POL00448766

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6. The cash and facility management paper that went to Board on 26 November 2019
7. The Starling papers to Board in July 2019 and January 2020

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CORPORATE HISTORY

1635	King Charles I issued a proclamation in 1635 allowing the public to use his Royal Mail. The mail was carried by mounted post-boys between inns which acted as staging posts. Selected innkeepers also acted as postmasters taking the mail from one post-boy and handing it on to the next. The postmaster also accepted mail brought in for posting by local residents.
1680	In 1680 William Dockwra, a London Merchant, introduced a penny post to collect and deliver letters and parcels in London. He used over 400 receiving houses at shops, taverns and other small businesses to take in the mail. The service was forced to stop in 1682 as it infringed the Post office monopoly, but was re-opened shortly afterwards as an official Post Office service. Many of the receiving houses were retained as they offered a convenient place for people to post letters.
1765	An Act was passed in 1765 allowing local penny post networks in ley towns outside London. It took a while for towns to adopt the scheme, but when they did many letter receiving houses sprang up. Inns were seen as less desirable locations, particularly by women, so reputable shops or even the local schoolmaster would take on the task of offering facilities for people to post and collect their mail.
1792	A money order service was introduced in 1792 allowing people to transmit money safely. An order could be purchased from a post office, sent to the recipient who would then take it to a designated post office to exchange for cash.
1840	The introduction of a uniform penny postage and postage stamps, in 1840, greatly increased the number of letters posted, and more and more sub-post offices were established to meet demand.
1861	The Post Office Savings Bank began in 1861, offering savings facilities for ordinary wage earners. At that time there were few banks outside major towns. Initially 700 post offices provided a place to save money, but within 2 years this had risen to 2,500 offices. By 1901 there were over 8 1/2 million accounts with deposits of over £140m.
1870	The monopoly of running the telegraph service was given to the Post Office in 1870 and post offices were set up throughout the country to allow people to send and receive telegrams.
1883	The introduction of the parcel post service in 1883 meant that 15,000 post offices had to be enlarged.
1897	The National Federation of Sub-Postmasters was formed in 1897.

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CORPORATE HISTORY

1900	In 1900 there were 906 head post offices, 255 branch offices, 4,964 town sub offices and 15,815 country sub-offices. A total of 21,940 offices.
1909	From 1 January 1909, Old Age Pensions became payable at post offices.
1912	The Post Office took over the National Telephone Company in 1912 to offer a united telephone system throughout most of Britain.
WWI WWII	During both World Wars, post offices played a vital role displaying general notices and instructions, issuing forms and ration books.
Post-WWII	After the Second World War, state benefits (e.g. family allowance etc) became payable nationwide via the Post Office counter network.
1968	The Post Office's new banking service, National Giro, (later called National Girobank) began in 1968.
1969	On 1 October 1969, The Post Office ceased to be a Government department and became a nationalised industry. Control of national Savings Bank was lost when it became a separate Government Department, but post offices continued to act as an agent on its behalf.
1986	The Post Office was re-organised in 1986 into 3 separate businesses – Royal Mail Letters, Royal Mail Parcels and Post Office Counters.
1990	Girobank was sold to the Alliance and Leicester Building Society in 1990.
2000	The Postal Services Act 2000 converted the Post Office from a statutory corporation to a public limited company wholly owned by Government. The Act established an independent regulator (Postcomm) and a new consumer council.
2002	In 2002 the Government announced £450m to support the rural network over 2003-06.
2003	In 2003 the loss of income from the Benefits Agency began as payments were automated along with the start of universal banking services, POCA and basic bank accounts at post offices.
2003-2005	Between 2003-05 the Post Office Urban Reinvention programme took place which saw the compensated closure of 2,500 urban branches. By 2005 the Post Office network stood at 14,600 branches.

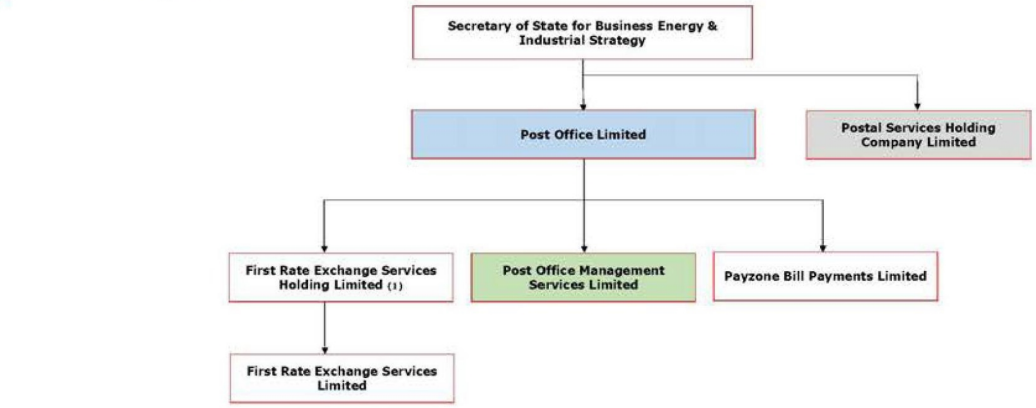
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CORPORATE HISTORY

2004	In 2004 the Government extended the Rural Network payment to 2008.
2007	In 2007 the Government announced a package for the future of the post office network which included £1.7bn in subsidy (including the Social Network Payment) and a programme of closures. The Network Change Programme (2007-09) saw the closure of 2,500 post offices with the introduction of 500 outreach services on an area plan basis.
2008	The extension of the POCA contract was announced in 2008.
2010	In 2010 the Government announced funding of £1.34bn over 4 years to support the transformation of the Post Office Network (including the Network Subsidy Payment). The Government policy document 'Securing the Post Office Network in the Digital Age' made a commitment to 'no programme of closures under this Government' and set the platform for the Post Office Network Transformation Programme.
2011	Following enactment of the provisions of the 2011 Postal Services Act. In April 2012 Post Office Limited ceased to be a subsidiary of Royal Mail Group Limited began operating independently, as sister companies under Royal Mail holdings plc.
2012-2018	Under the Network Transformation Programme between 2012 and 2018 over 7,700 Post Offices branches were modernised. Opening hours overall were increased significantly and more than 4000 Post Offices now open on a Sunday.
2013	In November 2013 the Government announced a further £640m in funding (through to 2018) for the Post Office to complete the Network Transformation programme and to support the network.
2016	In 2016/17 the Post Office moved to profitability for the first time in 16 years. In January 2017 the Post Office signed the Banking Framework agreement with all the major UK Banks meaning that personal and business banking customers can use local post offices to access a range of banking services.
2017	In December 2017 the Government announced funding of £370m for the Post Office through to March 2021 to modernise services and technology and protect village post offices.
2018	In 2018 Post Office acquired Payzone's bill payment business, providing customers with around 25,000 Payzone and Post Office locations to pay their bills.

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Post Office Group Structure Chart



Appointed Representative

Financial Conduct Authority Regulated

In Liquidation

Notes
(1) 50% Owned Joint Venture with the Bank of Ireland (UK) plc

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POST OFFICE GROUP BUSINESS ACTIVITIES

Post Office Limited

- Government Identity Services
- Mails
- Banking Framework
- Post Office Money
- Retail & Post Office Network
- Telecoms

Post Office Management Services Limited *(trading as Post Office Insurance)*

- Insurance Intermediary

Payzone Bill Payments Limited

- Payment solutions (phone, online, EPOS)

First Rate Exchange Services Holdings Limited

- Holding Company of First Rate Insurance Services Limited
- Joint Venture (50% each owned by Post Office Limited and Bank of Ireland (UK) plc)

First Rate Exchange Services Limited

- Supply of foreign currency in the UK

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Post Office's Regulatory Universe

The Post Office group is directly and indirectly subject to the oversight of 17 [*18*] regulators/agencies, some focused on specific business areas (e.g., the FCA) and others covering the whole organisation (e.g., the ICO). The table below sets out the list of authorities, their areas of responsibility and whether Post Office is directly or indirectly supervised by them.

Regulator	Jurisdiction	Direct / Indirect
Advertising Standards Agency	Ensuring responsible advertising	D
Civil Aviation Authority	Dangerous goods air freight rules	I - *TBC*
Competition & Markets Authority	Business competition and preventing/reducing anti-competitive practices	D
Environment Agency	Fishing/rod licensing	D
Equality & Human Rights Commission	Promotion and Enforcement of equality and non-discrimination laws. Promoting and protecting human rights	D
Financial Conduct Authority	Conduct of firms authorised under FSMA	D – POI D – FRES I - FS
Financial Ombudsman Service	Arbiter of complaints between financial businesses and their customers	D – TM D – POI I – FS
Gambling Commission	Regulates gambling, including lotteries	I
HM Revenue & Customs	Anti-Money Laundering & Financial Crime Taxation	D

Regulator	Jurisdiction	Direct / Indirect
Information Commissioner's Office	Upholding information rights and data privacy for individuals.	D
National Audit Office	Scrutinising public spending	D
Ofcom	Communications regulator covering (inter alia) telephony, broadband and postal services	D – Telco I – Mails
Payment Systems Regulator	Overseas HM treasury designated payment systems	I [1]
Prudential Regulation Authority	Prudential regulation rules require financial firms to hold sufficient capital and have adequate risk controls in place	I – FS
Phone-Paid Services Authority	Regulate premium rate calls	D
Security Industry Authority	Regulates the private security industry –for Post Office, this covers Cash in Transit	D
Solicitors Regulation Authority	Ensuring Solicitors meet high standards and acting when risks are identified	D
British Board of Film Classification	*All online commercial porn services accessible from the UK must have age-verification tools*	*TBD*

HIGHLY CONFIDENTIAL

[1] *This is may change following the Access to Cash review (2019)*

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

Post Office Limited – Board

(Veronica Branton acts as Secretary to the Board)



Tim Parker, Chairman

Joined the Board in October 2015

Chairman of the Nominations Committee and Member of the Remuneration Committee

Tim has been CEO of several well-known companies: Kenwood, Clarks, Kwik-Fit, the AA and Samsonite. He has served as a Non-Executive Director on a number of FTSE 100 companies: Legal and General, Alliance Boots and Compass Group, and has been a Board member of the Audit Commission and the South West Regional Development Agency. He has been an Industrial Partner at CVC Capital Partners.

Tim is the Non-Executive Chairman of Samsonite Corporation, Non- Executive Chairman of National Trust and Chairman of HM Courts & Tribunals (HMCTS).



Tom Cooper, Non- Executive Director

Joined the Board in March 2018

Member of the Audit, Risk and Compliance Committee and Remuneration Committee

Tom Cooper was appointed a Director at UKGI and started in November 2017.

Prior to joining UKGI he was Global Co-Chairman of M&A at Deutsche Bank where he spent 8 years. In addition to advising clients and working with them on transactions, he chaired the Fairness Opinion Committee in EMEA and was a member of the committee responsible for approving franchise lending to Deutsche Bank's corporate clients in EMEA. Before joining Deutsche Bank, he worked at UBS Investment Bank for 21 years. He had various roles including working with UK clients, Nordic Coverage, Transport, Utilities and M&A. He finished his career at UBS as Head of European M&A.

He started his career at KMPG.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

	**Nick Read – Group Chief Executive Officer** **Joined the Board in September 2019** Nick joined Post Office as Chief Executive Officer in September 2019. Nick was most recently Group CEO at Extra Energy and prior to that CEO at Nisa Retail Limited where he led the stabilisation and transformation of the business ahead of its sale to the Co-Op in 2018. Nick has over 25 years of consumer and commercial experience and has previously held senior roles at Tesco, Vodafone, HBOS, Lloyds Banking Group and Thomas Cook. In his earlier career, Nick was a Consumer and Retail Strategy Manager at Deloitte Consulting, a Purchasing Director for Aldi UK and spent 4 years as a Captain in the 4th/7th Royal Dragoon Guards, H.M. Forces.
	**Al Cameron – Group Chief Finance Officer & Interim Operations Director** **Joined the Board in January 2015** Al became the Chief Financial Officer of Post Office in January 2015, subsequently becoming Chief Finance & Operations Officer. He served as Interim CEO from April to September 2019. He is also a Non-Executive Director of the Dover Harbour Board. From 2002 to 2014, Al worked in a variety of roles for Centrica plc, a FTSE 100 company, including Director of Audit & Risk, Group Financial Controller, Finance Director of British Gas and Managing Director of British Gas Enterprise. Previously he was a partner with Arthur Andersen. He has served as a non-executive on the Board of Oxford University Hospitals and the e-Learning Foundation.
	**Ken McCall, Senior Independent Non-Executive Director** **Joined the Board in January 2016** Chairman of the Remuneration Committee and Member of the Audit, Risk and Compliance and the Nominations Committees Ken was Deputy Chief Executive of Europcar Mobility Group until March 2019. Formerly, he was Chief Executive of DHL Express UK and Ireland, instrumental in achieving a full business turnaround and transformation. Previous positions include Chief Executive of TNT Asia, Middle East, African and Indian sub-continents. Ken has extensive experience in mails, logistics and business transformation. Ken holds no other Non-Executive appointments.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES



Carla Stent, Non-Executive Director

Joined the Board in January 2016

Chair of the Audit, Risk and Compliance Committee

Carla, a qualified Chartered Accountant, has held a number of senior positions in banking, private equity and in retail industries. She has had direct responsibility for corporate finance and post-merger integration, strategy, business operations, brand development and management and business transformation. Carla has worked at Board level for organisations including Barclays Bank plc and Virgin Group.

Carla is currently a Non-Executive Director of JPM Morgan Elect plc, Smith and Williamson Group, Power to Change Trust and Marex Spectron Group (which she also chairs).



Zarin Patel

Joined the Board in December 2019

Member of the Audit, Risk and Compliance Committee

Zarin is currently on the Board of Anglian Water Services Limited where she chairs their Audit and Risk Committee and sits on Nominations Committee. She sits on the Board of Trustees of the National Trust and chairs its Audit & Risk Committee. She is also an Independent Member of the Audit & Risk Committees of both HM Treasury and John Lewis Partnership plc.

Zarin was most recently the Chief Operating Officer of The Grass Roots Group PLC, a customer and employee engagement specialist. She was the BBC's Chief Financial Officer and member of its Board from 2004 to 2013 during which time she helped to transform the BBC into a fully digital broadcaster. Prior to the BBC she spent sixteen years at KPMG working on FTSE quoted conglomerates in a variety of sectors. Zarin is a chartered accountant.



Lisa Harrington, Non-Executive Director

Joined the Board in April 2020

Member of the Remuneration and Nominations Committees

Lisa is a tech executive and diversity advocate. She has spent 25 years growing and transforming business across the Professional Services, Education, Technology, Utilities and Telecommunications sectors.

She started her career Accenture in Ireland and UK. Later, she joined British Telecom (BT) where she spent 10 years in a range of leadership positions including Divisional CIO, Group Managing

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	Director of Transformation, and Managing Director Service Operations. In her final role she was Chief Customer Officer BT Group, reporting to the CEO. Most recently, Lisa was Managing Director of QA Ltd, the biggest tech and cyber skills provider in the UK. Lisa is a well-known advocate for diversity in STEM (Science, Technology, Engineering and Maths) and founded the BT TechWomen programme to reframe the diversity dynamic in BT. She is an industry advocate for mental health in the work-place and was recently invited to become a mentor for the UK Cabinet Office REACH programme. Currently, Lisa provides independent, business advisory services. She specialises in digital transformation and is particularly interested in high growth/ fast turnaround businesses. Lisa has held a number of non-executive posts including terms on the boards of Southern Water and West London NHS Mental Trust.

Post Office Limited – Group Executive

	**Owen Woodley – Group Chief Commercial Officer** Owen is Group Chief Commercial Officer overseeing all the Post Office's product businesses across, Mails, Banking, Financial Services & Insurance, Digital Identity, Government Services, Travel Money, Telecoms and Payments. He joined the Post Office in 2016. Prior to this, Owen spent four years as Managing Director of the retail business at Lloyds Bank with responsibility for the branch network and customers. Owen had previously launched and run a new UK bank in the wake of the financial crisis, Shawbrook, which focuses on commercial property and asset finance lending. He started his career at Barclays where he undertook a number of senior roles in the UK in retail and commercial banking. He also worked extensively in risk management and business development across sub-Saharan Africa. He was at different points responsible for the joint venture business in Barclaycard and was UK Regional Director for Barclays in the Midlands and London. Owen has held a number of other board positions and has been a Board Governor the Board at Nottingham Trent University since 2014.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES



Ben Foat – Group General Counsel

Ben is the Group General Counsel of Post Office Limited and an executive member of Post Office Limited and Post Office Management Services Limited. He is responsible for managing the legal, compliance and company secretariat departments across the organisation and works with executive management and boards to shape strategy, maximise commercial opportunity and mitigate legal, regulatory and governance risk.

Prior to joining Post Office, he was employed at Zurich Insurance plc in the UK and was previously a Senior Associate in private practice in Australia. He has spoken at various industry events in relation to leadership and legal operations including emerging technology and resource models. He is a Leadership Fellow at St George's House, Windsor Castle. In 2018, he was awarded Solicitor of the Year – Inhouse by the Law Society, shortlisted for Diversity Hero at the 2019 British LGBT+ Awards as well as being listed in the Financial Times OUTstanding 2017 -2019 lists for his leadership in Diversity and Inclusion. Ben holds a Master of Laws, Bachelor of Laws (Hons) and Bachelor of Arts with a double major in Political Science.



Lisa Cherry – Group Chief People Officer

Lisa was appointed Group Chief People Officer in January 2020, having been the Interim Group HR Director since October 2019. She had previously held a series of HR Director roles since arriving at the Post Office in September 2018.

Lisa's career has span PLC and Private Equity organisations such as Sainsbury's, WHSmith and most recently as HR Director at Wyevale Garden Centres (a Terra Firma owned business). These senior level roles have been largely held during times of transformation and expansion in both domestic and international markets. Lisa has more than twenty years' experience in large multi-site retail organisations in both operational and HR focussed roles.

Lisa is a Chartered Fellow of the Chartered Institute of Personnel and Development (FCIPD) and holds a Master's Degree in HR Management.

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Jeff Smyth – Interim Group Chief Information Officer



Amanda Jones – Interim Group Retail & Franchise Network Director

Amanda joined Post Office in 2018 as Retail Director and has recently stepped up to the GE as Group Retail & Franchise Network Director (interim). Amanda has 30 years' experience in the Retail sector, operating in the Grocery, Drinks and General Merchandise sectors in Public and Mutual Companies. Previously Chief Operating Officer of the Franchised Off License Chain, Bargain Booze (part of Conviviality Plc) and Chief Operating Officer of the Wholesale Grocery Distributor Nisa. Amanda has held various senior roles including Customer Strategy Director at Conviviality Plc, Head of Format Development at Waitrose and International Franchising roles at Marks and Spencer covering Europe and the Middle East.

Amanda is a Princes Trust Business Mentor.



Emma Springham – Group Marketing and Brand Director

Emma joined the Post Office in September 2018 as the Chief Marketing and Digital Officer and was appointed Group Marketing and Brand Managing Director on the Group Executive in January 2020.

Emma is responsible for overseeing the planning, development and execution of Post Office's marketing, brand and advertising strategy. Emma's background includes 25+ years of B2C and B2B client side marketing leadership experience. Emma has held global and regional marketing leadership roles at RBS, Barclays, Allianz and Royal Mail prior to joining the Post Office.

Emma has lead a number of customer and digital transformation projects in previous roles to drive new growth revenue streams.

Emma has a Business and Management Bachelor of Science and Chartered Institute of Marketing Postgraduate degree.

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Richard Taylor – Group Corporate Affairs and Communications Director

Richard joined the Post Office in January 2020 after four years as Communications Director at ScottishPower and six years as Corporate Affairs and Communications Director at the supermarket chain Morrisons.

Richard has over 25 years of political, media and commercial experience having previously worked for the CBI, the Labour Party, as Special Adviser to the Secretary of State for Defence and as a Partner at Portland Communications. He holds an MPhil in Environment and Development from the University of Cambridge.



Dan Zinner – Group Chief Strategy and Transformation Officer

Dan joined Post Office in July 2019 as Chief Transformation Officer and in January 2020 was appointed Group Chief Strategy and Transformation Officer. As Chair of the Investment Committee, Dan is responsible for all investments across the Post Office Group and ensuring these are linked to the overall Group strategy. Dan brings more than 20 years' experience across the retail, consumer goods, hospitality, healthcare and pharmaceuticals industries working in strategic development, commercial and operational improvement, change management, and acquisition integration. Prior to the Post Office, Dan worked in the UK as the Transformation Director for The Restaurant Group and as Trading and Marketing Director for Wyevale Garden Centres. Prior to this, Dan was in South Africa, working for Clicks Group as Corporate Business Development and as Retail Commercial Head of Heathcare.

Dan has an M.B.A. from the University of Virginia's Darden School of Business and spent a number of years as a management consultant with McKinsey & Company's London office.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

Post Office Management Services Limited (Post Office Insurance) – Board

(Sarah Koniarski acts as Secretary to the Board)



Tim Franklin - Non-Executive Chairman

Joined the Board in March 2018

Member of the POMS Audit, Risk & Compliance Committee
(Also a Non-Executive Director of the Post Office Limited Board)

Tim Franklin was appointed Chairman in April 2019. Tim's executive career spans both building societies and banking. Prior to his board roles in the mutual sector, he was Director of Customer Programmes and Loyalty and Managing Director of Savings at Barclays. Tim's experience extends across the private and public sectors too. He is Senior Independent Director at HM Land Registry where he chairs the Audit Committee and was previously on the Boards of Reclaim Fund Limited, Mutual Plus Limited and the Link Cash Machines Network.



Amanda Bowe - Non-Executive Director

Joined the Board in September 2015

Chair of the POMS Audit, Risk & Compliance Committee

Amanda joined the Board of Post Office Insurance in September 2015, shortly after its authorisation by the Financial Conduct Authority.

Amanda is also on the Board of the Phoenix Life Companies (which includes Standard Life Assurance Limited), British Gas Insurance where she chairs the Risk Committee, and the Prince Philip Gordonstoun Foundation.

Amanda's executive career included four years at Aegon UK where she was Regulatory Risk Director. Prior to working at Aegon, Amanda spent 21 years with the Financial Services Authority and other predecessor regulators to the PRA and FCA, holding various supervisory and policy roles.



Ed Dutton- Executive Director – appointment is pending regulatory approvals

Joined the Board in September 2019

Interim Managing Director

Ed started his career in retail as a merchandise buyer at Marks and Spencer, before working in e-commerce in both an international start up and launching Kingfisher's Health and Beauty business Superdrug. He joined AXA Insurance in 2001 working in strategy and distribution before becoming Underwriting Director of Personal Lines. His previous role before joining the Post Office was as CEO of British Gas Insurance which he helped launch and develop as Centrica converted their £1bn Home Services division into a regulated Insurance business in 2010.

He is also an advisor to Ventureprise Ltd, a growing Home Services business.

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BOARD DIRECTORS & EXECUTIVES



Simon Parr - Executive Director

Joined the Board in June 2017

Chief Financial Officer

Simon became the Chief Financial Officer in June 2017. From 1997 to 2007 Simon worked in a number of roles for Barclays Bank plc, including Finance Director of Barclays Insurance, Financial Controller – Barclays Private bank, and Head of Finance for Barclays Private Bank in America. Since leaving Barclays Simon was Finance Director of RiskFirst (a technology start-up) and divisional Finance Director at Slater & Gordon (law firm).



Andrew Torrance - Senior Independent Non-Executive Director

Joined the Board in March 2018

Member of the POMS Audit, Risk & Compliance Committee

Andrew joined the Post Office Insurance Board in March 2018 as Senior Independent Director. He is also a Non-Executive Director of Allianz Insurance Plc and Tokio Marine Kiln Syndicates Ltd. Andrew brings in depth experience of leadership roles in insurance. From 1999 to 2015, he worked in a variety of executive roles in the Allianz Group, the world's largest general insurer. He was successively the CEO of the Group's UK and US general insurance subsidiaries. Prior to joining Allianz, Andrew spent 6 years with London & Edinburgh Insurance Group Ltd, the latter 3 as CEO. Previously he was a partner in the London office of The Boston Consulting Group where he focused on the financial services industry.



Owen Woodley - Non-Executive Director (not independent)

Joined the Board in June 2018

Member of the POMS Audit, Risk & Compliance Committee

Owen is Group Chief Commercial Officer for Post Office Limited overseeing all the Post Office's product businesses across, Mails, Banking, Financial Services & Insurance, Digital Identity, Government Services, Travel Money, Telecoms and Payments. He joined the Post Office in 2016.

Prior to this, Owen spent four years as Managing Director of the retail business at Lloyds Bank with responsibility for the branch network and customers. Owen had previously launched and run a new UK bank in the wake of the financial crisis, Shawbrook, which focuses on commercial property and asset finance lending. He started his career at Barclays where he undertook a number of senior roles in the UK in retail and commercial banking. He also worked extensively in risk management and business development across sub-Saharan Africa. He was at different points responsible for the joint venture business in Barclaycard and was UK Regional Director for Barclays in the Midlands and London.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

	Owen has held a number of other board positions and has been a Board Governor the Board at Nottingham Trent University since 2014. Owen has held a number of other board positions and has been a Board Governor the Board at Nottingham Trent University since 2014.
	**<u>John Castagno - Non-Executive Director</u> – appointment is pending regulatory approvals** **Joined the Board in September 2019** Having started his career with Eagle Star John has accumulated 40 years' experience in the financial services sector. John has held senior management and executive level positions with Liberty Life, Aetna, BUPA, Thomas Cook, Legal & General Insurance (MD), GAB Robins (CEO), Equity Direct (MD Retail) and Cardif Pinnacle (a BNP Paribas Company). John is currently a Director of Simple & Open Ltd and a Non-Executive Director of Tesco Bank. Previously John was a Non-Executive Director of British Gas Insurance, British Gas Services, Equity Direct, Hastings Direct and Chairman of YRFree, a video technology business.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

Post Office Management Services Limited (Post Office Insurance) – Executive Committee

	**Russell Tavener - Chief Operations Officer** Russell has worked for Post Office Insurance for over 7 years, initially with Bank of Ireland, then playing a major role in the transfer of the business to Post Office in 2015. Previously Head of Commercial for POI, Russell become Chief of Operations in 2017 reflecting the business growth or POI and also the increased scope of services under direct control. Prior to Post Office Russell was Head of Business Development at Tesco Bank, having previously set up Tesco Compare. Russell has also has held various roles with RBS and Direct Line Group.
	**Ian Holloway - Director, Risk & Compliance** Ian is a Chartered Accountant and holds an MBA from the university of Bath. Following qualification he held a variety of financial management roles before moving into Risk Management roles. He was Vice President of the International Petroleum Exchange, and project managed the demutualisation of the exchange before moving into AXA to head up general insurance risk management. He then headed risk and compliance at Aviva's general insurance arm before moving to Post Office insurance in October 2017. He has headed up a number of industry forums including the ABI's conduct committee, and liaised with the FCA on behalf of the industry in respect of PPI, notably in respect of remediation processes.
	**Ryan Griffin - Product Director** Ryan joined Post Office Insurance in January 2016 and has over 20 years' experience in insurance businesses, encompassing marketing, commercial and corporate partnerships roles. His career spans all parts of the distribution chain from marketing agency to reinsurer and includes spells at household name companies such as Aviva, Prudential, News International, Ageas and Swiss Re. He lives in East Sussex with his wife Jane and daughter Aurelia. Outside of work his interests include playing the guitar, travel, fine dining and fine wine.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES



Michelle Downs - Head of Change Management

Michelle joined Post Office in 2014 working within the Commercial directorate supporting Mails, Telco, Government Services, Digital and Marketing. In 2016, she moved into Post Office Insurance to head up the Change Management Function. Working with the wider POI team, her and her team take ideas and help turn them into working solutions and products that realise the benefits and support business plan.

Previously, Michelle held a number of global roles within Reckitt Benckiser and DHL where she gained extensive experience in delivery of all elements of the full change life cycle in large multinational transformation programmes.



Ben Foat - General Counsel (Post Office Limited), delegates to Sherrill Taggart, Interim Legal Director (Post Office Limited)

Ben is the Group General Counsel of Post Office Limited and an executive member of Post Office Limited and Post Office Management Services Limited. He is responsible for managing the legal, compliance and company secretariat departments across the organisation and works with executive management and boards to shape strategy, maximise commercial opportunity and mitigate legal, regulatory and governance risk.

Prior to joining Post Office, he was employed at Zurich Insurance plc in the UK and was previously a Senior Associate in private practice in Australia. He has spoken at various industry events in relation to leadership and legal operations including emerging technology and resource models. He is a Leadership Fellow at St George's House, Windsor Castle. In 2018, he was awarded Solicitor of the Year – Inhouse by the Law Society, shortlisted for Diversity Hero at the 2019 British LGBT+ Awards as well as being listed in the Financial Times OUTstanding 2017 -2019 lists for his leadership in Diversity and Inclusion. Ben holds a Master of Laws, Bachelor of Laws (Hons) and Bachelor of Arts with a double major in Political Science.



James Hamilton - Head of HR (Post Office Limited)

James joined Post Office in January 2019 as Head of HR, FST&I. Prior to joining Post Office, James spent time at ERS Specialist Insurance as Sr. HR Business Partner partnering with the Executive Team across multiple disciplines. Prior to ERS James spent 8 years at BTG International PLC, a FTSE 250 speciality healthcare company where he supported the company through significant acquisitive and organic growth both locally and into new territories through various roles his most recent leading the HR Business Partner function across global R&D and Corporate Finance.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

Payzone Bill Payments Limited – Board

Rebecca Whibley acts as Secretary to the Board.



Owen Woodley – Chairman

Joined the Board in April 2020

Owen is Group Chief Commercial Officer for Post Office Limited overseeing all the Post Office's product businesses across, Mails, Banking, Financial Services & Insurance, Digital Identity, Government Services, Travel Money, Telecoms and Payments. He joined the Post Office in 2016.

Prior to this, Owen spent four years as Managing Director of the retail business at Lloyds Bank with responsibility for the branch network and customers. Owen had previously launched and run a new UK bank in the wake of the financial crisis, Shawbrook, which focuses on commercial property and asset finance lending. He started his career at Barclays where he undertook a number of senior roles in the UK in retail and commercial banking. He also worked extensively in risk management and business development across sub-Saharan Africa. He was at different points responsible for the joint venture business in Barclaycard and was UK Regional Director for Barclays in the Midlands and London.



Andrew Goddard - Director

Joined the Board in October 2018

Managing Director, Payzone Bill Payments Limited



Cathy Mayor - Director

Joined the Board in October 2018

Finance Director, Commercial, Post Office Limited

Cathy joined the Board of Payzone Bill Payments Limited when it was acquired by Post Office in October 2018. She is also a Non-Executive Director of the Post Office's joint venture with The Bank of Ireland, First Rate Exchange Services Holdings Limited & First Rate Exchange Services Limited.

Cathy is the Finance Director for the Retail strategic business unit at Post Office Limited. A Chartered Accountant, Cathy joined the Post Office in 2017 with over 10 years extensive senior commercial finance

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

	experience within a number of large wholesale/retail organisations including Yankee Candle and Timberland.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

First Rate Exchange Services Holdings & First Rate Exchange Services Limited
(Directors remain the same on each board in accordance with the Joint Venture Agreement between Post Office & Bank of Ireland)

Rebecca Whibley acts as Secretary to the Board.



Ben Foat – Chairman *(Post Office Representative)*

Joined the Board in May 2020

Member of the Remuneration & Nomination Committee

Ben is the Group General Counsel of Post Office Limited and an executive member of Post Office Limited and Post Office Management Services Limited. He is responsible for managing the legal, compliance and company secretariat departments across the organisation and works with executive management and boards to shape strategy, maximise commercial opportunity and mitigate legal, regulatory and governance risk.

Prior to joining Post Office, he was employed at Zurich Insurance plc in the UK and was previously a Senior Associate in private practice in Australia. He has spoken at various industry events in relation to leadership and legal operations including emerging technology and resource models. He is a Leadership Fellow at St George's House, Windsor Castle. In 2018, he was awarded Solicitor of the Year – Inhouse by the Law Society, shortlisted for Diversity Hero at the 2019 British LGBT+ Awards as well as being listed in the Financial Times OUTstanding 2017 -2019 lists for his leadership in Diversity and Inclusion. Ben holds a Master of Laws, Bachelor of Laws (Hons) and Bachelor of Arts with a double major in Political Science.



Lisa Cherry – Non-Executive Director *(Post Office Representative)*

Joined the Board in May 2020

Lisa was appointed Group Chief People Officer in January 2020, having been the Interim Group HR Director since October 2019. She had previously held a series of HR Director roles since arriving at the Post Office in September 2018.

Lisa's career has span PLC and Private Equity organisations such as Sainsbury's, WHSmith and most recently as HR Director at Wyevale Garden Centres (a Terra Firma owned business). These senior level roles have been largely held during times of transformation and expansion in both domestic and international markets. Lisa has more than twenty years' experience in large multi-site retail organisations in both operational and HR focussed roles.

Lisa is a Chartered Fellow of the Chartered Institute of Personnel and Development (FCIPD) and holds a Master's Degree in HR Management.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

	**Sharon Cross - Executive Director** **Joined the Board in June 2019** IT & Operations Director, First Rate Exchange Services Limited Sharon joined First Rate Exchange Services in December 2016 to lead the IT function as we continue to develop and expand our digital offering. Prior to First Rate she was CIO for Santander Consumer Finance UK as well as holding a number of senior roles in IT within various organisations mainly in the Financial Services sector. Sharon holds a BSc in Software Engineering from the University of Birmingham.
	**Gary Fitton - Executive Director** **Joined the Board in June 2012** Chief Executive Officer, First Rate Exchange Gary was appointed Chief Executive Officer for First Rate in August 2017. Gary originally joined the business in October 2009 as Retail Director before being appointed Managing Director in July 2014. During his 25+ year career Gary has held a number of senior marketing and management roles in the UK cards industry. Gary headed up the cards business at Egg plc during its key period of growth and innovation. Past employers also include the Lombard Group, People's Bank, Post Office Financial Services and the Bank of Ireland. Gary has served on a number of VISA / MasterCard boards and committees.
	**Neil Fuller - Non-Executive Director & Interim Chair of the Remuneration & Nominations Committee** **Joined the Board in January 2018** *(Bank of Ireland Representative)* Interim Chief Executive Officer & Chief Risk Officer, Bank of Ireland UK Neil was appointed Director of Bank of Ireland (UK) plc and Chief Risk Officer in October 2015. Neil joined BOI (UK) plc from GE Capital UK, where he held the role of Chief Risk Officer since 2011. He has over 30 years of financial services experience, having previously worked for Royal Bank of Scotland & NatWest, where he held the role of Chief Risk Officer, UK Retail Division, and having previously held a number of senior management roles in UK Retail Banking across Credit Risk, Enterprise & Operational Risk and Operations.

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES



Andrew Hardie - Executive Director

Joined the Board in May 2011

Chief Financial Officer, First Rate Exchange Services & Managing Director, BOIFCS, Finance

Andrew joined First Rate in March 2007 and was appointed Finance Director in May 2011. Andrew is a member of the Chartered Institute of Management Accountants and has significant experience across several sectors including retail financial services, FMCG, and business services. Prior to joining First Rate, Andrew worked for Citibank for a number of years, holding senior management positions in both Retail and International Banking. He was able to broaden his experience during this time by also holding a number of roles outside Finance including heading up the Retail Products team. Previous to this Andrew worked for Rentokil Initial and Rank Hovis MacDougall.



Cathy Mayor - Non-Executive Director *(Post Office Representative)*

Joined the Board in July 2019

Member of the FRES Audit & Risk Committee

Finance Director, Commercial, Post Office Limited

Cathy joined the Board of First Rate Exchange Services Holdings Limited & First Rate Exchange Services Limited in July 2019. She is also a Director of Payzone Bill Payments Limited.

Cathy is the Finance Director for the Retail strategic business unit at the Post Office. A Chartered Accountant, Cathy joined Post Office Limited in 2017 with over 10 years extensive senior commercial finance experience within a number of large wholesale/retail organisations including Yankee Candle and Timberland.



John Tudor - Non-Executive Director

Joined the Board in May 2014

(Bank of Ireland Representative)

Chairman of the FRES Audit & Risk Committee

John joined Bank of Ireland Group in 1998 and has worked in a variety of Finance, Strategy and Operational roles within the UK business, including working extensively with the Bank's financial services partnerships with the Post Office and the AA. He was appointed Partnership Director in February 2018, having previously held the role of Chief Operating Officer.

Before joining Bank of Ireland, John worked as a Chartered Accountant with Moore Stephens (Bath) having qualified with BDO Binder Hamlyn (Manchester).

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POST OFFICE GROUP
BOARD DIRECTORS & EXECUTIVES

	John is a graduate of the University of Manchester and is a Member of the ICAEW.
Amanda Jones *(Post Office Representative)*	**Alternate Director** For Cathy Mayor and Owen Woodley Interim Retail & Franchise Network Director, Post Office **Joined the Board in July 2019**
Henk Van Hulle *(Post Office Representative)*	**Alternate Director** For Cathy Mayor and Owen Woodley Group Digital and Innovation Managing Director, Post Office **Joined the Board in August 2016**

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COMPANY SECRETARIAT

Veronica Branton
Company Secretary
GRO
For Post Office Limited Board, Remuneration Committee, Nomination Committee and Group Executive

Sarah Koniarski
Senior Assistant Company Secretary
GRO
For Post Office Management Services Limited Board, Audit & Risk Committee and Executive Committee.

David Parry
Senior Assistant Company Secretary
GRO
For Post Office Limited Audit, Risk & Compliance Committee and Risk and Compliance Committee

Rebecca Whibley
Assistant Company Secretary
GRO
For Payzone Bill Payments Limited, First Rate Exchange Services Holdings Limited Board, First Rate Exchange Services Limited Board, Remuneration & Nomination Committee

Di Blanchard
PA Chairman & General Counsel
GRO
For all queries and enquiries related to the Tim Parker, Post Office Limited Chairman and Ben Foat, General Counsel.

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Entrustment Letter
Funding Agreement
Services of General Interest

Entrustment Letter

The letter contains overarching ministerial instructions entrusting Post Office Limited with the provision and delivery of certain services of general economic interest.

The letter can be found at Appendix 1.

Funding Agreement

Details of the funding provided from the Secretary of State for Business, Energy and Industrial Strategy to Post Office Limited to enable it to continue to provide services of general economic interest across the network for financial years 2018/19, 2019/20 and 2020/21.

The Agreement can be found at Appendix 2.

Services of General Economic Interest

	Category of Service	Service Provided
1	Processing **social benefit** and **tax credit** payments to the public.	• Cash payment of state benefits including state pension, child benefits and tax credits. • Issuing of vouchers to eligible asylum seekers.
2	Processing of **national identity and licensing scheme applications**	• Providing passport application forms for customers to complete and return • Checking and authentication of passport applications and supporting documentation • Capturing biometric data for Biometric Residence Permits. • Providing vehicle licence application forms for customers to complete • Receiving payment for vehicle licences and Photocard Licences • Services for the sale of Rod Fishing Licences.
3	Universal **payment** facilities for public utility services.	• Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. savings stamps). • Provision of facilities for payment of tax bills and social housing rents.
4	Access to **postal** services	• Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by OFCOM in accordance with section 36 of the Postal Services Act 2011 and the designated Universal Service Provider Conditions issues by Ofcom 27 March 2012
5	Universal access to **basic cash and banking facilities** and Government savings instruments, especially for rural customers and those on social benefits.	• Provision of basic community banking facilities (cashing of cheques, cash deposit, Post Office card account and automated cash withdrawals and deposits) and cash transmission facilities (postal orders), in particular to socially excluded customers. This includes deposits and withdrawals of cash by businesses local to Post Office branches. • Access to certain Government savings instruments

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Paula Vennells
Post Office Limited
20 Finsbury Street
London
EC2Y 9AQ

16 April 2018

Dear Paula,

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

Commencement

This letter has effect from the later of: (i) the date on which the European Commission confirms that the requirements of this letter are compatible with the requirements on State Aid of the Treaty on the Functioning of the European Union; and (ii) 1 April 2018 (the **"Effective Date"**).

Existing Entrustment Letter

Notwithstanding the signing of this letter, in respect of the period prior to the Effective Date, the provisions of the letter from the Government to Post Office Limited entitled "Entrustment of Post Office Limited with the delivery of certain public services" and dated 23 January 2015 (the **"Existing Entrustment Letter"**) shall continue in full force and effect and the provisions of this letter shall be without prejudice to any rights, remedies, obligations or liabilities of any party accrued under the Existing Entrustment Letter.

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

Entrustment

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

(a) We confirm that Post Office Limited is under a public service obligation (as set out here and also contractually in the Post Office Limited Funding Agreement dated April 2018, (the **"Funding Agreement"**)) to maintain, from the Effective Date until the end of its financial year ending on or around 31 March 2021, a network of post offices beyond its optimal commercial size (the **"Network SGEI"**). That network must meet the following minimum access requirements:

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

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

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

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

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

Method of Calculating Compensation

As soon as reasonably practicable following publication of its audited accounts for the Financial Year ending on or around 31 March 2021, Post Office Limited will be required to provide, in accordance with the Funding Agreement, a statement (the **"Cumulative SGEI Statement"**). The Cumulative SGEI Statement must be accompanied by a supporting statement from an independent financial adviser, to confirm that the aggregate amount of the SGEI compensation payments made by the Government to Post Office Limited under the Funding Agreement (the **"Cumulative SGEI Payment"**) did not exceed the difference between the actual net costs incurred by Post Office Limited and the net profits that would have been incurred in connection

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with the provision of a network that Post Office Limited would maintain on a purely commercial basis (as specified by the relevant European Commission decision(s)), during the financial years covered by the Funding Agreement (the **"Cumulative SGEI Cost"**).

This is to be calculated using the net avoided cost methodology, in accordance with the principles in paragraphs 21-32 of the 2012 Community Framework for State aid in the form of public service compensation ("Framework") and in precedent Commission decisions, which calculates the SGEI net cost as the difference between:

- the expected net cost for POL when providing the SGEIs; and
- the expected net cost / profit for POL when operating without any SGEI obligations.

For the purposes of this net avoided cost methodology the costs shall include, without limitation, all variable and fixed costs associated with delivery of the SGEIs including contributions to pension funds, interest costs, central costs, depreciation and amortisation costs of any employee incentivisation arrangements and the costs of transforming the network, in each case whether such costs are recurring or exceptional.

Recovery of Overpayment

Notwithstanding clause 5.3 of the Funding Agreement, in the event that the Cumulative SGEI Payment exceeds the Cumulative SGEI Cost, Post Office Limited will be required to repay to the Government, within 10 Business Days of a request from the Government, an amount equal to such excess.

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

Yours sincerely,

GRO

RICHARD CALLARD, EXECUTIVE DIRECTOR, UK GOVERNMENT INVESTMENTS

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

Signed by GRO

for and on behalf of Post Office Limited

Dated _____2018

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Annex A

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

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

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	Category of Service	Service Provided	Service Provided on Behalf of
		Provision of facilities for payment of tax bills and social housing rents	Local Authorities Housing Associations
4.	Access to postal services	Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by Ofcom in accordance with section 36 of the Postal Services Act 2011 and the Designated Universal Service Provider Conditions issued by Ofcom on 27 March 2012	Royal Mail Group
5.	Universal access to basic cash and banking facilities, especially for rural customers and those on social benefits.	Provision of basic community banking facilities (e.g. including cashing of cheques, cash deposit and cash withdrawals and deposits) and cash transmission facilities (e.g. including postal orders), in particular to socially excluded customers and businesses local to post office branches	Financial Institutions Her Majesty's Treasury

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Annex B

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

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

Description of Services	Contracting Entity Opposite Post Office Limited
POCA Card Account	The Department for Work and Pensions
Asylum Seekers Benefits Payments	Sodexho Pass
Payout (Emergency Payments) Contracts	Blackpool Council
Payout (Emergency Payments) Contracts	Cornwall Council
Payout (Emergency Payments) Contracts	Derbyshire Council
Payout (Emergency Payments) Contracts	Greenwich Council
Payout (Emergency Payments) Contracts	Merton Council
Payout (Emergency Payments) Contracts	Reading Council
Payout (Emergency Payments) Contracts	Torbay Council
Payout Contracts	Autism Initiatives
Payout Contracts	Durham and Darlington NHS
Payout Contracts	Financial Services Compensation Scheme
Payout Contracts	Buckinghamshire Council
Payout Contracts	Cumbria Council
Payout Contracts	Hampshire Council
Payout Contracts	Hull Council
Payout Contracts	Lambeth Council
Payout Contracts	Lancaster Council
Payout Contracts	Manchester City Council
Payout Contracts	Newham Council
Payout Contracts	Redbridge Council
Payout Contracts	St Helen's Council
Payout Contracts	Wirral Council
Payout Contract	Capita
Payout Contract	Eon Energy Limited
Payout Contract	RWE Npower plc
Payout Contract	Scottish Power Energy Retail Limited

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Category 2: Processing of National Identity and Licensing Scheme Applications

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

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Category 3: Universal Payment Facilities for Public Utility Services

Description of Services	Contracting Entity Opposite Post Office Limited
Bill Payments	Santander (A&L Commercial Bank plc as was)
Bill Payments	The Co-Operative Bank plc
Bill Payments	Allpay.net Ltd
Bill Payments	Airtricity Holdings Limited (Republic of Ireland company)
Bill Payments	EON Energy Limited
Bill Payments	EDF Energy
Bill Payments	RWE Npower plc
Bill Payments	Scottish Power Energy Retail Limited
Bill Payments	Scottish & S Southern (SSE)
Bill Payments	British Gas Trading Limited
Bill Payments	Phoenix Gas
Bill Payments	BT plc, novated to BT Payment Services Limited
Bill Payments	South West Water Limited
Bill Payments	Northern Ireland Electricity plc, novated to NIE Energy Ltd
Bill Payments	United Utilities
Bill Payments	Yorkshire Water
Bill Payment	Bristol and Wessex Billing Services Ltd
Bill Payment	Siemens Energy Services (a Management Division of Siemens PLC)
Bill Payment	Capita
Travel Tickets	Neath Port Talbot Council
Travel Tickets	Scotland Improvement Service
Travel Tickets	Strathclyde Council
Travel Tickets	Transport for London
Council Tax and Other Related Council Services	The Lord Mayor & Citizens of the City of Westminster
Council Tax and Other Related Council Services	London Borough of Hammersmith and Fulham
Face to face payment services	The Lord Mayor & Citizens of the City of Westminster
Agreement for Provision of Online and E-Bulk Services	Atlantic Data Limited

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Category 4: Access to Postal Services

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

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

Description of Services	Contracting Entity opposite Post Office Limited
ATM Services	Bank of Ireland
Provision of Basic Banking Facilities under the Banking Service Framework	Lloyds Bank PLC – including Bank of Scotland and Halifax
Provision of Basic Banking Facilities under the Banking Service Framework	HSBC Bank plc – including First Direct
Provision of Basic Banking Facilities under the Banking Service Framework	Santander UK PLC– including Cahoot, Abbey National and Alliance+Leicester
Provision of Basic Banking Facilities under the Banking Service Framework	Barclays Bank PLC
Provision of Basic Banking Facilities under the Banking Service Framework	Royal Bank of Scotland PLC – Including NatWest, and Ulster Bank
Provision of Basic Banking Facilities under the Banking Service Framework	Nationwide Building Society
Provision of Basic Banking Facilities under the Banking Service Framework	TSB Bank PLC
Provision of Basic Banking Facilities under the Banking Service Framework	Virgin Money PLC
Provision of Basic Banking Facilities under the Banking Service Framework	Northern Bank Limited – including Danske Bank
Provision of Basic Banking Facilities under the Banking Service Framework	Bank of Ireland (UK) PLC
Provision of Basic Banking Facilities under the Banking Service Framework	AIB Group (UK) PLC – including First Trust/
Provision of Basic Banking Facilities under the Banking Service Framework	Metrobank PLC (currently Business Customers only)
Provision of Basic Banking Facilities under the Banking Service Framework	Cooperative Bank PLC – including Smile
Provision of Basic Banking Facilities under the Banking Service Framework	Svenska Handelsbanken AB (publ)
Provision of Basic Banking Facilities under the Banking Service Framework	CAF Bank Limited
Provision of Basic Banking Facilities under the Banking Service Framework	Clydesdale & Yorkshire Bank

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April 2018

THE SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY

AND

POST OFFICE LIMITED

FUNDING AGREEMENT

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THIS AGREEMENT is made on 16 April 2018.

BETWEEN:

(1) **THE SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY** of 1 Victoria Street, London SW1H 0ET, (the ***Secretary of State***); and

(2) **POST OFFICE LIMITED**, a company incorporated in England and Wales (registered number 2154540), and whose registered address is 20 Finsbury Street, London EC2Y 9AQ (***POL***).

WHEREAS:

(A) The Parties entered into the 2013 Funding Agreement (as defined below) in respect of funding for certain post office services during the 2013 Funding Period. On 30 March 2017, the Parties entered into a funding agreement in respect of certain funding for the Financial Years 2018/19 and 2019/20. This Agreement is the further funding agreement contemplated by the March 2017 funding agreement which is automatically terminated on the Parties entering into this Agreement.

(B) The Secretary of State has requested that POL continues to provide a national network of post offices across the United Kingdom and wishes to entrust to POL the provision of services of general economic interest over that network.

(C) The Secretary of State has agreed to enter into this Agreement in order to provide funding to POL to enable it to continue to provide services of general economic interest across that national network in respect of the Financial Years 2018/19, 2019/20 and 2020/21. The Secretary of State makes this funding available to POL under the Post Office Network Subsidy Scheme Order 2007 (SI 2007/962), as amended.

NOW THIS AGREEMENT WITNESSES as follows:

1. INTERPRETATION

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

2013 Funding Agreement means the funding agreement entered into between the Parties dated 26 November 2013 as amended and restated on 27 January 2015.

2013 Funding Period means the period commencing at the start of the Financial Year 2015/16 and ending at the end of the Financial Year 2017/18.

Actual SGEI Cost means POL's net cost of: (i) maintaining a network of Branches in accordance with the Network Access Criteria; and (ii) ensuring the provision of SGEI Services over that network, calculated in accordance with Schedule 3 (*Calculation of Actual SGEI Cost*).

Annual Strategic Plan has the meaning given to it in Schedule 4 (*Milestones*).

Branch means any retail outlet of POL, including any post office counter or means of transacting some or all SGEI Services at a third party premises and any other facility (including

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

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

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

Cumulative SGEI Cost has the meaning given to it in clause 5.9 (*Government Funding for SGEI Purpose*).

Cumulative SGEI Payment means the total aggregate amount of all SGEI Payments made by the Secretary of State under clauses 5.5 and 5.6 (*Government Funding for SGEI Purpose*);

Cumulative SGEI Statement has the meaning given to it in clause 5.9 (*Government Funding for the SGEI Purpose*).

Deprived Urban Areas means:

(a) the most deprived fifteen per cent. (15%) of super output areas in England;

(b) the most deprived fifteen per cent. (15%) of data zones in Scotland; and

(c) the most deprived thirty per cent. (30%) of super output areas in Wales and Northern Ireland,

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

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

Financial Quarter means the period commencing on one Quarter Date and ending on the day before the next Quarter Date.

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

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

Funding Period means the period commencing at the start of the Financial Year 2018/19 and ending at the end of the Financial Year 2020/21.

Government means Her Majesty's Government.

March 2017 Entrustment Letter has the meaning given to it in clause 11 (*Entrustment Letter*).

Milestone means, in respect of each Financial Year of the Funding Period, the requirements set out in Schedule 4.

Network Access Criteria means the criteria set out in Schedule 5 (*Network Access Criteria*).

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Network Investment Payment means an SGEI Payment made pursuant to clause 5.6 (*Government Funding for SGEIPurpose*).

Network Subsidy Payment means an SGEI Payment made pursuant to clause 5.5 (*Government Funding for SGEI Purpose*).

Parties means the parties to this Agreement.

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

POL Credit Facility Agreement means the credit facility agreement provided to POL pursuant to the terms of the credit facilities agreement between the Secretary of State and POL dated 17 October 2003 (as amended from time to time).

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

PSA2000 means the Postal Services Act 2000.

PSA2011 means the Postal Services Act 2011.

Quarter Date means each of 1 April, 1 July, 1 October and 1 January.

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

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

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

Rural Areas means those areas which are not Urban Areas.

SGEI Payment means a payment by the Secretary of State of an amount calculated to compensate POL for the net cost of the SGEI Purpose.

SGEI Purpose means (i) maintaining a network of Branches in accordance with the Network Access Criteria; and (ii) ensuring the provision of SGEI Services over that network, in each case during the Funding Period.

SGEI Services means the services of general economic interest entrusted to POL set out in Annex A of the Entrustment Letter.

SGEI Statement has the meaning given to it in clause 5.9 (*Government Funding for SGEI Purpose*).

SGEI Supporting Statement has the meaning given to it in clause 5.9 (*Government Funding for SGEIPurpose*).

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

Strategic Plan means POL's strategic plan covering the period from 1 April 2018 to 31 March 2021, which has been delivered prior to the date of this Agreement and which is in a form and

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substance satisfactory to the Secretary of State (acting reasonably), or any variation of such document as agreed between the Parties.

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

VAT Amount has the meaning given to it in clause *(Government Funding for SGEI Purpose)*.

1.2 In this Agreement, except where the context otherwise requires:

(a) a reference to a person (which shall include any individual, firm, company, corporation or other body corporate, government, state or agency or any association, trust, fund or partnership (whether or not having separate legal personality)) shall include, as appropriate, its successors, permitted assignees or transferees and, in the case of the Secretary of State, persons appointed to act on his behalf;

(b) a reference to an enactment or statutory provision shall include a reference to any subordinate legislation made under that enactment or statutory provision and is a reference to that enactment, statutory provision or subordinate legislation as from time to time amended, consolidated, modified, or re-enacted;

(c) words in the singular shall include the plural and vice versa;

(d) references to one gender include other genders;

(e) a reference to any agreement or other instrument (other than an enactment or statutory provision) shall be deemed to be a reference to that agreement or instrument as from time to time amended, varied, supplemented, substituted, novated, assigned or restated;

(f) a reference to a clause, Schedule or Appendix shall be a reference to a clause of, or Schedule or Appendix to, this Agreement;

(g) a reference to "includes" or "including" shall be construed without limitation to any events, circumstances, conditions, acts or matters specified after those words;

(h) references to dates which do not fall on a Business Day shall be construed as references to the immediately subsequent Business Day;

(i) the headings are for convenience only and shall not affect its interpretation; and

(j) references to this Agreement include this Agreement as amended or supplemented.

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

2. CONDITIONS

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

(a) all necessary State Aid Clearances having been obtained for the making of that payment; and

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(b) the relevant Milestone having been achieved.

2.2 The obligations of POL under clauses 5 (*Government Funding for SGEI Purpose*), 7 (*POL Strategic Plan*), 9 (*Employee Incentive Arrangements*) and 12 (*Public Consultation, Communication and Equality*) of this Agreement, and under the Entrustment Letter, in each Financial Year of the Funding Period are conditional on the conditions in clause 2.1 having been met and the relevant SGEI Payments having been received. If the condition in clause 2.1(b) is not met and the Secretary of State reduces the SGEI Payments for the relevant Financial Year pursuant to clause 2.3, then POL shall for such Financial Year perform such of its obligations under this Agreement and the Entrustment Letter as shall be correspondingly adjusted by POL and the Secretary of State.

