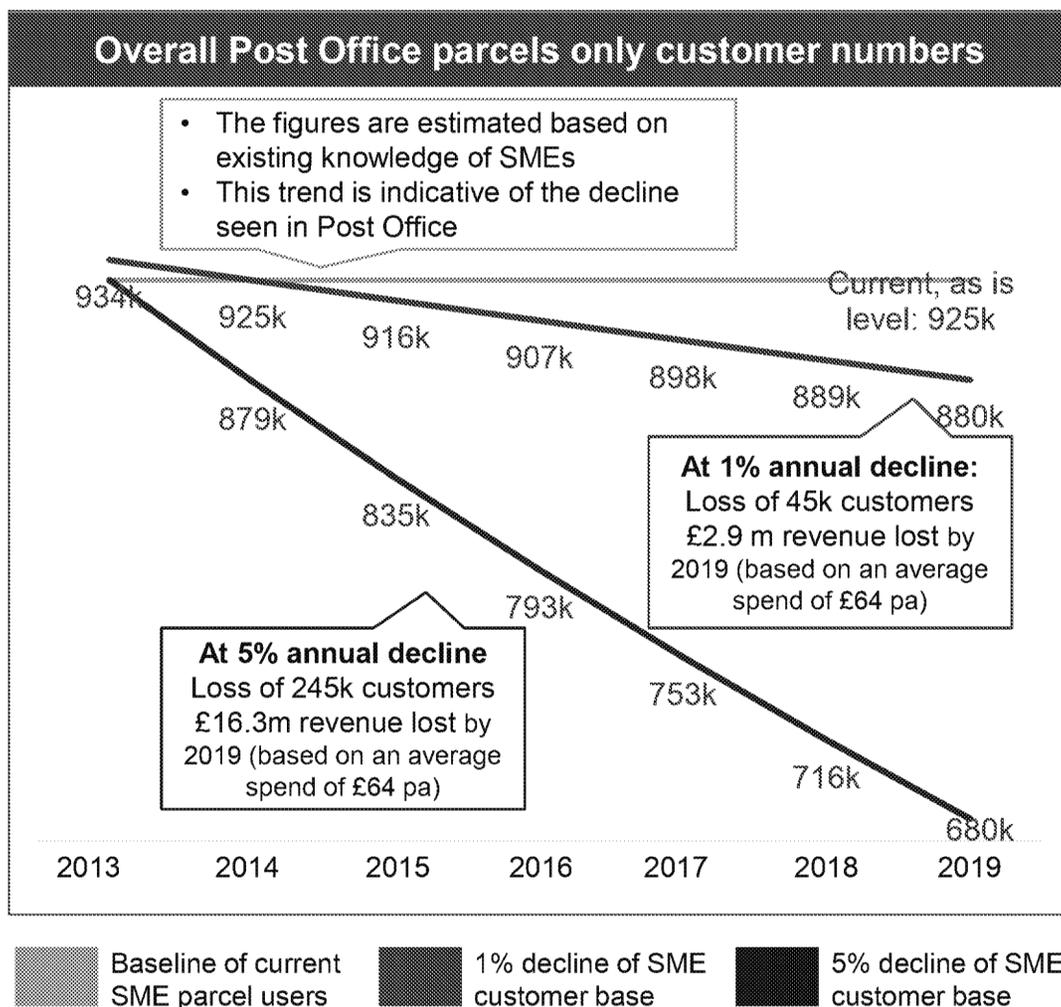


- 1** Market Opportunity
- 2** Customer Needs
- 3** The Proposition
- 4** Next Steps

Market Opportunity

Market opportunity

A targeted Micro Small Medium Enterprises (Micro SMEs are businesses with sub 9 employees) proposition is crucial to reducing the loss of Post Office SMEs to competitors



- Currently, 19% of all UK micro SMEs (925,000) interact with the Post Office
- On average SMEs are sending 25 parcels a week

- SMEs that are very satisfied (Top Box only) with competitors (MyHermes 42%) is higher than Post Office (20%)
- In the last 10 months we have lost 5% market share from Post Office only SMEs (19%) to competitor only (24%)
- If we continue to decline at this rate, by 2019, we will have lost nearly a quarter of a million customers (245k) and £16.3m in revenue (based on an average spend of £64 per annum)

We have a significant opportunity to re-engage our SME customer base by retaining share in mails and creating a new platform for growth in financial services

Market Opportunity – The Competition

The competitors have many of the basics in place and we are working hard to catch up to help maintain market share



Product Offerings	Mails	✓ (HSR / Click & Collect / 1 st / 2 nd Class / Special delivery / International)	✓ (Send / Returns / Click & Collect)	✓ (Send through ParcelShop / Courier / Parcel Lockers / Returns)
	Customer Segment Focus	ALL (currently)	Returns	SMEs/Market Place Sellers
	Collections	✗ (but testing in Birmingham)	✗	✓
	Tracking	✗/✓ (on premium products only)	✓	✓
	Online Purchasing Capability	✗ (RMG website only)	✓	✓
Utilisation of customer data	✗ (Current SME data is poor)	✓	✓	
SME focused product	✓ Initial version of Drop & Go	✗	✓	
Pricing sweetspot	Sub 2kg	+2kg parcels	Best vfm in the market Utilising 0-1kg as a loss leader	
Network Size	11,680 Outlets	5,515 Outlets	4,200 Outlets	
% Outlets Open 7-days	10%	100%	99%	
Average Daily Opening Hours	10.5	15.2	14.9	



Market opportunity – The Competition

Competition for SME market lies in both changes current competitors are making and tech start-up mails businesses

FLEXIBLE SENDING – DROP OFF POINTS

Traditional competitors



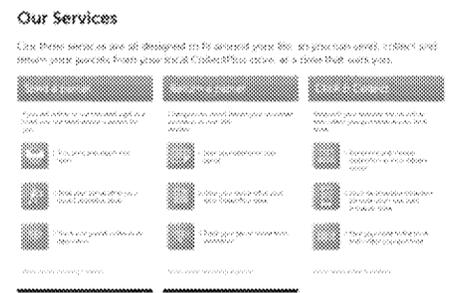
Reinvented their traditional catalogue order business, now focussing on collections and also offering drop-offs at ParcelShops or Parcel Lockers, with a large range of options in all central locations, and a core focus on SMEs



New start-ups



have reinvented the traditional Post Office within your local shop, using the space to serve customers drop off, pick up and returns needs. With a key focus on returns

