

Post Office Board Agenda

Date:	Tuesday 30 July 2019	Time	12.00 – 15.15 hrs	Location	Hartwell House, Aylesbury
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Present		Other Attendees	
• Tim Parker (Chairman)	• Tim Franklin	• Veronica Branton (Head of Secretariat)	• Laurence O'Neill (item 8.) (Senior Legal Counsel) (by phone)
• Alisdair Cameron (Interim CEO)	• Carla Stent	• Ben Foat (items 6., 7. 8. & 9.) (General Counsel)	• Owen Woodley (items 9. and 10.) (CEO – FST&I)
• Ken McCall	• Tom Cooper	• Alan Watts (item 7.) (Herbert Smith Freehills) (by phone)	• Chrysanthy Pispinis (item 10.) (Director – PO Money)
		• Amanda Jones (item 7.) (Retail Sales Director)	• Debbie Smith (item 11.) (CEO – Retail)
		• Julie Thomas (item 7.) (Operations Director) (by phone)	• Andrew Goddard (item 11.) (MD – Payzone Bills Payments Ltd)
		• Kate Emmanuel (item 7.) (Herbert Smith Freehills) (by phone)	

Agenda Item	Action Needed	Lead	Timings
1. Welcome and Conflicts of Interest	Noting	Chairman	12.00 – 12.10 hrs
2. Minutes of Previous Board meetings including Status Report	Approval	Chairman/ Veronica Branton	
3. Report back from Committees (verbal) - ARC Committee - Remuneration Committee	Noting	Carla Stent Ken McCall	
4. CEO Report	Noting & Input	Al Cameron	12.10 – 12.35 hrs
5. Finance 5.1 Financial Performance Report 5.2 Quarterly Delivery Report and Funding Request	Noting & Input Approval for submission to Shareholder	Al Cameron	12.35 – 13.00 hrs
6. Annual Report and Accounts 2018/19	Approval	Al Cameron/ Carla Stent	13.00 – 13.15 hrs
7. Group Litigation Update	Noting & Input	Ben Foat/ Alan Watts/ Kate Emmanuel/ Amanda Jones/ Julie Thomas	13.15 – 13.35 hrs
Lunch			13.35 – 13.50 hrs
8. Starling (Workers' rights litigation)	Noting & Input	Ben Foat/ Laurence O'Neill	13.50 – 14.10 hrs
9. Legal Enterprise Optimisation	Approval	Ben Foat/ Owen Woodley	14.10 – 14.30 hrs
10. Bank of Ireland	Approval	Owen Woodley/ Chrysanthy Pispinis	14.30 – 14.45 hrs
11. Payzone Parent Company Guarantee	Approval	Debbie Smith/ Andrew Goddard	14.45 – 15.00 hrs

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12.	Governance items - Ratification of the appointment of the Chief Executive Officer - Resignation of Non-Executive Director - Credit Card contract with Capital One - Remuneration Committee terms of reference.	Ratification Noting Noting Approval	Chairman	15.00 – 15.15 hrs
13.	Items for Noting 13.1 Sealings 13.2 Health and Safety Report 13.3 Future Meeting Dates 13.4 Forward Agendas	Noting	All	
14.	Any Other Business	Noting and Input	Chairman	
15.	Date of next meeting 23 September 2019	Noting	Chairman	



POST OFFICE LIMITED BOARD MEETING
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MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 28 MAY 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.30 AM

Present:	Tim Parker	Chairman (TP)
	Alisdair Cameron	Interim Group Chief Executive Officer (AC)
	Ken McCall	Senior Independent Director (KM)
	Tom Cooper	Non-Executive Director (TC)
	Tim Franklin	Non-Executive Director (TF)
	Shirine Khoury-Haq	Non-Executive Director (SK-H)
	Carla Stent	Non-Executive Director (CS)
In attendance:	Veronica Branton	Head of Secretariat (VB)
	Jonathan Lewis	Head of Strategy and Corporate Development (JL) (items 5.3 & 5.4)
	Ben Foat	General Counsel (BF) (item 7.)
	Alan Watts	Herbert Smith Freehills (AW) (item 7.)
	Debbie Smith	Chief Executive - Retail (DS) (items 8. & 9.)
	Owen Woodley	Chief Executive – FST&I (OW) (items 8., 11. & 12.)
	Cathy Mayor	Finance Director - Retail (CM) (item 8.)
	Colin Stuart	Finance Director – FS&T (CS) (item 8.)
	Emma Springham	Chief Marketing Officer (ES) (item 8.)
	Mark Siviter	MD – Mails & Retail (MS) (item 9.)
	Chrysanthy Pispinis	Director - PO Money (CP) (item 11.)
	Henk Van Hulle	Business Innovation Director (HvH) (item 12.)

ACTION

1. Welcome and Conflicts of Interest

A quorum being present, the Chairman opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company’s Articles of Association.

2. Appointments

The Board **RATIFIED** the appointment of Alisdair Cameron as Interim Group Chief Executive Officer with effect from 5 April 2019.

3. Minutes of Previous Board meetings including Status Report

The Board **APPROVED** for signature the minutes of the Board meetings held on 19 November 2018, 23 January 2019, 18 March 2019, 20 March 2019, 25 March 2019 and 30 April 2019.

Progress with completion of the actions as shown on the action log was **NOTED**.

The PCI Compliance Update was **NOTED**. The paper would be discussed at the Audit, Risk and Compliance Committee meeting on 29 May 2019.

The paper on the postponement of Belfast Exit Plan was **NOTED**.

Al Cameron reported that the team were confident that they could switch off one data centre as a test to see that it would switch over to the second data centre. This test was due to take place over August Bank Holiday. Failure of both data centres had not occurred at any point during their operation.

The following points were raised:

- it was difficult to correlate the original benefits and the revised position. It would be helpful to understand the costs associated with the work now needed and how much the refresh would cost. It was reported that part of the conversations with Fujitsu was how we avoided significant costs during the deferral period
- that we should check if every component would be shut down as part of August data centre shut down test.

Executive

**To do:
Executive**

4. CEO Report

AC introduced the report and highlighted a number of points:

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- the BEIS Select Committee Inquiry had been a helpful opportunity to present the important messages for Post Office on issues such as the proposed review of Postmaster remuneration. However, the environment was testing. There were a number of attacks on the PO brand through the group litigation and with the Horizon trial about to resume; the Daily Mail campaign to “Save our Post Offices”; continued opposition in some quarters to franchising DMBs; and, the case brought by 123 Postmasters on employment rights. We needed to undertake a review of Postmaster remuneration which provided sustainable solutions. Ideally, an announcement would be made in November 2019 for introduction in April 2020, however, this might need to be fast-tracked depending on publicity and disquiet surrounding the Horizon Trial. It was reported that the Minister would welcome us issuing an early a message on our intentions on agent pay even if this were not for immediate implementation. We needed to maintain a good relationship with the Minister and try to get more meeting time with her. It was noted that our positioning needed to be clear. For example, we did not consult on whether or not to close a DMB but on the service requirements for the new branch. The practical impact of the group litigation on the running of the network was limited currently. More money would be going to Postmasters in October 2019. The vast majority of Postmasters were self-employed but we still needed to consider employee status at living wage level as an option for a small number
- Rob Houghton had accepted another role but would serve his six months’ notice. Mo Kang and Rob Houghton would be reviewing the position of the team and seeking to build resilience. Shirine Khoury-Haq would provide suggestions for search agencies. We had returned to the search for an interim Chief Finance Officer.

A number of points were raised, including:

- whether we had considered approaching one the big audit firms to second a CFO?
- whether the Board could provide any additional support to the GE given the degree of change within the team and while the appointment process for a permanent CEO was in train? It was noted that the Interim CEO would continue to have regular conversations with his GE colleagues to understand any flight risks. There had been a fair degree of churn within the team but this was not untypical when compared with private sector equivalents and the management team was strong. The difficulties in obtaining permission to recruit and to agree pay arrangements was a constant background noise and we needed to consider whether anything further could be done to simplify this situation. The Board would continue to signal its complete support for Al Cameron. Keeping lines of communication open and making people feel part of the team was always important but especially so currently.

5. Finance

5.1 Financial Performance Report

P1 had been broadly in line with budget, £1.2m adverse was reported but became £0.3m favourable when budget timings were corrected.

The report was **NOTED**.

5.2 Change Funding Report

AC introduced the report and noted that seeking to achieve a further £3m of cost savings might not be the right approach currently because of the accelerated drive to improve support for agents. A move back to a £74m cost target was proposed.

Clarity on the benefits to be generated through the development of our digital strategy was requested. This would be discussed in more depth under the digital update later in the agenda but it was reported that we had built a digital platform rather than a set of products. We wanted to be sure that we were still on the right track and prioritising the right investments. The current year investment had been scaled back, not least because we needed the right data to be able to attract a significant customer base.

The Board:

NOTED the contents of the paper, including the FY19/20 Budget for Change Spend

APPROVED the request for £35m funding for Q1 to be submitted to UKGI; and,

DELEGATED authority to Al Cameron, Interim CEO, to finalise the report and supporting documents with UKGI.

5.3 Costs and Structures

AC introduced the paper which set out the overarching approach to reducing organisational costs.

The cost base in 2018/19 was £593m, excluding Postmaster pay but including direct costs of sale. Over 5 years, a total cost opportunity of £100-£150m across the business was estimated. £80-100m of this was viewed as

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achievable over the next three years, primarily in 2020-21 and 2021-22. Headcount should reduce to less than 2,000 in three years. Work was taking place to flatten structures through the work streams on spans and controls. More could also be done to reduce IT costs but this would take place over a longer time frame. A further paper would be presented to the Board in July 2019.

A number of points were raised, including:

- whether the creation of a Cash Utility could provide the scope to reduce our costs significantly? It was reported that the number of cash centres would reduce. We were in an active conversations with RBS on this issue. The Bank of England would be creating a single cash platform over the next three years. A strategy session on the creation of a Cash utility was on the Board agenda for July 2019
- whether 54 people in marketing was a high number? It was reported that this depended on the roles included in this figure. In POL's case, this incorporated management of the aggregator campaigns and search engine optimisation (SEO). All activity in this area was being consolidated under Emma Springham, the Chief Marketing Officer
- whether we had challenged McKinsey on the figures they had provided and whether they had applied themselves to strategic organisational changes? It was reported that McKinsey's remit had been focussed on the future structural shape of the business
- the Chairman noted that his view coming into the business 4 years ago had been that DMBs were driving costs; there were unbalanced IT contracts in place; the business was complicated and without critical mass in some areas; it was generating small profits and had limited scope to increase revenue. To be commercially sustainable the business needed to become a profitable franchise owner with reduced infrastructure, a lean Headquarters and a strong field team which had data on what was happening in branches, which are doing well and which required more support. We needed to leverage the advantages of our distribution network, the scale of which was not available to other retailers. Nevertheless, we had achieved positive results within the constraints faced
- that an important focus of the strategy day would be defining what a simplified franchise network looked like (including whether we should run any branches ourselves) and reaching a conclusion on which parts of the business we should or should not retain and grow, including Telecoms and Insurance
- being able to analyse branch data and understand what each branch delivered was vital. It was noted that Postmasters and multiples were not obliged to provide us with their retail figures so not all information was accessible but that regular visits to branches and better branch data would allow us to build a much better picture and understand where there were problems
- that we needed to understand agent remuneration in its totality, including the profit margins for the multiples and some larger POs. We needed to understand the characteristics of a successful Post Office retailer and help to unlock entrepreneurial potential. We undervalued the franchise currently, except for the smaller operators, and were not taking sufficient account of the footfall driven into retail outlets running a Post Office.

The Board **NOTED** the paper and were supportive of the direction of travel.

5.4 Plan Update

AC introduced the paper and noted, as discussed under the Change Funding Report, that it no longer seemed appropriate to seek to implement the £3m additional challenge that had been discussed at the Board meeting on 30 April 2019 because of the focus on accelerating support for agents. The plan was in the UKGI/ BEIS review and approval process. The parameters for the bonus threshold and stretch performance would need to be discussed at the Remuneration Committee meeting later in the day.

A number of points were raised, including:

- whether the measures we were proposing to support agents addressed the issues that were of greatest concern to them? It was reported that the changes would enable stock ordering on Horizon and we were building further capability into Branch Hub. Coin ordering could already be done online. We wanted to reduce errors in the system because this was beneficial to all parties. We would be gathering more branch data and sharing that with the branches. We still did not know whether most of the errors were coming from a small part of the network or not. We were not good enough at getting things right first time and we not providing enough support for new branches currently. We needed to make it much simpler to run a PO and Horizon operating on the Postmaster's till would mark a significant step forward
- whether we were getting enough insight from other franchises? It was reported that we were employing more people from franchises which was helpful as many networks faced similar challenges; however, we were different to most franchises in that PO services we usually an adjunct to another service

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- it was noted that we needed to think about which services required an individual to go to a physical location and where that would remain true in 5-10 years' time as this would affect our acquisition and growth strategy
- that we should consider reviving the idea of submitting a paper to Cabinet Office exploring the role POL could play, included with the NHS and in digital identity.

The Board **NOTED** the paper.

6. Annual Report and Accounts

AC introduced the paper. PwC's audit was well progressed but determining how to account for the potential outcomes of the group litigation was complicated. From an accounting perspective, it was difficult not to include a provision but we had no numbers from the claimants on which to ground such a figure. We were working closely with PwC and our lawyers to agree an appropriate form of wording.

Impairment tests meant that PO Insurance might not hit its EBITDA figure. The position with Bank of England deferred income was also being discussed.

A number of points were raised, including:

- that PwC had been thorough in their work, including measures such as stock counting in branches, and fewer adjustments were coming through
- a general consistency check was requested because the figures referenced for mails growth differed
- the CEO and Chairman's statements needed to be refined.

To do:
Executive

The Board **APPROVED** the Annual Report and Accounts 2018/19 and **DELEGATED SIGNING AUTHORITY** to the Chairman and Interim CEO, subject to the completion of PwC's work and review by the ARC at its meeting on 29 May 2019.

7. Group Litigation Update (subject to legal privilege – do not forward)

Alan Watts introduced the paper and he and Ben Foat updated the Board on recent developments. We had 21 days to make an application to the Court of Appeal (CoA) for leave to appeal and would be instructing Helen Davies, QC, to represent us. HD was highly regarded and experienced in this field. A call and a meeting had taken place with HD and she had advised that we should not pursue a "recusal light" approach. It was recommended that we concentrate on the matters of greatest importance to POL, namely, the relational contract and good faith elements of the Judgment. The grounds for appeal were being revised this week and would be shorter, pithier and more focussed.

The Managing Judge had decided to award costs on a trial by trial basis. He had reduced the amount POL had to pay in respect of the claimants' costs for the Common Issues Trial by 10% to reflect the points on which they had lost and we would not be paying on an indemnity basis. POL now needed to transfer £5.5m to a solicitor's account, which would be payable once the Appeal had concluded. It was reported that the recusal costs were around £300k¹. The Board **RESOLVED** to authorise the payment of the legal costs associated with the claimants' costs for the Common Issues Trial and the recusal application.

The Managing Judge had firm views on the case and it was likely to be difficult to move him from that position. Lord Justice Coulson had deemed Lord Justice Fraser to have been fair minded in his Judgment of the Common Issues Trial so the terms of the decision refusing permission to seek the Judge's recusal were not a surprise. However, the Judge would be able to see our new approach to the case with our new QC. We needed to pay much more attention to strategy and to tone. It was also noted that implying duties of good faith in quasi partnerships would cause problems for others as well as PO.

A number of points were raised, including:

- what was Helen Davies' first view of the case? It was reported that her initial view was that we had good grounds for success on relational and good faith points and on the terms which the Judge had found to be implied by a duty of good faith. These were points on which the CoA was likely to be interested. HD was not minded to appeal on all points as some grounds were weaker than others which could tarnish our stronger points. It was also better to avoid making the grounds too long
- whether there was anything further we could do to influence the outcome of the Horizon trial? It was reported that Fujitsu's witnesses had not been strong, while POL's had been satisfactory. Only the expert witnesses had yet to provide evidence and it was important that they did not renege on their previous

¹ The recusal costs would be circulated. It was noted that a 10% reduction in fee had been obtained from Lord Gribner and Lord Neuberger.

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position that Horizon was a robust system. It was critical that Horizon was seen as a robust system today. It was likely that the expert witnesses would say that the system had bugs. This was not in dispute but the issue was the degree to which it was a robust system that could be relied upon and that there was nothing in the Judgment that suggested the system was unfit for purpose today. We had looked at the testing of the system and what the issues had arisen over the period of time covered by the case

- whether there were any case precedents? There were no direct precedents but there were other cases linked to system failures
- how would the fact that the vast majority of Postmasters had not experienced problems with the Horizon system be factored into the Judgment? It was thought that this would make it harder for the Managing Judge to say that there had systemic problems with the system but he could say that each case needed to be looked at to test whether there had been a system error in that case
- a workshop on the Horizon system was taking place. It was noted that there had been a useful call about one of the cases and it was helpful to get under the skin of the facts and test what had happened and whether we had any culpability.

The Board **NOTED** the paper.

8. Business Performance Reports

8.1 Retail Performance Report

Debbie Smith introduced the report and highlighted a number of points:

- the first field sales conference had been a success and there would have been visits made to every branch by the end of June 2019. The delivery of the network plan was essential to managing the relationships with PMs, multiples and customers
- a hothousing programme had been run in Q4 to test how to improve performance and build capability with area managers and Postmasters. Coaching had been provided for the Postmaster from a business perspective and data provided on their branch. The Postmasters were given the authority to take decisions and make changes based their local knowledge. In addition, a rapid issues team had been set up internally.

A number of points were raised, including:

- whether the hothousing programme was being applied in accordance with a formula? It was reported that this was the case so that interventions were repeatable and that we were upskilling our field managers
- what impact did the Royal Mail development setting up parcel boxes have on footfall in branch? It was reported that we had analysed the impact of the RM parcel boxes and thus far it was minimal; however the RM announcement that it would be moving to picking up parcels from people's homes in the future was much more significant. It was reported that RM had struggled to launch their on-line app but this only emphasised the need for us to move quickly to launch our app and that we needed a broader strategic conversation at a senior level in RM
- that the companies did not appear to be profiting from offering a free returns service. We needed to be alert to providers bringing in charges and/or changes to their approach. An update on the returns market was requested for each Retail Performance Report.
- why had our performance in International piece dropped by 4.4%? It was reported that there were cheaper options internationally than RM. The Board thought this needed to be reflected in our negotiations with RM. If RM was not market competitive and this hit our volumes this was a significant concern. Our sales should not be declining in the international market.

DS/ CM

To do:
DS/ MS

The Board **NOTED** the report.

8.2 FST&I Performance Report

Owen Woodley introduced the report, which was the first consolidated report including Identity and Digital. The Bank of Ireland financial products had performed reasonably well during the year but mortgage margins were slight. We were likely to increase our lending to around half a billion pounds in the next few years. The Travel Money business remained a concern in light of the overall position in the travel market. We were about to sign a deal with Western Union on MoneyGram. The Telecoms business was facing a worsening set of conditions that affected the whole market. We were about to appoint an advisor to value to Telecoms business, which was now generating an annual profit of £25m rather than £30m, although Fujitsu was still benefiting from a significant portion of the overall profit available. A number of strategic questions needed to be answered to decide how to develop the Identity business and all of the strategic questions on Telecoms, Insurance and Identity needed to be put into appropriate timeframes to maximise the opportunities.

The Board **NOTED** the report.

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8.3 Marketing Report

Emma Springham introduced the report which would be included with future quarterly business reports. A current focus was on brand and data. New brand material would be modern in look and feel but we also needed to work backwards in some cases to refresh leaflets in branch. Discipline and control were required to achieve consistency and ES had the right of veto and governance and guidelines were being put in place. We needed to choose the right partners for our brand and take opportunities to use our partners' data. We were working to have a data strategy in place within the next six months. Social media had moved into ES's team. Postmasters need our support, guidance and tools to assist them when engaging with social media.

Brand strategy work continued. Everything had to link together and flow. Getting this positioning right was fundamental as we moved from products to propositions, set out our brand values and established the pillars behind our propositions. The theme we kept returning to was community.

We had split out the marketing and digital functions but ES and Henk Van Hulle worked closely together and had aligned incentives.

A number of points were raised, including:

- what shape was our data in and what were we doing to improve it? It was reported that we had a marketing database but did not have any feeds coming in. We were working on getting the data into the right format but needed to optimise it. We were not currently discussing use of partner data with our partners but were considering recruiting a role to support this work. The best way of managing data and whether this should be in-house or drawing on external expertise was discussed. We needed to work out what data was most important to us and store that internally. At the moment we did not employ data scientists but it was noted that if we were to we needed to be able manage and retain them and needed individuals who could commercialise the data not just cleanse and manage it.

The Board **NOTED** the report.

9. Royal Mail Group Negotiations

Mark Siviter introduced the paper. We had received a commercial offer from Royal Mail and expected to receive a draft Heads of Terms this week. We were aiming to finalise the agreement in October 2019. A new long-term agreement would lift exclusivity but it was unlikely that RM would seek to direct mail volumes elsewhere and the commercial framework would afford us some degree of protection. Lifting exclusivity would give us flexibility in areas such as online provision which would enable us to provide the right services for our customers. We did not have commitments to RM in the Payzone network so could consider alternative opportunities.

A number of points were raised, including:

- whether we could make a deal with another provider such as DHL to allow them to use our network, including the Payzone network? It was reported that most of the volume in the UK mail market remained letters and parcel providers had invested significantly in their infrastructure, where there were significant cost pressures. It was noted that RM could also offer parcel drop offs to other places
- the sticking points for the contract negotiations were that we wanted to retain an element of fixed fee and RM wished to pay less overall - how big was the gap? It was reported that RM wished to pay £40-50 m less than they were today.

The Board **NOTED** the paper.

10. Strategic Development

The proposals for the Board Strategy sessions in July 2019 were **NOTED**.

11. Bank of Ireland Deal

Owen Woodley and Chrysanthy Pispinis introduced the paper. We anticipated the contract running longer than 5 years and were holding firm on removal of exclusivity in the areas where this had been negotiated. There was pressure on Bank of Ireland to conclude the negotiations. We had hoped to have signed the credit card deal by now but were working through the final details.

Our ability to run multiple Appointed Representative (AR) arrangements and the accountability and regulatory implications associated with this was discussed. Three AR arrangements was seen as the maximum we should contemplate but we were planning to set up a Financial Services subsidiary through the work on Legal

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Enterprise Optimisation (LEO). It should then be straight forward to novate the agreements with CapOne into a new FS subsidiary and we had already indicated to CapOne that the AR position might change.

The Board:

NOTED the updates on the Bol negotiations and the new credit card partnership

APPROVED the total spend related to the Bol negotiations of £5.4m, which included the sunk costs detailed in the paper

DELEGATED AUTHORITY to the Board sub-group for the approval of the signing of the amended FSJVA and FRES contracts on the basis presented once finalised.

12. **Digital Update**

Henk Van Hulle introduced the paper and tabled a number of case studies of work in the digital area, including the link between digital and branch.

There were currently 326,000 customers on Customer Travel and we were working on search engine optimisation (SEO) and conversion rate optimisation (CRO), trying to drive the day-to-day digital efficiency of our business. This included working on how our branches can be discovered via Google searches. "Post Offices near me" was now the first search result on Google for "Post Office". We were now working on how to optimise searches for returns and then wanted to optimise searches for banking services. We would be adding Payzone Bills Payments to our SEO work. We could see the data behind searches.

We would be working on a value map and putting numbers to this over a three year period. We were also meeting with external experts to draw on their knowledge and would be bringing the Innovation Hub back to Finsbury Dials; it would be helpful to have Non-Executive Director input to this from time to time.

A number of points were raised, including:

- that information about PO services and opening hours was not always reliable online - how were we going to improve this? It was reported that the Branch Hub app would enable Postmasters to undertake tasks such as re-setting their opening hours which should increase accuracy online
- were we talking to potential partners to enable us to broaden our travel services offer (e.g. airline and hotel booking agencies)? It was reported that conversations had taken place with Expedia, Booking.com and Airbnb
- did we understand how we were going to persuade customers to use our services? It was reported that we were analysing customer trends and behaviours. We also had further work to do on customer communications in the run up to our first summer season. We wanted more customers to use the app and link this into travellers and the sites they used but needed the right partners grow our customer base.

The Board **NOTED** the paper.

13. **Contracts/ approvals**

13.1 Home Re-engineering capital deployment

The Board **APPROVED** the deployment of capital to complete the PO Insurance build of the home insurance reengineering programme. The total costs of the project were £14.4m (Discovery- £0.9m, Investment-£12m, BGL Exit costs-£1.5m).

13.2 DMB franchising and Network Development

The Board **APPROVED** funding of £27.7m in 2019/20 to deliver the DMB programme of 69 targeted exits.

13.3 New Network Location (NNL) activity over the coming year

The Board **APPROVED** a total investment is £7.56m for 2019/20 to support the delivery of 220 new branches.

14. **Governance Report**

The Board:

- **APPROVED** the following **DELEGATED AUTHORITIES** for financial spend:
 - Chief Executive Officer (up to £5 million);
 - Chief Finance Officer (up to £4 million);
 - Group Executive Members (up to £2 million); and,
 - Group Executive Members to have authority to sub-delegate up to the limit of their delegated authority.
- **APPROVED** the list of authorised signatories as set out in appendix 2 of the paper
- **APPROVED** the affixing of the Company Seal as set out in paragraph 4.5 of the paper

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- **NOTED** the Nominations and Remuneration Committees' evaluation of performance against their terms of reference. The ARC would be reviewing its evaluation at its meeting on 29 May 2019
- **NOTED** the information held on the register of interests
- **APPROVED** the Conflicts of Interest Policy.

15. **Items for Noting**

15.1 Sealings

The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 1760 to 1781 inclusive in the seal register.

15.2 Health and Safety Report

The Board **NOTED** the Health and Safety Report.

15.3 Future Meeting Dates

The Board **NOTED** the future meeting dates.

15.4 Forward Agenda

The Board **NOTED** the forward agenda.

16. **Date of next meeting**

30/31 July 2019.

Post Office Limited Board Actions as at 24.07.2019

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
Board Meeting 24 May 2018					
2. Future of Banking Framework	It would be useful to have a refresher on ATMS and the history of POca before coming back to the Board on our developing strategy on these issues.	Debbie Smith/ Martin Kearsley	January 2019 July 2019 October 2019	Originally the ATM Strategy was going to form part of the paper on the Future of Cash at the July Strategy day. That is no longer the case but a paper will be brought to Board in October 2019.	Open
Board Strategy Sessions 26 & 27 June 2018					
1. Retail Strategy	The ATM Strategy should factor in our whole Cash Strategy. (We needed to analyse an investment in cash machines carefully looking at how far we would move to being a cashless society in the next 3-4 years).	Debbie Smith	July 2019 October 2019	Originally the ATM Strategy was going to form part of the paper on the Future of Cash at the July Strategy day. That is no longer the case but a paper will be brought to Board in October 2019.	Open
Board Meeting 29 January 2019					
6.1 Retail Report	Report back on Payzone BP branch performance and how we were driving this after the first 6 months of trading.	Debbie Smith	May 2019 July 2019 October 2019	Update on British Gas contract included in CEO report and request made for a parent company guarantee in relation to this. There is a Payzone Board Strategy session in September and a Payzone paper will be provided for POL Board in October 2019.	Open
Board Meeting 25 March 2019					
3. Banking Framework 2	To include the impact of a drop in banking transactions in the next Banking Framework report to Board.	Martin Kearsley	For inclusion in next Banking Framework report to Board.	For inclusion in next Banking Framework report to Board.	Open
Board Meeting 30 April 2019					
4. Succession Planning	To provide a grid showing the key roles in the organisation (and which will link to the future organisation structure), the "top talent", "corporate pillars", who was ready for a bigger	Mo Kang	July 2019 September 2019	To be included on the Board and/ or NomCo agendas for September 2019.	Open

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Post Office Limited Board Actions as at 24.07.2019

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
	role now, who would be ready in 1-3 year time scale etc. once we had assessed the RAG status and decided what we needed to do to develop these individuals.				
Board Meeting 28 May 2019					
3. Minutes of Previous Board meetings including Status Report	Belfast Exit Plan Update paper: - Provide information on the costs associated with the work needed now and how much the data centre refresh work would cost.	Rob Houghton	July 2019 September 2019	The team is waiting to receive some information on a key part of the estate (our Oracle database) and will then be able to understand the options and associated costs and timelines for the data centre refresh work.	Open
8.1 Retail Performance Report	To include an update on the returns market in each Retail Performance Report.	Debbie Smith/ Cathy Mayor	September 2019	Update to be included in the September Retail Performance Report and subsequent reports.	Open

POST OFFICE LIMITED
THE BOARD OF DIRECTORSDISCUSSION PAPER
LEGALLY PRIVILEGED

Interim CEO Report

Author: Al Cameron

Meeting date: 30 July 2019

The wider political, legal and regulatory environment

We *appear* to be entering a brief period of relative calm with the Horizon verdict, the right to appeal the first trial and the Select Committee report expected in September. The case management conference this week has been helpful in making the third trial potentially less difficult.

A BEIS/Treasury sub-committee is being formed to support the GLO work. We will be submitting a proposal in August on how much delegated authority we should have for the Mediation and how any settlement might be paid for.

We did agree to give a public update on the Postmaster Pay review and we are debating a broader announcement on British Gas and the Banking Framework. We have started the promised review of the Franchise Consultation process.

Ministerial changes and further Brexit focus are expected, so conversations on POCA and Identity may stall.

The Board meeting includes sessions on GLO and the employment tribunal case.

Commercial Performance

2018-19

We are holding meetings of the ARC on 23rd and 29th July to clear the audit and the GLO disclosures respectively. Subject to any last minute changes, we made Trading Profit of £60.3m in 2018-19 compared to a budget of £50m.

Our position on litigation is that we should disclose details of both the GLO and the employment tribunal case without providing for any future outflows.

2019-20

We ended Q1 with trading profit of £13.9m, £0.4m ahead of plan. On an underlying basis, we were £0.5m adverse. We have been concerned by a poor travel season with Brexit and a weak pound undermining demand. This is a national trend.