2.3 If POL fails to achieve any Milestone by the date specified or referred to in Schedule 4 (*Milestones*), the Secretary of State shall have no obligation to make SGEI Payments until POL has achieved the Milestone. Should POL not achieve the Milestone by the end of the Financial Year in which the SGEI Payments are due to be paid, the Secretary of State may reduce the relevant SGEI Payments by an amount which, in the absolute discretion of the Secretary of State, reflects the extent to which the failure to achieve the Milestone relates to the SGEI Payments.

Deliverables

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

Fundamental Change

2.5 Without prejudice to the accrued rights and remedies of the Parties, the obligations of the Secretary of State to make or facilitate any payments in accordance with this Agreement, the obligations of POL under clauses 5 (*Government Funding for SGEI Purpose*), 7 (*POL Strategic Plan*), 9 (*Employee Incentive Arrangements*) and 12 (*Public Consultation, Communication and Equality*) of this Agreement and the obligations of POL under the Entrustment Letter, may be terminated with immediate effect by written notice of the Secretary of State upon the occurrence of a Fundamental Change.

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

(a) a Fundamental Change occurs, whereupon clause 2.5 shall apply and the Secretary of State shall have no obligation to make that payment; or

(b) the Potential Fundamental Change ceases to exist, whereupon the payment shall become immediately due and payable, together with interest from the due date until the date of actual payment at a rate equivalent to the rate of interest then applicable to drawings by POL under the POL Credit Facility Agreement.

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

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3. DELAYED PAYMENT

If any SGEI Payment to be made by the Secretary of State to POL under this Agreement (a ***Relevant Payment***) is not made on, or by the date on which it is required by clauses 5.5 and 5.6 (*Government Funding for SGEI Purpose*) to be made (the ***Required Payment Date***), then during the period between the Required Payment Date and the end of the tenth (10th) Business Day thereafter (such period being the ***Remedy Period***), the Parties shall continue to comply with their respective obligations under this Agreement and the Secretary of State shall make the Relevant Payment within the Remedy Period.

4. STATE AID CLEARANCES

4.1 [Subject to clause 4.2 below, the Secretary of State agrees to:

(a) prepare as soon as reasonably practicable, in consultation with POL, an application for State Aid Clearance for all arrangements under this Agreement requiring such State Aid Clearance, including any payments to POL under clauses 5.5 and 5.6 (*Government Funding for SGEI Purpose*), in respect of each of the Financial Years 2018/19, 2019/20 and 2020/21;

(b) pursue such State Aid Clearance application in good faith and expeditiously;

(c) keep POL informed as to the progress of such State Aid Clearance application;

(d) permit representatives appointed by POL to attend meetings with the European Commission in respect of such application, to the extent permitted by the European Commission and deemed appropriate by the Secretary of State;

(e) discuss with POL any written notifications to the European Commission in respect of such State Aid Clearance application before they are submitted; and

(f) discuss with POL any written notifications from the European Commission in respect of such State Aid Clearance application promptly upon their receipt.

4.2 As at the date of this Agreement, the Secretary of State is targeting the obtaining of the State Aid Clearance referred to in clause 4.1 by the start of the Funding Period and the Parties shall use their reasonable endeavours to obtain the State Aid Clearance by such date, it being acknowledged however that: (i) the Secretary of State will not and is not obliged to take any of the steps under clause 4.1 until the date on which POL delivers its Strategic Plan in accordance with clause 7 (*POL Strategic Plan*); and (ii) a mere failure to achieve that target is not of itself a breach of this clause 4.2.

5. GOVERNMENT FUNDING FOR THE SGEI PURPOSE

5.1 Subject to clause 5.2, POL undertakes to the Secretary of State that it will for the duration of the Funding Period: (i) maintain a network of Branches in accordance with the Network Access Criteria; and (ii) provide across that network the SGEI Services.

5.2 The Parties acknowledge and agree that:

(a) the Secretary of State expects POL to maintain a network of at least eleven thousand five hundred (11,500) Branches for the duration of the Funding Period. Should the number of Branches fall below eleven thousand five hundred (11,500), POL shall within 20 Business Days develop a plan to remedy the

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shortfall, which shall be subject to the Secretary of State's approval (acting reasonably);

(b) subject to clause 5.2(c), at least eleven thousand (11,000) of the Branches referred to in clause 5.2(a) (to be determined by POL in its absolute discretion) shall be required to provide all of the SGEI Services set out in Annex A of the Entrustment Letter and that the remaining Branches referred to in clause 5.2(a) shall be required to provide only the SGEI Services set out in rows 2, 3 and 4 of Annex A of the Entrustment Letter; and

(c) POL may from time to time withdraw or cease to offer some categories of SGEI Services from Branches, such that some or all of the SGEI Services are provided in fewer than eleven thousand (11,000) Branches, provided that: (i) POL notifies the Secretary of State of its intention setting out the category of SGEI Services and the applicable Branches, and having considered and outlined the potential impact on local communities; and (ii) the Secretary of State consents to POL's proposal.

5.3 Subject to clause 2.1 (*Conditions*), the Secretary of State agrees to make to POL in each of the Financial Years 2018/19, 2019/20 and 2020/21 SGEI Payments in the amounts specified in clauses 5.5 and 5.6, to enable POL to meet its obligations in clause 5.1.

5.4 The SGEI Payments for each of the Financial Years 2018/19, 2019/20 and 2020/21 shall be made in a manner or manners to be determined by the Secretary of State in his absolute discretion (but having consulted with POL as to the impact thereof (if any) on their profit and loss accounts and the tax treatment of such payments).

5.5 The Network Subsidy Payment payable in:

(a) the Financial Year 2018/19 shall be up to sixty million pounds (£60,000,000);

(b) the Financial Year 2019/20 shall be up to fifty million pounds (£50,000,000); and

(c) the Financial Year 2020/21 shall be up to fifty million pounds (£50,000,000),

in each case, made by way of payment to POL in instalments on each Quarter Date in the relevant Financial Year during the Funding Period for the amounts set out in the relevant Annual Strategic Plan or as otherwise agreed between the Parties.

5.6 The Network Investment Payment payable in the Funding Period shall be two hundred and ten million pounds (£210,000,000), with a maximum of one hundred and sixty eight million pounds (£168,000,000) being available in 2018/19 and the remainder available in 2019/20. Payment shall be made to POL in instalments on each Quarter Date throughout 2018/19 and 2019/20 for the amounts set out in the relevant Annual Strategic Plan and in each report delivered in accordance with clause 7.2(a), or as otherwise agreed between the Parties.

5.7 In ascertaining for any purpose of this clause 5 the amount or maximum amount of any SGEI Payment no account shall be taken of: (i) any VAT Amount which may be payable under clause 5.13; or (ii) the benefit of any interest receivable on any amount held by POL prior to its expenditure.

5.8 It is acknowledged by the Parties that any part of the SGEI Payments received by POL under a network subsidy scheme pursuant to section 103 of the PSA2000 (currently expected

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to be the amounts specified in clause 5.5 above) would be treated as revenue in POL's accounts, which has an impact on POL's operating profit. Should any SGEI Payment (or part thereof) be made in any Financial Year in any manner which would result in it not being treated as revenue in POL's accounts then any target operating profit applicable for any purpose to POL, or the PO Group as a whole, in such Financial Year shall be reduced by the amount of any SGEI Payment (or part thereof) received in any such manner in that Financial Year.

5.9 Within three months following the signature of POL's accounts in respect of each of the Financial Years 2018/19, 2019/20 and 2020/21, POL shall provide to the Secretary of State a statement (the ***SGEI Statement***) setting out in writing the Actual SGEI Cost for that Financial Year and a cumulative statement (the ***Cumulative SGEI Statement***) setting out the cumulative amount of all Actual SGEI Cost for the Funding Period up to and including the relevant Financial Year (the ***Cumulative SGEI Cost***), together with supporting calculations and a clear explanation of how the amounts of each have been calculated. Each SGEI Statement shall be accompanied by a statement (the ***SGEI Supporting Statement***) from an independent firm of financial advisers confirming:

(a) that the SGEI Statement has been properly prepared in accordance with the requirements of Schedule 3 (*Calculation of Actual SGEI Cost*) and any additional conditions imposed by any relevant State Aid Clearance; and

(b) that while carrying out its financial analysis for the purposes of providing the statement referred to in paragraph (a) above, they did not discover any inconsistency of POL's use of the SGEI Payment as against the terms of this Agreement or of any applicable State Aid Clearance.

POL agrees to use reasonable endeavours to engage such independent firm of financial advisers on the basis that, if requested by the Secretary of State and on such terms as the financial advisers may agree:

(a) an accountancy firm nominated by the Secretary of State shall be entitled to discuss directly with the financial advisers the manner in which the SGEI Supporting Statement has been prepared; and

(b) the financial advisers shall provide to the Secretary of State all notes and other work products produced by them in the preparation of the SGEI Supporting Statement.

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

5.11 POL shall use each SGEI Payment only to meet the direct and indirect costs associated with: (i) maintaining a network of Branches in accordance with the Network Access Criteria; and (ii) ensuring the provision of SGEI Services as described in Schedule 3 (Calculation of Actual SGEI Cost) (or to make any reimbursement required to be made by POL pursuant to clause 5.10), and only for purposes permitted by any State Aid Clearance applicable to it.

5.12 The Parties acknowledge that once received by POL, each SGEI payment is not hypothecated against any specific activity or expenditure forming part of the SGEI Purpose. POL shall not use the SGEI Payment for the purposes set out in paragraphs (a) – (h) below. However the Parties acknowledge that POL may undertake these activities provided they are funded from current or retained profits or non-public third party funding:

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(a) to fund lobbying (via an external firm or in-house staff) in order to undertake activities intended to influence or attempt to influence Government or political activity or attempting to influence legislative or regulatory action;

(b) to directly enable one part of Government to challenge another on topics unrelated to the SGEI Purpose or SGEI Services;

(c) to petition for additional funding;

(d) for entertaining, in particular any entertainment aimed at exerting undue influence to change Government policy;

(e) payments for activities of a party political or exclusively religious nature;

(f) for the giving of gifts;

(g) to pay statutory fines, criminal fines or penalties; or

(h) for payments for unfair dismissal.

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

5.14 If Her Majesty's Revenue and Customs issues a determination as referred to in clause 5.13 the Parties shall (acting reasonably) consult as to what action to take regarding such determination. If the Secretary of State disagrees with the determination he may, within ten (10) Business Days of being notified by POL of such determination, give written notice to POL that he requires POL (or any other member of the PO Group) to obtain a review by Her Majesty's Revenue and Customs of that determination; and POL (or such other member of the PO Group, as the case may be) shall promptly request (the form of that request being subject to reasonable review by the Secretary of State) Her Majesty's Revenue and Customs to undertake such review. In the event that the review results in POL obtaining a refund of any VAT Amount, or not being required to pay a VAT Amount, in each case in respect of which the Secretary of State shall have made a corresponding payment under clause 5.13, POL shall promptly refund to the Secretary of State the amount of such corresponding payment.

5.15 The Secretary of State acknowledges the expectation of the Parties that ongoing SGEI Payments may be required to be made to POL following the end of the Funding Period to the extent that POL may be requested to continue to provide the SGEI Purpose or SGEI Services following the Funding Period.

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6. WITHHOLDING, SUSPENDING OR REPAYMENT OF GOVERNMENT FUNDING

6.1 Without prejudice to the Secretary of State's other rights and remedies, the Secretary of State may at his discretion reduce, withhold or suspend payment of any SGEI Payments due to POL and/or require POL to repay all or part of the SGEI Payments if:

(a) subject to clause 5.12, POL uses the SGEI Payments for a purpose other than the SGEI Purpose or fails to comply with any of the other terms and conditions of this Agreement;

(b) POL receives funding from a third party for part or all of the same purposes as the SGEI Purpose (in which case, the Secretary of State's recovery will be limited to an amount equal to the third party funding for the relevant SGEI Purpose);

(c) the Secretary of State has incorrectly paid money to POL as a result of an administrative error or other reason; or

(d) any of the following events arise:

(i) POL is, in the reasonable opinion of the Secretary of State, delivering the SGEI Purpose in a negligent manner, provided that the Secretary of State has given POL written notice that he believes that the SGEI Purpose has been provided negligently and POL has failed to remedy the provision of the SGEI Purpose within 20 Business Days of such notice; or

(ii) POL obtains debt funding from a third party which, in the reasonable opinion of the Secretary of State, undertakes activities that are likely to bring the reputation of the SGEI Purpose or the SGEI Services or the Secretary of State into disrepute, provided that the Secretary of State shall have no right to reduce, withhold or suspend payment where POL has obtained such debt funding from a third party which is regulated by any arm of the Government or which has the right to do business in the United Kingdom by reason of the European Union passporting system or other equivalent system enabling such third party to trade freely in the United Kingdom. The Parties acknowledge that any equity funding is likely to constitute a variation of rights attaching to the special share in POL held by the Secretary of State and therefore will require prior written consent in accordance with POL's articles of association.

(iii) POL knowingly provides the Secretary of State with any material information relating to the provision of the SGEI Purpose that is materially misleading or inaccurate;

(iv) POL is involved in any illegal activity in the provision of the SGEI Purpose;

(v) the Secretary of State is required to exercise its rights under this clause by an order of a court or a decision of the European Commission relating to State Aid.

6.2 The Secretary of State may also have the right to impose reasonable additional terms and conditions to the SGEI Payments if any of the events set out in clause 6.1 occur, or if the Secretary of State has reasonable grounds to believe that it is necessary to protect public money.

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7. POL STRATEGIC PLAN

7.1 Unless otherwise agreed by the Secretary of State or required by the terms of any State Aid Clearance, POL shall not apply any SGEI Payment for a purpose inconsistent with the Strategic Plan or make any material deviation from the Annual Strategic Plan.

7.2 In order for the Secretary of State to monitor POL's progress in delivering the Strategic Plan:

(a) POL shall provide, in a form and substance satisfactory to the Secretary of State (acting reasonably), a report approved by POL's board of directors setting out an overall assessment of POL's activities during the previous Financial Quarter. Subject to POL's board of directors having reviewed and approved the report, such report shall be provided no more than 30 Business Days after each Quarter Date in the Funding Period, and shall include:

(i) a summary of POL's performance over the Financial Quarter and its expected future performance as compared to the Annual Strategic Plan;

(ii) for each business case approved by POL's board of directors in the Funding Period, an update on delivery against that approved business case. Where the activities associated with a business case have been implemented, POL will agree with the Secretary of State, whether and for how long, it will be relevant to continue reporting; and

(iii) information on expected drawings by POL of the SGEI Payments for the remaining duration of the Strategic Plan and the Annual Strategic Plan.

(b) the Secretary of State may request information on a routine and an ad hoc basis. The Secretary of State will ensure that information requests are not overly onerous and POL will use its reasonable endeavours to satisfy all information requests.

8. FINAL CONTRIBUTION

POL acknowledges that the SGEI Payments to be provided by the Secretary of State pursuant to this Agreement represent the Secretary of State's final funding contribution in respect of POL's obligations over the Funding Period to: (i) maintain a network of Branches in accordance with the Network Access Criteria; and (ii) ensure the provision of SGEI Services in accordance with the Strategic Plan.

9. EMPLOYEE INCENTIVE ARRANGEMENTS

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

9.2 POL confirms that:

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

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(b) the terms of such bonus arrangements are robust, subject to annual review and designed not to provide rewards where POL's business has not performed satisfactorily against the relevant target; and

(c) accordingly, no such bonus arrangements will pay out in respect of any Financial Year during the Funding Period in which POL seeks and obtains new funding from the Secretary of State, over and above that anticipated in this Agreement, as a result of a failure by POL to perform in accordance with the requirements of the Strategic Plan (other than as a result of a change in Government policy or other reasons beyond POL's control). Any future bonus arrangements following any such Financial Year will be discussed with the Secretary of State at the time.

10. JOINT VENTURES

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

11. ENTRUSTMENT LETTER

The letter from the Government to POL entitled "Entrustment of Post Office Limited with the delivery of certain public services" and dated 30 March 2017 (the ***March 2017 Entrustment Letter***) is superseded by the Entrustment Letter and the Parties agree that the March 2017 Entrustment Letter shall be terminated with immediate effect on the date the Entrustment Letter is signed by both Parties.

12. PUBLIC CONSULTATION, COMMUNICATION AND EQUALITY

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

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

13. CONSENTS

The Secretary of State hereby consents, for the purposes of POL's articles of association and any other document or arrangement under which its consent or approval is required, to the execution and performance by POL of this Agreement and the documents and arrangements to be entered into pursuant to, or otherwise contemplated by, this Agreement (other than any agreement contemplated in clause 10 (*Joint Ventures*)). The Secretary of State agrees that such consents will take effect notwithstanding any failure to comply with any procedural requirements of such articles or other documents in connection with the obtaining of such consents.

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14. CONFIDENTIALITY

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

(a) the provisions of this Agreement, and the Strategic Plan; and

(b) the negotiations relating to this Agreement, the Entrustment Letter and the Strategic Plan.

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

(a) to those of its officers (including auditors), employees and agents as it considers have a need for such information in the performance of their respective functions and who shall in each case be made aware by such Party of its obligations under this Agreement and shall be required by such Party to observe the same restrictions on the use of the confidential information as are contained in this clause 14;

(b) to its professional advisers who are bound to such Party by a duty of confidence which applies to the confidential information disclosed;

(c) to the extent required by applicable law or by the regulations of any regulatory or supervisory authority to which such Party is subject or pursuant to any order of court or other competent authority or tribunal;

(d) which shall have entered the public domain or ceased to be confidential other than as a result of a breach by such Party of its obligations under this clause 14;

(e) which was already known to such Party prior to its disclosure to such Party other than as a result of a breach by such Party of an obligation of confidentiality;

(f) as such Party, acting reasonably, considers necessary in connection with any investigations, inquiries, or actual or threatened proceedings in connection with POL or any of its directors;

(g) in the case of POL, to the extent that its board of directors acting reasonably, considers disclosure necessary from time to time in its statutory accounts;

(h) to the extent that the Secretary of State, acting reasonably, considers disclosure necessary from time to time in the published accounts of the Department of Business, Energy and Industrial Strategy or Her Majesty's Treasury;

(i) to the extent required by any Parliamentary obligation;

(j) to the extent required for the purposes of any examination pursuant to section 6(1) of the National Audit Act 1983 of the economy, efficiency and effectiveness with which the Secretary of State has used his resources;

(k) to the European Commission for the purposes of obtaining State Aid Clearance; or

(l) with the prior written consent of the other Party.

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

15. NOTICES

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

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

Name of Party	Attention	Address	E-mail Address
Secretary of State	UK Government Investments	1 Victoria Street, London SW1H 0ET	Tom.Cooper GRO
POL	Company Secretary	20 Finsbury Street, London EC2Y 9AQ	Jane.macleod GRO

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

(a) in the case of a notice served in person, upon delivery at the address of the addressee;

(b) in the case of a posted letter, on the second Business Day after posting; and

(c) in the case of e-mail or any other electronic method of communication agreed by the Parties, when actually received in readable form.

15.4 Each Party undertakes to notify the other Party by notice served in accordance with this clause 15 if the address specified by that Party herein is no longer an appropriate address for the service of notice or if it is desired to substitute any individual addressee of that Party named in clause 15.2.

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

(a) in the case of a letter, that such letter was properly stamped or franked, addressed and placed in the post or in the case of personal delivery, was left at the correct address; and

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(b) in the case of an e-mail, that e-mail was duly transmitted to the e-mail address of the addressee referred to in clause 15.2.

16. ENTIRE AGREEMENT

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

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

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

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

17. GENERAL

Secretary of State

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

Costs

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

Third parties

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

Counterparts

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

Partial invalidity

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

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Rights, variations and waivers

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

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

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

Remedies

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

Governing law and jurisdiction

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

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

EXECUTED by the Parties on the date first written above.

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SIGNED by
for and on behalf of
THE SECRETARY OF STATE FOR BUSINESS, ENERGY AND INDUSTRIAL STRATEGY

Signature: GRO
Name: Richard Callard
Title: Executive Director, UK Government Investments

SIGNED by
for and on behalf of
POST OFFICE LIMITED

Signature: GRO
Name: Paula Vennells
Title: Chief Executive

Signature: GRO
Name: Alisdair Cameron
Title: Chief Financial & Operating Officer

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SCHEDULE 1

DELIVERABLES

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

(a) approving the terms of, and the transactions contemplated by, this Agreement and any amendments agreed by the Parties relating to the POL Credit Facility Agreement and resolving that it execute and perform this Agreement and any agreed deed of amendment relating to the POL Credit Facility Agreement;

(b) authorising a specific person or persons to execute this Agreement on its behalf; and

(c) authorising a specified person or persons, on its behalf, to sign and/or dispatch all documents and notices to be signed and/or dispatched by it under or in connection with this Agreement and any agreed deed of amendment relating to the POL Credit Facility Agreement.

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SCHEDULE 2

Part A
Fundamental Change

A Fundamental Change will have occurred if:

1. an order has been made or resolution has been passed for the winding-up of, or a provisional liquidator to be appointed in respect of, POL;

2. an administrator has been appointed in respect of POL;

3. a receiver (which expression shall include an administrative receiver) has been appointed in respect of POL;

4. POL has stopped paying its debts as they fall due;

5. a moratorium is declared in respect of the indebtedness of POL or POL enters into a moratorium or a composition, assignment or similar arrangement with its creditors generally;

6. a scheme of arrangement is approved, or proposed by POL, under Part 26 of the Companies Act 2006 with a view to rescheduling or restructuring POL's indebtedness;

7. a voluntary arrangement has been proposed by POL under section 1 of the Insolvency Act 1986 in respect of POL; or

8. an event analogous to the foregoing has occurred in relation to POL in any jurisdiction outside England.

Part B
Potential Fundamental Change

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

1. a petition has been presented or a meeting has been convened for the purpose of winding-up POL or appointing a provisional liquidator in respect of POL and such petition has not been discharged or such meeting has not been held; or

2. POL is currently taking steps with a view to appointing an administrator or agreeing a moratorium, composition, assignment or similar arrangement with its creditors generally.

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SCHEDULE 3

CALCULATION OF ACTUAL SGEI COST

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

This is to be calculated using the net avoided cost methodology, in accordance with the principles in paragraphs 21-32 of the 2012 Community Framework for State aid in the form of public service compensation ("Framework") and in precedent Commission decisions, which calculates the SGEI net cost as the difference between:

- the expected net cost for POL when providing the SGEIs; and
- the expected net cost / profit for POL when operating without any SGEI obligations.

For the purposes of this net avoided cost methodology the costs shall include, without limitation, all variable and fixed costs associated with delivery of the SGEIs including contributions to pension funds, interest costs, central costs, depreciation and amortisation costs of any employee incentivisation arrangements and the costs of transforming the network, in each case whether such costs are recurring or exceptional.

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SCHEDULE 4

MILESTONES

Network Size

Subject to clause 5.2 (*Government Funding for SGEI Purpose*), POL's network continues to meet the Network Access Criteria as reported by POL in each report delivered in accordance with clause 7.2(a).

Annual Strategic Plan:

POL has provided an annual report to the Secretary of State prior to the start of the relevant Financial Year, setting out the steps that it will take in respect of the Strategic Plan (or any variation to it, agreed by the Parties where material) during that forthcoming Financial Year (the ***Annual Strategic Plan***).

Each year the Secretary of State (acting reasonably) will agree with POL a timetable for POL to provide a draft and final version of the Annual Strategic Plan. This timetable will, among other things, allow sufficient time for the Secretary of State to review the draft Annual Strategic Plan and to agree its final form prior to the start of the relevant Financial Year.

This Annual Strategic Plan should include:

(a) POL's annual budget;

(b) a reconciliation of any differences between POL's annual budget and the projected income statement, statement of cash flows and balance sheet in the Strategic Plan;

(c) information on the network of Branches, including its planned size and confirmation of POL's intention to continue to comply with the Network Access Criteria;

(d) the proposed quarterly drawings by POL of the SGEI Payment;

(e) information on the investment activities that POL plans to undertake;

(f) an update on POL's forecast financial performance for the current Financial Year; and

(g) information on any other outcomes set out in POL's Strategic Plan that do not form part of (a) to (f) above.

SGEI Statements:

POL has presented the SGEI Statement, the Cumulative SGEI Statement and the SGEI Supporting Statement for the applicable Financial Year in accordance with the requirements of clause 5.9

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SCHEDULE 5

NETWORK ACCESS CRITERIA

1. POL's network of Branches must enable the following criteria to be met:

   a. nationally, ninety per cent. (90%) of the UK population are within one (1) mile of the nearest Branch;

   b. nationally, ninety-nine per cent. (99%) of the UK population are within three (3) miles of the nearest Branch;

   c. in Urban Areas, ninety-five per cent. (95%) of the total population are within one (1) mile of the nearest Branch;

   d. in Deprived Urban Areas, ninety-nine per cent. (99%) of the total population are within one (1) mile of the nearest Branch; and

   e. in Rural Areas, ninety-five per cent. (95%) of the total population are within three (3) miles of the nearest Branch.

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

   f. in each postcode district, ninety-five per cent. (95%) of the population to be within 6 miles of their nearest Branch.

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

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APPENDIX A

POL ENTRUSTMENT LETTER

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DIRECTORS' DUTIES & CONFLICTS OF INTEREST

1. Directors' Duties

Directors' general duties are set out under sections 171-182 Companies Act 2006 (CA2006). Directors must act in accordance with the Company's constitution and

The general duties are owed to the company, and not to its shareholders.

1.1. Section 171: Duty to act within Powers

This section sets out a director's duty to comply with the company's constitution and only exercise powers for the purposes for which they are conferred.

A director should exercise their powers only in accordance with the terms for which they were granted and for a proper purpose. What constitutes a proper purpose must be ascertained in the context of the specific situation under consideration.

Practical Guidance: Formal procedures should always be following when a meeting of the Board is held. There is a schedule of matters reserved to the Board. Always be aware of your delegated authority and duties in the Articles of Association and situations that require shareholder approval. If in doubt, always consult the Company Secretary.

1.2. Section 172: Duty to promote the success of the company

The overriding duty, as set out in s172, is that a director is required to act in the way he or she considers, in good faith, will be most likely to promote the success of the company for the benefit of its members as a whole. In doing so, he or she must have regard (amongst other matters) to the six factors below.

1. The likely consequences of any decision in the long term
2. The interests of the company's employees
3. The need to develop the company's business relationships with suppliers, customers and other
4. The impact of the company's operations on the community and the environment.
5. The desirability of the company maintaining a reputation for high standards of business conduct.
6. The need to act fairly between members of the company

The Companies (Miscellaneous Reporting) Regulations 2018 require that Company's (meeting certain thresholds) must include a statement in the strategic report of how directors have complied with their duty to have regard to the matters in Section 172 companies Act 2006.

At times some of the factors may be in conflict but the key issue for decision making is that the directors should choose the action that will promote the success of the company for the benefit of members as a whole.

1.3. Section 173: Duty to exercise intendent judgment

This section reflects the principle that a director must exercise his judgment independently of the influences of others.

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DIRECTORS' DUTIES & CONFLICTS OF INTEREST

The provision explains that this duty would not be infringed by a director if he or she is acting in:

(a) accordance with an agreement or previous collective board decision which has duly been entered into by the company or board; or,
(b) a way authorised by the company's constitution.

Practical Guidance: Where someone if an executive director, they must not promote a collective executive line, but should give the board the benefit of independent judgment. Directors may seek legal or other professional advice but, ultimately, the director's final judgment would need to be independent.

1.4. Section 174: Duty to exercise reasonable care, skill and diligence

Section 174 was modelled on the provisions of s214 of the Insolvency Act 1986, which relates to wrongful trading.

A director owes a duty to the company to exercise the same standard of care, skill and diligence that would be exercised by a reasonably diligent person with:

(a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the functions carried out by the director in relation to the company (an objective test); and
(b) the general knowledge, skill and experience that the director has (a subjective test).

1.5. Section 175: Duty to avoid conflicts of interest

A director must avoid a situation in which they have, or can have, a direct or indirect interest that conflicts, or may conflict, with the interests of the Company. This duty includes both a conflict of interest and a conflict of duties and applies in particular to the exploitation of property, information or opportunity.

The duty does not apply if the situation cannot reasonably be regarded as likely to give rise to a conflict of interest. Or if it has been authorised by the Directors.

Practical Guidance: For Private Companies (those currently in the Post office Group) Directors who are independent of the conflict may authorise it (as the Articles of Association allow for it).

Directors should consider if they have a conflict of interest through a connected person.

1.6. Section 176: Duty not to accept benefits from third parties

A director must not exploit his or her own position for personal benefit. However, only those benefits which could reasonably be regarded as likely to give rise to a conflict of interest fall within the scope of this duty.

The Act does not permit the acceptance of benefits which fall within the ambit of this section to be authorised by the Board. It has to be approved by the Company's members.

There is a Post Office Gifts and Hospitality register to include any details. Always advise the Company Secretary.

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DIRECTORS' DUTIES & CONFLICTS OF INTEREST

1.7. Section 177: Duty to declare an interest in a proposed transaction or arrangement

Directors must declare to the other directors any interest, whether direct or indirect, in a proposed transaction or arrangement with the company. The extent of the interest must be declared. However, it needs to be regarded as likely to give risk to a conflict of interest.

This duty may still apply even if the director is not party to the transaction. For example in their spouse was entering into the transaction, this would be an indirect interest in the transaction.

1.8. Section 182: Declaration of interest in existing transaction or arrangement

Directors are required to declare an interest, whether it is direct or indirect, in an existing transaction or arrangement into which the company has entered. If that director has already declared an interest in the transaction or arrangement and that information has not changed then he will not need to make a further declaration. This also applies to indirect interests.

It is a criminal offence if the director fails to comply with this requirement.

1.9. Non-Compliance Consequences

There are civil consequences if directors' duties are breached.

CA2006 Section 183 provides for criminal sanctions for the director if they fail to comply with Section 182 (declarations of interests).

2. Conflicts of Interest Declaration

On appointment, directors are requested to complete a declaration of conflicts of interest. The information is kept on a conflicts of interest register, managed by Company Secretariat.

It is the directors' responsibility to ensure that the Company Secretary is informed of any changes to interests, direct or indirect. It is also the directors' responsibility to inform the Company Secretary and the Board of an interests in existing or proposed transactions.

The conflict of interest register is noted by the Board annually.

3. Connected person

A person connected with a director means:

(i) Members of the director's family:
(a) his/her spouse, or civil partner, his/her children and step-children and his/her parents;
(b) a person with whom he/she lives as partner in an enduring family relationship and any children or step-children such person under the age of 18;

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DIRECTORS' DUTIES & CONFLICTS OF INTEREST

(ii) A body corporate with which the director and his/her connected persons (as above) together are interested in and control more than 20% of the voting power at a general meeting of that body corporate;

(iii) A person acting as the trustee of a trust, of which the director or his/her connected persons (as above) are beneficiaries; and

(iv) A person, or firm that is a legal person, that is a partner of the director, either directly or, indirectly through his/her connected persons (as above).

4. Extract of Pinsent Masons LLP Post Office Limited Conflicts of Interest Advice (Received 04.06.2019)

4.1. Regulators across all sectors (pensions, finance and charities) have been very engaged with conflicts of interest in the last few years. The sponsoring minister has also showed an interest in the matter, which demonstrates the level of scrutiny in the current climate and, therefore, the importance placed on getting conflicts of interest management right.

Under **section 175(1) of the Companies 2006 Act** (the "Act"), a director is under a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. "Conflict of interest" is defined as including a conflict of duties, so if a director has duties to two separate bodies which may potentially conflict, the section is engaged.

4.2. **Extract from the 2016 BEIS Guidance for Directors of Companies Fully or Partly Owned by the Public Sector:** For a Director who is a public servant, a conflict of interest might occur where e.g.:

- There are conflicts between different professional duties ("professional conflicts of interest"). For example where a Director is a member of two boards, or where a Director has competing loyalties to their public sector employer and the commercial venture to which they have been appointed director; or
- There are conflicts between Director duties and private interests, for example a financial or family interest ("personal conflicts of interest").

There will be situations, determined on a case by case basis, in which conflicts of interest can be managed. For example, there may be scope within the organisation's constitutional documents (in its current form or as properly amended) to:

- Reserve certain issues to be decided by specific participants only, rather than the entire board
- Impose a restriction on directors from voting on issues where they may have a conflicting interest
- Expressly allow a director to vote on a matter in which they have a conflicting interest, provided that the nature and extent of the conflict is fully disclosed to the board.

Note that the duty is not infringed if the situation cannot reasonably be regarded as likely to give rise to a conflict of interest (section 175(4)(a) of the Act).

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DIRECTORS' DUTIES & CONFLICTS OF INTEREST

There is a specific safe harbour in section 180(4)(b) of the Act which provides that, where a company's articles contain provisions for dealing with directors' conflicts of interest, directors' general duties are not infringed by anything done (or omitted to be done) by them when following those provisions.

4.3. Post Office Limited (POL) Articles of Association The articles of POL permit such authorisation of a conflict of interest and duty pursuant to any terms that the board considers to be appropriate and which the director undertakes to comply with **Article 82.** When directors, acting collectively, decide whether to authorise a conflict or potential conflict, they must act in a way they consider, in good faith, will be most likely to promote the company's success (in line with section 172 of the Act). In other words, the board may feel able to authorise a conflict if, on balance, it concludes that it is in the interests of POL.

4.4. POL Articles of Association Article 82 & 83

(A) The board may, subject to the quorum and voting requirements set out in this article, authorise any matter which would otherwise involve a director breaching his duty under the Act to avoid conflicts of interest (a "Conflict")

(B) A director seeking authorization in respect of a Conflict shall declare to the board the nature and extent of his interest in that Conflict as soon as is reasonably practicable The director shall provide the board with such details of the relevant mailer as are necessary for the board to decide how to address the Conflict together with such additional information as may be requested by the board

(C) Any director (including the relevant director) may propose that the relevant director be authorised in relation to any matter the subject of a Conflict Such proposal and any authority given by the board shall be effected in the same way that any other matter may be proposed to and resolved upon by the board under the provisions of these articles save that

(I) the relevant director and any other director with a similar interest shall not count towards the quorum nor vote on any resolution giving such authority, and

(II) the relevant director and any other director with a similar interest may, if the other members of the board so decide, be excluded from any board meeting while the Conflict is under consideration

(D) Where the board gives authority in relation to a Conflict

(I) the board may (whether at the time of giving the authority or subsequently) (a) require that the relevant director is excluded from the receipt of information, the participation in discussion and/or the making of decisions (whether at meetings of the board or otherwise) related to the Conflict, and (b) impose upon the relevant director such other terms for the purpose of dealing with the Conflict as it may determine,

(II) the relevant director will be obliged to conduct himself in accordance with any terms imposed by the board in relation to the Conflict,

(III) the board may provide that where the relevant director obtains (otherwise than through his position as a director of the company)

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information that is confidential to a third party, the director will not be obliged to disclose that information to the company, or to use or apply the information in relation to the company's affairs, where to do so would amount to a breach of that confidence,

(IV) the terms of the authority shall be recorded in writing (but the authority shall be effective whether or not the terms are so recorded), and

(V) the board may revoke or vary such authority at any time but this will not affect anything done by the relevant director prior to such revocation or variation in accordance with the terms of such authority

83. OTHER CONFLICTS OF INTEREST

(A) If a director is in any way directly or indirectly interested in a proposed contract with the company or a contract that has been entered into by the company, he must declare the nature and extent of that interest to the directors in accordance with the Act

(B) Provided he has declared his interest in accordance with article 83(A) a director may

(I) be party to, or otherwise interested in, any contract with the company or in which the company has a direct or indirect interest,

(II) hold any other office or place of profit with the company (except that of auditor) in conjunction with his office of director for such period and upon such terms, including as to remuneration, as the board may decide,

(III) act by himself or through a firm with which he is associated in a professional capacity for the company or any other company in which the company may be interested (otherwise than as auditor),

(IV) be or become a director or other officer of, or employed by or otherwise be interested in any holding company or subsidiary company of the company or any other company in which the company may be interested, and

(V) be or become a director of any other company in which the company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other company

(C) A director shall not, by reason of his office or of the fiduciary relationship thereby established be liable to account to the company for any remuneration, profit or other benefit realised by reason of his having any type of interest authorised under article 82(A) or permitted under article 83(B) and no contract shall be liable to be avoided on the grounds of a director having any type of interest authorised under article 82(A) or permitted under article 83(B)

As not all conflict situations can be anticipated and each situation will be different, the GC100 considers that most companies will want a general power to authorise conflicts. There are safeguards that will apply when a board decides whether to

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authorise a potential conflict in accordance with the articles of association. When a board is making this decision, each authorising director will need to have regard to his own duties including the duty to act in a way he considers, in good faith, will be most likely to promote the success of the company. Shareholders therefore have the assurance that the board will only use the power to sanction conflicts where it is in the interests of the company.

4.5. Extract from GC100 Guidance on Conflicts of Interest

Currently when a material conflict of interest arises, the director concerned will take steps to mitigate the conflict by, for example, absenting himself from board discussions and, in extreme cases, standing down from the board. Under section 175 however, a director must not let the situation arise in the first place unless the board has given prior authorisation. This change in the law will require companies to operate more formal procedures regarding conflicts of interest but provided a potential conflict has been authorised, the change should not result in the relevant director behaving in a different way than he would at the moment when a real conflict arises.

The 2006 Act also preserves the effect of provisions in a company's articles dealing with conflicts. A director will not be in breach of section 175 (and the other general duties in Chapter 2 of Part 10) for anything done or omitted by the director in accordance with provisions in the articles dealing with conflicts. Where a company's articles include a power for the purposes of section 175 for a board to authorise conflicts, this will supplement any other general provisions in the articles dealing with conflicts.

The safe harbour in section 180(4)(b) provides that where a company's articles contain provisions for dealing with conflicts of interest, the general duties are not infringed by anything done (or omitted to be done) by the directors, or any of them, when following those provisions. Section 232(4) of the 2006 Act is also relevant in this context as it allows a company's articles to protect directors from liability by continuing to include provisions dealing with conflicts of interest where they were previously lawful. This means that companies can continue to rely on provisions in their articles dealing with conflicts (for example article 85 of Table A).

Where a company is amending its articles to reflect section 175(4) and incorporating the power for the board to authorise conflicts, it may want to consider how directors can take advantage of the section 180(4)(b) safe harbour in relation to conflict situations authorised by the board. A company may for example want to make it clear that a director will not be in breach of duty in respect of an authorised conflict situation:

a) if he receives confidential information as a result of the conflict situation from a third party and does not disclose this to the company or use it for the company's benefit; or

b) where he takes mitigating action when the actual conflict arises by, for example, not attending board meetings or reading board papers.

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DIRECTORS' DUTIES & CONFLICTS OF INTEREST

A company may want wider provisions in its articles, for example sanctioning conflicts that may arise as a result of directors' involvement with other companies in the group or joint venture companies.

Each director's situation needs to be considered by the board and the board must decide whether to approve any conflict situations taking account of their general duties set out in Chapter 2 of Part 10 of the 2006 Act. Where the board is asked to approve a potential conflicting position that brings clear benefits to the company, for example access to industry or sector expertise, it will usually not be an issue in deciding that they are acting in the interests of the company in approving the conflict. A board should be able to approve a matter if on balance the directors think it is in the interests of the company for the company to retain (or appoint) that director. A board should consider whether the matter they are approving would affect the relevant director's ability to act in accordance with his wider duties.

A board should consider how far the authorisation should go in relation to each matter it is asked to approve to avoid the director being in breach of section 175. Taking the example of a director seeking sanction for his role as a non-executive director of another company, the board may decide to approve his continuing in this role but may not want to sanction all consequences that flow from the role, for example if Company B decides to acquire the company or becomes a competitor. So in sanctioning any matter that gives rise to a conflict, a board needs to consider what consequences could flow from that matter and the stage at which the authorisation should no longer apply. Part 5 considers some of the consequences that could flow from various situations of conflict that a board may want to address when considering the extent of its authorisation of any particular matter.

A board also needs to consider what should happen if a real conflict arises post authorisation and the director has clearly conflicting interests. The options are:

a) exclude the director from the relevant information and debate;

b) exclude the director from the board (suspension); or

c) require the director to resign.

Where a director is on the board of, is a significant shareholder in, or is himself, a supplier to or customer of the company. The board may decide to approve this relationship but will not want the director to be able to disclose "company" information to the supplier or customer or to use it for the supplier or customer's benefit. They also will not want him to be involved in board discussions concerning the relationship.

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GLOSSARY & PROJECT LIST

AEI	Application, Enrolment and Identity
AR	Appointed Representative
ARC	Audit, Risk and Compliance Committee
API	Application Programming Interface
ATM	Automated Teller Machine
BACS	Bankers' Automated Clearing Services
BAU	Business as Usual
BEIS	Department of Business, Energy & Industrial Strategy
BOI	Bank of Ireland
BPMA	British Postal Museum and Archive
CAG	Change Approval Group
CAGR	Compound Annual Growth Rate
CDP	Common Digital Platform
CEIRF	Collective Engagement & Industrial Relations Framework
CFS	Core Financial System
CMA	Community Managers Association
COSA	Crown Office Staffing Arrangement (agreement with CWU)
CPI	Consumer Price Index
CRM	Customer Relationship Management
CTP	Crown Transformation Programme
CViT	Cash and Valuables in Transit
CWU	Communication Workers Union
DA	Distribution Agreement between POL and POMS (since we have MSA listed)
DMB	Directly Managed Branch (previously referred to as 'Crowns')
DPC	Direct Product Contribution
DPO	Data Protection Officer
DRO	Departmental Records Officer
DVLA	Driver and Vehicle Licensing Agency
DVSA	Driver and Vehicle Standards Agency (formerly VOSA – see below)
DWP	Department of Work & Pensions
EBITDAS	Earnings Before Interest, Tax, Depreciation, Amortisation and Subsidy

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GLOSSARY & PROJECT LIST

eKYC	Enhanced Know Your Customer
EPOS	Electronic Point of Sale
EUC	End User Computing
FBU	Fair, Balanced and Understandable
FCA	Financial Conduct Authority
FOoG	Front Office of Government
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
FS	Financial Services
FSC	Financial Services Centre
FSJVA	Financial Services Joint Venture Agreement between BoI and POL dated [2012]
FST&I	Financial Services, Telecoms and Identity, Group Marketing and Group Digital & Innovation Business Unit
GDPR	General Data Protection Regulation
GE	Group Executive
Horizon	IT in branch counter system supplied by Fujitsu. Versions include HNGX, HNGA, HNGT
HRSC	Human Resources Service Centre
IDA	Identity Assurance (Services)
IDD	Insurance Distribution Directive
IDV or ID &V	Identity verification
IPA	Information Protection and Assurance Team
IPS	Identity and Passport Services
JIC	Joint Insurance Committee
Junction	Travel Insurance JV between [BGL and POMS]
LDF	Leadership Development Forum
LTIP	Long Term Incentive Plan
MDA	Master Distribution Agreement between RMG and POL
MSA	Master Services Agreement between POL and POMS
MtSF	Managing the Surplus Framework (Agreement with CWU)
ND	Network development – plan to expand the size of the network with more, smaller branches including whitespace.
NDA	Non Disclosure Agreement

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GLOSSARY & PROJECT LIST

Network Tower Contract	IT contract with Verizon (previously BT) providing IT telecoms services in POL offices and across the branch network
NFSP	National Federation of SubPostmasters
NS&I	National Savings & Investments
NSP	Network Subsidy Payment
PSD2	Payment Services Directive 2

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GLOSSARY & PROJECT LIST

NT	Network Transformation
NTP	Network Transformation Programme
PCI	Peripheral Component Interconnect - used in the Payment Card Industry (MasterCard data security standard)
PID	Project Initiation Document
PO	Purchase Order
POAC	Post Office Advisory Council
POCA	Post Office Card Account
POEM	Post Office Ethnic Minority
POFS	Post Office Financial Services
POL	Post Office Limited
POLIC	Post Office Investment Committee
Polo	Current Account
POMS	Post Office Management Services Limited
POSH	Postal Services Holdings Limited (In Liquidation)
RemCo	Remuneration Committee
RM	Royal Mail
RMG	Royal Mail Group
RMHB	Royal Mail Holdings Board
RMPP	Royal Mail Pension Plan
RMSEPP	Royal Mail Senior Executive Pension Plan
RMDCP	Royal Mail Defined Contribution Plan
RBS	Royal Bank of Scotland
RPI	Retail Price Index
SGEI	Services of General Economic Interest
ShEx	Shareholder Executive (now replaced with UKGI)
SIA	Security Industry Authority
SLP	Senior Leadership Population
SLT	Senior Leadership Team
SMCR	Senior Managers and Certification Regime
SPMO	Strategic Project Management Office
State Aid	a European Commission (EC) term which refers to forms of public assistance, given to undertakings on a discretionary basis, which has the potential to distort competition and affect trade between Member States of the European Union

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GLOSSARY & PROJECT LIST

STIP	Short Term Incentive Plan
UKBA	UK Borders Agency
UKGI	UK Government Investments (owned by HM Treasury and is the successor to the Shareholder Executive)
VOSA	Vehicle and Operator Services Agency

Project List:

Project Name	Date	Company	Explanation
Almond	2016	POL	Mails strategy and possible acquisition of Parcel2Go.
Athena	2018	POI	Insurance Distribution Directive
Atlas	2018	POI	Senior Managers & Certification Regime
Boost	2017-18		Broadband fibre upgrade
Crescent	2015	POL	Review the terms and conditions of all Post Office employees
Cronus	2018	POI	Travel Q3/4 Project Delivery
Customer Hub	2018	POL & POI	Post Office Digital App
Darwin	206/17	POL	Discussions with key reseller, Allpay, regarding forming a joint venture to protect and grow the bill payments business.
Eagle	2012	POL	Sale of POFS to the Bank of Ireland, restructure commission rates for personal financial services and extend the contract to 2023.
Edgware	2018	POL	WH Smith contract negotiations
Enyo	2018	POI	Term life on aggregators via Scottish Friendly.
EUM	2016-18	POL & POI	Enhanced User Management – a project to ensure that Post Office can ensure that only properly vetted and trained persons have access to Horizon.
Everest	2017	POL	Re-negotiation of contract with Fujitsu to increase variability of IT cost base.
Falcon	2016-17		Implementation of Financial Services strategic plan.
Finch	2016-17		Removal of in branch Financial Services specialists.
Gamma	2007	POL	A contract variation with POFS generating £100m cash and income over a number of years in return for a series of commitments through to 2020.

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GLOSSARY & PROJECT LIST

Galaxy	2018/19	POL	Strategic response to changes within home phone only market, driven by BT's announcement of a voluntary agreement with Ofcom of a £7 reduction in home phone only charges. POL's response was to upgrade our HomePhone Only customers to Broadband at no additional cost to the customer, whilst also making available a new, reduced cost HomePhone only option.
Hawk	2015	POL & POI	Acquisition of the 50% of the Insurance business jointly owned by POL and BoI and which was injected into POMS.
Iris	2016-17	POL	Review and restructure of the Supply Chain operations.
Jaguar	2017		Acquisition of New Call telecoms customers.
LEO	2018	Group wide	Evaluation of the Group's corporate structure and subsequent restructure as required.
Maypole		POL	The procurement project leading to the implementation of POCA.
Mercury	2017-18		Development and Roll-out of HNGT-Lite.
Morpheus	2018	POI	Insurance Pricing & CVM
Musgrove	2017	POL	Telecoms Strategy
Nemesis	2018	POI	Creation of a new home insurance business model.
Nike	2018	POI	Proposed acquisition of Ancile (a specialist providers of Over-50s and impaired life travel insurance).
Paddington	2015	POL	WH Smith negotiations
Panther	2017	POL	Proposed acquisition of clients and customers in the payments market from [Payzone].
Peregrine	2016-17	POL	Re-negotiation of the BoI FSJVA.
Plutus	2018	POI	MI Self Service Reporting Suite
Robin		POL	A de-risking project in respect of pensions which removed the link to final salary in respect of pre-2008 defined benefit pension accrual.
Solar / HNGT	2017-18	POL	A strategic initiative to deliver greater access to Post Office products and services through a range of devices owned and operated by retailers, customers and the Post Office.

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GLOSSARY & PROJECT LIST

Sparrow	2013-15	POL	Initial Complaint Review and Mediation Scheme (regarding complaints concerning Horizon reliability).
Starling	2018		PO Limited received ACAS notification on 2 April 2018 that the CWU will bring a claim to establish "worker rights" for at least 120 Postmasters. Project Starling is looking at these issues.
Titan	2015	POI	Project to activate POMS as a trading company as distributor of travel insurance.
Trinity	2015	POL	IT Review
Ultra		POL	Review of the viability of moving agents to corporate structures and contracts.
Wave			The project to introduce a mobile service offering.

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GLOSSARY

Internal

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Guidance for Decisions made outside of Board Meeting Schedule

Any decisions required outside of meetings are made via Diligent (the system used to access Board and Committee papers). A Written Resolutions of the Company are uploaded and these can be reviewed and signed by you within Diligent.

In order to use this functionality on Diligent, each Director of a Company and member of a Committee must include their signature on Diligent. Only you have access to use your signature in the secure Diligent environment.

Instructions to add your signature

You can add your signatures yourself using your iPad or Surface Pro.

A video and more detailed instructions can be accessed **here.**

1. Log into Diligent on your iPad or surface pro
2. Go to the Contacts section
3. You will see your own name highlighted in blue. Select this.
4. Click edit in the left hand corner
5. Select Signature
6. A white box will appear that you can sign with a stylus
7. Click save
8. Your signature can now be used to sign documents on Diligent. You will be sent a notification each time there is a proposal, just like when you receive your board and committee papers.

If you do not have an iPad, Surface Pro or just require assistance, please contact the Company Secretariat.

Voting on a proposal in Diligent

1. You must already have saved your signature in the contacts section of your Diligent account.
2. You will receive a notification from Diligent to your email address that there is new material to review and vote on in Diligent (this is the same as the notification you receive to confirm that board and committee papers are available).
3. Log on to Diligent in the usual way.
4. You will see that there is a new board book (this appears in the same way and the same place as usual board and committee papers).
5. You will know there is a document to vote on as it will have a green tick on the board book.
6. Download the board book, review the reports and written resolution.
7. You will see 3 options on your page – agree, disagree, abstain. Click the one you are voting. If you agree it will put your signature correctly on the document, and you can see this once completed.
8. Once you have voted, you are no longer able to change your decision. Just as if you had signed a hard copy resolution.

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Cabinet Office

June 2019

Code of Conduct for Board Members of Public Bodies



POL00448766

Foreword

The Government expects all holders of public office to work to the highest personal and professional standards. In support of this, all non-executive board members of UK public bodies must abide by the principles set out in this Code of Conduct. The Code sets out, clearly and openly, the standards expected from those who serve on the boards of UK public bodies and should form part of individual members' terms and conditions of appointment. It also makes clear that harassing, bullying or other inappropriate or discriminatory behaviour is not consistent with what is expected of a board member of UK public bodies and will not be tolerated. Any breach of the Code should be viewed as a breach of the terms of appointment.

The principles set out in this code apply to all non-executive members on the boards of government departments, non-ministerial departments, executive agencies, non-departmental public bodies (NDPBs) and national public corporations.

The Code complements a public body's governing documents (legislation, memorandum and articles of association, royal charter) and any administrative documents (framework agreements, memoranda of understanding) which may set out the responsibilities and obligations of its board members. The Code's provisions must be observed alongside the provisions set out in these documents.

This Code replaces the Code of Conduct for Board Members of Public Bodies issued by the Cabinet Office in 2011. This Code can be found online at https://www.gov.uk/public-bodies-reform

In the first instance any propriety and ethics issues should be raised with the senior responsible official within your sponsoring department, or the Permanent Secretary as necessary. If additional advice is required, any questions should be directed to the Cabinet Office on: pbpropriety GRO

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1. Introduction

As a public office holder, your behaviour and actions must be governed by the principles set out in this Code of Conduct. It is your responsibility to ensure that you are familiar with, and comply with, all the relevant provisions of the Code.

2. Key principles of public life

2.1 The key principles upon which this Code of Conduct is based are the Seven Principles of Public Life.[1] These are:

Selflessness
Holders of public office should act solely in terms of the public interest.

Integrity
Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

Objectivity
Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

Accountability
Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Openness
Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Honesty
Holders of public office should be truthful.

Leadership
Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

2.2 These principles should inform your actions and decisions as a board member.

1 https://www.gov.uk/government/publications/the-7-principles-of-public-life

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3. General Conduct

Use of Public Funds[2]

3.1 You have a duty to ensure the safeguarding of public funds[3] and the proper custody of assets which have been publicly funded.

3.2 You must carry out these obligations responsibly – that is, take appropriate measures to ensure that the body uses resources efficiently, economically and effectively, avoiding waste and extravagance. It will always be an improper use of public funds for public bodies to employ consultants or other companies to lobby Parliament, Government or political parties.

Allowances

3.3 You must comply with the rules set by the board and the public body regarding remuneration, allowances and expenses. It is your responsibility to ensure compliance with all relevant HM Revenue and Customs' requirements concerning payments, including expenses.

Gifts and Hospitality

3.4 You must not accept any gifts or hospitality which might, or might reasonably appear to, compromise your personal judgement or integrity or place you under an improper obligation.

3.5 You must never canvass or seek gifts or hospitality.

3.6 You must comply with the rules set by the body on the acceptance of gifts and hospitality. You should inform the Chief Executive (or equivalent) of any offer of gifts or hospitality and ensure that, where a gift or hospitality is accepted, this is recorded in a public register in line with the rules set by the body.

3.7 You are responsible for your decisions on the acceptance of gifts or hospitality and for ensuring that any gifts or hospitality accepted can stand up to public scrutiny and do not bring your public office and the public body into disrepute.

Use of Official Resources

3.8 You must not misuse official resources[4] for personal gain or for political purposes. Deployment of such resources must be in line with the body's rules on their usage.

Use of Official Information

3.9 You must not misuse information gained in the course of your public service for personal gain or for political purpose.[5]

3.10 You must not disclose any information which is confidential in nature or which is provided in confidence without authority. This duty continues to apply after you have left the board.

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2 For more guidance on how to handle public funds, please refer to Managing Public Money https://www.gov.uk/government/publications/managing-public-money

3 This should be taken to include all forms of receipts from fees, charges and other sources.

4 This includes facilities, equipment, stationery, telephony and other services.

5 Board members who misuse information gained by virtue of their position may be liable for breach of confidence under common law or may commit a criminal offence under insider dealing legislation

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Political Activity

3.11 In your public role, you should be, and be seen to be, politically impartial. You should not occupy a paid party political post or hold a particularly sensitive or high-profile role in a political party. You should abstain from all controversial political activity and comply with the principles set out in Cabinet Office rules on attendance at party conferences[6] and on conduct during the period prior to elections and referendums, whether local or national.[7]

3.12 On matters directly related to the work of the body, you should not make political statements or engage in any other political activity.

3.13 You should inform the Chair, Chief Executive and/or the parent/sponsor department before undertaking any significant political activity. Subject to the above, you may engage in political activity but should, at all times, remain conscious of your responsibilities as a board member and exercise proper discretion.