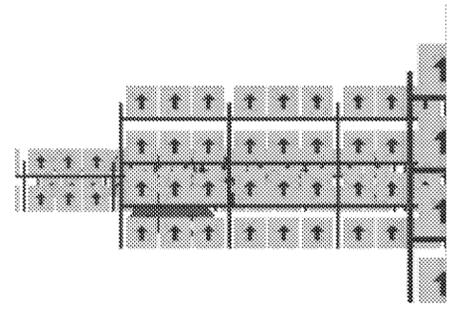


FULFILMENT

Traditional competitors



have expanded into full logistics and fulfilment services that are available to businesses of all size, on a pay as you go basis



New start-ups



are progressing within this market by acting as a Mails aggregator and offering specialised services for large ecomm platforms



Customer Needs

Customer segments

There are 4.7 million micro SMEs (representing 95% of all SMEs) in the UK, which we segmented into three groups based on attitude to growth and life stage



ATTITUDE TO GROWTH

Individuals that have made the decision to set up in business, are in the process of setting up or have recently set up

AVERAGE TURNOVER

£100,000 for year one

AGE OF BUSINESS

Two years or less

SIZE OF SEGMENT

Approximately 1.2million start-ups each year



ATTITUDE TO GROWTH

Owner managed business with little aspiration to grow above levels that maintain their relative position in the market

AVERAGE TURNOVER

£300,000

AGE OF BUSINESS

Two years or more

SIZE OF SEGMENT

Roughly 3.0 million



ATTITUDE TO GROWTH

Owner managed businesses with the ambition to grow above the levels that maintain their relative position in the market

AVERAGE TURNOVER

£900,000

AGE OF BUSINESS

Two years or more

SIZE OF SEGMENT

Roughly 500,000

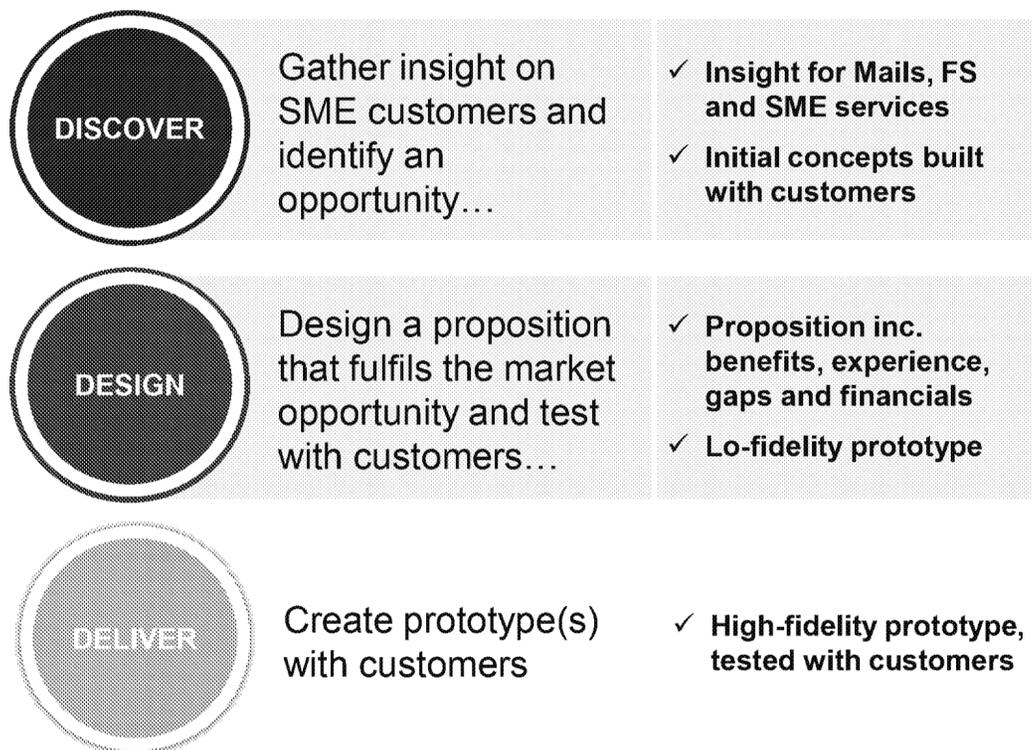


Our approach to designing the proposition

We have followed a customer centred design approach, with input from across the Post Office throughout the process

Post Office Innovation Framework

The framework allows us to move from 'product led' approach to a 'customer centred' one, grounded in insight and tested throughout



- We have applied the new Post Office Innovation Framework to develop the SME proposition, ensuring it is:
 - Grounded in clear customer insight and customer tested throughout
 - Delivering commercial value against an identified white space
 - Deliverable and harnessing the organisation's key strengths
- Our focus has been on micro-SME customers as they are both the largest segment (representing 95% of SMEs) and fastest growing market (on average 3% a year) and they are regular customers today
- We have now built an SME proposition that is grounded in customer need and fully tested
- We want to share the results of this thinking before taking to our Mails and FS Partners



Our approach

The proposition was co-created with internal teams and over 110 SME customers to identify needs, design and test the proposition

EXTERNAL EXPERTS



Travers Clarke-Walker
MD EMEA Firserv



Rebecca Glenapp
Co-founder Lux-Fix



Robin Mackenzie
Former marketing Director at BT Business



Kevin Gillett
Former MD Business Banking - HBOS



Rory O'Connor
Founder of Scurri



Nicholas Street
Chairman of Mail Carrier's Association

POST OFFICE TEAM

SME TEAM

MAILS

FINANCIAL SERVICES

MARKETING

DIGITAL

I.T.

INSURANCE

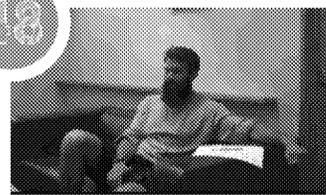
NETWORK

INTERNAL POST OFFICE TEAM

SME'S

DEPTH INTERVIEWS

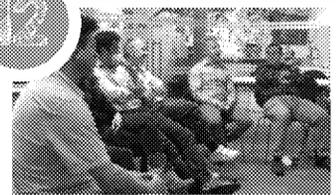
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Interviews across segments to identify needs, frustrations, attitudes and behaviours

CO-CREATION

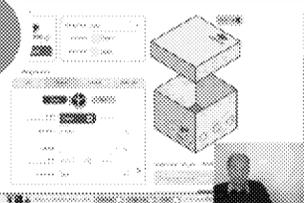
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Co-creation sessions to generate new ideas and build on initial features

DIGITAL EXPERIENCE TESTING

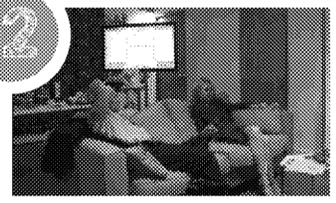
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Testing and iterating the core digital features of the proposition