We are therefore undertaking a formal 3+9 forecast. This is looking ugly, with the Bank of Ireland calling out further weakness. We may be able to moderate some downside but I am expecting an unmitigated gap of around £10m. We are accelerating in year cost reductions in FRES synergies, Insurance, spans and layers, functional costs and ceasing discretionary spend to bring us back to plan.

On change, the business initially sought additional change spend of £20m while we agree we are trying to do too much and in fact underspent in Q1 by £7m. While some of the additional requests are sensible – we need to deliver the British Gas win - it proves that the new change infrastructure that was built on the back of last year's

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reviews added process but not cut through. We have therefore recruited a more senior, tougher Transformation Director in Dan Zinner, reporting to the CEO with the remit to create a smaller team of stronger people, to challenge robustly at every level and to revert with a change plan proposal that is less than budget. He has already largely removed the overspend and we will keep pressing.

We will report to the Board on the outcomes in September. Redundancy processes will be started as soon as the plans in an area are complete without waiting for a broader programme. This work is and will remain tied into 3 year cost savings to ensure smooth delivery.

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Delivery

Network

Network numbers decreased by 17 in the month to 11,636. We have also been served notice that as part of a wider branch closure programme, McColls will shut 17 shops which have Post Offices. This follows their acquisition of 160 Coop branches last year. We are already in discussion with 47 potential replacements. Nonetheless, this will attract the usual criticism of franchising.

We remain on plan to exceed our year end target of 11,600 locations. 28 franchises have been completed out of 69 expected this year. This is a strong team effort given rising churn and the public noise about the litigation.

We have now successfully converted 3 small main branches to locals (1 Coop and 2 McColls) and received positive feedback with sales and customer satisfaction increasing. Both partners have asked us to look at more locations. A further 3 conversions are scheduled during August in Blakemore branches.

Banking Framework 2

All of the banks have now formalised their response to the Banking Framework 2 rate card. Barclays has said it will exit for withdrawals, would prefer to communicate this in September and leave in October. We are confident that we will not be able to achieve the early exit. A January exit will reduce trading profit by £1m this year, £8m in 2020-21 and £15m in 2021-22 compared to our previous forecast. Overall income and profit will still grow by c. £80m on historical volumes.

Barclays explain this as a commercial decision because they have the largest branch framework (at least under one brand) and because withdrawal volumes drive both direct charges and a higher framework fee. They have signalled that they would like to maintain withdrawals in parts of the country where there is no Barclays branch. We have said no: it is too complicated for customers, Postmasters and us and it will encourage others to follow suit.

The Minister has expressed her disappointment personally and, we believe, in writing and we are hoping that John Glen, as City Minister, will do the same. We have warned Barclays that the coalition of people who care about Post Offices and feel free to criticise us – the Daily Mail, MPs, the CWU, the NFSP, individual Postmasters – will attack this decision loudly and for some time. It is commercially important that this route does not look attractive to others. This is likely to be the focus from September.

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RM Negotiations

Both parties have now completed the opening phase of negotiations. As expected there is a significant gap on the overall numbers and the use of fixed fees. Negotiations re-start on 1st August, working on potential solutions and red lines. We are optimistic about being able to discuss the shape of a deal in September.

Bank of Ireland

The new credit card deal with CapOne has been announced and is now in execution. Customer criticism of the change has been small so far.

The new BoI deal is very close to signature with no material differences remaining. The financial news, above, reinforces our view that what we have negotiated is a smaller, exclusive arrangement, more money on FRES and swapping a bad exit in 2024 for a good exit in 2026.

Moneygram and Western Union

We have announced the digital relationship with Western Union, which as well as being profitable, should encourage competition between the two providers.

Verify

As the Board is aware, the Government reduced Verify fees close to cost through to March 2020. It is asking the 5 remaining members to extend for a further 6 or 18 months on the current arrangements. Our understanding is that no one is expressing great enthusiasm and Experian has stated it will leave. Digidentity has agreed.

We have indicated to the Government Digital Service that we will not extend without either a price increase or much greater support to enable us to commercialise the opportunity. This has triggered a meeting with John Manzoni.

It may be that we wish to stay in and form a commercial partnership with both Experian and Digidentity. There is a separate Identity session in the strategy section.

Bill Payments

Following the exclusive win of Scottish Power we are close to announcing that we have won a 5 year exclusive contract with British Gas. Paypoint has already announced their loss, triggering a share price decline of 12%, significant but within its volatility range of the last year. We expect the contract to add an incremental 70m transactions into both networks, creating direct, additional agents pay across both networks of £4.8m per annum and increasing our Net Revenue by £2.7m a year.

This also creates opportunities to win other utility business and get major retail groups from Paypoint. We have already been in detailed conversations with Coop and SPAR to replace PayPoint across their respective estates.

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Pensions

We have agreed to pursue the buy-out of the defined benefit pension scheme, removing ourselves from the member-insurer relationship. This should be straightforward for the bulk of the scheme and the sooner we execute, the more surplus is returned to members. It is more complex and potentially more controversial for pre 2012 members whose earnings have risen more than inflation.

Fujitsu

We are concerned about the always tricky Fujitsu relationship. We have not yet seen best and final offers but to date Fujitsu are being outbid on the Telco RFP. We may therefore have to face a situation where Fujitsu is asked to exit Telco. They are raising both process concerns and the threat of high exit costs.

In addition, in spite of warnings, their witnesses in the Horizon trial were very poor. If the Judge sticks true to form, they may be criticised heavily. They are already worried and will be made more anxious that we will seek to recover losses on the GLO from them. Both are weighing on their minds regardless of the likelihood or speed of the outcomes and this may well play into behaviours around Horizon.

Security and Resilience.

The recent security fines for BA and Marriott have shone a further light on security controls within organisations. We don't believe we are vulnerable to the same threats but have taken defensive actions which are part of an update to the ARC. We have started the campaign on Information Security controls called "Careless Clicks". This is well received with over 500 views of the video and high demand for the camera covers. We have had no known recent, security incidents and our new CISO, Tony Jowett has established a working relationship with the NCSC.

We have seen more Priority 1 and 2 IT performance incidents, returning us to the levels of 2018 after a few months of better performance. The initial view of the IT team is that there is some impact of the Back Office transformation activities but no real correlation between failures. However, we have asked them to test this more thoroughly, particularly focusing on change within third party systems and the thoroughness of controls.

Operationally, we have not seen any major trends emerging. However, following the decision to pay Postmasters within new periods of suspension, we are starting to receive historical claims. There is a human logic to pay them but a legal logic not to do so while we are appealing the decision. This needs to be brought to a conclusion.

The cash REMs issue has, however, been a major learning point for us. The issue was brought about (as forecast by Ken) by Back Office Transformation at the end of January. The issue was recognised as a priority 3 issue and the 4-5 daily instances resolved without it ever being escalated as a systemic issue, recognised as such from our analysis or resolved.

It was identified as a systemic issue by one of the GLO bloggers, Tim McCormack, who I agreed to talk to (he has only been allowed to talk to lawyers for the last three years). The issue was then resolved quickly.

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The learnings are:

- Our processes for identifying systemic issues are inadequate and our people do not escalate.
- Postmasters do not trust us enough to raise issues with us as they fear that they may get into trouble. This issue was widely discussed in a blog of 2k Postmasters to which we have no access.
- Tackling these things openly – we published the issue and asked for people to come forward – is absolutely necessary. When we didn't, it was assumed to be a conspiracy.
- Our critics criticise because they care about Post Offices. When we engage openly with them, they are delighted. Tim's last blog "There is more to be done but the initial changes I see are promising" is a step on from "POL are completely out of control and led by idiots." We are engaging more and are looking to hire one of the former Sub-Postmasters. There is a great deal to do and we share an agenda.

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The other "lights on" moment is that while reducing the number of transaction corrections is a good thing to do, it will not materially change the clarity and transparency of branch accounting. The data shows that on a typical day some 4k branches are reported as being out of balance. The amounts are not huge (average balance of +/-£50), they encompass both debits and credits and they typically do not escalate into a bigger problem.

However, they create uncertainty, make it harder for our people to work out what is going on and reduce Postmasters' trust. Within our programme to transform the relationship with Postmasters, removing balance differences as a result of back office reconciliation processes must be paramount. One major known issue is managing stamp values between the stock centre and branches.

Team

There is clearly significant uncertainty and change. The external CEO appointment was forecast and prepared for. The speed of Nick's arrival – a very good thing to reduce uncertainty – was not and this is requiring flexibility.

We hired Kathryn Sherratt to be a replacement FD for FS&T and she started on 15 July. By that time, we had agreed, subject to Tim and Tom's approval, that she would stand in as Interim CFO. By the time she met Tim and Tom we no longer needed an interim CFO. She will help oversee the Group Finance agenda over the next few weeks (costs now, costs later, lower change plan) and then revert to the FD role. This is not easy for her or colleagues.

We have hired Dan Zinner as Transformation Director, reporting to the CFO and the early signs are encouraging.

We have found it hard to hire a Strategy and Corporate Development Director, with candidates wanting to join but just being offered better roles for more money elsewhere – Jonathan Lewis was appointed CFO of a £2b turnover business, for example. We believe we have secured an effective candidate for the Autumn but offered as a reporting line to the CFO. Adeola is taking the role for now on secondment from KPMG and will attend the strategy awayday.

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We are in the process of appointing Shikra Hornsey as CDIO, encompassing IT, data and digital build. Our belief is that while she has many strengths, she would also benefit from a strong, technical CIO and are trying to retain Mark Fabes, the interim No 2 to Rob.

We were working on a changed organisation structure following the earlier Board conversations. The main purpose was to reduce bureaucracy, unclear accountability and cost by creating a single structure for a smaller employed business, where each activity is done in one place. In addition, we believe we must move away from strong product silos which undermine customer focus, cross-team working and technology development.

Aligned with that we were developing a major cultural programme to start tackling:

- The lack of focus on customers
- The persistent failure to understand Postmasters and work with them as partners
- The persistent desire to defend against challenge and questioning
- The focus on process and how-we-have-always-done-it versus a focus on outcomes and continuous improvement.

Within culture, we were also working out how we seize the opportunity through being more inclusive to win the war for talent and communicate better with customers and Postmasters.

We will continue working over the summer on Postmaster issues and on taking cost out. We will not do any more work on organisation design or culture until Nick is able to make his own choices.

Decisions for today

The main Board decisions are:

- approve the ARA subject to final wording changes
- approve the BoI contract
- approve the framework agreement with BEIS
- approve delegated authority for the parent company guarantee for British Gas.

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June 2019 (P3) – Financial Performance

Author: Micheal Passmore

Sponsor: Alisdair Cameron

Meeting date: 30 July 2019

Executive Summary

Context

The purpose of this paper is to outline our financial performance in P3. A detailed slide-deck is attached for further detail.

How did we do in P3?

£m	Period 3				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Retail (incl. Payzone)	43.8	43.5	0.3	3%	140.5	139.9	0.6	2%
FS&T (incl. Insurance)	29.1	29.7	(0.6)	18%	82.2	84.7	(2.5)	4%
Identity	3.3	3.2	0.0	-31%	11.5	11.4	0.1	-23%
Supply Chain/Other	1.3	1.1	0.2	29%	3.4	3.4	0.1	8%
Total Revenue	77.5	77.6	(0.2)	6%	237.7	239.3	(1.7)	1%
Cost Of Sales	(10.1)	(10.5)	0.4	-3%	(32.0)	(33.5)	1.5	2%
Net Income	67.3	67.1	0.2	8%	205.7	205.9	(0.2)	1%
Agents Pay	(28.9)	(29.8)	0.9	4%	(89.9)	(92.6)	2.7	2%
Staff Cost	(14.9)	(14.1)	(0.7)	0%	(45.7)	(43.8)	(1.9)	-1%
Non staff Cost	(22.9)	(24.0)	1.1	-8%	(68.3)	(69.2)	1.0	-8%
FRES	3.3	3.7	(0.4)	15%	8.5	9.8	(1.3)	2%
Other Income	1.1	1.1	0.0	9%	3.6	3.5	0.1	10%
Trading Profit	5.1	4.0	1.1	610%	13.9	13.5	0.4	109%
Network Subsidy Payment	3.8	3.8	0.0	-17%	12.5	12.5	0.0	-17%
EBITDA	8.9	7.8	1.1	148%	26.4	26.0	0.4	22%
Depreciation	(11.1)	(10.7)	(0.5)	130%	(32.2)	(31.4)	(0.8)	88%
Interest	(0.8)	(0.7)	(0.1)	51%	(2.7)	(2.1)	(0.5)	41%
Change Spend	(6.1)	(5.8)	(0.3)	-4%	(14.3)	(13.8)	(0.5)	-16%
Investment Funding	3.2	3.2	(0.0)	-72%	10.5	10.5	0.0	-70%
Profit On Asset Sales	1.1	0.0	1.1	165%	1.4	0.0	1.4	74%
Profit Before Tax	(4.8)	(6.1)	1.4	417%	(10.9)	(10.8)	(0.1)	-151%

Summary

Strong trading in mails and mortgage products have been offset by underperformance in travel related products, which are experiencing continued poor market conditions. The net impact of this, along with cost timing benefits, has created a YTD trading profit of £0.4m. When removing these timing elements, the underlying YTD trading profit is (£0.5m) adverse.

POST OFFICE

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Detail

P3 trading resulted in a profit of £8.9m, £1.1m favourable to budget. P3 revenue is £77.5m, (£0.2m) adverse to budget in the month. Travel related products have continued to struggle with difficult market conditions. This has been partially offset by mails trading over performance, predominantly in 2nd class labels for small and medium parcels.

YTD trading profit stands £0.4m favourable to budget, but when taking into account the timing related items on agents pay and operating expenses, underlying trading profit is (£0.5m) adverse.

Telephony revenues are down on budget due to fewer customer numbers and lower uptake of call plans than expected. This has partially flowed through to cost of sales, making Telephony broadly in line at a net income level.

Agents pay is favourable to budget in period and YTD, but it is expected that around £1.0m of the YTD variance will reverse during the year.

Staff costs have been impacted by a one-off severance provision in the period. YTD overspend is predominantly caused by increased contractor spend in prior periods which have levelled out from period 3. Contractor costs relating to CIO data excellence team are to be monitored over the next quarter.

Non-staff costs were underspent in period, predominantly from Telephony regulatory spend not yet required and network equipment costs purchased in previous period.

FRES profit share continues to be impacted by poor overall market conditions, with FRES tasked to reduce costs in order to mitigate the profit shortfall.

Profit on asset sales relates to disposal of two properties, Stoke Newington and Basildon, for proceeds of £1.1m.

Network numbers decreased by 17 in the month to 11,636 (P2: 11,653), but remain 136 above the minimum commitment and 36 above our target of 11,600. Looking forward, however, forecast numbers drop further and will be closely monitored in the coming months. Further detailed analysis has been included in the slide deck.

Q1 Change spend (Capex and Exceptional) was £34.8m, representing a £7.7m underspend to budget, with ongoing scope and delivery reviews causing delays on Blueprint, PCI and HIH works. The 3+9 change spend forecast will outline our plan for the remainder of the 19-20 change portfolio.

Cash levels broadly remained flat across the business, with a slight drop in Network Cash levels, but remaining within tolerances. Increased Inward Rems from prior year is not an indication of work building up, but represents work being readied for despatch and items in transit. We need to ensure that the Inward Rems awaiting processing are low as these are under our direct control, whereas in transit are on their way to sites. YTD Inward Rems awaiting processing are currently £32.9M, against a target of £38.0M.

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Period 3 FY19/20 Financial Performance

30th July 2019



P3 Trading Profit YTD £0.4m vs budget of which (£0.5m) is underlying

£m	Period 3				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Retail (incl. Payzone)	43.8	43.5	0.3	3%	140.5	139.9	0.6	2%
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Other Income	1.1	1.1	0.0	9%	3.6	3.5	0.1	10%
Trading Profit	5.1	4.0	1.1	610%	13.9	13.5	0.4	109%

Highlights:

- In period trading impacted by difficult travel market conditions, partially offset by over performance in mails.
- Staff cost contains one-off severance provision posted in period. YTD overrun resulting predominantly from increased contractor costs, which have largely levelled out from period 3.
- Adjusting for the timing items, the YTD underlying trading profit is (£0.5m) adverse.



P3 Scorecard

Post Office Balanced Scorecard - 19/20

	Area	Unit	Period 3		YTD		3-month	12-month	Trend Line	RAG Status	Commentary / Actions
			Actual	Target	Actual	Target	Rolling Average	Rolling Average			
Commercial											
Trading Profit	All	£m	5.1	3.9	13.9	13.5	4.6	5.7		●	
Customer Sessions per week	Retail	#	10.4	10.0	10.2	10.0	10.2	10.4		●	
YoY Volume Growth in Labels	Retail	%	2.3%	0.1%	0.7%	0.1%	0.7%	3.4%		●	
YoY Volume Growth in Withdrawals	Retail	%	2%	-2%	5.3%	4.0%	5.3%	8.9%		●	
YoY Volume Growth in Deposits	Retail	%	33.0%	23.6%	32.2%	23.6%	32.2%	27.5%		●	
Travel Money Market Share - Branch	FS&T	%	25.0%		25.0%		25.0%	25.6%		●	
Travel Money Market Share - Online	FS&T	%	15.0%		15.0%		14.0%	14.0%		●	
Average Number of FS&T and POI Products per Customer	FS&T	#	1.37	1.40	1.37	1.40	1.37	1.37		●	
Fibre Customer Net Adds	FS&T	#	1342	1625	1342	1625	1085	732		●	Through a combination of outages and key initiatives not going live as planned, we have fallen slightly below budget. Initiatives to drive upgrades will be bedded in during Q2 to maximise volumes, together with enhanced accelerator position set to
Passport Market Share	Identity	%	23.5%	24.0%	23.5%	24.0%	24.7%	27.8%		●	
# of Digital Identity Accounts	Identity	#	102,599	93,667	312,998	302,841	103,587	76,449		●	
Total Sales & Renewals Policy Volumes	POI	#k	145	155	385	410	128	108		●	
Net Promoter Score	POI	#	49	36	46	36	45	39		●	
Cash Headroom	All	£m	325	200	325	200	315	336		●	
Net Funding Position	All	£m	(882.5)	(799.2)	(882.5)	(799.2)	(868.3)	(817.3)		●	
Net Borrowing	All	£m	(625.0)	(950.0)	(625.0)	(950.0)	(634.7)	(614.3)		●	

POL Board Meeting-30/07/19





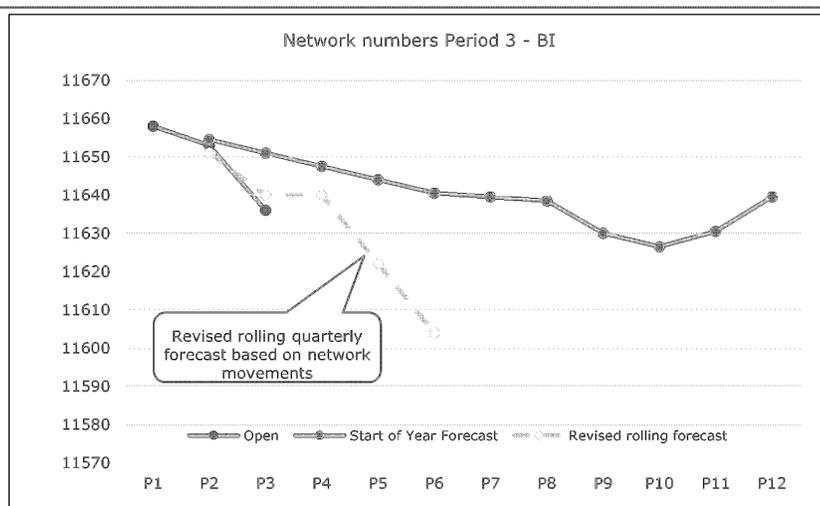
P3 Scorecard

Post Office Balanced Scorecard - 19/20

	Area	Unit	Period 3		YTD		3 month Rolling Average	12 month Rolling Average	Trend Line	RAG Status	Commentary/ Actions
			Actual	Target	Actual	Target	Actual	Actual			
Network and Customer											
Number of Branches	COO	#	11,636	11,651	11,636	11,651	11,649	11,604		⊕	
*Cost of Loss Making Branches	All	£m	6.1	4.2	18.4	12.5	6	6		⊕	
Qualtrics Customer Feedback: Ease	Retail	%	81%	82%	81%	82%	81%	84%		⊕	
Network Branch Churn	COO	#	46	58	125	174	44	37		⊕	
Operational											
# of Sev1 & Sev2 Incidents	COO	#	12	8	29	24	8	10		⊕	P1 and P2 incidents over the past few months. We are working with our suppliers to understand root cause for all of these incidents and also checking to see if there are any determining factors as to why these have increased. The high severity incidents are spread across a number of suppliers and initial analysis found no link. However, we will continue to
No. of Security Alerts from ASOC	COO	#	16	25	49	75	14	15		⊕	
# of High Impact Traction Control Gaps	LRG	#	2	0	2	0	2	2		⊕	The high risk gaps relate to the newly implemented CWC system for cash management in the cash centres. It is currently not possible to download a report of user access (current or historical) from the CWC system, hence unable to perform the review in the same manner as the other checks and also unable to perform reconciliation of CWC cash balance to CFS GL balance due to system interface issues
Female Representation in Senior Roles (%)	HR	%	42.8%	43.9%	42.8%	43.9%	43.5%	42.3%		⊕	
BAME Representation in Senior Roles (%)	HR	%	10.3%	11.8%	10.3%	11.8%	10.2%	9.7%		⊕	
Lost Time injury Frequency Rate	HR	#	0.000	0.200	0.176	0.200	0.227	0.180		⊕	



Branch Numbers P3



Month	Actual	Start of year Fcast	Rolling Fcast	Var to rolling fcast	MoM var
		18/19 outturn	11660		
P1	11658				-2
P2	11653	11655	11651	-2	-5
P3	11636	11651	11640	-4	-17
P4		11648	11636		
P5		11644	11622		
P6		11641	11604		
P7		11640			
P8		11639			
P9		11630			
P10		11627			
P11		11631			
P12		11640			

In the period there have been 42 branches trading which did not in P2 (e.g. NNL and reopening branches), offset by 59 branches which did not report a customer session in P3. Activity during the month also had 13 suspensions, of which 2 were replaced with a temporary operator and 19 resignations were received.

8 NNLs have opened within the period; meaning 42 have opened with Q1, 3 short of target. Other openings in the period included 2 BAU reopenings and 6 NT branches.

Network numbers forecast showing marginal decline based on planned openings (NNLs planned openings down >100 YoY) and current closure rates. New processes are now being implemented with agent application interview process relocated to the Agent Onboarding team and stand alone agent classroom courses planned for go live in P4.

Retail Scorecard



Post Office Balanced Scorecard - FY19/20

Area	Unit	Period 3		YTD		3-month Rolling Average	12-month Rolling Average	Trend Line	RAG Status	Commentary / Actions
		Actual	Target	Actual	Target	Actual	Actual			
Financial										
Retail Gross Income	Retail	£m	43.8	43.5	140.6	139.9	46.9	48.4	🟢	
Retail Trading Profit	Retail	£m	10.2	9.1	35.8	32.5	11.9	11.9	🟢	
Customer Sessions per week	Network	#	10.4	10.0	10.2	10.0	10.2	10.4	🟢	
Mails/Retail/Lottery Gross Income	MIRL	£m	28.9	28.7	91.8	91.1	30.6	32.7	🟢	
YoY Volume Growth in Labels	MIRL	%	2.3%	0.1%	0.7%	0.1%	0.7%	3.4%	🟢	
Banking Gross Income	C&B	£m	8.5	8.3	27.87	27.54	9.29	8.77	🟢	
YoY Volume Growth in Withdrawals	C&B	%	2%	-2%	5%	4%	5%	9%	🟢	
YoY Volume Growth in Deposits	C&B	%	33%	24%	32%	24%	32%	28%	🟢	
Payments Gross Income	PS	£m	2.4	2.5	8.0	8.5	2.7	2.4	🟡	Santander is the main driver. Budget phasing was heavily weighted in P1 & P2 based on prior year phasing which included accounting adjustments. Variance excluding this is (£0.2m) adverse to budget. We expect to see the variance partially offset in the Q2, a review is underway to assess the full year risk.
DMB Programme Benefits	Prog	£k	374	394	1072	1085	357	473	🟢	
DMB Programme Costs	Prog	£k	2242	2261	7088	6980	2363	2363	🟢	
Network and Customer										
New Network Localities (N)	Prog	#	8	15	42	45	14	24	🟢	
Customer Responses	RD	#	9301	N/A	25302	N/A	8767	9825	🟢	
Qualtrics Customer Feedback: Clean and tidy (score)	RD	%	79%	N/A	79%	N/A	79%	82%	🟢	
Qualtrics Customer Feedback: Clear Directions (Find your way) (score)	RD	%	84%	N/A	84%	N/A	84%	86%	🟢	
Qualtrics Customer Feedback: Ease	RD	%	81%	82%	81%	82%	81%	84%	🟢	
Mystery Shopper - Dangerous Goods	Mails	%	61%	100%	61%	100%	61%	61%	🟡	Branches not following the correct process and asking the right questions at the counter. The mandatory compliance test for all staff goes live on 28th July and some changes to the wording of prompts in the transaction have been submitted to Alos.
Mystery Shopper - Customer	Mails	%	55%	N/A	53%	N/A	53%	53%	🟡	
Operational										
Mails Segregation	MIRL	%	93%	95%	92%	95%	92%	90%	🟢	
BF SLA	C&B	%	Red	Green	TBC	TBC			🟢	
POCA Monthly Account Closures	C&B	#k	17	26	51	75	17	19	🟢	
ATM Availability	C&B	%	94.2%	96.0%	94.2%	96.0%	94.3%	94.6%	🟢	
Payments Transaction Growth	PS	%	0%	0%					🟢	
Mails/Retail/Lottery Project Progress	MIRL	RAG	G	G	G				🟢	
Cash & Banking Project Progress	C&B	RAG	G	G	G				🟢	
Payment Services Project Progress	PS	RAG	A	A	A				🟢	
Parcel Shops & New Local Openings	Prog	#	0	0					🟢	
DMB Exits	Prog	#	12	16	27	32	9	7	🟡	DMB - Branch exits delayed, mainly due to lease issues, all exits now planned to take place in Q2 (2 in P4, 2 in P5 and 1 in P6).

Retail (inc. Payzone) : YTD £3.3m vs budget of which £1.7m is underlying 

£m	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Mails Trading	21.8	21.5	0.4 ¹	5%	68.9	67.9	1.0	3%
Mailwork	0.8	0.9	(0.2)	-10%	2.4	2.7	(0.3)	-2%
Mails Other	0.0	0.0	0.0	-370%	0.0	0.0	(0.0)	-68%
RM Annual Fee	3.5	3.5	(0.0)	-2%	11.4	11.5	(0.1)	-2%
Gift Cards	0.3	0.3	(0.0)	8%	1.0	1.0	(0.1)	8%
Lottery	2.4	2.2	0.2	7%	7.7	7.3	0.4	2%
POCa	2.0	1.9	0.1	-13%	6.2	6.0	0.2	-13%
Payment Services	1.6	1.6	(0.0)	-3%	5.4	5.7	(0.3)	-12%
Payzone	0.8	0.9	(0.2)	-14%	2.5	2.8	(0.3) ²	-6%
ATMs	2.0	2.1	(0.1)	-11%	6.7	6.7	0.1	-8%
Banking Services	8.5	8.3	0.1	15%	27.8	27.5	0.3	15%
Other Retail	0.1	0.2	(0.1)	-38%	0.4	0.6	(0.2)	-54%
Total Revenue	43.8	43.5	0.3	3%	140.5	139.9	0.6	2%
Cost Of Sales	(1.9)	(1.7)	(0.1)	-5%	(4.9)	(5.1)	0.2	-12%
Net Income	41.9	41.8	0.1	4%	135.6	134.8	0.9	6%
Agents Pay	(24.6)	(25.2)	0.6	5%	(76.9)	(78.7)	1.8 ³	3%
Staff Costs	(5.4)	(5.4)	0.0	-17%	(17.6)	(17.7)	0.1	-14%
Staff & Agent Related Costs	(0.3)	(0.3)	(0.1)	0%	(0.7)	(0.8)	0.1	10%
Consultancy & Advisory Services	(0.0)	(0.0)	0.0	-4%	(0.2)	(0.2)	(0.0)	-19%
IT Infrastructure & IT Services	(0.1)	(0.2)	0.1	-31%	(0.2)	(0.4)	0.2	-73%
Managed Services - Penalties	(0.1)	(0.1)	(0.0)	-72%	(0.3)	(0.3)	(0.0)	-73%
Finance & Losses	(1.2)	(1.1)	(0.1)	3%	(3.5)	(3.4)	(0.2)	1%
Change Opex	0.0	(0.3)	0.3	n/a	0.0	(0.3)	0.3	n/a
Postage & Other Opex	(1.2)	(1.2)	0.1	131%	(3.9)	(3.9)	0.0	49%
Other Income	1.1	1.1	0.0	9%	3.6	3.5	0.1	10%
Trading Profit	10.2	9.1	1.1	19%	35.9	32.6	3.3	18%

¹ **Mails trading** - Increased 2nd class labels volumes from small and medium parcels, predominantly relating to e-retailers (e.g. Ebay). Volumes have increased 250k YTD YoY, c. 2%.

² **Payzone** - Income lower than business case YTD, with potential contract opportunities emerging later in the year to recover the position.

³ **Agents Pay** – expectation that £1m of YTD variance will reverse.