3.14 If you are an MP, [MEP[8]], member of the House of Lords, member of a devolved legislature, directly elected mayor, local councillor or police and crime commissioner, you are exempt from these requirements. There is no bar on such representatives taking a political party whip relating to their political role. You must exercise proper discretion on matters directly related to the work of the body and recognise that certain political activities may be incompatible with your role as a board member. You should not allow yourself to become embroiled in matters of political controversy.

3.15 In your official capacity, you should be even-handed in all dealings with political parties.

Employment and Appointments

3.16 If you wish to take up additional employment or appointments during your term of office, you must inform the Chair and/or the relevant parent department in advance, and allow them the opportunity to comment. Care should be taken if you accept additional public appointments to ensure that you are not being paid twice from the public purse for the same time.

3.17 On leaving office, you must comply with the rules of the body on the acceptance of future employment or appointments. Each body should have its own rules on this.

4. Conflicts of Interests

4.1 When accepting an appointment to the public body you should consider if any conflicts of interest arise from your private interests or by virtue of any other roles you hold. You should consider, with advice from the appointing department how these should best be managed, and agree these with the organisation.

4.2 You must ensure that no conflict arises, or could reasonably be perceived to arise, between your public duties and your private interests, financial or otherwise.

6 www.gov.uk/government/publications/civil-servants-and-party-conferences-guidance

7 www.gov.uk/government/publications/election-guidance-for-civil-servants

8 For the period which the UK remains a member of the European Union.

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4.3 You must comply with the rules of the body on handling conflicts of interests. As a minimum, these will require you to declare publicly, usually in the body's register of interests, any private financial or non-financial interests of your own, or of close family members, which may, or may be perceived to, conflict with your public duties.[9] The rules will also require you to remove yourself from the discussion or determination of matters in which you have a financial interest. In matters in which you have a non-financial interest, you should not participate in the discussion or determination of a matter where the interest might suggest a danger of bias.[10]

4.4 It is your responsibility to ensure that you are familiar with the body's rules on handling conflicts of interests, that you comply with these rules and that your entry in the body's public register of members' interests is accurate and up-to-date.

5. Responsibilities as a board member, including non-executive chairs

5.1 You should play a full and active role in the work of the body. You should fulfil your duties and responsibilities responsibly and, at all times, act in good faith and in the best interests of the body.

5.2 You should promote an inclusive and diverse culture in the body and your actions should help create an environment where different perspectives and backgrounds are encouraged and valued.

5.3 You should deal with the public and their affairs fairly, efficiently, promptly, effectively and sensitively, to the best of your ability. You must not act in a way that unjustifiably favours or discriminates against particular individuals or interests.

5.4 You must not harass, bully or act inappropriately towards or discriminate towards others. Such behaviour is not consistent with what is expected of you as a board member and will not be tolerated.

5.5 You must comply with any statutory or administrative requirements relating to your post.[11]

5.6 You should respect the principle of collective decision-making and corporate responsibility. This means that, once the board has made a decision, you should support that decision.[12]

5.7 You must not use, or attempt to use, the opportunity of public service to promote your personal interests or those of any connected person, firm, business or other organisation.

5.8 You must inform the sponsor department of the body of any bankruptcy, current police investigation, unspent criminal conviction or disqualification as a company director in advance of appointment, or should any such instances occur during your appointment.

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9 In general, all financial interests should be declared. When considering what non-financial interests should be declared, you should ask yourself whether a member of the public, acting reasonably, would consider that the interest in question might influence your words, actions or decisions.

10 These are common law provisions.

11 In the case of a body incorporated under the Companies Act https://www.legislation.gov.uk/ukpga/2006/46/contents or the Companies (Northern Ireland) Order http://www.legislation.gov.uk/nisi/1986/1032, you will also be subject to the duties of directors under company law. In the case of a body that has charitable status, you will also be subject to the duties of trustees under charities law.

12 This does not apply to departmental non-executive board members, whose role is to advise and challenge the board and department.

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5.9 You must also inform the sponsor department of the body of any change in your circumstances which results in you becoming bankrupt, subject to a police investigation, convicted of a criminal offence or disqualified from being a company director.

5.10 You have additional responsibilities as the chair of the body in leading the board/body and in ensuring that the principles covered in the Codes of Conduct for Board Members and Staff (where applicable) are upheld.

6. Responsibilities towards employees

6.1 You will treat any staff employed by the body with courtesy and respect. It is expected that employees will show you the same consideration in return.

6.2 You will not ask or encourage employees to act in any way which would conflict with their own Code of Conduct.

7. Social media

7.1 Social media is a public forum and the same considerations, including the provisions of this Code, apply as would to speaking in public or writing something for publication, either officially or in a personal capacity. When engaging with social media you should at all times respect confidentiality, financial, legal and personal information.

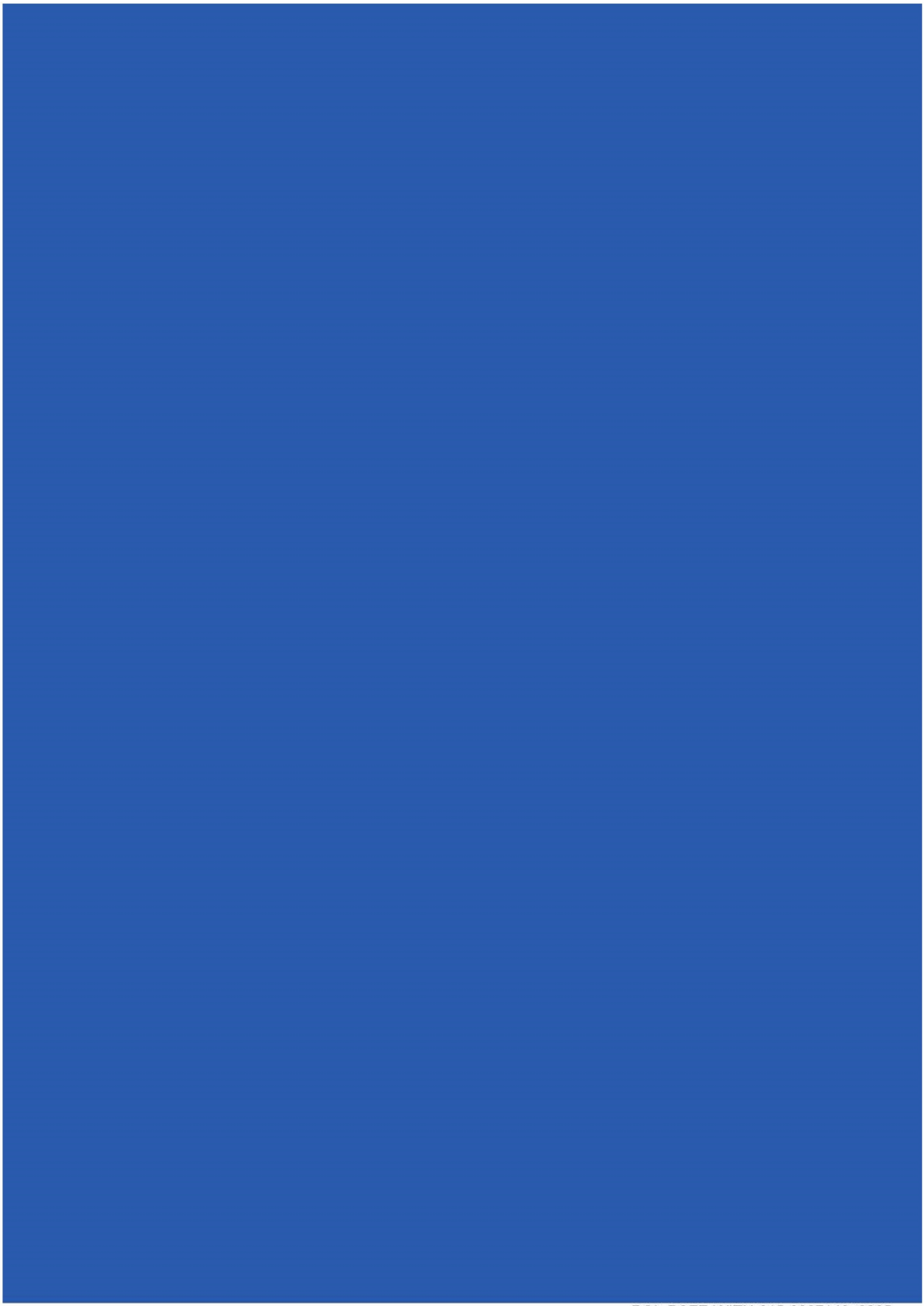
7.2 Where any personal social media accounts used by you make reference or link to your public role, you should take care to ensure that it is clear in what capacity you are acting.

8. Raising concerns

8.1 You should ensure that the body has an open, transparent and safe working environment where employees feel able to speak up and raise concerns, and complaints procedures are clearly communicated to them.

8.2 If you have a concern about a possible breach of this Code, a concern that you or any staff of the body are being asked to act in contravention of their own code of conduct, or a concern about misconduct or wrongdoing in any other areas, then you have a responsibility to raise that internally with the chair of the body or the Permanent Secretary of the sponsor department as appropriate.

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GROUP POLICIES

Conflicts of Interest Policy

Version – 2.0

Chief Executive's Endorsement

The Post Office Group is committed to doing things correctly. Our values and behaviours represent the conduct we expect. The Conflicts of Interest Policy supports this by ensuring that high standards of conflict of interest risk management are maintained.

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1. Overview

1.1. Introduction by the Policy Owner

The Company Secretary has overall accountability to the Post Office Group[1] Boards for the design and implementation of controls to prevent and manage the risks associated with conflicts of interest. The Conflicts of Interest Policy (the "Policy") is reviewed annually and agreed by the Post Office Limited Board.[2]

1.2. Purpose

This Policy has been established to set the minimum operating standards related to the management of any conflict of interest risks throughout the Group[1]. It is one of a set of policies which provide a clear risk and governance framework and an effective system of internal control for the management of risk across the Group. Compliance with these policies supports the Group in meeting its business objectives and to balance the needs of shareholders, employees and other stakeholders.

1.3. What are Conflicts of Interest?

A conflict of interest is a situation in which the concerns or aims of two different parties are incompatiable. Conflicts of interest can take many forms including the following:

i) Actual

There is a real conflict of interest between an employee's[3] private interests and their duties. A real conflict of interest can also exist between two or more Post Office Group directorships.

ii) Potential

An employee has private interests that could conflict with their duties and decisions at work. This refers to circumstances were it is foreseaeable that a conflict may arise in the future.

Conflicts of interest can either be a direct interest or an indirect interest.

iii) Direct interest

Includes an employee's own conflicts of interest.

iv) Indirect interest

Includes the interests of individuals, groups or companies that the employee is, or was, closely associated.

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[1] In this Policy "Post Office" and "Group" means Post Office Limited, Post Office Management Services Limited and Payzone Bill Payments Limited.

[2] The same process applies for Post Office Management Services Limited and Payzone Bill Payments Services Limited.

[3] [3] In this Policy the term "employee" means statutory directors, permanent staff, temporary staff, agency staff, contractors, consultants and anyone else working for or on behalf of the Post Office Group.

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When employees are considering any conflicts of interest regard should be given to the conflicts of interest of related parties of an employee, which includes:

- Spouse or civil partner;
- Children;
- Other relatives who share their residence;
- Trust of which they are a Trustee or Beneficiary;
- Partnership of which they are a partner;
- A business entity of which they are a director or officer or in which they hold a siminalr position; and,
- A business entity of which they own or control, directly or indirectly 5% or more.

1.4. Core Principles

In order to manage the legal, regulatory and reputational risks associated with conflicts of interest and establish processes for the identification and management of them, the governance arrangements included in this Policy are based upon the following core principles:

i) Promote individual responsibility and a culture of honesty and integrity;

ii) To be open and honest about relationships and personal interests that could be seen to be influencing independent judgement. Employees' personal interests should never influence decisions at work;

iii) Conflicts of interest cannot always be avoided. Unavoidable conflicts of interest need to be identified, disclosed and effectively managed;

iv) Conflicts of interest must be managed fairly and effectively. To achieve this, the process for identifying, disclsoing and managing conflicts of interest must be transparent;

v) Ensuring that employees are not open to (or perceived to be open to) improper influence through the acceptance of gifts and hospitality;

vi) Committed to providing clear guidance on how to report conflicts of interest or concerns related to them;

vii) Committed to providing appropriate training and awareness of the Policy; and,

viii) The Post Office Group is committed to and oversees the implementation of a policy in line with the Group's risk appetite. The policy and associated procedures (set out or referred to in this document) are proportionate to the risks and complexity of the Group.

1.5. Application

This Policy is applicable to all areas within the Group and defines the minimum standards to control financial loss, customer impact, regulatory breaches and reputational damage in line with the Group's Risk Appetite.

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This Policy is applicable to all employees[4] which also includes statutory directors, permanent staff, temporary staff, agency staff, contrators, consultants and anyone else working for and on behalf of the Post Office Group.

1.6. Legislation, Regulation & Industry Guidance

The Post Office Group seeks to comply with all relevant legal and regulatory requirements including, but not limited to, the following (as amended or supplemented from time to time):

- Companies Act 2006;
- Articles of Association of each Post Office Group entity;
- Financial Conduct Authority Handbook;
- Public Contract Regulations 2015;
- Nolan Seven Principles of Public Life.

The Companies Act 2006

Post Office Group statutory directors must comply with Section 175 of the Companies Act 2006.

S. 175 – Duty to Avoid Conflicts of Interest

S175(1) – A director of a company must avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.

S175(2) – This applies in particular to the exploitation of any property, information or opportunity (and it is immaterial whether the company could take advantage of the property, information or opportunity).

Articles of Association of each Post Office Group entity

The Articles of Association of each Post Office Group entity sets of the procedures and exceptions for statutory directors, which includes authorisation of certain conflicts of interest by the appropriate Boards.

Public Contract Regulations 2015

The Post Office Group is subject to the Public Contract Regulations 2015.

Regulation 24

Public Contract Regulations 2015, Regulation 24 "(1) Contracting authorities shall take appropriate measures to effectively prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators.

[4] In this Policy the term "employee" means statutory directors, permanent staff, temporary staff, agency staff, contractors, consultants and anyone else working for or on behalf of the Post Office Group.

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"(2) For the purposes of paragraph (1), the concept of conflicts of interest shall at least cover any situation where relevant staff members have, directly or indirectly, a financial, economic or other personal interest which might be perceived to compromise their impartiality and independence in the context of the procurement procedure.

"(3) In paragraph (2) 'relevant staff members' means staff members of the contracting authority, or of a procurement service provider acting on behalf of the contracting authority, who are involved in the conduct of the procurement procedure or may influence the outcome of that procedure; and 'procurement service provider' means a public or private body which offers ancillary purchasing activities on the market."

Nolan Seven Principles of Public Life

The Nolan Seven Principles of Public Life apply to anyone working to deliver public services. The seven principles are listed below. These principles are at risk if conflicts of interest are not managed effectively.

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

Financial Conduct Authority Handbook

Post Office Management Services Limited is regulated by the Financial Conduct Authority, and as such must adhere to the Financial Conduct Authority Handbook that includes particular regulations related to conflicts of interest.

The FCA Handbook (Chapter 10, 10.1.3):

A Firm must take all appropriate steps to identify and to prevent or manage conflicts of interest between:

1) *The firm, including its managers, employees, and appointed representatives (or where applicable, tied agents), or any person directly or indirectly linked to them by control, and a client of the firm; or*

2) *One client of the firm and another client;*

That arise or may arise in the course of the firm providing any service referred to in SYSC 10.1.1R including those caused by the receipt of inducements from third parties or by the firm's own remuneration and other incentive structures.

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2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group are willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has:

- Tolerant risk appetite for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- Averse risk appetite for litigation in relation to high profile cases/issues
- Averse risk appetite for ligation in relation to Financial Services matters
- Averse risk appetite for not complying with law and regulations or deviation from business' conduct standards for financial crime to occur within any part of the Group
- Averse Risk Appetite in relation to unethical behaviour by our staff

The Group acknowledges however that in certain scenarios even after extensive controls have been implemented a product or transaction may still be outside the agreed Risk Appetite. In this situation, a risk exception waiver will be required.

2.2. Policy Framework

The Post Office Group has established a suite of policies and procedures on a risk sensitive approach that are subject to an annual review. The policy framework is designed to ensure compliance with applicable legislation and regulation. This Policy should be considered and read in conjunction with other policies, where relevant. These may include the Anti-Bribery and Corruption Policy, the Gifts and Hospitality Policy, the Financial Crime Policy and HR policies.

2.3. Who must comply?

Compliance with this Policy is mandatory for all Post Office employees and applies wherever in the world the Group's business is undertaken. All third parties who do business with the Group, including consultants, suppliers and business and franchise partners, will be required to agree contractually to this Policy with their own equivalent Policy.

Where non-compliance is identified the matter must be referred to theGeneral Counsel. Any investigations will be carried out in accordance with the Investigations Policy. Where is it identified that that an instance of non-compliance is caused through wilful disregard or negligence, this will be treated as a disciplinary offence.

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2.4. Reporting

All employees and statutory directors must:

- Receive written authority from the Company Secretary to engage in any transaction or pursue any activity, directly or indirectly, in competion with the Post Office Group;
- Receive written authority from the Company Secretary before accepting employment, a position as a director or officer of, or acquire a substanital ownership interest (5% or more) in any other company or business;
- Make all business decisions in the best interest of their employer. Except in certain limited cases, the best interests of Post Office Limited, Post Office Management Services Limited and Payzone Bill Payments Services Limited will be aligned. Where such conflict exists, please discuss this with your Line Manager and/or the Company Secretary;
- Avoid engaging in any private or personal business interest that may conflict with the duties and responsibilities owed to the Post Office Group;
- Declare to your Line Manager and the Company Secretary any transactions or potential transactions in which you, or a related party, have an interest or potential interest;
- Declare to your Line Manager and HR Services (or the Company Secretary for statutory directors) any existing outside employment, directorship or material shareholding; and,
- Review your situation regularly to avoid becoming involved in activity that could give rise to a conflict of interest.

The Articles of Association of each Company in the Post Office Group includes details of the process for statutory directors to notify conflicts of interest to enable the respective Boards to determine whether and how to manage the conflict.

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2.5. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks so they remain within the defined Risk Appetite statements. There must be mechanisms in place within each business unit to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The table below sets out the relationships between identified risk and the required minimum control standards in consideration of the stated risk appetite. The subsequent pages define the terms used in greater detail:

Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Approval & execution of contracts	Failure to manage conflicts of interest in the approval and execution of agreements	Contract approval and execution process. The process requires separation between the contract owner who approves the agreement for execution and the authorised signatory who signs the agreement.	Company Secretary	Ongoing
Statutory Directors' conflicts of interest and register of conflict of interest	Failure to manage Statutory Directors' potential conflicts of interest arising from external appointments and interests.	All statutory directors are required to disclose any outside interests on appointment. Directors are required to update Group Secretariat when changes to these interests occur, and the conflicts of interest register is confirmed annually. Directors are asked to declare any new interests at the beginning of each Board Meeting. If a transactional conflict of interest arises during a Board Meeting, the Articles of Association may permit the interest, or the Director will absent themselves from that particular item. Any decision and action surrounding conflicts of interest is recorded in the minutes of the meeting.	Directors & Company Secretary	Ongoing

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Gifts and hospitality	Failure to manage conflicts of interest related to gifts and hospitality	All statutory directors and employees are required to comply with the Post Office Group's gifts and hospitality procedures set out in the anti-bribery and anti-corruption policies. Training is provided to all employees.	Company Secretary and HR Training Manager	Ongoing
Incentive Payments	Failure to monitor conduct associated with incentive payments	If incentives are made to staff, systems and controls must be put in place to assess the risk and monitor behaviours and conduct.	HR	Ongoing
Procurement Processes	Failure to manage conflicts of interest related to procurement	During procurement activity, conflicts of interest declarations are issued and reviewed. Any conflicts of interest risks are mitigated and recorded. Suppliers are contracted to comply with anti-bribery and corruption laws. The Post Office Supplier Code of Conduct is provided to new and prospective suppliers.	Procurement Director	Ongoing
Reporting	Failure to report potential or actual conflicts of interest	All employees and directors are required to report immediately in writing any potential or actual conflict of interest with the Post Office Group and an external appointment or activity. Group Secretariat hold a register of interests for statutory directors. Employees must report to their Line Manager who will contact the Company Secretary regarding any potential or actual conflicts of interest.	Company Secretary & HR	Ongoing
Training & Competence	Failure to provide appropriate training and awareness of the	Conflicts of Interest training is a mandatory part of employee inductions.	Company Secretary & HR Training Manager	Ongoing

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	policy to effectively manage conflicts of interest	Directors' duties and conflicts of interest training is provided to statutory directors. Contractors and suppliers are required to comply with this policy where they are engaged to participate in a procurement process.		
Governance	Failure to ensure effective oversight of the policy and its effectiveness	The Policy is reviewed annually and presented to the appropriate Boards. Conflicts of Interest registers are annually reviewed by Boards. Post Office Internal Audit retains independent third line oversight of the Policy.	Company Secretary	Ongoing

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3. Definitions

1. **FCA** – Financial Conduct Authority
2. **Grapevine** – 24/7 Security Support Centre provided by Kings Ltd. Grapevine provides security advice and records all security incidents across the business including burglaries, robberies and suspicious activity.
3. **Speak Up Service** – Can be accessed by telephone: GRO or via a secure online web portal: http://www.intouchfeedback.com/postoffice

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4. Where to go for help

4.1. Additional Policies

This Policy is one of a set of policies. The full set of policies can be found at:

https://poluk.sharepoint.com/sites/postoffice/Pages/policies.aspx

4.2. How to raise a concern

Any Post Office employee who suspects dishonest or fraudulent activity has a duty to:

- Discuss the matter fully with their Line Manager; or,
- Report their suspicions by telephoning Grapevine on GRO
- If either or both are not available, staff can contact the Post Office's General Counsel, who can be contacted by email at: whistleblowing GRO or by telephone on: GRO
- Alternatively staff can use the Speak Up service available on GRO
- or via a secure on-line web portal: http://www.intouchfeedback.com/postoffice

4.3. Who to contact for more information

If you need further information about this policy or wish to report an issue in relation to this policy, please contact Veronica Branton, Secretariat.

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5. Governance

5.1. Governance Responsibilities

The Policy sponsor, responsible for overseeing this Policy is Veronica Branton.

The Policy owner is Veronica Branton who is responsible for ensuring that the Company Secretariat conducts an annual review of this Policy. Additionally the Company Secretary, is responsible for providing appropriate and timely reporting to each Companies' Board.

The Board of each Company are responsible for approving the Policy and overseeing compliance.

The Board of each Company is responsible for setting the Group's risk appetite.

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6. Control

6.1. Policy Version

Date	Version	Updated by	Change Details
01/07/2016	1.1	Victoria Moss	Initial draft
06/07/2016	1.2	Mark Rodgers/Mike Morley-Fletcher	Policy standards and Head of Risk review
06/07/2016	1.3	Susie Hayward/Victoria Moss	POMS review and review of proposed changes in v1.2
7/11/2016	1.4	Jane MacLeod	Comments following RCC review
04/10/2018	1.5	Veronica Branton	Annual review
28/05/2019	2.0	Elizabeth Hallissey	Re-draft to align with Post Office Group Key Policies template

6.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit and Risk Committee

Committee	Date Approved
Post Office Limited Board	**28/05/2019**
Post Office Management Services Limited Board	**TBC**
Payzone Bill Payments Limited Board	**TBC**

Policy Sponsor:	Veronica Branton,
Policy Owner:	Veronica Branton,
Policy Author:	Elizabeth Hallissey, Senior Assistant Company Secretary
Next review:	May 2020

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Company Details

Post Office Limited is a company registered in England and Wales. Registered Number: 02154540. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ. Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

Post Office Management Services Limited is a company registered in England and Wales. Registered Number: 08459718. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ. Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Payzone Bill Payments Limited is a company registered in England and Wales. Registered Number: 11310918. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

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GROUP POLICIES

Anti-Bribery and Corruption Policy

Version – V4.0

Chief Executive's Endorsement

The Post Office Group is committed to doing things correctly. Our Values and Behaviours represent the conduct we expect. This Policy supports these to help us ensure the highest standards of financial crime prevention, detection and management are maintained.

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1. Overview

1.1. Introduction by the Policy Owner

The General Counsel has overall accountability to the Board of Directors for the design and implementation of controls to prevent or deter Bribery and Corruption. Anti-Bribery and Corruption is an agenda items for the Audit and Risk Committee and the Post Office board is updated as required.

1.2. Purpose

This Policy has been established to set the minimum operating standards relating to the management of our Bribery and Corruption risks throughout the Group[1]. It is one of a set of policies which provide a clear risk and governance framework and an effective system of internal control for the management of risk across the Group. Compliance with these policies supports the Group in meeting its business objectives and to balance the needs of shareholders, employees[2] and other stakeholders.

1.3. Core Principles

To offer a bribe is a criminal offence; bribery is an offer, promise, payment, request, or agreement to receive anything of value from any person or entity in order to induce that person to perform their roles improperly.

In order to prevent Bribery and Corruption the governance arrangements described in this Policy are based upon the following core principles:

- The Group is committed to and oversees the implementation of a Policy of zero tolerance, recognising that bribery is contrary to fundamental values of integrity, transparency and accountability and undermines the Group's effectiveness;
- Post Office has devised a robust Policy and associated procedures (set out in this document) which are proportionate to the risks and complexity of the Group;
- A bribery risk assessment is an integral part of our Group's overall and ongoing risk management process;
- Post Office must assess the risk associated with entering into joint ventures, partnerships or contracting arrangements with other entities and must carry out periodic due diligence based on that risk assessment. This includes ensuring that these organisations have policies and procedures which are equivalent to the Group's own procedures;
- The Group undertakes a training and awareness program to ensure employees are aware of the potential risks, how bribery might affect them, what they should do if they are offered a bribe, and the consequences should they be found to have made or received a bribe;
- The interests of Policyholders and other stakeholders are protected by ensuring that excessive powers are not delegated to individuals;

[1] In this Policy "Post Office" and "Group" mean Post Office Limited and Post Office Management Services Limited.
[2] In this Policy "employee" means permanent staff, temporary including agency staff, contractors, consultants and anyone else working for or on behalf of Post Office.

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- Decisions taken by management are consistent with the Group's strategic objectives and risk appetite, which are approved by the Board;
- Appropriate conduct is demonstrated in executing the requirements contained within the Policy;
- Every member of staff is responsible for understanding and managing the risk they take on behalf of the Group and for ensuring that they act within accordance to them;
- All employees are required to comply with Group Policies.

1.4. Application

This Policy is applicable to all areas within the Group and defines the minimum standards to control financial loss, customer impact, regulatory breaches and reputational damage in line with the Group's Risk Appetite.

In exceptional circumstances, where risk sits outside of the Group's accepted Risk Appetite a Risk Exception can be granted. Further information in relation to the risk exception process, together with a template can be found here.

While Post Office does not tolerate events that are criminal in nature and which may give rise to unacceptable and illegal behaviour, it recognises that despite its many endeavours, it is not possible to eliminate all risks of internal and external Bribery and Corruption. As a result Post Office may incur losses, and therefore takes a risk based approach to Bribery and Corruption.

For definitions please see section 3.1.

The risk to the Group in relation to Bribery and Corruption is reviewed by the board on a regular basis.

1.5. Types of Bribery and Corruption Risk

Post Office is exposed to a number of the above risks relating to Bribery or Corruption. These risks include, but are not limited to, the following:

1. **Payment Risks** –for example, facilitation payments, gifts & hospitality, client training programmes, charitable or political donations, ex-gratia payments/ legal settlements. This would also include the offer of sponsorships or grants.
2. **Third Party/Associated Party Risks** –third parties who provide services on behalf of the Post Office Group engaging in bribery or corruption while performing such services. The scope of this could include agency operators within the Post Office network and suppliers procured through the business or through the Procurement Team. Examples of Associated Parties include agents, consultants, suppliers, introducers, and intermediaries.

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3. **Employment Risks** –Post Office employees requesting or receiving something of value from a third party in exchange for providing employment or work opportunities at the Post Office or offering or providing work opportunities, paid or unpaid, to Connected Individuals[3], or otherwise using employee connections to improperly obtain business or secure an advantage for Post Office. Employment opportunities (including work experience, secondments, etc.) have a value to the recipient and/or their close family members and may be considered to be bribes if used to improperly obtain or retain business or secure an advantage for Post Office.

4. **Inducement Risks -** Post Office must take reasonable steps to ensure that it, and any person acting on its behalf, does not:
    - Offer, give, solicit or accept an inducement; or
    - Direct or refer any actual or potential business in relation to another person on its own initiative or on the instructions of an associate; if it is likely to conflict to a material extent with any duty that Post Office Management Services owes to its customers in connection with an insurance mediation activity or any duty which such a recipient firm owes to its customers in connection with an insurance mediation activity.

5. **Gifts & Hospitality** –The offer of Gifts & Hospitality by or to third parties represents a clear risk of inducement or facilitation and Post Office therefore has clearly defined minimum control standards and procedures for reporting and approving Gifts & Hospitality (both received and offered). Appendix A sets out the specific policy requirements and details of the process to be followed can be found on the Gifts & Hospitality reporting homepage here.

1.6. Legislation

The Group seeks to comply with all relevant UK legal and regulatory requirements including (but not limited to):

- The Bribery Act 2010
- The Criminal Finances Act 2017
- Financial Conduct Authority (FCA) Rules and Guidance (to the extent that these apply – see 1.8 below)

Under the Bribery Act, it is an offence to:

- Directly, or indirectly offer, promise or give a financial or other advantage with the intention of inducing any person to perform a business activity improperly or to reward any person for doing so;
- Request, agree to receive or accept a bribe, i.e. to receive a financial or other advantage with the intention of performing a business activity improperly;
- Bribe a foreign public official;
- Fail to prevent bribery by any person who perform services for or on behalf of a company ("corporate offence").

Post Office is subject to the Bribery Act 2010 (Bribery Act) and could become criminally liable as a result of an act of bribery or corruption by its employees or a third party operating on our behalf.

The Bribery Act has extra-territorial effect which means that the actions of Post Office or a third party operating on our behalf outside of the UK may fall within the scope of the Act. In the context of Post Office, this could apply in scenarios such as where a Post Office

[3] Connected Individuals means those individuals who are known to have close connections to existing or prospective clients or suppliers, Public Officials, Politically Exposed Persons (PEP) or using employees' connections to improperly obtain business or secure an advantage for Post Office.

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contractor or supplier resides outside the UK. The Criminal Finances Act also includes a 'failure to prevent' (strict liability) offence on the Group, where failure to prevent criminal facilitation of a tax evasion offence, by a taxpayer, takes place and there are no reasonable procedures put in place to prevent such facilitation, or it cannot show that these procedures would have been unreasonable.

Post Office can be held liable unless it can demonstrate that it has in place "adequate procedures" designed to prevent this type of misconduct. The controls outlined in this Policy, including appendices, assist Post Office in preventing and detecting corrupt conduct and form an essential component of Post Office's adequate procedures.

1.7. FCA Rules

Post Office Limited is an Appointed Representative of the Bank of Ireland and Post Office Management Services Limited (POMS) and is contractually required to comply with certain regulatory requirements. As such the Group as a whole is obliged to ensure there are adequate systems and controls are in place to mitigate Financial Crime risks.

POMS is a directly regulated firm with the FCA is directly exposed to regulatory fines and censure if the FCA determine that the systems and controls associated with this Policy are not effectively implemented.

This Policy contributes to Post Office's compliance with these regulatory and contractual obligations.

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2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group are willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has[4]:

- **Tolerant risk appetite** for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- **Averse risk appetite** for litigation in relation to high profile cases/issues
- **Averse risk appetite** for ligation in relation to Financial Services matters
- **Averse risk appetite** for not complying with law and regulations or deviation from business' conduct standards for financial crime to occur within any part of the organisation
- **Averse Risk Appetite** in relation to unethical behaviour by our staff.

The Group acknowledges however that in certain scenarios even after extensive controls have been implemented a product or transaction may still sit outside the agreed Risk Appetite. In this situation, a risk exception waiver will be required[5].

2.2. Policy Framework

Post Office has established a suite of financial crime policies and procedures, on a risk sensitive approach which are subject to an annual review. The Policy suite is designed to combat money laundering, terrorist financing, bribery and corruption and adhere to relevant Sanctions regimes. These have been developed to comply with applicable legislation and regulation and covers the following specifically:

- The identification of potential financial crime risks
- On a risk sensitive approach, performing due diligence at on-boarding, periodic basis and payment on third parties who perform services for or on behalf of us.
- Maintaining appropriate records for at least the minimum UK prescribed periods.
- Completing compliance oversight monitoring to test the Group's controls and confirming effectiveness and adherence to financial crime policies.
- Establishing and maintaining Standards for Management Information on Financial Crime. This includes, but is not limited to, record keeping, reporting of suspicious activity and details of staff training.

The Anti-Bribery and Corruption Policy is a key Policy under the Financial Crime Policy framework and should be considered and read in conjunction with the overarching Financial Crime Policy where relevant.

[4] The Risk appetite was agreed by the Groups Board January 2015
[5] For more information in relation to Risk Exception waivers please see section 1.4

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2.3. Who Must Comply?

Compliance with this Policy is mandatory for all Post Office employees and applies wherever in the world the Group's business is undertaken. All third parties who do business with the Group, including consultants, suppliers and business and franchise partners, will be required to agree contractually to this Policy with their own equivalent Policy.

Where non-compliance is identified the matter must be referred to the Director of Compliance and the Group Legal Director. Any investigations will be carried out in accordance with the Investigations Policy. Where is it identified that that an instance of non-compliance is caused through wilful disregard or negligence, this will be treated as a disciplinary offence.

All Post Office employees are required to report any knowledge or suspicions in relation to Bribery or Corruption to Grapevine. As such all business units are required to have a process in place for reporting Bribery or Corruption incidents to Grapevine by telephone on 0345 603 4003. For more information in relation to reporting knowledge or suspicions please see section 4.2.

The next page sets out the minimum control standards that the Group has implemented to control these risks.

2.4. Gifts and Hospitality Tool

The purpose of the Gifts and Hospitality Tool is to make it easy for our employees to accurately record the offering and acceptance of gifts and hospitality throughout the Group. For more information in relation to the tool and how to use this, please see the below links:

The Gifts and Hospitality Tool can be found here.

Instructions on how to complete the tool can be found here.

The procedure for completing the Gifts and Hospitality Tool can be found here.

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2.5. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks so they remain within the defined Risk Appetite statements. There must be mechanisms in place within each business unit to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The table below sets out the relationships between identified risk and the required minimum control standards in consideration of the stated risk appetite. The subsequent pages define the terms used in greater detail:

Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Appointment and Activities of Consultants and Contractors	Failure to ensure that Consultants and Contractors comply with the Group's anti-bribery and corruption policy may lead to criminal prosecution and damage to the Post Office brand or reputation.	Preventative Control: Our contracts require Consultants and Contractors to comply with the Group's anti-bribery and corruption policy. A clause is included within Consultants and Contractors contracts requiring them to comply with the Group's anti-bribery and corruption policy.	Procurement	Ongoing where required
Charity Donations and Sponsorship	Insufficient controls may lead to the donation of money to an unregistered charity, or the acceptance of a donation by Post Office which could be interpreted as bribery and result in reputational damage.	Preventative Control: Where the Group, a team or an individual has selected a particular charity to support, they are required to validate that charity against the Charity Commissions website. More information can be found here. Where a supplier or third party requests that Post Office makes a charitable donation, or offers to make a donation to Post	All employees All employees	Ongoing

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
		Office, Post Office ensures that the donation is not linked to any business or services provided to or by that supplier or third party. Any donations or sponsorship (cash or otherwise) should be approved by the relevant GE member to ensure appropriateness and the details recorded on the central donations register Post Office has a Group wide training programme to ensure that all customer facing staff, back office staff and contractors receive adequate training. Staff and contractors are required to complete training within 30 days of joining Post Office and annually. Outsource providers, clients & suppliers must maintain records to evidence that staff have received adequate and regular training. Detective Controls: Pass rate and number of test attempts is monitored to identify risk areas and any additional training or guidance required.	GE are responsible for approval of donations and sponsorship The Financial Crime team maintain the donations register Human Resources is responsible for any incidents where further action is required and ensuring completion of mandatory training Financial Crime Team is responsible for reviewing training effectiveness	Ongoing

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Conflicts of Interest	The acceptance of hospitality or gifts from third parties could lead to bias or undue influence, or the perception of such, in how individuals exercise their duties and responsibilities.	Preventative Control: The Group operates a procedure to ensure Gifts and Hospitality may not be offered or accepted where they could bias or influence how individuals exercise their duties and responsibilities. All employees are made aware of and are expected to comply with the gifts and hospitality procedures.	All employees	Ongoing
Employment Risks	Failure to identify employees requesting or receiving something of value from a third party in exchange for providing employment or work opportunities may result in the loss of Group stakeholder support.	Preventative Control: Any form of employment or work opportunities (paid or unpaid) must be reviewed and approved in accordance with HR policies and procedures prior to employment.	All employees	Ongoing
Gifts	Inadequate controls may lead to employees accepting gifts that are not appropriate, proportionate or within policy resulting in reputational damage or criminal prosecution.	Preventative Control: All employees must report correctly all gifts of £20 and over which they receive or offer using the Gifts & Hospitality tool, whether accepted or declined. No employee may accept cash (or cash equivalent) gifts.	Each employee is responsible for ensuring that all gifts offered or received are recorded. Line managers are responsible for ensuring	Ongoing Ongoing

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
		Post Office has a Group wide training programme to ensure that all customer facing staff, back office staff and contractors receive adequate training. Staff and contractors are required to complete training within 30 days of joining Post Office and annually. Corrective Control: Where discrepancies of non-conformance with gifts and hospitality reporting are identified, line management should consider action under the Conduct Code	the gift complies with policy and is reasonable and for approving or declining the acceptance of a gift Group Executive are responsible for approving or declining any offers over £100 Financial Crime Team is responsible for reviewing and monitoring the Gifts and Hospitality register. Human Resources is responsible for any incidents where further action is required and ensuring completion of mandatory training	Ongoing Ongoing Ongoing
Hospitality	Inadequate controls may lead to employees accepting hospitality that is not appropriate, proportionate or within policy resulting in reputational damage or criminal prosecution.	Preventative Control: All employees must report correctly any hospitality which they receive or offer using the Gifts & Hospitality tool, whether accepted or declined. Before accepting or giving hospitality an employee must receive written approval from their line manager.	Each employee is responsible for ensuring that all hospitality offered/received are recorded Line managers are responsible for ensuring the hospitality complies with policy and is reasonable and for	Ongoing Ongoing Ongoing

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
		The hospitality must be reasonable (not lavish or extravagant), proportionate to its purpose and must ordinarily be below £200 per person in value. Post Office has a Group wide training programme to ensure that all customer facing staff, back office staff and contractors receive adequate training. Staff and contractors are required to complete training within 30 days of joining Post Office and annually. Corrective Control: Where discrepancies of non-conformance with gifts and hospitality reporting are identified, line management should consider action under the Conduct Code	approving or declining the acceptance of hospitality Group Executive are responsible for the approving or declining of any offers of hospitality over £200 Financial Crime Team is responsible for reviewing and monitoring the Gifts and Hospitality register Human Resources is responsible for any incidents where further action is required and ensuring completion of mandatory training	Ongoing Ongoing
Payment Risks	Offering facilitation payments, gifts & entertainment, client training programmes, charitable or political donations, ex-gratia payments or legal settlements that are not justifiable or proportionate	Preventative Control: All employees are required to comply with the conflicts of interest policy which can be found here. All employees are required to comply with the Gifts and	Each employee is responsible for ensuring that all hospitality and gifts offered or received are recorded Line managers are responsible for approving	Ongoing Ongoing

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
	may result in reputational damage or criminal prosecution.	Hospitality procedure which can be found here. The acceptance of discounted or complimentary training courses which would usually incur a cost are classified as Gifts and Hospitality and employees are required to report these using the Gifts & Hospitality Tool. The payment of ex-gratia payments or legal settlements are strictly controlled and must be submitted to the Group Legal Director for approval. Post Office has a Group wide training programme to ensure that all customer facing staff, back office staff and contractors receive adequate training. Staff and contractors are required to complete training within 30 days of joining Post Office and annually.	or declining the acceptance of a gift or hospitality. Group Executive are responsible for the approving or declining of any offers of gifts or hospitality over the agreed amounts Financial Crime Team is responsible for reviewing and monitoring the Gifts and Hospitality register Group Legal Director is responsible for reviewing and signing off as required any ex-gratia payments or legal settlements as requested from the Business. Human Resources is responsible for any incidents where further action is required and ensuring completion of mandatory training	Ongoing Ongoing Ongoing
Political Donations/Lobbying	Employees making or soliciting political donations on behalf of Post Office may result in criminal prosecution.	Preventative Control: Before giving or offering Hospitality to or from a political party, approval must be obtained from a GE Member.	Each employee is responsible for ensuring that all Gifts & Hospitality offered or received is recorded	Ongoing

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
		The giving of political donations or gifts on behalf of the group to a Politician or a Political Party is strictly prohibited. Post Office has a Group wide training programme to ensure that all customer facing staff, back office staff and contractors receive adequate training. Staff and contractors are required to complete training within 30 days of joining Post Office and annually.	Group Executive are responsible for the approving or declining of any offers of hospitality by a political party Financial Crime Team is responsible for reviewing the Gifts and Hospitality register Human Resources is responsible for any incidents where further action is required and ensuring completion of mandatory training	Ongoing Ongoing
Procurement/Third Party Risk	Inadequate monitoring may lead to third parties engaging in bribery or corruption while performing services on behalf of the Post Office Group. This could result in criminal prosecution, loss of key contracts or reputational damage.	Preventative Control: Post Office ensures that any fees paid are proportional to the services being rendered or consistent with the market. New and existing contracts are reviewed on an ongoing basis to ensure that there is no risk of conflicts of interest. This includes ensuring that all parties involved are aware of Procurement Lockdowns.	Chief Financial Officer Procurement	Ongoing Ongoing

The Group completes Annual Risk Assessments reviewing its bribery and corruption exposure and its compliance with the above key risk areas.

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3. Definitions

3.1. Definitions

Bribery
Bribery is defined as the offer, promise, payment, request, agreement to receive anything of value whether directly or indirectly to or from any person or entity in order to induce that person or entity to perform their roles improperly or, in the case of a Public Official, in order to influence them with the intention of obtaining or retaining business or an advantage in the conduct of business.

Examples include an offer or promise to give anything of value to anyone to obtain or retain business for or on behalf of the Post Office or to obtain or fulfil a legal or regulatory requirement in furtherance of the Group's business. A bribe can take the form of a "reward" and be paid after the improper performance of the relevant duty or obligation.

Corruption
Corruption is defined as the misuse of entrusted power or public office for private gain.

Educational courses/conferences
Events that are offered by third parties without charge do not amount to hospitality. However, free places to attend courses or conferences that would otherwise attract a charge are covered by this procedure.

Facilitation Payment
A Facilitation Payment is a type of bribe and should be seen as such. A common example is where a government official is given money or goods to perform (or speed up the performance of) an existing duty. Within the UK these are strictly prohibited.

Gifts
Gifts refers to a physical gift and includes the offer to a specific individual or team with the exception of low value promotional items costing under £20 each, such as pens, calendars, diaries, notepads and paperweights.

Hospitality
Invitations to attend events which have a social element (whether or not they are at the same time as or linked to a business meeting) and where the cost of a 'ticket' (participation) is free of charge or reduced in price when otherwise there would be cost attached to it. This would include things such as tickets to a sporting event, tickets to a concert or a corporate dinner.

Inducement
An inducement is a benefit offered to a firm or any person acting on its behalf, with a view to that firm, or that person, adopting a particular course of action. This can include, but is not limited to, cash, cash equivalents, commission, goods, hospitality or training programmes.

Third Party funded trips
Travel/accommodation that is funded by third parties is covered by this procedure as a form of 'hospitality'.

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4. Where to go for help

4.1. Additional Policies

This Policy is one of a set of policies. The full set of policies can be found at:

https://poluk.sharepoint.com/sites/thehub/SitePages/Key%20policies.aspx?web=1

4.2. How to raise a concern

Any Post Office employee who suspects that there is a breach in this Policy should report this without any undue delay.

In case of bribery or corruption concerns or whistleblowing, staff may contact:

- their line manager,
- a senior member of the HR Team, or
- if either or both are not available, staff can contact the Post Office's General Counsel, who can be contacted by email at: whistleblowing GRO or by telephone on: GRO
- Alternatively staff can use the Speak Up service available on GRO
- or via a secure on-line web portal: https://wrs.expolink.co.uk/postoffice

Post Office encourages members of the public or people not employed by us who suspect bribery or corruption to write, in confidence, to the **Chief Executive's Office, Finsbury Dials, 20 Finsbury St, London EC2 9AQ.**

4.3. Who to contact for more information

If you need further information about this Policy or wish to report an issue in relation to this Policy, please contact the Policy sponsor or Policy owner.

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5. Governance

5.1. Governance Responsibilities

The Policy sponsor, responsible for overseeing this Policy is the General Counsel of Post Office Limited.

The Policy owner is the Director of Compliance who is responsible for ensuring that the Financial Crime Team conducts an annual review of this Policy and tests compliance across the Group. Additionally the Director of Compliance and the Financial Crime Team are responsible for providing appropriate and timely reporting to the Risk and Compliance Committee and the Audit and Risk Committee.

The Audit and Risk Committee are responsible for approving the Policy and overseeing compliance.

The Board is responsible for setting the Group's risk appetite.

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6. Control

6.1. Policy Version

Date	Version	Updated by	Change Details
November 2016	1	Georgina Blair	Roll out of Final version
June 2017	1.2	Thomas Richmond	Updated in line with comments from stakeholders
July 2017	1.3	Sally Smith	POL R&CC approval
September 2017	2	Sally Smith	Final Version approved by ARC
June 2018	2.1	Sally Smith	Annual revisions
July 2018	2.2	Sally Smith	POL R&CC approval
July 2018	2.3	Sally Smith	POL ARC approval
September 2018	2.4	Sally Smith	POMS ARC approval
September 2018	3	Thomas Richmond	Final Version approved by ARC's
July 2019	3.1	Sally Smith	Annual review
July 2019	3.2	Sally Smith	POL R&CC approval
September 2019	3.3	Sally Smith	POMS ARC approval
September 2019	4.0	Sally Smith	Final version approved by ARC's

6.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit and Risk Committee

Committee	Date Approved
POL R&CC	4th July 2019
POL ARC	29th July 2019
POMS ARC	19th September 2019

Policy Sponsor: Group Director of Legal, Risk & Governance

Policy Owner: Director of Compliance

Policy Author: Head of Financial Crime

Next review: July 2019

Company Details

Post Office Limited and Post Office Management Services Limited are registered in England and Wales. Registered numbers 2154540 and 08459718 respectively. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081

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Appendix A

GIFTS AND HOSPITALITY POLICY

All gifts and hospitality received and offered by Post Office employees must be reported on the central register and **pre-approved prior to acceptance***. This to ensure that Post Office is transparent in its dealings with third parties and suppliers and to enable senior management and the GE to monitor the level of gifts and hospitality both received and offered across the business.

All employees receive annual training as part of the Anti-Bribery & Corruption module within 30 days of joining Post Office and annually.

Gifts:

- All employees are responsible for ensuring that full details of gifts are accurately recorded including the recipients details and a description of the gift, dates of offer and the amount – if a gift is received by a Post Office employee, then an approximate value can be recorded, if known, or the offeror must be contacted and asked the amount so that this can be properly recorded.
- All gifts of £20 and over which are received or offered must be recorded using the Gifts & Hospitality tool, whether accepted or declined by the receiver.
- Line managers must review and approve all gifts over £20. If a gift is over £100, then this must also be reviewed and approved by the GE member for that area
- Before any gift is offered by a Post Office employee, they must refer to the relevant cost centre budget holder for approval before proceeding
- No employee may accept cash (or cash equivalent) gifts (including gift cards).
- The value of the gift must be appropriate and proportionate for the roles and relationship with the client
- Any offer must have a clear and demonstrable link with a legitimate business purpose, gifts must never be accepted from a third party who is tendering for business with Post Office.
- Recipients or offerors must consider if an offer could be viewed by an external party as inappropriate. Guidance can be sought from line management or by raising a query via gifts.hospitality GRO

Hospitality:

- All employees are responsible for ensuring that full details of hospitality are recorded including the recipients details and a description of the hospitality, details of venue/event, dates of offer and event and the amount – if the amount is not known the offeror must be contacted and asked the amount so that this can be properly recorded
- All hospitality which is received or offered must be recorded using the Gifts & Hospitality tool, whether accepted or declined by the receiver.
- Line managers must review and approve all hospitality. If hospitality is over £200, then this must also be reviewed and approved by the GE member for that area
- Before any hospitality is offered by a Post Office employee, they must refer to the relevant cost centre budget holder for approval before proceeding
- The value of the hospitality must be appropriate and proportionate for the roles and relationship with the client
- Any offer must have a clear and demonstrable link with a legitimate business purpose, hospitality must never be accepted from a third party who is tendering for business with Post Office.
- Recipients or offerors must consider if an offer could be viewed by an external party as inappropriate. Guidance can be sought from line management or by raising a query via gifts.hospitality GRO

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- Small offers of hospitality such as tea, coffee, sandwiches, etc. do not need to be recorded via the gifts and hospitality tool, but the recipients details must be recorded fully on the expenses claim via Selenity Expense reporting tool

* Where it is not possible to record gifts and hospitality received prior to receipt, for example where a gift is received unexpectedly, or where a client offers to pay for lunch, then this must be recorded **on the next available day** and the reasons for late approval should be added in the comments box. For offers of hospitality verbal approval from a more senior manager should be obtained.

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GROUP POLICIES

Anti-Money Laundering and Counter Terrorist Financing Policy

Version – V6.0

Chief Executive's Endorsement

The Post Office Group is committed to doing things correctly. Our Values and Behaviours represent the conduct we expect. This policy supports these to help us ensure that wherever possible use of Post Office systems and products for money laundering or terrorist financing is prevented, and the highest standards of financial crime prevention, detection and management are maintained.

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1. Overview

1.1. Introduction by the Policy Owner

The General Counsel has overall accountability to the Board of Directors for the design and monitoring of controls to prevent or deter Financial Crime which includes Anti Money Laundering (AML) and Counter Terrorist Financing (CTF). Financial Crime is an agenda item for the Audit and Risk committees and the Post Office Board is updated as required.

1.2. Purpose

This Policy has been established to set the minimum operating standards relating to the design and implementation of controls to prevent or deter Money Laundering and Terrorist Financing throughout the Group[1]. It is one of a set of policies which provide a clear risk and governance framework and an effective system of internal control for the mitigation of risk across the Group. Compliance with these policies supports the Group in meeting its business objectives and to balance the needs of shareholders, employees[2] and other stakeholders.

1.3. Core Principles

Money Laundering and Terrorist Financing are criminal offences and everyone working in the business has a personal obligation to prevent them taking place and conduct business in accordance with applicable AML laws, rules and regulations set out by the business. The governance arrangements described in this Policy are based upon the following core principles:

- Post Office has devised a robust Policy and associated procedures (set out in this document) which are proportionate to the risks and complexity of the Group;
- The Group ensures that its policies reflect the principles of the AML and CTF regulations and legislation;
- The Group's overall and ongoing risk management process includes a risk based assessment of the financial crime risks to which the Group and its business are exposed, and the quality of its AML and CTF controls and monitoring;
- The Group undertakes a training and awareness program to ensure employees are aware of the risks of money laundering and terrorist financing, what they should do if they are suspicious, and the consequences should they fail to comply with the law;
- The Group promotes ethical and professional standards to prevent it from being used, intentionally or unintentionally by criminals;
- Decisions taken by management are consistent with the Board's approved strategic objectives and Risk Appetite;
- Every member of staff is responsible for understanding and managing the risks they take on behalf of the Group;

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[1] In this policy "Post Office" and "Group" mean Post Office Limited and Post Office Management Services Ltd.

[2] In this policy "employee" means permanent staff, temporary including agency staff, contractors, consultants and anyone else working for or on behalf of Post Office.

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- Clear accountabilities are delegated by management to staff who have the right level of skill, competency and experience;
- All employees are required to comply with Group Policies.

1.4. Application

This Policy is applicable to all areas within the Group and defines the minimum standards to control financial loss, customer impact, regulatory breaches and reputational damage in line with the Group's Risk Appetite.

In exceptional circumstances, where risk sits outside of the Group's accepted Risk Appetite, a Risk Exception can be granted. Further information in relation to the risk exception process, together with a template can be found here

While Post Office does not tolerate events that are criminal in nature and which may give rise to unacceptable and illegal behaviour, it recognises that despite its many endeavours, it is not possible to eliminate all risk of Post Office being used to facilitate Money Laundering or Terrorist Financing activities, and therefore takes a risk based approach.

Failure to comply with the requirements of this policy by any employee will be regarded as a significant breach impacting on the Group's risk and control environment and may lead to disciplinary action up to and including dismissal and possible prosecution.

The risk to the Group in relation to Money Laundering and Terrorist Financing is reviewed by the Board as part of its wider commitment to Financial Crime on a regular basis.

1.5. The Risk of Money Laundering and Terrorist Financing

Money Laundering
Money laundering is the process criminals use to hide, disguise and dispose of cash and assets obtained from criminal activity. Criminals want to disguise the source of their money and remove any link to the original crime. This allows them to avoid prosecution and confiscation of funds.

Terrorist Financing
Terrorist financing involves dealing with money or property that may be used to fund terrorism. The funds and property may be from legitimate sources (e.g. personal funds, charities, sponsored trips, etc.) or criminal sources.

Failure to manage these risks can result in financial loss, customer impact, terrorism, regulatory breaches, fines, prosecution, prevention from selling a particular product, loss of existing or future contracts/relationships and damage to reputation.

1.6. Legislation

There are a number of relevant UK legal and regulatory requirements which are applicable including (but not limited to):

- The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (known as Money Laundering Regulations 2017)
- The Proceeds of Crime Act 2002
- The Criminal Finances Act 2017
- Policing and Crime Act 2017
- The Terrorism Act 2000
- Counter-Terrorism Act 2008

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The Group monitors and takes into consideration guidance and other assistance offered by regulatory, industry and other specialist bodies, for example the Joint Money Laundering Steering Group (JMLSG), Wolfsberg Group, UK Finance (which incorporates BBA, UK Payments and Financial Fraud Action UL), Link, etc. publish trends and analysis on current threats and issues.

Oversight of compliance with the Money Laundering Regulations by the Group is undertaken by HMRC in the case of Post Office Limited and the Financial Conduct Authority (FCA) is the case of Post Office Management Services Limited (POMS).

Post Office Limited is an Appointed Representative of the Bank of Ireland and POMS and is contractually required to comply with certain regulatory requirements. As such the Group as a whole is obliged to ensure there are adequate systems and controls in place to mitigate risks.

1.7. Offences

The Money Laundering regulations set out five offences for which the Group or a member of its staff can be prosecuted under:

1. **Concealing** - where an employee conceals, disguises, converts or transfers criminal proceeds, or removes them from the UK
2. **Arrangement** - where an employee allows the Group to enter into or become involved in an arrangement where an employee knows or suspects that it involves the proceeds of crime.
3. **Acquisition, use or possession** - where an employee acquires, uses or takes possession of criminal proceeds.