PHYSICAL EXPERIENCE TESTING

12



Physical experience testing for specific SME ambassador features



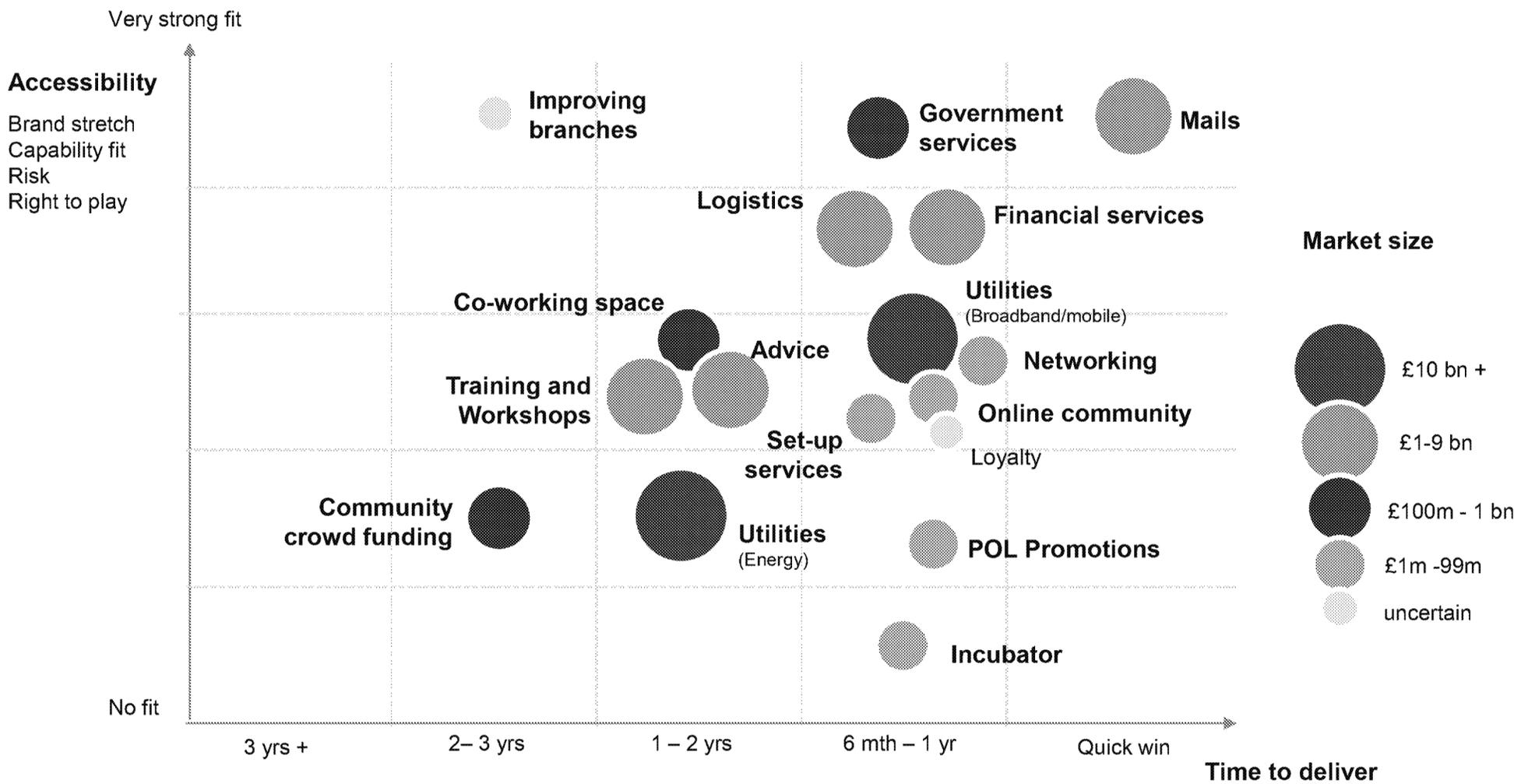
Customer needs

The customer needs analysis demonstrated that customers *expect* a core service they can trust but *want* services that help them 'win'



Customer Needs - Prioritisation

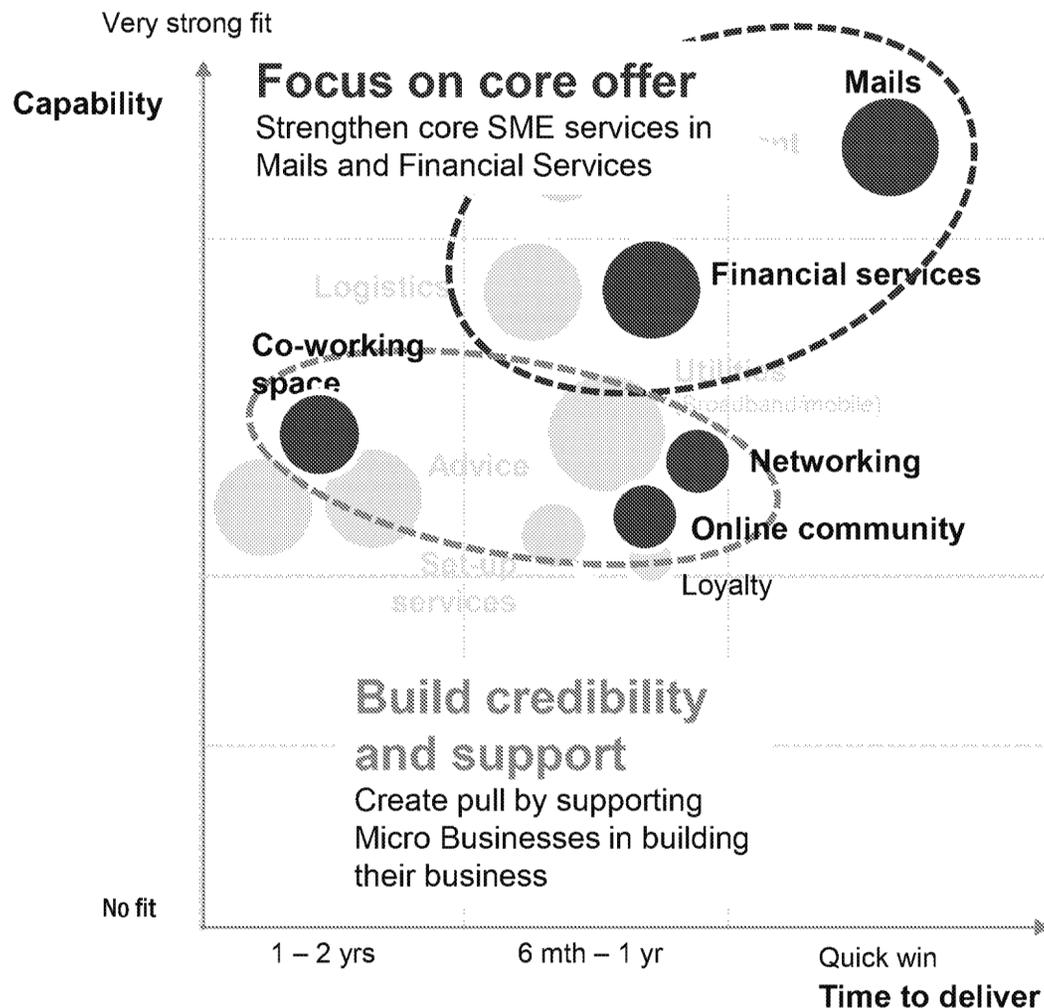
100+ ideas were identified, grouped into 15 potential opportunity areas and mapped against capabilities, time to deliver and market size