FS&T, POI & Identity Scorecard



FS&T, POI & Identity Scorecard - 19/20

Area	Unit	Period 3		YTD		3-month Rolling Average	12-month Rolling Average	Trend Line	RAG Status	Commentary
		Actual	Target	Actual	Target	Actual	Actual			
FS&T and Identity and POI Insurance										
Travel Money Market Position	PO Money	#	1	1	1	1	1		⊙	
Travel Money Market Share - Branch	PO Money	%	25%		25%		25%		⊙	
Travel Money Market Share - Online	PO Money	%	15%		15%		14%		⊙	
Net Movement of Savings Balances	PO Money	%	0.94%	0.16%	0.94%	0.16%	-1.3%		⊙	
Fibre Customer Net Adds	Telco	#	1342	1625	1342	1625	1085		⊙	Through a combination of outages and key initiatives not going live as planned we have fallen slightly below budget. Initiatives to drive upgrades will be bedded in during Q2 to maximise volumes, together with enhanced approicator position set to drive.
Agent Customer Satisfaction Score	Telco	%	83.0%	75.0%	83.0%	75.0%	80.0%		⊙	
Ofcom Complaints	Telco	#	8	11	8	11	9		⊙	
Passport Market Share	Identity	%	23.5%	24.0%	23.5%	24.0%	25%		⊙	
# of International Driver Permits	Identity	#	27,313	16,000	235,399	200,000	167,909		⊙	
# of Digital Identity Accounts	Identity	#	102,859	93,867	312,998	302,841	103,587		⊙	
Verify Market Share	Identity	%	56.3%	50.0%	56.3%	50.0%	52.3%		⊙	
# of live Verify Services	Identity	#	20	20	20	20	19		⊙	
POI Insurance Group EBITDA	POI	£m	1.7	1.9	4.4	4.6	1.5		⊙	
Total Sales & Renewals Policy Volumes	POI	#K	145	155	385	410	128		⊙	
Net Promoter Score	POI	#	49	36	46	36	45		⊙	
Group Marketing & Digital										
* Marketing Cost per Sale (Media, Print & Creative) Digital & Contact centre	Marketing	£	4.7	5.3	4.7	5.3	3.8		⊙	
Average Number of FS&T and POI Products per Customer	Marketing	#	1.37	1.40	1.37	1.40	1.37		⊙	
Number of Digital Sales	Digital	#	369,724	335,643	1,011,440	974,907	337,147		⊙	

* Reported one month in arrears





FS&T: YTD (£0.4m) vs budget of which (£0.6m) is underlying

£m	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
PO Money (Savings, Loans, Mortgages, Credit Cards)	7.4	6.8	0.6 ¹	122%	14.7	14.2	0.5	39%
Travel Money	2.5	2.6	(0.1)	-2%	7.2	7.5	(0.3)	0%
MoneyGram	2.0	2.1	(0.1)	9%	6.1	6.7	(0.6)	2%
Telephony	11.1	11.6	(0.5) ²	-4%	36.2	37.1	(0.9)	-4%
Postal Orders	1.0	0.9	0.1	4%	3.3	3.1	0.2	1%
Total Revenue	24.0	24.1	(0.1)	18%	67.5	68.7	(1.1)	4%
Cost Of Sales	(6.8)	(7.2)	0.4 ²	-1%	(22.3)	(23.1)	0.8	4%
Net Income	17.2	16.9	0.3	28%	45.2	45.5	(0.3)	5%
Agents Pay	(3.5)	(3.7)	0.3	1%	(9.9)	(10.9)	1.0	0%
Staff Costs	(0.7)	(0.5)	(0.1)	39%	(1.8)	(1.6)	(0.2)	22%
Staff & Agent Related Costs	0.1	(0.1)	0.1	-259%	(0.1)	(0.2)	0.0	-11%
Brand & Marketing	(0.0)	0.0	(0.0)	109%	(0.0)	0.0	(0.0)	-74%
Consultancy & Advisory Services	(0.7)	(0.3)	(0.4) ³	363%	(1.1)	(0.8)	(0.3)	185%
IT Infrastructure & IT Services	0.0	(0.0)	0.0	-104%	(0.0)	(0.0)	(0.0)	-474%
Managed Services	(2.2)	(2.7)	0.4 ⁴	3%	(7.5)	(7.7)	0.2	7%
Postage	(0.3)	(0.3)	(0.0)	6%	(0.9)	(0.8)	(0.0)	5%
Finance & Losses	(0.1)	(0.2)	0.1	-81%	(0.4)	(0.6)	0.2	-37%
Other Opex	0.1	(0.1)	0.2	-747%	0.0	(0.2)	0.3	-135%
FRES	3.3	3.7	(0.4) ⁵	15%	8.5	9.8	(1.3)	2%
Trading Profit	13.3	12.7	0.6	43%	31.9	32.3	(0.4)	3%

¹ **PO Money** – delay in new deal with BOI hence still accounting under old method, whereas budget has been prepared under new method. Also Mortgages experienced good month due to broker channel expansion, marketing campaign and good rates.

² **Telephony** – fewer customer numbers and lower uptake of call plans. Partially flowed through to cost of sales, which also include fibre rebates.

³ **Consultancy** – £0.2m relates to Telco strategy work, £0.1m relates to top up of Eagle provision, and £0.05m for additional HMRC fees.

⁴ **Managed Services** – timing of spend on regulatory changes which have been budgeted but are not yet required.

⁵ **FRES** – continued difficult market conditions causing underperformance. FRES have been challenged to reduce costs in order to mitigate this.





POI: YTD (£0.2m) vs budget of which (£0.2m) is underlying

£m	Period -03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Travel Insurance	2.3	2.5	(0.3)	15%	6.2	6.8	(0.5)	12%
Home Insurance	0.8	0.8	(0.1)	9%	2.3	2.5	(0.2)	4%
Car Insurance	0.8	0.8	(0.0)	-9%	2.5	2.6	(0.1)	-11%
Van Insurance	0.2	0.2	0.0	-8%	0.7	0.7	0.0	-4%
Life - Over 50s	0.9	0.9	(0.1)	53%	2.1	2.5	(0.4)	-9%
Life - SLI	0.2	0.3	(0.0)	30%	0.7	0.9	(0.1)	32%
Other Insurance	0.1	0.1	(0.0)	-2%	0.1	0.2	(0.0)	-19%
Total Revenue	5.2	5.7	(0.5)	88%	14.7	16.0	(1.3)	5%
Cost Of Sales	(1.2)	(1.2)	0.1	6%	(3.5)	(3.9)	0.4	30%
Net Income	4.0	4.4	(0.4)	16%	11.2	12.1	(0.9)	-4%
Staff Costs	(0.5)	(0.5)	0.0	-25%	(1.5)	(1.5)	0.0	-13%
Staff & Agent Related Costs	(0.0)	(0.0)	0.0	60%	(0.1)	(0.1)	0.1	42%
Brand & Marketing	(0.6)	(0.8)	0.2	-3%	(1.8)	(2.3)	0.6	7%
Consultancy & Advisory Services	(0.1)	(0.1)	(0.0)	-14%	(0.5)	(0.2)	(0.3)	128%
IT Infrastructure & IT Services	(0.2)	(0.2)	0.0	90%	(0.4)	(0.6)	0.2	16%
Managed Services	(0.8)	(0.9)	0.0	7%	(2.4)	(2.6)	0.2	0%
Finance & Losses	(0.1)	(0.1)	0.0	-3%	(0.2)	(0.2)	0.0	-13%
Other Opex	(0.0)	(0.0)	0.0	-41%	(0.1)	(0.1)	(0.0)	10%
Trading Profit	1.7	1.9	(0.1)	55%	4.4	4.6	(0.2)	-13%

- ① **Travel Insurance**– (£0.3m) adverse in P3; overall sales volumes were 4% down against plan, reflecting the continuing reduction in market demand for Travel Insurance, compounded by a switch channel mix towards lower margin aggregator sales, away from higher margin phone and web sales.
- ② **Marketing Costs** – £0.2m favourable, due to delayed timing of marketing activity, mostly impacting Travel.



Identity: YTD £0.1m vs budget of which £0.1m is underlying

£m	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Home Office	1.4	1.6	(0.1)	① -40%	5.0	5.3	(0.3)	-35%
DFT/DLA	0.7	0.6	0.1	② 25%	2.9	2.6	0.3	75%
Identity Services	0.6	0.5	0.0	22%	1.6	1.5	0.1	19%
Verify	0.6	0.5	0.1	-56%	1.8	1.7	0.1	-53%
Environment Agency	0.0	0.1	(0.1)	-68%	0.1	0.3	(0.1)	-61%
Total Revenue	3.3	3.2	0.0	-32%	11.4	11.4	0.1	-23%
Cost Of Sales	(0.3)	(0.3)	(0.0)	-31%	(1.3)	(1.2)	(0.0)	-17%
Net Income	2.9	2.9	0.0	-32%	10.2	10.1	0.1	-24%
Agents Pay	(0.9)	(0.9)	0.0	-7%	(3.0)	(2.9)	(0.0)	-7%
Staff Costs	(0.2)	(0.2)	0.0	15%	(0.6)	(0.6)	0.1	16%
Managed Services - Penalties	(0.1)	(0.0)	(0.0)	n/a	(0.2)	(0.1)	(0.0)	n/a
Postage	(0.2)	(0.2)	0.0	-23%	(0.8)	(0.7)	(0.0)	-10%
Other	(0.4)	(0.5)	0.0	181%	(1.2)	(1.3)	0.1	298%
Trading Profit	1.1	1.0	0.1	-60%	4.5	4.4	0.1	-47%

① **Home Office** adverse variance is driven by Passports. HMPO have advised they are seeing a 6% reduction in applications YoY. Post Office has maintained 24% market share in line with budget assumptions.

② **DVLA** strong performance is driven by International Driving Permits (IDP) and 10 Year Renewals. IDP weekly volumes continue to decline post the Brexit spike, reducing from an average of 9.3k transactions in P2 to 6.8k in P3.

COO Scorecard



COO Scorecard - 19/20

Area	Unit	Period 3		YTD		3-month Rolling Average	12-month Rolling Average	Trend Line	RAG Status	Commentary/ Actions
		Actual	Target	Actual	Target	Actual	Actual			
Operations										
Lost Time Injury Frequency Rate (LTFR)	Supply Chain	#	0.00	0.42	0.54	0.42	0.797	0.527	🟡	A total of 8 employee related injury accidents in Supply Chain. 3 lost time accidents of 21 days. Most of the accidents were due to a lack of attention, where appropriate the employees were reminded of correct
No of Attacks	Supply Chain	#	0	1.25	2.00	3.75	0.67	0.50	🟢	
Number of Audit failures	Supply Chain	#	0	0	0	0	0	0	🟢	
CVIT (CoS)	Supply Chain	%	99.2%	98.5%	98.9%	98.5%	98.9%	99.1%	🟢	
Cash Pro Backlog (€m)	Supply Chain	€m	25	38	27	38	24	34	🟡	
Stock - Lines Picked per Hour	Supply Chain	#	38	37	37	37	37	38	🟢	
Network Cash Holdings Variance	Supply Chain	€k	483	501	512	501	184	122	🟡	
ROI on Total Portfolio	Change	%	70.7%	86.3%	70.7%	86.3%	80.7%	80.7%	🟢	
Number of Branches	Operations	#	11,636	11,651	11,636	11,651	11,649	11,604	🟢	
Total Network Branch Churn	Operations	#	46	58	125	174	42	35	🟡	
Resignation	Operations	#	17	25	51	75	17	12	🟡	
Suspension	Operations	#	18	20	48	60	15	17	🟡	
Termination	Operations	#	10	8	25	24	8	4	🟡	
Other	Operations	#	3	5	3	15	3	4	🟡	
Total Losses	Operations	€k							🟡	
Robbery Losses	Operations	€k	(122)	(52)	(165)	(156)	(62)	(69)	🟡	One incident resulting in a loss of £120k. Enhanced physical security at branch. Deployment of Fogging kits and IP Cameras is 68% complete.
Burglary Losses	Operations	€k	(41)	(10)	(46)	(30)	(15)	(23)	🟡	An incident resulting in a loss of £35k. Programme for branch alarm upgrades is 55% complete.
ATM Losses	Operations	€k	(7)	(48)	(78)	(144)	(26)	(68)	🟡	
CVT Losses	Operations	€k	0	(15)	(42)	(45)	(14)	(7)	🟡	
Branch Losses identified at Audit (€m)	Operations	€k	(833.0)	(826.0)	(2,304.0)	(1,878.0)	(788.0)	(647.5)	🟡	Audit team is currently clearing a backlog of audits. Additional resource has been available in P3, leading to an increase in activity. Audits are also now increasingly risk-based, with a more targeted approach realising greater losses. Further increases expected whilst audit team is catching up.
Total number of losses at Audit	Operations	#	72	53	205	159	68	59	🟡	See 'Branch losses at audit'
Total Net loss	Operations	€k	(705.0)	(486.0)	(1,837.0)	(1,458.0)	(612.3)	(507.5)	🟡	See 'Branch losses at audit'
Average value of gross loss	Operations	€k	(12)	(11)	(12)	(11)	(11)	(12)	🟡	
Horizon Corrections vs Total Transactions	Operations	#	0.00017	0.00016	0.00042	0.00048	0.00014	0.000150	🟢	



COO Scorecard



COO Scorecard - 19/20

	Area	Unit	Period 3		YTD	3-month Rolling Average		12-month Rolling Average	Trend Line	RAG Status	Commentary/ Actions
			Actual	Target		Actual	Target				
IT											
Branch Availability	IT	#	8	15	18	45	4	7		⚠️	<p>There has been an increased number of high severity P1 and P2 incidents over the past few months. We are working with our suppliers to understand root cause for all of these incidents and also checking to see if there are any determining factors as to why these have increased. The high severity incidents are spread across a number of suppliers and initial analysis found no link. However, we will continue to work with our suppliers and look to drive these down, over the coming months.</p> <p>Post Office continue to work with Computacenter to close vulnerabilities within our SLA's. The outstanding ones are due to contractual discussions that are ongoing but have been risk assessed.</p>
# of Sev1 & Sev2 Incidents	IT	#	12	8	29	24	8	10		⚠️	
Number of failed SLA's	IT	#	1	3	5	9	2	2		⚠️	
Unique Closed Incident Volumes	IT	#	5,706	10,000	17,413	30,000	6,162	7,609		⚠️	
Vulnerabilities Not Remediated within SLA	IT	#	10	0	10	0	16	56		⚠️	
No. of Security Alerts from ASOC	IT	#	16	25	49	75	14	15		⚠️	
Number of successful change per month	IT	%	100.0%	97.8%	100.0%	97.5%	99.3%	99.3%		⚠️	
Number of urgent changes per month	IT	#	18	10	42	30	8	8		⚠️	

POL Board Meeting-30/07/19



Supply Chain: YTD (0.6m) vs budget of which (£0.3m) is underlying



Supply Chain	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Total Revenue	0.8	0.8	(0.0)	10%	2.3	2.5	(0.1)	-1%
Net Income	0.8	0.8	(0.0)	10%	2.3	2.5	(0.1)	-1%
Staff Costs	(2.5)	(2.5)	0.0	3%	(7.5)	(7.5)	0.0	4%
Staff & Agent Related Costs	(0.0)	(0.0)	0.0	-32%	(0.1)	(0.1)	(0.0)	-19%
Property & Facilities Management	(0.2)	(0.1)	(0.1)	83%	(0.5)	(0.2)	(0.3)	86%
Stationery	(0.6)	(0.4)	(0.2)	47%	(1.8)	(1.3)	(0.5) ^①	69%
Finance & Losses	0.0	(0.0)	0.0	-134%	(0.0)	(0.1)	0.1	-78%
Vehicles	(0.2)	(0.2)	(0.0)	37%	(0.7)	(0.7)	(0.1)	12%
Other	(0.3)	(0.4)	0.1 ^②	-30%	(0.8)	(1.2)	0.4	-31%
Trading Profit	(3.0)	(2.8)	(0.2)	5%	(9.3)	(8.7)	(0.6)	11%

① **Stationery** - Full £2m cost challenge flat phased, with recovery plans expected later in the year.

② **Other costs** – £0.2m legal costs recovered following unsuccessful claim against withdrawal from external market (IRIS), offset in the month against strategy work on the future of cash initiative.

Network Operations: YTD in line with budget of which all is underlying
Finance: YTD (£1.0m) vs budget of which (£0.3m) is underlying



Network Ops	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(1.0)	(1.0)	0.0	21%	(3.1)	(3.0)	(0.1)	22%
Staff & Agent Related Costs	(0.1)	(0.1)	0.0	331%	(0.3)	(0.4)	0.1	73%
Property & Facilities Management	(1.9)	(1.9)	(0.1)	-33%	(6.1)	(5.9)	(0.2)	-34%
Brand & Marketing	(0.0)	(0.0)	0.0	5%	(0.0)	(0.1)	0.0	-4%
Postage	(0.0)	(0.0)	(0.0)	-86%	(0.1)	(0.1)	(0.0)	-85%
Equipment Provn & Maintenance Services	0.0	0.0	0.0	n/a	0.0	0.0	0.0	n/a
Finance & Losses	(0.4)	(0.6)	0.3	-4%	(1.7)	(1.8)	0.1	-10%
Other	0.0	(0.6)	0.6 ¹	-113%	(0.8)	(0.9)	0.1	26%
Total Operating Expenses	(3.4)	(4.3)	0.9	-28%	(12.1)	(12.1)	0.0	-20%

¹ **Other operating costs** - £0.4m equipment costs purchased one month in advance of budget as noted in P2 (YTD nil impact); £0.2m release of dilapidations accrual.

Finance	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.7)	(0.6)	(0.1)	20%	(2.1)	(1.8)	(0.2)	42%
Consultancy & Advisory Services	(0.3)	(0.1)	(0.2)	344%	(0.6)	(0.4)	(0.2)	166%
Finance & Losses	(0.3)	(0.2)	(0.2) ²	-1%	(0.9)	(0.5)	(0.4)	50%
Staff & Agent Related Costs	0.0	(0.1)	0.1	-101%	(0.0)	(0.2)	0.1	-82%
Property & Facilities Management	0.0	0.0	0.0	-100%	(0.0)	(0.0)	0.0	-98%
Other	(0.0)	0.1	(0.1)	-80%	(0.0)	0.3	(0.3)	-98%
Total Operating Expenses	(1.4)	(0.8)	(0.5)	31%	(3.5)	(2.5)	(1.0)³	38%

² **Finance & losses** - Centrica invoices in dispute and have been provided for accordingly. This debt has since been paid.

³ **YTD** - Centrica debt provision and GT audit fees timing related.



CIO: YTD £0.1m vs budget of which £0.1m is underlying

CIO	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.8)	(0.7)	(0.1)	51%	(2.4)	(2.1)	(0.3) ①	50%
Staff & Agent Related Costs	0.0	(0.0)	0.1	-159%	(0.1)	(0.1)	0.1	-57%
IT Infrastructure & IT Services	(6.1)	(6.4)	0.4	-22%	(19.2)	(19.3)	0.1	-14%
Managed Services	(0.0)	(0.1)	0.1	-93%	(0.4)	(0.3)	(0.1)	-73%
Consultancy & Advisory Services	(0.1)	(0.1)	(0.0)	-16%	0.0	(0.2)	0.2	-107%
Other	(0.5)	(0.1)	(0.5)	-210%	(0.2)	(0.3)	0.1 ②	41%
Total Operating Expenses	(7.5)	(7.5)	(0.0)	-8%	(22.3)	(22.3)	0.1	-13%

- ① **Staff Cost YTD £0.3m adverse** – higher contractor costs from opex projects (particularly Arrow data excellence), which are being monitored and an action plan is being worked on to reduce future cost. This is offset by vacancies not filled across CIO.
- ② **Non staff YTD £0.4m favourable** - lower licences costs and upside from Fujitsu application support & maintenance credit recognised this year.



HR, LCG, Communications

HR	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.6)	(0.6)	0.0	5%	(1.8)	(1.9)	0.0	5%
Staff & Agent Related Costs	(0.2)	(0.2)	(0.0)	3%	(0.5)	(0.5)	(0.1)	-14%
Finance & Losses	(0.2)	(0.2)	(0.0)	-49%	(0.6)	(0.6)	(0.0)	-19%
Other	(0.1)	(0.1)	0.0	0%	(0.3)	(0.3)	0.0	-8%
Total Operating Expenses	(1.1)	(1.1)	0.0	-13%	(3.3)	(3.2)	(0.0)	-5%

LCG	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.8)	(0.3)	(0.4)	① 50%	(1.5)	(1.0)	(0.5)	7%
Staff & Agent Related Costs	(0.0)	(0.0)	0.0	100%	(0.1)	(0.1)	0.0	53%
Consultancy & Advisory Services	(0.0)	(0.0)	0.0	-58%	(0.1)	(0.1)	0.1	-19%
Legal Costs	(0.1)	(0.1)	0.1	6%	(0.4)	(0.3)	(0.1)	51%
Other	(0.0)	(0.1)	0.0	-112%	(0.2)	(0.2)	0.0	4%
Total Operating Expenses	(0.9)	(0.6)	(0.4)	210%	(2.2)	(1.8)	(0.5)	13%

① LCG Staff Costs – one-off severance provision posted in P3.

Comms	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.2)	(0.2)	(0.0)	173%	(0.6)	(0.6)	0.0	46%
Staff & Agent Related Costs	(0.0)	(0.0)	(0.0)	-44%	(0.0)	(0.0)	(0.0)	-51%
Brand & Marketing	(0.2)	(0.3)	0.0	-4%	(0.3)	(0.4)	0.1	-76%
Other	(0.0)	(0.0)	0.0	-40%	(0.0)	(0.0)	0.0	-76%
Total Operating Expenses	(0.5)	(0.5)	0.0	31%	(0.9)	(1.0)	0.1	-45%



Group Change, Group Digital, Group Marketing and Central

Group Change	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.0)	(0.0)	0.0	-18%	(0.2)	(0.1)	(0.1)	-25%
Staff & Agent Related Costs	(0.0)	(0.0)	(0.0)	95%	(0.1)	(0.0)	(0.0)	79%
Other	(0.0)	0.0	(0.0)	6%	(0.1)	0.0	(0.1)	22%
Total Operating Expenses	(0.1)	(0.0)	(0.0)	15%	(0.3)	(0.1)	(0.2)	-5%

Group Digital	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.2)	(0.2)	(0.0)	-2%	(0.6)	(0.5)	(0.2)	49%
Staff & Agent Related Costs	(0.0)	(0.1)	0.1	4146%	(0.0)	(0.1)	0.1	71038%
IT Infrastructure & IT Services	(0.6)	(0.3)	(0.3)	83%	(0.7)	(0.6)	(0.1)	26%
Other	(0.1)	(0.1)	(0.0)	3%	(0.2)	(0.2)	(0.0)	155%
Total Operating Expenses	(0.9)	(0.6)	(0.3)	45%	(1.6)	(1.4)	(0.2)	47%

Group Marketing	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(0.3)	(0.4)	0.0	216%	(0.9)	(1.1)	0.1	149%
Brand & Marketing	(1.3)	(1.1)	(0.2)	1%	(3.4)	(3.6)	0.2	42%
Staff & Agent Related Costs	(0.0)	(0.0)	0.0	-89%	(0.0)	(0.2)	0.2	-79%
Other	0.0	(0.0)	0.0	n/a	(0.1)	(0.0)	(0.1)	43380%
Total Operating Expenses	(1.6)	(1.5)	(0.1)	15%	(4.4)	(4.9)	0.4	58%

Central	Period 03				Year to date			
	Actual	Budget	Variance	YoY	Actual	Budget	Variance	YoY
Staff Costs	(1.0)	(1.1)	0.1	-18%	(3.4)	(3.4)	(0.0)	-23%
Finance & Losses	(0.6)	(0.1)	(0.5)	444%	(0.4)	0.5	(1.0)	-144%
Growth Fund	0.0	0.0	0.0	-100%	0.0	0.0	0.0	-100%
Brand & Marketing	0.0	0.0	0.0	n/a	(0.3)	(0.3)	0.0	-7%
Other	(0.0)	0.0	(0.0)	-107%	(0.1)	(0.1)	(0.0)	900%
Total Operating Expenses	(1.6)	(1.2)	(0.4)	-24%	(4.2)	(3.2)	(1.0)	-33%

① Relates to additional contractor spend in P1 and P2 which has levelled out in P3.

② Timing related and expected to be spent in future periods.

③ Increase of stock provision in line with current methodology.



Change Spend



POL Board Meeting-30/07/19

	Periods			Q1			Q2 Benefits			Q3 Benefits			FY		
	Actual	Budget	Vs Budget	Actual	Budget	Vs Budget	Actual	Budget	Vs Budget	Actual	Budget	Vs Budget	Spend	Benefits	
Retail	5.1	5.8	(0.7)	14.9	16.1	(1.1)	1.7	2.0	(0.3)	5.3	5.9	(0.6)	69.3	28.5	
Mails Programmes	(0.0)	0.1	(0.1)	0.3	0.2	0.2	-	-	-	-	-	-	4.3	-	
Cash & Banking Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Bill Payments Projects	0.2	0.6	(0.4)	0.6	1.1	(0.5)	1	0.1	0.3	(0.3)	0.4	1.0	(0.5)	11.2	4.6
Automation	0.2	0.2	(0.0)	0.3	0.4	(0.1)	-	-	-	-	-	-	-	1.4	-
DMB	2.4	2.4	0.0	7.7	6.9	0.7	2	1.3	1.4	(0.0)	4.1	4.1	(0.0)	30.3	18.5
Network Development	0.4	0.6	(0.2)	1.8	1.7	0.1	0.3	0.3	(0.0)	0.8	0.9	(0.1)	8.4	4.2	
Network Transformation	0.2	0.1	0.1	0.3	0.3	0.1	-	-	-	-	-	-	0.8	-	
Solar	1.1	1.4	(0.2)	2.9	4.3	(1.4)	3	-	-	-	-	-	8.1	-	
Retail Strategy	0.5	0.5	(0.0)	0.9	1.2	(0.3)	-	-	-	-	-	-	4.9	-	
Other Retail	0.1	-	0.1	0.1	-	0.1	-	(0.0)	0.0	-	(0.0)	0.0	-	1.2	
Financial Services & Telecoms	1.3	2.2	(0.9)	3.5	6.5	(3.0)	1.3	1.9	(0.6)	4.0	4.8	(0.8)	18.4	20.6	
Eagle	0.0	0.1	(0.1)	0.0	0.5	(0.4)	4	-	-	-	-	-	1.8	0.2	
Telecoms	0.3	1.0	(0.7)	1.1	2.2	(1.1)	5	1.1	1.1	-	3.4	3.4	-	8.3	14.2
Other	0.9	1.1	(0.1)	2.4	3.8	(1.4)	6	0.2	0.8	(0.6)	0.6	1.5	(0.8)	16	6.2
Post Office Insurance	0.8	0.5	0.3	4.2	4.2	(0.0)	0.3	0.3	-	0.8	0.8	-	12.2	6.9	
Identity	0.1	0.2	(0.1)	0.3	0.6	(0.3)	0.2	0.2	0.0	0.6	0.6	0.0	3.4	3.4	
IT & Digital	0.5	2.1	(1.6)	5.0	9.0	(4.0)	0.7	0.9	(0.2)	2.1	2.5	(0.4)	29.0	11.2	
EUC Branch Deployment	0.1	-	0.1	0.1	0.2	(0.1)	0.1	0.1	-	0.2	0.2	-	0.2	1.7	
IT Back Office	0.3	0.5	(0.2)	1.9	2.4	(0.5)	7	0.1	0.3	(0.1)	0.4	0.8	(0.4)	17	3.0
IT Networks	(0.0)	-	(0.0)	(0.0)	-	(0.0)	-	-	-	-	-	-	-	-	
Other IT	0.2	0.8	(0.6)	1.2	3.9	(2.7)	8	0.2	0.2	(0.0)	0.5	0.5	(0.1)	15.5	2.8
Project Everest	(0.0)	0.5	(0.5)	1.3	1.5	(0.2)	0.2	0.2	(0.0)	0.7	0.7	0.1	5.6	2.5	
R&R	0.0	0.3	(0.3)	0.6	1.0	(0.3)	-	-	-	-	-	-	3.9	-	
Replacement of Counter Receipt Slip Printers	(0.1)	-	(0.1)	(0.1)	0.0	(0.1)	0.1	0.1	-	0.3	0.3	-	0.0	1.2	
Finance & Ops	1.5	1.6	(0.1)	4.0	4.7	(0.6)	0.0	(0.0)	0.0	0.0	(0.0)	0.1	27.4	1.1	
Finance	0.0	0.1	(0.1)	0.4	0.6	(0.2)	-	-	-	-	-	-	1.1	-	
Operations	1.3	0.6	0.7	2.6	1.9	0.7	9	0.0	(0.0)	0.0	0.0	(0.0)	16.5	1.1	
Property	0.2	0.6	(0.4)	0.9	1.5	(0.6)	10	-	-	-	-	-	4.7	-	
Supply Chain	0.0	0.3	(0.2)	0.2	0.7	(0.5)	11	-	-	-	-	-	5.2	-	
Human Resources	0.2	1.0	(0.8)	0.4	1.8	(1.4)	12	0.3	0.3	(0.0)	0.9	1.0	(0.1)	9.9	4.0
Legal Risk & Governance	2.1	1.3	0.8	4.0	3.3	0.7	13	-	-	-	-	-	14.0	(0.1)	
Central	0.2	0.1	0.1	0.6	0.4	0.2	-	-	-	-	-	-	1.0	-	
Grand Total FY 2019/20 Before Sale Of Assets	11.8	14.8	(3.0)	36.9	46.4	(9.6)	4.5	5.6	(1.1)	13.7	15.6	(1.8)	184.5	75.6	
Sale Of Assets	(1.8)	(1.3)	(0.5)	(2.1)	(4.0)	1.9	14	-	-	-	-	-	(10.3)	-	
Total Change FY 2019/20 o/w	10.0	13.5	(3.5)	34.8	42.5	(7.7)	4.5	5.6	(1.1)	13.7	15.6	(1.8)	174.2	75.6	
Capex	3.9	7.7	(3.8)	20.5	28.7	(8.2)	-	-	-	-	-	-	-	-	
Exceptional	6.1	5.8	0.3	14.3	13.8	0.5	-	-	-	-	-	-	-	-	