   If found guilty of these offences an individual can be given an unlimited fine or up to 14 years in prison or both. The only defence is that an employee had completed and submitted a Suspicious Activity Report to the Money Laundering Reporting Officer (MLRO), apart from 'acquisition' where the Group or a relevant individual would need to evidence that the proceeds had been acquired at fair market price and that they were not aware that they were criminal proceeds.
4. **Failure to disclose -** where an employee fails to report to the MLRO their suspicions or knowledge that someone is involved in Financial Crime.

   If found guilty of this offence an individual can be given an unlimited fine or up to five years in prison or both. There are two defences to this offence; training did not cover how to complete a SAR or "a reasonable excuse" such as that an employee was rushed to hospital just prior to completing the report. The reasonableness of the excuse will be tested in court.
5. **Tipping Off –** an offence will be committed if an employee discloses to a third person that a SAR has been made to a relevant authority and that said disclosure may prejudice any future investigation from the SAR. In addition an employee commits the offence if they disclose the fact that an investigation into a money laundering offence is being contemplated or carried out and the disclosure of this information is likely to prejudice this information. This information must have come to the employee in the course of business while in the regulated sector..

   If found guilty of this offence an individual can be given an unlimited fine or up to five years in prison or both. The only defence is if an employee did not know or suspect that what was said would prejudice the investigation

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2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

A Risk Appetite is the extent to which the Group will accept that a risk might happen in pursuit of day to day businesses transactions. It therefore defines the boundaries of activity and levels of exposure that the Group is willing and able to tolerate.

The Group takes its legal and regulatory responsibilities seriously and consequently has[3]:

- **Tolerant risk appetite** for Legal and Regulatory risk in those limited circumstances where there are significant conflicting imperatives between conformance and commercial practicality
- **Averse risk appetite** for litigation in relation to high profile cases/issues
- **Averse risk appetite** for ligation in relation to Financial Services matters
- **Averse risk appetite** for not complying with law and regulations or deviation from business' conduct standards for financial crime to occur within any part of the organisation
- **Averse risk appetite** in relation to unethical behaviour by our staff.

The Group acknowledges however, that in certain scenarios even after extensive controls have been implemented, a product or transaction may still sit outside the agreed Risk Appetite. In this situation, a risk exception waiver will be required (See section 1.4 for further details).

2.2. Risk Assessment

The Money Laundering regulations require that Post Office completes Group wide risk assessments with a clear rationale to prevent and detect money laundering and terrorist financing.

Risk assessment must include:

- Identifying the inherent money laundering risks that are relevant to the Group, product and/or service
- Assessing customer type, customer behaviour, normal product/service activity, delivery channels, etc.
- Assessing controls to manage and reduce the impact of inherent risks
- Assessing how the Group will monitor controls and improve their efficiency
- Keeping records of key decisions

The Group requires risk assessments to be completed for individual products and services to ensure that sufficient controls are in place to detect and prevent money laundering or terrorist financing, and for these risk assessments to be refreshed at least annually for high risk products and services and where an issue is highlighted, significant risk is identified, an incident occurs or the regulations change.

[3] The Risk appetite was agreed by the Groups Board January 2015

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2.3. Policy Framework

Post Office has established a suite of financial crime policies and procedures, on a risk sensitive approach which are subject to annual review. The policy suite is designed to combat money laundering, terrorist financing, bribery and corruption, fraud and ensure adherence to relevant sanctions regimes.

The Anti-Money Laundering and Counter Terrorist Financing Policy is a key Policy under the Financial Crime Policy framework and should be considered and read in conjunction with the overarching Financial Crime Policy and the Fit & Proper Policy where relevant.

2.4. Who must comply?

Compliance with this Policy is mandatory for all Post Office employees and applies wherever in the world the Group's business is undertaken. All third parties who do business with the Group, including consultants, suppliers and business and franchise partners, will be required to agree contractually to this Policy or to have their own equivalent Policy.

Where non-compliance is identified the matter must be referred to the MLRO. Any investigations will be carried out in accordance with the Investigations Policy. Where an instance of non-compliance is caused through wilful disregard or negligence, this will be treated as a disciplinary offence.

2.5. Minimum Control Standards

A minimum control standard is an activity which must be in place in order to manage the risks so they remain within the defined Risk Appetite statements. There must be mechanisms in place within each business unit to demonstrate compliance. The minimum control standards can cover a range of control types, i.e. directive, detective, corrective and preventive which are required to ensure risks are managed to an acceptable level and within the defined Risk Appetite.

The table below sets out the relationships between identified risk and the required minimum control standards in consideration of the stated risk appetite. The subsequent pages define the terms used in greater detail

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Oversight	Group does not comply with its AML/CTF regulatory responsibilities.	Directive Control: The regulations require a member of the Board of Directors or equivalent management body to be appointed as the officer responsible for overseeing compliance with regulations. For Post Office this is the General Counsel	General Counsel	Ongoing
		Preventative Control: The Group appoints an appropriate individual within the Compliance area as MLRO. With the assistance of the Financial Crime Team, the MLRO's main responsibilities include: • To receive reports of suspected money laundering or terrorist financing and to disclose to the NCA where required • Keep the Group up to date in relation to Financial Crime legislation • Putting in place and then monitoring compliance with the AML/CTF regime • Reporting to the ARC and R&CC all instances of non-compliance and any regulatory concerns or issues • Reporting to the regulators instances of non-compliance, where required	MLRO	Ongoing
		• Annual MLRO reports for the Board (for Post Office Management Services Limited and for Post Office Limited) covering: the governance framework; operation and effectiveness of the control framework (including documentation of policies and risk assessments); external threats/ landscape; summary of business issues and recommendations.	MLRO	Annual
		Corrective Control: Risk assessments must be undertaken at least annually for high risk products and services and where an issue is highlighted, significant risk is identified, an incident occurs or the regulations change.	MLRO	Issue, incident or change

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Proposed product or service	Products, services or relationships with third parties may rely on systems or processes where prevention or detection of money laundering or terrorist financing has not been considered in the design, which may result in facilitation of laundering or terrorist financing leading to reputational damage and/or regulatory sanctions.	Preventative Control: As part of the design of a new product or service: • A Product Information Pack (see 2.6 below) must be completed. • Product or service risks must be considered and documented using the Risk Assessment Tool (see 2.6 below). Prior to launch, the Product Information Pack (PIP) must be reviewed and approved by the Financial Crime Team. The Financial Crime Team adopts a risk based approach to determine when the full risk assessment should be completed, and the PIP will provide them with key information to make an informed decision. If the product is deemed high risk, the assessment will be completed prior to launch.	Product Manager Financial Crime Team	During design phase Prior to Launch
Existing products and services	Due to changes in law, regulation, incidents, threats or practices over time, there is a risk that the controls to prevent and detect money laundering or terrorist financing are no longer adequate.	Preventative Control: Risk assessments must be undertaken at least annually for high risk products and services, any changes to the product or service (including supplier changes) and where an issue is highlighted, significant risk is identified, an incident occurs or the regulations change Prior to changes being implemented, the Product Information Pack (PIP) must be reviewed and approved by the Financial Crime Team. The Financial Crime Team adopts a risk based approach to determine when the full risk assessment should be completed, and the PIP will provide them with key information to make an informed decision. If the product is deemed high risk, the assessment will be completed prior to change going live.	Product Manager Product Manager	Annually, or at any time there is a change Any time there is a change

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Existing products and services (continued)		Where no initial risk assessment was undertaken, product management must agree a timescale with the Financial Crime Team to complete an assessment and a Product Information Pack. Where the reassessed risk is considered by the Financial Crime Team to rest outside of the Groups Risk Appetite, then the risk exception process must be followed. Corrective Control: Additionally, risk assessment must be undertaken where an issue is highlighted by monitoring or an incident occurs.	Product Manager Product Manager	Any time there is a change When there is a material issue or incident
Financial settlement and reconciliation	Inadequate controls and audit trails relating to financial settlement and reconciliation may result in facilitation of laundering or terrorist financing leading to reputational damage and/or regulatory sanctions.	Preventative Controls: Relevant business areas must assess and assure risks relating to financial settlement and reconciliation and are responsible for maintaining documented processes and procedures and deploying adequate monitoring and control to prevent and detect money laundering or terrorist financing. Detective Control: Audit trails must be maintained so that system access can be monitored. To ensure that the Group's controls remain effective, the Group undertakes internal audits to test and assess their effectiveness, as agreed by the Board.	Chief Financial Officer Chief Information Officer Internal Audit	Ongoing Ongoing Ongoing
Monitoring	The Group fails to undertake adequate transaction monitoring and fails to prevent and detect money	Preventative Control: Where the Group is directly regulated for products or services, sufficient transaction monitoring must be undertaken to ensure that suspicious activity, non-	Product Manager/MLRO	Ongoing

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Monitoring (continued)	laundering and terrorist financing.	conformance and breaches can be identified, and provide assurance that customer data capture and due diligence thresholds have been set at a level commensurate with the risk exposure and to ensure compliance with money laundering regulations.		
Due Diligence	Group fails to undertake appropriate due diligence of a customer and fails to identify criminal activity.	Preventative Control: The Group takes a risk based approach and considers: • The product or service • Its intended customer market base and normal transaction activity • Any other risks relating to the product Detective Control: The extent to which the Group will gather due diligence information varies depending upon the risk that the product or service poses however must be considered when: • a business relationship is established with a customer • money laundering or terrorist financing is suspected • there are doubts about a customer's identification at the time of the transaction or from information obtained previously	Financial Crime Team/Product Manager Financial Crime Team/Product Manager	Annually, or at any time there is a change As required
Politically Exposed Persons (PEP)[4]	Post Office fails to appropriately manage the risks associated with doing business with PEPs.	Preventative Control: All products and services are required to have in place identification procedures, commensurate with the underlying risk assessment to ensure that it can identify where the product and service is being used by a PEP. Where a product or service is maintained by a partner or	Product Manager	Ongoing

[4] PEPs are those who have or are seen to have access to public influence and/or public money and as such are seen as being at higher risk of corruption. A PEP is someone who is: An individual who has or has been in a prominent public role in the UK or abroad such as Heads of State, MPs, Heads of Armed Forces, etc. An immediate family member or a known close associate of such as person.

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Politically Exposed Persons (continued)		third party, the obligations of the parties to identify a service user as a PEP must be documented and agreed. Determine the level of identification and assess if PEP checks are required. Detective Control: Ensure sufficient information is captured to undertake PEPs screening where deemed appropriate. Ensure controls in place to undertake Enhanced Due Diligence is required on any PEP relationship identified. Corrective Control: Where PEPs screening identifies PEPs, ensure that sufficient due diligence is undertaken to manage the risks.	Product Manager Product Manager Product Manager Product Manager/MLRO	Ongoing Ongoing Ongoing Ongoing
Sanctions[5]	The Group transacts with a customer who is sanctioned, resulting in the Group breaching international sanctions, reputational damage and/or regulatory sanctions.	Preventative Control: All products and services are required to have in place sufficient identification procedures, commensurate with the underlying risk assessment to ensure that the product and service is not used by a customer who is sanctioned. Detective Control: Ensure sufficient information is captured to undertake Sanctions screening where deemed appropriate prior to a transaction occurring.	Product Manager Product Manager	Ongoing Ongoing

[5] Sanctions are restrictions put in place by a government or a multilateral organisation (such as the United Nations) that limit a person, company or countries access to financial services or financial markets, funds or economic resources in order to achieve a specific foreign policy or national security objective.

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Sanctions (continued)		Corrective Control: Where screening identifies a transaction that maybe going to or from a sanctioned entity the Post Office will ensure that transactions are declined and the transaction is reported via SAR to the authorities. In the event that an employee becomes aware or suspects that a Sanctioned party is conducting business within the Group this must be reported immediately to the MLRO.	Product Manager/MLRO All employees	Ongoing Ongoing
Premises Registration	The Group fails to maintain up to date premises registration leading to penalties and sanctions. (The Group must maintain an up to date register of premises addresses that undertake directly regulated activity with HMRC – any changes must be registered and the relevant fees paid within 30 days)	Directive Control: Business rules must be agreed with HMRC in respect of the premises types that must be registered (e.g. Mobile Vans). Preventative Control: Premises registration business rules are reviewed annually and any potential changes to premises type are discussed and agreed with HMRC. Branch premises data is reviewed fortnightly and changes submitted to HMRC.	MLRO Financial Crime Team Data Centre of Excellence and Financial Crime Team	Ongoing Ongoing Fortnightly
Training	Through inadequate training, staff allow money laundering or terrorist financing to take place, resulting in reputation damage and regulatory fines.	Preventative Control: Post Office has a Group wide training programme to ensure that all customer facing staff, back office staff and contractors receive adequate training tailored to business risk areas.	Financial Crime Team/HR/MLRO	Annual

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Training (continued)		Outsource providers, clients & suppliers must maintain records to evidence that staff have received adequate and regular training. New branch staff are required to complete AML/CTF training before they transact on Horizon, and back office staff and contractors within 30 days of joining. Detective Controls: Pass rate and number of test attempts is monitored to identify risk areas and any additional training or guidance required.	Product Manager/MLRO HR Financial Crime Team	Ongoing Ongoing Ongoing
The MLRs require that impacted direct employees undertake the HMRC Fit & Proper test (Please see Fit & Proper Policy Standard for details of full controls)	Due to inadequate screening, there is a risk that key individuals involved in money service business are unfit to undertake a role.	Preventative Control: All Board members, GE, the MLRO and designated roles must pass the HMRC Fit & Proper test to ensure that the Group has employed individuals who are suitable to perform their roles. A register of completed and up to date Fit & Proper tests is maintained. Post Office completes pre-employment screening to ensure that an individual is fit and proper for their role. For further information please see the employee vetting policy. Detective Control: The Group completes ongoing screening to ensure that an individual continues to remain fit and proper for their role.	MLRO Director of Human Resources Director of Human Resources	Within 30 days of appointment Pre-employment Ongoing where required

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
The MLRs require that impacted direct employees undertake the HMRC Fit & Proper test (Please see Fit & Proper Policy Standard for details of full controls)	Failure to ensure and evidence that those individuals operating Post Offices that are 'responsible persons' are 'fit and proper' to undertake Post Office regulated activity	Preventative Control: All agents and 'responsible persons' as defined by HMRC must complete on-boarding screening, vetting and training. Records must be maintained for the duration that the 'responsible person' is party to the contract between the agent and Post Office, and details provided to HMRC, as required. All impacted 'responsible persons' are required to complete an annual declaration that they meet the requirements of the fit and proper test	Group Human Resources Director & MLRO Network Operations Director	Ongoing Ongoing
Record Keeping	Customer and transactional data is not retained resulting in the Group being unable to identify suspicious or out of character transactions, leading to the Group being used to launder money.	Preventative Control: For products and services where the Group is directly regulated, records must be kept of all transaction data and data obtained for the purpose of identification for a minimum of 5 years from the date of creation/transaction. The MLRO also ensures that documents relating to money laundering topics (e.g. files on suspicious activity reports and investigations) are maintained for a minimum of 5 years.	Product Managers MLRO	Ongoing Ongoing
Suspicious Activity Reports ("SAR") and Reporting	Failure to report suspicions to the National Crime Agency[6] results in the	Preventative Control: The Group provides training to all employees, agents and agent assistants and provides easily accessible methods to report a suspicion to the MLRO and the Financial Crime Team.	All employees, agents and agent assistants	Ongoing

[6] The NCA receives all SARs reported in the UK and their role is to investigate in conjunction with other intelligence. Where appropriate the NCA may provide copies of SARs to other intelligence bodies and investigation services (Law Enforcement, HMRC, etc.).

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Risk Area	Description of Risk	Minimum Control Standards	Who is responsible	When
Suspicious Activity Reports ("SAR") and Reporting (continued)	Group being used to fund terrorism.	Where there are suspicions or concerns, the MLRO can apply to the NCA for a defence to money laundering or terrorist financing in regards to a specific transaction or set of transactions.[7]	MLRO	As required
		Corrective Control: Where issues are identified additional training and guidance is provided to increase employee understanding of the SAR regime.	Financial Crime Team	Ongoing
		Appropriate mechanisms are in place to protect Post Office and de-risk where concerns are identified relating to a specific individual or Group undertaking transactions in the Post Office network.	Financial Crime Team	Ongoing
		Detective Control: Where a SAR is not disclosed to NCA, it is reviewed and assessed by a senior manager, and the subject matter of the report is monitored for a minimum of three months to ensure that the appropriate decision was taken. Audit trails are maintained so that reports made can be monitored.	Financial Crime Team	Ongoing

[7] Where defence is requested, this can take up to seven working days for the NCA to review and during this time customers must not be advised that defence is being applied for as this would constitute 'tipping off'.

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2.6. Product and Service Risk Tools

Risk Assessment Tool
The Risk Assessment Tool has been created by the Financial Crime Team to assist Product Managers to determine the level of risk exposure and engagement required for new products and services. The Risk Assessment Tool takes into account inherent risks (e.g. payment method, channel, customer demographic etc.), UK regulations and legislation and industry best practice.

The Risk Assessment Tool can be found here.

Product Information Pack
The purpose of the Product Information Pack (PIP) is to provide an overview of the product or service, including customer/transactional journey, parties involved, any contractual responsibilities, monitoring and control requirements. It should consider the inherent risks the product is exposed to from a Group and customer perspective and the framework for the effective risk mitigation of the product.

The existence of detailed operating policies, procedures and processes may be referred to throughout this document and is to be used to illustrate how the risks associated with the product are reduced.

The Product Information Pack can be found here.

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3. Where to go for help

3.1. Additional Policies

This policy is one of a set of policies. The full set of policies can be found at:

https://poluk.sharepoint.com/sites/thehub/SitePages/Key%20policies.aspx?web=1

3.2. How to raise a concern

Any Post Office employee who suspects that Post Offices products, services or processes have been used to facilitate money laundering, terrorist financing, or dishonest or fraudulent activity has a duty to:

- Discuss the matter fully with their Line Manager; or,
- Report their suspicions by telephoning Grapevine on GRO; or,
- Report the matter directly to the Money Laundering Reporting Officer (MLRO)
- Staff can contact the Post Office's Whistleblowing Officer, Post Office General Counsel who can be contacted by email at: whistleblowing GRO or by telephone on: GRO
- Alternatively staff can use the Speak Up service available on GRO
- or via a secure on-line web portal: https://wrs.expolink.co.uk/postoffice

3.3. Who to contact for more information

If you need further information about this policy or wish to report an issue in relation to this policy, please contact financial.crime GRO

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4. Governance

4.1. Governance Responsibilities

The policy sponsor, responsible for overseeing this policy is the General Counsel of Post Office Limited.

The policy owner is the Director of Compliance who is responsible for ensuring that the Financial Crime Team conducts an annual review of this policy and tests compliance across the Group. Additionally the Director of Compliance and the MLRO are responsible for providing appropriate and timely reporting to the Risk and Compliance Committee and the Audit and Risk Committee.

The Audit and Risk Committee are responsible for approving the policy and overseeing compliance.

The Board is responsible for setting the Groups risk appetite.

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5. Control

5.1. Policy Version

Date	Version	Updated by	Change Details
November 2016	3	Georgina Blair	Final Version approved by ARC
August 2017	3.1	Thomas Richmond	Version updated to reflect legislation changes
September 2017	3.2	Thomas Richmond	POL R&CC approval
September 2017	4.0	Sally Smith	Final Version approved by ARC
October 2018	4.1	Sally Smith	Annual review and update
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5.2. Policy Approval

Group Oversight Committee: Risk and Compliance Committee and Audit and Risk Committee

Committee	Date Approved
POL R&CC	**3rd September 2019**
POMS ARC	**19th September 2019**
POL ARC	**23rd September 2019**

Policy Sponsor: General Counsel/Group Director of Legal, Risk & Governance

Policy Owner: Head of Financial Crime

Policy Author: Head of Financial Crime

Next review: September 2019

Company Details

Post Office Limited and Post Office Management Services Limited are registered in England and Wales. Registered numbers 2154540 and 08459718 respectively. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z4866081.

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Travel and Expense Policy

14th August 2019

Version – V1.7

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[1]In this Policy "Post Office" and "Group" mean Post Office Limited and Post Office Management Services Limited.

[2]In this Policy "employee" means permanent staff, temporary including agency staff, contractors, consultants and anyone else working for or on behalf of Post Office.

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1.0 Introduction

Travelling regularly on Post Office business may for some be a requirement of their role. For others there may be the odd occasion when travelling may be necessary e.g. Christmas making. Regardless of the frequency of that travel we all have a responsibility - whether as a traveller ourselves or as an approving manager - to operate within the Post Office Travel Policy. We also have a responsibility to consider the cost of that travel and balance that with feeling safe, comfortable and appropriately reimbursed for the costs incurred when travelling on post office business.

1.1 Purpose and Scope

This policy sets out the procedures that must be followed when travelling and claiming expenses incurred in connection with Post Office business:

- When is travelling for business necessary?
- What are the alternatives to travelling?
- Business travel expenses that can be reimbursed
- Complying with the requirements of the HMRC rules and requirements for tax dispensation,
- Making an expenses claim
- Authorising an expenses claim as a Post Office Manager
- When exceptions to this policy may be justified

This policy applies to;

- Employees of the Post Office,
- Contractors (where agreed in advance)

As a traveller, we expect you to:

- Read and fully understand this policy
- Behave responsibly and within the guidelines of this policy. Any persistent or deliberate non-compliance may result in disciplinary action

As an approving manager, we expect you to:

- Check all bookings comply with the policy and challenge if non-compliant
- **Check receipts**, ensuring they are provided where a claim is made. The image of the receipt needs to be readable. If it's not the claim should not be authorised and should be returned for re-submission.

As a SLP approver, we expect you to:

- Check that the reason given for non-compliant booking is acceptable
- Approve or reject promptly - travel arrangements can then be confirmed
- Where reason for non-compliant booking is not reasonable, challenge and request to re-book compliantly

Whilst these guidelines are intended to be comprehensive, it is impossible to anticipate every situation encountered by a traveller. The traveller therefore is expected to exercise *good business judgement*, where necessary. Expense claims

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not compliant with this policy may be reimbursed by exception and only where the rationale is justified and clearly documented in Selenity.

1.2 Alternatives to Travel

Before you book that train ticket or reach for your car keys consider whether that journey is absolutely necessary or whether there is another way for you to have that discussion or meeting. Do you really need to incur the time and cost of travelling? Is a conference call or Skype an option for that 1:1 discussion or even a smallish meeting? Could you use video conferencing for that larger gathering? By making better use of technology we can have a positive impact on the environment; our health and well-being; our work life balance; and reduce our travel costs without reducing our effectiveness. For Video Conferencing links please refer to Policy Guidelines section 6.0.

1.3. Where Travel is Necessary

Where travel is absolutely necessary we are expected to exercise sensible business judgement and to consider the following prior to making arrangements;

- Are colleagues travelling to the same meeting? Is car-sharing an option?
- Are you able to maximise the value of the trip by, for example, arranging your itinerary to include multiple tasks on the same visit?
- Are only *necessary* people travelling to the meeting?
- Can your meeting or event be arranged in such a way to minimise the travel requirements for participants, i.e. a more economical location?

Wherever possible hold your meeting outside of peak times, certain days of the week and busy periods? As a guide, start your meeting after 10am so that off-peak train tickets can be used. Check the events and exhibition calendar to ensure your choice of location/date does not clash with a major sporting event etc., which can also increase costs.

1.4. Approved methods of booking travel

When booking travel, exercise sensible business judgement and remember the objective is to get to your destination in the safest and most cost effective way.

Travel by air, rail, accommodation* and meeting space is to be booked through our appointed Travel Management Company Capita via the booking portal Capita Travel and Events. Car hire should be booked via Capita/Nexus Rental.

Utilising this contract and adhering to policy aims to ensure that we are able to;

- Safeguard the wellbeing, comfort, safety and security of employees
- communicate our commitment to sustainability issues
- secure enhanced supplier service levels at the lowest possible cost
- consolidate expenditure to obtain discounted rates

* For accommodation only: with effect from 21.01.2019 the traveller is able to book direct with a hotel of their choice providing certain conditions are met – see 2.6 below.

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2.0 Business Travel to include Public Transport, Road Travel, Accommodation and Meeting Space

2.1. Rail Travel

Rail travel is to be pre-booked online via the booking portal. Tickets can be printed on-site in Finsbury Dials and Chesterfield offices only, otherwise Tickets should be booked as a TOD (Ticket on Departure) and collected from the ticket machine/Ticket booth at the train station. Where travel is required to the same destination over the course of several days (3 or more consecutive days), please request a weekly season ticket as this is in most cases a more cost effective option than purchasing daily tickets. Business Season Tickets can only be purchased via Capita Travel and Events directly by emailing postofficeltd GRO Tickets will be delivered by post.

Travel by rail is standard class only and should be reserved at least seven days in advance of travel in order to benefit from the lowest possible fares.

The outbound ticket should be fixed (Advance Single) to a specific train time which is aligned to your meeting start time. The return ticket may be left open (Anytime Single) to provide flexibility around your meeting end time if required. This process which should be made as one booking, and is known as 'dual single' ticket purchasing, which offers the most cost effective solution. If you are able to fix the outward and return journey, further savings will be made.

The purchasing of an 'Anytime Return' ticket is considered unnecessary and is deemed non-compliant to policy. Any Anytime return ticket purchased will be flagged as an exception via the monthly 'exception to policy' reports received by the relevant SLP member and business unit Finance Director.

Any changes required to a rail ticket can be directed via Capita Travel and Events, or via the Online Rail Exchange Service page on the booking portal. Exchanging the original ticket is more cost effective than purchasing a new ticket entirely. The new ticket can be collected at the train station prior to your new departure time.

Where Railcards are held entitling the traveller to discounts on rail travel, tickets are purchased on the relevant discounted basis, achievable on the booking portal.

For travel on the London underground or London bus network, please use an oyster or contactless card as payment and make an expense claim. See Claiming Expenses. A full journey history can be downloaded from www.tfl.gov.uk once you have set up an online account to utilise in the claim.

For more details on Contactless click here

For more details on Oyster click here

Rail Booking Guide provides further information.

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2.2 Road Travel

Public transport is to be used wherever it is the most practical and most cost-effective option. Hiring a car should be considered if travelling over 100 miles in a 24 hour period as it could be more cost effective than using your own car.

2.2.1. Vehicle Hire

Daily Vehicle Hire is to be booked via the contracted supplier via Capita, Nexus Vehicle Rental. Before making a reservation, please ensure this method of transport is the most cost effective and convenient solution for your business journey.

The POL Nexus Vehicle Rental Portal can be accessed by clicking here or via the link which can be found on the Capita Travel and Events booking portal.

The policy for vehicle hire is as follows;

Policy	Mileage per day	Notes
Group B/C	<200	-
Group D	>200	*and/or*: 3+ employees travelling together/ carrying large equipment

All hire vehicles will be provided with a full tank of fuel and are to be returned with a full tank of fuel. The fuel receipt is to be claimed via Selenity.

Before hiring a vehicle the driver's driving licence will need to have been checked via Selenity and approved by the line manager as being appropriate for the class of the vehicle being hired. It is advised that the driver has over 12 months driving experience.

Any Post Office employee driving a hire vehicle will be covered by the Post Office's insurance, whilst the vehicle is being used for the purpose of undertaking Post Office business and only during the designated period of hire. The Post Office's insurance will not extend to provide indemnity for any personal use.

For Daily Vehicle Hire links please refer to Policy Guidelines section 6.0

2.2.2. Mileage Rates Company (personal contract, job need, pool or hired) cars

Ordinarily Post Office reimburse fuel as per HMRC advisory fuel rates for Company cars and, with effect from 1 October 2015, for all senior managers who have a personal contract at 3A or above who receive a cash alternative to a company car. These rates are reviewed each quarter and are updated in line with the published HMRC Advisory Fuel Rates.

However a recent study conducted internally (Fleet Manager, May 2018) concluded that the cost of fuel for vehicles in this category was significantly

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outweighing the amount being reimbursed. As a result with effect from April 2018 business mileage rates for company and job needs cars will be 3p above the HMRC advisory rate. This additional amount is subject to tax and NI so needs to be made through payroll rather than Selenity. Retrospective payments will be calculated and grossed up (so amount received will be equivalent to 3ppm) and paid twice a year – in Oct (for Apr – Sept) and in April (for Oct – Mar). This approach will be kept under review

HMRC advisory fuel rates can be found below;

https://www.gov.uk/government/publications/advisory-fuel-rates

2.2.3. Private Car

If you are using your own car for Post Office business then you must make sure that it is roadworthy and is adequately insured for business use – you are not covered by the Post Office's insurance.

You cannot claim mileage for commuting from your home to your normal place of work.

2.2.4. Claiming business mileage

All permissible road travel claims to be submitted via Selenity. Please refer to Policy Guidelines section 6.0.

a. Quickest Route

The Selenity expense system is set to calculate reimbursement of mileage based on the quickest route. However if this does not adequately reflect the actual journey the mileage travelled should be input with the reason for the amendment being adequately explained when prompted by the system.

b. Passenger Mileage Allowance

Sharing a car with work colleagues on official business, rather than travelling separately is cost effective and reduces the environmental impact of business travel. A passenger supplement of 4p per mile can be claimed regardless of number of passengers.

c. Parking / Tolls

The actual cost of parking and bridge tolls incurred whilst travelling on Post Office business will only be reimbursed on the production of receipts.

d. Damage and fines

Any accidental damage to a hire vehicle will be charged back to the cost centre used to hire the car.

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In the event of an "at fault" claim against Post Office, if the claim is not disputed within two working days, the hire car company will be instructed to proceed and charges will be sent back to the cost centre.

Any fines, including traffic, speeding, and parking charges, plus any administrative fees levied by the supplier are the responsibility of the driver, and will be deducted via payroll.

e. Fuel and VAT Receipts

To support mileage or fuel claims, VAT receipts for fuel purchased need to be provided as this enables the Post Office to reclaim the VAT. It is not sufficient to provide credit card receipts or other such documents. The fuel receipts must be originals and dated prior to the date of the journey/s they relate to. The amount of fuel purchased is unlikely to tally exactly with the amount claimed and there may be a need to supply more than one receipt.

f. Taxi Journeys

Taxi fares will only be reimbursed in the following circumstances and where a receipt or proof of payment has been obtained:

- For safety reasons e.g. travelling late at night/early morning when still dark
- Where judged economic due to numbers travelling together
- For journeys where there is no other suitable method of public transport
- Where heavy luggage has to be transported
- Where the saving of official time is important
- Where the traveller has mobility issues and is not able to use other modes of transport

2.3. Air Travel

Air travel should only be used when there is a business justification either because of cost, official time saving or if urgency justifies the additional cost.

Air Travel is to be booked in Economy class, using Low Cost Airlines where possible and reserved at least 14 days in advance of travel to take advantage of the lowest possible fares.

Any single air fare journey booked which exceeds the rate cap limit shall require SLP approval. Travellers and managers should refer to the Air Fare Cap listed in the policy guideline section.

Air miles and similar benefits earned through official travel should be used for business purposes where possible.

Changes to an air ticket must be directed via Capita Travel and Events. This will ensure any amendment costs associated to the change will be invoiced centrally.

The following charges are non-permissible via expenses and if chosen are personably payable;

- Excess baggage (unless business-need requires)

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- Pre-booked seats (including extra legroom, unless medically certified)
- Speedy boarding

If you require any further help for booking air travel, please refer to the *Air Online Booking Guide* Air booking guide.

2.4. International Travel

If there is a requirement to travel outside of the UK, you must seek pre-approval from Alisdair Cameron, Chief Finance & Operational Officer, prior to purchasing an international air ticket. International travel once approved, needs to be requested via the Capita offline team via postofficeltd GRO

Please refer to the Policy Guidelines, for details regarding any Passport, Visa and Medical assistance.

2.5. Ferries

Bookable via Capita Travel and Events by calling or emailing booking request to postofficeltd GRO

2.6. Overnight Accommodation

The Post Office preferred method of booking overnight accommodation is online via the Capita Travel and Events booking portal. Preferential rates have been agreed at hotels in our key locations, and are there purely as a guide. The cost per room, per night, whether a preferred or non-preferred property is not to exceed the location rate cap.

For any bookings over cap, which should be regarded as exceptional, SLP approval is required in advance, with the rationale being properly documented. All over cap bookings will be monitored on the monthly exceptions report provided to SLP/Finance Director.

For longer stays (minimum 2 nights) you may prefer to stay in an apartment. Post Office has access to preferential rates to stay at an apartment located close to London Headquarters, and are bookable by calling or emailing the Capita Travel and Events offline team.

For accommodation links please refer to Policy Guidelines section 6.0.

With effect from 21.01.2019 travellers are offered more flexibility when booking overnight accommodation. Post Office preferred process is:

1. First check the capita portal for a suitable hotel – this can show ALL available hotels (POL rates, CAPITA rates, Best Available rates)
2. If a suitable hotel is not available and traveller sources elsewhere, to contact Capita Offline team immediately for them to work with the hotel direct to secure same rate.
3. Booking accommodation of their choice direct themselves providing:

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- the cost is within the existing travel policy (cap rates and allowances) **Note:** over cap hotels need to be booked through Capita. Only claims up to the location cap rate are permitted to be claimed via Selenity.
- the traveller settles the bill with the hotel and claims back via Selenity
- the traveller accepts that there will be no support from Capita for this booking either in or outside operating hours
- the traveller provides their whereabouts detail via Hotel Direct Booking App in advance of their stay. For the App installation guide click **here**. **This is an important condition (for health & safety reasons) of not using Capita to book overnight accommodation. Non-compliance with this requirement will lead to the relaxation of the hotel booking approach being reversed**

2.7. Meeting space

External meeting space is to be booked only when internal meeting space isn't available.

All external venues, including meeting, event and conference space is to be requested via the Capita Travel and Events online via the booking tool. Preferential rates have been agreed at venues in our key locations, and are there purely as a guide. The cost per delegate, whether at a preferred or non-preferred venue should not exceed the location daily delegate (DDR) rate cap.

External meetings require a minimum of 6 delegates. If no internal meeting space is available, the meeting should be conducted via audio/skype/video conference.

Any external meeting space booking which exceeds one or more of the following, shall require pre-approval via SLP;

a) The Day Delegate Rate cap

b) The 24 Hour Rate cap

c) £3,000 Total meeting costs

It is the responsibility of the Post Office meeting organiser to sign any terms and conditions levied by the external venue adhering to contract time-lines and delegate numbers. Capita are not contracted to sign on Post Office behalf. Post Office will be financially liable for any breach of T&C's.

For Meeting Space links please refer to Policy Guidelines section 6.0.

2.8. Emergency Travel

During times of unprecedented situations (i.e. weather disruptions, serious incidents/acts of terrorism) which occur outside of normal working hours (9am-5.30pm), we adopt a "safety first" policy, whereby it will not be necessary to gain pre-approval for over cap hotel bookings and over cap air bookings.

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Please contact Capita Travel and Events directly on GRO for any emergency assistance outside office hours.

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3.0 Cancellations, Refunds and Delays

Where business trips are cancelled, the traveller is responsible for notifying Capita or the supplier directly (i.e. hotel booked direct). This should be done as soon as possible either online or by telephone, to avoid cancellation charges.

3.1. Refunds for unused tickets

Unused tickets must never be destroyed as refunds are usually possible (subject to the type of ticket purchased and any ticket rules / restrictions).

Please contact Capita Travel and Events in order for them to organise a refund via postofficeltd GRO

3.2. Compensation for delays

Train operators and airlines usually compensate passengers for significant delays. The compensation amount will depend upon the length of the delay. Information about the amounts payable can be found on the operator's website.

For Advance Rail Tickets only - Capita Travel & Events have partnered with Railguard, a specialist compensation provider who assist customers to automatically track and repay compensation for delayed rail journeys and Capita will then pay the compensation due directly back to Post Office. As of 5th August 2019 we will no longer request travellers to submit a delay repay form directly to the train operation company.

For All Other Rail Tickets and Flights - Please contact the approved supplier (Train Operating Company/Airline) in order for them to organise the compensation. The original ticket will need to be returned to them, so they can verify the length of delay and issue the appropriate compensation. The compensation amount should be requested as a voucher, which once received, should be returned to Capita Travel and Events, making note of the original booking reference, in order for them to arrange a credit against the original invoice.

Please review the Delay Repay document by clicking here.

Address for compensation voucher to be sent;

Capita Travel and Events
Meridian Court
18 Stanier Way
Wyvern Business Park
Derby
DE21 6BF

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4.0 Employee Benefits

There are a number of benefits open to all employees who are required to travel.

4.1 Season tickets

Post Office offers interest free loans to help with the purchase of a season ticket up to the value of £7,500, which are then paid for over 12 months, through deductions from net pay.

In order to be eligible to apply, you need to meet the following criteria:

- You are employed directly by Post Office.
- You are not in your probationary period.
- You are not in your notice period.

To apply, visit: https://postoffice.fastrailticketing.com/

Notification will be sent upon an outcome to an application. Capita will send the ticket in the post to the applicant's home or work address.

A season ticket will require a photo-card which can be uploaded as part of the online application process.

This is available for:

- National Rail
- London Rail only
- London Travel-card /Oyster
- Outside London Travel-card

Should the season ticket exceed the loan limit of £7,500, this can be paid as a lump sum via a debit or credit card at the point of applying.

4.2 Tax Free Cycle Scheme

Colleagues can apply for a new bike and accessories up to the value of £1,000. Post Office offers two tax free cycle schemes:

Cycleplus: to get your bike from an independent bike shop.

Cycle2Work: to get your bike from any Halfords store instead.

The bike and safety equipment remain the property of the Post Office for the duration of the agreement. At the end of the hire period, colleagues are given the opportunity to take ownership of the bike at fair market value.

The tax free cycle scheme is a salary exchange arrangement, which means colleagues can give up some of their pay in exchange for this non-cash benefit and do not pay the tax and National Insurance on the amount. By choosing to

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participate, applicants sign a salary exchange agreement which is part of the application form. This changes the terms and conditions of the employment contract.

Apply by visiting www.mypostofficeplus.co.ukk and select 'Tax free cycle scheme'. Colleagues can apply at any time, the deductions from salary will usually begin the following month.

4.3. Personal Loyalty Schemes

Personal loyalty membership schemes are available to all travellers to gain points when travelling on a certain supplier. Whether the travellers hold any rail, air or hotel loyalty card, they must not allow the loyalty scheme to influence their choice of booking, particularly if this falls outside policy. Any points accumulated by the traveller as a result of booking business travel should be used to offset the cost of future business journeys.

Please note that the Post Office will not reimburse the fees for frequent traveller membership schemes.

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5.0. Expense Policy

The expense portal can be found on the homepage of PeopleHub, and can be accessed from anywhere with an internet connection, through www.sel-expenses.com. The system will recognise your email, and send you a message with your User ID and password. There is a useful help section once you're logged into the system, including user tutorials and a 'frequently asked questions' document via our intranet.

Once a claim is submitted, it will automatically be forwarded to the appropriate authoriser for approval. Staff are permitted to submit a maximum of one claim per week, and if submitted and approved by your Manager by 3pm on a Thursday, will be paid into your bank on Friday.

It is the responsibility of the claimant and the authoriser to ensure claims are valid, properly documented and compliant with this policy. Additionally the traveller is responsible for obtaining all VAT invoices for travel related expenses.

5.1. Expense Exemptions

For the avoidance of doubt, the following may not be claimed as expenses and costs must be borne by the employee;

- Motoring offence fines e.g. speeding, parking (and any associated administration charges)
- Car wash / valeting
- Laundry
- Subsistence food costs whilst at the employee's normal place of work
- Gifts for employee birthdays etc.
- Lounge passes/access

5.2. Approval of Expenses Claims

Approval of expenses is not simply an authorisation to pay; it is confirmation by authorising Manager that the expenditure has been incurred wholly, necessarily and exclusively for business and in accordance with company policy and within their budget authority. The authorising manager needs to ensure that receipts are provided to support expense claims. Any claims deemed to be outside of policy will be queried for satisfactory resolution before payment.

A random sample check is done by HRSC on a monthly basis to ensure claims are compliant with the Travel Policy.

5.3. Her Majesty's Revenue & Customs (HMRC)

All expense spend may be subject to review by HM Revenue & Customs on an individual basis. Each employee is wholly responsible for being explicit as possible in completing their expense submissions

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6.0. Policy Guidelines

Service / Expense	Policy	Additional Notes
Audio/Video-conferencing	Alternative choice to travel.	Audio-conferencing Video-conferencing
Rail Travel (UK) / Transport for London (Tube/Bus)	Rail Travel – Bookable online via the Capita Travel and Events online booking portal. Standard class only. Book at least 7 days in advance, fixing outbound train and combining dual singles (Advance single out/Anytime single on return). Any 'Standard Anytime Return' tickets purchased will be flagged as an exception to SLP. TFL – Oyster and contactless payments reimbursable via expenses.	Online Booking Portal Only in exceptional circumstances will rail travel booked via an alternative method be reimbursed.
Vehicle Hire / Fuel	Bookable online via Capita Travel and Events, using the portal of their third party supplier, Nexus Vehicle Rental. The standard class of hire is a small-size (Group b) 1.4 vehicle. Mid-size (group d) should only be hired to accommodate 3+ passengers and/or large equipment.	Nexus Booking Portal Fuel is reimbursable to the actual cost of re-filling vehicle. Receipt required.
Business Mileage	The business mileage for company and job need cars is reimbursable as per HMRC advisory fuel rates. This also applies to all senior managers who have a personal	Exceptionally for company and job need cars an additional 3p per mile has been agreed to address the gap between the

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	contract at band 3A or above who receive a cash alternative to a company car. This has been in effect from 1 October 2015. HMRC Fuel rates can be found here; https://www.gov.uk/government/publications/advisory-fuel-rates When using a private car, mileage for commuting from your home to your normal place of work cannot be claimed.	HMRC advisory rate and the actual cost of fuel used. This additional amount is subject to tax and NI so needs to be made through payroll rather than Selenity. Retrospective payments will be calculated and grossed up (so amount received will be equivalent to 3ppm) and paid twice a year – in Oct (for Apr – Sept) and in April (for Oct – Mar). This exceptional approach will be kept under review. **Selenity Expenses**
Passenger Mileage	When transporting 1+ colleagues to a business meeting in a private car, the vehicle owner can claim a passenger allowance.	Allowance: 4p / mile regardless of number of passengers. **Selenity Expenses**
Parking charges	Please submit claim for actual expense incurred. Parking fines will not be reimbursed.	Receipt required. **Selenity Expenses**
Tolls and congestion charges	Pease submit claim for actual expense incurred. Congestion charge penalties will not be reimbursed.	Receipt required. **Selenity Expenses**

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Fines for Road Traffic Offences	Claims will not be reimbursed.	Drivers responsibility and will be deducted via payroll.
Taxi Journeys	Please submit claim for actual expense incurred.	Receipt required with reason for use detailed in Selenity. **Selenity Expenses**
Air Travel	Bookable online via the Capita Travel and Events online booking portal. Economy class only. Book at least 14 days in advance to benefit from the lowest available fares. Any flight request should not exceed the maximum air fare limit of £200.00 return. (£100 one way).	Online Booking Portal Any booking request which exceeds the air fare cap, shall require pre-approval via SLP. Only in exceptional circumstances will air travel booked via an alternative method be reimbursed. International Air Bookings, please refer to the 'International Travel' section.
Air – non-permissible items	The following claims will not be reimbursed; Excess baggage, Pre-booked seats, speedy boarding, Extra leg room, Lounge access.	
Ferries	Bookable via Capita Travel and Events. Please call or email booking request.	Email Booking Request Only in exceptional circumstances, any Ferry which is booked via an alternative method shall be reimbursed.
Accommodation	Bookable online via Capita Travel and Events, using the portal.	Online Booking Portal

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	POL Preferred Hotel Properties should be used wherever possible. However travellers are able to book hotels themselves outside the preferred hotel list where there are good business reasons do so e.g. remote location with no preferred hotels. The cost per room per night however must not exceed the locations cap limits set out in the programme located in right hand column. **Note:** over cap hotels need to be booked through Capita. Only claims up to the location cap rate are permitted to be claimed via Selenity. See section 2.6.	Preferred Hotel Programme Any Capita booking request which exceeds the location rate cap, shall require pre-approval via SLP. All preferred rates include Breakfast (exception of Portland, Chesterfield), and Dinner is on a bill-back arrangement.* If you are staying room only, you may claim the cost of breakfast within the meal allowances set out in this policy. * Refer to meal allowance section.
Staying with friends/family	You may submit receipts to reclaim costs associated with your evening meal and breakfast only.	Receipt required. **Selenity Expenses**
Meals delivered in-room	If a 'tray charge' is levied by the hotel it will be reimbursed in addition to the meal allowance to a limit of £5.	Receipt required. **Selenity Expenses**
Wi-Fi	If Wi-Fi is chargeable by the hotel, and is used for Post Office business it will be reimbursed. Most preferred rates include Wi-Fi.	Receipt required. **Selenity Expenses**
Accommodation – non-permissible items	The following claims will not be reimbursed;	Non-permissible.

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	Minibars, Gyms/Spas, Movies, Room upgrades, tipping (unless included in the bill), Laundry, Newspapers.	
Meal Allowances	**Breakfast**: Where not included in room rate, please submit claim for actual cost incurred up to the value of £7.50 per day. **Lunch:** When staying away from home in a hotel the actual cost of lunch up to the value of £7.50 can be claimed for the second day if arrival home that day is after 2pm. **Dinner:** **London**: Please submit claim for actual cost incurred up to the value of £25.00 per night. **Rest of UK**: Please submit claim for actual cost incurred up to the value of £20 per night. If you are dining in-house at your chosen hotel, the cost of your meal will be billed-back centrally and no claim is necessary. Claims can be consolidated i.e. £15 on evening 1, £25 on evening 2. Total spend is £40 for the two evening meals. N.B. please see 'tray charge' explanation in 'meals delivered in rooms' section above.	Receipt required for breakfast, and non-in-house dinner claims. Recognises no facilities to prepare own lunch. Receipts required **Selenity Expenses**
Personal Incidental Expenditure	The cost of Breakfast and Dinner may be claimed if; a) A business trip requires you to leave home before 6am,	Receipts required. Claims will not be reimbursed if you are staying away overnight

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	you may submit a claim up to the value of £7.50. b) A business trip means you arrive home after 9pm you may submit a claim for evening meal up to the value of £15.00 c) A business trip means your total end to end travel time is in excess of 14+ hours, (but does not involve an overnight stay), you may submit a claim up to the value of £15.00.	and your accommodation rate includes the cost of breakfast / dinner etc. **Selenity Expenses**
Alcoholic Drinks	Only permissible as part of a dinner expense claim. Please note: Whilst there are strict legal limits governing the amount of alcohol that is permissible in the bloodstream whilst driving, any amount of alcohol impairs judgement. Accordingly, drivers must never drive whilst under the influence of alcohol.	
Other drinks/snacks whilst travelling	Only permissible as part of a breakfast/lunch/dinner claim.	
External Meeting / Conference Space	Always utilise internal meeting space before requesting external meeting space. All external venues, including meeting and conference space, must be requested via the Capita Travel and Events online booking tool. Any external meeting requires a minimum of 6 delegates. If the meeting has fewer than 6 and no internal meeting space is available, the meeting	Online Booking Portal Preferred Meeting Venues DDR – per person, including room hire, tea/coffee refreshments, buffet lunch, stationery, audio/visual equipment, Wi-Fi. 24 Hour Rate – per person, including the

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	should be conducted via audio/video conference. Where possible the POL or Capita preferred venues should be utilised, however not mandatory. The cost 'per delegate' should not exceed the maximum Day Delegate Rate (DDR) cap limits set out in the programme, right column. The '24 hour' rate should not exceed the maximum rate cap limits also set out in the programme, right-hand column.	above, plus dinner and one night's accommodation. Any booking request which exceeds one or more of the following, shall require pre-approval via SLP; a) The Day Delegate Rate cap b) The 24 Hour Rate cap c) £3,000 in total meeting costs It is the responsibility of the POL's meeting organiser to sign any terms and conditions levied by the external venue adhering to contract time-lines and delegate numbers. Capita are not contracted to sign on POLs behalf. POL will be financially liable for any breech of T&C's.
External Meeting Space – non-permissible items	The following claims will not be reimbursed; Additional audio equipment such as, PA systems, microphones etc., where delegate numbers are less than 50 (unless included in DDR/24 Hour rates), Alcohol/soft-drinks outside agreed rates and/or meal allowance claims.	

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International Travel	All international travel requires prior approval from Alisdair Cameron, CFOO. Once authorisation has been granted, please arrange travel requirements via the Capita Travel and Events offline team. Air – Economy class. Accommodation – Rate must not exceed maximum rate cap limit of £100.	Scheduling can be viewed via the online portal, and bookings requested via once approval is given (approval email to be sent to Capita team); postofficeltd GRO GRO
Travel Insurance	Claims will not be reimbursed as all business travellers are covered by Post Office business travel insurance.	
Passport, Visa and Vaccinations	Passport and Visas can be obtained via Capita Travel and Events and enquiries can be emailed directly. If requesting a visa, please complete the 'Visa Request Form' and attach to your email. Claims will be reimbursed where the visa or vaccination is required specifically for a business trip. Please submit claim for actual expense incurred.	Email passport/visa request Visa Request Form Foreign Travel Advice Receipt required for visa and vaccination claims, however passport costs are the responsibility of the traveller and are non-reimbursable.

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7.0. Where to go for help

There may be instances where you require additional information – see below;

7.1. How to raise a concern

Any Post Office employee who suspects dishonest or fraudulent activity has a duty to:

- Discuss the matter fully with their Line Manager; or,
- Report their suspicions by telephoning Grapevine on GRO
- If either or both are not available, staff can contact the Post Office's General Counsel, who can be contacted by email at: whistleblowing GRO or by telephone on: GRO .
- Alternatively staff can use the Speak Up service available on GRO GRO
- or via a secure on-line web portal: http://www.intouchfeedback.com/postoffice

Post Office encourages members of the public or people not employed by us who suspect [*activity in breach of policy*] to write, in confidence, to the **Chief Executive's Office,**

7.2. Governance Responsibilities

The GE policy owner is Alisdair Cameron, CFOO. The SLP owner, with delegated authority for ensuring that the Travel Policy Working Group conducts and annual review of this policy and tests compliance across Post Office Group is Angela Van Den Bogerd, Business Improvement Director.

The Travel Manager, Lindsay Cook is responsible for overseeing this policy, supported by Anita Turner.

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8.0. Control

8.1. Policy Version

Date	Version	Updated by	Change Details
01/10/2018	1.3	Lindsay Cook	Revised Policy
17/01/2019	1.4	Angela Van Den Bogerd	Updated with Direct Hotel Booking App details
03/04/2019	1.5	Angela Van Den Bogerd	Updated with clarification of Business mileage rates for personal contract 3A or above senior managers who receive cash alternative to company or job needs car
28/05/2019	1.6	Angela Van Den Bogerd	Emphasised Hotel cap rate instruction re directly booked hotels for expenses purposes
14/08/2019	1.7	Angela Van Den Bogerd	Introduction of Railguard, automated delay/repay service

Policy GE Owner Alisdair Cameron, CFOO

Policy SLP Owner: Angela Van Den Bogerd, Business Improvement Director

Travel Manager Lindsay Cook, Travel Manager

Next review: Nov 2019

Company Details

Post Office Limited and Post Office Management Services Limited are registered in England and Wales. Registered numbers 2154540 and 08459718 respectively. Registered Office: Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ.

Post Office Management Services Limited is authorised and regulated by the Financial Conduct Authority (FCA), FRN 630318. Its Information Commissioners Office registration number is ZA090585.

Post Office Limited is authorised and regulated by Her Majesty's Revenue and Customs (HMRC), REF 12137104. Its Information Commissioners Office registration number is Z486608

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Induction briefing

1.	Purpose, Strategy and Growth (PSG)

Nick Read, Group CEO, joined Post Office on 16 September 2019 and initiated work on shaping the future Purpose, Strategy and Growth (PSG) of Post Office. The work is being driven by the Group Executive, with input from the wider organisation and Postmasters, supported by McKinsey. There have been a number of discussions at Board. The work includes:

- Defining the purpose of Post Office now and in the medium term[1]
- Reducing the cost base to be appropriate for the size of the business
- Determining our "Big Bets"[2] and translating these into business initiatives. Deciding what to stop or pause as well as what to resource.

The Board had previously asked for a stripped back view of the ideal retail network, recognising that we have a commercial business but also operate branches which make a loss and are supported by Government to deliver an agreed set of Social General Economic Indicators (SGEIs)[3]. The Board wanted to consider any obstacles to achieving the desired network, for example, the requirement to maintain a branch network of 11,500 particularly as the use of cash declines; how other business lines support the network; and, where business lines are not prime contenders for investment where we could consider "selling out, getting out, licensing, ticking over or cash cowing".

The main outputs of the PSG work were considered by the Board at its meeting on 28 January 2020 (please see below). The 5 Year Plan[4] is weaving through the financial requirements for delivering PSG, including the reduction in the cost base.

PSG insights and outputs

Post Office strengths:

- Trusted institution (58% of consumers give it a rating of 8+ out of 10). Strong ratings on reputation, service and convenience in parcels
- Branch network convenience for mails and parcels (65% of participants in our customer survey agreed or strongly agreed that they had a PO branch close to their home/office vs. 50% for our best competitor)
- Access to basic banking services (8 million customers annually)
- Businesses outside our core (financial services, insurance, telecom) that make a large contribution and which, delivered through digital channels, are a proof of concept of our ability to deliver platform plays, leveraging our brand and access to customers.

External challenges:

- Competition in parcels
- Decline in use of cash (UK cash payments fell by 16% from 2017 to 2018)
- Difficulty of attracting and retaining younger customers and SMEs (relevance of Post Office and trust in it is lower for younger customers. There is a gap for SMEs in the ease of service offered and quick access to staff.)
- Aside of travel money and travel insurance Post Office has not established financial services as a medium term growth engine for consumers or SMEs. Credibility needs to be established on expertise, ease of use and an awareness of the products and services being offered by Post Office. There is also a "negative

[1] Beyond the next few years, income from the Banking Framework is set to decline as the use of cash declines, income from government services has already declined and maintaining a network of 11,500 branches is challenging.

[2] McKinsey has advised that most businesses will not back more than ten "Big Bets" at one time. These will be the main initiatives selected by a business to drive value (ranked by highest to lowest NPV) and evaluated for selection by financial returns, ease of capture and fit with company purpose.

[3] The SGEIs are set out in the Funding document and Entrustment letter and delivery set out in the Annual Network Report laid before Parliament. These documents are included in the induction materials.

[4] To be discussed at the additional Board meeting on 10 March 2020 and approved at the Board meeting on 24 March 2020.

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halo" associated with poor branch experience which makes consumers sceptical about Post Office's digital services
- Digital and gig economy competitors with a low cost base, agility and focus on volume over profitability.