Customer needs

The focus narrowed to Mails and FS and identified a need to build credibility with SMEs through other services



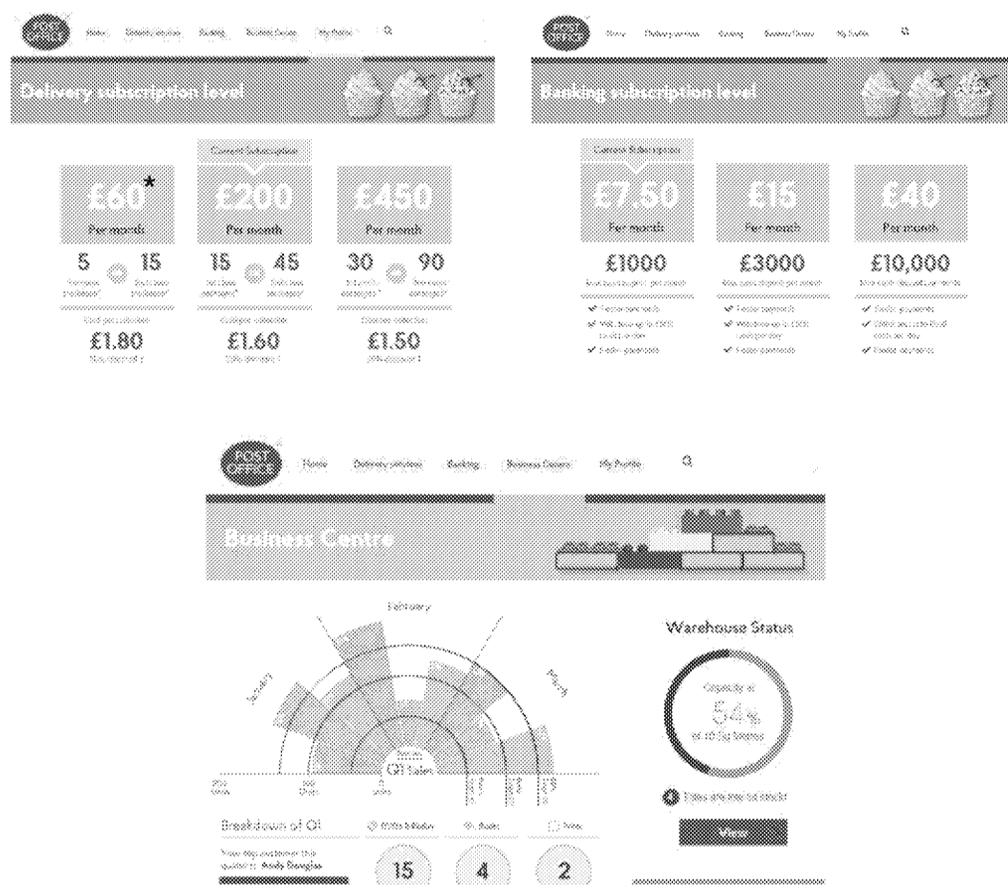
- Following depth interview analysis we identified a landscape of opportunities which align with customer needs
- Financial Services and Mails were prioritised based on core business strengths and timeline to deliver
- In addition, we identified a need to build credibility with this customer set by supporting SMEs in the successful growth of their business

Our focus has been on delivering a robust Mails and FS proposition that also builds credibility in the customer base through additional SME services

The Proposition

The proposition

The proposition is a monthly online mails subscription with compelling ambassador features and the potential to bolt on banking



The proposition centres on providing SMEs with services that help develop their business, across all three segments:

- SME MAILS ACCOUNT**
A single SME account paid by monthly subscription
- SME BANKING BOLT ON**
Additional financial services for SME customers
- SME AMBASSADOR**
Additional features accessible through SME subscription that help develop their business