Key Variances

Spend	
1	Variance comes from projects: i) Panther due client integration costs expected to ramp up in Q2. Full year spend forecast to be on budget, ii) AMEX SSK Channel Extension where project plan is being rephased in 3+9 forecast submission and iii) Paystation Completion where the business case is being submitted in July. Costs expected from July/August.
2	Variance is driven from OCT vacant leaseholds & CT onerous property contracts that is currently being audited by PwC in light of the IFRS 16 implementation, an accurate forecast of utilisation for 19/20 will be made for the 3+9 submission.
3	Project being re-assessed to get projected cost base down, as a result, work on Payzone integration, retailer integration, legal advice and smart meters has been delayed into Q2 from Q1.
4	Variance due to phasing. Forecast was submitted as flat phasing to not impact balance sheet.
5	Variance is driven from projects i) Tech Refresh where there is an increment payment moved to Q2, ii) Strategy Business Model where part relates to Telephony routers, off setting minor overspend & the other element relates to fibre routers which is currently below run rate and iii) Project Nuance (Pending Commentary).
6	Main variances come from projects Severn & Branch discoverability where spend has been rescope with updated view to be reflected in 3+9 forecast.
7	Variance is phasing related due to delayed spend on resources.
8	Variance mainly driven from projects i) PCI/Payments Hub due to delays to project, Ingenico slow to begin the design phase and ii) IT Service Transformation Programme (Nelson) due to delays to project. Some decisions have now been made, therefore this project will soon be returning to PRB for further funding approval.
9	Main variances come from projects i) Process and Contact Centre Transformation due to residual spend on project, relating to Network Operations Transformation and ii) Agents / Postmasters Portal due to correction of YTD cross charges and ramp up of delivery to meet targeted Branches live.
10	Phasing difference. Project business case approval delayed.
11	Delays in contracting for new vehicles (timing).
12	Further scoping and strategy agreement has delayed ramp up of Blueprint spend
13	Increased levels of Litigation spend, slightly offset by ramp downs in LEO and Records Retention works.
14	Variance due to delays of sales completion. No impact in the full year forecast.
Benefits	
15	Differences in PO vs PZ VAT recoverability and other cost challenges vs acquisition modelling. Also beginning to invest in infrastructure required to support BG exclusivity ahead of revenue and create sustainable BAU team. Benefit gap in 19/20 will start reversing from Q4 when BG contract kicks in (70m incremental txns ps).
16	Delay in benefit delivery due to delay in Peregrine contact signing
17	Delay in some project benefits due to cost impact of embedding and optimising solution post go live.
Tangible ROI	
Budget Baseline	85.8%
P2	85.9%
P3	70.7%





Balance Sheet & Headroom

Balance Sheet

£m	Period 3	Period 2	v P2	P12 FY18	v P12	Budget	v Budget
Fixed Assets	579	581	(2)	535	44	530	48
Debtors	410	410	0	354	56	336	74
Cash	508	544	(37)	579	(71)	597	(89)
Creditors	(597)	(627)	30	(573)	(24)	(566)	(31)
Pension Surplus	1	1	0	1	0	1	(1)
Provisions	(46)	(49)	3	(85)	38	(74)	28
Other	7	8	(1)	2	5	10	(3)
Loan	(625)	(627)	2	(565)	(60)	(600)	(25)
Net Assets / (Liabilities)	236	241	(5)	249	(13)	234	2

Balance Sheet Headroom

£m	Period 3	Period 2	v P2	P12 FY18	v P12	Budget	v Budget
Government Loan - Available Amount	950	950	-	950	-	950	-
Government Loan - Drawn Amount	(625)	(627)	2	(565)	(60)	(600)	(25)
Headroom	325	323	2	385	(60)	350	(25)
Target Minimum Headroom	200	200	-	200	-	200	-
Headroom Above/(Below) Target	125	123	2	185	(60)	150	(25)

Security Headroom

£m	Period 3	Period 2	v P2	P12 FY18	v P12	Budget	v Budget
Network Cash	480	516	(36)	556	(76)	582	(101)
Cash at Bank - POL	2	2	(0)	4	(3)	1	1
Client Debtors	176	174	2	138	38	135	40
Trade & Other Debtors - Business Debtors	226	233	(7)	177	49	198	28
Total Security	883	925	(42)	875	8	916	(32)
Government Loan	(625)	(627)	2	(565)	(60)	(600)	(25)
Santander	(87)	(93)	5	(95)	7	(100)	13
Total Obligations	(712)	(720)	7	(660)	(53)	(700)	(12)
Headroom	171	205	(34)	215	(44)	216	(45)



Cash Holding Position

Em	Prior Year	Year End	Prior Period	Reporting Period	Variances		
	Period 3 FY-18/19	Period 12 FY-18/19	Period 2 FY-19/20	Period 3 FY-19/20	vs Prior Year	vs Year End	vs Prior Period
Network Cash Inventory (before Demonet.)							
Branch							
£ Cash Holdings	510.7	477.5	507.3	470.2	(40.5)	(7.3)	(37.1)
FX Cash Holdings	90.3	35.2	38.7	44.9	(45.4)	9.7	6.2
	601.0	512.7	546.0	515.1	(85.9)	2.4	(30.9)
Cash Centres							
Awaiting Processing							
Inward Rems - CVIT	24.6	50.7	13.2	110.3	85.7	59.6	97.1
Inward Rems - Awaiting Processing	26.4	41.5	30.3	27.1	0.7	(14.4)	(3.2)
Inward Rems	51.0	92.2	43.5	137.4	86.4	45.2	93.9
*Outward Rems in Transit	31.8	37.8	25.7	24.7	(7.1)	(13.1)	(1.0)
Machine Room - Awaiting Processing							
- London	10.1	1.4	-	-	(10.1)	(1.4)	-
- Birmingham	10.7	-	-	0.8	(9.9)	0.8	0.8
- Glasgow	1.7	-	-	-	(1.7)	-	-
Old £1 Coins	0.5	0.1	0.2	0.1	(0.4)	-	(0.1)
Other - Cash Centre	-	-	-	-	-	-	-
Total - Awaiting Processing (Cash Centres)	105.8	131.5	69.4	163.0	57.2	57.2	93.6
Total - Buffer (Cash Centres)	63.3	94.6	62.7	47.0	(16.3)	(47.6)	(15.7)
Cheques, Debit Cards, etc.	11.5	21.8	17.7	15.9	4.4	(5.9)	(1.8)
ATM Holdings - Cvt filled	14.2	9.1	11.1	11.2	(3.0)	2.1	0.1
Other	2.5	(23.1)	48.5	(2.4)	(4.9)	20.7	(50.9)
Network Cash (before Demonet.)	798.3	746.6	755.4	749.8	(48.5)	3.2	(5.6)
Cash in BoE Bond	627.5	845.0	745.6	350.3	(277.2)	(494.7)	(395.3)
Total Cash Holdings	1,425.8	1,591.6	1,501.0	1,100.1	(325.7)	(491.5)	(400.9)
Funding Position							
- Cash Available to Treasury	1.6	3.6	2.5	1.5	(0.1)	(2.1)	(1.0)
- Government Loan	(588.0)	(565.0)	(627.0)	(625.0)	(37.0)	(60.0)	2.0
- NRF Usage	(234.4)	(226.6)	(256.8)	(259.0)	(24.6)	(32.4)	(2.2)
- WC Funding Network Cash Inventory	22.5	41.4	125.9	132.7	110.2	91.3	6.8
Net Funding Position	(798.3)	(746.6)	(755.4)	(749.8)	48.5	(3.2)	5.6

① Increased Inward Rems from prior year is not an indication of work building up, but represents work being readied for despatch and items in transit. We need to ensure that the Inward Rems awaiting processing are low as these are under our direct control, whereas in transit are on their way to sites. YTD Inward Rems awaiting processing are currently £32.9M, against a target of £38.0M.

GLO Summary



£m

Initiative	19/20	P3 YTD Actuals	FY Committed*	Still Open	Comments
Opex					
Agents Remuneration – reverse Mails simplification	3.5	-	-	3.5	Decision still to be made
Agents Remuneration for suspended Postmasters	1.5	0.3	1.5	-	Agreed and actioned; costs coming through
Agents Remuneration – deep dive	0.5	-	0.5	-	Agreed at GE; work has started and costs will start in P4
Legal work regarding policies and processes	2.0	-	-	2.0	
GLO Communications	0.5	-	0.2	0.3	
Simpler business – training and engagement	1.2	-	1.2	-	Agreed at GE; recruitment has been started but nobody in place yet, expect costs from P4 onwards
Impact on Change plan reprioritisation	0.5	0.1	0.5	-	
BAU impact of process changes (placeholder)	2.3	-	0.2	2.1	
Opex total	12.0	0.4	4.1	7.9	
Change					
Horizon changes (quick wins)	2.5	-	-	2.5	
Branch hub initiatives	1.5	-	-	1.5	
Simpler Business – HotHousing to accelerate field structure benefits	3.0	-	2.9	0.1	Business case signed off at IC, actuals will start from P4
Design of new processes (including loss prevention)	2.0	-	0.1	1.9	
POL workforce changes (Restructures etc.)	1.0	-	-	1.0	
Change total	10.0	-	3.0	7.0	
Total	22.0	0.4	7.1	14.9	

*FY Committed represents approval from GE

Quarterly Delivery Report and Funding Request

Author: Max Jacobi

Sponsors: Alisdair Cameron

Date: 26 July 2019

Executive Summary

Context

As part of our funding agreement, the Board should approve a quarterly report on recent and projected change spend, agreeing a request for investment funding from BEIS where appropriate.

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Questions this paper addresses

1. What happened in Q1?
2. What Q2 spend are we proposing?
3. What is our expectation of full year spend and benefits?
4. Can we afford the proposed spending?
5. What investment funding are we requesting from BEIS?

Summary

At a company level, in Q1 we spent £35m, £8m (18%) below budget, driven by underspend on the Solar/HH platform and software (£1m), delays on various FS&T works (including client driven works) (£3m), a delay in Blueprint related project costs and Severance provisions (£1m), and delays in decisions on final PCI architecture and related cost commitments (£2m).

Despite the Q1 underspend, the quarterly review of investments identified further funding needs not identified within the scope of the initial budget. This initially increased the overall project spend outlook by £20m to £194m, however, urgent prioritisation work has already been done to bring the full year spend forecast back to a current 3+9 forecast of £178m, with further prioritisation work during the quarter being undertaken to bring full year spend to below or at the very most in line with the budget £174m.

The re-forecast for quarterly spend and benefits for the year therefore currently stands at:

£m	Q1 Cumulative	Q2 Cumulative	Q3 Cumulative	Q4 Cumulative
Change Plan Spend	£ 42.5	£ 94.8	£ 132.8	£ 174.2
Change 3+9 Reforecast	£ 34.8	£ 86.7	£ 131.6	£ 178.0
UKGI Funded Plan Spend	£ 35.0	£ 90.0	£ 140.0	£ 168.0
UKGI Funding 3+9 Reforecast	-	£ 42.0	£ 42.0	£ 42.0
Benefits Plan	£ 15.6	£ 34.0	£ 53.9	£ 75.6
Benefits 3+9 Reforecast	£ 13.7	£ 30.8	£ 51.5	£ 76.0

In our Three Year Plan, we originally included a cash spend level on change of £445m. Including alongside this the non-cash change spend element (£21m), GLO litigation spend (£28m currently estimated and does not qualify for funding) and the brought forward spend from 2017/18 (£26m), the equivalent total change spend is £520m for the three year period to March 2021. The current total company forecast change spend over the 3-year period (Apr-18 to Mar-21) stands at £600m, however, as stated above: further prioritisation of both 19/20 and 20/21 funding years is ongoing, to align back to our original position of the Three Year Plan. It should also be noted that the forecast, particularly for 20/21, includes elements beyond the original Three Year Plan scope, including increased levels of GLO and GLO remediation funding, and Blueprint, which although not formally agreed, are discussed in other papers alongside this one, and will be prioritised accordingly post decisions on the current 5 Year Plan submissions.

In addition, our current forecasts suggest we will release additional amounts from net profit. None of this has been made available for change spend, with some £47m set aside as contingency for the GLO (as noted in previous funding report). This is also discussed further in the 5 Year Plan and longer-term strategy papers being submitted.

We are requesting a payment of £7m for Q2 against qualifying spend of £46m. Up to the end of June 2019 we have received £203m, and this drawdown would represent the final payment of our agreed £210m funding from BEIS, as agreed under our 3 Year Plan Funding Agreement.

To that end, we confirm that the funds requested will be spent on transformation, in accordance with the priority areas set out in the Three Year Plan that underpins the Funding Agreement. For the avoidance of doubt none of the funds will be spent on anything that is not related to transforming and improving our business as envisaged in the Three-Year Plan. We also confirm that the expenditure is controlled by the Executive Investment Committee and is regularly reported to the Board and UKGI as part of this request. The controls over change spend and the reporting of change in our Annual Report and Accounts are within the remit of the Board's Audit, Risk and Compliance Committee.

Input Sought

The Board is asked to note the contents of the paper, including the approach of FY19/20 Budget for Change Spend, approve the request of £7m funding for Q2, giving delegated authority to AI Cameron to finalise the precise details and supporting documents with UKGI.

The Report

1. What happened in Q1?

1.1. Summary View

In Q1, we spent £35m against £43m forecast, an underspend of £8m as follows:

Strategic Priority	Project Spend			Project Benefits		
	Q1 FY1920 Actual	Q1 FY1920 Budget	Variance	Q1 FY1920 Actual	Q1 FY1920 Budget	Variance
Simplify the retailer proposition	13.6	12.0	1.6	4.9	5.0	(0.1)
Modernise our products and services	8.5	12.2	(3.7)	5.5	6.3	(0.8)
Build innovative, flexible and secure IT	3.9	7.2	(3.3)	1.9	2.0	(0.0)
Digitise and optimise the business	2.6	4.9	(2.3)	0.9	0.9	(0.0)
Modernise our skills, polices and processes	1.8	2.2	(0.4)	0.1	0.5	(0.4)
Non-UKGI Funded	4.4	4.0	0.4	0.4	1.0	(0.5)
Total Change Spend	34.8	42.5	(7.7)	13.7	15.6	(1.8)

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A list by major projects showing detailed variances for spend and benefits is attached as Appendix 1.

1.2. Key variances within this underspend:

1.2.1. Simplify the retailer proposition: £1.6m

- **Further franchising DMBs: £2.6m**
 - **Sale of assets: £1.9m** delay in sale completions however there is no risk to the full year forecast.
 - **Onerous Contract & Vacant lease Provision: £0.6m** Provision has been audited by PwC in light of the IFRS 16 new accounting standard implementation, an accurate forecast of utilisation for 19/20 has been provided in the updated 3+9 forecast submission.
- **Solar Full (HNGT): (£1.4m)** Project is being re-assessed to get projected cost base down, as a result, work on Payzone integration, retailer integration, legal advice and smart meters has been delayed into Q2 from Q1.
- **Agents / Postmasters Portal: £0.4m** Correction of YTD cross charges and ramp up of project delivery to meet targeted branches live

1.2.2. Modernise our Products and Services: (£3.7m)

- **Telco Investments: (£1.1m)**
 - **Telco - Project Nuance: (£0.6m)** Phasing difference since original plan was submitted due to payment reworks with suppliers.
 - **Telco - Tech Refresh: (£0.3m)** Delay of payment increment, has now been moved to Q2.
 - **Telco – Telecoms Strategy – Business Model: (£0.3m)** Part of this variance relates to Telephony routers, offsetting minor overspend, and the other element relates to fibre routers which is currently below run rate.
- **Digital Developments: (£0.6m)**
 - **Branch Discoverability: (£0.3m)** Project has been re-scoped as part of reprioritisation process.
 - **Website Refresh: (£0.1)** Project has been assessed as BAU opex spend and has been removed.
 - **Digital Trading Team (£0.1m) & Digital Remittances (£0.1m):** Projects have been delivering slightly behind plan, phasing has been reviewed as part of the 3+9 forecast submission.
- **Falcon Peregrine: (£0.6m)** Project spend has been re-profiled now post further finalisation work being done, updated forecast has been provided in the 3+9 forecast submission.
- **Vehicles: (£0.5m)** due to delays in contracting for new vehicles.
- **Eagle: (£0.4m)** Budget has been flat phased to not impact balance sheet.

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- **Identity Services:** (£0.3m) Delay in assess period of Digital Check & Send Hardware Modernisation project, business case will be submitted in July.

1.2.3. Build Innovative, Flexible and Secure IT: (£3.3m)

- **PCI/Payments Hub:** (£2.0m) Delays to project due to supplier (Ingenico) being slow to begin the design phase of the project.
- **IT Service Transformation Programme (Nelson):** (£0.4m) Delays to project around transition timetable from ATOS, some decisions have now been made, with timing now updated in 3+9 forecast.
- **Risk and Resilience:** (£0.3m): There are likely to be small variances on timing of this spend, as it is predominantly a reactive fund to deal with IT service issues as they arise.
- **Project Everest - Cloud Enablement:** (£0.2) Project pausing; residual resource spend on project finished in P3.

1.2.4. Digitise and Optimise the Business: (£2.3m)

- **HR programmes:** (£1.4m) Further scoping and strategy agreement has delayed ramp up of Blueprint spend.
- **Property:** (£0.6m) Phasing difference due to delay in business case approvals.

1.2.5. Modernise our Skills, policies and processes: (£0.4m)

- **Back Office Systems Transformation:** (£0.4m) Variance is phasing related due to delayed spend on resources whilst final system and process finessing is completed.

1.2.6. Non-UKGI Projects: £0.4m

- **Group Litigation:** £1m Higher levels of legal spend than originally forecasted.
- **Other Smaller Projects Regulatory:** (£0.3m) Slight underspend in projects Fit & Proper, Joiners, Movers & Leavers and Records Retention
- **Central:** (£0.2m) Central VAT adjustments

1.3. Benefits

Benefits Delivered lower than forecast mainly due to:

- **Falcon – Peregrine:** (£0.7m) Delay in benefit delivery due to delay in Peregrine contact signing.
- **Project Panther:** (£0.5m) Differences in Post Office vs PayZone vat recoverability and other cost challenges vs acquisition modelling. Also beginning to invest in infrastructure required to support British Gas exclusivity ahead of revenue and create sustainable BAU team. Benefit gap in 19/20 will start reversing from Q4 when BG contract kicks in (70m incremental transactions pa).
- **Back Office Systems Transformation:** (£0.4m) Delay in some project benefits due to cost impact of embedding and optimising solution post go live.

2. What Q2 spend are we proposing?

Change Spend for Q2 is expected to be £52m, delivering Q2 benefits of £17m and will mainly consist of deliveries of the strategic projects which are already in execution phase.

Strategic Priority	Project Spend	Project Benefits
	Q2 FY19	Q2 FY19
Simplify the retailer proposition	16.1	5.5
Modernise our products and services	11.4	6.9
Build innovative, flexible and secure IT	4.5	2.3
Digitise and optimise the business	11.3	1.3
Modernise our skills, polices and processes	1.1	0.5
Non-UKGI Funded	7.4	0.6
Total Change Spend	51.9	17.0

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Under our funding agreement we can claim up to £42m of investment funding for the 19/20 annual period. Within the proposed £51.9m Q2 forecast spend, £44.5m will qualify for investment spending funding from UKGI, with a proposal to request £7m of funding in this cycle, which represents the final payment in the cycle.

Key Q2 works include:

- Group Litigation: £5.6m
- DMB Strategy: £5.3m
- HR Programmes: £4.6m
- Supply Chain & Back Office Improvement: £3.9m
- Post Office Insurance Investments: £3.6m
- Paystation Completion: £3.4m
- Network Expansion: £2.7m
- Telco Investments: £2.6m

3. What is our expectation of full year spend and benefits?

We are expecting investment spend of at most £174m for FY19/20, with cumulative annual benefits of about £76m, and incremental benefits of £39m.

Strategic Priority	FY19 Spend	FY19 Benefits	FY19 In Year Benefits
Simplify the retailer proposition	50.3	24.3	13.2
Modernise our products and services	41.0	31.0	15.1
Build innovative, flexible and secure IT	26.4	9.2	3.8
Digitise and optimise the business	31.7	4.7	1.2
Modernise our skills, polices and processes	3.6	2.0	1.9
Non-UKGI Funded	21.3	4.3	3.2
Total Change Spend	174.2	75.6	38.5

A list by major projects showing in-year spend and benefits across 19/20 period is attached as Appendix 3.

4. Can we afford the proposed spending?

In our Three Year Plan we planned for a cash spend of £445m. Including non-cash spend (£21m), GLO spend (£28m) included elsewhere and the brought forward spend from 2017/18 (£26m), the equivalent total change spend is £520m for the period to March 2021. We are currently assuming change spend over the three years of £520m, plus an additional £20m for the Payzone acquisition, including future earn-out payments.

£445m was predicated on the assumption that we would spend all our incoming cash (net profit plus investment funding) but would not borrow significantly to fund investment. Whilst this logic is still being adhered to, further incoming cash opportunities and investment opportunities, beyond the scope of the original Three Year plan are now being discussed and presented through 5 Year strategy documents, which also discuss affordability.

We are currently planning 2019/20 change spend of £174m or less, post continued prioritisation, with 2020/21 currently flagging investment options of £149m, however, a large portion of this is for initiatives beyond the scope of the Three Year Plan, and so will be prioritised in line with decisions around the longer term 5 Year strategy currently being discussed. We will therefore be re-evaluating our investment levels throughout 19/20 before finalising a 20/21 Change Plan in March 2020..

To ensure that this Plan is deliverable we will continue to monitor and optimise the capacity and capabilities of our teams and suppliers. We are also using Critical Success Factors, that Platinum and Gold initiatives are evaluated against to increase the likelihood of successful delivery, and we will continue to report against these on a monthly basis.

5. What investment funding are we requesting from BEIS?

Under our funding agreement we can claim up to £210m of investment funding. We have already received £203m up to the end of June 2019, and we are requesting the remaining £7m for this coming quarter.

6. Appendices

6.1. Appendix 1 – Q1 Project Spend & Benefits versus Budget

	Q1 Spend Actual	Q1 Spend Budget	Variance	Q1 Benefits Actual	Q1 Benefits Budget	Variance
Simplify the retailer proposition	13.6	12.0	1.6	4.9	5.0	(0.1)
Further franchising DMBs	5.6	3.0	2.6	2.5	2.5	(0.0)
Multi-year Crown Project	0.0	-	0.0	1.6	1.6	(0.0)
Network Expansion	3.0	2.6	0.3	0.8	0.9	(0.1)
Solar Full (HNGT)	2.9	4.3	(1.4)	-	-	-
Self Service Kiosk (SSK)	0.3	0.1	0.2	-	-	-
Agents / Postmasters Portal	1.7	1.3	0.4	-	(0.0)	0.0
Automation Strategy	-	0.4	(0.4)	-	-	-
Other Smaller Projects Simplify	0.1	0.3	(0.2)	-	(0.0)	0.0
Modernise our products and services	8.5	12.2	(3.7)	5.5	6.3	(0.8)
Mails Projects	0.3	0.2	0.2	-	-	-
Identity Services Investments	0.3	0.6	(0.3)	0.6	0.6	0.0
PO Insurance Investments	4.2	4.2	(0.0)	0.8	0.8	-
Vehicles	0.1	0.6	(0.5)	-	-	-
Project Galaxy	(0.1)	(0.1)	(0.0)	3.4	3.4	-
Telco Investments	1.2	2.2	(1.1)	-	-	-
Falcon - Travel Hub	0.0	-	0.0	0.0	0.1	(0.1)
Falcon - Peregrine	1.9	2.4	(0.6)	0.6	1.3	(0.7)
Digital Developments	0.4	1.0	(0.6)	(0.0)	0.1	(0.1)
Eagle	0.0	0.5	(0.4)	-	-	-
Youth Strategy	0.1	0.3	(0.2)	-	-	-
Other Smaller Projects Modernise	0.1	0.3	(0.2)	-	-	-
Build innovative, flexible and secure IT	3.9	7.2	(3.3)	1.9	2.0	(0.0)
Project Everest - Cloud Enablement	1.3	1.5	(0.2)	0.7	0.7	0.1
Risk and Resilience	0.6	1.0	(0.3)	-	-	-
PCI/Payments Hub	0.4	2.4	(2.0)	-	-	-
EUC Branch Deployment	0.1	0.2	(0.1)	0.2	0.2	-
End-of-Life Replacements	0.2	0.2	(0.0)	-	-	-
Branch Printer Replacement	(0.1)	0.0	(0.1)	0.3	0.3	-
IT Service Transformation Programme (Nelson)	0.5	0.8	(0.4)	0.3	0.3	-
CDP re-procurement	0.0	0.1	(0.1)	0.2	0.2	-
Project Trafalgar	0.7	0.4	0.3	-	-	-
Integration, Microservices & API Layer	-	0.1	(0.1)	-	-	-
IT Security Strategy	0.0	0.2	(0.1)	-	-	-
Network Evolution and Enhancement	-	0.1	(0.1)	-	-	-
Other Smaller Projects Build	0.1	0.1	(0.0)	0.3	0.3	(0.1)
Digitise and optimise the business	2.6	4.9	(2.3)	0.9	0.9	(0.0)
Supply Chain and Back Office Improvement	0.7	0.3	0.3	0.0	(0.0)	0.1
Property	0.9	1.5	(0.6)	-	-	-
BI Strategy (Arrow)	0.3	0.5	(0.2)	-	-	-
HR Programmes	0.4	1.8	(1.4)	0.9	1.0	(0.1)
LRG Programmes	0.0	0.3	(0.3)	-	-	-
Other Smaller Projects Digitise	0.3	0.5	(0.2)	-	-	-
Modernise our skills, polices and processes	1.8	2.2	(0.4)	0.1	0.5	(0.4)
Back Office Systems Transformation	1.8	2.2	(0.4)	0.1	0.5	(0.4)
Non-UKGI Funded	4.4	4.0	0.4	0.4	1.0	(0.5)
Central	(0.2)	-	(0.2)	-	-	-
Group Litigation	3.4	2.4	1.0	-	-	-
GDPR	0.0	0.1	(0.0)	-	-	-
Project Panther (integration costs only)	0.6	0.7	(0.1)	0.4	1.0	(0.5)
Other Smaller Projects Regulatory	0.5	0.8	(0.3)	-	-	-
Total Change Spend	34.8	42.5	(7.7)	13.7	15.6	(1.8)
Of which qualifying for UKGI funding	30.4	38.5	(8.1)	13.3	14.6	(1.3)

6.2. Appendix 2 – Q2 19/20 Funding Request

	Q2 Spend	Q2 Benefits
Simplify the retailer proposition	16.1	5.5
Further franchising DMBs	5.3	3.0
Multi-year Crown Project	-	1.6
Network Expansion	2.7	0.9
Solar Full (HNGT)	1.7	-
Self Service Kiosk (SSK)	0.1	-
Agents / Postmasters Portal	1.6	-
Other Smaller Projects Simplify	4.6	-
Modernise our products and services	11.4	6.9
Mails Projects	0.5	-
Identity Services Investments	1.2	0.6
PO Insurance Investments	3.6	1.2
Project Galaxy	0.3	3.4
Telco Investments	2.6	-
Falcon - Travel Hub	-	0.0
Falcon - Peregrine	1.2	1.8
Digital Developments	0.8	(0.0)
Eagle	0.2	-
Other Smaller Projects Modernise	1.0	-
Build innovative, flexible and secure IT	4.5	2.3
Project Everest - Cloud Enablement	0.7	0.6
Risk and Resilience	1.0	-
PCI/Payments Hub	1.0	-
EUC Branch Deployment	0.0	0.5
End-of-Life Replacements	0.1	-
Branch Printer Replacement	-	0.3
IT Service Transformation Programme (Nelson)	1.3	0.3
CDP re-procurement	-	0.2
Project Trafalgar	0.0	-
IT Security Strategy	0.3	-
EUC / Computacenter	0.1	-
Network Evolution and Enhancement	0.1	-
Other Smaller Projects Build	-	0.4
Digitise and optimise the business	11.3	1.3
Supply Chain and Back Office Improvement	3.9	0.3
Property	1.4	-
BI Strategy (Arrow)	0.3	-
HR Programmes	4.6	1.0
LRG Programmes	0.8	-
Other Smaller Projects Digitise	0.5	-
Modernise our skills, polices and processes	1.1	0.5
Back Office Systems Transformation	1.1	0.5
Non-UKGI Funded	7.4	0.6
Group Litigation	5.6	0.0
Project Panther (Integration costs only)	1.2	0.6
Other Smaller Projects Regulatory	0.7	-
Total Change Spend	51.9	17.0
Of which qualifying for UKGI funding	44.5	16.5

6.3. Appendix 3 – FY19/20 Full year expectation on Spend and Benefits

	Project Spend 3+9 Submission					Project Benefits 3+9 Submission				
	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	FY19	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	FY19
Simplify the retailer proposition	13.6	16.1	10.8	13.3	53.8	4.9	5.5	6.4	6.6	23.4
Further franchising DMBs	5.6	5.3	3.1	5.6	19.6	2.5	3.0	3.3	3.4	12.2
Multi-year Crown Project	0.0	-	-	-	0.0	1.6	1.6	1.6	1.6	6.3
Network Expansion	3.0	2.7	2.5	3.0	11.2	0.8	0.9	1.0	1.2	3.9
Solar Full (HNGT)	2.9	1.7	2.0	1.7	8.2	-	-	-	-	-
Self Service Kiosk (SSK)	0.3	0.1	0.2	0.7	1.3	-	-	-	-	-
Agents / Postmasters Portal	1.7	1.6	0.7	0.9	4.9	-	-	(0.1)	(0.2)	(0.2)
Automation Strategy	-	-	-	-	-	-	-	-	-	-
Paystation Completion	-	-	-	-	-	-	-	-	-	-
Other Smaller Projects Simplify	0.1	4.6	2.3	1.4	8.5	-	-	0.6	0.6	1.3
Modernise our products and services	8.5	11.4	11.8	9.8	41.4	5.5	6.9	8.4	10.8	31.5
Mails Projects	0.3	0.5	1.3	2.2	4.3	-	-	-	-	-
Identity Services Investments	0.3	1.2	1.0	0.9	3.5	0.6	0.6	0.5	1.5	3.2
PO Insurance Investments	4.2	3.6	2.8	1.6	12.2	0.8	1.2	2.4	2.6	6.9
Vehicles	0.1	-	-	2.4	2.5	-	-	-	-	-
Project Galaxy	(0.1)	0.3	0.7	0.0	0.9	3.4	3.4	3.4	3.4	13.5
Telco Investments	1.2	2.6	1.9	1.5	7.3	-	-	0.2	0.2	0.4
Falcon - Travel Hub	0.0	-	-	-	0.0	0.0	0.0	0.0	(0.0)	0.1
Falcon - Peregrine	1.9	1.2	0.7	0.7	4.4	0.6	1.8	1.8	1.8	5.9
Digital Developments	0.4	0.8	0.1	-	1.2	(0.0)	(0.0)	0.1	0.7	0.7
Eagle	0.0	0.2	0.3	0.4	0.9	-	-	0.1	0.1	0.1
Youth Strategy	0.1	-	-	-	0.1	-	-	-	-	-
Other Smaller Projects Modernise	0.1	1.0	3.0	-	4.0	-	-	-	0.7	0.7
Build innovative, flexible and secure IT	3.9	4.5	6.7	6.3	21.4	1.9	2.3	2.5	2.5	9.2
Project Everest - Cloud Enablement	1.3	0.7	1.8	1.8	5.6	0.7	0.6	0.6	0.6	2.6
Risk and Resilience	0.6	1.0	1.2	1.1	3.9	-	-	-	-	-
PCI/Payments Hub	0.4	1.0	2.2	2.2	5.9	-	-	-	-	-
EUC Branch Deployment	0.1	0.0	0.0	-	0.2	0.2	0.5	0.5	0.5	1.7
End-of-Life Replacements	0.2	0.1	0.0	-	0.3	-	-	-	-	-
Branch Printer Replacement	(0.1)	-	-	-	(0.1)	0.3	0.3	0.3	0.3	1.2
IT Service Transformation Programme (Nelson)	0.5	1.3	0.7	0.4	2.9	0.3	0.3	0.3	0.3	1.0
CDP re-procurement	0.0	-	-	-	0.0	0.2	0.2	0.2	0.2	0.9
Project Trafalgar	0.7	0.0	-	-	0.8	-	-	-	-	-
IT Security Strategy	0.0	0.3	0.3	0.3	0.9	-	-	-	-	-
EUC / Computacenter	-	0.1	0.2	0.2	0.5	-	-	-	-	-
Network Evolution and Enhancement	-	0.1	0.2	0.2	0.5	-	-	0.2	0.2	0.4
Other Smaller Projects Build	0.1	-	-	-	0.1	0.3	0.4	0.4	0.4	1.4
Digitise and optimise the business	2.6	11.3	6.6	9.8	30.3	0.9	1.3	2.2	2.9	7.2
Supply Chain and Back Office Improvement	0.7	3.9	3.6	4.0	12.1	0.0	0.3	0.4	0.7	1.4
Property	0.9	1.4	1.2	0.9	4.4	-	-	-	-	-
BI Strategy (Arrow)	0.3	0.3	0.6	0.6	1.8	-	-	-	-	-
HR Programmes	0.4	4.6	0.4	3.4	8.8	0.9	1.0	1.8	2.2	5.9
LRG Programmes	0.0	0.8	0.5	0.4	1.8	-	-	-	-	-
Other Smaller Projects Digitise	0.3	0.5	0.3	0.5	1.5	-	-	(0.0)	(0.0)	(0.1)
Modernise our skills, polices and processes	1.8	1.1	0.6	0.4	4.0	0.1	0.5	0.5	0.5	1.6
Back Office Systems Transformation	1.8	1.1	0.6	0.4	4.0	0.1	0.5	0.5	0.5	1.6
Non-UKGI Funded	4.4	7.4	8.3	6.9	27.1	0.4	0.6	0.7	1.3	3.0
Group Litigation	3.4	5.6	4.5	4.2	17.7	-	0.0	0.0	0.0	0.1
GDPR	0.0	-	-	-	0.0	-	-	-	-	-
Project Panther (integration costs only)	0.6	1.2	3.1	2.4	7.3	0.4	0.6	0.7	1.3	3.0
Other Smaller Projects Regulatory	0.5	0.7	0.7	0.3	2.2	-	-	(0.0)	(0.0)	(0.1)
Total Change Spend	34.8	51.9	44.8	46.5	178.0	13.7	17.0	20.7	24.5	76.0
Of which qualifying for UKGI funding	30.4	44.5	36.5	39.6	150.9	13.3	16.5	20.0	23.3	73.0

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6.4. Appendix 4 - Key Delivering projects

Simplify the Retailer Proposition

Network Programmes

In the FY 19/20 we plan to franchise 69 DMBs of which 28 have already been delivered and 30 further franchises are at contract stage or beyond. The balance are at earlier stages in the pipeline, for delivery in Q4. As part of Network Maintenance we also plan to create 220 NNLs, convert 30 Mains to Locals and deploy Outreaches where necessary to support our target of 11,500 branches.