Imperative to modernise Post Office as an organisation
- high-cost operating model, with limited deployment of process digitisation or analytics. This means that there are currently ~3,850 FTEs in POL against a potential target state of ~1,600.
- Post Office isn't a compelling proposition for retailers with processes and systems seen as onerous while trust needs to be improved with Postmasters
- Diversification has led to a complicated set of products. Mails & Parcels, Cash & Banking and Financial Services account for 76% of FY2019/20E direct contribution (including PayZone), but managerial focus, best PO team capabilities and change budget do not reflect this, with topics such as BillPay (including PayZone) and Identity (respectively 1% and 3% of FY2019/20E direct contribution) taking disproportionate oversight and investments
- Bottom quarter organisational health index compared to relevant peers with particular gaps in clarity of strategic direction, role clarity, personal accountability, external/competitor orientation and innovation.
- dependence on third parties for technological needs with low maturity in vendor management capability (Horizon costs = ~£90m vs. initial benchmarks of ~£50-60m)
- Unsustainable physical branch network to self-fund. The loss-making part of the network has an estimated support cost of IRRELEVANT predominantly driven by the need to support out geographic and access criteria, alongside some legacy fixed agent pay contracts
- reduction in change funding (from IRRELEVANT in FY2018/19 to IRRELEVANT excluding GLO reserve funding in FY2020/21). There is an envelope of IRRELEVANT for change in FY2020/21 after delivering projects required to "keep the lights on".

Clarifying our purpose
- **Thriving postmasters** a) increasing our efficiency to offer valuable, competitively priced services b) focusing and innovating to maintain our lead in core markets in the face of competitive disruption c) re-thinking our support and franchise model for our postmasters to better serve their needs.
- **Ease and access** (a) Services and products that are easy to use and make our customers lives easier. b) access to services they wouldn't otherwise have access to without Post Office's physical and digital presence (esp., mails & parcels and banking)
- **Service oriented central support**.

Strategy – core: Mails & Parcels; Cash and banking (to support market share where it matters for postmasters and customers). Digital platforms: Financial Services; Identity; Travel Money (to deliver additional cash flow for investment).
Pillars of the strategy:
1. Simplify to increase agility and to deliver to customers and postmasters: remove the complexity that creates barriers to change, freeing cash for reinvestment
2. **Defend the core:** double down on and consolidate our position in Mails & Parcels and in Cash & Banking to give us a strong platform for the future
3. **Use platform plays as a means to fund our core and to deliver purpose:** support highly-contributing opportunities consistent with our brand that can be used to drive cash flow to reinvest in our core services for our postmasters and customers.

Implementation:
Pillar 1: right size central functions; re-define network and formats; improve supply chain efficiency; overhaul technology; reimagine postmaster experience and support; enable management information.
Product rationalisation vs project rationalisation. Products bring a profit contribution and their removal wouldn't allow us to simplify the underlying operating model. Roles can be removed without getting rid of products. Change projects and spend will be rationalised, bringing the total down to 20-30% of the current 130 projects.
We won't invest to grow in: Digital Identity under the current model; Government Services (including POCA, but excluding Identity); Bill payments; Insurance.
Pillar 2: We will start to invest in initiatives to support the core from FY2020/21. **Mails & Parcels:** digitising the parcel journey; automating in-branch mails; achieving the best possible deal with Royal Mail; reviewing the shift to multicarrier options. **Cash & Banking** (3 – 5 year timeframe): launching local marketing campaigns targeting SMEs;

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launching the tendering process for cash automation machines; preparing for negotiations for the Banking Framework 3.
Pillar 3: Explore next platform opportunities: FOREX debit card; option to partner to create a new SME proposition; option to provide a "democratised" investment proposition; explore a platform play in Identity. To help generate funds for investment we aim to sell our Telecoms business. Sequencing will clearly be critical to delivering these opportunities to manage both cash and management bandwidth. The focus of the next 12 months will be on simplification and investment to defend the core in FY2020/21. We will limit ourselves to exploration of growth options rather than delivery. Depending on the confidence built in each initiative, more focus will be given to them from FY2021/22. Furthermore, no new opportunities will be added in the next year.

2. Finance

2.1 *Funding (The Funding Agreement and Entrustment letter are included in induction materials)*

Under the funding agreement for 2018-2021, Government agreed to invest up to £210m in Post Office (and has done). There has been significant expenditure on replacing or upgrading infrastructure. Post Office is required to submit a quarterly change report to the Shareholder. The latest position was set out in the January Quarterly Change Plan Report:

"In our original Three Year Plan, we planned for a cash spend of IRRELEVANT. Including brought forward spend from 2017/18 IRRELEVANT, non-cash spend IRRELEVANT, GLO litigation spend (IRRELEVANT) and GLO settlement spend IRRELEVANT, both of which are not funded by UKGI but by POL, the equivalent total change spend now sits at IRRELEVANT, versus a previously agreed baseline of IRRELEVANT, with the only movement being the agreed GLO settlement:

	18/19	19/20	20/21	Current 3 Yr Total	Previously Agreed 3 Yr Baseline
17/18 Carry Forward	IRRELEVANT			IRRELEVANT	
Non-Cash Element					
Current Scope (excl. Litigation)					
Current Scope Subtotal					
Litigation					
Investment Subtotal					
GLO Settlement					
Total Spend					

IRRELEVANT was originally 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 being discussed and presented through the current 20/21 planning and 5 year plan processes, which also discuss affordability.

We are not requesting any funding for Q4, as all funding for the current funding period has been requested and received."

A Network Subsidy Payment (of up to IRRELEVANT for 2018-2021) is received for providing access to an agreed set of SGEIs (including state benefits, passports, bill payments, postal services, access to cash and basic banking facilities) through a network of at least 11,500 branches. Provision of the SGEIs is stipulated in the Entrustment Letter and Funding Agreement. POL also has a set of access criteria such as the percentage of the population that should be within x miles of a Post Office which helps to support rural and urban deprived communities.

Funding for the next period is likely to be limited to the costs associated with delivering the SGEIs (or somewhat less with the funding request IRRELEVANT p.a. Please see funding request section below). This

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	means that prioritising change spend (links to the "Big Bets" work and what to invest in and what to stop) and governance around testing business cases and assessing delivery of benefits through the project cycle is a particular focus[5], as is the management of cash which is likely to become part of the targets against which STIP and LTIP are measured. A paper on cash and facility management was included in the November Board papers and some cash flow examples were appended to the action log for the January 2020 Board meeting. This shows the challenges we face as our security headroom tightens (exacerbated by less cash in branch driven by the cash efficiencies we have been implementing and the GLO settlement). One ask in the Funding Request to Government will be to amend the security headroom to IRRELEVANT from the calculation.
2.2	***Five Year Plan/ Funding Request***
	The Board reviewed the draft Five Year Plan at its meeting on 28 January 2020, will discuss this again at additional Board meeting on 10 March 2020 and is due to approve the Plan for submission to the Shareholder at its meeting on 24 March 2020. The Board also discussed the initial funding plan and request, the first iteration of which was sent to UKGI on 14 February 2020. The funding request needs to align with the Government wide spending review cycle. Key points included: The proposed assumptions in the 5 Year Plan (questions to be addressed include: are the product and revenue assumptions credible and reliable? What are the planned outcomes for Telecoms, Insurance and Identity? Do we have a credible plan for Horizon and the Fujitsu contract? Are our plans for reducing our cost base credible? What scale of marketing and brand investment is required? Do we have enough cash between earnings and facility to deliver these plans? What Government support are we assuming?). The focus of the plan is the next four years but if the Spending Review runs to 2025 we will include figures through to March 2025 but request a mid-term review. The initial funding plan and request to Government seeks a broader discussion than funding, including the following: • A network subsidy of IRRELEVANT per annum for three more years to March 2024. • A renewal of the working capital facility, with amended security headroom to IRRELEVANT IRRELEVANT from the calculation. • A guaranteed borrowing facility of up to IRRELEVANT on commercial terms, repayable IRRELEVANT • Request for a conversation across government on developing an effective UK digital identity service with Post Office central to this, possibly brokering third party commercial support. • Confirmation that we can retain and re-use the benefits from asset sales. • Amendments to the SGEIs to enable new cash-less Post Offices with some limited flexibility to exit from cash for some existing Post Offices. • No investment funding – and no dividends for this period. • Exclusion for Postmasters from any legislative tightening of worker status definitions • Request to discuss the future of the Post Office and the best approach to align our interests with Postmasters through a partial or complete change of ownership. Following Board approval for submission to UKGI/ BEIS on 24th March 2020, the plan will be reviewed by the Shareholder and agreement sought on the funding settlement after March 2021, with BEIS targeting the end of May 2020 for submitting a recommendation to Ministers which would then form part of BEIS's spending review with HMT. The spending review may run into the autumn which may mean that we cannot sign off the Annual Report confirming that we are a going concern until November/ December 2020, running up against our December filing deadline. Approval of State Aid will also be required and we have asked BEIS to consider seeking this approval as early as feasible.

[5] Dan Zinner has been appointed as Chief Transformation and Strategy Officer reporting to Nick Read.

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2.3	***In-year cost challenge***
	The EBITA target for 2019/20 is £74m. Achieving target at the end of the financial year is not certain; we are vulnerable to a decrease in interest rates (a 0.25% cut would cost us IRRELEVANT) and there are headwinds in insurance (which is not delivering against its 4th quarter forecast in what is a back loaded plan), travel money and telecoms. Work has been taking place over the last few months on spans and layers (circa 140 roles have gone) and discretionary spend has been minimised.
3.	**Litigation – subject to legal privilege**
3.1	***Group Litigation*** ***N.b. – the case was settled in December 2019 at a cost to Post Office Limited of* £57.75m, inclusive of the £5.5m Common Issues Judgment costs. *There are ongoing implications and the background, summarised from the Herbert Smith Freehills paper to the Postmaster Litigation Subcommittee on 13 November 2019, is set out below:*** In 1999/2000 Post Office introduced a computerised electronic point of sale system, Horizon, which Postmasters were required to use in their branches. The Horizon System requires sub-postmasters (SPMs) to account for stock, sales and takings and, as part of the balancing process, identifies shortfalls or discrepancies. Under the terms of their contracts, SPMs are required to make good any shortfalls out of their own funds. Some Claimants repaid their shortfalls; others hid them through false accounting. Post Office implemented robust audit and collections procedures to minimise losses. Some SPMs had their contracts terminated, some summarily for breach and others on notice. Until 2013 PO sought to prosecute in appropriate cases for theft, fraud and false accounting. Some settlements were paid under a mediation scheme in 2013 and under the Network Transformation Scheme leavers were offered 26 months' worth of earnings. The claimants are a group of 555 individuals (61 of whom were prosecuted by Post Office through the criminal courts) who allege that Post Office's policy of seeking recovery of shortfalls was wrongful because shortfalls were generated by "bugs" in the Horizon System. They also allege that Post Office failed in its "good faith" duties to provide proper training on the use of the Horizon System, to assist with queries or complaints, to disclose the existence of known bugs in the system, to conduct adequate investigations into the cause of disputed shortfalls and to allow suspended SPMs access to records to enable them to challenge Post Office's assumption that unexplained shortfalls were the result of theft or error. As a result of these breaches, they claim damages for the wrongful recovery of shortfalls, the wrongful suspension and termination of their contracts and associated wrongs including harassment, stress related illness and stigma. ***The cases*** The claims [were] funded by litigation funders, Therium. Mr Justice Fraser [was] the Managing Judge and [ordered] that Group Litigation Order (GLO) [was] heard as a series of trials on issues of relevance to the claims. The Common Issues Trial was the first trial and considered the meaning of the contracts between Post Office and SPMs. The judgment issued in March 2019 was critical of Post Office's operating practices and also found that the contract was "relational" and implied a number of onerous "good faith" terms which are at a variance with Post Office's understanding of the contractual framework it had in place. Post Office sought leave to appeal (the application was heard on 12 November 2019) but this was not granted. The Horizon Issues Trial was the second trial, focussing on whether the Horizon system was robust. The case concluded in July 2019 and the judgment was issued on 16 December 2019. This found the current Horizon system to be reasonably robust but the legacy systems not to be robust. The first and second trials did not concern Post Office's liability for individual claimants' claims. A mediation process started on 26 November 2019 and a settlement was reached on 11 December 2019. As well as the financial

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	settlement, the following material non-financial aspects of the settlement include (email from Ben Foat, General Counsel on 11 December 2019):" a. The establishment of a historic shortfall group which will manage future claims in respect of legacy horizon and HNG-X; b. Agreement to resolve outstanding issues with insolvent claimants (e.g. withdrawal of proof of debt/ discontinuance); c. Complete release save for future potential malicious prosecution claims if those claimants have their convictions overturned; d. Obligation to follow leading criminal QC advice in dealing with convicted claimants; e. Undertaking by Freeths and Therium not to act or solicit for future claimants; f. Parties to follow the joint press statement and not to make any defamatory remarks. This was a fair and balanced statement which also includes a number of favourable comments about Post Office. There are of course further issues that will need to be managed following the above settlement including: 1. Operationalising the Common Issues Judgment to ensure compliance with that judgment; 2. Establishing and operationalising a historic shortfall group to manage new claims in respect of the legacy horizon and HNG-X (see my note to Board last night); 3. Managing issues arising from the convicted claimants including disclosure obligations and referral to the CCRC in accordance with our advice..." The Board receives an update at each meeting (now focussed on the post Group Litigation operational plan but also the position with the criminally convicted cases some or all of which could be referred by the Criminal Cases Review Commission to the Court of Appeal in March 2020) but has delegated authority to a Board Subcommittee to take strategic decisions.) The Subcommittee is chaired by Tim Parker and Tom Cooper (the Non-Executive Director appointed as the Shareholder's representative) and Ken McCall (Senior Independent Director). The Group CEO and CFO attend Subcommittee meetings. Herbert Smith Freehills are supporting the Board on the case together with the in-house legal team (Ben Foat is General Counsel).
3.2	**Starling**
	Project Starling concerns a case brought by 121 agent postmasters claiming that they are Post Office's workers and are due worker rights, such as holiday pay and pension contributions. The case is funded by the CWU. Post Office is considering the case from a commercial perspective as well as a legal perspective as the consequences of losing the claim would be significant. Whilst the claim itself is worth up to £1.6m, adverse findings or changes to the law could result in a group of 'higher risk' Post Masters establishing worker status and POL could be exposed to back pay claims of up to £96m plus £16m p.a. A paper setting out the background to the case went to Board in July 2019 and this in included in the induction materials. A further paper went to the Board in January 2020 and the Board agreed that informal discussions should be held with the CWU to understand better what they are seeking to achieve. An update will be provided to the 24th March Board meeting.
4.	**Legacy issues - IT systems, back office, processes and procedures**
	Post Office has the challenge of dealing with legacy issues while seeking to modernise its offer to customers and agents through the development of online and digital services, moving from products to propositions, breaking free of some of the constraints of the previous Bank of Ireland and Royal Mail contracts and developing an attractive franchise proposition. The legacy issues include our **systems and procedures.** A network transformation programme was completed this year which modernised over 7,700 branches. PO Limited's financial processes were migrated from POLSAP to Transtrack CWC but there were some cash reconciliation issues which had to

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	be worked through[6]. We have yet to move to the cloud (Azure) from two data centres operated by Fujitsu in Belfast. The project had been deferred last May in order to focus on other priorities but re-started in February 2020 because the version of the database that underpins the Horizon application will no longer be supported by the vendor, Oracle, from December 2020. This means that the vendor would no longer provide patches for the database to address any new operational or security vulnerabilities. The Common Issues judgment was critical of Post Office **policies** and its **approach** to Postmasters. Procedures and processes relating to how we support branches, recover losses, manage loss disputes, suspend and terminate Postmasters have been overhauled. A programme of activity to reduce Transaction Corrections through Horizon screen changes and further process system and restructuring activity is underway. Operation Transformation & Agent Relationship Programmes were already underway to improve support to Postmasters, including hothousing[7] (by the end of November this had been rolled out to 700 branches across four regions), engagement, increases in remuneration (please see below), improvements to the Horizon system and in the information provided to branches. The work within operations and the network will continue to be a strong focus on 2020/21 and cultural change, not just changes in processes and procedures, is seen as vital to the successful delivery of the Post GLO strategy. **Staff contracts:** Post Office has a 90 day consultation process for roles that are at risk and by most standards generous redundancy arrangements. Staff in DMBs which are franchised receive two years' salary if they take voluntary redundancy. The DMB franchising process continues with 114 DMBs due to be operating at the beginning of the 2020/21 financial year, 75 targeted for franchising in 2020/21 and the remainder in 2021/22.
5.	**External environment: stakeholders**
	Shareholder Post Office is 100% owned by BEIS. Its day-to-day reporting route is through UKGI, with Tom Cooper as the Shareholder appointed representative on the Board. The Chairman and Group Chief Executive meet periodically with the Post Office Minister and the Permanent Secretary. A Framework Document has been agreed with UKGI/ BEIS effective from 1 April 2020[8], which sets out the accountabilities and reporting requirements for each party and refers to the Government guidance we must adhere to. We have also agreed changes to the Articles of Association which extends some Shareholder consent requirements from POL to the group. Government, with HMT in the lead, has been seeking to drive consistency of approach in Arms' Length Bodies and Government owned companies to remuneration arrangements, such as not providing private medical insurance as a benefit in kind. There have been ongoing discussions about which elements should or should not apply to Post Office Limited. Post Office obtained legal advice that the Public Sector Pay & Terms Guidance (PSG&TC) did not apply to POL currently, on the other hand we are 100% owned by Government and need to take account of our Shareholder's views. The Board has agreed to follow UKGI's interpretation of which elements of the PSG&TC should apply to POL. The immediate implication is that PMI should not be offered as a benefit in kind to new employees (and will not be from 1 July 2020). Consideration has also been given to how we treat cash perquisites for new Group

[6] In the testing phase CWC was correctly recording the value of cash in supply chain but there were problems with how that value was being reported through to SAP CFS. Nevertheless, as the differences could be identified automatically and a process had been agreed to explain, resolve and rectify these differences, it was felt that the risks could be managed and a "go live" decision was taken.

[7] Developing the capability of area managers to build relationships using a "trust" model which aims to deliver improved MI, increase knowledge of business finance and strengthen retail capability in branches.

[8] Subject to ministerial approval.

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	Executive members, and base salary has been increased and other benefits such as car allowances removed. The Group Litigation, bank closures and the pressures on the high street have focussed attention on Post Office. The Daily Mail has been running a campaign to "Save our Post Office" and a BEIS Select Committee Network Enquiry Hearing was held on 21 May 2019[9]. Al Cameron gave evidence on behalf of Post Office. Written evidence, the hearing and the Committee's 1st report can all be found at: https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2017/post-office-network-17-19/publications/ Further calls for a public inquiry or a further Select Committee hearing have followed the announcement of the settlement and Post Office has referred back to the Joint Statement issued with the claimants and our focus on re-setting the relationship with Postmasters. However, at Prime Minister's questions on 26 February, the PM agreed in response to a question from Labour MP Kate Osbourne seeking an independent public inquiry that "...I am happy to commit to getting to the bottom of the matter in the way she recommends." **Partners** Royal Mail, Bank of Ireland and Fujitsu are key partners for Post Office. We are negotiating a new contract with Royal Mail. Nick Read has appointed Jack Bertram from McKinsey on an 8 week project to work with him and Mark Siviter, the MD for Mails, to secure a deal and in parallel work on our medium term strategy. The IRRELEVANT and IRRELEVANT, annually. Jack Bertram was the former Royal Mail Strategy Director (please see below). We concluded a new deal with Bank of Ireland late last year (please see below). The Fujitsu relationship is complicated because they provide IT support for our Horizon system, run the two data centres in Belfast, support our digital innovation work and also support our Telecoms Business (please see below). Fujitsu were required to provide witness evidence for the Horizon Issues Trial and were criticised by the Judge. It also transpired that we had breached our disclosure requirements to the court because Fujitsu had informed us that the Known Error Logs (KELs) were overwritten which turned out not to be the case. The additional KELs released proved not to be material to the trial but has caused concern about the reliability of data provided by Fujitsu. **Competitors** Board reports usually contain some analysis and information about competitors but feedback from the Board and low scores on our focus on competitors in the Organisational Health Index survey suggest that this needs additional focus.
6.	**Internal environment – newly appointed CEO, changes in the executive team and Board**
	Paula Vennells stood down as Group Chief Executive Officer at the end of April 2019 having been at Post Office for 11 years and served as Group CEO for seven years (the separation from Royal Mail took place in 2012). Al Cameron, the CFO, served as Interim Group CEO. Nick Read joined Post Office as Group CEO on 16 September 2019.

[9] "Scope of the inquiry. The Business, Energy and Industrial Strategy Committee will hold a one-off evidence hearing on Tuesday 21st May on the Post Office network, examining issues such as the franchising of Post Offices, the reduction of Government subsidies, and the long-term resilience of the service. The evidence session will examine the future of Post Office branches, the moving of Post Office branches into retailers, the Post Office's modernisation programme and the tie-up with WHSmith, and the operation of Crown Post Offices."

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	There have been a number of changes to the Group Executive (GE) over the past year but Nick Read announced his new GE structure at the Board on 28 January 2020 and to the organisation the following day. The new structure includes a Network and Franchise Team (Amanda Jones as the Interim Director); a CIO with particular focus on Horizon (Jeff Smyth as the Interim); bringing together the commercial FST&I and Retail businesses to work as a single team (Owen Woodley, previously the CEO of FST&I); a CFO (Al Cameron, who looks after Risk and Internal Audit as well as Finance and Procurement) an Operations and Supply Chain lead at GE level (Al Cameron , the CFO, while a recruitment is taking place); an elevated Marketing and Brand Team (Emma Springham); an integrated Communications and Corporate Affairs Team (Richard Taylor, a new appointment); General Counsel (Ben Foat, who looks after Legal, Risk and Governance) a Chief People Officer role (Lisa Cherry – recently promoted into the role); a Chief Transformation and Strategy Officer (Dan Zinner, who joined Post Office a few months ago). Shirine Khoury-Haq stood down as a Non-Executive Director in July 2019 after being appointed as CFO of the Co-op Group and deciding that the potential conflict of interest could not be managed. Tim Franklin stood down at the end of 2019 after two terms as a Non-Executive Director. Tim is continuing to chair the Post Office Insurance Board.
7.	**Retail: Short-term stabilisation of the network; Agents' remuneration; Developing as a franchise (making running a Post Office simpler, better support systems, changes in how we engage and operate as a business)**
	Figures: Post Office network customer sessions averaged 10.1m per week for the year to September, +1% year on year, against a British Retail Consortium reported 3 month average High Street footfall decline of -4%. Trading profit YTD in P10 was (including Payzone) IRRELEVANT
	Retail network The Board discussed proposals for the development of the network in July 2018, including new Post Office Models. Since then work has taken place to develop the support to Postmasters through a network of regional and area managers. A number of (particularly smaller) branches had not received a visit for some years and this has been rectified. Engagement events and calls have been set up with Postmasters. Postmasters have been engaged in the PSG work. In tandem, work has been taking place to improve processes and procedures, partly a direct response to the Common Issues judgment and partly work already underway but accelerated to improve IT support, MI provided, on-boarding and training. The changes have looked at tone as well as content and letters now include a number for Postmasters to call if they need further help or advice. Work is ongoing. The Post Office franchise has been seen as unattractive in recent years and we have struggled to attract and retain Postmasters and (in some cases) multiples (464 closures in 2018/19, with closures up IRRELEVANT on the same point last year, including in some previously stable parts of the network such as Mains). Reduction in remuneration for Postmasters following simplification measures and increases in the Living Wage have put pressure on Postmasters. The Board approved a further IRRELEVANT for agent remuneration and support for agents at its October Board meeting[10] which is in addition to the IRRELEVANT already announced this year which links primarily to the fee increases associated with Banking Framework 2. These increases are seen as a short term fix and more work will be required to shore up and develop the Post Office network. Strengthening the core is a fundamental part of the PSG. Churn costs are high IRRELEVANT, though circa IRRELEVANT of churn relates to factors outside our control). We lack information on the wider retail takings of Post Offices which makes it difficult to understand the value of the footfall driven through running a Post Office. There remains a perception that we underpay Postmasters (while our trading profits have increased) but the position is complicated

[10] An additional £10m is being held in the budget for potential further initiatives (subject to Board approval).

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	because of our offer as a franchise (we pay for things like IT hardware etc.), because we overpay for some transactions and underpay for others. We subsidise some Post Offices which either cannot support a viable retail offer or do not have retail skill but which we want to maintain because of their value in rural or urban deprived areas. ***Royal Mail*** We are negotiating a new MDA with Royal Mail as noted above. One of our key requirements is to be able to sell RM products online on Post Office website. ***Banking Framework 2*** Banking Framework 2 came into force in January 2020. IRRELEVANT IRRELEVANT IRRELEVANT contribution to profit (net income of IRRELEVANT of agents' pay). However, against an estimated all-in cost of our cash infrastructure of some IRRELEVANT the BF1 did not pay adequately to cover the full costs of supporting banking transactions. The fee increases in BF2 supports the standalone cost of supply chain, additional remuneration to Postmasters and reflects the true value of the Post Office to the Banking industry. Barclays had originally decided not to allow their customers to use Post Office for withdrawals under BF2 but after pressure from MPs and Ministers, the press and consumer organisations (backed up by Post Office) it reversed its decision on 25th October 2019. ***Payzone Bill Payments Services Limited*** Post Office completed the acquisition of Payzone Bill Payments (set up as a subsidiary) after clearance from the Competition and Markets Authority in October 2018. This brought an additional 14,500 locations into the network. Payzone signed an exclusive contract with British Gas with came into force in December 2019. This new deal is for a minimum of five years. Payzone's focus is on the British Gas contract, winning further client contracts and building strategic partnerships and whole estate deals with major retailers (enabled by new retailer facing technology).
8.	**Financial services – new deal with Bank of Ireland. New credit card partnership with Capital One**
	Figures (including FRES and Telecoms): Trading Profit YTD at P10 IRRELEVANT against a budget of IRRELEVANT The travel market has been under pressure with exchange rate depression linked to Brexit and reductions in package holiday bookings having a negative impact on travel money sales and travel insurance. Companies gaining customers and market share (e.g. Revolut) have been pricing at a loss.
	Post Office offers mortgages, savings, credit cards, personal loans, travel money and postal orders. Most of our financial services are offered in partnership with the Bank of Ireland, with whom we have had a long-term partnership and serve more than 2 million customers in the UK. A new deal was agreed with Bank of Ireland in September 2019. The deal was seen was positive in aggregate set against the backdrop of a deteriorating market with lower margins on mortgages etc., however, sales have been tracking lower than the plan forecast. The term of the agreement was extended from IRRELEVANT (now the earliest termination date of the partnership). The agreement was structured such that Post Office is able to exit the arrangement periodically (every five years). Interim review mechanisms have also been agreed. An exclusive arrangement remains on residential mortgages, personal loans and personal savings products. BoI will maintain exclusivity on motor finance and point of sale finance. Post Office will be able to explore other partnerships for transactional banking, retail investments and SME. An

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	improvement in the FRES dividend was negotiated with an additional fixed commission flow of IRRELEVANT p.a.to 2022 (representing IRRELEVANT), and IRRELEVANT from 2023. IRRELEVANT
9.	**Insurance – market conditions. Attempting to secure more of the value chain**
	Figures: Trading Profit YTD at P10 IRRELEVANT against a budget of IRRELEVANT. The travel insurance market is very challenging with IRRELEVANT YoY mainly due to exchange rate depression. PO Insurance has been underperforming on sales of its protection policies.
	Post Office Insurance offers travel, life and general insurance. The business has been seeking to increase its share of the value chain by bringing key products in-house. Travel, home and protection insurance are the main areas of focus for growth. An acquisition was considered last year to increase its share in the impaired market but this did not come to fruition. PO Insurance changed its underwriter from TIF to ERV during the year. The Board discussed the short/ medium term strategy for Post Office Insurance at its strategy sessions in July 2019. POI returned to the Board in January 2020. It set out options for the longer term strategic development of the business but it was agreed that over the next 12 to 18 months the focus would be on realising the returns on the investments already made. Ed Dutton, the Interim MD's, approach for the business is: 1. Cessation of its isolationist approach - collaborate and better integrate with POL 2. Reduce its operational expenditure through shared services, organisational design and smaller company thinking 3. Radically transform its cost of change and speed of innovation 4. Support the creation of Post Office customer led propositions 5. Rationalise its product set where possible 6. Opportunities to invest for longer term value are available, but the short term focus is on 2019/20 plan delivery, completion of the Home Insurance transformation, a review of organisational design and costs.
10.	**FRESH/ FRES joint venture**
	FRESH/ FRES is Post Office's joint venture with the Bank of Ireland for FX. Post Office receives a dividend. • FRES was established in 2002 as a joint venture between the Bank of Ireland and the Post Office Ltd. • Originally established to provide on-demand and pre-order foreign currency and travellers cheques to the POL branch network. • FRES has since expanded its operations through Post Office to provide Travel Money Online and Travel Money Card. • A number of 'white labelled' services have been developed in the UK (e.g. John Lewis, Santander) • Post Office has grown to be the largest provider of retail foreign currency services in the UK with circa 11,500 branches. • FRES operates a wholesale FX notes business, creating one of the five largest currency dealing rooms in the world by volume IRRELEVANT. In 2017, FRES completed the acquisition of American Express Wholesale Currency Services which created a travel focussed Corporate Client portfolio (e.g. TUI) • Regulated as a Money Services Business (MSB) by HMRC.

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	• FRES is approved by the Financial Conduct Authority (FCA) as an Authorised Electronic Money Institution (AEMI) and issued its own Multi-Currency Card in March 2017.
11.	**Telecoms**
	Post Office Telecoms currently offers three core consumer products - Home Phone, Dual Broadband (ADSL), and an emerging Dual Broadband (Fibre) offer. It delivered £26.5m DPC in FY18/19. Regulatory pressure on consumer protection, increasing customer demand for high speed broadband services, the emergence of new connectivity technologies, including 5G mobile networks and Ultrafast Fibre broadband service direct to the home, mean that the Post Office needs to evolve its core proposition away from ADSL to one focused on fibre and high speed services if it stays in the market. The market is competitive with discounting being using and with declines in out of bundle calls looking set to continue. We are currently behind plan on revenue: at P10 £122.m against a forecast of £132.7m. The Board debated the Telecoms strategy in July 2019 and considered three options: a) Continue with current supplier relationship with Fujitsu Telecoms (FJT) b) Invest in a Request for Proposal (RFP) and migrate to optimised suppliers c) Complete a sale of business. The Board requested a "parallel approach" running the RFP and sales processes in tandem so that returns could be compared. PJT partners undertook a desk-based analysis on the Telecoms business and provided a valuation of £160-210m (the business was valued at £150m in 2017). The Board discussed the current state of play at the January 2020 Board meeting when the RFP was at an advanced stage. TalkTalk and FirstSource were declared winners of their respective Lots and have been progressed to contract approval with annual cost savings amounting to c£12m-£16m. Preparations for the launch of the Sale process have progressed to plan, with the Vendor Assist ('VA') and Confidential Information Memorandum ('CIM') documentation now complete. Sales advisors PJT have commenced pre-marketing of the business, and expect to receive indicative bids by early April, and final binding bids in June. The Board agreed that looking at the RFP outcomes and sales bids at the end of June 2020 remained the most advantageous approach whilst acknowledging the risks, given that trade purchasers are also likely RFP bidders. The Board approved securing a 12 month extension to the contract with Fujitsu to ensure security of supply after contract expiry which would have taken place on 17th August 2020.
12.	**Digital Identity**
	Figures: Trading Profit YTD at IRRELEVANT against a budget of IRRELEVANT upside driven by security authorisation and Post Office Document Checking Service and increase in passport prices.)
	Post Office Digital Identity provides services to DVLA, Home Office and the Government Verify service through Digidentity. Government dropped its fee for Verify significantly in November 2018 and provision of the service is running at close to cost. All providers apart from Post Office and Digidentity will drop out as providers after March 2020. We are focussed on increasing customer numbers. At the July Strategy Day a growth strategy for digital identity was discussed based on three broad phases of market engagement: i. **Now to end 2022/23**: build a dominant position in the Government market in order to grow our customer base from IRRELEVANT to nearer IRRELEVANT, thereby creating the critical mass required to unlock the major private sector opportunity. As part of this approach the Board agreed to extend our Verify contract to September 2021, enabling us to acquire around IRRELEVANT additional customers at a net cost of IRRELEVANT. From 2020 we will also extend into employee vetting to generate additional revenue and users and start building our pipeline of FS clients.

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ii. **2022/23 onwards**: leverage our IRRELEVANT base for a major push into Financial Services (the largest profit pool for ID verification), offering the banks rapid 'one click' customer on boarding with reduced fraud and regulatory risk. Our go-to-market strategy will include the use of leading channel partners such as MasterCard and Experian. The roll-out of Pensions Dashboards should also expand our market during this period.

iii. **2023/24 onwards**: extend into other high volume (but low margin) sectors for ID verification such as travel and retail, where a large existing customer base is essential to gain traction.

In October the Board approved a short-term extension of the contract with Digidentity and noted that the following options were being explored:

1) **Establish end-to-end control of the supply chain.** If the Group strategy review concludes that Digital Identity is a long-term priority it would be better to migrate to a disaggregated supply chain under our direct control. The net investment cost of doing so over the next few years is IRRELEVANT.
2) **Establish a new profit-sharing relationship with Digidentity.** A lower cost option of circa IRRELEVANT is to form a new profit-sharing partnership with Digidentity, with co-investment to address their capability gaps and greater control (we are currently dependent on them as a monolithic supplier and are already stretching their capabilities with delays with the current digital development product). In that case, we could revisit the fully disaggregated model in 2023.
3) **Franchise the brand and other assets to a strategic partner.** If it is concluded that Digital Identity is not a priority for investment there are partners who could take on the opportunity on a franchise basis with modest returns for us but with limited strategic control. Greater strategic control might be feasible with a major partnership.

It has become clear that the current arrangement with Digidentity is no longer fit for purpose technically or commercially as their US shareholder (Solera) has adopted an aggressive approach to pricing negotiations, threatening to pull the service if we do not cover their costs. POL has been exploring a partnership with Yoti but the Board wants to make sure that all options are explored. Digital Identity is not one of the "big bets" within the PSG but as part of the funding request to Government we have asked for there to be a conversation across Government on developing an effective UK digital identity service with Post Office central to this, possibly brokering third party commercial support.

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Post Office Ltd

Preliminary Report on the future of the Post Office after March 2021

February 2020

Executive Summary

Context

The purpose of this paper is to start the dialogue with Government over the future purpose, targets, rules and support, both financial and non-financial, for the operations of Post Office Limited (POL) after March 2021.

POL has been receiving material Government funding – financial support that is not repaid - for many years, in addition to working capital provided by BEIS and the Bank of England (BoE):

Government Funding (£m)	2004-2018	2018-2021	2021-2024 (Request)
Investment Funding	1,800	210	-
Network Subsidy	1,581	160	150
Total Funding	**3,381**	**370**	**150**
Average per annum	241	123	50

In 2020-21 POL will receive £50m of funding, the smallest amount in modern times.

We are now in a process to determine the targets and support for POL for the three years from 1 April 2021.

We have been in discussions with both BEIS and UKGI to make sure we fully support and engage in their preferred process and we are very grateful to both for the early clarity and timetable provided. We recognise that it is critical for us to remain in step with the Government's spending review, details of which are expected to be announced in the budget on 11 March. The duration of the review period and the timetable for decisions may therefore change.

This paper was borne out of a request from BEIS on 26 November 2019:

"…we have set out three key questions based on the following scenarios:

1. *Zero case;*
2. *Subsidy at the requested level; and*
3. *Subsidy at 50% of the requested level.*

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The starting point needs to be zero as this is in line with Government's ambition for POL to be self-sustaining following a decade of significant investment. However, there is also clear public and stakeholder interest in a continued subsidy for the uncommercial part of the network and to continue delivering the social purpose. We would like to set a deadline of ***14th February*** *for these questions to allow POL sufficient time to take account of post GE considerations."*

We have sought to answer these questions while also raising broader policy issues. Financial outcomes will reflect policy outcomes and need to be considered together.

Our new leadership team has been undertaking a detailed, evidence driven assessment of our purpose and strategy. This is nearing completion and informs this paper. We are looking forward to debating these issues with BEIS, which has also been assessing our purpose.

As a result of this work, we are not as far advanced in finalising plans for the final year of the current Three-Year Plan (3YP) i.e. 2020-21 or the subsequent three years to March 2024 (together, the 4YP). Specifically, we are finalising and prioritising investment plans, finalising the implications of the combined GLO judgements and agreeing the affordability, speed and depth of further cost reductions. Some of the available financial analysis is therefore currently high level and the outcomes will change over the next few weeks.

We are committed to providing detail behind these final proposals, enabling our Board to recommend a 4YP in March. We are also committed to supporting UKGI and BEIS to get a full understanding of and assurance over those plans, enabling their recommendations to Ministers in June 2020.

We therefore see this as a start of a process which looks at the outcomes you are targeting, the rules within which we operate and the support needed.

Questions addressed

1. What is our purpose and what Government outcomes are we delivering?
2. Are we delivering on our promises?
3. What has happened and what has changed?
4. Do we still believe £100m trading profit is enough to maintain the network?
5. What does our draft 4 Year Plan show (subsidy at the requested level)?
6. What financial support are we requesting?
7. What non-financial support are we requesting?
8. What are the material risks?
9. What happens if we get nothing beyond the existing working capital facility (Zero case) or if we get half of what we have requested (50% level)?
10. When can Government expect a financial return?

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Conclusions to Date

Purpose and Outcomes

In November 2016 BEIS valued the contribution of Post Office to the UK at £4.3-9.7bn per annum. While this has not been updated, the increasing dependence on Post Offices for free access to cash reinforces our unique role.

We have undertaken detailed customer, Postmaster and employee research to underpin our purpose and strategy. Our emerging purpose reinforces the importance of providing value to customers into the future, focused around three sets of outcome:

- Providing easy, national, physical and digital access to customers for cash, parcels and other key services;
- Supporting Postmasters to thrive through a combination of training, support, simplification and pay; and
- Driving the business to be self-supporting through investment, cost reduction and commercial progress.

We believe that ensuring the longevity of the network while using less taxpayers' money remains profoundly important to the Government. In addition, we provide benefits that support several Government outcomes:

- National access, providing a level playing field for customers, not just in city centres and the affluent south-east;
- Footfall to support high street retailers;
- Support for the last shop in many rural and urban deprived communities;
- The last, national source of free access to cash;
- Trusted connections to digital services for customers;
- Access to competitive markets for customers who do not use digital services;
- Reduced car usage, operating within 1 mile of 90% of the population.

All of these are important but community and environmental goals are not assumed to be as central to our purpose as customers, Postmasters and commercial progress.

Delivering on our promises

In the current 3YP period, we are focusing on the following specific targets:

- A network of more than 11,500 Post Offices.
- Meet national Network Access Criteria.
- Reduce Funding over time, in line with the agreed plan.
- Improve trading profit to £90m per annum in 2020-21.
- Protect 3,000 Rural Branches.

After 22 months of a 36-month plan, we have continually delivered on all of these targets, as set out in the Report that follows this Executive Summary and we are forecasting that we will continue to do so through to March 2021. This should give confidence that we deliver on our promises.

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What has happened and what has changed?

While the network has consistently met its targets, the pressure on Postmasters has grown. Our partners are not immune to high street pressures, where many retailers have failed. Business rates, the living wage and other inflationary pressures are taking their toll and an increasing number of Postmasters are voluntarily giving up Post Offices. As a result, the number of outreach branches, providing a service in areas with limited customer need, has grown to 1,660 at the last year-end.

All comparisons with the 3YP include 14 months of forecast and the outcome will change as we complete the 3 year period. Our current, draft budget is forecasting that we will continue to deliver commercial progress ahead of the 3YP but often in different ways:

	20/21 Budget (Draft)	3YP*	Difference
Revenue	IRRELEVANT		
Cost Of Sales			
Net Income			
Agents Pay			
Staff Cost			
Non Staff Cost			
FRES			
Other Income			
Trading Profit			

* adjusted for accounting changes and network team impacts

To help stabilise the network, compared to our 3YP we will be spending an additional IRRELEVANT per annum on Agents' Pay next year and at least IRRELEVANT on other agent support, recognising the need to build new relationships with Postmasters.

Overall, commercially we are performing better than our 3YP, albeit with a mixture of ups and downs. Mails, Banking and Telco are ahead of expectations, Post Office Money and Insurance behind. We are seeing some profound market shifts and rapidly increasing competition in Telco and Insurance. Nonetheless, we are delivering additional, commercial turnover, replacing lost Government Services and forecasting next year to be some IRRELEVANT ahead of the 3YP. Trading profit has consistently beaten the 3YP and will continue to grow.

Investment spend will be broadly in line with the 3YP overall, subject to the final plans for next year. Out of IRRELEVANT of currently forecast spend on investment, some IRRELEVANT was undertaken to provide a financial return, with the other investments required to keep the lights on and meet regulatory changes. We will be delivering annual benefits of IRRELEVANT next year, IRRELEVANT fully annualised. This gives a reasonable return on investment of 35% over the 3 year period, and a payback period of 5 years across all spend. This is behind the planned ROI of 43% and we are strengthening our change capability and learning the lessons. The final, proposed spend for next year may increase.

In addition, we expect to incur some IRRELEVANT of spend on the GLO in this period, little of which was forecast. We have managed this within our facilities and through

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determined work on cash efficiency. Overall, efficiency work has enabled us to reduce our working capital borrowings from Government and we are forecasting that we will have reduced borrowings by some IRRELEVANT over the 3YP period after funding GLO. Nonetheless, the value of our Bank of England facility is reducing and security headroom rules provide an increasing constraint.

Do we still believe IRRELEVANT trading profit is enough to maintain the network?

In a preliminary document to the 3YP in 2017, we had offered the view that with extra borrowing rights, which were not forthcoming, we could get the 2021 business to be at "BAU" by 2021, enabling us manage without investment funding or network subsidy if we delivered IRRELEVANT per annum trading profit.

This no longer appears possible for a number of reasons:

- Rising network churn is increasing the cost of maintaining the network, up 12% last year to 464 branches.
- Rising agents' pay offsets the benefit of lower central costs, leaving our losses from loss-making branches relatively unchanged, rather than falling as expected.
- We have material change still to deliver. We almost certainly need to exit Horizon and the Fujitsu relationship, digitise and open up our parcels business and replace our contracts with Postmasters. These major interventions are being worked through at the moment.
- Market competition is evolving continuously, as is the regulatory environment. Competition from both big, well capitalised businesses, in Mortgages, Savings, Telco and Insurance and from new entrants seeking to grow share, in Travel Money, is increasing.
- Our strategic work is focusing us on our core businesses of Parcels (a growing market) and Cash (shrinking) and while they will grow contribution during the 4YP, there is likely to be real decline afterwards, especially in cash. It is not yet clear where the long-term footfall will come from and we will likely have to invest in other businesses and in branch automation to see a 5-10 year future for the network.

What does our draft 4YP show?

Our 4YP is at a preliminary stage and does not yet include the outcomes of our investment prioritisation, the full operational implications of the GLO or our fully worked through plans to reduce costs. Any numbers must therefore be heavily caveated and will change. The current, draft 4YP plan maintains the network size and shows trading profit increasing from £IRRELEVANT this year to c. IRRELEVANT, more than halving headcount for the second time since independence.

Losses from loss-making branches are c. IRRELEVANT. Appendix 3 sets out why they are not expected to change materially, in spite of forecast commercial progress.

What financial support are we requesting?

In the draft 4YP, our main financial request is to continue to receive an annual Network Subsidy of IRRELEVANT. In addition, we are requesting a continuation of the current working capital facility. We are not requesting any change in limit but we are requesting a change in the security headroom calculation to resolve an anomaly and

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IRRELEVANT Finally, we are requesting an ability to borrow up to IRRELEVANT We would pay interest and make repayments on normal commercial terms. Approvals would go through formal governance.

It has been suggested that lending money which would be repaid can feel at the forecast stage to be the same as funding without repayment, while repaying working capital doesn't "count". We are keen to work with you to agree the underlying cashflows and the rules around them to ensure that we have some flexibility to operate while protecting your interests. Businesses do need to borrow sometimes. In reducing borrowings, we have demonstrated an ability to manage cash and would contractually commit to repayments. We would be happy to reinforce these disciplines by borrowing commercially, although we understand that is not preferred.

What non-financial support are we requesting?

We are keen to debate with you the nature of the Services of General Interest (SGEIs) and their relationship to the definition of a Post Office. Providing access to cash, parcels, bill payments and, for example, rod fishing licences are all different both in the number of outlets required and their location.

It may reflect customer needs to have more parcel shops in City Centres, to evolve travel propositions that support Foreign Currency, Travel Insurance and Parcels but not cash or bill payments. Multiple partners may be keener to provide smaller numbers of services or a cash free offering: cash drives cost, complexity and risk. These customer-oriented changes would all be difficult today because none of these branches would be defined as a Post Office or contribute to the 11,500 target which then becomes a burden rather than a boast. We are not asking to aim off, simply to have a conversation to see how we can make the network more resilient by flexibly meeting customer needs rather than falling back on outreach to maintain a numerical target.

Secondly, we are requesting confirmation that if we sell assets or a business, we can retain and reinvest the proceeds. We are, as you know, seeking to sell our Telco business, reinvesting the proceeds and losing its cash contribution.

We are not proposing investing in providing Government Services which are being progressively replaced with commercial turnover. Commercial partners trust us and recognise our value more every year, growing our revenues, while our Government revenues continue to decline, arguably increasing the risk of future and further subsidy. We do recognise that this is the case and that there is no appetite for us to fulfil our role as the "front office of Government".

We want to flag one possible exception. The UK would benefit from an effective digital identity service with ourselves remaining at its heart: we have always had the largest market share in Verify. That does not appear possible as we stand today and we are not assuming that digital identity will be investible. Nonetheless, our shared interests are considerable and we are asking for a full conversation across Government to see whether this opportunity can be revived, perhaps with third party, commercial support which we could broker.

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We are also seeking a conversation about alignment with Postmasters. Our current financial targets make this harder because Postmasters are by far our largest cost. It would be an excellent time to have a full discussion whether Post Offices would be more resilient if Postmasters shared in its ownership and were able to trade shares among themselves as they join, invest in and retire from the Network, supported by meaningful Board representation and a different representative structure.

What are the material risks?

The commercial markets we operate in are changing fast, as is technology and the changes in customer behaviours it enables. Funded as set out above, we believe we can manage these commercial risks as we have done overall in recent years.

Even in this scenario, there are three non-trading risks that could push us outside our funding:

- If the future GLO costs, including in relation to the criminal cases that generally predate our existence as an independent business, are very high.
- If through court action or legislative change a material number of Postmasters are considered to be workers.
- If the Bank of England facility is materially reduced or withdrawn.

What happens if we get none or half of our requested financial support?

We strongly believe that national access criteria remains the right target and we are aligned with the emotional power of the 11,500 target. Without the funding and appropriate SGEI flexibility, we may not be able to contractually commit to retain it.

We need to generate enough value commercially for customers, for Postmasters and for our commercial clients. If financial support reduces from that requested, we are progressively more likely to disappoint in other ways:

- Failing to fund the GLO outcomes without direct financial support from Government,
- Failing to invest in the business, so that more customers and Postmasters leave the Network and there is no long term footfall driver,
- Falling back to recent history, when POL required systemic annual "blood transfusions" of hundreds of millions of pounds just to stay open, a not uncommon situation in Post Offices around the world.

When can Government expect a financial return?

We completely support a financial return for Government in recognition of its generous support for Post Offices but the evidence is that the network is fragile and the priority must be ensuring that we have a stable and resilient Postmaster group. As you know, our particular concern about a dividend structure as discussed last year is that it would undermine relationships with Postmasters who accept POL's trading profitability only because the money is reinvested.

We think the right return is reducing overall borrowings over time, while allowing some flexibility to manage between years and to make some longer-term investments. It may even be that a progressive reduction in the Government's role – ownership by Postmasters, funded commercially – will drive the best outcomes?

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Next Steps

We recognise that this is merely a first contribution to a series of important debates and that you will be challenging and assuring yourselves of the best approaches and our likelihood of success. We fully support this process and will fund UKGI's third party assurance work. We remain very grateful for Government's support and look forward to delivering agreed plans for future success.

We will work with UKGI on our plans and forecasts over the next six weeks, enabling the Board to recommend a 4YP to BEIS at the end of March.

We will work with professional advisors appointed by UKGI to test and assure our 4YP during April and May, enabling recommendations to Ministers in June. After that, we assume the path to a Government decision will follow the wider departmental spending round. As a long stop date, we note that our Annual Report must be filed with Companies House by end December and if a funding settlement is not formally agreed by this point, we will have to publish accounts showing that we are not a Going Concern: all funding, including working capital, ceases on 31 March 2021.

Our understanding is that these plans will need State Aid approval and we are in discussions about timing: an earlier request might prove helpful for us, recognising that this is an important area of Government policy.

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The Report

1. What is our purpose and what outcomes are we seeking to deliver?

Our draft purpose is to maintain the network for customers while reducing Government financial support. Our detailed work is focusing us on three priorities. We believe that they are shared by BEIS as our shareholder and primary funder:

- providing easy, national, physical and digital access to customers for cash, parcels and other key services;
- supporting Postmasters to thrive through a combination of training, support, simplification and pay; and
- driving the business to be self-supporting through investment, cost reduction and commercial progress.

These are consistent with our current priorities (set out in Section 2). In addition, we operate within a set of rules and practices, including:

- we must deliver a variety of Services of General Economic Interest in the bulk of the network, allowing little flexibility for local needs. If we do not provide SGEIs, the locations cannot generally be considered a Post Office;
- we must be trading as Post Office in at least 11,500 locations;
- we may not borrow from anyone but Government;
- our current facilities with BEIS and the BoE have rules beyond facility limits to ensure they are operated in line with their original purpose; and
- the Government must not directly fund GLO spend.

In addition, we have been in conversations with UKGI about how Government might see a financial return on its generous, long term investment. In that context, we are keen that reductions in working capital balances can be considered to offset any borrowing.

Each rule and preferred way of working has a good reason but the combination of rules in a commercial setting can be difficult to manage and we are keen for this to be a broad-ranging and holistic conversation about purpose, priorities and ways of working.

2. Are delivering on our promises?

We are 22 months into a 3YP that lasts from April 2018 to March 2021. It is important to remember that comparison against that 3YP includes a significant element of remaining forecasting and any final comparison will inevitably be different. In addition, important work must be completed before we finalise the budget for next year, which will also change.

When we quote the 3YP we are focusing on the documents approved by the Board in October 2017.

In addition, there was an earlier and more detailed document setting out our requests and proposals in June 2017. This document was not the same as the 3YP and in particular, we did not receive a proposed loan facility of up to IRRELEVANT. We will refer to that document where helpful but it did not represent final, agreed, funded plans.

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Our primary objectives for this three year period are as follows:

- Maintain a national network of more than 11,500 Post Offices.
- Meet national Network Access Criteria: over 90% of people in the UK live within a mile of a Post Office.
- Reduce Funding over time, in line with the agreed investments.
- Protect 3,000 Rural Branches.
- Deliver commercial progress to IRRELEVANT EBITDAS in 2020-21 (IRRELEVANT after accounting changes).

We are successfully delivering these requirements and forecast that we will continue to do so through to March 2021.

Our network has remained stable in overall size as set below:



With a latest branch number of 11,605:

Branch Type	Number of Traded Branches
MAIN	3,416
LOCAL	4,086
DMB	131
Traditional	2,312
Outreach	1,660
Total	**11,605**

Alongside maintaining the network scale, we have continued to operate a network that delivers the national access criteria as set out in our latest Network Reporting:

Network Accessibility Performance						
Criteria	Total Population within 3 miles	Total Population within 1 mile	Deprived Urban Population within 1 mile	Urban Population within 1 mile	Rural Population within 3 miles	Postcode Districts less than 95% Population within 6 miles
Target	99%	90%	99%	95%	95%	0
Performance	99.6%	92.6%	99.4%	98.2%	98.6%	9

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We do note however that the number of part-time outreach branches has grown, reflecting limited customer demand and retailer appetite in specific locations. This is expected to continue if we are managing the same Post Office, network and SGEI definitions.

The goal of reducing funding requirements over time also continues to be met, with total funding for the current funding cycle (18/19 to 20/21) being maintained at the agreed level, which is 42% that of the previous three-year period:



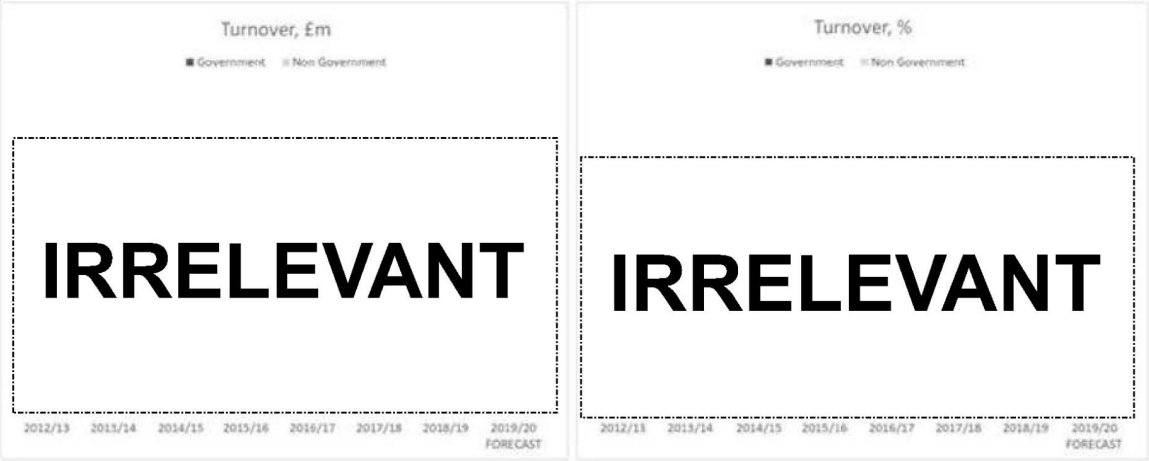
This improvement has been possible by steadily improving our trading profitability:



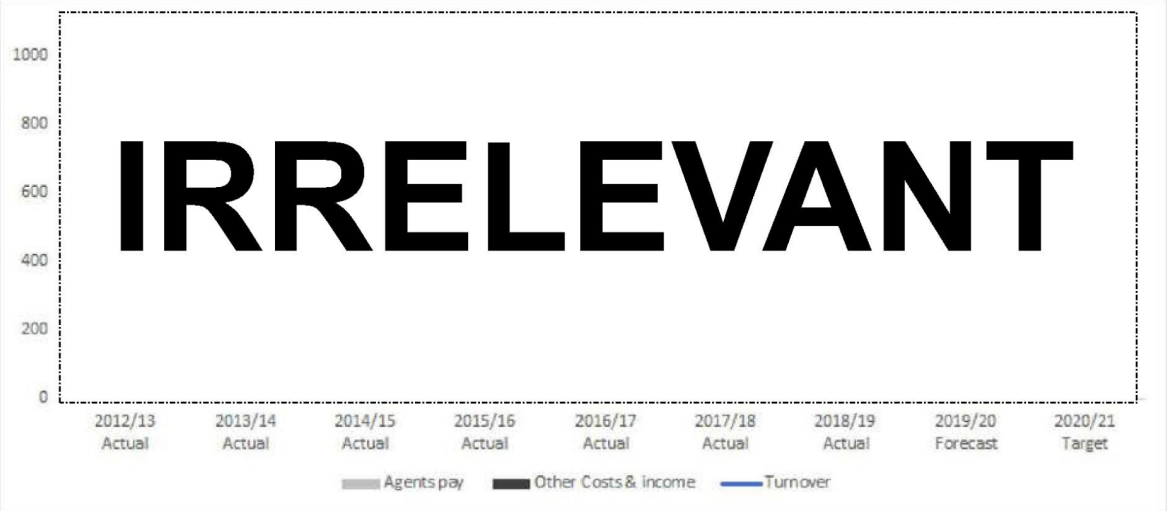
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Whilst total revenues have remained relatively flat over the cycle, this trend belies the growing of non-government revenues to offset the further decline in government revenues:



Against the backdrop of these relatively static revenues, profit improvement has come from a more efficient cost base, increasing our trading profit and allowing us to become more self-funding:



Whilst the above shows a draft increased cost base next year, this is driven predominantly by revenue generating activities, with the shift to fibre in Telco adding around IRRELEVANT in cost of sales, along with IRRELEVANT higher pass through cost of sales in Identity, to offset currently loss making supplier arrangements. IT related Non-Staff costs in will also increase next year, as the run costs for improvements in security, analytics and compliance flow through, as well as those for product development such as British Gas and Branch Hub. These are under review and may change.