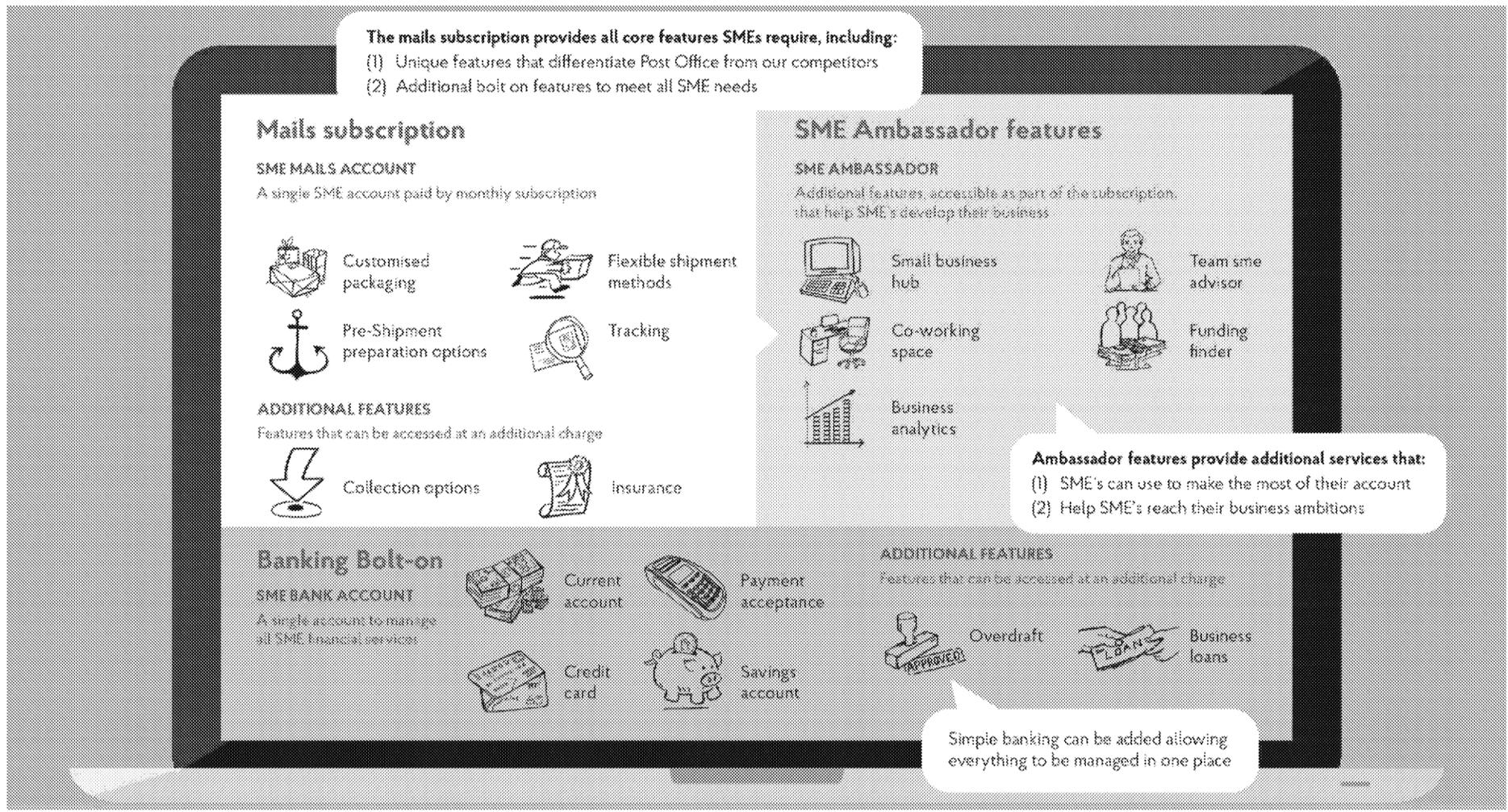
The proposition serves to position Post Office as a retailer and provides the opportunity to capture and utilise SME data

* Pricing sensitivity analysis required to validate subscription tier costs



Proposition Overview

The subscription provides access to a comprehensive set of features that allow SMEs to run and develop their business – many of these features are being developed by our competitors/potential partners – in Q4 we need to assess if we buy or build in-house



Note: Current Account above likely to be in form of pre paid card (discussions ongoing with the PO Money team and BOI)



The proposition

The initial launch plan comprises of key functionality to differentiate the Post Office SME proposition from day 1

Wave 1 Initial Launch Features

We have outlined a minimum compelling range of features that will entice initial customers to sign up for the service, which are feasible for us to develop

Mails 	Customised packaging	Automated label printing
	Collection options - test rollout phasing <ul style="list-style-type: none"> • Pick up • No queue drop off 	Flexible shipment methods <ul style="list-style-type: none"> • Speed of delivery choices • Handle with care
	Domestic tracking	
Financial Services 	Current account/ Pre paid card	Overdraft
	Savings account	
	Payment acceptance	<div style="border: 1px solid black; padding: 5px; text-align: center;"> Dependent on BOI negotiations </div>
Ambassador 	Small business hub <ul style="list-style-type: none"> • Information • PO planned events 	Flagship co-working space
	Basic funding finder tool	Team SME ambassador
	Basic analytics	

IIP - June 2015 Launch

Wave 2 Upgrades

Additional upgrades to building out the features to provides a comprehensive solution

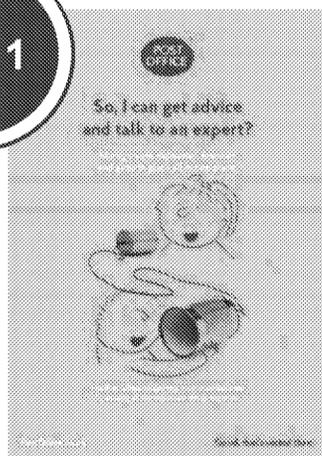
One monthly insurance with PO responsibility	
International tracking	
In-transit upgrade	Warehousing & fulfilment
Cash sweeping	Credit card
Business loans	
Small business hub <ul style="list-style-type: none"> • Partnership links • Forum • Organic networking 	Deeper analytics
Comprehensive funding finder tool	

The proposition - Subscription tiers

Each segment would utilise different parts of the package and require different levels of subscription packages (indicative pricing – pricing analysis to be undertaken in Q4 2014/15)



Tier 1

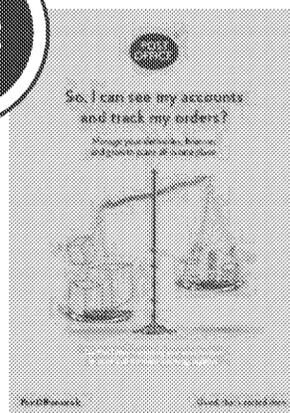


The value of a discounted package to keep costs down and get your business going

e.g. £60 A MONTH

- Equivalent to 14 1st class parcels
- Adds on banking subscription to have all management tools in one place
- Access to the SME hub provides information and guidance in developing her business

Tier 2

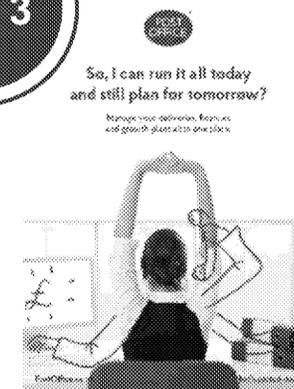


All the services you need to run an efficient business and spend more time doing the things you love

e.g. £200 A MONTH

- Equivalent to 47 1st class parcels
- Use the collection and tracking facilities to reduce fulfilment time and to help deal with customer queries
- Use the Team SME advisor to help manage their business

Tier 3



No need for several logistics providers, all your needs in one quick and easy account