Solar Full (HNGT)

Solar is a critical part of developing our Retail and IT Strategies. It is a pre-requisite for delivering the new 'PO Express' format, as well as building a new, device-agnostic transaction system that can be delivered through a range of devices. It will also help us convert Mains branches to Locals through retailer point-of-sale (RPOS) integration.

Agents/Postmasters Portal (Branch Hub)

Branch hub is a self-serve portal that branch operators can use to access support. During the current year the project team will build further functionalities into the portal, on a prioritised basis, to improve operator journeys and back office operations generating cost savings from back office efficiencies.

Modernise our Products and Services

Post Office Insurance

Post Office Insurance key delivering projects for the next year are the following:

Travel Continuous improvements (Cronus III) – Focus is very much on the proposition to improve the customer experience and conversion rates with the introduction of an improved contact centre journey and branch offering, proposition alignment and additional services.

Home Insurance Reengineering (Nemesis) – The Programme to transform the Home Insurance Proposition commenced in June 2018 and will continue design, development and testing ahead of a go live for new business in October 2019 with migration of the existing customers occurring post go live at customer renewal.

Pricing Capability and Data Analytics – Following business case approval in December 18 the Programme have completed the discovery phase in 2018/19 and will commence design, development, test and build in 2019/20. Delivery will be phased and will include Travel and Home Insurance, Price Optimisation within the quote and buy, MTA and Renewal journeys with the ability to respond and rapidly change and amend models in addition to a Data Warehouse with an Analytics platform for Pricing and CVM modelling and visualisation.

Mails Programmes

Mails Programmes focus for the next year is around Mails Multi Channel Customer Journeys a project that will define and deliver an optimal digitization of mails customer journeys (Mails component of customer hub) and Mails Strategy and the development of a sustainable future with Royal Mail including a long-term agreement that will secure our mails income for future years.

Identity Services Investments

Identity Services Investments spend for the next year is mainly focused around the following projects:

Digital Identity – a project that will evolve the existing Verify product into a broader digital identity solution that can be used across a wide range of public and private sector applications, thereby building our user base and establishing new revenue sources beyond government.

Digital Check and Send Hardware Modernisation – a project that will extend and potentially replace the AEI network, using cheaper and smaller solutions such as tablets or Horizon peripherals, vital to defend our market share as paper passports are phased out and to support a broader range of identity transactions in branch

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Telecoms

Telecoms projects included in this category are as follows:

Telco Nuance – a programme to leverage market leading solutions to enhance the customer contact management capability of Telecoms through telephone & online channels, ultimately reducing call centre costs for Post Office and improving customer experience.

Telco Strategy – a project to address options to build a solution to the Telecoms contract with FJ ending in August 2020.

Telco Routers - that includes cost for router replacement.

Project Galaxy

The Project is mainly an umbrella of Telecoms projects in response to industry regulatory changes including: Galaxy – response to the Ofcom regulation around Home Phone pricing, Proposition 2 – response to notification from the ASA, Code of Practise – a project to ensure we comply with Ofcom code of practice.

Eagle

Contractual agreement with Bank of Ireland for POL to invest on the product suite.

Falcon – Peregrine

Peregrine – Renegotiations with Bank of Ireland.

Vehicles

Capital spend for purchase and refit of vehicles to maintain required fleet numbers and standards.

Build Innovative, flexible and secure IT

Project Everest - Cloud Enablement

The project will be focused on the build of cloud solution to replace systems currently based in Fujitsu datacentres.

Risk & Resilience

The projects relate to maintenance of IT budget to deal with small pieces of work (predominantly reactive) that are required to maintain service levels and make minor efficiency improvements where possible.

Payments Card Industry (PCI)/Payments Hub

Post Office is subject to Payment Card Industry (PCI) regulations and this project is driving increased levels of security and encryption in our systems to remain compliant with these.

Project Trafalgar (Change excellence)

Continuation of project to further standardise and improve the delivery of change works throughout the Post Office.

Network Evolution and Enhancement

New Project with scope to deep dive on IT network infrastructure and commission small, medium and large-scale changes to the infrastructure to make it more efficient. Verizon cost reductions from changes implemented.

Digitise and Optimise the Business

Supply Chain and Back Office Improvement

Swindon Strategy - review and transition to the best long-term model for our Swindon Centre and the services we run out of it

Process and Contact Centre Transformation - a series of works to transition and reshape the Process and Contact Centre teams to better align them with the business and increase cost efficiency.

Network Operation Transformation - a series of works to transition and reshape the Network Operations to make them more efficient and able to provide improved support to the Agent network.

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Property

Capital spend for maintenance and improvements of wider property portfolio.

BI Strategy (Arrow)

The Data project, covering strategy, governance and delivery, has been paused pending the IT team agreeing the future of Credence.

LRG Programmes

Legal Entity Optimization - Project to ensure that the organisation has the right legal structure to deliver its North Star strategy, ensuring regulatory governance is only applied to the regulated activities and to support the wider strategic plans of the business.

HR Programmes

Predominantly Blueprint related initiatives.

Modernise our skills, culture, HR policies and processes

Back Office Systems Transformation

Project for the replacement of core Back Office Systems including the decommissioning of POLSAP. Project has now been delivered, however due to delays in the project's go live date cost related to closing activities slipped into the following financial year.

Non UKGI Funded

Project Panther (integration costs)

Project spend is mainly focused on the integration of the Payzone acquisition and also funding on additional technology, signage and transport earn out cost. The project is expected to generate net revenue, which is made up by current Payzone revenue, new contracts & a number of new initiatives (smart ticketing, cross network sales). (Payzone £16m acquisition has been completed in FY1819 with some elements still to be delivered in the following two years requiring additional £1.4m in FY1920 and £2.0mil in FY2021)

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Annual Report and Accounts 2018/19

Author: Tom Lee

Sponsors: Micheal Passmore, Al Cameron

Date: 30 July 2019

Executive Summary

Context

The final 2018/19 Annual Report and Accounts (ARA) is presented to the Board for review.

Questions addressed in this report

The following questions are addressed in this report:

1. In summary, what were POL's financial results for the year ended 31 March 2019?
2. What is the status of the audit work on the ARA?
3. What matters are we drawing to the Board's attention in their review?

Conclusions

Post Office reported a trading profit (EBITDAS) of £60 million (2018: £35 million), an improvement of £25 million, comprising a small increase in commercial turnover and a number of cost reductions. Net assets increased to £244 million (2018: £203m).

During the ARC meeting on 23 July, PwC confirmed their agreement of the numbers presented in the ARA. It was noted there were no material findings identified during the audit and an audit committee report was presented to the ARC to confirm the procedures performed and conclusions drawn.

PwC will provide a verbal update during the ARC meeting on 29 July regarding the status of the final audit procedures, and look to conclude on the Group Litigation disclosure, in order to confirm that signing of the ARA can proceed as expected, with a target date of 2 August.

The GLO disclosure is a separate paper presented by Ben Foat, for discussion at the Board and ARC. The ARA makes reference to this paper, but does not include detail until the paper is reviewed and agreed.

Input Sought

The Board is requested to review and comment on the ARA for the year ended 31 March 2019 and, subject to the outcome of PwC's verbal update, approve and delegate the ARA for signing.

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The Report

In summary, what were POL's financial results for the year ended March 2019?

1. Post Office made an underlying operating profit of £6 million (2018: £47 million) and reported a trading profit (EBITDAS) of £60 million (2018: £35 million). This represents a trading profit improvement of £25 million on the prior year. Trading revenue increased year on year by £16 million to £972 million principally as a result of growth in Identity and Insurance business areas, with continued growth also noted within Banking Services. This was partly offset by the anticipated decline in our Post Office Card Account income stream. The focus on controlling and reducing the cost base generated a reduction in direct costs of £1 million to £959 million (2018: £960 million).
2. On the Post Office Group balance sheet, net assets have increased from £203 million to £244 million. Notable changes driving this increase include an increase in tangible and intangible assets of £55 million, a decrease of £83 million in cash and a decrease in the government loan of £58 million.

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What is the status of the audit work on the ARA?

3. During the ARC meeting on 23 July, PwC confirmed they were satisfied that the numbers presented in the ARA were materially correct.
4. A small number of uncorrected misstatements were identified and presented to ARC on 23 July, none of which impacted Trading Profit. Adjustments focused around balance sheet reclassifications and discount rate used within the onerous lease and dilapidation provisions.
5. PwC raised four management letter comments, all of which were presented to ARC on 23 July and management responses have been provided. These will be acted on during 2019/20 where needed.
6. As at 23 July PwC had a small number of outstanding audit procedures to complete, which were focused around file documentation and agreement of the Group Litigation disclosure. PwC will present a verbal update on status during the ARC meeting on 29 July.

What matters are we drawing to the Boards attention?

Payzone Acquisition

7. On 24 October 2018 Post Office Limited acquired Payzone Bill Payments Limited for total consideration of £19 million, which comprises £16m fixed fee and £3m contingent fee (of which £1m has been settled to date). The acquisition has been
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accounted for under IFRS 3 Business Combinations and has resulted in additions to intangible assets of £7 million and Goodwill of £8 million. From the date of acquisition to 31 March 2019, the Payzone business has contributed £4 million of revenue and £1 million to trading profit.

Note Circulation Scheme

8. In the 2018/19 Annual Report and Accounts we have included an explanation of the Note Circulation Scheme (NCS), in line with 2017/18, to provide greater transparency to users. A reference is included in the Finance and Business Review and note 22 includes a description of the scheme.
9. At the year-end £227 million (2018: £238m) was funded via the NCS. As in previous years we do not disclose anything on the Balance Sheet but have taken a decision to include narrative on the scheme in the notes to the accounts to allow the users of the accounts to better understand our funding. In 2017/18 we agreed the narrative included with the Bank of England and do not propose to amend it in the 2018/19 ARA. We have asked PwC to confirm that they agree with the off balance sheet treatment and associated disclosure.

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Group Litigation Order

10. The High Court claim is expected to remain ongoing beyond the signing date of the ARA. The current disclosure in the ARA remains unchanged from 2017/18, being the disclosure of the litigation as an unvalued contingent liability with no provision made. A separate paper is being presented to ARC during the meeting on 29 July which contains the proposed disclosure to be included within the ARA. Subject to the ARC's agreement, the disclosure will be updated in the ARA in line with the proposal presented.
11. We have separated out the costs incurred in 2018/19 of £20m as an exceptional item, which corresponds with the 2017/18 treatment. This classification has been selected because the expenditure is not in the ordinary course of business and anticipated total costs are material. Further spend is expected in 2019/20 but the value cannot yet be estimated and no provision has been recognised.
12. PwC have been consulted on the disclosures and will present a verbal update on their conclusions during the ARC meeting on 29 July.

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Group Litigation Update

Authors: Ben Foat, Julie Thomas, Amanda Jones Sponsor: Ben Foat Meeting date: July 2019

Context

The **Common Issues Trial Judgment** (CITJ) was handed down on 15 March 2019. It reinterpreted our contracts with branch operators and was critical of our past practices and culture. The **Horizon Issues Trial** (HIT) has now concluded and we are preparing for an adverse Judgment, which could be as soon as mid-September.

Questions addressed in this report

1. How are we handling the trials and appeal; what is our potential path to settlement?
2. Since the CITJ, what changes have been made to provide better support to our postmasters?
3. How are we preparing for the HIT Judgment?
4. What further work are we doing to improve our operational processes and our relationships with postmasters?
5. What have we budgeted and how much do we anticipate spending?

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Conclusion

1. By mid-September, the Court of Appeal is expected to give its decision as to whether Post Office has permission to appeal the CITJ and Justice Fraser is expected to hand down his decision in respect of the HIT. We are proposing to mediate with the Claimants in October and this would be the first step towards a potential settlement.
2. Since the CITJ, we have enhanced the support provided to postmasters with improvements to initial training, loss recovery, suspension and termination processes.
3. We are working to ensure our business is resilient and well prepared for an adverse Judgment from the HIT. Preparations include our readiness to deliver technology and process changes, as well as communications planning.
4. We are delivering activities to improve our relationship with postmasters and improve the day to day operational support we provide to them. Postmasters have been at the heart of this design process. We are moving to a support model with a much-reduced reliance on call centres. Low-value tasks and basic enquiries will be handled online in real time, with higher value-adding relationship management handled face to face via field teams. A number of these changes are already in place, with further changes being rolled out in stages this financial year and next.
5. £22m of incremental Capex and Opex spend was budgeted at the May Board. £7.1m has been committed so far, with an anticipated £14.9m yet to commit over FY19/20.

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POST OFFICE BOARD

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Input Sought

The Board is asked to note this paper and endorse the approach set out.

Input Received

Our Legal, Operations and Retail teams have contributed to this paper.

How are we handling the trials and appeal; what is our potential path to settlement?

1. The Board Sub-Committee has been updated and provided instructions on material developments in the Group Litigation since the CITJ was received in March of this year.
2. On 23 May 2019 the Managing Judge refused permission for us to appeal the CITJ. On 13 June 2019 Post Office applied to the **Court of Appeal** (CoA) for permission to appeal the CITJ. This application was refiled in shorter form on 28 June 2019 as ordered by the CoA on 18 June 2019.
3. The CoA's decision on whether to grant permission to appeal could be delivered at any time. The Court has however indicated that the decision is unlikely to be received before mid-September 2019. If permission is granted, the CoA will then set a hearing date. The appeal may not be heard for up to 12 months.
4. The HIT resumed on 4 June 2019 and concluded on 2 July 2019. The Managing Judge has now retired to write his Judgment. He has indicated that this will not be completed before mid-September 2019.
5. At the conclusion of the HIT, the Managing Judge moved the **Further Issues Trial** (FIT) to commence on 2 March 2020, with a time estimate of four weeks. On 23 July 2019, the Managing Judge ordered that the FIT will focus solely on the legal basis for the Claimants' claims for financial compensation, which it will determine on assumed facts rather than the specific facts of any individual Claimant's cases.
6. On 23 July 2019 the Managing Judge also gave directions for determining by early December 2019 criteria for selecting "Test Claimants" in later (as yet unscheduled) trials to determine issues of breach (i.e. whether Post Office acted wrongly), causation (i.e. did that breach caused the harm for which the Claimant seeks compensation), and limitation (i.e. is a Claimant's claim time-barred).
7. The parties have been ordered by the Court to use reasonable endeavours to attend mediation after the delivery of the CITJ. The parties have agreed that a mediation should be held, and that Charles Flint QC of Blackstone Chambers act as mediator. The Claimants have indicated to the Court that a mediation could be held in October/November 2019, after the Horizon Issues Trial Judgment and the Court of Appeal's Judgment on the permission to appeal the CITJ have been handed down. The Claimants are not however committing to a specific date pending those judgments.
8. Work is being carried out ahead of mediation and any settlement discussions to quantify areas of loss which the Claimants could reasonably expect to recover if successful, as this will be central to the prospects of settling the Group Litigation (whether through mediation or otherwise). Other factors being considered are how

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to approach claims made by Claimants who have already settled claims, are time barred or have convictions, how settlement could interact with the Common Issues appeal, and the impact settlement could have on historic claims brought by postmasters who are not part of the current Group Litigation. External counsel are leading on this piece of work, and our recommended approach and negotiation strategy for mediation will be taken to the Board sub-committee in September.

9. A consolidated project plan is located in the reading room which sets out the relevant milestones for the litigation, operational and agent relationship workstreams.

Since the Common Issues Trial Judgement, what changes have been made to provide better support to our postmasters?

10. The CITJ deals primarily with the contractual relationship between Post Office and its network of branch operators. The Judgment reinterprets these contracts in a number of ways, restricting some of Post Office's legal rights, striking down others and imposing a wide-ranging general duty of good faith on both Post Office and Branch Operators. The Judgment is also critical of Post Office's past practices and culture; for example it refers to Post office being "*oppressive*" and operating a "*culture of secrecy*".

11. Extensive work has been undertaken to assess the impacts of the Judgment across all operational processes, with the most detailed reviews deliberately focussed on the following areas: (i) onboarding of Branch Operators (ii) loss recovery processes (including loss prevention, audit, investigations, loss recovery and transaction queries); (iii) suspension; and (iv) termination.

12. Immediate changes have already been made to the areas outlined above to ensure Post Office acts in good faith, i.e. transparently, fairly and reasonably, with integrity and taking Branch Operators' interests into account. A detailed view of all the process changes that have been made so far is contained in a Table of Operational Changes which is available in the Reading Room. A summary of the most pertinent points is set out below.

Onboarding of Branch Operators

13. Postmaster interviews are now delivered 'in house' to achieve a more seamless journey for our Postmasters and maintain our relationship with them at every touch point of their onboarding journey. There is also now a single point of contact for each applicant who 'hand holds' prospective new postmasters from the initial contact stage, through to the point of a contract being issued. We have also introduced the Business Support Manager role to support the new postmasters for up to 6 months and help embed their training; ensuring the postmasters and their teams are set up for success.

Loss recovery processes

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14. The Judgment imposes numerous additional duties and requirements which impact Post Office's loss recovery processes. Specific changes we have implemented to address these requirements include:

- a) **Loss Prevention:** creation of a new Branch Insights Tool to provide a basis for discussion for Area Managers with branches, giving an early warning of possible issues to enable support to be provided.
- b) **Audit:** creation of an Audit Rationale Document so that the reason for an audit can be shared with the Branch Operator; as well as various changes to improve the quality and transparency of the audit process.
- c) **Investigation:** creation of checklists to assist the Branch Support team in investigating discrepancies in cash balancing; a Tier 2 escalation team now provide further support to Branch Operators; and a Branch Review Tool is in development to speed up the investigation time.
- d) **Loss recovery:** the loss recovery function has been moved to sit within the new loss prevention organisation structure to improve efficiency and transparency across functions; letters sent to Branch Operators now use language which better reflects the spirit of the Judgment; legal debt recovery action has paused pending a full review and alignment to the Appeal process; call recording has been put in place for outbound calls; and, deductions from remuneration are currently on hold unless with agreement.
- e) **Transaction queries:** narratives sent to the Branch Operator have been re-written to improve clarity; and a new team has been set up to handle disputes relating to Transaction Corrections.

Suspensions

Changes have been made to address the contractual requirements Post Office must satisfy before it is able to suspend a Branch Operator and to reflect the fact that Post Office is no longer contractually entitled to withhold remuneration during suspensions. We are now continuing to make payment to Branch Operators who have been suspended following the Judgment. Payment is based on average remuneration during the 6 months prior to suspension. In aggregate this costs Post Office £125k per month. We are currently reviewing our suspensions policy, including replacing this with closer monitoring and limiting access to cash except in the most serious cases.

Terminations

15. Changes have been made to address the new contractual requirements Post Office must satisfy before it may terminate a Branch Operator. These include updates to the Conduct Case Decision Document and changes to the language used in termination correspondence with Branch Operators. These changes are designed to bring transparency to the evidential process followed to support the termination decision.

What preparations have we made for the upcoming Horizon Issues Trial Judgment?

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16. Our planning assumption is that the day when the Judgment lands will be circa 16 September 2019 ("Day 1"). We now have a robust response plan in place, with technical and organisational mitigations, owners, and timelines for delivery. Our response can be framed as follows:

Activities prior to "Day 1"

We have translated the worst-case legal outcome into operational, commercial and reputational impacts / risks - putting in place mitigations to, insofar as is possible, prevent these impacts / risks from crystallising. Examples include greater transparency in how we deal with and communicate issues and bugs; improved processes to better test changes being made in the live environment; and proactively scanning for issues and or bugs. Additionally, surge resourcing for our support centres; enhanced branch controls for cash orders; monitoring compliance issues including refusals to open branches / operate Horizon will help to protect Post Office whilst settling branches.

Day 1 and beyond

- a) We are standing up a parallel team of lawyers in readiness for Day 1 to translate (at pace) the Judgment into what, in lay terms, it means for our current operations, customers, agents, retail partners, corporate clients and suppliers. This will allow our response to developed, actioned and communicated swiftly.
- b) We have established a user group of branch operators, who we have actively involved in designing and prioritising a backlog of Horizon changes. These changes are being made to make their lives simpler by reducing operational and financial risks for both sides due to poor journey design. We have established a Horizon 'quick wins' delivery capability with Fujitsu both to deliver these changes and to be ready to make other Horizon changes at short notice. We already have a series of initial Horizon changes that are in design and development for release to the network in October. Following this initial release, we have scheduled further Horizon software release windows for every 6 weeks thereafter. This gives us the delivery capacity we may need to work through any other software changes that we might not have already considered.
17. Our response plan (which is available in the reading room) includes a comprehensive communications plan and the briefing of all relevant teams and relationships owners. However, we are clear that in circumstances of an adverse Judgment, we need to act and cannot simply 'talk our way' through this. Our immediate focus will be the discrepancy support team. We have been trialling a new approach to identify the causes of discrepancies for operators and we have seen a 95% success rate across 311 cases with the remainder being unknown causes. This process gives operators an answer within a few days and is winning their confidence where they may have otherwise blamed Horizon. We are ready to scale up this support in Chesterfield as needed once the next judgment is made public. Recognising that we need to serve our branches better, we have also put in train a series of more

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fundamental changes to improve our operational processes and our relationships with postmasters as detailed below.

What further work are we doing to improve our operational processes and our relationships with postmasters?

18. Since we updated the Board in May, a wide range of longer-term change activities have been scoped, planned, resourced and mobilised. These changes are the right thing to do for our business and our postmasters, irrespective of how critical or favourable any HITJ might be. Delivery of these is well under way.
19. We have listened to postmasters and are reshaping our support offer to them in response. We are creating a new support model, moving from telephone support to online support for day to day processes, but supplementing this with increased face-to-face time with relationship managers in the field.
20. As we roll this model out, postmasters will benefit from "always on" real time online support. This support will reduce the need for long call times to resolve simple queries and issues, reducing hand offs between teams and removing inconsistencies in processes. The new model will also reduce risks both to postmasters and to Post Office through earlier identification of said risks, as well as providing greater traceability and transparency in everything we do. Concurrently we are improving our onboarding processes, improving postmaster training, increasing face to face support for postmasters, and reviewing agent remuneration. Our primary change activities are summarised below:
21. **Improving Branch self service and support.** We have a plan of work which will digitise support services in stages over the next 12 months. In 18/19 we received around 389,000 calls and 120,000 emails in to the NBSC. We aim to reduce these by circa 70% by 2020/21. Our changes include: online cash and stock ordering; moving basic process enquiries online; revising "how to" guides and introducing more video tutorials; onboarding and vetting of branch staff online; and online IT support for our branches. The primary platform for this is the new Branch Hub portal. The initial platform has been built, a pilot is underway, and we are now accelerating the rollout and development of services that will be delivered on this platform, with cash and stock being prioritised for transparent tracking. Digitisation of the services we provide will improve branch operator experience. Functionality and information will be available instantly in an easy to digest format versus current processes which require phone calls or trawling through numerous Horizon screens.
22. **Improving Horizon and designing out transaction corrections:** By the end of July we will have analysed the causes of the c125k transaction corrections (TCs) we had to make over the last year. These are a cause of risk for Post Office, our branch operators and our third-party clients such as banks. We will identify the suite of process, data and system changes we need to make to eliminate the root causes of each type of TC. Our ambition is for a reduction of over 70% of TC volumes in stages between now and December 2020, with a commensurate reduction in the approximately 50 FTE who are currently employed to process them.
23. **Transforming contracts and loss prevention:** We wrote off £6m of losses in the last 12 months and due to changes driven by GLO our rate of write-off of losses is

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increasing. We aim to arrest the rate of increase in FY19/20 and reduce the value of losses written off to £4m in FY20/21. Approximately 10% of branches do not follow the recommended process for cash declaration and remittance each day or week – a key 'red flag' for a branch building up losses. We will reduce this to 1% by the end of 2020/21 by bringing in more controls. We have formed a new Loss Prevention function with new leadership and are moving our Loss Prevention capability from a reactive and largely manual function to one that uses more root cause analysis and data analytics to look ahead and make interventions that prevent losses from happening in the first place. This provides benefits for branch operators as well as Post Office, with interventions such as troubleshooting guides through to targeted training and support to improve compliance and performance. Where suspected losses do occur, we will provide tools for the branch operator via Branch Hub to better analyse their own position and how it has occurred, making getting to a resolution a faster process. On our side, we will use a redesigned set of KPIs, processes, risk assessment tools and case management software to ensure a clear, robust and transparent end to end processes with a single version of the truth throughout.

- 24. Redesigning the operations organisation:** Based on the reduced workload driven by moving branch support processes online and reducing transaction corrections we will reduce headcount in Operations by the end of 2020/21 by up to a third (from approx. 350 to 230 FTE). Further potential savings are likely to be identified as our design work progresses. This reduction in staff would provide savings of around £3.9m p.a. Our target model for Operations will continue to require a Branch Support Centre in Chesterfield as a first point of contact when things go wrong, but with fewer resources and different skills. Roles that currently sit across NBSC, FSC and the IT service desk in Chesterfield and those in Bristol cash centre will move into this transformed Branch Support Centre, creating a one-stop shop for branch operator support. We will design the future organisational structure for the Operations function from a zero-base, based on the future services that it will provide to branch operators.

Improving operator onboarding: We will reduce the time for applicants to complete a business plan from 60-90 days to less than 30 by the end of 2019/20. We will also reduce the number of unsuitable applicants who enter the process through better pre-screening questions and reduce the drop-out rate by 50%. Critically, the 'Run a Post Office' website (RAPO) is being overhauled to make it more user-friendly and to work better on mobile platforms and the Electronic Business Plan which postmasters find complex and personally and financially intrusive is being significantly streamlined;

- 25. Redesigning operator training:** We have designed an improved training offer for new and existing postmasters which will reduce the likelihood of operational errors and improve overall customer experience. By 25 August, we will have increased classroom trainers by 6 FTEs, onsite trainers by 10 FTEs and field support by 8 FTEs. We are increasing our classroom capacity and reach from 12 to 18 locations nationally and improving the classroom environments. New training modules are being developed and will be running from August 2019. These modules will address some of our biggest drivers of risk e.g. back office and balancing training.