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Further to these objectives, the 3YP approved by all parties in October 2017 had a series of financial objectives, which are discussed in further detail in section 3. To date, we have delivered (and are forecasting to continue to deliver) these financial targets: meeting or exceeding our trading profit aspirations and maintaining or improving our borrowing.

3. What has happened and what has changed?

Whilst we have delivered against our core contractual and financial targets, as with any business plan, external and internal factors have driven changes from the underlying assumptions originally laid out in the current 3YP:

	18/19 Actuals	19/20 Forecast	20/21 Budget (Draft)	CAGR	3YP*	Difference
Revenue						
Cost Of Sales						
Net Income						
Agents Pay						
Staff Cost						
Non Staff Cost						
FRES						
Other Income						
Trading Profit						

IRRELEVANT

* adjusted for accounting changes and network team impacts

Our top line trading is exceeding expectations, especially in Mails and Cash, partly offset by a strong decline in Post Office Money. Other ups and downs largely net off:

Product Area	18/19 Actuals	19/20 Forecast	20/21 Budget (Draft)	CAGR	3YP*	Difference
Mails						
Financial Services - PO Money						
Financial Services - MoneyGram, FX & Postal Orders						
Insurance						
Government Services (incl. POCA)						
Telco						
Retail, Lottery & Other						
Banking & ATMs						
Payment Services						
Total						

IRRELEVANT

* Restated for divisional shifts.

- **Mails** is maintaining turnover, an improvement from forecast decline. We have benefited from sales efforts around upgrade products such as Special Delivery, growth in Home Shopping Returns and a strong combined market presence with Royal Mail, limiting the growth of the competition. These have offset the underlying and accelerating decline in letter volumes. We are seeing some

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emerging threat from Royal Mail's online competition which we will have to respond to.

- **PO Money** includes mortgages, savings, consumer lending and credit cards. We are increasingly performing worse than the 3YP and materially worse than the budget for this year. Ongoing low interest rates and ring-fenced bank capital have significantly increased competition in mortgages, which also drive the funding for savings propositions. This broader market shift, with Tesco Bank withdrawing from the mortgage market, is recognised in the new Bank of Ireland agreement. In addition, digital propositions are facing more competition from new businesses like Manzo who are focused on growth not profitability and we have therefore invested less in this space because we would not see a return. The BoI reset will enable increasing future flexibility and a full replacement of our partner by 2026: we have already changed credit card partner.
- The **FX and MoneyGram** businesses are largely maintaining revenue but have not achieved forecast growth, reflecting low margin digital competition in FX and less money being sent to Eastern Europe due to the low value for sterling and reduced net immigration.
- **Insurance** revenues have grown over the period, but behind plan and less profitably. Change, including the re-platforming of the home business, has been expensive. We are looking to harvest investments already made rather than investing further.
- **Telco** revenues have remained stable, better than forecast, in spite of significant industry change both in regulatory pricing restrictions and the accelerated decline of Home Phone. This requires ongoing investment in an increasingly competitive market and we will now sell the business if the right price can be achieved.
- Lottery and Gift Card sales have remained relatively stable robust over the period, although future market share decline is still forecast in **Retail Other**.
- **Banking** revenue growth is very strong**,** reflecting the re-negotiation of prices in Banking Framework 2 (BF2) and the culmination of a 5 year plan to set up, stabilise and grow the cash business. We are seeing continued growth in volumes.
- The acquisition of Payzone has boosted our **Payment Services** revenues and enabled contact wins such as British Gas. The overall market continues to decline as predicted, but we are building market share which drives material footfall, stabilising the network.

Overall **costs** are higher than plan, largely due to Agents' Pay. Direct costs are forecast to fall by IRRELEVANT per annum, less than forecast. This also reflects more agent support of some IRRELEVANT in larger field teams and other in year investments. This is an area where our work on 2020-21 is not complete.

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Cost Area	18/19 Actuals	19/20 Forecast	20/21 Budget (Draft)	CAGR	3YP	Difference
Cost of Sales	IRRELEVANT					
Agents' Pay						
Staff Costs						
Non-Staff costs						
Total						

Cost of Sales is very largely driven by outsourced support for the Telco business: we directly employ some 11 FTE to support a IRRELEVANT turnover business.

Agents' Pay is increasing by IRRELEVANT per annum, IRRELEVANT worse than budget, as a result of three main factors: higher and different mix of revenue than forecast, IRRELEVANT, especially in Banking and Mails, of which IRRELEVANT was for agreed higher banking fees; the acceleration of moving DMBs to become agency branches (IRRELEVANT); and the increases agreed as part of the Agents' Renumeration review last year to stabilise the network (IRRELEVANT).

Staff costs are reducing by IRRELEVANT per annum in line with reducing FTE levels across the business but that is IRRELEVANT less than planned:

Total employee numbers categorised as follows:	FTE levels at Period End 2014	2015	2016	2017	2018	2019
Administration / Head Office	IRRELEVANT					
Directly Managed Branches (DMB)						
Supply Chain						
Network Programmes						
Post Office Insurance						
Payzone Bill Payment						
Total employees						

Part of this shortfall is the other side of investment in agents, with the network teams increased as we moved away from a world where most Agents never met someone from Post Office (£6m). As flagged earlier, staff cost is an area where our plans are developing more slowly than assumed due to the focus on strategy. However, it is absolutely agreed that reducing costs is a key strategic imperative that will be embedded in the 4YP. In the last 5 years we have reduced BAU FTE from some 8,000 to around 3,500 today, and our benchmarking is targeting an outcome of c. 1,600-1,700 FTE in the next phase. This is subject to the availability of investment funding for redundancies.

Non-Staff Costs are broadly in line with plan and flat, with inflation increases covered. We are facing renewed pressure on IT costs, which represent c. 30% of non-staff costs. Again, these are under review, especially the future of Horizon and Fujitsu.

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Investments played a significant part in the 3YP discussions, and we originally planned for a cash spend of IRRELEVANT (excluding litigation), which was supported by IRRELEVANT of investment grant alongside the reinvestment of our own profits. Including brought forward spend from 2017/18 IRRELEVANT, non-cash spend (IRRELEVANT), the equivalent total investment spend envelope sits at IRRELEVANT (excluding litigation):

	Baseline 3 Yr Total
17/18 Carry Forward	IRRELEVANT
Non-Cash Element	
Current Scope (excl. Litigation)	
Current Scope Subtotal	

Our stated policy for investment spend for this 3YP was to reinvest investment funding and everything we earned but not to borrow for investment. In fact, we are forecasting to have earned a further IRRELEVANT through higher trading profit and lower interest costs but this has been retained to fund GLO costs.

A more detailed view of the investment and litigation costs, along with associated benefits can be found in Appendix 1 and is summarised below. This is also reported to UKGI monthly and via the Board on a quarterly basis:

Programme (£m)	Current Forecast Cost	3YR Plan Cost	Variance	Current Forecast Benefits	3YR Plan Benefits	Variance
Simplify the retailer proposition	IRRELEVANT					
Modernise our products and services						
Build innovative, flexible and secure IT						
Digitise and optimise the business						
Modernise our skills, polices and processes						
Non-UKGI Funded						
Post Office Investments						

No works beyond the currently agreed levels of IRRELEVANT have been committed to, however, as we finalise the investment decisions from PSG, we may propose further investments beyond the scope of the 3YP, whilst staying within our self-funded cashflows. The finalisation of investment priorities will also mean that the detail in Appendix 1 will evolve between this submission and the March Board.

We expect to end the 3YP plan period with 48 Directly Managed Branches, some 77 fewer than planned. This reflects some material deals with multiple partners such as WH Smiths.

As noted above, we have invested less than planned in digital products in Mails and Identity, as negotiated market and Government agreements are still taking longer to develop.

We have spent more and got less for our money in digital investments in Financial Services (as noted above competition for scale has made this less financially attractive) and in some key IT projects such as Everest and Back Office Transformation which stabilised our IT estate. We have learnt that changing 20 year

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old, undocumented IT across multiple technology generations is much harder than we assumed. We have also found that Insurance investments are not yet producing the expected returns and this is the focus of that leadership team.

Overall, we are producing an return over the period of 35% from the investments, still within our limits but lower than the planned 47%. This is disappointing and we have increased our change capability to ensure lessons are learnt. It is worth noting that we included no contingency within the planned portfolio.

Cash and borrowing

During the period, we are reducing our borrowing from Government as follows:

	18/19	19/20	20/21	3 Year Total
EBITDAS	IRRELEVANT			
Interest & Tax				
Investment Funding				
Network Subsidy Payment				
Change & Capital Spend				
Cash (borrowed)/saved pre-GLO				
GLO Spend				
Cash (borrowed)/saved post-GLO				
Cash Efficiencies				
Net Cash saved/(borrowed)				

We are now forecasting to spend some IRRELEVANT on the GLO, which was largely unforecast. Our legal advice was optimistic on two fronts: that we would win in court; and that by winning, second stage costs and activities such as next generation claimants and appeals of criminal convictions would be avoided.

We are on course to reduce borrowing by IRRELEVANT over the current cycle. We are planning to spend IRRELEVANT less than we are bringing in for 19/20, in line with expectation that we would part fund the cycle with previously built up free cash flows.

After spending IRRELEVANT on GLO, we would have a IRRELEVANT outflow over the 3 years, but will have offset this with £IRRELEVANT of cash efficiencies, all but IRRELEVANT of which we are on course to deliver this year. These net cash efficiencies also ignore working capital movements – with IRRELEVANT of extra working capital being funded in 2018-19.

Funding availability from BoE has fallen in line with cash withdrawals being sent out from our cash centres. We are in discussions with BoE on whether this remains the right mechanism given our importance to cash infrastructure nationally and the rising deposit levels. BoE is undertaking a review with a proposal promised in 2020.

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GLO spend is also reducing security headroom, which fell to IRRELEVANT in December, and this will operate as a constraint going forward, which cannot be improved by cash efficiency in the network:

Security Headroom	19/20 F	18/19	17/18
£m			
Total cash in use	IRRELEVANT		
Other assets			
Total Security			
Government Loan			
GRO			
Total Obligations			
Headroom			

4. Do we still believe IRRELEVANT trading profit is enough to maintain the network?

In the preparatory paper in 2017 we said that we thought that we could be financially independent if we were delivering IRRELEVANT trading profit each year i.e. we would not need investment funding or network subsidy. This was based on the idea that we would be at the end of a period of significant change and be operating in BAU, enabling broad annual re-investment as follows:

Approximate Investments	£m
Network and Product Maintenance & Investment	IRRELEVANT
IT Maintenance	
Regulatory and Customer Change	

It is worth repeating the context: the paper dealt in detail only to March 2021 and no work had been done on later periods; no assurance was requested or undertaken; it did not form part of the approved plan; extending the Network Subsidy was also discussed openly in that paper and no view was reached; and we did not receive the requested borrowing that might have enabled us to get closer to BAU.

As an assumption it was also naïve:

- The level of market and regulatory change affecting our business is increasing.
- We assumed that improving overall profitability would reduce losses in loss-making branches and this is not proving to be the case. Details underpinning this are set out in Appendix 3.
- We have not tackled the future of Horizon in this period and that will be a material cost.
- Our most successful business, far above forecast, is cash. This must have a limited shelf live and we will still need to invest either to bring on another generation of commercial propositions or to materially reduce the network cost through further automation – or both.
- Unforecasted GLO fees are reducing available cash for investment and make security headroom a constraint.

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Most significant may be the decisions we make following the GLO judgements. If the conclusion is that we should completely replace all of our Postmaster contracts and completely replace Horizon and Fujitsu as well as making other operational and cultural changes, then the investment will be profound over a number of years. We are seeking to land recommendations to the Board for March.

5. What does our draft 4 Year Plan show?

As already noted, our work to ration investment priorities, on the full operational impacts of litigation, and on costs are being finalised with an iterated 4YP due for Board approval in March. These are significant, partly for the reasons above. In addition, if we prioritise and reduce investment spend, benefits and trading profit will reduce, limiting future funds available for investment in the following year.

Subject to that work and further reviews and challenges, our current view of the 4YP is a positive one. However, we must stress that until we have got a unified plan that enables us to fund the changes we need, these figures must be considered uncertain:

£m	19/20	20/21	21/22	22/23	23/24	CAGR
Gross Income						
Cost of Sales						
Agents Pay						
Staff Costs						
Non-Staff Costs						
Other income + Profit share						
EBITDAS						

IRRELEVANT

Our revenues grow and stabilise over the period, with the full impact of the new Banking Framework (and associated costs) flowing through, although we then expect this to fall after 23/24 as the declining market offsets our increased market share and rates. There is also a clear expectation to target further reductions in staff costs beyond those already actioned. Appendix 2 contains further detail of revenues and contribution by area.

In particular, we are constrained in investment funding in 2020-21. We expect to generate around IRRELEVANT of free cashflow. However, forecast spend on the GLO, exiting Horizon from its Belfast infrastructure, delivering on the DMBs and upgrading PCI compliance is forecast to cost around IRRELEVANT next year. With a certain amount of keep the lights on and regulatory spend always required the amount we can invest in reducing costs, in maintaining out Telco business or making commercial progress will be very small.

Our plans therefore make the assumption that we will continue to be supported with a network subsidy of IRRELEVANT per annum to keep loss-making branches open and enabling us to use trading profits to fund change.

We fully appreciate that these business cases and priorities will be subject to material further review and challenge by the Executive, the Board and by UKGI and its assurance partners both before and after March Board.

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6. What financial support are we requesting?

We are requesting 3 items of financial support over the coming funding cycle:

- Continuation of the NSP payment at current levels.
- A change in the current Security Headroom constraints.
- The option to borrow further funds under commercial repayment terms.

We are asking for a Network Support Payment (NSP) of £50m per annum. This is in line with the currently agreed levels, and reflects the ongoing costs to support the network size and SGEI requirements, which are not expected to materially change over the next 3 year cycle (this logic, along with further detail, is discussed in Appendix 3). Currently if our costs fall below £50m we would refund BEIS, and we propose this continues, creating a clear incentive for us to continue to reduce the actual losses which are currently some £74m. While reducing losses below £50m may be difficult, we would suggest that we would be better incentivised to do so if there was a profit share of reductions in future rather than a 100% return to BEIS within year.

We are not asking for a larger working capital facility, because we accept the efficiency challenge that we should continue to match any further investment with reductions in usage. However, we are becoming increasingly constrained by the Security Headroom rules, which we understand the reason for. We are asking to amend the rules. IRRELEVANT included in the calculation because they have separate security over assets. We would like this excluded. We are working with IRRELEVANT IRRELEVANT

Having to earn enough each year to invest drives us to be short-term and risk being an ineffective shareholder for long-term growth businesses such as Insurance. Businesses of our scale do borrow and this is different from investment funding: we will pay interest at a commercial rate and repayment terms will be set. We assume, based on previous Treasury guidance, that Government would prefer to be the lender and the borrowing would net off in the whole of Government accounts. We are requesting a committed facility of up to IRRELEVANT at a commercial interest rate (independently verified) and with agreed repayment terms, perhaps over 5 years. It is worth noting that while our current borrowing appears significant, it is cash backed and our net borrowing is just 6% of our fixed assets, 28% of our net assets and 37% of our trading profit forecast for next year.

We have heard it said that Government would, in spite of the balance sheet offset, view lending money to POL as the same as investment funding. We believe that we have demonstrated a willingness and an ability to manage our cash responsibly and we would view repaying a loan as a contractual commitment that could be linked to incentives as we do for network criteria. If all of these were to be agreed, we believe this would allow us to continue to self-fund investment, support further litigation costs, whilst also delivering the changes required commercially and deliver your agenda.

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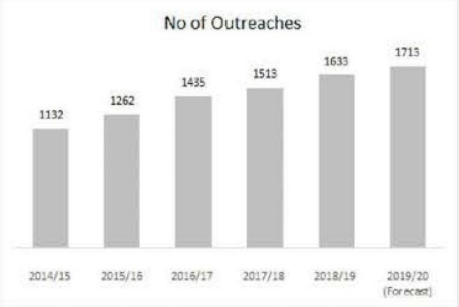
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7. What non-financial support are we requesting?

We believe that, subject to your better judgement, we should retain targets for 11,500 locations and national access criteria. However, we do want to engage in a debate with you over making the SGEIs more flexible.

Every location is different and the places where we need cash may be different from the places where we need parcels: cash is critical in rural locations but can be over-supplied in city centres. By contrast more parcelshops would be worthwhile in City Centres but not if they had to bear the full cost and complexity of a current Post Office. Multiple partners in particular would find the proposition more compelling if they didn't have to train staff to manage rarely requested products such as Rod & Fishing licences in every branch. Creating a more flexible network, more attuned to local needs and therefore more resilient cannot be achieved today because any significant variation to the SGEIs would mean that we could not define a location as a Post Office and would breach 11,500.

Such flexibility would also be a potential solution to the levels of churn being seen, and the related increasing numbers of Outreach branches that are used to maintain the current network size in the face of increased levels of, which are not always the optimal solution for postmasters and communities, and are also usually loss making to maintain (churn is discussed further in Appendix 4):



Secondly, in our current plans we have de-prioritised any investment or activity to support our ability to deliver Government Services. We continue to see a consistent reduction and we accept that. The one potential exception could be digital identity where having built a market share of over 50%, we are likely to lose money on new pricing and are currently dependent on our only competitor. Given the lack of clarity on the Government's plans we simply cannot invest and an historic and mutual opportunity may pass us by. We are asking for a whole of Government grouping including No 10, the Cabinet Office, DWP, HMT and of course BEIS to see if there is a better way, potentially enabling third party partner investment.

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Finally, we would like to start a debate with you on the future of Post Office. In any given period our drive to commercial sustainability conflicts with and must be balanced with Postmaster needs: they are our largest cost as well as the people who critically serve our customers, our biggest asset.

Many of the issues in recent years have arisen through a lack of alignment between Post Office Ltd and Postmasters. Some of that has been cultural and deeply rooted in the history. However, the drive to commercial sustainability has had the biggest impact. Postmaster pay is a cost to POL and when rising Government revenue failed to materialise, Postmaster pay fell. We have made commercial progress and have used this progress to begin to reverse that process.

However, the fundamental imbalance remains and we know that we cannot build a commercially sustainable Post Office without commercially and emotionally sustainable relationships with Postmasters. We could make some symbolic changes – a Postmaster on the Board or an Advisory Council – but these are hard roles to perform well and can easily become lip-service. We also need to resolve the IRRELEVANT

GRO We believe that in principle, ownership by Postmasters might resolve the imbalance, secure the network, improve performance and be politically popular and in line with the new Government's national agenda. It could also be done through secondary legislation. We would like to work on this with you, recognising that it is a complex issue.

8. What are the material risks?

We will continue to have and seek to manage the usual commercial trading risks as customer needs, technology and competition change. For example, we are close to but have not yet signed a new agreement with Royal Mail. We believe that we have a good track record in delivering improvements in a changing world.

In addition, there are three non-trading risks which have the potential to seriously damage us and which we might not be able to manage:

- The **CCRC review** of convicted Postmasters: If this results in a significant further settlement or fines, we may not be able to fund them out of trading profit. Clearly borrowing flexibility may be helpful here. It is worth noting that the CCRC has been reviewing individual cases since 2015, we have not brought private prosecutions against postmasters which relied on Horizon evidence since mid-2013, and the large majority of the cases currently under review pre-date Post Office's separation from Royal Mail on 1 April 2012.
- **Workers' rights:** If, either through the court case or changes in Government rules (which you are considering), a significant number of Postmasters are characterised as workers, with entitlement to pensions, sick pay and holiday pay, our financial model will cease to work and we will become dependent upon Government support again. At its theoretical maximum, the cost would be IRRELEVANT per annum and a one-off IRRELEVANT to resolve the history, neither of which we could fund. Worker status for the higher risk Postmasters might be estimated at IRRELEVANT per annum and a one-off historical payment of IRRELEVANT. While

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smaller, such costs would still put a strain on our cashflows, and impact profitability. For the future, we will recommend that Postmasters are excluded from worker or employee status in any legislation seeking to deal with gig economy issues.

- The **Bank of England facility**: This is under review and if the available funding continues to fall or is removed, we would only be allowed to access replacement funding of some IRRELEVANT from BEIS.

9. What happens if we get nothing beyond the existing working capital facility or half of what we have requested?

In these scenarios, we would have to materially reprioritise our investment portfolio, slowing down organisational structure changes and PSG outcomes and commercial development activities, along with their associated tangible and non-tangible benefits. In the near term, we would focus on delivering against the DMB strategy, litigations, BAU and Regulatory outcomes, and little else.

Almost inevitably, the lack of investment and support for Postmasters and customers would reduce the stability of the business and make it harder to make the changes required following the GLO. As a result, we do not believe that we would be able to contractually commit to 11,500 branches with the current access criteria and SGEIs. This could lead to a network reduction programme that would damage us publicly, creating a vicious circle with the clients that fund trading such as the banks.

In addition, we would have no financial flexibility to manage shocks which might arise from, say, the GLO. These could lead to a need to emergency government support.

We are not necessarily helpless and would press ahead with the proposed sale of our Telco business. Another request is confirmation that we would be able to retain and use the proceeds from any such sale. Whilst the sale of Telco would potentially provide the ability to invest earlier, the values and timescales of such a deal are not guaranteed.

We believe that the risks set out above are still largely true in a 50% Network Subsidy world, but less likely to occur. We are not yet at a stage in our planning where we can set out the impacts project by project and will work on this with you as we finalise and assure.

In the longer term the higher and earlier levels of investment in automation would potentially allow us to maintain the current network scale beyond 23/24, as we would be incentivised to prioritise work to reduce the cost of the loss making branches down to the IRRELEVANT level. However, a discussion on SGEIs would likely also be needed, in order for us to be able to fully create a sustainable network of the current scale but at such a reduced cost point, as some services (e.g. cash services) require relatively fixed support costs, which would hinder such a goal.

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10. When can Government expect a financial return?

We have in the past discussed whether any network subsidy can be returned to Government in the form of dividends, and we recognise the desire for a financial shareholder to see returns. We do not, for the reasons above, believe this will be affordable before 2023/24.

When approaching the topic of financial returns, it should also be considered, that Post Offices across the world are largely subsidised, and often for a lower level of services and network coverage.

More importantly, we believe that any such action would undermine our relationship with Postmasters: we have managed to maintain the network through an understanding that any profits we make are re-invested in the business. To therefore create a financial shareholder would be deeply resented by Postmasters.

We do believe that borrowing less from Government over time, as we have done in this 3YP, should be considered a financial return.

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Appendices

1. Further Detail on Current 3YP Investment Spend and Benefits:

	Spend			Benefits		
	All Periods			All Periods		
	Forecast	3YR Plan Including Agreed Adjustments	Forecast vs 3YR Plan Including Agreed Adjustments	Forecast	3YR Plan	Forecast vs 3YR Plan
Further franchising DMBs	GRO					
Network Expansion						
Horizon Integration Hub	16	19	(3)	-	5	(5)
Multi-year Crown Project	GRO					
Self Service Kiosk (SSK)						
Self Service Portal (Branch Hub)						
Other Smaller Projects Simplify						
Simplify the retailer proposition						
Mails Projects						
Customer Hub – Additional Verticals (Falcon)						
Identity Services Investments						
Project Galaxy						
Telco Investments						
Travel Hub						
Digital Developments						
Eagle						
Reclassification from Capex to Opex						
Sale & Leaseback						
Cash & Banking Services						
Bill Payments						
PO Insurance Investments						
Vehicles						
Falcon - Peregrine						
Other Smaller Projects Modernise						
Modernise our products and services						
Project Everest						
Risk and Resilience						
PCI Compliance						
EUC Branch Deployment						
End-of-Life Replacements						
Receipt Printers						
IT Service Transformation Programme						
CDP reprocurement						
Change Excellence (Project Trafalgar)						
IT Security Programme						
Other Smaller Projects Build						
Build innovative, flexible and secure IT						
Supply Chain and Back Office Improvement						
Property						
Data & Analytics Excellence - DAE (Arrow)						
HR Programmes						
Operational Effectiveness						
LCG Programmes						
Other Smaller Projects Digitise						
Digitise and optimise the business						
Back Office Systems Transformation						
Modernise our skills, polices and processes						
General Data Protection Regulation (GDPR)						
Payzone (Panther)						
Central						
Other Smaller Projects Regulatory						
Non-UKGI Funded						
Post Office Investments						

It is important to remember that 2020-21's spending is largely uncommitted and subject to review and challenge.

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1.1 Simplifying the retailer proposition

We have delivered accelerated benefits in our DMB and Crown projects whilst remaining within our original cost targets. Our technology projects in this space have been more difficult, however, with the build-up and monetisation of HIH taking longer than originally planned, and a similar story on the build of our Agents Self Service Portal. The next version of Self Service Kiosk is still expected to deliver material benefits, however, the work on this is only due to ramp up in 20/21.

1.2 Modernise our products and services

A large amount of reprioritisation has gone on in this area, partly in a response to the funding of litigation costs, and partly as new priorities have been identified.

In the Identity space, the pricing cuts on Verify have made the original investment assumptions untenable, and on Travel and Customer Hub, initial works showed lower than expected returns for the platform, and so these were deprioritised.

This funding has been reallocated to Bill Payments projects (e.g. British Gas), where we are seeing delivery of both revenues and footfall. There is also material spend flagged for next year on the Telco business, however, this is not fully committed yet, and is being reviewed alongside the wider strategy for this business.

The Insurance project benefits are suffering from the difficult marketing conditions seen across the wider Insurance market.

1.3 Build, innovate, flexible and secure IT

In this space we have broadly delivered against the infrastructure and security upgrades that were targeted, with the exit of our Belfast Datacentre being taking longer than predicted. This delay is related to agreeing a wider view on the long term future for Horizon and the Fujitsu relationship, which will need to be one of priorities for the next funding cycle.

1.4 Digitise and optimise the business

Whilst we have done less work than we might have liked to in Supply Chain optimisation, this is a clear priority from the PSG outputs, and material improvements have been done in this space – most notably improved cash efficiencies in the network whilst also supporting the evolving Banking Framework with minimal changes to the existing overall cost base. We also needed to fund more Property and Regulatory works during the cycle than were originally envisaged.

1.5 Modernise our skills, policies and processes

The upgrade of our Back Office systems was a crucial and very complicated piece of work that had to done, and whilst completed successfully, it took longer and was more complicated that was originally scoped, and this is reflected in the costs.

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2. 5 Year Plan Further Detail

Currently forecasted future revenues by area are as follows:

Area	20/21	21/22	22/23	23/24	CAGR
Retail					
FS&T					
Identity					
POI					
FS&T (Telco)					
Supply Chain					
Central					
Grand Total					

GRO

Currently forecasted future contributions by area (under existing hierarchy) are as follows:

Area	20/21	21/22	22/23	23/24	CAGR
Retail					
FS&T					
Identity					
POI					
FS&T (Telco)					
Supply Chain					
Central Marketing and Digital					
Finance					
CIO					
Comms					
HR					
Central					
LCC					
Network Operations (excl. Proper					
Property					
Grand Total					

GRO

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3. Further Discussion on Costs of Loss Making Network

It should be noted that losses in this document are discussed from the perspective of POL Ltd, unless otherwise specified. "Loss-making" and "uncommercial" branches are also treated similarly.

3.1 How many branches are uncommercial? What is the branch-type breakdown of these: outreaches, community, multiples, mains, locals. Regional breakdown. Urban v rural. Deprived v non-deprived?

At the close of the last financial year (18/19) there were 5,392 loss-making branches and 193 uncommercial branches (i.e. DMB sites). These were broadly broken into the following categories:

	Profitable	Loss Making	TOTAL
DMB		193	193
Temp Closed Branches	147	574	721
Local	2,976	1,008	3,984
Mains	2,690	705	3,395
Traditional	273	2,153	2,426
Outreach		952	952
Agency Sub Total	**6,086**	**5,392**	**11,478**
Grand Total Total	**6,086**	**5,585**	**11,671**

These figures use the methodology agreed with UKGI and KPMG to validate NSP funding at a total level, however, further improvements to the granularity of the data are ongoing, to help further analysis and discussions in this area. Note that temporary closed branches in the analysis were temporarily closed at the year-end snapshot, but traded during the year.

3.2 How does POL categorise loss-making branches and how many of these are in the network? Is the number growing, diminishing or staying broadly the same year on year?

A "loss-making branch" or "uncommercial branch" in this document is taken to be loss-making from the perspective of POL Ltd, unless otherwise specified, with "loss-making" referring to locations where no-one will run a model that is not loss-making (e.g. rural, outreach) and "uncommercial" referring to branches that could be profitable but are currently not (e.g. DMB's).

As the methodology agreed with UKGI and KPMG in 18/19 requires full year data, there is currently only one year of data, and so trends are hard to evidence. However, certain extrapolations are discussed further in appendix section 3.5.

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3.3 What are the costs of sustaining these? How are these costs made up?

The latest calculated costs for sustaining these loss-making branches were:

	Loss Making QTY	Loss Making Trading Profit
Temp Closed Branches	574	(4.4m)
Local	1,008	(10.3m)
Mains	705	(17.7m)
Traditional	2,153	(35.6m)
Outreach	952	(5.7m)
Total Cost of Loss Making Branches	**5,392**	**(73.7m)**

Appendix section 3.11 has further detail on the make-up and logic of these costs, with the above representing the fully allocated costs of sustaining these branches (both direct and indirect).

3.4 Have POL made any assumptions regarding the number of branches that will no longer be loss-making in the short-term due to recent measures including a) agent pay review and b) area managers?

From a cost perspective the increased agents' pay levels are likely to offset central cost reduction impacts, leaving the fixed cost to run the branches relatively flat.

Appendix section 3.8 discusses the average product range sold through these branches, with potential growth areas such as Deposits and Bill Payments only making up 12% of their current business; therefore the revenues of these branches would not be forecast to materially grow in the short term (also assuming no shift in local population density).

Network size and spread is also assumed to remain stable currently, and this along with the above points means POL does not expect the number of loss-making branches to materially change in the short term.

3.5 Are there losses made by branches that you think are avoidable? If so, what further efficiencies can be generated in the loss-making network, where and how? Can POL make any of these branches more profitable?

Excepting the DMB network, which we are making more profitable by franchising, the loss-making agency branches are mainly loss-making to us because their share of overheads outweighs any marginal contribution (revenue less variable or fixed renumeration) or they are community branches with minimal revenue and fixed agents pay so loss-making before overhead.

The first category therefore includes some avoidable losses, which we are working to reduce by reducing overall overhead levels, thus reducing individual branch allocations of this overhead.

For the second community category, there would need to be a targeting of the around 2,500 branches on traditional contracts that did not convert during Network Transformation. This is unlikely to be done on mass now as there is not planned programme to do so, however, we

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will continue to deal with one by one as branches close and are replaced by modern contracts.

Further analysis of the loss-making branches also shows that approximately 800 of the 5,392 only make a minor loss i.e. a loss less than 10% of their overall revenues. Therefore a relatively modest net product revenue growth across the product range discussed in appendix section 3.8 could potentially shift these 800 to become marginally profitable. The cost saving impact of this would be relatively small, however, at approximately £3m.

3.6 How do you forecast the rise in NMW (National Minimum Wage) and potentially in business rates will affect branches (including loss-making ones)? Are there any other external factors that are relevant?

Whilst these factors may impact Postmaster P&L's, it will not directly impact Post Office's. These factors were also taken in to account in the recent Agents' Renumeration Review and subsequent increases.

Other external factors that could impact loss-making branches include the continued decline in Government services being provided through the network, general market trends from physical to online delivery routes, and the shift over time from cash to digital payments.

3.7 London Economics/YouGov estimated the value of the Post Office network of between £4.3bn and £9.7bn per annum. Have POL done any other estimates of this? If so, can you quantify the benefits of the POL network on communities?"

This exercise was not originally undertaken by POL and we have therefore not sought to update it. However, with the cash focus on Post Offices and the environmental need to reduce journeys to towns and cities we expect the value to have increased rather than decreased.

3.8 Which services are the most relevant for customers of uncommercial branches? How many customers regularly use these services?

Although there are a large number of loss-making branches, analysing them as a population yields the following revenue drivers:

Product Area	% of Business
Royal Mail Labels	15%
Special Delivery	8%
Deposits	8%
Withdrawals	6%
Lottery & Other Retail	5%
ATM Withdrawal	5%
Post Office Card Account	4%
Home Shopping Returns	4%
Bill Payments	4%
Royal Mail Signed For	4%
Travel Money	4%
International Standard Vol	3%
Moneygram	3%
Royal Mail Stamps	3%
Passports	2%
Mails Other	2%
Banking Other	2%
International Priority	2%
Licensing	2%
Postal Orders	2%
Other Products	10%

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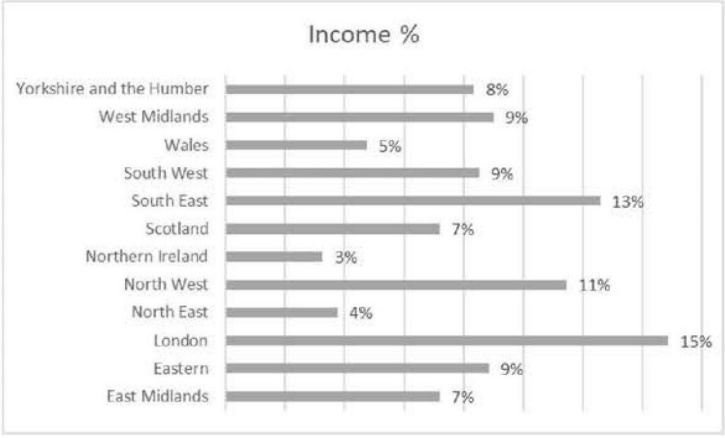
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We are still reviewing customer sessions across these branches but hope to have this information ahead of February discussions.

3.9 Is the supply of services in uncommercial branches meeting or exceeding customer demand? Can you provide a breakdown of the spread of customer use/demand for services by region?

Loss-making branches in uncommercial locations are usually considered to be meeting customer demand as they are specifically kept open to support an uncommercial local population density.

Our current regional split of demand is as follows:



3.10 What else is the subsidy spent on? Can you provide a breakdown for the current funding period? How does this compare to previous years i.e. 2012 – 2016/17?

The funding is ring-fenced to only be spent on supporting uncommercial branches and this is adhered to. The latest calculated cost of this support was £74m versus a subsidy payment of £50m for the same year, confirming that the subsidy is wholly consumed by uncommercial branches.

3.11 Description of Loss-making Branch Calculation Methodology (NSP Model):

To calculate the full impact of the loss-making branches, we go through two steps on a branch by branch basis, in line with the NSP (Network Subsidy Payment) modelling previously agreed with UKGI and KPMG:

- We calculate which branches are loss-making, and how much direct loss they generate each year.
- Secondly we calculate how much of the income those branches receive would be captured elsewhere in the network were they to be shut (i.e. as well as losing money, loss-making branches also cannibalise income from profitable branches, that would be even more profitable if the loss-making branches were not open).

Income and costs are aggregated at a branch level, based on 12 months' worth of actual performance, therefore it is only ever a historical view for the previous complete financial year. The income is taken from our Credence system, and additional factors like profit share and retention income are overlaid. The primary cost driver (agents' pay) is taken from the

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pay system. The remaining costs are allocated based on cost drivers, developed and agreed with KPMG by breaking down the entire budget into both fixed and variable costs, and assigning drivers to these costs, with three levels of costs are allocated:

- **Cost of goods sold** – these are allocated at a product level.
- **Variable costs** – these are costs that directly change with the running of an individual branch (e.g. we pay BT for the internet connection into the branch, or Visa/Mastercard for interchange)
- **Fixed costs** – These are costs that do not vary directly with each branch, but in the long term could be changed to reflect the number of branches (e.g. the Horizon contract which is for a fixed annual amount for a fixed number of units). Note that these do not inherently flex at a POL Ltd level with branch numbers or trading in the short term.

Variable and Fixed Costs are allocated according to 4 main drivers:

- Customer sessions (how many customers the branches serve – card interchange fees would be an example of one of these).
- Branch presence (purely the fact that a branch is open, regardless of scale – sending payslips to branches is an example of these.
- Number of Horizon tills (this is the key element of technology costs)
- Cash usage (this drives the supply chain cost model).

With full income and cost allocation, Post Office is able to get a complete branch by branch view of profitability, and assess the cost of all loss-making branches.

Note, not all loss-making branches are included in the NSP cost. The NSP is to cover POL providing SGEI's in uncommercial locations (i.e. loss-making models in locations where no-one will run a model that is not loss-making). DMB's operate in profitable locations, with unprofitable models. If we were a fully commercial business, we would still want branches there, and would still be taking the same steps to franchise them. So the Govt has given us capital funding to address DMB's, but that is separate to ongoing NSP funding. We also have some loss-making agency branches in commercial locations (e.g. Mayfair, which is paid a large overscale payment) that we would keep in a commercial scenario, and hence do not include their losses in the NSP calculation

As well as the directly loss-making branches that are potentially are highlighted by the above calculations, we also need to assess the amount that they reduce profitability in other nearby branches, by effectively cannibalising income from those branches. The converse view would be that if the unprofitable were to shut, we would save all of their costs, but would only lose part of the income.

In modelling the retained income products were grouped according to different levels of migration expected, depending on alternatives available (75%, 55%, and 35%). So bill payment and cash withdrawals, which have many alternative providers have lower retention rates, and POCA and postal orders, which have fewer direct alternatives or providers, have higher retention rates. This saw a weighted average of 61% migration of income from the loss-making branches, though for the sake of prudence, this was reduced to 50% retention in the ANAPLAN model. This caution is because were we to close thousands of stores, the retention might not be as high as other providers may emerge.

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4. Further Discussion on Churn

4.1 What is the cost of churn?

The direct cost of churn was £22.5m, in 2018/19. How does this breakdown:

Cost of Churn	Cost (£k)	One off or ongoing
Retrieving equipment from stores and making good.	**1,368**	One off cost
Capital cost of replacement – the cost of new branches and new vans. (Includes a mixture of physical goods, store re-design, etc)	**11,400**	One off cost
Project management of replacement – Cost of central teams, Consultations, etc.	**4,560**	One off cost
Lost sales – Where the store is replaced, but there is a lag	**2,280**	One off cost
Lost sales: Permanent. If a Local / Community closes and we open an Outreach, some sales are lost permanently.	**1,725**	Ongoing cost
Loss from increase in Outreach – The fixed cost of £6k for Outreaches which serve very few customers.	**1,150**	Ongoing cost

What is not included in the above:

- **Brand impact of closures:** Inconvenience to customers and communities. Difficult to quantify, but clearly has an impact on sales and our brand equity in those areas.
- **Senior leadership time:** Closures take up a large amount of Management time
- firefighting, responding to MP's etc.
- **Does not include cost of replacing Outreaches** (79 in 2018/19): This is difficult to cost, as it depends on replacement type. Generally, equipment is mobile and used elsewhere, so only cost is £3k*79 to set-up new BT connections and sourcing different locations, so ~250k.
- **Cash losses:** Losses from branches that are shut due to suspension / fraud, whilst these fluctuate and are not all churn related, branch losses average around £600k per month.

4.2 How much churn are we seeing?

Churn is increasing. Most worryingly we are seeing churn growing amongst Mains and Locals. Increasing National Living Wage and other costs will put more pressure on this:

Churn by year	16 -17	17 - 18	18 -19
Legacy	136	144	141
Local	108	165	186
Mains	16	45	58
Outreach	73	60	79
Total	**333**	**414**	**464**

4.3 Why are branches churning?

In 2018/19, 48% of churn was Involuntary (mainly fraud, death or retirement related) and 52% Voluntary (handing back the keys).

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4.4 What happens when branches churn?

For Locals and traditional branches, after 24 months:

- 50% have not re-opened,
- 30% have been replaced by an Outreach,
- 20% have been replaced by a Local.

For Mains:

- 40% have not re-opened,
- 30% are temporary run,
- 30% have been replaced by Locals.

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Network Report and SGEIs

Author: Tracy Marshall Sponsor: Debbie Smith Meeting date: 23rd September 2019

Executive Summary

Context

Post Office is proud of its social purpose, codified in our funding agreement with government as maintaining a network of at least 11,500 branches providing access to an agreed set of 'services of general economic interest' (SGEI). We currently receive a Network Subsidy Payment on this basis. Post Office Ltd produces a Network Report every year providing information about our network and customer accessibility. We also monitor compliance against SGEI provision on a monthly basis and report performance to UKGI. The purpose of this paper is twofold: to formally ask the Board to approve the annual Network Report for 2018/2019 and to confirm compliance with the Entrustment Letter and Funding Agreement in terms of SGEI provision.

Questions addressed in this report

1. What is the Annual Network Report?
2. What are our SGEIs and did we comply against them in 2018/2019?
3. What activity will take place to further assure SGEI compliance for future years?
4. What do we need to do next to progress?

Conclusion

1. The Annual Network Report provides information about the Post Office network and customer accessibility for 2018/2019 as required under Provision 11 of the Postal Services act 2011. It demonstrates compliance against the full suite of agreed accessibility criteria and a growth in network numbers.
2. SGEI, or Services of General Economic Interest, include benefits such as pensions; passports; bill payments; postal services, and universal access to cash. Providing these SGEI products is a prerequisite of the Network Subsidy Payment (NSP) and stipulated in the Entrustment letter and Funding Agreement. Post Office Ltd met its SGEI requirements at the end of March 2019 and continues to do so.
3. An internal audit in March 2019 concluded that processes were in place to support our assertion that we were meeting our SGEI requirements. A number of additional recommendations were made to further improve processes and these are already being implemented. Internal Audit have been asked to provide specific assurance to the Board over the 18/19 SGEI provision.
4. Board sign off to both the 18/19 annual Network Report and SGEI compliance are required. Following this, the Network Report can be laid before parliament and published on our website.

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Input Sought

1. Approval to the 2019 Network Report and confirmation of compliance with the Entrustment Letter and Funding Agreement with respect to SGEI provision as at March 2019

Input Received

2. The draft Network Report has been reviewed by UKGI, Retail and Post Office Corporate Affairs. Internal Audit have also reviewed our processes

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The Report

What is the need or opportunity and why now?

The significance of our network numbers and SGEI criteria

1. Post Office is unique amongst commercial businesses in having a social purpose to provide essential products and services to communities across the country, even in the thousands of locations where it is not commercially viable. We are proud to do so and have confirmed this position in our Funding Agreement with government. This makes clear that *"the Secretary of State expects POL to maintain a network of at least 11,500 Branches for the duration of the Funding Period…[of which]…at least 11,000…shall be required to provide all of the SGEI Services."*[1] SGEI, or Services of General Economic Interest, include: benefits such as pensions; passports; bill payments; postal services, and universal access to cash. A full list of these services can be found at appendix two.

2. Providing these SGEI is a prerequisite of the (up to) £160m of Network Subsidy Payment (NSP) for the period 2018-2021. Post Office ended 2018/2019 with a network of over 11,600. Government clients can and do withdraw services from branches on occasion, driving licences being one example.

3. We also have a set of 'access criteria' designed to ensure our network remains representative of the communities we serve, particularly in rural areas. These largely relate to *x* percent of the UK population being within *y* distance of a Post Office, e.g. we need to ensure that, *"99% of the population to be within 3 miles and 90% of the population to be within 1 mile of their nearest Post Office outlet."*[2]. Details of our access criteria can be found at appendix three.

Performance against the network number target and SGEI Access Criteria

4. Network numbers are calculated using a fully automated system that accesses two key sources of information: The Master Data Management system (MDM) which holds all branch information including open or temporarily closed status and what products they sell, and the Arrow system which holds actual transaction information for each branch. These two lists of data are combined to identify which branches traded during any given reporting period. A number of additional validations are then applied to ensure no duplication of branches. This confirmed list of open branches is then used as a basis for further categorisation. We can assess compliance against Government access criteria for example or produce

[1] *Funding Agreement between Secretary of State for BEIS and Post Office,* April 2018.
[2] *'Entrustment of Post Office Limited with the delivery of certain public services',* UKGI letter to Post Office, 2018.
Performance against the Government access criteria is measured by splitting the national population according to census output areas. Central and local government all use either Output Areas as the smallest level or Super Output Areas (slightly larger level) to calculate population.

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regional information on network coverage. The list is also used to calculate our compliance with Services of General Economic Interest as we can determine the number of open branches that offer each specific product and service.

5. We consistently exceed our network numbers and network access criteria , as demonstrated by the latest figures from the Network Report and at Appendix 2.[3] We also assure actual availability of SGEI across our network through operational monitoring and ongoing central analysis which identifies any issues and ensures they are both resolved in branch and noted for reporting purposes. Details of SGEI criteria and performance can be found at appendices four and five.

What do we propose to do and why?

Assurance processes for the Network Report and SGEI compliance

6. We will submit the annual Network Report to the Post Office Board each year for formal sign off, in advance of it being laid before parliament and published.

7. For 18/19 we are asking the Post Office Board to approve compliance with the Entrustment Letter and Funding Agreement with respect to SGEI conformance based on network provision data referred to in appendices four and five. This demonstrates that a sufficient number of branches are able to transact SGEI products and services across our network.

8. The internal audit in March 2019 concluded that processes were in place to support our assertion that we were meeting our SGEI requirements, and we have since implemented changes to improve processes even further. Internal Audit have been asked to further review the SGEI validation process and the work to date has not identified any areas of concern that would result in the level of assurance provided to UKGI being overstated. The Internal Audit Review is due to be completed at the end of September. We will continue to have dialogue with UKGI regarding our ongoing assurance processes for future years.

What do we need to do next to progress?

9. Our process around the publication of the annual Network Report has already been audited and deemed robust. The internal audit on SGEI compliance is already underway and will make recommendations for the future assurance of this area. For 18/19 we are seeking approval on SGEI conformance and approval of the Network Report, to enable it to be laid before parliament and officially published.

[3] We have never fallen below the target for the 6 main, proximity-based, criteria. In practice it is impossible to meet the postcode criterion at all times but we act immediately to restore service in any area covered by this requirement.

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Appendix

1. Annual Network Report for 2018/2019

See separate document.

2. Services of General Economic Interest provided by Post Office Ltd

	Category of Service	Service Provided
1	Processing **social benefit** and **tax credit** payments to the public.	• Cash payment of state benefits including state pension, child benefits and tax credits. • Issuing of vouchers to eligible asylum seekers.
2	Processing of **national identity and licensing scheme applications**	• Providing passport application forms for customers to complete and return • Checking and authentication of passport applications and supporting documentation • Capturing biometric data for Biometric Residence Permits. • Providing vehicle licence application forms for customers to complete • Receiving payment for vehicle licences and Photocard Licences • Services for the sale of Rod Fishing Licences.
3	Universal **payment** facilities for public utility services.	• Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. savings stamps). • Provision of facilities for payment of tax bills and social housing rents.
4	Access to **postal** services	• Provision of access to postal services which the universal service provider (Royal Mail Group Limited) is required to provide under regulatory conditions and directions issued by OFCOM in accordance with section 36 of the Postal Services Act 2011 and the designated Universal Service Provider Conditions issues by Ofcom 27 March 2012
5	Universal access to **basic cash and banking facilities** and Government savings instruments, especially for rural customers and those on social benefits.	• Provision of basic community banking facilities (cashing of cheques, cash deposit, Post Office card account and automated cash withdrawals and deposits) and cash transmission facilities (postal orders), in particular to socially excluded customers. This includes deposits and withdrawals of cash by businesses local to Post Office branches. • Access to certain Government savings instruments

3. Performance against Network Accessibility Criteria

Accessibility Performance						
	National					Local
Criteria	Total Population within 3 miles	Total Population within 1 mile	Deprived Urban Population within 1 mile	Urban Population within 1 mile	Rural Population within 3 miles	Postcode Districts with less than 95% Population within 6 miles
Target	**99%**	**90%**	**99%**	**95%**	**95%**	**0**
Performance	99.7%	92.7%	99.4%	98.2%	98.7%	3*

*We have never fallen below the target for the 6 main, proximity-based, criteria. In practice it is impossible to meet the postcode criterion at all times but we act immediately to restore service in any area covered by this requirement.

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4. SGEI product categories and performance against network coverage requirements

Network coverage of SGEIs (Services of General Economic Interest)				
Category	Category of Service	Number of branches required	Number of branches where service is available	RAG
1	Processing social benefits and tax credit payments to the public	11,000	11,491	
2	Processing of national identity and licensing scheme applications	11,500	Client contract dependent	
3	Universal payment facilities for public utility services	11,500	11,625	
4	Access to postal services	11,500	11,625	
5	Universal access to basic cash and banking facilities, especially for rural customers and those on social benefits	11,000	11,491	

5. Category 2 SGEI provision

Category 2 breakdown						
Branch type	No of branches at end 03/2019	UK Visa and Immigration (UKVI)	Driver and Vehicle Licensing Agency (DVLA)	Photocard Driving Licence (DL)	Passport Services (IPS)	Rod Fishing Licences (Environment Agency)
MAIN	3,402	29	3,399	533	2,115	3,000
LOCAL	3,965	0	1,193	0	12	3,238
DMB	191	74	191	137	191	171
Traditional	2,447	0	651	31	128	1,998
Outreach	1,633	0	678	0	237	1,246
Total	**11,638**	**103**	**6,112**	**701**	**2,683**	**9,653**

Category 2 Accessibility Performance against contractual obligations					
Distance	Population Type	% Population Targets	Total Number of Branches	Driver and Vehicle Licensing Agency (DVLA)	Passport Services (IPS)
10 miles	Total	99.00%	2,683		99.59%
5 miles	Total	95.00%			96.60%
3 miles	Urban	95.00%	6,112	99.98%	
5 miles	Rural	90.00%		98.43%	

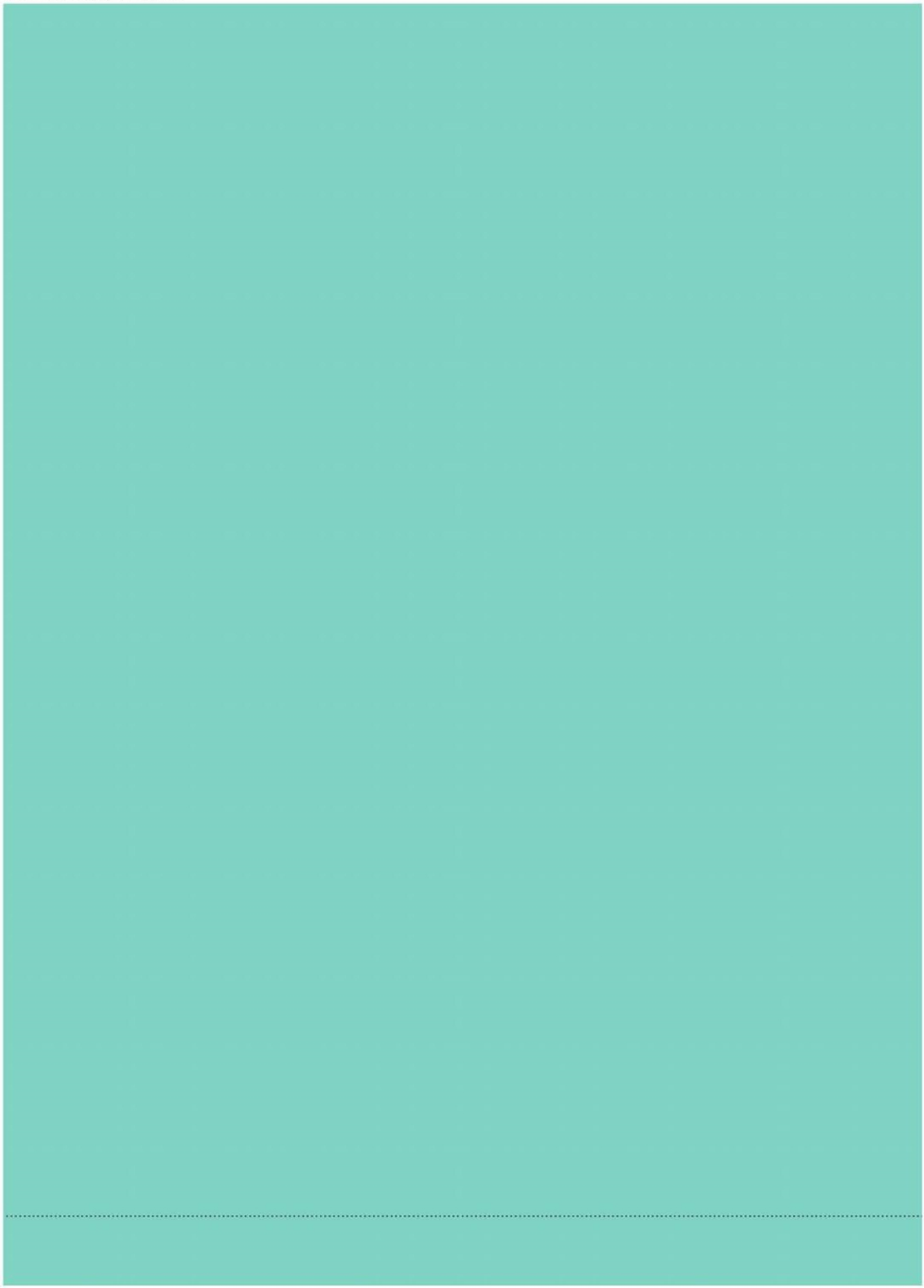
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The Post Office Network Report 2019

PRESENTED TO PARLIAMENT PURSUANT TO SECTION 11 OF THE POSTAL SERVICES ACT 2011

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Item 1.3 Background Papers



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The Post Office Network Report 2019

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About this report

This report provides information about the Post Office network and customer accessibility at the end of March 2019 as required under Provision 11 of the Postal Services Act 2011. It is sent to the Secretary of State for Business, Energy & Industrial Strategy who will lay a copy of the report before Parliament. Specific information in this report for the network at the end of March 2019 is provided in accordance with the requirements of the legislation. The report also continues yearly data sets which have been published in previous years.

Further information on Post Office Limited can be found at *corporate.postoffice.co.uk* including the Annual Report and Financial Statements.

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Size and make-up of the network

The Post Office network serves communities, individuals, families and businesses. It is a key element of the UK's infrastructure; meeting the need for postal, financial, government and telecoms services.