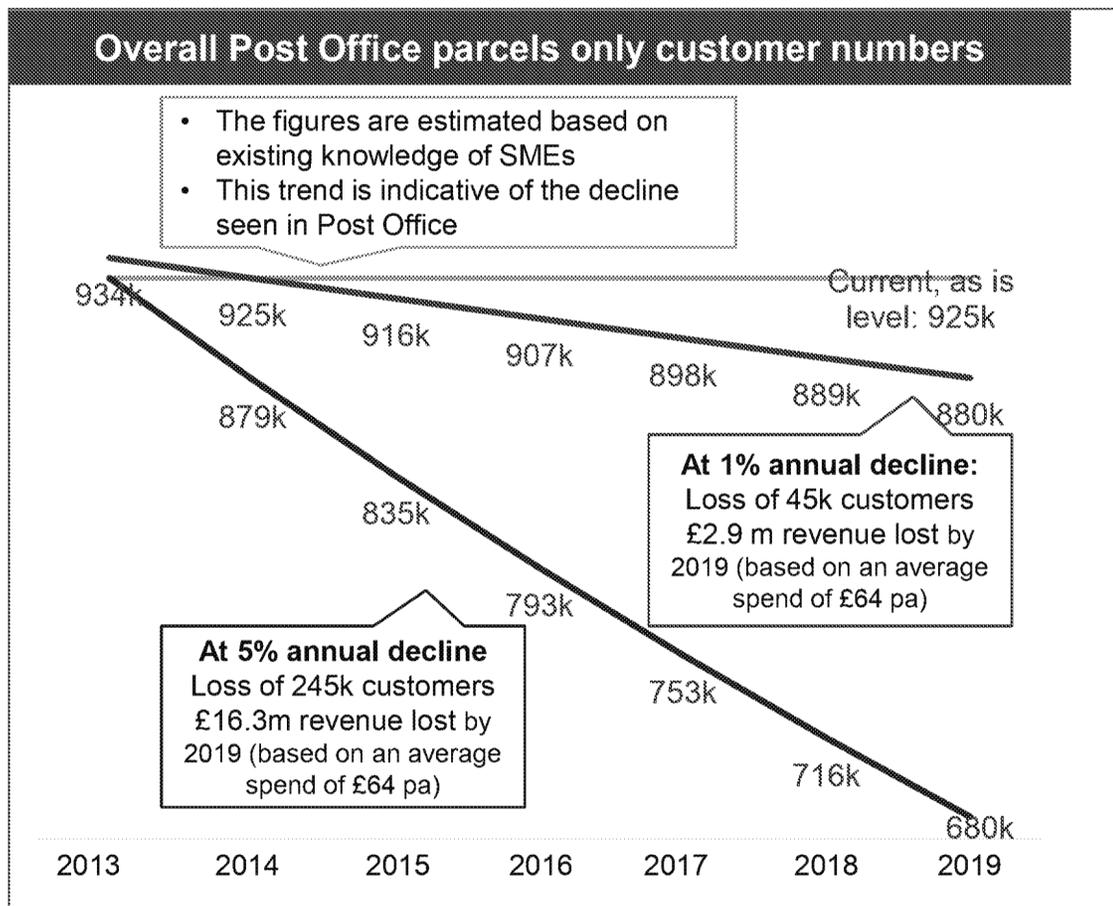
e.g. £450 A MONTH

- Equivalent to 107 1st class parcels
- Use customised packaging to differentiate their brand and compete with larger businesses
- Add on insurance to cover stock from manufacturer to customer



The proposition - customer numbers

The proposition aims to reverse decline in SME customer numbers – financials will be modelled through in Q4 2014/15

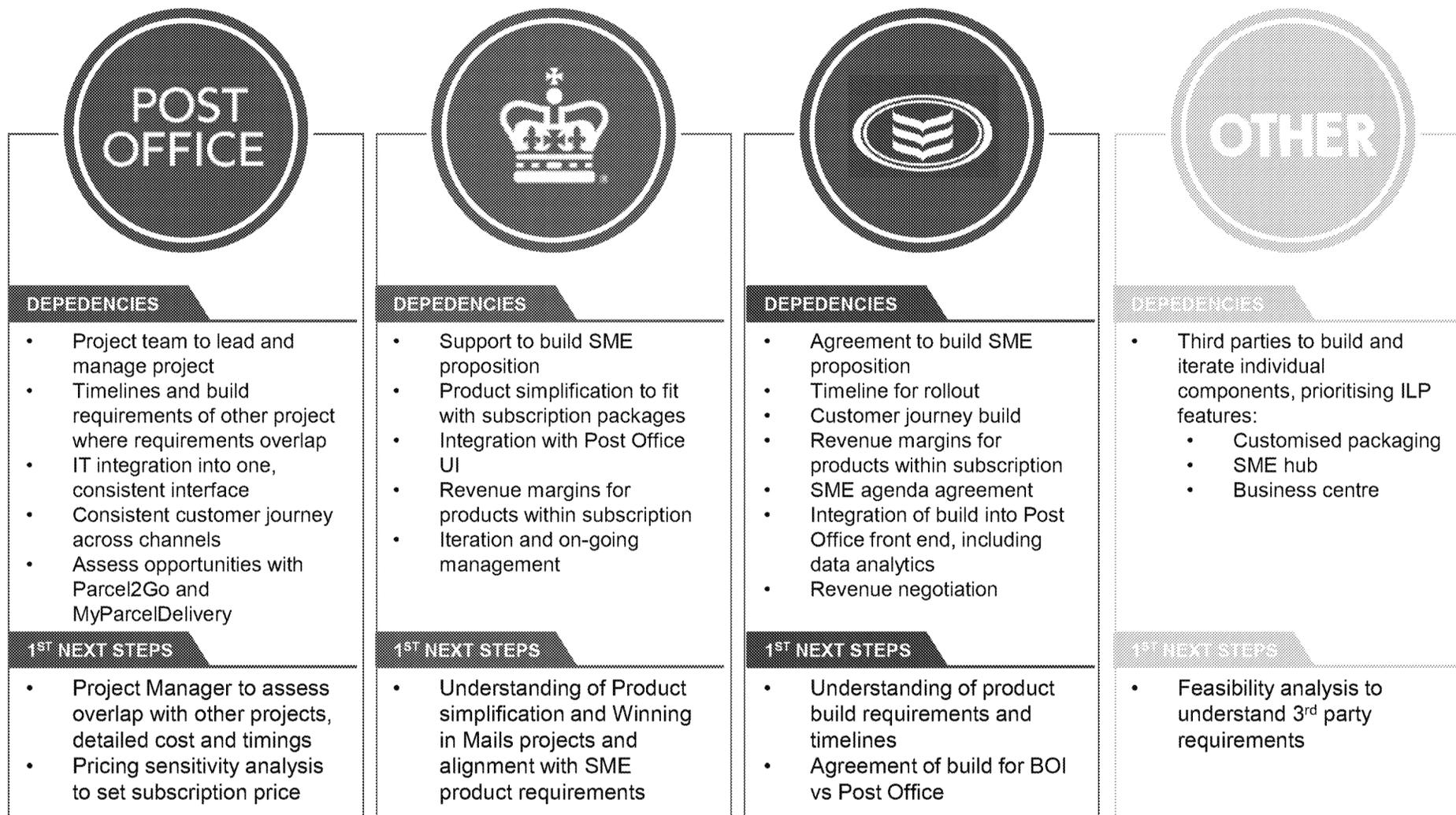


- Currently SME customer numbers are declining year on year
- The proposition will aim to address the loss, and create improved customer retention (in line with the current customer baseline).
- In addition, the proposition will grow the SME customer base over time