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- 26. Reviewing agent remuneration:** We have commenced the review of Agent Remuneration adopting a qualitative and quantitative approach to determine our recommendations. This is covered in more detail in a separate paper at July's Board.
- 27. Improving field support:** We updated the Board in May that we had changed the field team structure to provide a nominated point of contact, an Area Manager, to support every Post Office, regardless of size and location. This change has been well received by the c6,000 postmasters who have since received a visit, some of whom are seeing someone from the Post Office for the first time in over a decade. Improved Management Information is enabling our field teams to help postmasters identify opportunities to improve their sales and remuneration, with a common play book of solutions such as developing local marketing, improving the retail offer and investing in store design.
- 28. Investing to improve our operational processes and our relationships with postmasters will also improve the wider financial health of our business.** Reducing risks and reducing costs are compatible in this instance. In summary we anticipate achieving a £5.9m (annualised) reduction in our Operations cost base by the end of FY20/21, comprising a £3.9m reduction in staff costs and a £2m reduction in losses.

What have we budgeted and how much do we anticipate spending?

- 29. At May's Board meeting we set out £22m of anticipated incremental spend on items which would not otherwise have been delivered during FY19/20. Against this spend £7.1m has been committed so far, with an anticipated £14.9m to be spent over the remainder of this financial year.**

Initiative	19/20 £m	FY Committed	Still Open
Opex spend			
Agents Remuneration – reverse Mails simplification	3.5	-	3.5
Agents Remuneration for suspended Postmasters	1.5	1.5	-
Agents Remuneration – deep dive	0.5	0.5	-
Legal work regarding policies and processes	2.0	0.2	1.8
GLO Communications	0.5	-	0.5
Simpler business – training and engagement	1.2	1.2	-
Impact on Change plan reprioritisation	0.5	0.5	-
BAU impact of process changes (placeholder)	2.3	0.2	2.1
Opex total	12.0	4.1	7.9
Change spend			
Horizon changes (quick wins)	2.5	-	2.5
Branch hub initiatives	1.5	-	1.5
Simpler Business – HotHousing to accelerate field structure benefits	3.0	2.9	0.1
Design of new processes (including loss prevention)	2.0	0.1	1.9
POL workforce changes (Restructures etc.)	1.0	-	1.0
Change total	10.0	3	7.0
Total	22.0	7.1	14.9

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POST OFFICE BOARD

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Update Paper

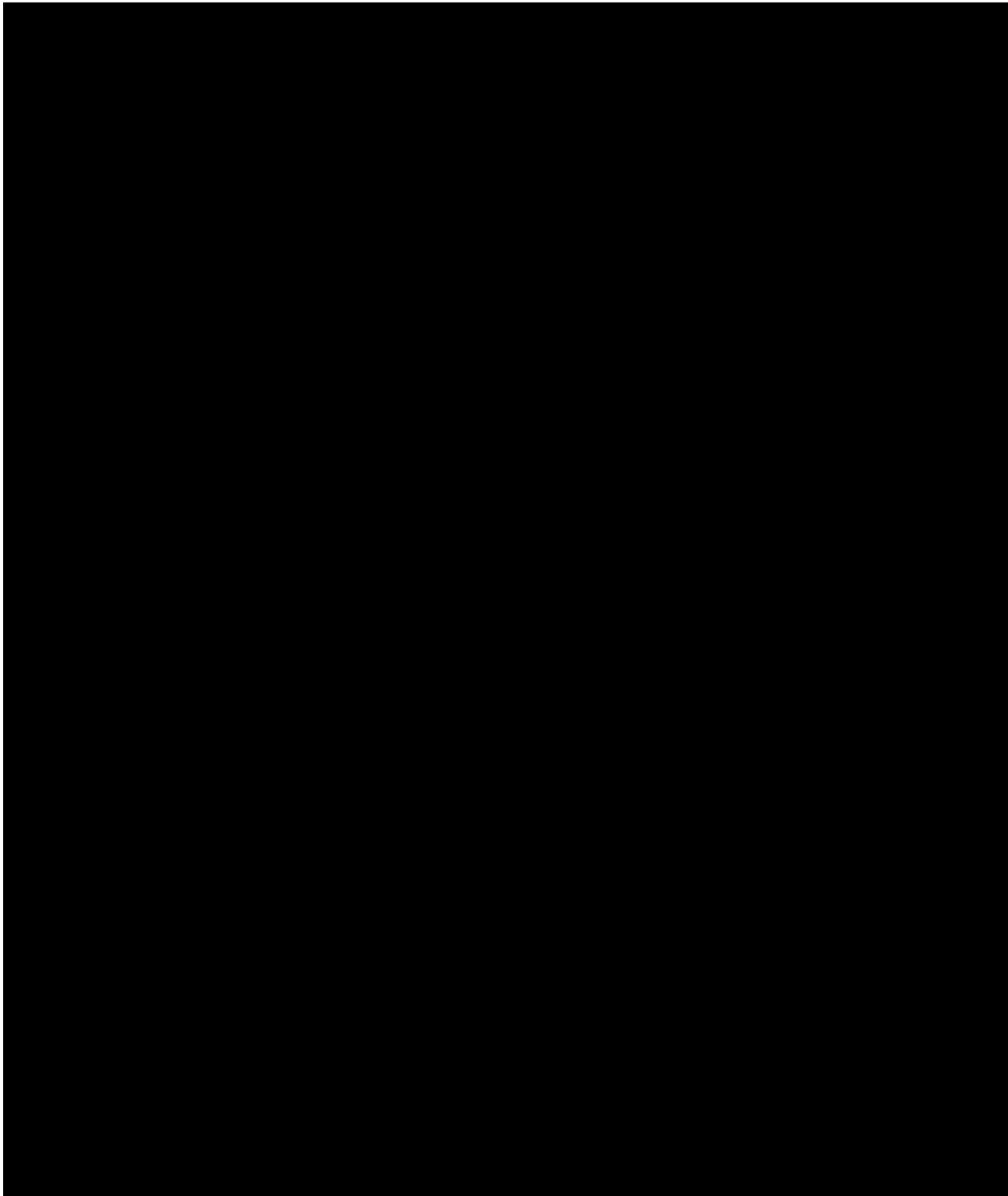
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Project Starling – “Worker” Claim

Author: Laurence O'Neill and Ben Foat

Sponsor: Ben Foat

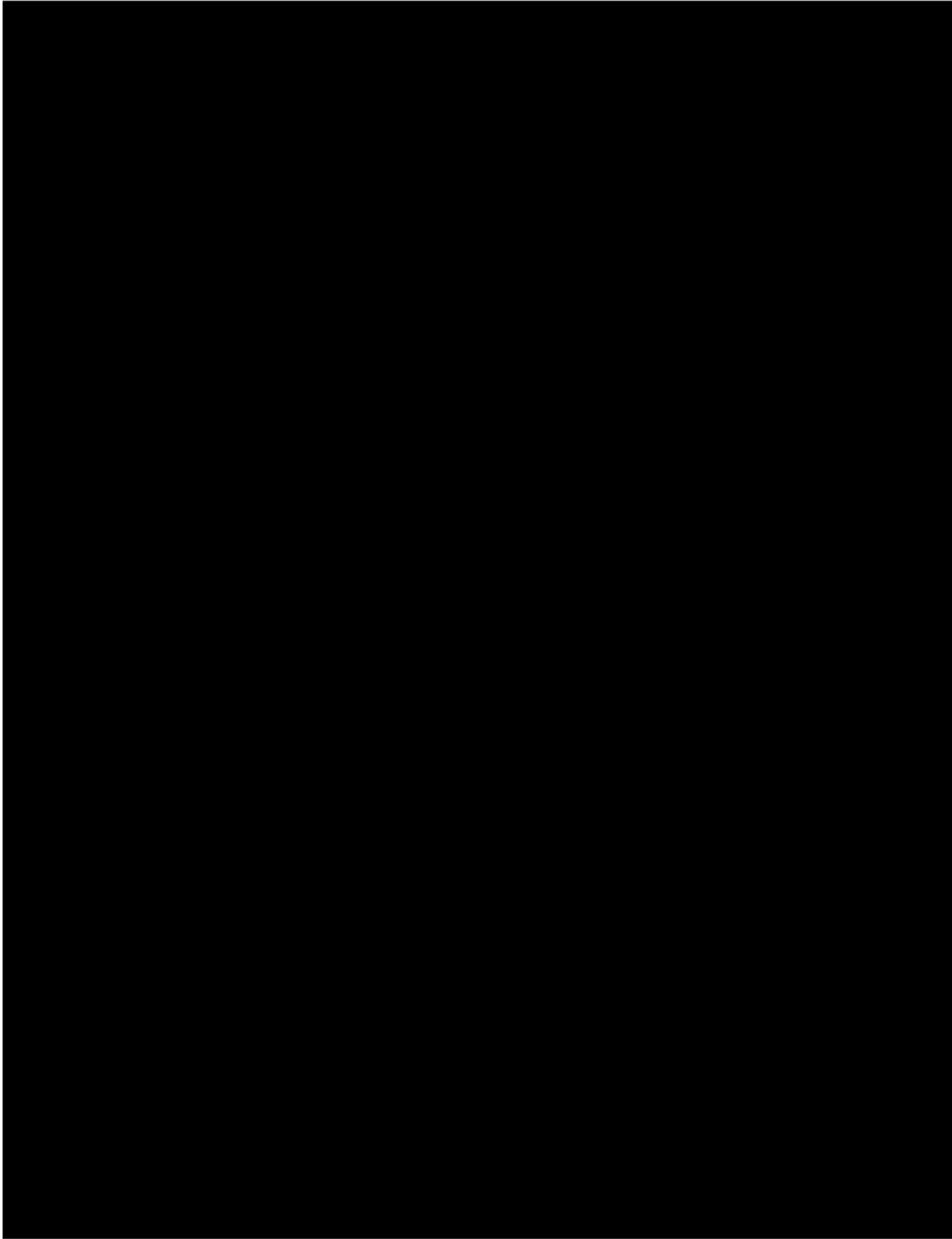
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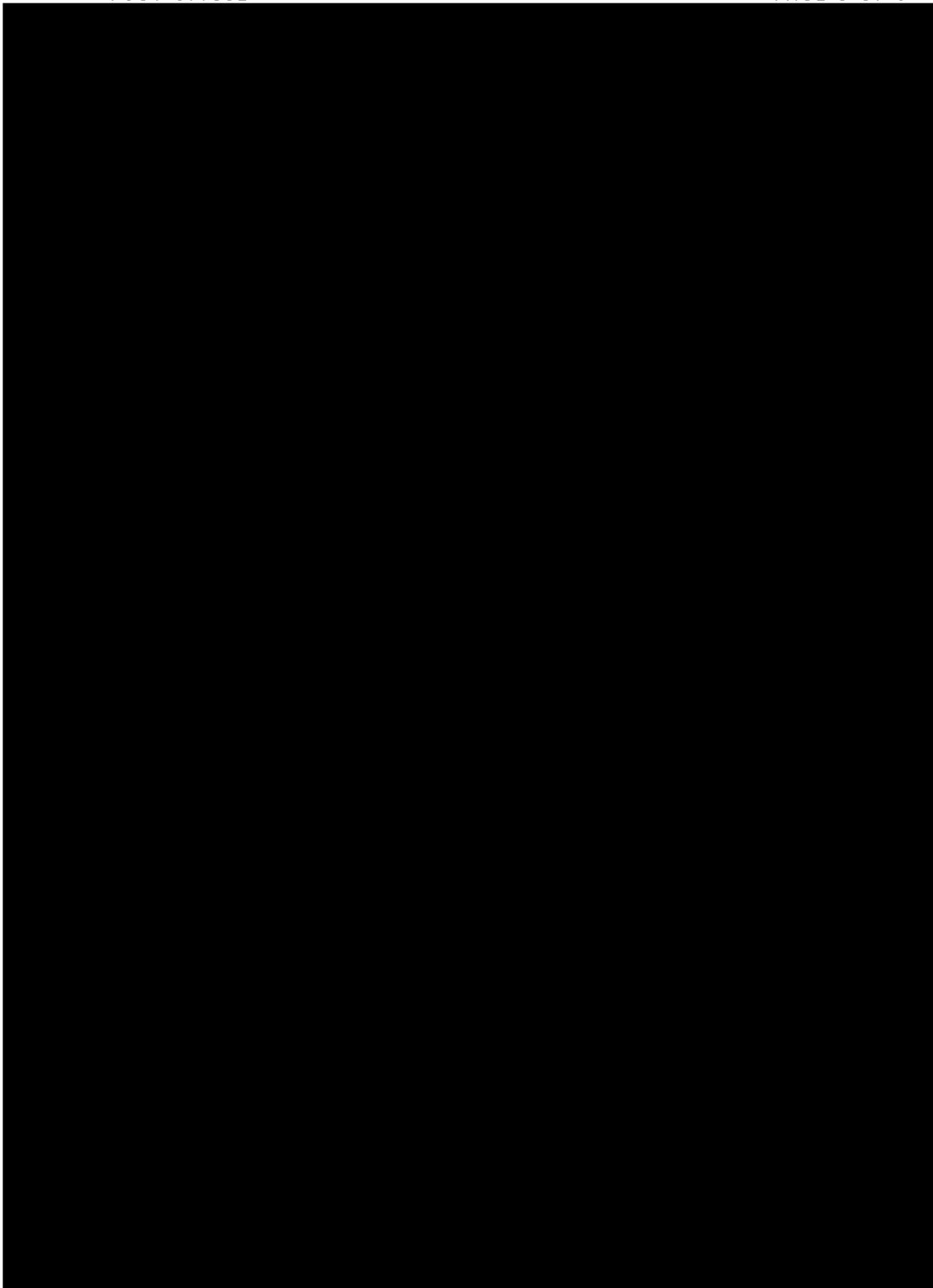


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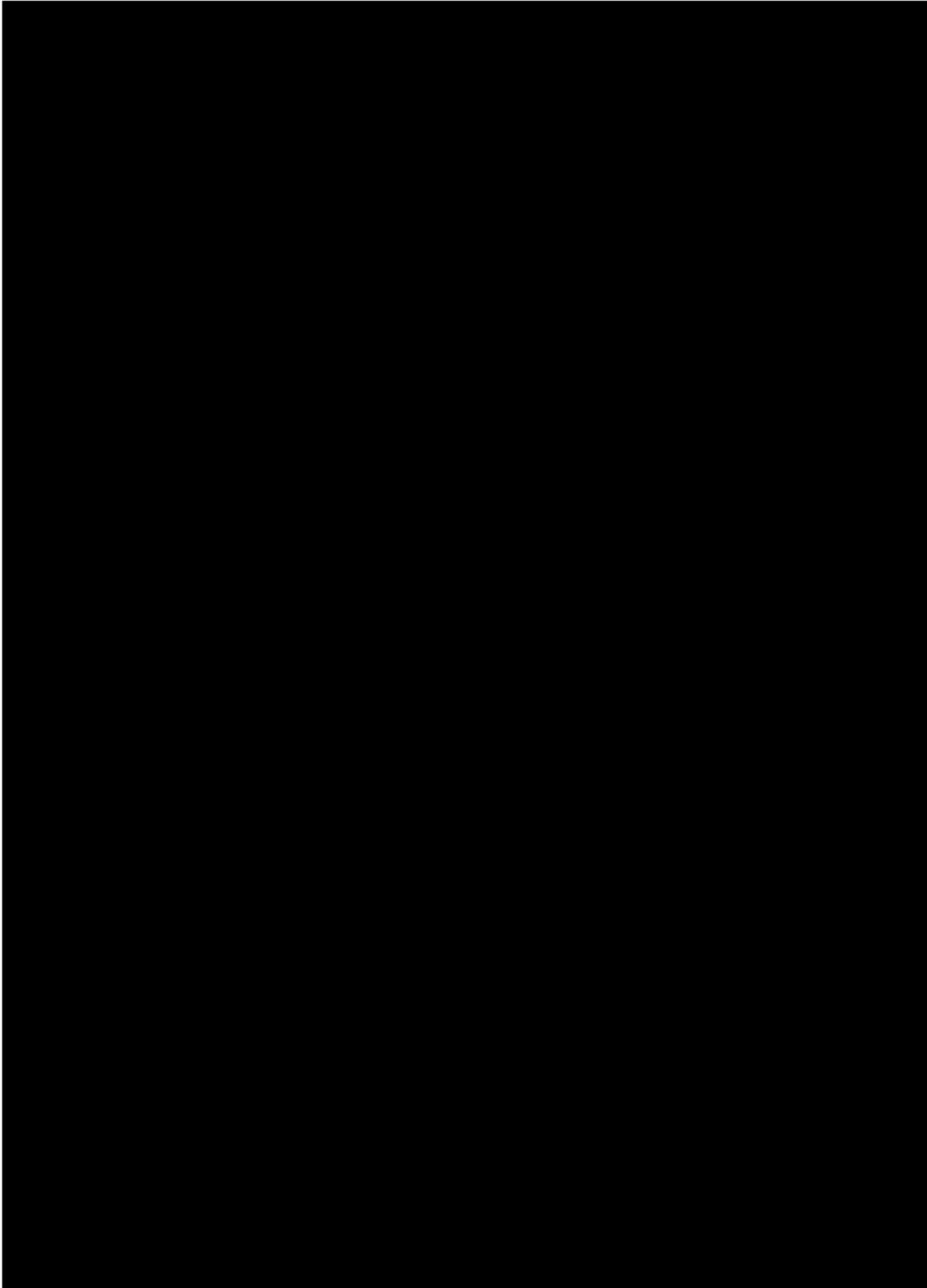
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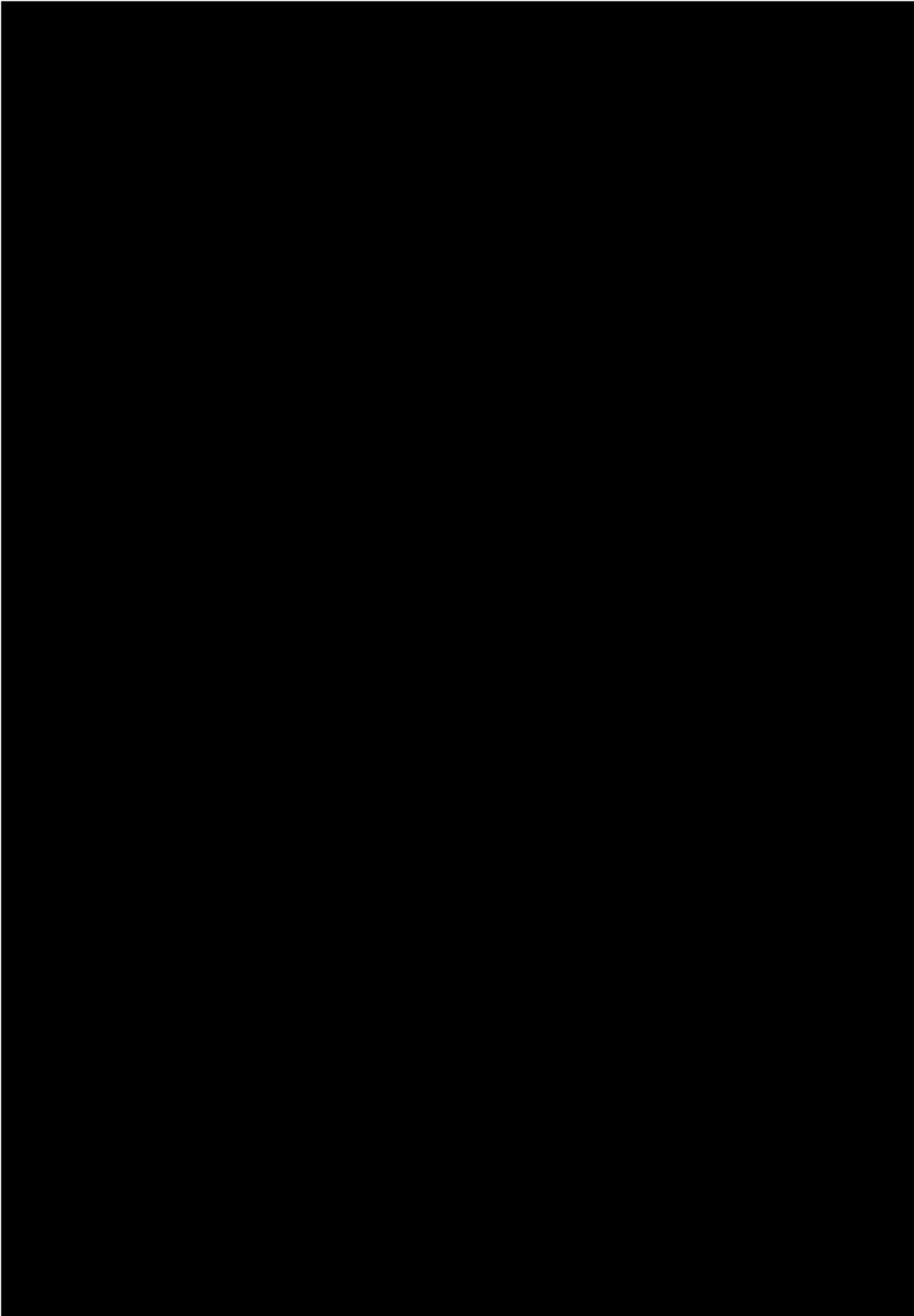
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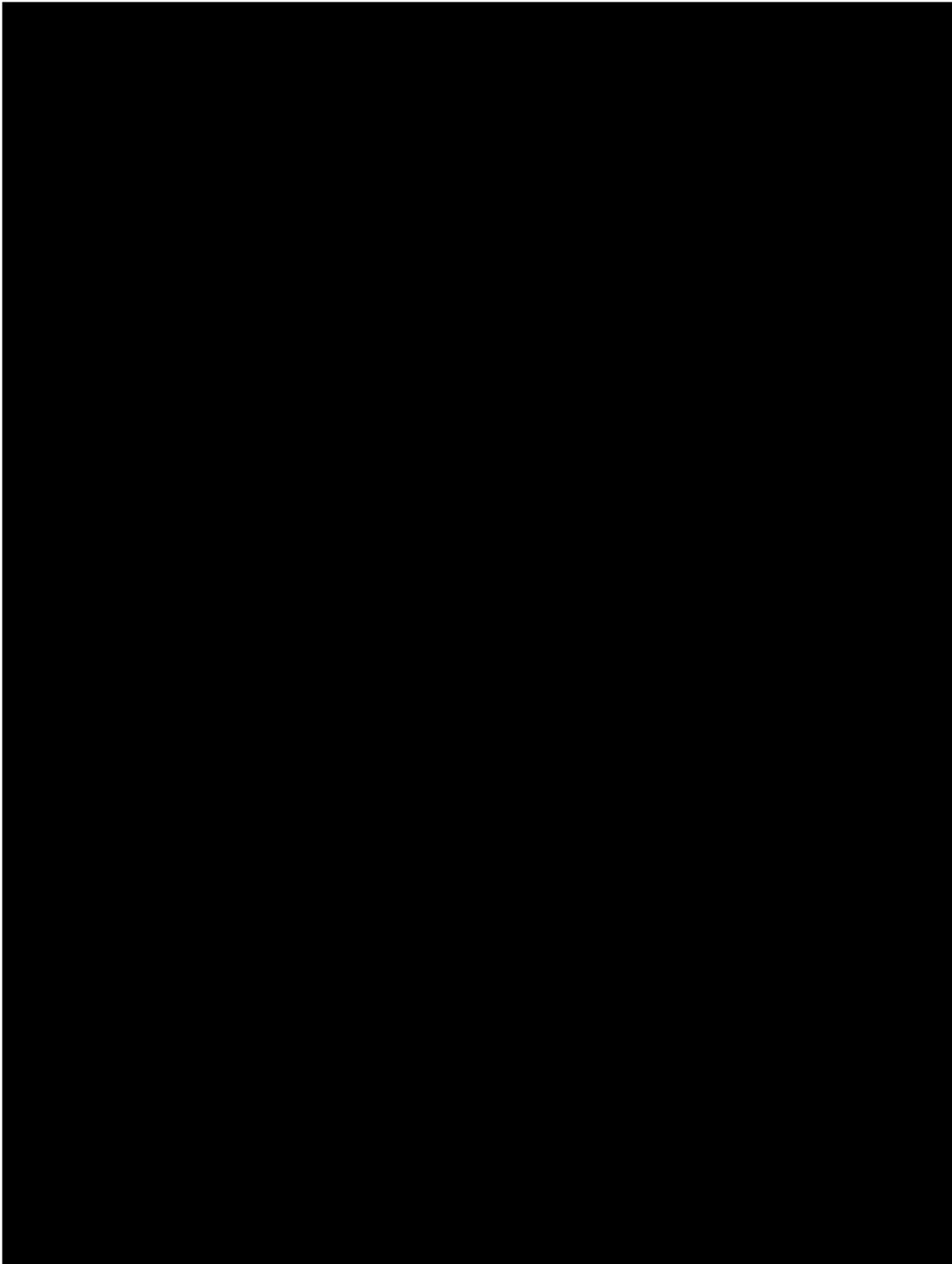
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Project LEO Update

Authors: Ben Foat Sponsor: Ben Foat and Owen Woodley Meeting date: 30 July 2019

Context

The retail FS strategy seeks to build long-term customer relationships, through Post Office partnering with 'best of breed' product providers. Depending on the customer proposition, PO will have different levels of involvement in the value chain with each product provider. To facilitate that strategy, the Board previously approved in principle a new group legal structure (through the legal entity optimisation project 'LEO') which involved the establishment of a new holding company ('HoldCo') above Post Office Limited ('POL'), the transfer of the shares in each of Post Office Management Services Limited ('POMS' or 'POI') and Payzone Bill Payments Limited ('PZBPL') to HoldCo, and the establishment of a new financial services entity ('FSCo') and, potentially, a services company ('ServCo'). Management would now prefer to adopt a simplified and potentially quicker approach to LEO to ensure that Peregrine timetables can be achieved requesting that POL continue as the parent company and for the existing POI entity to be utilised as the vehicle for the POL FS business.

Questions addressed in this report

1. What is the new proposed structure and why has the proposal changed?
2. What are the implications of this proposed new approach?
3. What progress has been made since the last Board update?
4. What are the next steps and timeline?
5. What will the impact be on the approved budget?

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Conclusion

1. POL will remain the parent company and the POL FS banking products business will be transferred to POI once the FCA has provided the necessary approvals and regulatory permissions. This approach is simpler and potentially a quicker route to provide the vehicle through which POL FS can execute its strategy including Project Peregrine. Given the volume of other programmes and strategic initiatives across POL, the need for a more simplified and potentially quicker approach has increased. This approach still gives POL the option to later set up a HoldCo and separate FS entity should there be a commercial or strategic imperative to do so.
2. The main implications arising from this approach is that as a result of POL remaining as the parent company, the existing governance conflict arising from the inverted parent/ AR structure will remain.
3. Significant negotiation and progress has been undertaken in relation to finalising the Articles of Association and a Framework Agreement. In addition, KPMG has provided a 'Route to Dividend' and tax assurance work, which was requested by UKGI but further re-examination is required in light of the new approach.
4. There are number of next steps:

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- a. POI Board needs to notified and necessary approvals obtained including the request for a variation of its permissions (VoP) from the FCA. The POI Board will need to ensure that there are appropriate operational processes, controls, governance and resources in place to manage the FS intermediary business in addition to its existing insurance business.
 - b. Once the new articles of association and framework agreement are finalised (within the next 4 -6 weeks), the FS team, together with POI can prepare the application (including comprehensive transition project plan) and submit a VoP to the FCA to become authorised to undertake the new types of regulated (banking intermediary) activity. This can process can take between 6 and 12 months, from the point at which the application is made but given that it is an existing currently regulated company it may be quicker to obtain the necessary approvals. The Board will be asked to approve the FCA VoP before it is submitted along with the authorisation of the CEO and CFO to determine the appropriate time for the application to be submitted.
 - c. Once the necessary corporate and regulatory approvals are in place, the transfer of the financial services business from POL into POI will include an asset sale by POL to POI. In return for the assets of the financial services business, consideration for such assets will need to be determined by the parties and payable by POI. Such consideration may be determined at book value and the asset sale can be carried out in exchange for a loan provided by POL to POI.
5. Project LEO has an approved business case for £3.3m. Spend to date is £1.1m. Its allocation for 19/20 is £1.8m against which c450k has been incurred. We will provide an update at the next Board on the expected costs for 19/20, once we have determined where the deliverables should sit, the KPMG assurance work has completed and Steps Plan for moving the FS business into POI has been received and built out into a revised project plan.

Input Sought

The Board is asked to consider approve in principle:

- (i) The revised Project LEO structure; and
- (ii) The draft Articles of Association and Framework Agreement and authorise the CEO or CFO and General Counsel to agree the final versions subject to no further material change, noting the level of control and oversight being sought by UKGI being deemed acceptable by the Board,

Input Received

Advice from Linklaters LLP

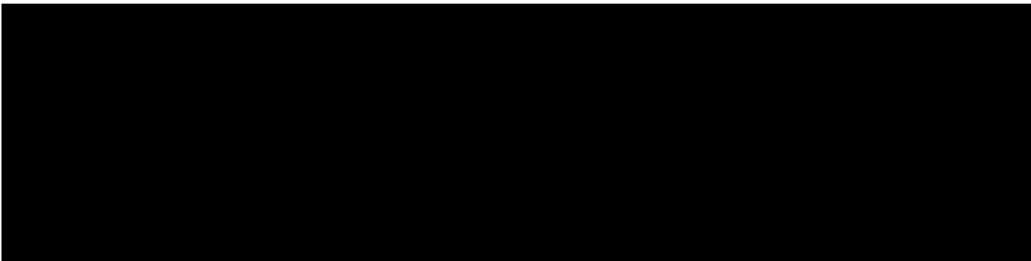
Report

What is the new proposed structure and why has the proposal changed?

1.1 Management seeks to take a simplified approach to Project LEO, which may not be the most 'optimal' structure but enables the Board's stated FS strategy to be realised, delivered quickly and does not prevent the business from optimising its structure in the future. Given the volume of other programmes and strategic initiatives, the need for a more simplified and potentially quicker approach has become more important.

1.2 External legal advice has been obtained which confirms that there is no legal

1.3



What are the implications of the simplified approach?

2.1 Although moving the financial services business from POL into POI (which will remain directly authorised by the FCA, but with an expanded remit and extended regulatory approvals) will remove the need for multiple (and an increasing number of) Principals to enter into an MPA (i.e. POL will be the AR to POI, with the likes of BOI, Capital One and various underwriters having Bilateral agreements with POI) – it will not, as HoldCo would have, remove the potential conflicts of interests that may arise from POI (an FCA regulated Principal) reporting into its parent (an AR of POI).