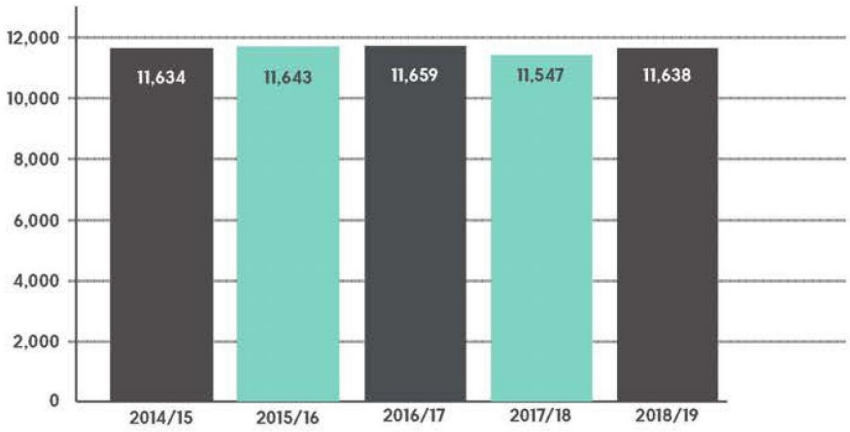
Maintaining the size and accessibility of the network is a key policy aim of Post Office Limited and at the end of March 2019 there were 11,638 branches. Based in local communities, the Post Office has a unique reach across all areas of society - for example almost 93% of people in the UK live within a mile of a Post Office branch, 99.7% within three miles and 99.4% of those living in deprived urban communities live within a mile of a Post Office branch.

At the end of March 2019, there were 191 Directly Managed branches that are run by Post Office Limited employees. The remainder of the network is made up of 11,447 branches that are run on an agency basis.

Amongst the Post Office branches operated on an agency basis there are different Post Office branch models. These range from outreach services (typically small part-time branches using a village hall or a mobile van which enable services to continue to be provided to communities which would not otherwise receive them), through to Post Office branches run by independent postmasters alongside their retail offer, and larger franchise branches (for example those operated by the Spar or WH Smith).

In recent years the Post Office has opened branches in communities where we do not currently provide services, so that we can reach new customers. In 2018/19 there were 328 new branches opened to help ensure the network continues to meet customer needs and expectations.

Number of Post Office branches



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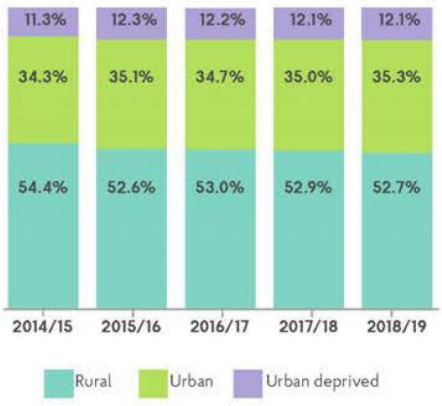
Quarterly change in network size over recent years

Date	Total	Net change	quarterly change
31.03.14	11,696	-22	-0.19%
31.06.14	11,686	-10	-0.09%
30.09.14	11,631	-55	-0.47%
31.12.14	11,627	-4	-0.03%
31.03.15	11,634	7	0.06%
30.06.15	11,597	-37	-0.32%
30.09.15	11,566	-31	-0.27%
31.12.15	11,609	43	0.37%
31.03.16	11,643	34	0.29%
30.06.16	11,648	5	0.04%
30.09.16	11,645	-3	-0.03%
31.12.16	11,633	-12	-0.10%
31.03.17	11,659	26	0.22%
31.06.17	11,582	-77	-0.66%
31.09.17	11,559	-23	-0.20%
31.12.17	11,536	-23	-0.20%
31.03.18	11,547	11	0.10%
30.06.18	11,592	45	0.39%
30.09.18	11,557	-35	-0.30%
31.12.18	11,575	18	0.16%
31.03.19	11,638	63	0.54%

Change in Post Office branches by region in 2018/19

Region	No. of branches at end of March 2018	No. of branches at end of March 2019	Net Variance	% of loss/ gain
North East	490	497	7	1.4
North West	1,119	1,111	-8	-0.7
Yorkshire and The Humber	951	951	0	0
West Midlands	900	910	10	1.1
South West	1,268	1,283	15	1.2
South East	1,373	1,382	9	0.7
London	662	675	13	2.0
East of England	1,116	1,134	18	1.6
East Midlands	879	879	0	0
Northern Ireland	485	498	13	2.7
Scotland	1,398	1,388	-10	-0.7
Wales	906	930	24	2.6
Total	**11,547**	**11,638**	**91**	**0.8**

Percentage of Post Office branches in rural, urban and urban deprived areas out of the total number of Post office branches 2014/15 to 2018/19



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Regional proportion of each type of Post Office branch at the end of March 2019

	% rural		% Urban total		% Urban other		% urban deprived		% urban deprived out of all urban offices	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
North East	49.6	49.7	50.4	50.3	30.8	31.6	19.6	18.7	38.9	37.2
North West	34.6	34.6	65.4	65.4	41.6	42.0	23.8	23.4	36.3	35.8
Yorkshire and the Humber	49.3	48.6	50.7	51.4	33.4	33.6	17.2	17.8	34.0	34.6
West Midlands	40.7	40.0	59.3	60.0	41.8	42.3	17.6	17.7	29.6	29.5
South West	68.1	68.1	31.9	31.9	27.0	27.2	4.9	4.7	15.3	14.7
South East	50.4	50.0	49.6	50.0	45.4	45.8	4.2	4.2	8.4	8.4
London	1.1	0.9	98.9	99.1	80.1	80.1	18.9	19.0	19.1	19.1
East of England	61.0	60.8	39.0	39.2	35.3	35.7	3.7	3.5	9.4	9.0
East Midlands	61.8	61.5	38.2	38.5	30.1	30.5	8.1	8.0	21.1	20.7
Northern Ireland	66.4	65.7	33.6	34.3	15.7	16.3	17.9	18.1	53.4	52.6
Scotland	65.6	65.6	34.4	34.4	24.0	24.1	10.4	10.4	30.4	30.1
Wales	68.3	68.4	31.7	31.6	17.5	17.6	14.1	14.0	44.6	44.2
Total	**52.9**	**52.7**	**47.1**	**47.3**	**35.0**	**35.3**	**12.1**	**12.1**	**25.8**	**25.2**

Regional changes in rural Post Office branch numbers.

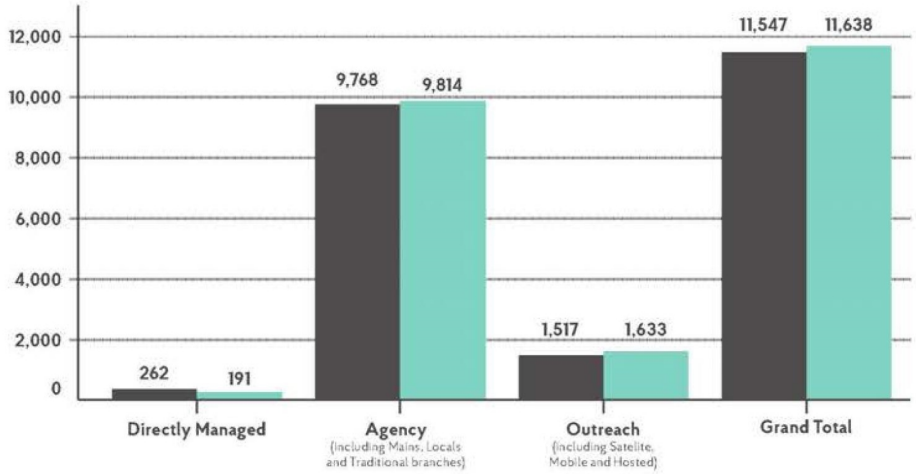
Region	Rural at end of March 2018	Rural at end of March 2019	Net change	% of loss/gain
North East	243	247	4	1.6
North West	387	384	-3	-0.8
Yorkshire and The Humber	469	462	-7	-1.5
West Midlands	366	364	-2	-0.5
South West	864	874	10	1.2
South East	692	691	-1	-0.1
London	7	6	-1	-14.3
East of England	681	689	8	1.2
East Midlands	543	541	-2	-0.4
Northern Ireland	322	327	5	1.6
Scotland	917	910	-7	-0.8
Wales	619	636	17	2.7
Total	**6,110**	**6,131**	**21**	**0.3**

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Regional changes in urban Post Office branch numbers

Region	Urban deprived at the end of March 2018	Urban deprived at the end of March 2019	Net change	%loss/ gain	Urban other at the end of March 2018	Urban other at the end of March 2019	Net change	%loss/ gain	Urban total at the end of March 2018	Urban total at the end of March 2019	Net change	%loss/ gain
North East	96	93	-3	-3.1	151	157	6	4.0	247	250	3	1.2
North West	266	260	-6	-2.3	466	467	1	0.2	732	727	-5	-0.7
Yorkshire and The Humber	164	169	5	3.0	318	320	2	0.6	482	489	7	1.5
West Midlands	158	161	3	-1.9	376	385	9	2.4	534	546	12	2.2
South West	62	60	-2	-3.2	342	349	7	2.0	404	409	5	1.2
South East	57	58	1	1.8	624	633	9	1.4	681	691	10	1.5
London	125	128	3	2.4	530	541	11	2.1	655	669	14	2.1
East of England	41	40	-1	-2.4	394	405	11	2.8	435	445	10	2.3
East Midlands	71	70	-1	-1.4	265	268	3	1.1	336	338	2	0.6
Northern Ireland	87	90	3	3.4	76	81	5	6.6	163	171	8	4.9
Scotland	146	144	-2	-1.4	335	334	-1	-0.3	481	478	-3	-0.6
Wales	128	130	2	1.6	159	164	5	3.1	287	294	7	2.4
Total	**1,401**	**1,403**	**2**	**0.1**	**4,036**	**4,104**	**68**	**1.7**	**5,437**	**5,507**	**70**	**1.3**

Post Office branches by model types in 2017/18 and 2018/19



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Accessibility of the network

The Post Office is committed to meeting the accessibility criteria that were originally laid down by the Government in 2007, and have been reconfirmed by successive Governments since.

The criteria cover UK wide accessibility for total, urban, rural and urban deprived populations. Moreover, they ensure a strong geographical distribution of Post Office branches by including a separate criterion that works at postcode district level. There are around 3,000 geographic level postcode districts throughout the UK (an example would be the HP22 part of the postcode).

Wide coverage across the UK ensures that the Post Office is accessible for all. This is the case for the population as a whole, and also for specifically analysed groups such as the elderly, disadvantaged, those on low incomes and those with disabilities. It is also the case for small businesses, where the Post Office acts as a key national infrastructure supporting this important and growing part of the economy.

Compliance with Government's minimum network access criteria, at the end of March 2019

The Government's national access criteria are:

1. 99% of the UK population to be within three miles of their nearest Post Office outlet
2. 90% of the UK population to be within one mile of their nearest Post Office outlet
3. 99% of the total population in deprived urban areas across the UK to be within one mile of their nearest Post Office outlet
4. 95% of the total urban population across the UK to be within one mile of their nearest Post Office outlet
5. 95% of the total rural population across the UK to be within three miles of their nearest Post Office outlet

   In addition, the following criterion will apply at a local level to ensure a minimum level of access for customers living in remote rural areas.
6. 95% of the population of every postcode district to be within six miles of their nearest Post Office outlet

The results against these access criteria are shown in the table opposite.

The Post Office measures the performance of the network against the Government access criteria by breaking down the population across the country into census Output Areas (OAs). Accessibility is calculated by measuring the distance of the centre (population weighted centroid) of the OA to its nearest Post Office access point.

The total national accessibility is then calculated by adding the total population of each of the census OAs deemed to meet the criterion divided by the total population as a whole expressed as a percentage.

Urban, Urban Deprived and Rural accessibility is measured by taking account of OAs classified as Urban, Urban Deprived and Rural respectively only.

The Post Office provides Citizens Advice with the location co-ordinates of all individual open and trading Post Office branches. This is the same core data upon which the accessibility results are based.

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Accessibility Performance

Criteria	Total Population within 3 miles	Total Population within 1 mile	Deprived Urban Population within 1 mile	Urban Population within 1 mile	Rural Population within 3 miles	Postcode Districts with less than 95% Population within 6 miles
Minimum requirement	99%	90%	99%	95%	95%	0
2018/19 Performance	99.7%	92.7%	99.4%	98.2%	98.7%	3*

**The Postcode District (PCD) accessibility can be impacted by a single branch not providing service at the time of the reporting. In this instance there were service issues affecting 3 PCDs and the position on each is as follows:*

HS8 The service at Howmore is experiencing service issues. This is a very deep rural location which makes serving the area difficult but the Post Office continues to work on this.

PA21 Kames and Tighnabruich Post Offices were not trading at the time of the report, but both were then subsequently covered with a mobile van service and a new PO Local service has now opened at Kames.

PH38 - Acharacle Post Office was not able to provide outreach services to Glenfinnan and Lochailort at the time of the report. The locations for the outreaches are in hotels. At Lochailort, the hotel operates on a seasonal basis and the service is now available. Glenfinnian is no longer available for use for the Post Office outreach service.

Accessibility to the Post Office branch network for key groups across the UK at the end of March 2019

The Postal Services Act 2011 (Provision 11) also requires reporting on Post Office network access for a number of user groups over and above the established Government Access Criteria as follows:

- Small businesses
- Disadvantaged individuals
- Individuals on low incomes
- Individuals with disabilities
- Individuals over the age of 65

The 2019 accessibility results for each of these categories are shown in this chart:

Criteria	Population within 1 mile of a Post Office branch	Population within 3 miles of a Post Office branch
Small businesses	92.9%	99.7%
Disadvantaged individuals	98.8%	99.9%
Individuals with incomes (<10k)	97.5%	99.9%
Individuals with incomes (<20k)	97.6%	99.9%
Individuals with disabilities	95.2%	99.8%
Individuals over the age of 65	91.6%	99.6%

CAMEO income data is a Postcode level classification system for identifying GB consumers based on likely household income.

This accessibility reporting is over and above the Government Network Access Criteria. The analysis has been conducted by Post Office Ltd's in-house Geographic Modelling Team based on the network of open Post Office branches at end of March 2019. Key data sets used in the analysis to identify the key user groups were as follows:

Small businesses
UK business locations from SimpleGeo (2011).

Disadvantaged individuals
Based on the various Indices of Multiple Deprivation available for England, Scotland, Wales and Northern Ireland as of 2014 at Output Area level.

Individuals on low incomes
Based on CAMEO Income data which categorises each Output Area within the UK as one of 8 income bandings (8 = Less than £10k, 1 = More than £100k). (CAMEO Income has been calibrated against key market research reports such as the Expenditure and Food Survey and the New Earnings Survey).

Individuals with disabilities
Based on data (for England, Wales & Scotland) taken from the Office for National Statistics 'NOMIS' facility which provides the November 2013 count of Disability Living Allowance claimants lower Super Output Area. For Northern Ireland, data was taken from the Department of Social Development's Northern Ireland Neighbourhood Information Service (NINIS) website at Output Area level.

Individuals over the age of 65
Based on the 2011 Census population broken down by age at Output Area level.

With the exception of the Small business data which is based on actual locations (to the nearest 50 metres), the network accessibility for these specific groups was measured using the same methodology as the measure of the network against the Government Access Criteria - by breaking down the individual populations across the country into census Output Areas (OAs) and by calculating accessibility by measuring the distance of the centre (population weighted centroid) of the OA to its nearest Post Office access point.

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Products and services available at the Post Office

Government Services The Post Office offers a range of services for customers on behalf of Government Departments and Councils including applications, payments, identity verification, data capture and information services - available in a range of branches across the network.

Service	Availability	Description
Post Office Card Account	All branches	A basic account for customers who are in receipt of state pensions, benefits or tax credits. Payments are made into the account by the paying department and customers can withdraw cash at all Post Office branches or the Post Office cash machine network.
Local council services	Local Area based	The Post Office provides services on behalf of over 300 local councils covering a wide range of applications and payment services both from and to residents and customers. Services include cash collection from residents for rents, rates, council tax, parking fines and licence fees, payment services including asylum seekers allowances, emergency welfare payments and rebates; form checking including benefits, planning and concessionary travel applications and identity checking and verification services.
Car Tax – Motor Vehicle Licence Issue	Selected branches	Car Tax - Motor Vehicle Licence and Statutory Off Road Notification (SORN) services provided. Customers can have their documents checked and renew their car tax at over 5,000 Post Office branches nationwide.
Driving Licence photocard renewal	Selected branches	The photo on the DVLA photocard licence has to be renewed every 10 years. The DVLA Photocard Renewal service at the Post Office helps save time and makes sure the photocard renewal application meets DVLA requirements by taking a photo to the required DVLA standards, capturing an electronic signature and sending the data electronically and securely to the DVLA.
International driving permit	Selected branches	Applications can be made in selected branches for an International Driving Permit which is required to drive legally in many places overseas alongside a UK driving licence.
Passport Check & Send	Selected branches	Customers can take their passport applications to a Post Office that provides the check and send service where the application form and documentation are checked to ensure that everything is correct. The application is then despatched by Royal Mail Special Delivery. Passport application forms are available from Post Office branches offering the Passport Check & Send service.
Identity checking services	Selected branches	Customers who need to have photocopies of identity documents certified (for example when applying for a mortgage, bank account or new job), can have original documents checked and photocopies certified at the Post Office.
Biometric Residence Permit	Selected branches	Customers who need to apply to stay in the UK who are from outside the European Economic Area (EEA) may need to apply for a Biometric Residence Permit and can do so at selected Post Office branches if they receive an invitation letter from the Home Office. The Post Office captures the customer's biometric details by taking their photograph, fingerprints and digital signature and sends the information securely to the Home Office.
Biometric Residence Permit collection service	Selected branches	Customers who have processed their application for a Biometric Residence Permit prior to entering the UK can apply to collect the permit from selected Post Office branches.
GOV.UK Verify service	On-Line only	Customers seeking access to services on GOV.UK are able to do so via Post Office's Verify service. The Post Office is one of eight companies offering this form of identity assurance. Once verified customers are able to use a single username and password to access a growing number of services across government. The service is only available online.
CQC – CRB registration service	Selected branches	The Care Quality Commission (CQC) is the independent regulator of all health and social care services in England. Customers who need a Criminal Records Bureau (CRB) check from the CQC can get their application checked at the Post Office to verify their identity.
Rod fishing licences	All branches based on demand	A range of rod licences can be paid for in branches where there is a local demand in England, Wales and the border region of Scotland.

Further information on the products and services available from Post Office can be found at *postoffice.co.uk* or by calling GRO

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Products and services available at the Post Office

Mails A range of Royal Mail Group Limited and Parcelforce Worldwide services are available from Post Office branches nationwide.

Service	Availability	Description
Letter and Document Services	All branches	UK and international letter and document delivery options available. Delivery options include fast and secure with end-to-end tracking, a signature taken on delivery, or a standard delivery for less urgent items.
UK Parcels Guaranteed	All branches	Guaranteed UK Parcel services are ideal for a valuable gift or important item that absolutely has to be there tomorrow: Royal Mail Special Delivery Guaranteed by 9am® Royal Mail Special Delivery Guaranteed by 1pm® Parcelforce Worldwide express**24** (available in selected branches) Parcelforce Worldwide express**9** (available in selected branches), express**10** and express**AM** (available in selected branches) Ireland**express** (selected branches)
UK Parcels Confirmed	All branches	Confirmed UK parcel services provide extra peace of mind of proof of delivery with a signature: Royal Mail Signed For® 1st Class | Royal Mail Signed For® 2nd Class Parcelforce Worldwide express**48** Parcelforce Worldwide express**48**large – selected branches only
UK Parcels Standard	All branches	Standard UK parcel services are reliable and easy to use and offer a range of delivery options for non-valuable items: Royal Mail 1st Class | Royal Mail 2nd Class Parcelforce Worldwide express**48** Parcelforce Worldwide express**48**large – selected branches only
International Parcels Guaranteed	Selected branches	Guaranteed international parcel services are ideal for fast and secure international parcel delivery, with the added security of end-to-end tracking and online confirmation of delivery: Parcelforce Worldwide global**express** | Parcelforce Worldwide global**priority**
International Parcels Confirmed	All branches	Confirmed international parcel services for extra peace of mind with tracking or signature on delivery: Royal Mail International Tracked®- Royal Mail International Signed®, Royal Mail International Tracked & Signed
International Parcels Standard	All branches	Standard International parcel services are reliable and easy to use and offer a range of delivery options: Royal Mail International Standard | Royal Mail International Economy Parcelforce Worldwide global**value** (available in selected branches) Parcelforce Worldwide global**economy** (available in selected branches)
Drop & Go	Most branches	Drop & Go – a free, fast-track service aimed at small businesses, online sellers and anyone sending mail regularly. Customers top-up a prepaid card online or in-branch, drop-off their items in branch and 'go'. The branch will process their items on the same day they are dropped-off, deducting funds from the customers' card as they go and the customer can view their transaction history and manage their account online.
Additional postage services	All branches	Articles for the Blind, HM Forces letters (British Forces Post Office) etc.
Philatelic	Selected branches	Royal Mail special issue stamps and associated products, such as presentation packs and first day covers (stocked based on demand).
Local Collect/ Convenient Delivery	Most branches	Undelivered postal items are taken to the nearest participating Post Office by the postal delivery staff for later collection or customer has opted for the collection at their local Post Office branch.
Click & Collect/ Convenient Collect	Most branches	Online ordering available for delivery to their local Post Office branch.
Home Shopping Returns	All branches	Acceptance of Royal Mail Home Shopping Returns and Tracked Returns which can be accepted as a pre-printed label or QR code driven where the label is printed in branch (selected retailers only).
Redirection	All branches	Mail redirection service for customers who are moving home.

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Products and services available at the Post Office

Telecoms The Post Office offers a range of telephony products including Homephone products and Broadband services.

Service	Availability	Description
Home Phone	Most branches	Affordable line rental service with Unlimited weekend calls to UK landlines and low call rates. 12 month contract. Simple application process at most Post Office branches, online or by phone.
Unlimited Broadband	Most branches	Totally Unlimited Broadband, Average peak time speed: 11Mb, Wi-Fi router and Unlimited weekend calls to UK landlines. Choice of contract lengths available. Simple application process at most Post Office branches, online or by phone.
Unlimited Fibre Broadband	Most branches	Totally Unlimited Broadband, Average peak time speed: 36Mb, Fibre Wi-Fi router and Unlimited weekend calls to UK landlines. Choice of contract lengths available. Simple application process at most Post Office branches, online or by phone.
Unlimited Fibre Broadband Plus	Most branches	Totally Unlimited Broadband, Average peak time speed: 63Mb, Fibre Wi-Fi router and Unlimited weekend calls to UK landlines. Choice of contract lengths available. Simple application process at most Post Office branches, online or by phone.
UK & International Phone cards	Most branches	UK International calling card offering cheap calls to national and international destinations.
Mobile E top-ups	All branches	Top-up service for all pre-pay mobile providers.
Post Office Directory Enquiries (118 855)		Customers can save money by using a more affordable alternative to more costly 118 services. One flat rate service charge for one number enquiry.

Financial Services The Post Office offers a range of financial services products including banking, foreign exchange, bill payment and savings and investment products.

Service	Availability	Description
Personal banking and Business banking	All branches	Post Office offer a range of core services – cash deposit, cash withdrawal, change giving and cheque handling – in a standardised and sustainable manner, to virtually every Personal, SME and Business customer of almost every UK bank. These services are provided through a 'Banking Framework' which has been established to ensure continuity, standard service and consistent operational provision to each participating bank.
Cash machines	Selected Branches	Around 2,400 free-to-use cash machines are available at Post Office branches nationwide.
Bureau de Change	All branches	A wide range of commission free currencies and the Post Office Multi-Currency card, 3,600 branches offer a range of currencies on demand. An additional 1,400 branches offer Euro and Dollars on demand as well as Turkish Lira in the Summer with a further 4,000 offer Euros on demand. Currencies can be pre-ordered in any Branch or Online for collection at any branch.
Travel Insurance	Selected Branches	Single Trip, Annual Multi-Trip and Backpacker products available. Premier Travel Insurance available in selected Post Office branches. The full Travel Insurance range, including Super Economy, Economy, Standard, Premier and Premier Plus available on-line and over the phone
Travel Money Card	Selected branches	Post Office Multi-Currency Travel Money Card offers the security of travellers' cheques with the convenience of plastic making it a secure, convenient way to carry foreign currency. You can load the card with up to 13 Currencies – including Euro, US Dollar and Sterling – and then use it in restaurants and bars around the world that welcome Mastercard. The Travel Money Card App makes it easy to Top up, check balances and recent transactions.
Moneygram	Selected branches	International money transfer service, customers can send money to over 200 countries, with the cash available in minutes worldwide. Available in around 6,500 branches.
Bill payments	All branches	Acceptance of payment and pre-payment towards a variety of bills including gas, electricity, water, phone, council rent, mail order and insurance. (Some schemes available on an area basis as agreed with local authorities.) In October 2018 Post Office announced its acquisition of Payzone Bill Payments Limited which is now part of the Post Office Group.

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Products and services available at the Post Office

Service	Availability	Description
Paystation and charging of electricity and gas meter tokens	All branches	To charge electric keys, Quantum Gas Cards, and mobile phone top ups. (Stocks of electricity tokens for meters are also available in selected branches based on local schemes.)
Mortgages	On-line or by phone	Post Office offers a comprehensive range of mortgages for first-time buyers, home movers and re-mortgages, applications can be made on-line or by phone.
Credit Card	Information in some branches, apply online	The Post Office Money Credit Cards offers a range of credit cards offering a range of features and benefits. Information is available in some branches and customers can apply online.
Personal Loans	Online only	The Post Office Money personal loan offers flexible borrowing between £1,000 and £25,000 with fixed monthly payments.
Online Saver	Online only	The Online Saver offers easy access with no notice and no penalty and unlimited withdrawals.
Online Bond	Online only	The Online Bond offers 1 ,2, 3 year terms with a guaranteed fixed return.
ISA	In branch, on-line, by phone or post depending on the product	The Post Office offers an Online ISA, an Easy Access Cash ISA, a Fixed Rate Cash ISA and a Junior ISA.
Instant Saver	Selected branches	Easy access variable rate product with a bonus for the first 12 months. Apply by post or at selected Post Office branches. Access to over 60,000 LINK cash machines.
Growth Bonds	Selected branches	Fixed term bond product offering 1, 2 & 3 yr terms. Apply by post, or at main Post Office branches.
Motor Insurance	On-line and via the phone*	Car, motorbike and van insurance can be purchased on-line and over the phone. Information is also available in branches, information and quotations are also available via price comparison websites.
Home Insurance	On-line and via the phone*	Home Insurance can be purchased on-line and over the phone. Information is also available in branches. Information and quotations are also available via price comparison websites.
Life Insurance and Over 50s Life cover	On-line and via the phone*	Life Insurance can be purchased on-line and via the phone. Post Office branches hold information to introduce the service to customers.
Pet Insurance and Business Insurance	On-line and via the phone*	Pet Insurance and Business Insurance can be purchased on-line and via the phone. Post Office branches hold information to introduce the service to customers.

* information available in branches

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Bank account services available at Post Office branches

Bank / Building Society	Cash withdrawal (with card and PIN)	Balance enquiry (with card and PIN)	Cash deposit (with card, barcoded slip or with personalised paying-in slip from your bank, depending on your bank)	Cheque deposit (with personalised paying-in slip and deposit envelope)
Cashplus	Yes	Yes	Yes	No
Allied Irish Bank	Yes	Yes	Yes	Yes
Bank of Ireland	Yes	Yes	Yes	Yes
Bank of Scotland	Yes	Yes	Yes	Yes
Barclays	Yes	Yes	Yes	Yes
cahoot	Yes	Yes	Yes	Yes
Clydesdale Bank	Yes	Yes	Yes	Yes
Danske Bank	Yes	Yes	Yes	Yes N. Ireland only
First Direct	Yes	Yes	Yes	Yes
First Trust Bank	Yes	Yes	Yes	Yes
Halifax	Yes	Yes	Yes	Yes
Handelsbanken	Yes	Yes	Yes	No
HSBC	Yes	Yes	Yes	Yes
Lloyds Bank	Yes	Yes	Yes	Yes
Metro (business customers)	No	No	Yes	Yes
Nationwide Building Society	Yes	Yes	No	No
NatWest	Yes	Yes	Yes	Yes
Santander	Yes	Yes	Yes	Yes
Smile	Yes	Yes	Yes	Yes
Starling Bank	Yes	Yes	Yes	No
The Co-operative Bank	Yes	Yes	Yes	Yes
The Royal Bank of Scotland	Yes	Yes	Yes	Yes
Think Money	Yes	Yes	Yes	Yes – Deposit slip not required
TSB Bank	Yes	Yes	Yes	Yes
Ulster Bank	Yes	Yes	Yes	Yes
Virgin Money	Yes	Yes	Yes	No
Yorkshire Bank	Yes	Yes	Yes	Yes

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Royal Mail Group Limited products, stamps and services available at Post Office branches* (end March 2019)

1st class stamps (individual)
2nd class stamps (individual)
Other stamps
1st class stamp book
2nd class stamp books
Stamps books vending
Royal Mail Signed For® Stamp
Royal Mail Special Delivery Guaranteed® Stamp
First Class Labels
Second Class Labels
Royal Mail Signed For® 1st Class (sale and accept)
Royal Mail Signed For® 2nd Class (sale and accept)
Royal Mail Special Delivery Guaranteed by 9am® (sale and accept) – also with Saturday Guarantee
Royal Mail Special Delivery Guaranteed by 1pm® (sale and accept) – also with Saturday Guarantee
International Standard
International Tracked® (sale and accept)
International Signed (sale and accept
International Tracked & Signed (sale and accept)
International Economy
Redirection / International Redirection – consumer
Redirection / International Redirection – business
Special Circumstances redirection
Home Shopping Returns/parcel returns/ returns high volume/Labels to Go
HM Forces letters (British Forces Post Office <2kg)
Parcelforce Worldwide express**9**
Parcelforce Worldwide express**10**
Parcelforce Worldwide express**AM**
Parcelforce Worldwide express**24**
Parcelforce Worldwide express**48**
Parcelforce Worldwide express**48large**
Parcelforce Worldwide Sundayexpress
Parcelforce Worldwide global**value**
Parcelforce Worldwide global**express**
Parcelforce Worldwide global**economy**
Parcelforce Worldwide global**priority**
Parcelforce Worldwide British Forces Post Office parcels
Parcelforce Worldwide ireland**express**
Parcelforce Worldwide consignment subsequent item
Special Stamps Sheets
Coin Covers
Commemorative, Smiler Sheets
First day envelopes
Mini Sheets
Presentation packs
Prestige Stamp Books
Special Stamps Retail Books
Stamps Cards
Annual products including Yearbook / Yearpack
Christmas Stamps Retail Books
Convenient Delivery
International Reply paid Coupons (redemption only)
Local Collect
Poste Restante

The following products are also accepted at Post Office branches

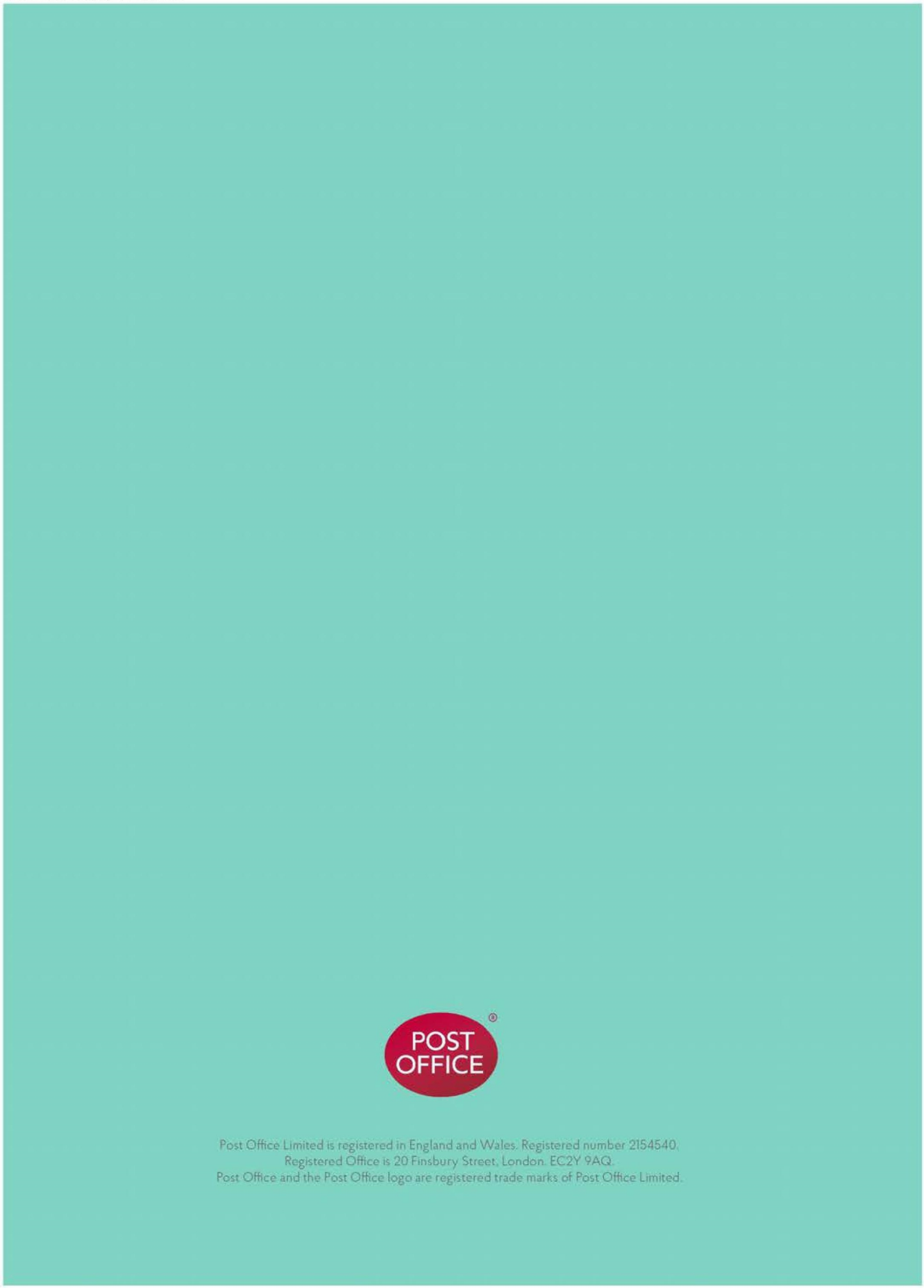
On Line Postage (parcels)
On Line Postage (letter)
1st class/2nd class letter stamped items
1st class/2nd class Small and Medium Parcels Meters (franked) pouches
1st class/2nd class letter (franked) mail
1st class/2nd class Small and Medium Parcels (franked mail)
Bulk postings franked mails
Bulk postings stamped mails
Postage Paid Impression bagged mails
Prepaid Stationery
Special delivery Business Response by 9am
Special delivery Business Response by 1pm
Response services (FREEPOST & BUSINESS REPLY)
International Business Response Service (Outbound)
Parcelforce Worldwide Contract / Prepaid**9**
Parcelforce Worldwide Contract / Prepaid**10**
Parcelforce Worldwide Contract / Prepaid**12**
Parcelforce Worldwide Contract / Prepaid**24**
Parcelforce Worldwide Contract / Prepaid**48**
Parcelforce Worldwide Contract / Prepaid global**express**
Parcelforce Worldwide Contract / Prepaid global**priority**
Parcelforce Worldwide Contract / Prepaid ireland**express**
Parcelforce Worldwide Contract / Prepaid British Forces Post Office Parcels
Articles for the Blind
Parcelforce Worldwide euro**priority** return
Parcelforce Worldwide Contract euro**returns**
Parcelforce Worldwide contract euro**priority** (Parcelforce Contract Global**priority**)
Overseas stamped mails
Overseas meter mails

* Some services are only available at selected branches

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Purpose, Strategy and Growth

Board presentation
26 November 2019

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- Channel profitability

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Executive summary – Where we make money

- The PSG team has worked closely with Post Office Finance team to depict a picture of product and channel profitability based on existing Post Office data
- As per last Board meeting, **we are presenting product profitability using "Contribution"**, a new profitability view developed by the PO Finance team, which splits total overheads between "True" overheads (e.g., finance, HR and legal) and Allocated Indirects (e.g., CIO and DMB costs, which are otherwise part of total overheads)
- Channel profitability is presented on trading profit terms
- The analysis drives several insights:
  - As of FY 2018-19, **Post Office top revenue driver** is **Mails** (GRO, while **Financial Services** is **top contribution driver** (GRO) with best contribution margin GRO
  - Over the next two years, **product contribution mix changes significantly**: almost GRO **of contribution** is expected to be **driven by Cash & Banking** GRO, while only GRO **is driven by Financial Services**. Mail contribution remains stable (GRO
  - From a channel perspective, **online / non-branch** channels drove ~GRO **trading profit vs. a loss of** GRO **from physical channels** (e.g. Mains, Locals, traditional and DMB), for a total POL trading profit of GRO

Column A-

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Executive summary – Where we make money: Product profitability

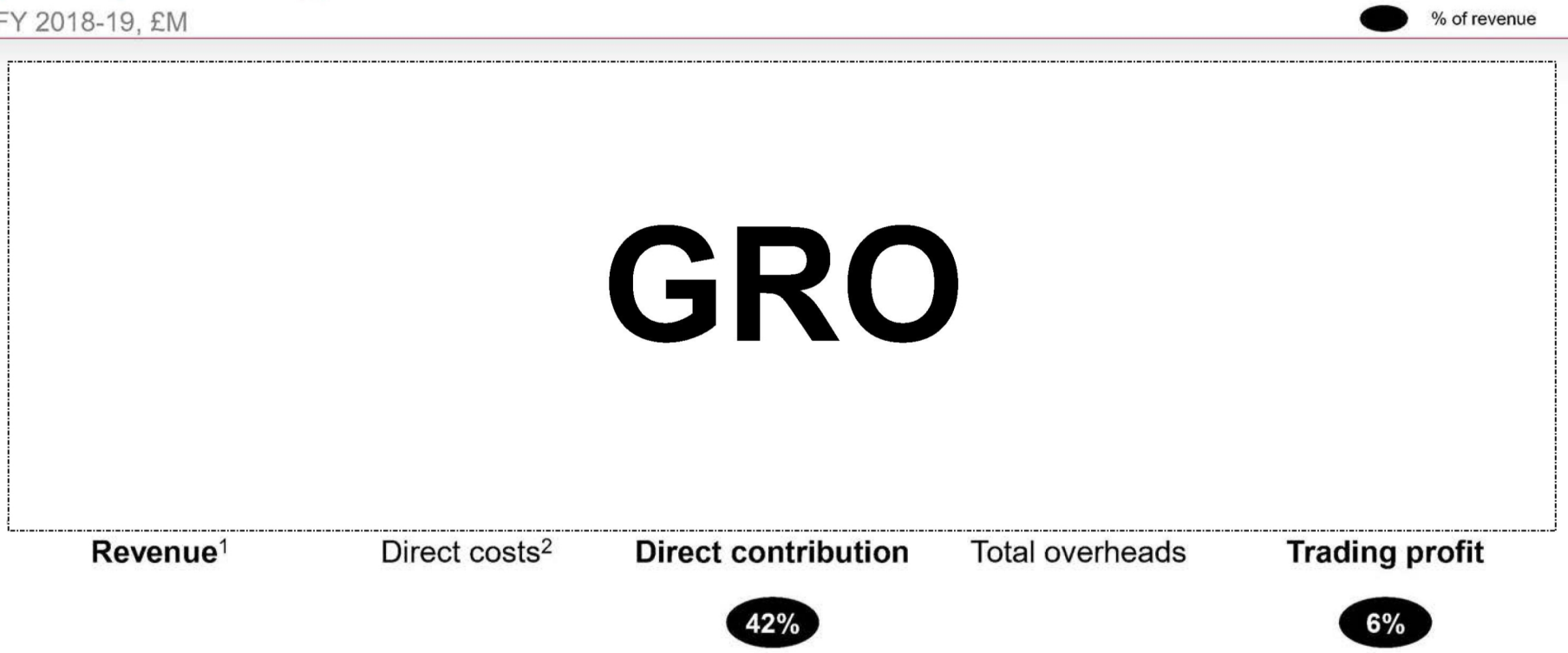
- As a reminder, in FY2018-19, Post Office generated GRO **of revenues** and GRO **trading profits**, a GRO **margin**
- In FY2018-19 the **top 4 drivers of revenues** were **Mail** GRO of total revenues), **Cash & Banking** GRO **Telecoms** (15%) and **Financial Services** (GRO)
- **Over the next 2 years, baseline forecasted revenue is expected to grow 3% CAGR** with **Mails remaining flat**, **Cash & Banking growing at 24% CAGR** and **Financial Services shrinking at -10% CAGR**
- An analysis of the Direct Contribution shows **every product category made a positive direct contribution in FY2018-19**; **FS the highest direct contribution margin at 71%**
- Overall, **Direct Contribution is expected to remain stable over next 2 years (+1% CAGR)** in PO Finance baseline forecast at GRO as Cash & Banking growth is offset by shrinking Financial Services and Identity
- The POL Finance team worked to **refine the profitability view by splitting Total Overheads between Allocated Indirect Costs and "True" Overheads**, providing a view on Contribution (GRO of revenues)
- **Allocated Indirect Costs** include **CIO**, **DMB**, **Network Ops**, **Agent Fixed Remuneration** and **Marketing**. These can be allocated to product categories using standard assumptions
-
-

GRO

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REMINDER: In FY2018-19, Post Office generated GRO of revenues and GRO trading profits, a GRO margin

FY 2018-19, £M



1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by accounting adjustments: inclusion of POCA as revenue GRO inclusion of FRES travel money GRO exclusion of Payzone GRO

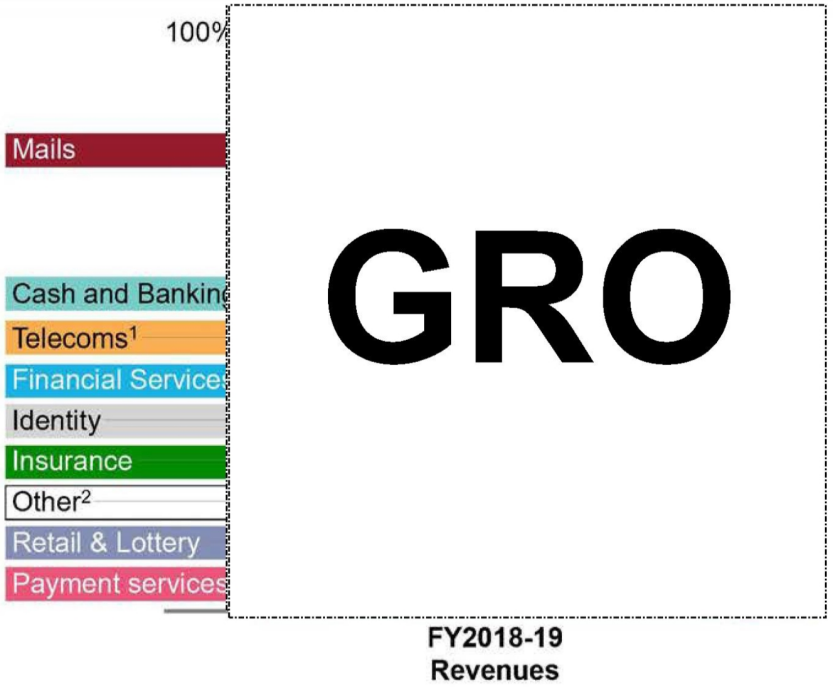
2 Agent variable costs, processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain

Source: POL Finance

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In FY2018-19 the top 4 drivers of revenues were Mail GRO, Cash & Banking GRO, Telecoms GRO and Financial Services GRO

£M

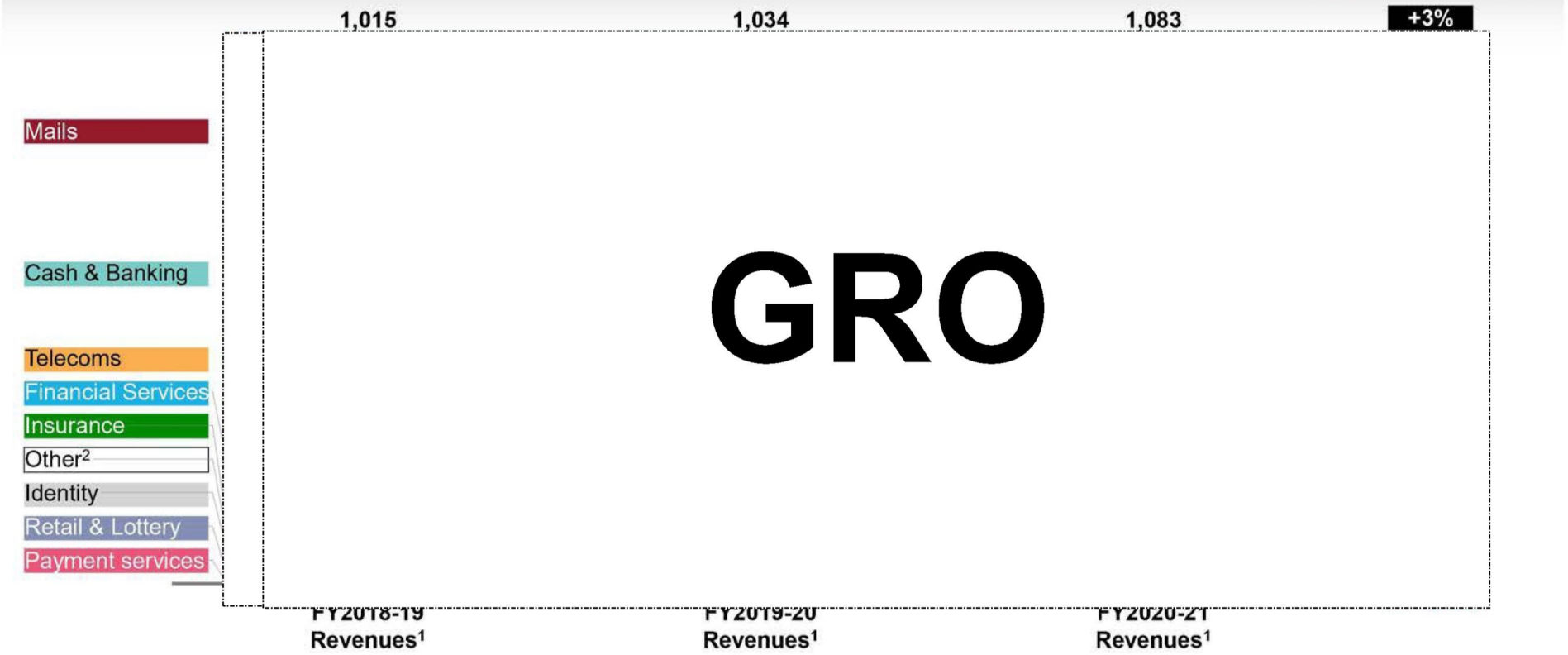


1 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model
2 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income
Source: POL Finance

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Over the next 2 years, baseline forecasted revenue is expected to grow GRO CAGR with Mails remaining flat, Cash & Banking GRO CAGR and Financial Services GRO CAGR

£M, baseline forecast



1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by accounting adjustments: inclusion of POCA as revenue GRO inclusion of FRES travel money (GRO exclusion of Payzone GRO 2 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income

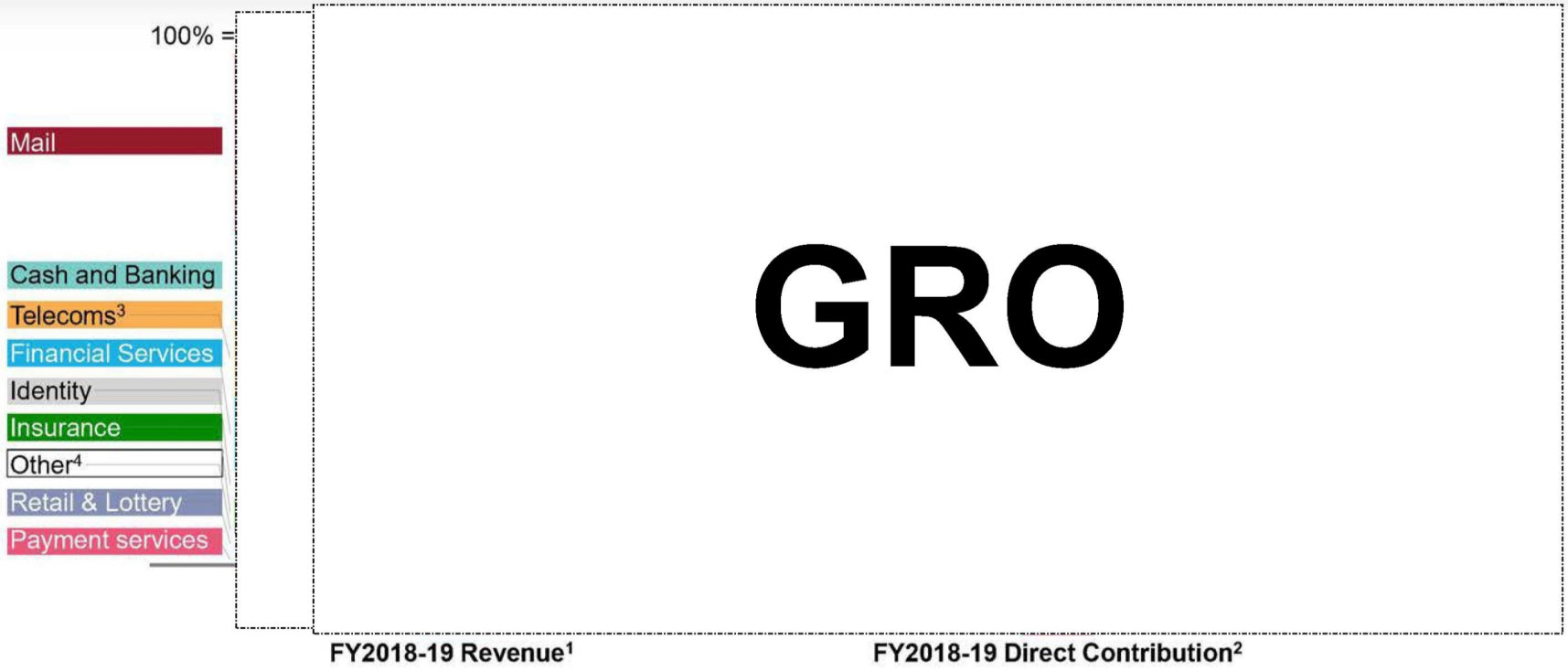
Source: POL Finance

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An analysis of the Direct Contribution shows every product category made a positive direct contribution in FY2018-19; FS the highest direct contribution margin at GRO

£M

Direct Contribution margin (% of rev)



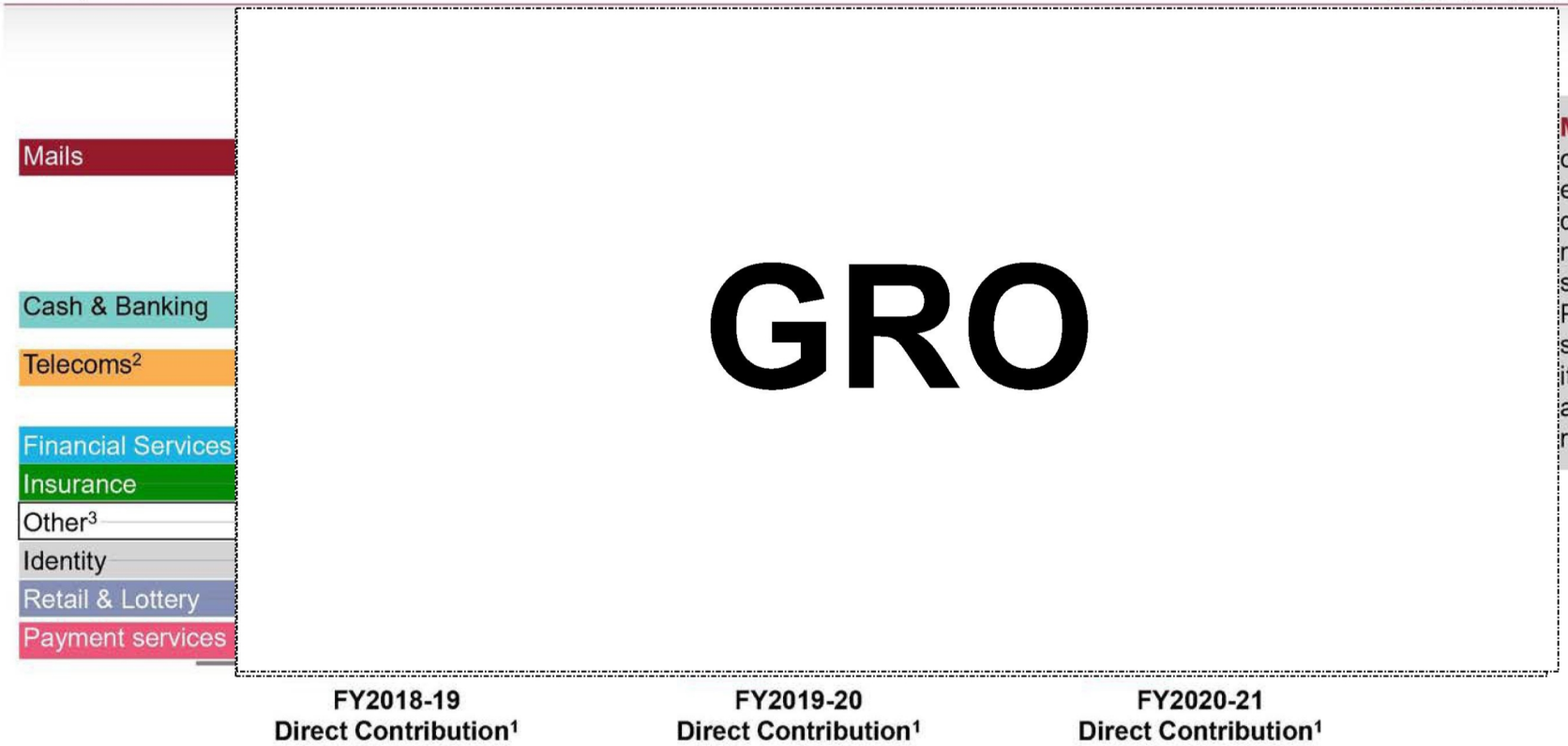
1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by accounting adjustments: inclusion of POCA as revenue GRO inclusion of FRES travel money GRO, exclusion of Payzone GRO 2 Direct contribution calculated as revenue minus direct costs per major project group. 3 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model. 4 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income. Source: POL Finance

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Overall, Direct Contribution expected to remain stable over next 2 years GRO CAGR) at GRO as Cash & Banking growth is offset by shrinking Financial Services and Identity

£M, baseline forecast

CAGR (FY2018-19 to 20-21)



Mails direct contribution expected to decrease as revenue mix shifts towards PUDO and special delivery items that carry a higher agents remuneration

1 Direct contribution calculated as revenue minus direct costs per major project group. Excludes Pazyone. 2 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model 3 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income. Source: POL Finance

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The POL Finance team worked to refine the profitability view by splitting Total Overheads between Allocated Indirect Costs and "True" Overheads, providing a view on Contribution GRO of revenues)