Baseline of current SME parcel users
 1% decline of SME customer base
 5% decline of SME customer base

The proposition

Delivering the proposition will leverage existing POL projects and require engagement with key 3rd parties



Next Steps



Next Steps in FY 2014/15

Q4 – Jan, Feb March

HIGH PRIORITY - TO CREATE A DETAILED BUSINESS CASE WITH FINANCIALS

- Project Manager to scope detailed business case, including: roadmap, interdependencies, support structure required, governance and accountabilities. Key will be stakeholder management and engagement across the network, mails and finance team (To be completed: end of March 2015)
- Pricing analysis to validate subscription costs (To be completed: Feb/Mar 2015)
- Financial Analyst to review and revise financials for the business case (To be completed: Feb 2015)
- Ongoing work with strategy team to ensure continued alignment with the winning in mails and mails strategy work (To be Completed: March 2015)

HIGH PRIORITY - EXPLORE POTENTIAL PARTNER RELATIONSHIPS TO DEVELOP & LAUNCH THE SME PROPOSITION

- Test and learn SME opportunity with eBay (initial meeting January 2015)
- Explore potential build/buy opportunities with myparceldirect and parcel2go (notably around whether we can use their systems/approach) (meeting booked January 2015)
- Explore the opportunity to develop Drop & Go version 2.0 and incorporate into the SME business case for non-subscribers

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December 2014

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

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

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				Communications team is engaged.	
Employment	POL/NM	Colin Stretch	<p>The Employment Tribunal has held a former SPM to be an 'employee' at a Preliminary Hearing.</p> <p>The former SPM has also raised a complaint with Yorkshire Police alleging fraud against several members of staff who worked at Knaresborough Post Office between 2011 and 2013. The police are currently investigating these allegations.</p> <p>The Employment Tribunal has stayed the tribunal proceedings until the police investigation is concluded.</p>	<p>A former SPM has brought a whistleblowing and unfair dismissal claim against POL in the Employment Tribunal.</p> <p>On 17.06.14, the Tribunal held that the SPM was an employee of POL between 24.08.12 and 12.07.13, even though she had signed a Temporary Sub-Postmaster (T-SPM) Contract.</p> <p>The Tribunal's finding can be confined to the specific facts of this case, in particular to specific pre-contract oral negotiations, without which the Tribunal acknowledges there would be no employment relationship.</p> <p>As an "employee", the SPM can now continue with her claim that POL dismissed her for whistleblowing. The Tribunal has not yet determined whether or not the SPM was in fact unfairly dismissed. POL's position is that her T-SPM Contract was properly terminated because of substantial rent arrears.</p> <p>A preliminary hearing has been set for 19 December to clarify the issues. In the interim, Eversheds has been instructed to try to settle the matter, however POL's financial offers (the latest being £15,000) have so far been rejected.</p> <p>The SPM is active on social media and has</p>	Eversheds

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				been making comments about the litigation. This is being monitored and POL's Communications team is engaged.	
Employment	POL/NM	Colin Stretch	In addition to the claim noted above, there are two claims against POL proceeding before the Employment Tribunals. Claims allege unfair dismissal and disability and nationality discrimination. Potential exposure to POL over one claim is c.£25,000 with one case yet to be valued.	Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress. POL's Communications team is engaged in the event these claims are of interest to the media.	Weightmans

PART (B) – CRIMINAL LITIGATION

PROSECUTION CASES

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

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

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

EXPERT REPORT

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

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

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

PROSECUTION POLICY

Former First Senior Treasury Counsel Brian Altman QC has drafted a proposed prosecution policy for POL.

Comments from POL stakeholders will now be sent to Brian Altman for review.

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POST OFFICE LTD EXECUTIVE COMMITTEE

Health & Safety Report

1. Purpose

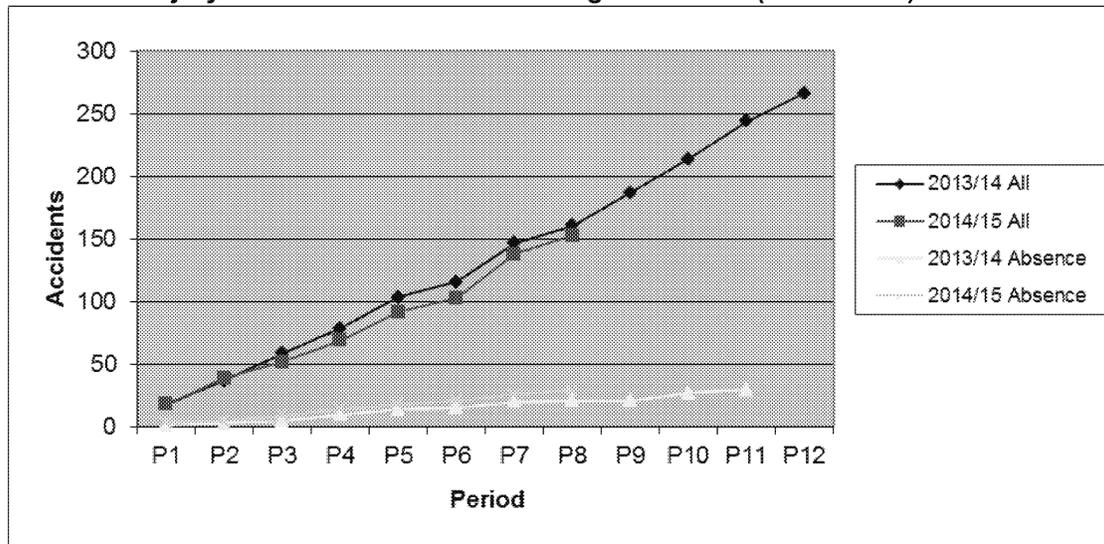
The purpose of this paper is to:

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

2. Current Situation

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

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

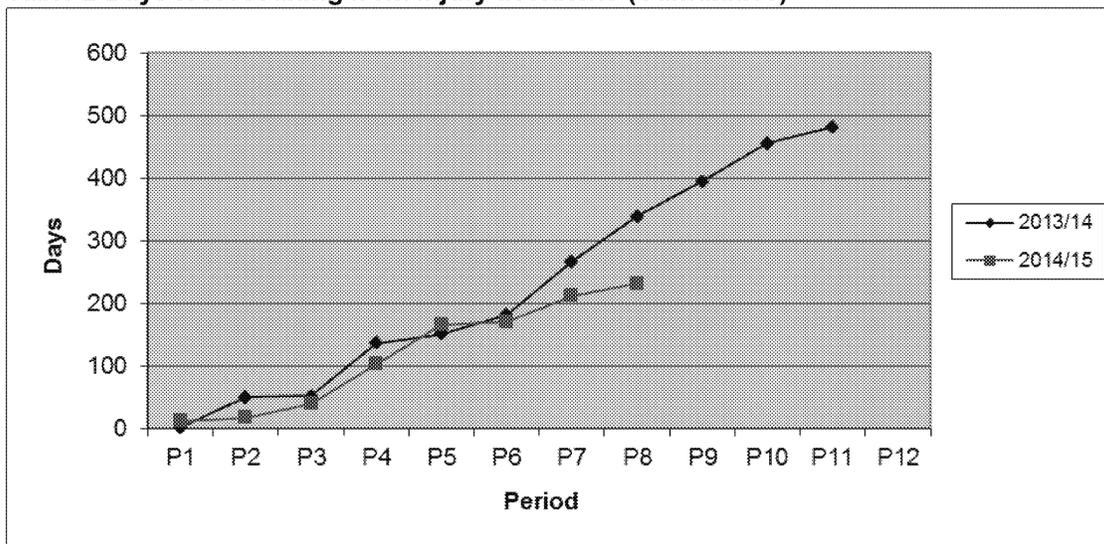


- 2.3 Personal injury compensation claims remain at a low level having reduced significantly from previous years and in line with the low number of accidents that result in sick absence. Claims involving members of the public have also reduced. Comparison with a similar retail organisation indicates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

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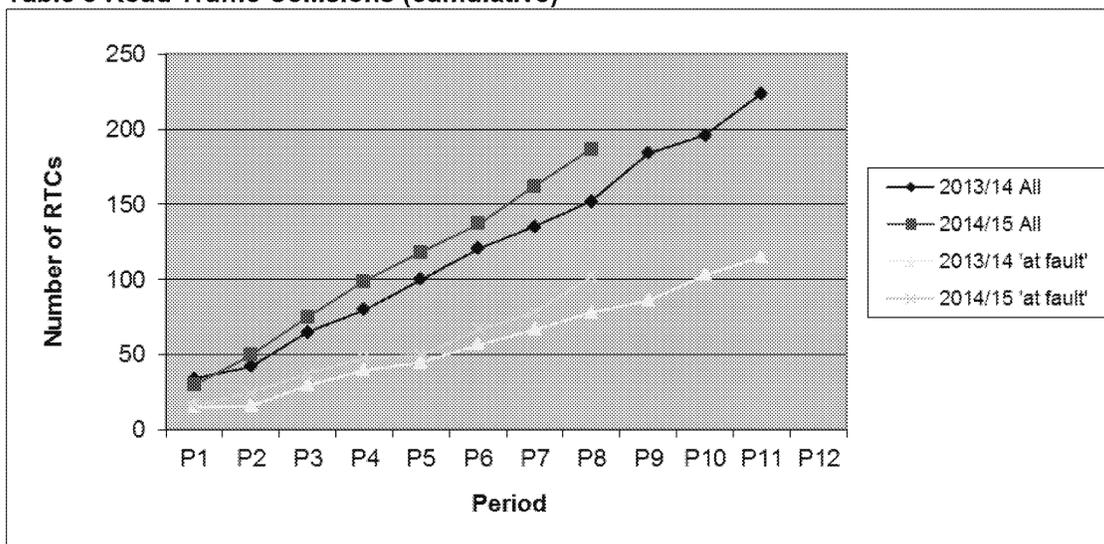
2.4 The number of days lost due to accidents is currently well ahead of target and forecast to outturn ahead of the 5% reduction target. (Table 2 below refers)

Table 2 Days lost resulting from injury accidents (Cumulative)



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

Table 3 Road Traffic Collisions (cumulative)



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

3. Activities

3.1 Road Risk

Current longer term activities to mitigate road risk are:

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

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

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

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

3.3 Health and Wellbeing

Healthcare interventions:

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

3.4 Safety

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

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

4. Residual Risks

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

5. Recommendation

The ExCo is asked to:

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

Neil Hayward
January 2015

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Appendix 1

Significant Incidents (Period 8)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
<h1>GRO</h1>				

POST OFFICE LIMITED EXECUTIVE COMMITTEE

Strategic Risks – paper for noting

The Committee is to note that a collective refresh of the strategic risks will be reviewed at the February meeting.

This is required as part of good governance but also to ensure that we have an up to date understanding of these risks; particularly the impact of external developments and to consider the mitigation required.

To enable this business partners will be working with ExCo members prior to that meeting to review the strategic risks to assess what should be changed from the current risk list and if anything is missing. This should ensure that we have a focused session in February with a risk list that has already included feedback from ExCo members. It would be appreciated if time could be made available in diaries for this work.

Chris Aujard
General Counsel
08/01/2015

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Post Office Limited Authorised Signatories January 2015

CEO's Office (Paula Vennells):	Gavin Lambert
Commercial (Martin George):	Paul Brown Peter Markey Kevin Seller
Communications (Mark Davies):	Nina Arnott Mike Granville Alana Renner Richard Walden
Corporate Services (Chris Aujard and Jane MacLeod):	John Scott
Finance (Chris Day and Alisdair Cameron):	Charles Colquhoun Martin Edwards Peter Goodman Sarah Hall
Financial Services (Nick Kennett):	Jonathan Hill
IT (Lesley Sewell):	Andy Garner Julie George Dave Hulbert
Network & Sales (Kevin Gilliland):	Sally Buchanan Harry Clarke Christine Harrison Martin Harvey John Jenkinson Graham Padget Keith Rann Angela Van Den Bogerd
People (Neil Hayward):	Fay Healey Sarah Malone
Procurement:	
Supplier contracts/contract changes only up to £3 million and within liability limits	
	Colin Stuart
Supplier contracts/contract changes only up to £1 million and within liability limits (Band 4)	
	Fay Chandler Louise Clark Mark Dennis Sheena Patience Alistair Price

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Sue Stewart
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**Supplier contracts/contract changes only, up to £172,000 and within liability limits
(Band 3A)**

Gareth Coles
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