2.2 Further, the new proposal will have implications for POI including:

- evidencing to the FCA how it will continue to meet all of its regulatory requirements for both new and existing business, with no customer detriment;
- Integrating resources and systems including the transfer of POL FS employees and contracts into the new POI subsidiary;
- Changes / additions to its governance structure, including its executive to ensure they have the required levels of experience within the expanded suite of services being provided; and,
- Complexity, should the end strategy for POI (or indeed the new FSCo) be a sale.

2.3 It should however be noted that the above, save the structure for a sale, would all need to be undertaken even if a new FS entity was utilised.

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What progress has been made since the last Board update?

- 3.3 Since the last Board meeting, progress slowed owing to the level of third party financial assurance which was requested prior to the Secretary of State (SoS) providing approval. KPMG were jointly engaged to perform this work; the scope of which included:
- i. Assurance that the target group structure optimised the eventual payment of dividends to the Shareholder in due course;
 - ii. Confirmation regarding the tax impacts of the restructure; and Confirmation that the valuation methodology used for the transfer of POI and PZBPL was appropriate.
- 3.4 This assurance report will need to be updated in light of the new proposed approach.
- 3.5 In parallel to KPMG working on this piece of additional assurance:
- i. We have also explored whether we could accelerate the detailed design work, TOM and implementation plans for ServCo. Immediate business requirements were distilled into being able to engage new employees on more commercial terms. As, having taken legal advice, we believe this may be possible within the current corporate structure, this is being taken forward separately.
 - ii. Discussions on the scope of a proposed framework agreement and the proposed POL parent and subsidiary Articles of Association.

Though significant progress has been made, some of the amendments UKGI are seeking to make would result in additional reporting, oversight and control with SoS approval being required more frequently and for decisions that the Board has previously had authority to make without shareholder consent.

Examples include:

New Reserved Matters / matters requiring Special Shareholder Consent which were not Reserved Matters for POL under the Articles of Association

- The making of any loan, granting of any credit or indemnity or guarantees by any group company other than in the ordinary course of business.
- The appointment of a director to the Board of any group company. A new right has also been included whereby the Shareholder would be able to appoint a new director and Chairman by notice to the Board.
- The remuneration of: (a) executive directors of any group company; and (b) non-executive directors of any unregulated group company.
- The appointment of non-executive directors to the Boards of any unregulated group company.

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Reporting and overview include:

- One annual review of the Board, committees and directors by the Chair and a board effectiveness review by the Senior Independent Director
- Quarterly Reporting on Post Office's performance against annual budgets and targets as set out in the strategic plan
- Quarterly reporting on Post Office's (i) draw down on government funding (ii) progress on delivery against its planned investments as provided for in the funding agreement (iii) branch network performance to enable UKGI to assess compliance against the objectives set out in the funding agreement and entrustment letter relating to the branch network and SGEIs (iv) litigation report including any threatened or reasonably anticipated litigation.

Management are broadly comfortable with these reporting requirements given that most are already performed. Processes will be put in place to ensure that we comply with any new obligations e.g., litigation report.

A copy of the draft Articles of Association and Framework Agreement are in the reading room. We expect these to be finalised within the next 4-6 weeks.

4. What are the next steps and timeline?

- 4.1 It is expected that the new Articles of Association for POL and POI, together with the Framework Agreement will be agreed in principle with our Shareholder representative within the next 4 to 6 weeks.
- 4.2 However, the amount of work required to get an already authorised firm (i.e. POI) ready to undertake new types of regulated activity is significant and will involve POI having to apply to the FCA for a Variation of Permission (VOP).
- 4.3 In order for permission to be granted, POI will need to be able to demonstrate and evidence to the FCA that it has fully considered and understood the implications of expanding the business. This process, for which the statutory time limits for processing an application are 6 months from when the FCA determines that an application is complete or 12 months from when it receives what it believes to be an incomplete application, will involve:
 - Full mapping of all regulatory requirements for the new products and services identifying all rules including those relating to financial promotions, pre contractual disclosure, contractual document, formalities for contract formation, rules relating to relevant post contractual activities, regulatory reporting, capital requirements, certification of staff, governance (systems and controls and risk management) etc.
 - Gap analysis against existing processes, procedures and governance etc. to identify where the existing business model is sufficient to support the new business, where it requires enlargement to support the new business, what platforms are required to support the new business and how those interface with existing platforms.

- Identification of suitable candidates with the appropriate experience and expertise to manage the process and the business going forwards, including addition approved persons or, in due course, senior managers.
 - Business continuity and disaster planning for the new business to be undertaken and implemented.
 - Increased AML, CTF and cyber security requirements to be identified and implemented.
 - Negotiation of contracts with product manufacturers and any third party platforms, outsourced providers etc. required for the new business to operate.
 - Full review of all IT to ensure the systems currently used for the insurance mediation interface with others to ensure correct data flows and any new systems are fully tested before launch.
 - Building out compliance and risk and customer services functions to deal with the increase in products and services and the scale of the business.
 - Designing the build out to ensure that there is not impact on continuing to service existing clients.
 - Training of staff on the new products and services and hiring suitably experienced staff, as required.
- 4.4 A 'Steps Plan' setting out exactly what needs to be done and in what sequence is a deliverable of KPMG and forms part of the assurance work they are now finalising. Assuming the new proposal does not inhibit the SoS from, in the future, realising a dividend, nor reduce its size, this will be received by the end of August. Nevertheless, given the amount of work required for the VOP application and that until now, the programmes' focus has been the original scope of LEO, we do not expect the newly proposed structure to be in place before June 2020.
5. What will the impact be on the approved budget?
- 5.1 Project LEO has an approved business case for £3.3m. Spend to date is £1.1m. Its allocation for 19/20 is £1.8m against which c400k has been incurred. We will provide an update at the next Board on the expected costs for 19/20, once we have determined where the deliverables should sit, the KPMG assurance work has completed and Steps Plan for moving the FS business into POI received and built out into a detailed project plan.

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BOARDPAGE 1 OF 4
DECISION PAPER

British Gas - Parent Company Guarantee

Author: Andrew Goddard

Sponsor: Debbie Smith

Meeting date: 30 July 2019

Executive summary

Context

This paper seeks approval in principle for one specific parent guarantee of the obligations of Payzone Bill Payments Limited ('PZBP') currently sought by British Gas ('BG'), in relation to the exclusive contract referred to in the CEO's report. The negotiations with British Gas are ongoing but we anticipate their conclusion during the second week in August 2019. Therefore, we are asking the Board to delegate approval of the parent guarantee to the Interim CEO and General Counsel subject to the terms being in line with the appendix to this paper. Should any material variances to this be proposed we would revert to the Board for approval.

Questions addressed in this report

1. Why does PZBP need a parent company guarantee for BG?
2. In what other circumstances would Post Office Limited be required to give a parent company guarantee?
3. What is the scope of the BG parent company guarantee?

Conclusions

1. Post Office Limited has received a request from PZBP to provide a parent company guarantee in respect of a new contract with BG for provision of bill payment services.
2. The Board is requested to approve the granting of that guarantee by Post Office Limited in principle.

Input sought

The Board is requested to approve the delegation of authority to the CEO and the General Counsel to finalise and approve the terms of the parent guarantee in relation to the British Gas contract as set out in this paper. Should any material variances to this be proposed we would revert to the Board for approval.

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The report

Why does Payzone need a parent company guarantee for BG?

3. Post Office Limited has received a request from PZBP to provide a parent company guarantee in respect of a new contract with BG.
4. Discussions as to the final terms of the guarantee are ongoing with BG. The liabilities for which the guarantee is sought are broadly equivalent to the operational liabilities which Post Office Limited itself incurs under similar contracts, but see further details in the Appendix. PZBP is going to become the sole provider of the bill payment services for BG (providing access to BG to both PZBP and POL networks in the provision of those services).
5. BG wants to ensure that an award to PZBP of an exclusive arrangement complies with its risk/credit requirements. BG has advised that it wants an assurance of a parent company guarantee from POL, given that: (a) PZBP has been trading for less than a year and does not have a suitable credit rating/trading history; and (b) BG will also be given access to the POL network under the contract.
6. We can confirm that PZBP is operationally able to perform the obligations under the BG contract. It should also be noted that BG currently has a contract with POL that will cease and be replaced by the single exclusive contract with PZBP for the provision of the PZBP and POL networks.

In what other circumstances would Post Office Limited be required to give a parent company guarantee?

7. Post Office has been previously asked to guarantee the obligations of PZBP for contracts with Anglian Water, Thames Water and Scottish Power, which are similar in nature to the guarantee requested in this paper.
8. PZBP is aware that POL Board prefers not to provide further parent company guarantees, but the proposed BG contract provides a unique transformational opportunity for both PZBP and POL to double the transaction volume of the bill payment and secure c14% market share growth. Accordingly, it is requested that POL agrees to grant a parent company guarantee to BG.
9. It is possible that POL could be requested to give further guarantees of PZBP's obligations to other clients of PZBP in the future. It is recommended that POL agree to grant guarantees of PZBP's liabilities where those terms are substantially similar to those on which Post Office itself would contract.

What is the scope of the BG parent company guarantee?

10. The Appendix summarises the main terms of the guarantee in the form currently sought by BG in respect of the contract.
11. It should be noted that the form of guarantee is still subject to discussion and negotiation with BG, with the objective to sign agreements week commencing 12th

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August, and full go live on 1st January, 2020. The comments in the Appendix set out the main points PZBP will seek to negotiate with BG regarding the current form of the guarantee.

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Appendix

Key terms of the parent guarantee currently sought by BG

Liability Caps of underlying agreement	Unlimited Liability	Nature of PCG	Comment
<p>Overall liability, per year: greater of £7.5m or 150% of the yearly charges payable (NB average gross charges estimated to be in the region of £8m per contract year & therefore £12m max liability per year)</p> <p>£10m in aggregate for damage to tangible property.</p>	<p>Unlimited liability in respect of:</p> <ul style="list-style-type: none"> • breach of confidentiality • intellectual property infringement • breach of data protection and company data • wilful default or gross negligence • indemnity for breaches of 3rd party IPR • indemnity for default of PZBP resulting in regulatory fines • indemnity for loss of data/breaches of data protection laws • indemnity for any TUPE liabilities • other liabilities which cannot be limited/excluded by law 	<p>Payment of sums and performance of obligations by PZBP under the contract.</p> <p>Provision of indemnities for failure of PZBP to perform or the contract being invalid/unenforceable</p> <p>Liability to be limited to the liability of PZBP under the contract and subject to the same defences as would be available to PZBP under the contract.</p>	<p>As the form of parent company guarantee is subject to further discussion/negotiation, we intend to seek the following changes to secure additional protection for POL:</p> <ul style="list-style-type: none"> • a removal of the indemnities (on the basis that there is no underlying general performance indemnity given by PZBP under the contract itself) • a removal of the clause relating to the contract being invalid/unenforceable (on the basis that BG would not have this protection had it contracted with POL directly) • a requirement for BG to first seek performance from PZBP within the timescales permitted under the contract and only to pursue the guarantee in the event of failure of PZBP to so perform • limiting the costs which can be recovered by BG for enforcing the guarantee to the liability caps under the contract and qualifying the costs as 'reasonable' • amendments to the subrogation and contribution provisions • amendments to limit the duration of the guarantee, to ensure POL does not acquire evergreen obligations but only during the period that there could be claims under the contract • removal of or amendment to warranties relating to the existence of any litigation which might impact on POL's ability to perform the guarantee

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BoI Negotiations - Final Positions

Author: Chrysanthy Pispinis Sponsor: Owen Woodley

Meeting date: 30th July 2019

Executive Summary

Context

- Our negotiations with BoI Group picked up pace in late August 2018 and in November 2018, BoI put forward a new proposal for our future partnership.
- We signed non-binding Heads of Terms in March 2019 and are close to finalised agreements.
- We updated the Board in January, March and May 2019; this paper presents the agreed positions on the material issues. Other, smaller points, are also being discussed.

Questions addressed in this report

1. What is the finally agreed position on Incentivisation?
2. What is the finally agreed position on Exclusivity?
3. What is the finally agreed position on Term and the Review Mechanisms?
4. What is the finally agreed position on Termination and Exit?
5. What are the latest financial projections?

Conclusions

1. We have now agreed all material issues with BoI about the future structure and approach to our partnership.
2. The terms of the new agreement - with a three year extension, a more protective exit process for Post Office, a fairer and more aligned incentivisation mechanism and significantly reduced levels of exclusivity - are all in line with the last update to the Board in May.
3. The latest financial projections reflect the continuing macro-economic challenges and, in particular, the lower likelihood of base rate rises in the foreseeable future. Nevertheless, we continue to believe that this proposal represents a significant enhancement for Post Office to the alternative of a "no deal" outcome which would see our core FS franchise be eroded away over the next four years.
4. We expect to be in a position to sign by mid-August once the extensive legal drafting process is concluded and we seek the Board's authority to proceed on the basis set out here.

Input Sought

The Board is asked to consider and agree the final construct of our refreshed relationship with BoI and delegate authority to proceed to signature on the basis presented once the contractual legal drafting is concluded. The Board is also asked to approve the total spend related to these negotiations.

The Report

What is the finally agreed position on Incentivisation?

1. As previously outlined, there has been a change to Post Office's commission payment structure
 - In the current agreement, Post Office is remunerated based on a bps charge on the stock of Post Office-branded deposits and the flow of Post Office-branded mortgages and loans originated

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2. Under the new structure, Post Office is remunerated based on the financial performance of the Post Office-branded mortgages, loans and deposits, which are constructed to replicate a standalone financial services business.
3. The new mechanism has been constructed to align incentives by ensuring Post Office is remunerated on a similar basis to Bank i.e. based on the profitability of the Post Office segment assets and liabilities.
4. While the new remuneration structure has been constructed to replicate that of a bank, Post Office has been immunised from various parameters that could affect the profitability of a typical financial institution (e.g. operating expenses, impairments and capital charges).
5. BoI previously proposed the inclusion of 'cost tramlines,' which were effectively increases in the operating expense bps charge in the event the perimeter was to shrink.
 - Post Office negotiated away the 'cost tramlines'.
6. The core principles of incentivisation agreed as part of the HoTs discussions largely remain unchanged and have been reflected in the 'Commissions' schedule.
7. One additional change that Post Office has successfully included relates to ensuring that we have recourse in the event there are errors in the Post Office Segment Monthly Accounts used to calculate Post Office's commission payments.
 - In this scenario, Bank is compelled to discuss the issue with us and either comply with our proposed changes or the issue is escalated as part of the governance process.
8. On FRES, Post Office has negotiated an additional fixed commission flow of £8.3m p.a. to 2022 (representing £4.9m net p.a.), and £9m p.a. from 2023.

What is the finally agreed position on Exclusivity?

9. One of the ambitions for Post Office in entering into the negotiations with Bank was to be released from exclusivity on products that did not form a core part of the partnership.
10. It has been agreed that Bank is now only exclusive on Residential Mortgages, Personal Loans and Personal Savings products.
11. While Bank is exclusive on Residential Mortgages, both parties have agreed to put in place a referral mechanism to ensure that Post Office is still able to fulfil its social purpose of providing financial products to underserved individuals.
12. Buy to Let Mortgages ('BTL') were not discussed at the HoTs stage but became a contentious topic at the legal drafting stage.
 - Bank believed that they retain exclusivity on BTL mortgages as they are loans secured on residential property.
 - However, Post Office believe that BTL customers should be classified as a 'business' customer as they are conducting a 'trade'.
 - The agreed position is that BOI is the provider for non-corporate customers that have up to four BTL properties (this aligns with their current lending practices); any other customers are not within the scope of the arrangement.
13. During the HoTs phase, the parties agreed to discuss the exclusivity provisions surrounding Equity Release at the contracting phase. This was to ensure Post Office was not restricted in its ability to provide financial advice as part of a broader investment or retirement planning service.
14. It has been agreed that Post Office will have the freedom to appoint a Financial Advice provider to deliver whole of market advice on Equity Release products.
 - Unlike with Residential Mortgages, Personal Loans and Savings, Post Office's Financial Advice provider is not restricted to only offering Bank products.
15. One of the more contentious areas has been the implications of Post Office having unfettered access to business customers, especially in relation to sole traders who can enter into agreements in personal and/or business capacities
 - It has been agreed that sole traders are a business customer.
 - Given that sole traders can act in both a personal and business capacity, Post Office will conduct certain checks on individuals to ensure that they can only obtain a business product when acting as a business (in other words, for a business purpose).
 - Post Office has committed to only sell business products to bona fide business customers.

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- Post Office has also obtained the corresponding commitment from Bank to only market Post Office-branded personal products to personal customers.
16. As agreed as part of the HoTs discussions, Bank will maintain exclusivity on Motor Finance and Point of Sale Finance. However, if Post Office were to bring forward a credible proposal and the parties working together are not able to launch the proposition, Post Office will be released from exclusivity on the given product.

What is the finally agreed position on Term and the Review Mechanisms?

17. The term of the agreement has been extended from September 2023 to December 2026 (now the earliest termination date of the partnership).
- This is a material move from Bank's November proposal of an extension of "10+ years".
 - The agreement has been structured such that Post Office is able to exit the arrangement, i.e. serve notice, periodically (every five years)
18. While the term of the agreement has been extended, Post Office and Bank have agreed to interim review mechanisms, which allow both parties to make changes to the partnership if performance is below expectations.
19. The Performance Review is in line with what was previously presented.
- The purpose of this review is to compel both parties to develop an action plan that will address any potential underperformance early on.
 - As previously outlined, Post Office is only able to exit the relationship following this review, by mutual agreement with Bank.
 - As part of the HoTs discussion, it was agreed that if certain underperformance triggers were met, both parties would be allowed to conduct informal market soundings to identify if there were credible superior alternatives.
 - Post Office and Bank have now agreed a specific list of information that will be disclosed to interested parties as part of the market sounding process.
20. The Key Variable Review has been agreed in line with the general principles previously presented.
- The purpose of the Key Variable Review is to adjust the key inputs to the perimeter to account for any significant divergence from the 'real world' environment as a result of the passage of time
 - As previously presented, the new input levels for each of the variables will apply from 2023 onwards.
21. The Full Review has now been agreed.
- The purpose of this review is for both parties to assess all elements of the partnership and, if desired, make the necessary changes that will incentivise both parties to want to continue the relationship.
 - If either party is not satisfied, they are entitled to serve notice within the Full Review Window.
 - The Full Review can be triggered by either party between 30 June 2024 and 30 June 2025 and does not require a trigger event.

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What is the finally agreed position on Termination and Exit?

22. A significant amount of time has been spent on refining the termination mechanism to ensure that both parties are incentivised to continue to grow the partnership right up until a potential Exit.
23. Both parties have now agreed to a "Matched Book" principle on Exit.
24. The implication of this is that, Post Office has agreed to allow Bank to 'rent' the excess deposits for a three-year period post Exit (for which Post Office will receive commissions; BoI's existing contractual obligations in relation to customer servicing, etc. will remain).
25. While the "Matched Book" concept has been agreed, as noted in the HoTs, the parties have agreed that in the event there is economic merit in selling an unmatched portfolio of assets and liabilities, both parties will discuss, in good faith, the possibility of selling an unmatched book of assets and liabilities.

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26. Narrowing the gap (between assets and liabilities): Bank has shared a statement of intent, which details their intent to reduce the mismatch, primarily through making Post Office the primary brand for broker-originated mortgages in the UK.
27. The termination valuation mechanics are broadly as agreed in the HoTs, with Bank being paid the higher of the Compensation Amount (DCF run-off valuation) or 50% of the Franchise Value; this is to ensure both parties are incentivised to grow the business to the point of exit.
28. There has been significant debate over the concept of Franchise Value, particularly with regard to the circumstances in which Bank can claim the Franchise Value they have received has been 'understated'.
29. It has been agreed that Bank can request the appointment of an independent expert if it reasonably believes the Franchise Value has been understated.

Securitisation

30. As part of the HoTs discussions, BoI had requested that the existing securitisation protocol for broker mortgages continues to apply; it was agreed that the parties will need to have further discussions on securitisation in the contracting phase as Post Office had expressed concerns around its ability to exit the agreement should BoI securitise, recognising that, like any Bank, BoI needs the ability to securitise to manage its balance sheet.
31. Following further discussions, Post Office has managed to negotiate several material changes to the go-forward securitisation protocol.
32. In a BAU scenario – i.e. in the event Bank undertakes a securitisation prior to notice being served by either party, Bank has committed that this will not have any impact on the perimeter so our commission will be calculated as if there had been no securitisation.
33. We have also sought to agree more detailed securitisation protections for Post Office in an Exit scenario.
 - From the commencement of the notice period, no market securitisation of Post Office assets will be undertaken by Bank.
 - Following the commencement of the notice period, Bank will only be able to undertake central bank or bi-lateral securitisations which can be fully unwound prior to the termination date.
 - In the event that there are securitised assets at the exit date, BoI has committed to calling any market securitisation by the first call date and any central bank and bilateral securitisations by no later than the termination date.
 - In scenarios where Bank has undertaken a material securitisation of Post Office's assets, our New Partner has the freedom to make an election to leave the securitised assets with Bank or purchase them at the relevant call date.
 - Additionally, Post Office's New Partner now also has the flexibility to decide whether to take the unmatched liabilities at the Exit Date, wait until the asset call date, or simply leave the liabilities behind with Bank.
 - It has also been agreed that Post Office will be remunerated based on the current 'synthetic bank' commission mechanism for the period in which Bank has securitised Post Office assets, post exit date.
 - With regards to valuation, the general principle agreed is that Post Office's New Partner will only pay for assets and liabilities as and when they transfer.
 - So at Exit Date, Post Office's New Partner will not pay for securitised assets and corresponding liabilities that remain with Bank.
 - However, at the call date, Post Office's New Partner will be expected to remunerate Bank for the assets and liabilities to be transferred, based on a Par Value and Compensation Amount calculation.

Customers

34. We have been mindful throughout this process to ensure we protect our customer franchise and be clear with and fair to customers
35. On exit, there are two main phases during which customers can transfer to our new FS provider

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- The main exit date, where the customers of the 'matched portfolio' transfer to our new FS provider(s). As per the current arrangements, this is done by way of a Part VII transfer. These customers will hold PO-branded products that will sit on the new FS provider's balance sheet.
- For up to three years post the main exit date, BoI will be 'renting' excess PO deposits; the customers linked to these deposits will be randomly selected against certain criteria to ensure they are a representative sample of the whole customer base. These customers will hold PO branded products that sit on BoI's balance sheet, and will attrite over time. Should BoI not be interested in retaining them, PO will have the right to target them with savings products from its new FS provider
 - Although BoI will not be acquiring new customers under the PO brand, it has undertaken to change any product names/ features to avoid customer confusion
- At the end of the 'rental' period, and depending on the balances left, PO's new FS provider can choose to take on these customers
- A similar process will apply in the scenario where there are securitised assets and liabilities post exit

What are the latest financial projections?

36. The macro-economic outlook has continued to shift since we presented our projections to the Board in January, with uncertainty around the political landscape, Brexit and base rates as strong as ever - a very challenging environment for long-term forecasting. In parallel, retail FS margins have continued to come under pressure.
37. As part of the negotiations, we were clear on wanting to agree a three-year business plan with BoI - not least to help document a shared mid-term ambition. Through this process, and give the broader context, we modelled numerous scenarios, and have taken a more conservative view of macro factors for the next 18 months, reflecting the broader uncertainty.
38. The table overleaf illustrates: a) not doing a deal, i.e. letting the FSJVA run its course; b) doing a deal - as presented in January; c) doing a deal - given our latest negotiated position and the change in the broader macro assumptions.
39. Specifically, and compared to January, the main differences in our latest estimate (July) are as follows:
 - A move to a flat base rate environment for 2019; BoI's estimates in early 2019 had assumed two base rate changes.
 - Projected mortgage margins are lower than the January assumption of 1.7% (reduction of c12bps).
 - We have achieved an improved position on the FRES fixed commissions.
 - Negotiating away the 'cost tramlines' improves our position in the outer years.
40. Critically, our share of earnings of the total FSJVA PBT remains largely unchanged, illustrating the alignment of interests through the new model.
41. The table below presents the 'outputs' of the incentivisation mechanism, based on calendar years.
 - Our 19/20 income forecast against the Post Office remuneration line is £33.5m; this is mainly due to calendar adjustments (the new incentivisation mechanism would only be effective in Q2 19/20)
 - The years from 2020 onwards include some mitigating actions (e.g. reduction in marketing spend) to make up for the lower returns
42. We have removed the impact of the new credit card deal with Capital One, as this has been captured through a separate business case.
43. We have also removed the impact of on-boarding new product providers, as we take stock of where we wish to grow next.
44. The market has deteriorated, reflected in the subdued numbers in the earlier years; the broader outlook post Brexit is of course unknown. Our strong view though is that completing a deal is, in aggregate, still significantly better than not completing this transaction - which would leave a large gap in our income and a hugely depleted FS customer franchise in 2023.

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		2019E	2020E	2021E	2022E
No change in agreement / aggressive run-off	Commissions (gross)	£32.8m	£22.5m	£15.3m	£8.3m
	FSJVA cost benefit	£8.0m	£9.5m	£9.5m	£9.5m
	FRES cost synergies	-	£2.5m	£2.5m	£2.5m
	Total	£40.8m	£34.5m	£27.3m	£20.3m
New Incentivisation Mechanism (POL "Conservative" Scenario Jan-19)	PO remuneration	£35.6m	£34.5m	£27.9m	£23.0m
	<i>PO % of PBT</i>	<i>46%</i>	<i>40%</i>	<i>32%</i>	<i>28%</i>
	FSJVA cost benefit	£1.0m	£1.5m	£1.5m	£1.5m
	Additional FRES Payment (net)	£3.0m	£3.0m	£3.0m	£3.0m
	FRES cost synergies	-	£2.5m	£2.5m	£2.5m
Total	£39.6m	£41.5m	£34.9m	£30.0m	
New Incentivisation Mechanism (POL "Conservative" Scenario Jul-19)	PO remuneration	£23.9m	£25.9m	£27.9m	£27.7m
	<i>PO % of PBT</i>	<i>44%</i>	<i>38%</i>	<i>32%</i>	<i>31%</i>
	FSJVA cost benefit	£0.8m	£1.0m	£1.0m	£1.0m
	Additional FRES Payment (net)	£3.7m	£4.9m	£4.9m	£4.9m
	FRES cost synergies	-	£2.5m	£2.5m	£2.5m
Total	£28.4m	£34.3m	£36.3m	£36.1m	

Project funding

45. Our broader FS strategy work and negotiations with BoI started in mid- 2016, with varying degrees and phases of activity over the last three years.
- Our initial strategy work and negotiating position was supported by KPMG as our consultant and Macquarie as our financial advisor, with further support from McKinsey on validating the FS strategy (as requested by the Board) – totalling c.£2.7m in 2016/17 and 2017/18.
 - Since negotiations picked up again in mid-2018, we have been supported by Fenchurch as our advisors and Linklaters as our external counsel – spend has totalled £1.6m in 2018/19, with a further £780K in approved funding to end May 2019.
 - In May 2019, the Board approved a total spend of £5.4m, which includes the sunk costs detailed above.
 - We now expect the total spend to completion to be £5.6m reflecting the project going into August, and seek the Board's approval of this (Investment Committee approval will be sought on 29th July).

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BOARD

Governance Items

Author: Veronica Branton, Head of Secretariat Meeting date: 30 July 2019

1. Ratification of appointment of Group Chief Executive Officer

The Board is asked to **RATIFY** the appointment of Nick Read as Group Chief Executive Officer, subject to regulatory clearances¹.

Non-Executive Directors (NEDs) were asked to approve the appointment by written resolution on 17 July 2019 on the recommendation of the Nominations Committee. Responses were received from each NED on 17 and 18 July 2019.

2. Resignation of Non-Executive Director

The Board² discussed the potential conflicts of interest arising from Shirine Khoury-Haq's appointment as Chief Financial Officer of Co-op Group Limited while serving as a Non-Executive Director of Post Office Limited on 15 July 2019. Shirine tendered her resignation on 18 July 2019 and the Board is asked to **NOTE** the resignation.

3. Credit Card Contract with Capital One

At its meeting on 29 January 2019, the Board delegated authority to a sub-group of the Chairman, Chief Executive, Tom Cooper and the CFOO to take the decision on Post Office Limited entering a contract with Capital One for the provision of a credit card service for its front book customers. The Board is asked to **NOTE** that the Sub-group approved Post Office Limited entering that contract on 25 June 2019 based on the information provided.

4. Remuneration Committee Terms of Reference

The Remuneration Committee approved changes to its Terms of Reference at its meeting on 28 May 2019 for recommendation to the Board. The changes proposed are to reflect developments in corporate governance, including revisions to the UK Corporate Governance Code³ published on 16 July 2018 which applies to reporting periods from 1 January 2019. This expanded the scope of Remuneration Committees to oversee senior manager pay and wider workforce remuneration policies and to check that

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¹ HMRC's Fit and Proper check; SIA licence; Vehicle and Operator Services Agency (VOSA) Licence; Appointment as the Appointed Person for Post Office Limited; appointment as the Accounting Officer for Post Office Limited.

² Shirine Khoury-Haq was not part of the discussion.

³ The UK Corporate Governance Code applies to listed companies but Post Office Limited reviews changes to the Code and considers whether or not it is appropriate for them to be adopted.

incentives are aligned with company culture.

In addition, wording has been amended to show that the oversight and approvals of the Group Remuneration Committee in relation to PO Insurance will apply to all subsidiaries⁴.

The Terms of Reference with track changes are at Appendix 1.

The Board is asked to **APPROVE** the revised Terms of Reference for the Remuneration Committee.

⁴ PO Limited acquired the Payzone Bills Payment business in October 2018 and this has been set up as a subsidiary.

Appendix 1

Terms of Reference of the Remuneration Committee

The Remuneration Committee (the "Committee") is a Committee of the Post Office Limited Board (the "Board"), from which it derives its authority and to which it reports after each meeting.

1. Role

The Committee's main role is to:

- i) make sure that appropriate group remuneration strategies are in place for PO Limited and its subsidiaries to be able to attract, retain and motivate the executive management and workforce required to run the Company successfully¹ without paying more than is necessary and linking incentives to the company's vision, mission and values
- ii) approve and recommend for approval, where required, the remuneration packages of senior executives and fees for Non-Executive Directors for Post Office Limited and its subsidiaries
- iii) recommend for the approval of the Shareholder, the criteria for, and outturn of performance related pay arrangements for Executive Directors and the criteria for executives who report directly to the Chief Executive (STIP)
- iv) recommend for the approval of the Shareholder, performance related incentive schemes and changes to these for Executive Directors, executives who report directly to the Chief Executive and any other eligible employees (LTIP)
- v) have oversight of the group remuneration and related policiesstrategy for the wider organisation.
- vi) have oversight of group workforce engagement strategies and outputs

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2. Responsibilities of the Committee

Remuneration PolicyStrategy for PO Limited: Executive

- 2.1 a) To **recommend** to the Board for approval the remuneration policystrategy for the Chief Executive, executive directors and those executives who report directly to the Chief Executive, taking into account the remuneration policy set for other employees and linking incentives to the company's vision, mission and values.

¹ In doing so, regard will be paid to the views of the Shareholder and other stakeholders; all relevant legal, regulatory and corporate governance requirements; the risk appetite of the Company and alignment to its long-term strategic goals, structuring of a significant proportion of remuneration to link rewards to corporate and individual performance and designed to promote the long-term success of the company.

Appendix 1

- b) To **review** the group remuneration policy annually and recommend any changes to the Board for approval.
- 2.2 To **approve** the remuneration package in respect of new hires proposed by the Nominations Committee. This shall align with the group remuneration policy approved by the Board. In the case of the Chief Executive and other executive directors, the remuneration package shall, as set out in the paragraph below, be recommended for **approval** by the Shareholder.
- 2.3 To **recommend** to The Secretary of State for Business, Energy and Industrial Strategy for approval, each element of the total individual remuneration package of the Chief Executive and other executive directors, both existing and for new hires, including any increases in salary (whether or not resulting from company-wide pay increases), pension provision and the outturn of performance related pay arrangements and incentive schemes. The recommendations shall align with the group remuneration policy approved by the Board.
- 2.4 To **approve** the elements which will form the remuneration package for an individual in the above group, which may include, but shall not be restricted to:
- base salary
 - short term incentive (annual bonus)
 - Long Term Incentive Plan
 - pension provision
 - benefits such as car or car allowance, private health, holidays
 - contractual terms such as notice periods.
- The recommendations shall align with the group remuneration policy approved by the Board.
- 2.5 To keep under **review** the contractual terms applicable to executive directors such that payments adhere to the group remuneration policy approved by the Board.
- 2.6 To **receive information** on each element of the remuneration package and total remuneration for new hires and any internal promotions and appointments which are proposed to carry a salary in excess of the lowest salary of any executive who reports directly to the Chief Executive.
- 2.7 To **review** annually the overall total remuneration of the Senior Group (defined as the Chief Executive, executive directors and those executives who report directly to the Chief Executive) compared both with external market comparators and with the remuneration of other employees in the Group.

Appendix 1

- 2.8 a) To **recommend** for approval by the Shareholder the implementation of, or changes to, performance related incentive schemes for the Executive Directors, executives who report directly to the Chief Executive and senior managers eligible to be invited to participate in the Post Office Long Term Incentive Plan (LTIP).
- b) To **review** annually the performance related incentive schemes for the executive directors, executives who report directly to the Chief Executive and senior managers eligible to be invited to participate in the Post Office Long Term Incentive Plan (LTIP).
- 2.9 a) To **recommend** for approval by the Shareholder, the criteria for, and the outturn of, performance related pay arrangements (STIP) for executive directors and the criteria for executives who report directly to the Chief Executive, subject to authorisation from the Shareholder.
- b) To **review** annually the criteria for, and outturn of, performance related pay arrangements (STIP) for executive directors and executives who report directly to the Chief Executive.
- 2.10 To **receive information** on the total outturn of performance related pay arrangements across the business.
- 2.11 To **approve** the exit package for any individual with a salary above the lowest salary of those executives who report directly to the Chief Executive, where the exit package would be in excess of contractual obligations.
- 2.12 To **undertake** any other function delegated to the Committee by the full Board.

Remuneration for Non-Executive Directors

- 2.13 To **recommend** to the Board for **approval** by the Shareholder fees for Non-Executive Directors of PO Limited.

PO Subsidiary Insurance Boards²

Remuneration Policy, Subsidiary Boards Strategy PO Insurance: Executive

- 2.14 a) To **approve** the remuneration policy strategy for subsidiaries PO Insurance on the recommendation of the subsidiary PO Insurance Board.

² Registered name: ~~Post Office Management Services Limited. Currently, Post Office Insurance (registered name, Post Office Management Services Limited) and Payzone Bills Payments Limited.~~

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b) To **review** annually the remuneration ~~policy~~strategy for ~~s~~PO-Insurance following ~~subsidiaries~~ following its review by the ~~subsidiary~~PO-Insurance ~~b~~Board.

2.15 To **approve** the remuneration package for executive appointments to the PO ~~subsidiary boards~~ Insurance-Board on the recommendation of the Nominations Committee³. The recommendations shall align with the ~~group~~ remuneration ~~policy~~strategy for PO-Insurance.

2.16 To **approve** the elements which will form the remuneration package for an individual in the above group, which may include, but shall not be restricted to:

- base salary
- short term incentive (annual bonus)
- Long Term Incentive Plan
- pension provision
- benefits such as car or car allowance, private health, holidays
- contractual terms such as notice periods.

2.17 To keep under **review** the contractual terms applicable to executive directors of PO ~~subsidiaries~~ Insurance such that they adhere to the ~~group~~ remuneration ~~policy~~strategy for PO-Insurance.

2.18 To **review** annually the overall total remuneration of the Senior Group (defined as any members of the ~~subsidiary board~~ PO-Insurance-Board) compared both with external market comparators and with the remuneration of other employees in the Group.

2.19 To **review** annually the criteria for, and the outturn of, performance related pay arrangements for executive directors of the ~~subsidiary~~ PO Insurance ~~b~~Board. These should align with the ~~group~~ remuneration ~~policy~~strategy for PO-Insurance.

Remuneration Strategy ~~Subsidiary Boards~~PO-Insurance: Non-Executive

2.20 a) To **approve** the remuneration framework within which the fees for Non-Executive Directors of a ~~Subsidiary Board~~ the Post-Office-Insurance ~~Board~~ may be paid where an appointment is recommended by the Nominations Committee.

b) To **review** annually the remuneration framework for Non-Executive fees for the ~~subsidiary boards~~Post-Office-Insurance-Board.

³ Excluding subsidiary board appointments which are in addition to an executive's primary role and where no additional remuneration applies.

Appendix 1

3. Engagement

- 3.1 To receive information on workforce engagement measures, such as engagement surveys, and outputs from these.
- 3.2 To receive feedback from the Senior Independent Director on employee views.

~~3.4.~~ **Annual Review**

- ~~3.4.1~~ The Committee will undertake an annual review of its own performance and the Terms of Reference and recommend to the Board any necessary changes.

~~4.5.~~ **Composition and Governance**

- ~~4.5.1~~ The Remuneration Committee is constituted as a sub-committee of the Board and its Chairman shall be appointed by the Board⁴. If considered independent at the time of appointment, the Chairman of the Company may be a member of the Committee, but shall not chair it.
- ~~4.5.2~~ Members of the Committee shall be appointed by the Board, acting on the recommendation of the Nominations Committee and in consultation with the Chairman of the Remuneration Committee.
- ~~4.5.3~~ The Committee shall be made up of at least two independent Non-Executive directors. Only Non-Executive directors shall be eligible to be members of the Committee such that no individual shall be involved in determining their own remuneration.
- ~~4.5.4~~ In the absence of the Chairman of the Committee at any meeting, the Committee members present shall determine who shall chair the meeting.
- ~~4.5.5~~ Members of the Committee will normally serve for a period of three years. Their appointment may be renewed for a further three year period but no director shall serve as a member of the Remuneration Committee for a period of more than six years.
- 4.6 Only members of the Committee have the right to attend Committee meetings. The Chief Executive and the Group HR Director (or the holder of any equivalent position) shall be informed of the date of each meeting and may be invited by the Committee Chairman to attend all or part of any meeting, as and when appropriate.

⁴ The UK Corporate Governance Code (16.07.2018), stipulates that Remuneration Committee Chairs should have at least 12 months' experience on a remuneration committee prior to appointment.

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- 4.7 The Company Secretary shall not be a member of the Committee but shall act as Secretary to the Committee and shall keep minutes and records of each meeting and ensure regular reporting by the Committee to the full Board.
- 4.8 Minutes of each meeting will be circulated to all members of the Committee and, once agreed, to those members of the Board who have no personal interest in the matters discussed. Where a conflict of interest exists, the Company Secretary will provide sufficient information to the full Board to provide an understanding of the matter(s) considered.
- 4.9 If so requested by the Board or by the Shareholder, the Committee shall provide an annual report on its activities.
- 4.10 The Committee shall have access to sufficient executive time and resources in order to carry on its duties, including access to the Company Secretary and members of the HR team.
- 4.11 The Committee shall be authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- 4.12 The Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting terms of reference of remuneration consultants and have authority to appoint remuneration consultants and to obtain, at the Company's expense, legal or other professional advice on matters within its terms of reference as required, up to a financial limit determined by the Board.
- 4.13 If there should be disagreement between the Remuneration Committee and the full Board, the Chairman of the Board shall make time available for discussion of the issue so that the matter may be resolved. Where any such disagreement cannot be resolved, the Remuneration Committee shall report the issue as part of any annual report on its activities required by the Shareholder.
- 4.14 Training will be provided by the Company for members of the Committee, as required. Such training may take the form of internal briefings, attendance at formal courses and conferences and/or sessions with external advisers.
- 4.15 Members of the Committee shall conduct an annual review of the Committee's performance.

5-6. Meetings

- 5-16.1 The Committee shall meet as often as required but not less than three times each year. The Committee may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.

Appendix 1

5.26.2The quorum necessary for the transaction of business shall be 2 members.

5.36.3Meetings may be convened by the Secretary to the Committee, at the request of the Committee Chairman, or by any member of the Committee, at any time.

5.46.4Notice of each meeting shall be given to all members of the Committee and any other person required to attend, at least 3 working days before each meeting.

Recommended by:	Approved by:	Version:	Effective from:
Remuneration Committee	PO Limited Board	V1	
Remuneration Committee	PO Limited Board	V2	25 March 2015
Remuneration Committee	PO Limited Board	V3	25 November 2015
Remuneration Committee	PO Limited Board	V4	30 October 2018
Remuneration Committee	PO Limited Board	V5	30 July 2019

Post Office Limited Sealings

Author: Rebecca Whibley, Company Secretarial Administrator Sponsor: Veronica Branton, Head of Secretariat
Meeting date: 30 July 2019

Executive Summary

Context

The Directors are invited to consider the seal register and to approve the affixing of the Common Seal of the Company to the documents set out against items number 1782 to 1801 inclusive in the seal register.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1782 to 1801 inclusive in the seal register is hereby confirmed.

13.1

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POST OFFICE LIMITED
Register of Sealings

Date
19.07.2019

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1782 / Contract for surrender	30/05/2019	29/05/2019	Contract for the surrender of Ground Floor 25 East Square Basildon SS14 1AA between the Royal Mail Group Limited (landlord) and the Post Office Limited (tenant).	David Parry, Senior Assistant Company Secretary	Karima Kama
1783 / TRI	30/05/2019	29/05/2019	TRI in respect of 25 East Square, Basildon, SS14 1HT. Title number EX891922	David Parry, Senior Assistant Company Secretary	Karima Kama
1784 / Settlement Agreement	04/06/2019	16/05/2019	Settlement Agreement between James William Favill Tuke and Post Office Limited with regards to the lease of 553 Lea Bridge Road, Leyton. Execution under signature.	Veronica Branton, Head of Secretariat	Karima Kamar
1785 / Licence to Occupy	05/06/2019	04/06/2019	Licence to occupy relating to Post Office, Northumberland Street, Huddersfield HD1 1AA between Post Office Limited and ZCO Limited.	David Parry, Senior Assistant Company Secretary	Karima Kamar
1786 / Licence to Occupy	05/06/2019	04/06/2019	Licence to Occupy relating to Numbers 102/104 New Street Huddersfield, between Post Office Limited and ZCO Limited.	David Parry, Senior Assistant Company Secretary	Karima Kamar
1787 / Retrospective Licence	05/06/2019	04/06/2019	Retrospective Licence for Alterations for premises at Muswell Hill DO/CO, 420 Muswell Hill Broadway, London N10 1DQ between Royal Mail Group, Post Office Limited and Universal Office Equipment (UK) Limited.	David Parry, Senior Assistant Company Secretary	Karima Kamar
1788 / Licence	05/06/2019	04/06/2019	Licence to install two hanging baskets on the exterior of Liskeard Delivery Office and Post Office. Executed under signature.	Veronica Branton, Head of Secretariat	Karima Kama
1789 / TR1	13/06/2019	13/06/2019	TR1 in relation to 13a Boston Street, Holyhead, LL65 1BP between Post Office (Transferor) and Village Views Ltd (Transferee)	David Parry, Senior Assistant Company Secretary	Karima Kamar
1790 / Capital Allowances Election	13/06/2019	13/06/2019	Capital Allowances Election Form in relation to 13a Boston Street, Holyhead, LL65 1BP between Post Office Limited (seller) and Village Views Ltd (buyer).	David Parry, Senior Assistant Company Secretary	Karima Kama
1791 / Non-crystallisation letter	13/06/2019	13/06/2019	Non-crystallisation letter in respect of premises at 13A Boston Street, Holyhead, LL65 1BP debenture over the property. Executed under signature, by the Head of Secretariat on behalf of the Company Secretary.	Veronica Branton, Head of Secretariat	Karima Kama
1792 / Licence	18/06/2019	17/06/2019	Licence to Occupy property relating to the Post Office at 16 Broad Street, Wokingham, RG40 1AA between Post Office Limited (Licensor) and Potent Solutions Limited (Licensee).	David Parry, Senior Assistant Company Secretary	Karima Kama
1793 / Licence	19/06/2019	18/06/2019	Licence to Assign & Deed of Variation relating to lease of part of the Ground floor at 68 Stamford New Road, Altrincham, Cheshire, WA14 1EE between Santander UK Plc (Landlord), Post Office Limited (Tenant) and Thomas Shillito, Wayne Thomas Shillito, Deborah Ann Shillito and Organon Pension Trustees Limited as Trustees of TIC Group Limited SSAS (Assignee).	David Parry, Senior Assistant Company Secretary	Karima Kama
1794 / TR1	19/06/2019	18/06/2019	TR1 relating to Title Number MAN59341, property Ground Floor Premises 68 Stamford New Road, Altrincham, WA14 1EE.	David Parry, Senior Assistant Company Secretary	Karima Kama
1795 / Agreement for lease	20/06/2019	19/06/2019	Agreement for lease relating to Suite A, 1st Floor, Queen's House, 10-12 Queen Street, Belfast, between Countrycastle Associates Limited (Landlord) and Post Office Limited (Tenant).	David Parry, Senior Assistant Company Secretary	Karima Kama
1796 / Lease	21/06/2019	20/06/2019	Lease in respect of the ground floor and first floor premises known as 38, 38A The Broadway, Southall, Middlesex, UB1 1PT between Big Marketing Limited (Landlord) and Post Office Limited (Tenant).	David Parry, Senior Assistant Company Secretary	Karima Kama

Date
19.07.2019

POST OFFICE LIMITED
Register of Sealings

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1797 / Scaffolding Licence	27/06/2019	25/06/2019	A licence permitting scaffolding to be erected on an Adjoining Property known as 28 Wallgate, Wigan, WN1 1AD between Post Office (Adjoining Owner) and Wallgate Property Limited (Adjoining Tenant).	David Parry, Senior Assistant Company Secretary	Karima Karmar
1798	27/06/2019	25/06/2019	Deed of Amendment to the Financial Services Joint Venture Agreement between Post Office Limited, THE GOVERNOR AND COMPANY OF THE BANK OF IRELAND, BANK OF IRELAND (UK) PLC, BANK OF IRELAND PERSONAL FINANCE LIMITED and MIDASGRANGE LIMITED. Approved by eCAF184, Contracts register 310.12, 5 copies sealed	Sarah Koniarski, Senior Assistant Company Secretary	FS&T
1799	04/07/2019	04/07/2019	Amendment No.14 to POL04033 - Supply of Managed Data and Brands CRM Services dated 15/05/2005, contract no. 579.05, eCAF 204 x 2	Veronica Branton, Head Of Secretariat	FS&T
1800 / Lease	11/07/2019	09/07/2019	Lease relating to premises on Ground Floor and Basement of 26 Spring Gardens, Manchester between Bet365 Group Limited (Landlord) and Post Office Limited (Tenant).	David Parry, Senior Assistant Company Secretary	Karima Karma
1801 / Licence to Occupy	17/07/2019	17/07/2019	Licence to occupy relating to the Post Office at 16 Broad Street, Wokingham, RG40 1AA between the Post Office Limited (Licensor) and the Royal Mail Group Limited (Licensee).	David Parry, Senior Assistant Company Secretary	Karima Karma

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POST OFFICE BOARD

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Performance Review – Health & Safety

Author: Martin Hopcroft

Sponsor: Mo Kang

Meeting date: 30th July 2019

Executive Summary

Context

Keeping our employees healthy and safe is fundamental to our success. This is reflected in the Post Office Board's legal responsibilities: members of the board have both collective and individual responsibility for health and safety.

We have a rolling 3-year plan to drive compliance, targeting a reduction in safety metrics including accidents; lost time accidents (LTIFR); days lost; and personal injury claims. Our H&S reporting and safety management system has been externally audited and we also recognise the importance that wellbeing can play in creating engaged and motivated employees.

Questions addressed in this report

1. What are the trends on accidents and on violence across the Post Office?
2. Are there any significant risks emerging and what are we doing to mitigate?

Conclusion

The prevention of accidents has improved materially year on year, with a 28% reduction reported in 18/19 compared to 17/18 (81 v 112). At Period 3 (June) we are forecast to meet our lost time incident target of 0.180 LTIFR (see Appendix A).

Post Office Network robberies show a 16% year on year increase (12 month rolling, 146 v 126). Injuries remain comparable to last year (3 vs 2), with approx. 1 injury per 10. Injuries include cleaning fluid being sprayed, a small cut to shoulder, and a minor puncture wound from a blade. Weapons are seen in approx. 57% (16) of incidents, 63% (10) of these being blades. We continue to see positive results in the 'High Risk' robbery programme where we are installing fogging and IP cameras. Criminal activity in known hotspot areas has seen recent increases in Greater Manchester & West Yorkshire.

ATM gas attacks are showing signs of slowing, partly due to recent successful gas suppression activations and lower cash holdings. On average, Oct 18 to Feb 19, there were 6 attacks per month, and an average monthly loss of £181k. Mar 19 to May 19 saw an average of 3 attacks per month and average monthly losses of £30k. ATM gas attack crime is very dynamic. The future of ATM crime is already evolving on the continent with significant trends in the use of solid explosives to attack ATMs. It is likely that this type of crime will increase in the UK and therefore our proposed cash destruction solution should be upgraded (using ink and glue) to ensure criminals will

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not be successful in obtaining useable cash. It was agreed at Safety Board to accelerate a pilot as soon as possible.

CViT robberies continue to reduce from the highs of last year, 43% down YTD (4 v 7). We have rolled out 122 body cameras, 65 CCTV vehicle streaming and 20 tracked I-boxes. We will have completed the introduction of cash destruction into 50 I-boxes in 12 weeks' time. This protection will go into Birmingham and Chester depots where incidents have been recorded. We are also undertaking a review of the Supply Chain risk assessments eg. case across counter' in rural or low risk branches and body armour.

Safety performance continues to improve. Total accidents are level with last year during Q1 at 19 (9 in DMBs, 3 Support, 7 Supply Chain). Whilst lost time accidents remain relatively low, an accident involving an employee who slipped in a hotel bath (61days) and two physical injuries (bruising) in Supply Chain following assault (15days) have led to an increase in lost days (75 v 38). There were no lost time incidents in June.

We met with **HSL** in May to agree the specification for an audit of POLs Property Compliance Framework to assess and identify improvement opportunities across our processes. This will include the use of a safety culture tool. The audit will commence in August and a report shared with Safety Board in October.

The **Supply Chain Safety Plan** is progressing well with safety champions sharing best practice and improvement opportunities at their safety forums, including signage. Local risk assessments and safe systems of work continue to be strengthened and depot shift managers are receiving ongoing coaching. BSIA and Mitie have visited Midway Cash Centre and shared their 'hearts and minds' approach and will work with us over the next few months to develop a campaign to share with their wider membership.

Property Statutory Compliance remains high at 95% with 98.45% recommended actions completed. The latest external fabric surveys (Low Risk) still suggest a satisfactory outcome with the principal areas still being water ingress through slipped roof tiles, failed flat roofs and rotten windows. This will however improve as the estate is invested in. There is still some concern regarding documentation missing from site log books and CBRE are taking action to audit books and close this gap.

Lone working guidance has been incorporated into **general H&S training** modules issued in April and July. The annual H&S module content has been reviewed for Supply Chain and face to face training reintroduced for manual handling and use of equipment.

We are beginning to see further improvement and reduction of **road risk** through analysis of telemetry data and driving behaviour in Supply Chain. We are improving driver safety training, looking to pilot Alcolock (breathalyser integration with key management), capture maintenance records and providing advice to combat fatigue.

Input Sought

The Board are requested to note and comment on the current safety performance.

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Report

Following an increase in violent robberies, the presence of firearms and a number of ATM rip-outs earlier last year, funding was approved to install additional fogging kits and CCTV. A further review of robberies and violence has subsequently been undertaken to help us understand current trends, whether our approach to profiling risk and the current level of intervention is sufficient, and whether our plan for upgrading branch security and equipment is robust. Conclusions were shared with Safety Board in July.

The British Retail Consortium (BRC) and Association of Convenience Stores (ACS) continue to highlight the increasing threat from violence and abuse in robbery incidents. In addition to the general crime risk increase, we believe POL will become a more attractive target as we continue to increase our banking framework due to us concentrating cash in a number of POL locations on high streets.

POL utilises mathematical and statistical modelling techniques to determine strategic probability to better focus crime mitigating equipment in the right branches.

There is a minimum security equipment standard for every branch outlined in the various policy and process documents for each branch format. Ordinarily, these will include safes, safe time locks, monitored alarms and cash funding units (if open plan) in all branches, with 3G cameras and fogging units as standard in high risk branches.

Anti-robbery fogging (where activated) and gas suppression, continue to be 100% successful. Guidance for Postmasters informs them they should activate the panic alarm and fogging 'if they feel safe to do so'. Whilst evidence so far confirms where activated, criminals will flee, there is always an extremely low chance they will not.

Following the successes of the fogging and IP camera installations so far (c. 776 total branches upgraded at 21/6/19, consisting of 743 robbery fogging systems & 738 IP cameras), this will steadily improve as we finish the roll-out programme around October 2019. Beyond the programme we will continue to target those 200 to 300 new high risk score changes. BAU installs will also continue as part of post-robbery events. Alongside this project, we are at the very early stages of developing a number of cash storage solutions to secure banking deposits simply, quickly and safely potentially from Nov 19.

If CViT crime is displaced we would install more cash destruction systems in the affected depots. For robbery and burglary we have a continual installation programme for the next four years for all identified high risk branches. In addition we are also looking at cash destruction systems for branches. We continue to engage within the industry, and recent membership of Safercash will provide greater access to both CViT and ATM crime data. Grapevine continue to scan media and social media.

In response to abusive and aggressive behaviour, temporary IP cameras with automatic aggression detection will be made on a case by case basis. We are also working closely with the British Security Industry Association (BSIA) and will be meeting their training partner who are supporting a Met Police programme to share best practice and guidance across the industry. Basic training is currently provided to DMB staff and to all

*Strictly Confidential**Health & Safety Report July 2019***13.2**

colleagues who may come across violence in the workplace. The BSIA also sharing best practice and introducing members to partners who are supporting initiatives.

What are our priorities for 2019/20

1. To progress the Safety Plan for Supply Chain with the development of Safety Champions and a Safety Forum to develop a 'hearts and minds' culture, share best practice, videos and visuals and provision of tool kit and self-audit tool.
2. To continue the development of our Managers to ensure compliance with safety calendar activities, completion of training and local risk assessments.
3. To progress the recommendations from the Robbery and Violence review and Road Risk Action Plan.
4. Digitalise H&S tools including Accident reporting (ERICA) and the Safety Calendar, working closely with IT.
5. Update training content and support the deployment of Harassment by Customers policy, implementing procedures to reduce risk and likelihood and impact of violence.
6. To review lone working guidelines for Support Centres, guidance to alleviate driver fatigue and compliance to the mobile phone whist driving policy.
7. Undertake an independent audit of the Property Compliance Framework with support from HSL/HSE, building on our previous H&S audit.
8. To extend the 'mental health first aid' initiative to provide support to the wider business and network colleagues.
9. Reintroduce mobile health checks for DMB and Supply Chain colleagues.

Appendix A

5 Year Safety Performance

Year/KPI	15/16	16/17	17/18	18/19	19/20
					Forecast
All accidents	198	129	112	81	76
All accidents/1000	29.3	21.0	22.0	16.9	20.8
Absence accidents	38	16	21	15	12
Absence Accs/1000	5.62	2.61	4.13	3.14	2.98
LTIFR	0.367	0.168	0.271	0.184	0.176
Days lost due to accidents	792	259	480	245	284
Days lost/1000	117	36	94	51	70

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Post Office Limited Board Meetings

Author: Diane Blanchard

Meeting date: 30 July 2019

Executive Summary

Context

The Directors are requested to note the future meetings dates scheduled in respect of Post Office Limited Board and Committee meetings.

The Report

2019

Date	Time	Meeting
Monday 23 September 2019	08.30 – 10.30	ARC
Monday 23 September 2019	10.30 – 11.00	Nominations Committee
Monday 23 September 2019	11.00 – 12.00	Remuneration Committee
Monday 23 September 2019	12.30 – 17.30	Board
Tuesday 29 October 2019	11.45 – 16.30	Board
Monday 25 November 2019	16.00 – 18.00	ARC
Tuesday 26 November 2019	09.30 – 10.00	Nominations Committee
Tuesday 26 November 2019	10.00 – 11.00	Remuneration Committee
Tuesday 26 November 2019	11.15 – 16.30	Board

2020

Date	Time	Meeting
Tuesday 28 January 2020	09.30 – 12.00	ARC
Tuesday 28 January 2020	12.30 – 17.30	Board
Tuesday 11 February 2020	10.00 – 11.00	Nominations Committee
Tuesday 11 February 2020	11.00 – 12.00	Remuneration Committee
Tuesday 24 March 2020	09.00 – 11.30	ARC
Tuesday 24 March 2020	11.45 – 16.30	Board
Tuesday 19 May 2020	09.30 – 12.00	ARC
Tuesday 26 May 2020	11.00 – 16.00	Board
Tuesday 26 May 2020	16.00 – 16.30	Nominations Committee
Tuesday 26 May 2020	16.30 – 17.30	Remuneration Committee

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Tab 13.3 Future Meeting Dates

Date			Time	Meeting
Monday	27 July	2020	14.30 – 17.00	ARC
Tuesday	28 July	2020	09.00 – 13.00	Board
Tuesday	28 July	2020	13.30 – 18.00	Board Strategy Away Day – 1
Wednesday	29 July	2020	08.30 – 16.30	Board Strategy Away Day – 2
Tuesday	22 September	2020	09.00 – 11.30	ARC
Tuesday	22 September	2020	11.30 – 12.00	Nominations Committee
Tuesday	22 September	2020	12.00 – 13.00	Remuneration Committee
Tuesday	22 September	2020	13.30 – 17.00	Board
Tuesday	27 October	2020	09.30 – 14.00	Board
Tuesday	24 November	2020	09.00 – 11.30	ARC
Tuesday	24 November	2020	11.30 – 12.00	Nominations Committee
Tuesday	24 November	2020	12.00 – 13.00	Remuneration Committee
Tuesday	24 November	2020	13.30 – 17.30	Board

2021

Date			Time	Meeting
Tuesday	26 January	2021	09.00 – 11.30	ARC
Tuesday	26 January	2021	11.45 – 16.30	Board
Tuesday	9 February	2021	10.00 – 11.00	Nominations Committee
Tuesday	9 February	2021	11.00 – 12.00	Remuneration Committee
Tuesday	30 March	2021	09.00 – 11.30	ARC
Tuesday	30 March	2021	11.45 – 16.30	Board

Post Office Board Agenda

Date:	Monday 23 September 2019	Time	[12.30 – 17.30 hrs]	Location	1.19 Wakefield
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Present		Other Attendees		
• Tim Parker (Chairman)	• Tim Franklin	• Veronica Branton (Head of Secretariat)		
• Nick Read (CEO)	• Carla Stent			
• Ken McCall	• Tom Cooper			
• Alisdair Cameron				
Agenda Item		Action Needed	Lead	Timings
1.	Welcome and Conflicts of Interest	Noting	Chairman	12.30 – 12.45 hrs
2.	Minutes of Previous Board meetings including Status Report	Approval	Chairman/ Veronica Branton	
3.	Report back from Committees (verbal) - ARC Committee - Remuneration Committee - Nominations Committee	Noting	Carla Stent Ken McCall Chairman	
4.	CEO Report	Noting & Input		
5.	Finance 5.1 Financial Performance Report	Noting & Input	Al Cameron	
6.	FST&I and Retail Quarterly Reports	Noting & Input	Owen Woodley/ Kathryn Sherratt Debbie Smith/ Cathy Mayor	
7.	Services of General Economic Interest Compliance	Noting & Input	Debbie Smith/ Tracy Marshall	
8.	Royal Mail Negotiations	Noting & Input	Debbie Smith/ Mark Siviter	
9.	IT Strategy	Noting & Input	Rob Houghton	
10.	Group Litigation Update	Noting & Input	Ben Foat/ Alan Watts/ Amanda Jones/ Julie Thomas	
11.	Health and Safety Report, including violence and robberies report	Noting & Input	Mo Kang/ Martin Hopcroft	
12.	Payzone Bills Payments Capital Injection	Approval	Debbie Smith/ Andrew Goddard	
13.	Items for Noting 13.1 Sealings 13.2 Future Meeting Dates 13.3 Forward Agendas	Noting	All	
14.	Any Other Business	Noting and Input	Chairman	
15.	Date of next meeting 29 October 2019	Noting	Chairman	

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