FY 2018-19, £M

% of revenue

GRO

Revenue[1]	Direct costs[2]	Direct contribution	Allocated indirect costs[3]	Contribution	Overheads[4]	Trading profit
		42%		14%	Resulting "Contribution" view	6%

1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by accounting adjustments: inclusion of POCA as revenue GRO, inclusion of FRES travel money GRO, exclusion of Payzone GRO
2 Agent variable costs, processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain
3 Agent fixed costs GRO, DMB costs, Marketing, network operations, CIO
4 Staff costs, finance and operations, legal, risk & governance, HR & people & engagement, communications & central
Source: POL Finance

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Allocated Indirect Costs include CIO, DMB, Network Ops, Agent Fixed Remuneration and Marketing. These can be allocated to product categories using standard assumptions

FY 2018-19, £M

% of revenue



Revenue[1]	Direct costs[2]	Direct contribution	CIO	DMB	Network operations[3]	Agents fixed remuneration	Marketing	Contribution
		42%						14%

1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by accounting adjustments: inclusion of POCA as revenue GRO inclusion of FRES travel money GRO exclusion of Payzone GRO

2 Agent variable costs, processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain

3 Figures based on 18/19, and so excludes transfer of Retail Operations under Retail in 19/20

Source: POL Finance

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Compared to "Direct Contribution": the "Contribution" proportion of Mails is significantly

GRO



1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by accounting adjustments: inclusion of POCA as revenue (£14m), inclusion of FRES travel money GRO exclusion of Payzone GRO. 2 Direct contribution calculated as revenue minus direct costs per major project group. 3 Contribution calculated as revenue minus direct costs per major project group. 4 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model 5 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income Source: POL Finance

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Contribution to grow GRO CAGR by FY2020-21, at which point Cash & Banking expected to drive almost GRO Identity increases GRO

£M, baseline forecast



1 Contribution calculated as revenue minus direct costs and unallocated overheads per major project group 2 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model 3 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income Source: POL Finance

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Executive summary – Where we make money: Channel profitability

- Channel split shows **most product revenues driven at least partly by branches** (vs. non-branch, i.e. online and call centres), **except for Telco and FS**
- **7,400 of POL's ~11,600 PO branches are Mains and Locals**
- **Online / non-branch channels** GRO **as well as Mains (**GRO**) and Locals (**GRO**) are the engines of Post Office profits in FY2018-19**
- **Within the branch network, Mains and Locals are the engines of profits accounting for** GRO **of profits in FY2018-19; DMBs** and **Traditional branches** respectively drive GRO and GRO of **losses**
- **50% of revenues** driven by just GRO **of branches** GRO ranches)
- **Last quartile of branches** (ranked by profitability) drive **losses almost as great as profits from first 2 quartiles**
- GRO **of the top quartile branches** (ranked by profitability) are **Mains**; GRO **of bottom quartile of branches are Traditional branches**

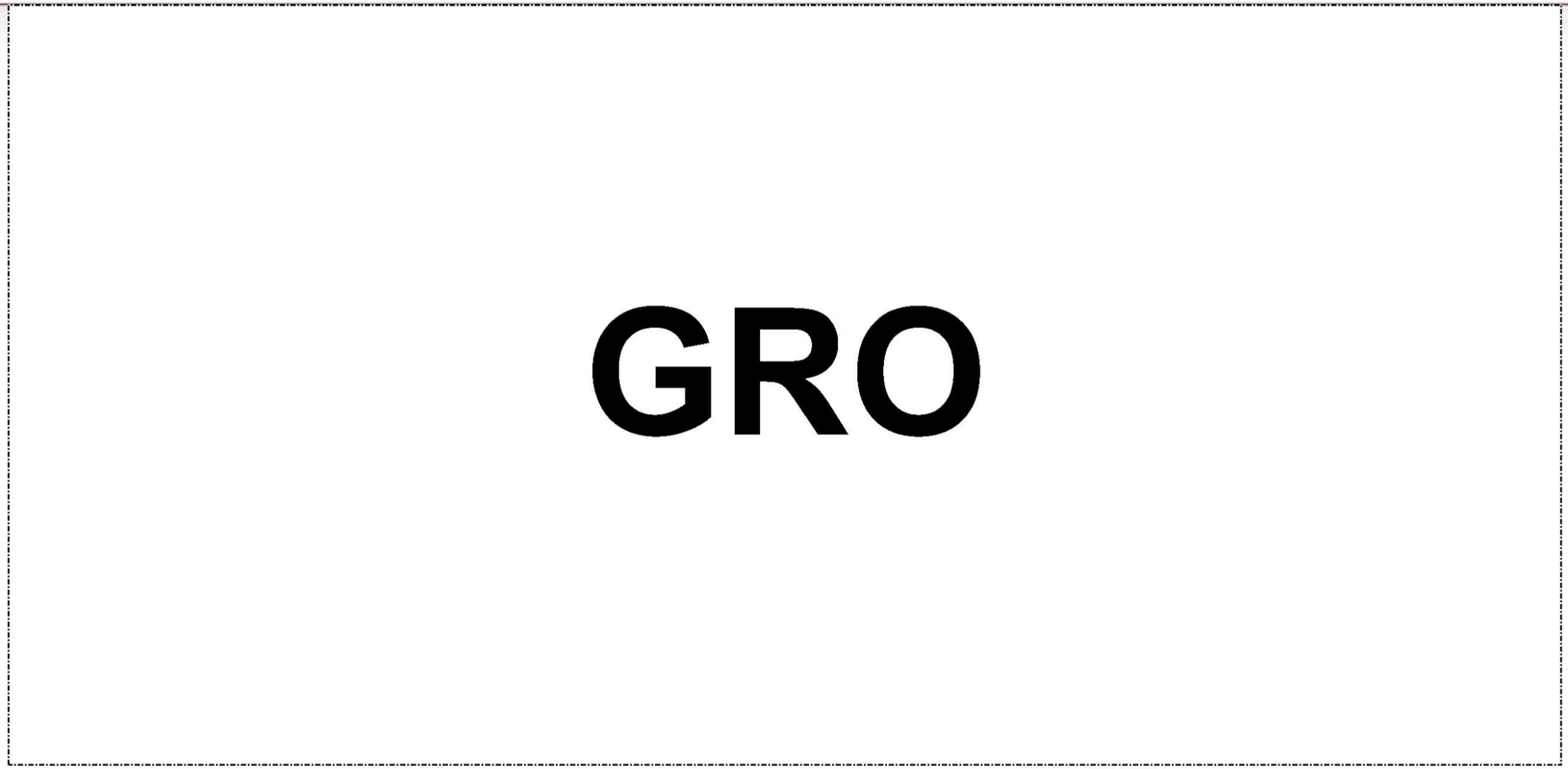
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Channel split shows most product revenues driven at least partly by branches, except for Telco and PO Money

£M revenue[1], FY 2018-19

Online/Non-branch
Branch

Home Office Payment Services
Banking Framework
POCA
Moneygram
Postal Orders
Mails
Retail & Lottery
ATM
Other Identity
Travel Money
Insurance
PO Money
Telco
Verify
Other



1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by exclusion of Payzone (GRO) and Royal Mail fixed fee GRO

SOURCE: POL, product split based on Credence database

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7,400 of POL's ~11,600 PO branches are Mains and Locals

As of end of FY2018-19

PRELIMINARY

Format	Description	Product / service range	Number of branches
Mains	▪ Larger branches with minimum of two counters ▪ May be a dedicated Post Office or situated in another shop, e.g., WHSmith	▪ Core services[1] ▪ Exact range dependent on local needs	~3,400
Locals	▪ Always situated within another shop, e.g., in a Nisa ▪ Usually just has a combi counter	▪ Core services[1] ▪ Exact range dependent on local needs	~4,000
Traditional	▪ Branches not yet converted to Locals as per Network Transformation ▪ Have protected status – remain on old contracts due to POL social purpose ▪ Remain on old contracts, but are on notice until Local partner found	▪ Most services offered ▪ Exact range dependent on local needs	~2,500
Outreach	▪ Often run from public buildings, e.g., village halls, libraries ▪ Include mobile vans ▪ Operate under reduced hours	▪ Core services[1]	1,400
Directly Managed Branches (DMBs)	▪ Managed and staffed by POL ▪ Real estate may be owned or leased	▪ Full[2] ▪ Some do not offer full range of Identity services	~200
TOTAL POST OFFICE			~11,500
Payzone	▪ Provides card payment solutions ▪ Accessed face-to-face, online or via telephone	▪ Card payment solutions	~13,500

Grand total of ~25,000 Post Office and Payzone branches

1 Core services include Mails, POCA, Banking, Bill Payments, Travel Money, Click and Collect
2 Full services include Mails, POCA, Banking, Bill Payments, Travel Money On Demand, Post Office Money, Broadband and Phone, Identity services

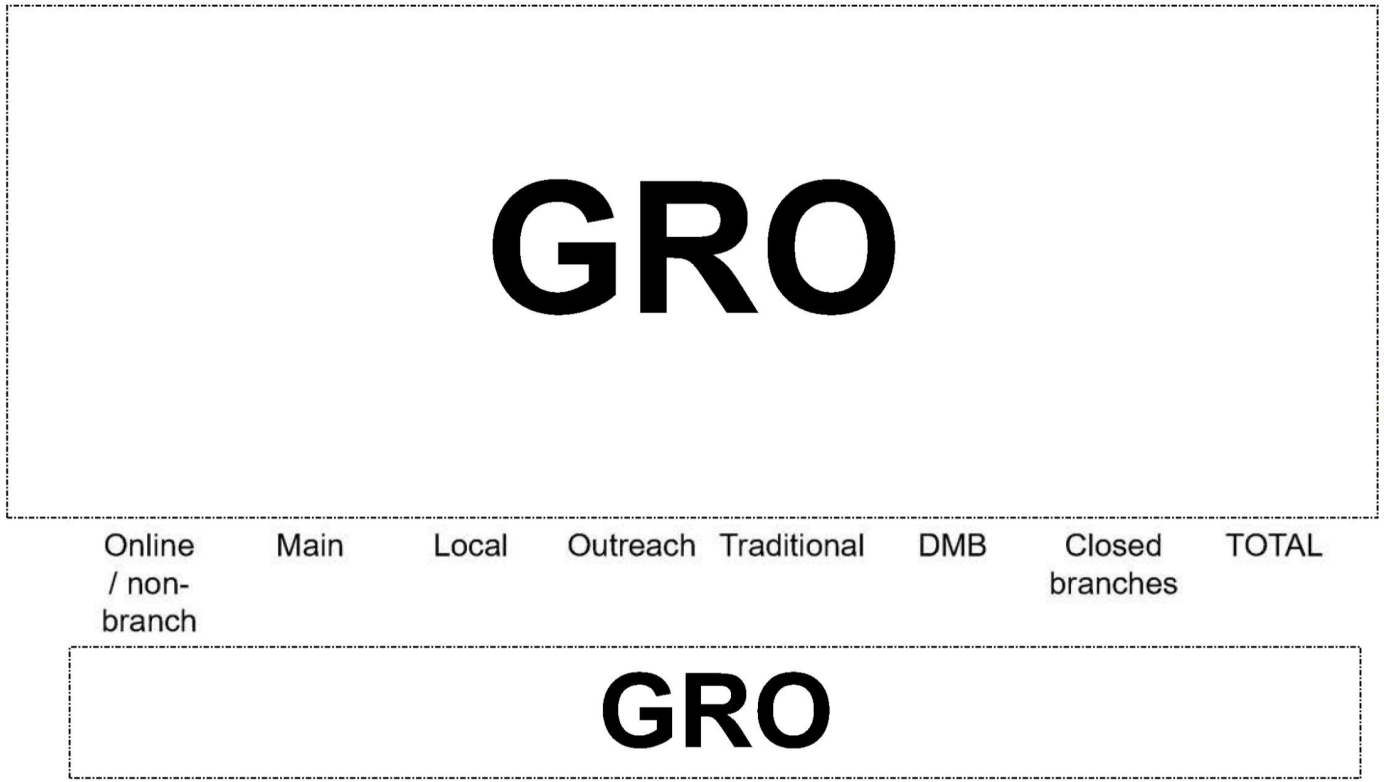
SOURCE: POL

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Online / non-branch channels GRO as well as Mains GRO and Locals GRO are the engines of Post Office profits in FY2018-19

£M trading profit, FY 2018-19

XX Revenue XX% Profit margin



- **Online / non-branch** channels drive GRO trading profit vs. GRO loss from **branches**
- **DMB**, followed by **traditional branches,** (which include community branches) are the **main loss drivers**
- **Mains** and **Locals** branches are the **engine of profit** in the branch network
- **Outreach loss** is relatively GRO of trading profits)
- **Closed branches** drive GRO of total network losses

1 Revenue before network subsidy payment. Differential with reported GRO revenue driven by exclusion of Payzone GRO

SOURCE: NSP model, POL Finance

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Detailed view of branch profitability shows DMB and Traditional accounting for the vast majority of all losses generated by the branch network

FY2018-19

Channel	Profit-making # of branches As of end of FY18/19	Profit-making Trading Profit, £m FY18/19	Loss-making # of branches As of end of FY18/19	Loss-making Trading Profit, £m FY18/19	Total # of branches As of end of FY18/19	Total Trading Profit, £m FY18/19
Locals						
Mains						
Outreach						
Traditional						
DMB						
TOTAL[2]						

GRO

Key takeaways

- Online channel is the primary driver of POL profit
- Excluding DMB, POL physical network will have a positive profitability profile
- On average, loss-making main and local branches are close to break-even
- +85% of traditional branches are loss-making driving £22m of negative profit

1 ~1,600 outreach branches are served by 500 units. These 500 units will be used in the analysis over the next pages; 2 Excludes profitability associated to closed branches

SOURCE: NSP model, POL Finance

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50% of revenues driven by just 14% of branches (1,600 branches)

FY 2018-19

PRELIMINARY

GRO

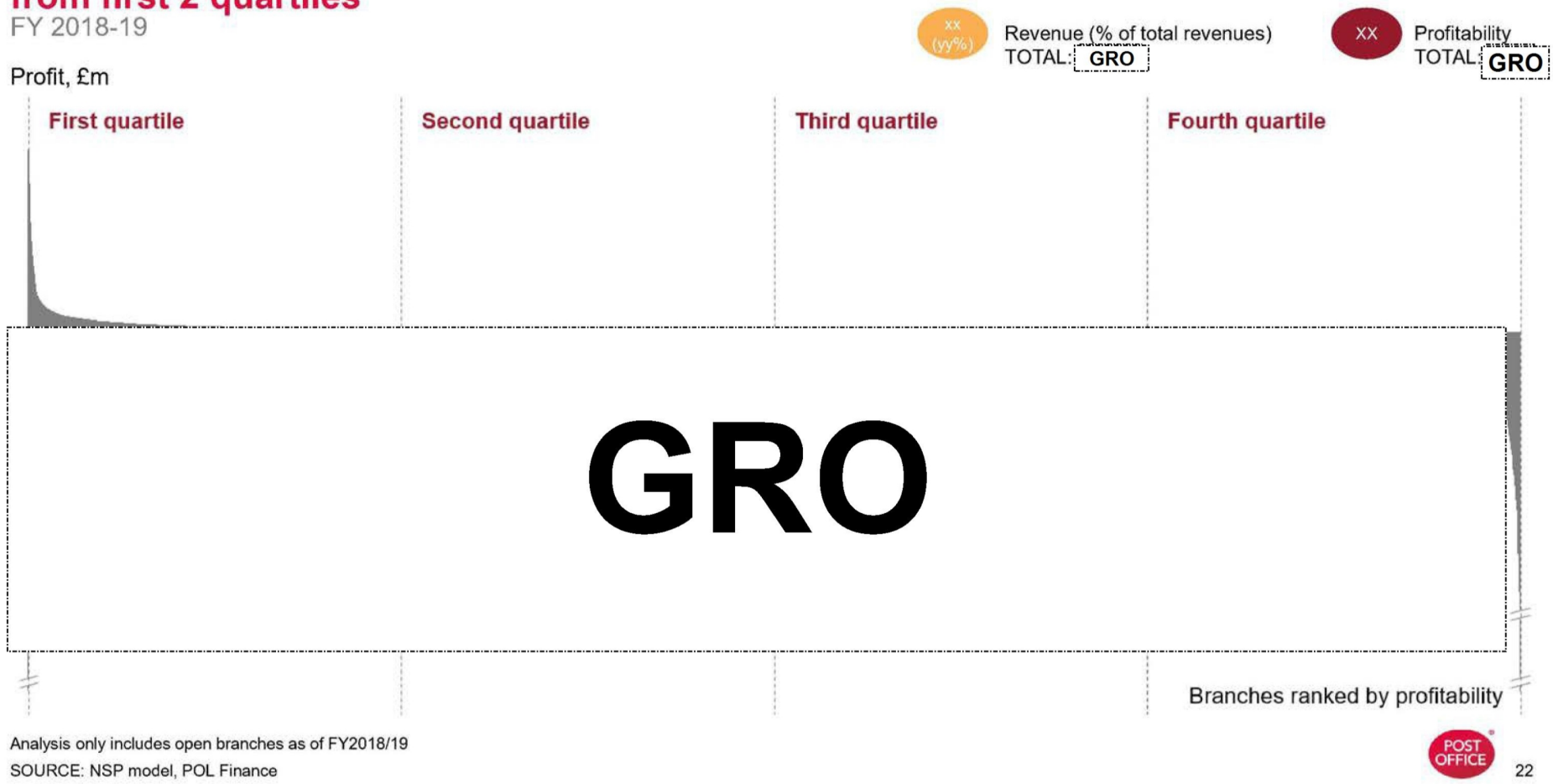
Analysis only includes open branches as of FY2018/19

SOURCE: NSP model, POL Finance

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Last quartile of branches (ranked by profitability) drive losses almost as great as profits from first 2 quartiles

FY 2018-19



Analysis only includes open branches as of FY2018/19

SOURCE: NSP model, POL Finance

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GRO of the top quartile branches (ranked by profitability) are Mains, GRO of bottom quartile of branches are Traditional branches

FY 2018-19, % of branches by type

Main Local Traditional Outreach DMB Profit margin

GRO

First quartile of branches ranked by profitability | Second quartile of branches ranked by profitability | Third quartile of branches ranked by profitability | Fourth quartile of branches ranked by profitability

GRO

Analysis only includes open branches as of FY2018/19

SOURCE: NSP model, POL Finance

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Summary of OHI findings and their potential uses

Diagnostic headlines

- Impressive level of engagement with the survey
- Bottom quartile organisational health indicating significant opportunity for improvement
- Accountability, work environment and motivation relative strengths (though still third quartile): relatively more effective in creating a sense of community and belonging; practices around openness, trust, engaging leadership and ownership amongst most emphasised
- Purpose and direction not clearly understood, reinforcing need for current work on Purpose, Strategy & Growth
- Lack of consistent measurement and management of business and risk, or acting to address problems
- Lack of institutional skills and talent, external orientation and innovation/learning
- Overall, senior managers' views most critical (especially innovation and learning)
- Current values centre around community, being of service, care and respect, but also hierarchy and bureaucracy; whereas desired values include competitiveness, accountability, efficiency and being well organised
- Main purpose themes at Post Office are about being a trusted brand, with access for all, serving customer's mails, parcel and cash needs

Uses of the OHI findings

- Syndicate the results internally to increase understanding of the challenges (both generally and for particular parts of the organisation)
- Start to create a narrative about the required change building on the quantitative and qualitative detail of the survey results
- Use the detailed information about where practices need to change to inform concrete improvement initiatives
- Once Purpose, Strategy & Growth are clearer, use OHI results to inform what is needed to enable the new strategy
- Track progress and course correct where/if needed

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Organisational health is related to – but different from – organisational performance

Performance

Health

Focus of the OHI survey

What an enterprise does to improve how it ***develops*** compelling products and services, ***channels*** them efficiently through its network and ***sells*** them into the market to drive financial and operational results

How an organisation ***aligns*** itself, ***executes*** with excellence, and ***renews*** itself to sustainably achieve performance aspirations

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Organisations that focus on Org Health outperform their peers at every level



Across Industries

Healthy companies across industries outperform their unhealthy peers in the stock market[1] by

3X



Across Companies

Companies that focus on health show an

18%

increase in EBITA between surveys



Within Companies

Health explains up to

50%

of performance variation across units

1 Represents 9 year average Total Return to Shareholders (TRS) for healthy companies vs. unhealthy companies across survey database
2 Based on re-survey data, companies with "Moderate", "Strong", and "Very Strong" recipe alignment

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The OHI survey digs deep to understand what's happening under the surface and provide a detailed picture of organisational health

Employee Engagement survey	Organisational Health Index (OHI)
▪ Evaluates individual employee **happiness / attitudes (e.g. how employees feel)**	▪ Evaluates an **organisation's long-term capacity to perform**
▪ Helps identify **employee "hot buttons"**. (e.g., satisfaction, happiness, morale, engagement, work environment)	▪ Identifies **strengths and opportunities across a robust set of management practices** proven to drive health
▪ **Allows customisation and comparison** based on unique questions / lines of inquiry	▪ **Enables benchmarking** across industries, regions and a global database
▪ **Focuses on manager level reporting** vs. enterprise-wide focus areas	▪ Focuses on **enterprise-wide, functional and business unit insights** to inform actions to improve health

In practice, **employee engagement and the OHI are complementary**, however a healthy organisation is not just about happy employees, but **also aligning the workforce and behaviors with the organisation goals**

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The Organisational Health Index (OHI) offers proven insights and expert support to build an enduring organization that can sustain performance

Conducted an exhaustive academic review



800
books & articles



200
fact-based insights

Interviewed key leaders across our client base

100
client executives



30
functional leaders

Developed the Organisational Health Index (OHI) Survey



20
minute survey



3-5
precise recommendations



~5m
participants surveyed



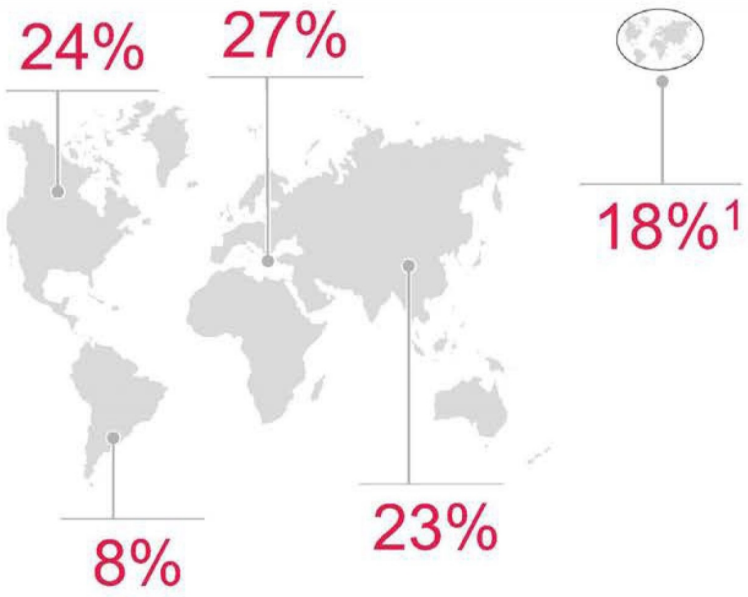
~1,900
companies

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With 1+ billion data points, the OHI offers an unparalleled depth and breadth of knowledge, across geographies and industries

Global reach and relevance,

% of OHI surveys



Surveys administered in 100+ countries

Robust industry benchmarks

- Global Energy & Materials
- Banking
- TMT (High Tech-Media-Telecom)
- Consumer/Retail
- Advanced Industries
- Healthcare Systems and Services
- Pharmaceuticals and Medical Products
- Public Sector
- Insurance
- Travel, Transport & Logistics
- Asset Management & Institutional Investors
- Infrastructure
- Professional, Scientific, and Technical Services
- Social Sector
- Multi-Sector Conglomerate

1 Represents the percentage of companies that surveyed globally

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OHI statistics at Post Office



2448

Employees invited to participate in the survey *(excludes DMB)*



73%

Employees provided responses to the survey



>2000

Individual comments, recommendations and opinions as provided by employees at all levels

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

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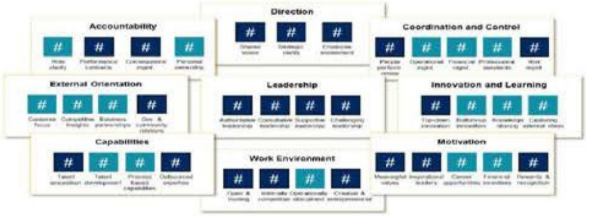
Two major measurements in the OHI

9 Health Outcomes



- Interprets if what is happening on the ground is working, and how well
- Agreement scale
- Example: “This Post Office colleague is highly motivated"

37 Management Practices

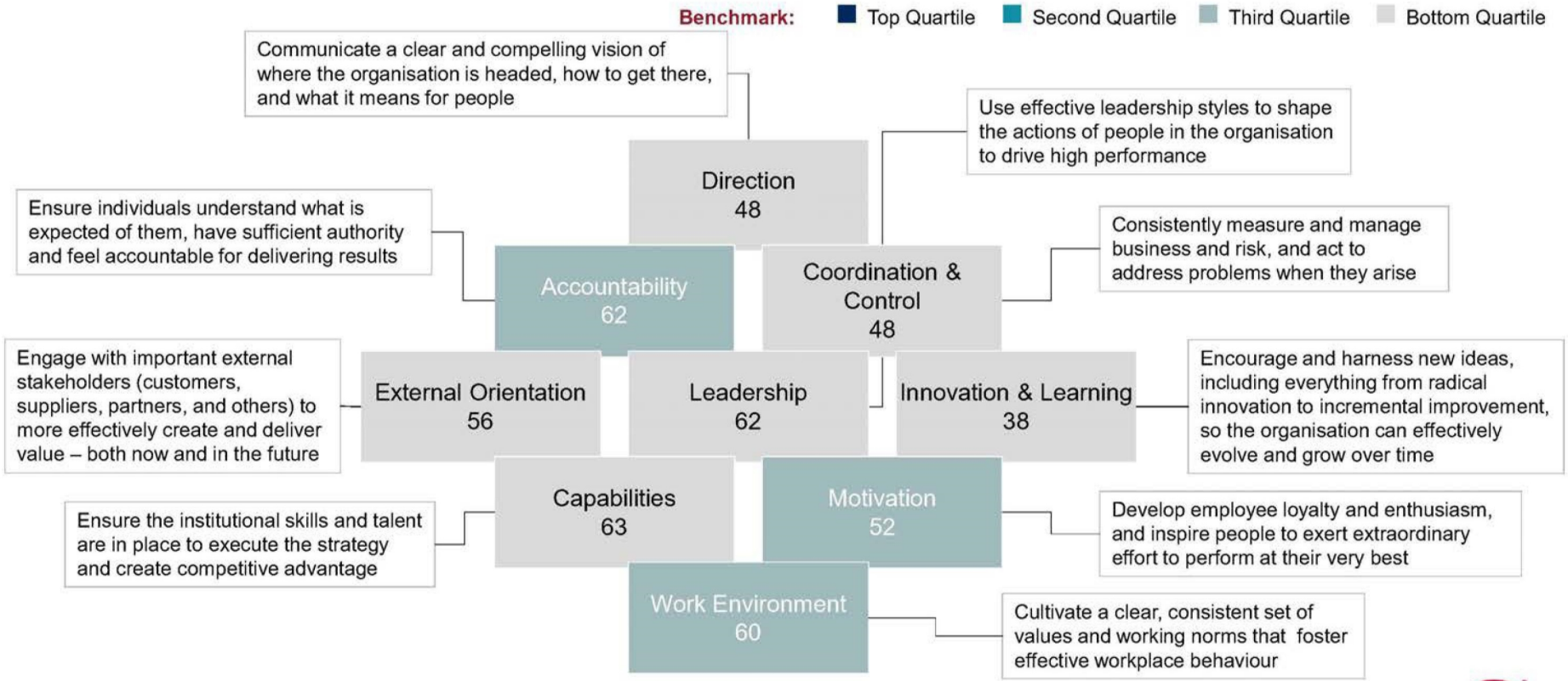


- Identifies colleagues’ perceptions of what’s happening on the ground
- Frequency scale, from “almost always” to “almost never”
- Example: “Managers in Post Office provide praise, thanks, or other forms of recognition to high performers”

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Employees' sense of community and belonging provide a foundation to build on once direction becomes clearer

% of respondents who selected 'agree' or 'strongly agree'



Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

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Direction, Capabilities and Innovation & Learning are lagging most vs. UK benchmark



1 The significance level is at p = .05. Statistical significance is calculated based on outcome distribution, size of population and size of point difference.

Source: Post Office UK (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878); United Kingdom (n=50,623, no. surveys=26); Public Sector (n=96,288, no. surveys=37); Travel, Transport & Logistics (n=136,237, no. surveys=36); Retail (n=155,238, no. surveys=39)

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Survey scores across 9 health outcomes and 37 management practices

% of respondents who selected 'often' or 'almost always'

Benchmark: Top Quartile | Second Quartile | Third Quartile | Bottom Quartile

XX **Power practice** – practice that needs to be prioritised if in bottom quartile

Direction

Shared Vision	Strategic Clarity	Employee Involvement
40	37	43

Accountability

Role Clarity	Performance Contracts	Consequence Management	Personal Ownership
48	61	35	55

Coordination & Control

People perf. review	Operational Management	Financial Mngmnt.	Professional Standards	Risk Management
50	55	52	77	56

External Orientation

Customer Focus	Competitive Insights	Business Partnerships	Gvt & Community Relations
47	51	64	61

Leadership

Authoritative Leadership	Consultative Leadership	Supportive Leadership	Challenging Leadership
59	47	60	54

Innovation & Learning

Top-down Innovation	Bottom-up Innovation	Knowledge Sharing	Capturing External Ideas
33	31	33	28

Capabilities

Talent Acquisition	Talent Development	Process based Capabilities	Outsourced Expertise
49	47	40	47

Work Environment

Open and Trusting	Performance Transparency	Operationally Disciplined	Creative & Entrepreneurial
66	34	63	43

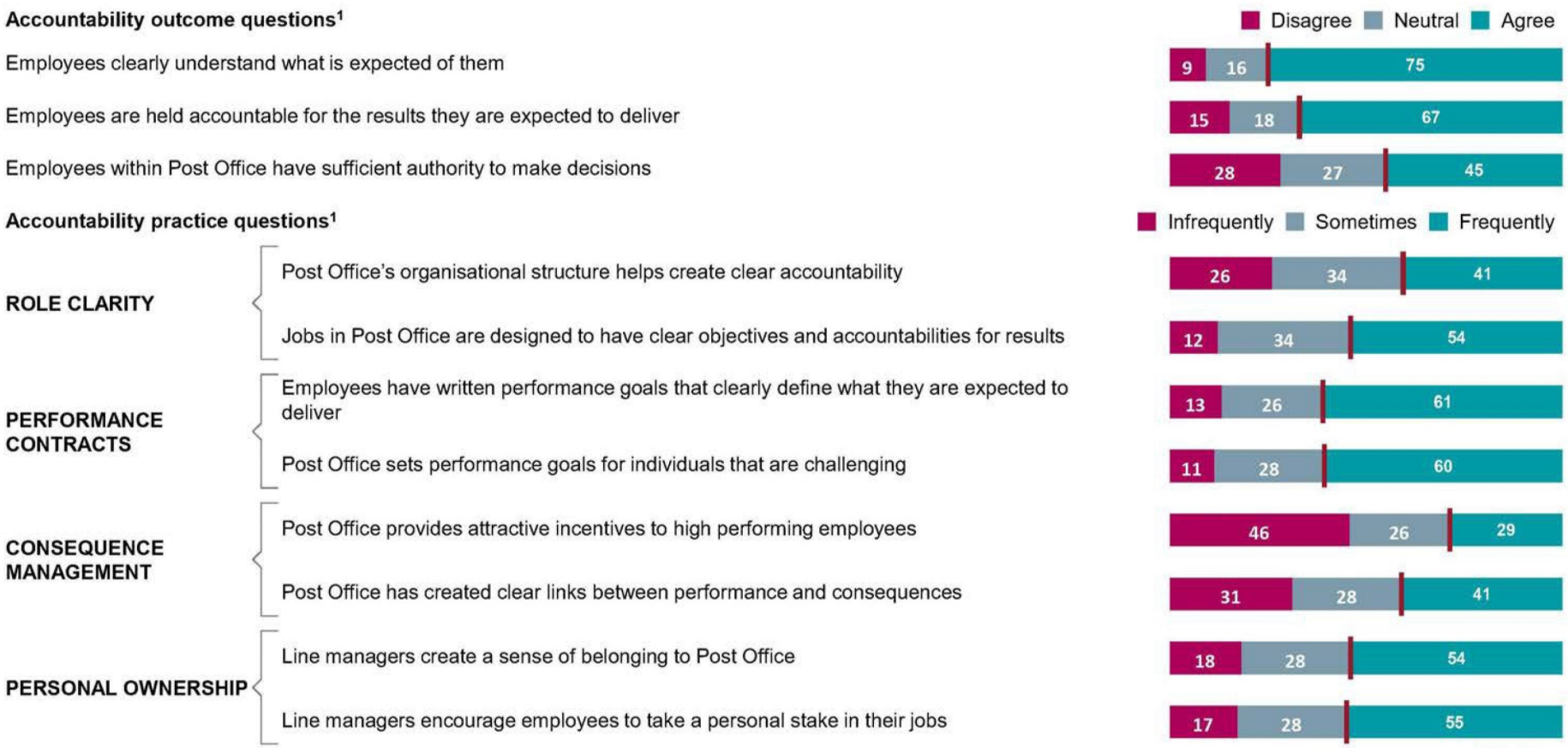
Motivation

Meaningful Values	Inspirational Leaders	Career Oppor-tunities	Financial Incentives	Rewards & Recognition
42	49	26	29	24

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

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Survey scores are supported by a set of related questions: "Accountability" example



1 Percent of employees

Source: Post Office (n=1770)

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Gap between Post Office scores and next best quartiles is key in understanding scores

Percentage points

Point increase required to achieve next quartile

Benchmark: Top Quartile | Second Quartile | Third Quartile | Bottom Quartile

Direction 48	Shared Vision	40	11-15
	Strategic Clarity	37	15-19
	Employee Involvement	43	5-9
Leadership 62	Authoritative Leadership	59	6-10
	Consultative Leadership	47	4-8
	Supportive Leadership	60	4-8
	Challenging Leadership	54	11-15
Work Environment 60	Open and Trusting	66	3-7
	Performance Transparency	34	3-7
	Operationally Disciplined	63	8-12
	Creative & Entrepreneurial	43	7-11
Accountability 62	Role Clarity	48	6-10
	Performance Contracts	61	6-10
	Consequence Management	35	3-7
	Personal Ownership	55	5-9
Capabilities 63	Talent Acquisition	49	9-13
	Talent Development	47	8-12
	Process Based Capabilities	40	8-12
	Outsourced Expertise	47	5-9
Coordination & Control 48	People Performance Review	50	9-13
	Operational Management	55	5-9
	Financial Management	52	12-16
	Professional Standards	77	6-10
	Risk Management	56	3-7
Motivation 52	Meaningful Values	42	6-10
	Inspirational Leaders	49	2-6
	Career Opportunities	26	11-15
	Financial Incentives	29	6-10
	Rewards & Recognition	24	6-10
Innovation & Learning 38	Top-down Innovation	33	11-15
	Bottom-up Innovation	31	9-13
	Knowledge Sharing	33	6-10
	Capturing External Ideas	28	9-13
External Orientation 56	Customer Focus	47	13-17
	Competitive Insights	51	13-17
	Business Partnerships	64	4-8
	Government & Community Relations	61	7-11

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

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Next steps on OHI

- Continue sharing survey results with relevant Post Office groups
- Start shaping the interventions to improve organisational health by identifying which management practices can be improved via workshops with L40 (session on 10 December), GE, etc.
- As the strategy work continues to be refined, ensure focus on improving the management practices that are most relevant to delivering that strategy

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Contents

Where We Make Money

Organisational Health Survey Results

Learnings from other post

- **Review of postal context**
- Learnings

Big Bets

Overall process update

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Executive summary – postal market overview

- Postal players have been under increasing pressure. Several trends contribute to this:
  - Structural and irreversible **decline of the mail** business
  - Customers demanding **higher convenience** and **service** in the **core products** offered by postal players, while often not being willing to pay higher prices (especially B2C e-commerce parcel senders)
  - **Disruptors are winning** the postal players' **natural new growth segments** (e.g. parcels and financial services), in particular Amazon
  - Regulatory pressure to maintain **retail network coverage** and **USO requirements** continue impacting postal players' economics; although most European players **still enjoy** some **form of subsidy**

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Postal players have been under increasing pressure which impacts branch networks



1 Volume decline



Declining volumes in both cash and letters due to e-substitution

2 Growth products with different customer expectations



Parcel volumes and postal financial service sales are increasing but customers require **more service, higher convenience**

3 Accelerating competiton



New growth segments are very competitive and competitors are often disruptors. Postal players suffer from legacy costs and innovation gap

4 Performance pressure



Increased pressure from shareholders to **improve economics,** but high (USO) requirements

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The world of post is changing fast in the face of megatrends that generate both threats and opportunities

Digitisation of letters
- World going paperless
- Advertising going digital

E-commerce and parcels growth
- Shopping at your fingertips

Disruptive innovators
- Amazon: "Marketplace" and "Fulfilment by Amazon"

The gig economy
- Much lower labour cost structure
- Different motivations from 'lifestyle couriers'

Disruption in financial services
- Cashless, online and mobile banking
- Trust deficit
- Withdrawal from the high street

Megatrends impacting global postal markets

Digital government
- Online management of national and municipal services, benefits, and taxes

The mobile economy
- 'Uberfication' of services
- Changing customer interaction models

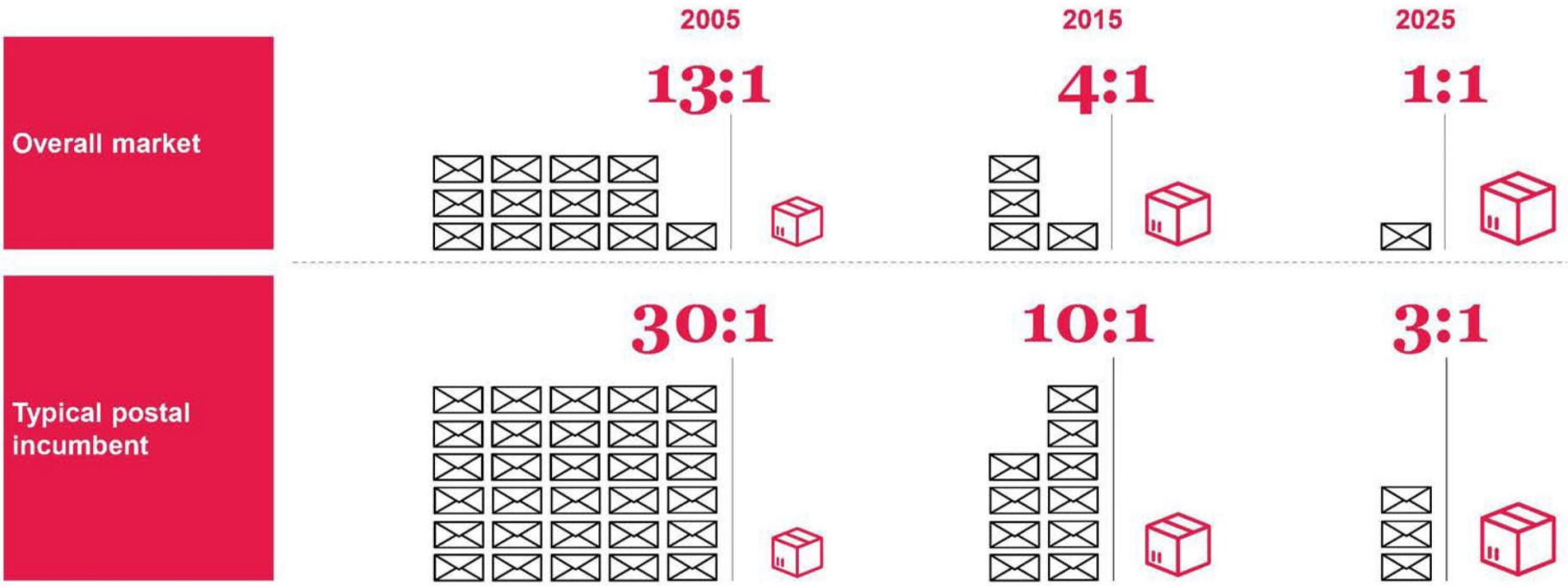
The poly-morphous world
- Emerging social and economic divides driving political disruption (Brexit, Trump)

The privatisation wave
- European posts under private ownership
- Peak in government sales

Convenience retail
- Growth in convenience and discounter retail
- Big box retailers entering the market

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Mail and parcel are set to reach volume parity by 2025



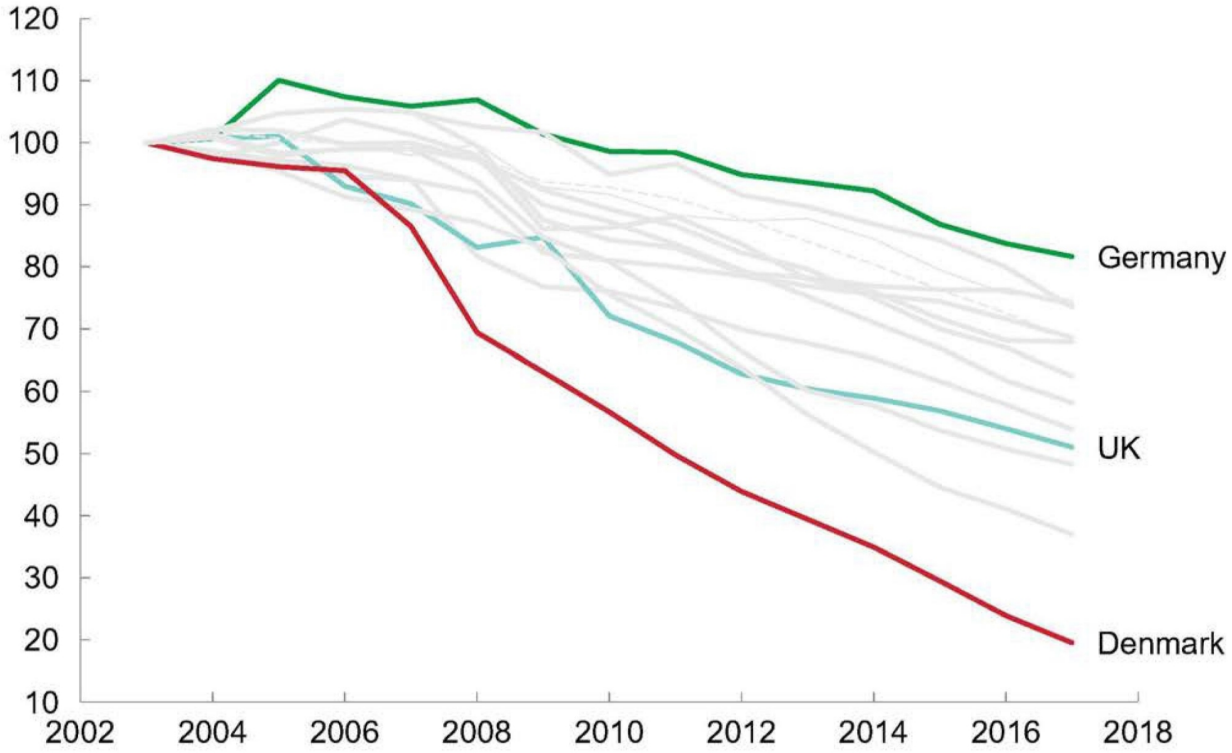
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The decline of the mail business is structural and irreversible

ESTIMATES

Addressed domestic letter volumes in selected markets[1]

Indexed, 2003=100



1 Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Netherlands, Norway, Spain, Sweden, Switzerland, UK, US

SOURCE: Operators' website and annual report; Regulators; UPU; Press

A few observations and additional facts …

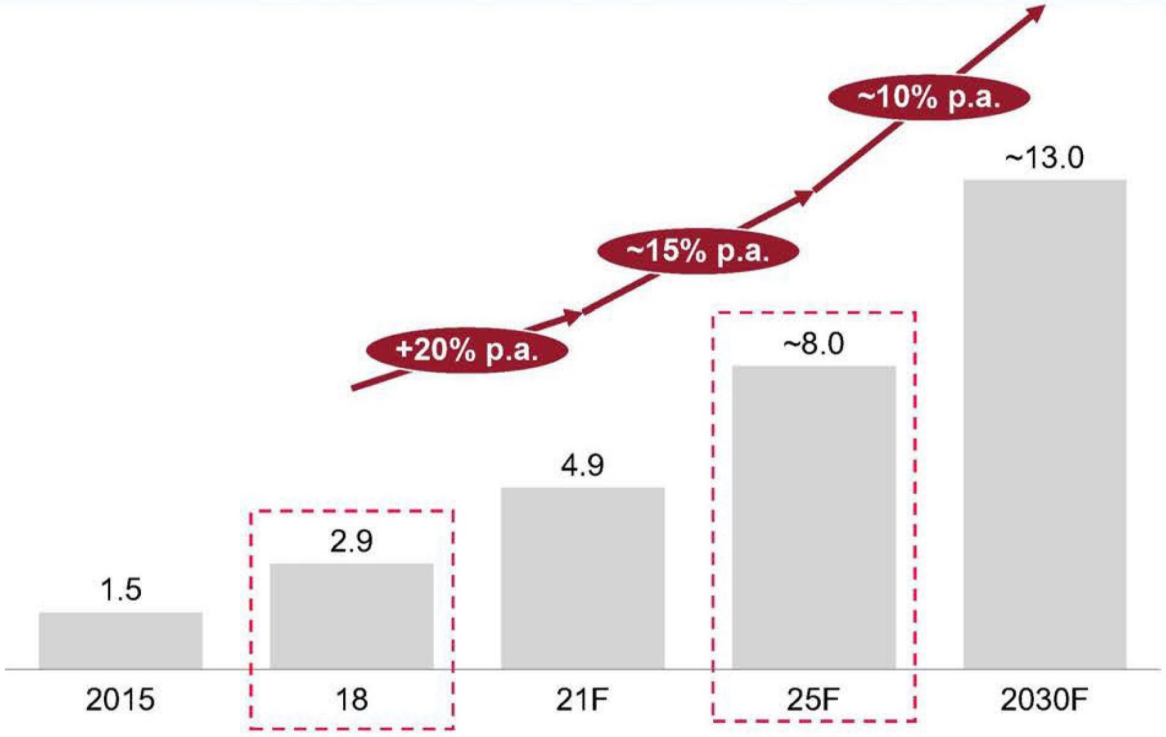
- **Drop in mail volumes** in key European postal markets – speed of decline driven by local habits and regulation
- **80% drop** in mail volume in **Denmark** since 2003 – eGovernment initiatives since 2007 accelerated decline
- **<20% drop** in mail volume in **Germany** – least affected market in the analyzed set
- Most of key postal markets **increased stamp prices** since 2010, only Switzerland kept prices stable

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E-commerce is currently a ~ USD 3 tr market, quadrupling to ~ USD 8 tr by 2025

E-commerce market worldwide USD trillions

Based on observation of historic growth of most mature e-commerce markets (e.g., UK, US), our assumption is that growth rate will decline from 2020 onwards and further from 2025



SOURCE: eMarketer 2016

A few additional facts …

20X increase in global e-commerce since 2000

5x growth differential between online and brick and mortar retail expected in 2016-21

30% share of total retail to happen online by 2030

70-80% of all e-commerce purchases delivered via networks

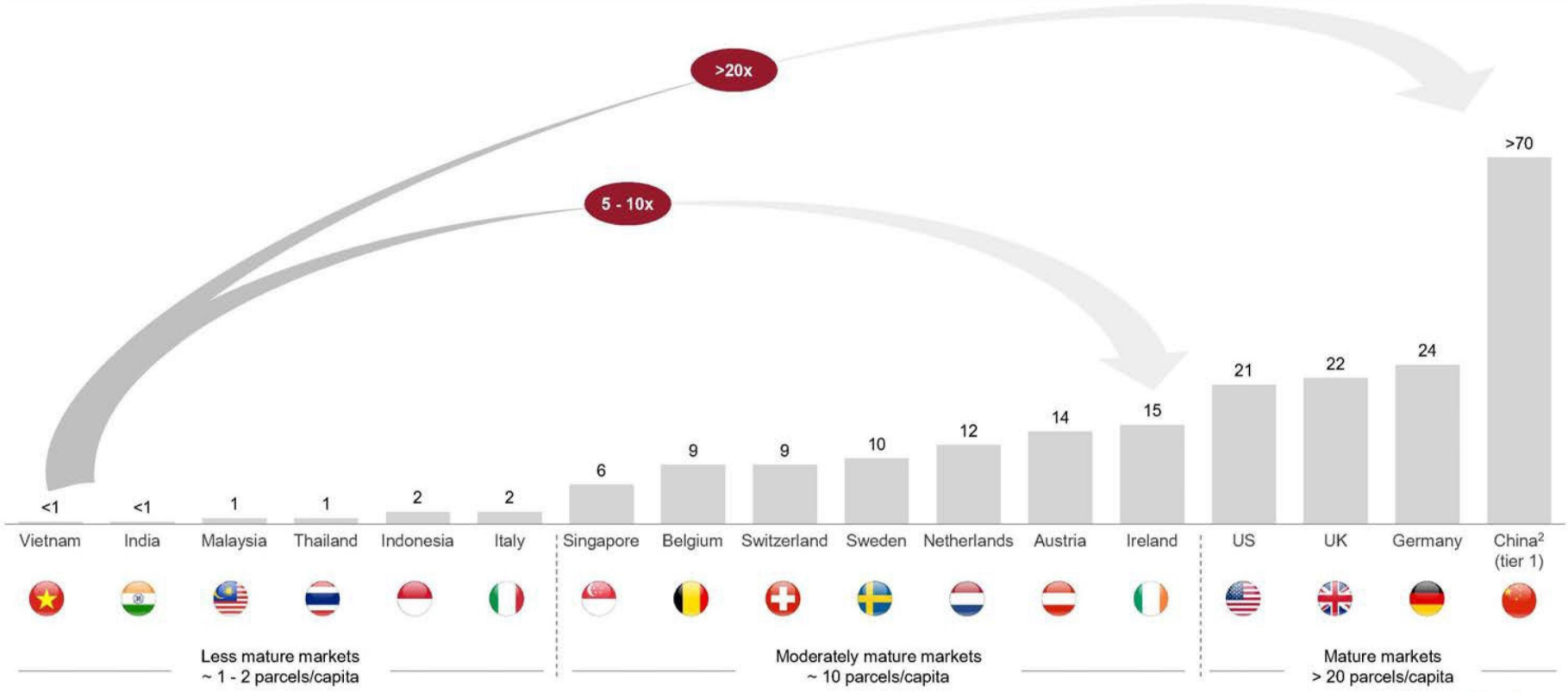
36bn e-commerce (B2C) parcels handled globally p.a.

New geographies, consumer segments, product verticals, channels and occasions as drivers

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Differences in e-commerce parcel penetration highlight growth opportunities

E-commerce relevant parcel[1] penetration
In parcels per capita, per year



1 "E-commerce-relevant" is defined as domestic B2C parcels, with speed typical for e-commerce shipments in the given country2 Shanghai and Beijing, assuming 70% B2C share

SOURCE: Research, various reports

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4 universal truths

Competitive market

40%

of parcel market share for typical incumbent

Australia with dominating incumbent share in B2C[1] parcel delivery (75%[2]), particularly outside major population areas

Competition is aggressive and increasing, e.g., e-tailers such as Amazon are already insourcing logistics

Customer expectations

70%

prefer price over speed

44% of customers have no willingness to pay extra for same-day parcel delivery, 40% only <1 EUR[3]

Currently 90% of parcel deliveries are same-day or next-day deliveries

Legacy costs

~30%

higher unit costs vs. competitors in urban areas

Labor represents 80% of parcel production costs

In urban areas labor cost disadvantage of up to 30% - without benefit of network effects

Innovation gap

10x

less IT jobs

No postal incumbent listed in Forbes top 100 list of digital companies 2018

Postal incumbents are often stuck with rigid corporate cultures that are slow moving and risk averse

1. 30% market share in B2B; 2 Based on percent of total volumes in 2015; 3 Consumer survey across US, China and Germany (n= 4,700), conducted 2016

Source: IPC; APA/Branchenradar

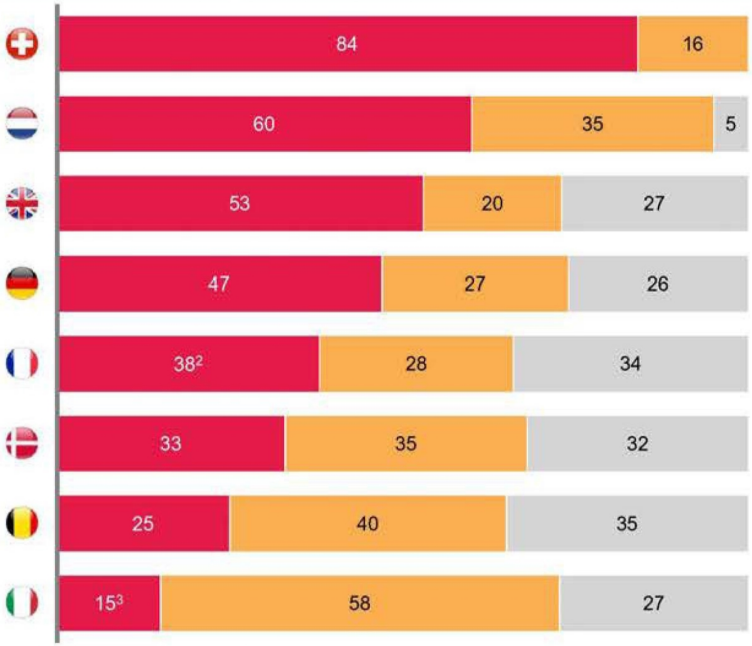
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Domestic volumes dominated by local players – various competitor types attacking with sharp value propositions

Postal Incumbent | 2 main competitors | Other

Tough competition - postal incumbents are #1 in most parcel markets, but face strong rivalry …

Domestic parcel & express market shares,
Selective markets[1], Percent



… with 3 types of competitors attacking with sharp value propositions

Competitor type	Strengths	Examples	
B2B-focused parcel specialists and express integrators	Transferrable expertise from B2B operations (e.g., time-window delivery)	US	UPS
	Network synergies due to B2B baseload and factor cost advantages	EU	DPD
	Stronger brands in some markets	CN	SF Express
B2C delivery startups	High agility and innovative power ('digital first', '10X better' mindset)	US	Postmates
	Ability to cherry-pick and tailor offering to coverage areas or verticals	EU	Ocado
	Ability to 'buy market growth' on the back of growth financing	CN	Ele.me
Forward-integrating e-tailers	High agility and innovative power ('digital first', greenfield)	US	Amazon
	Superior consumer insight and access ('what's inside the box')	EU	Amazon
	Ability to cross-subsidize with other revenue streams (e.g., commissions)	CN	Alibaba

1 Revenue-based for BE, DK, FR; 2 Includes Coliposte, Chronopost, Exapaq; 3 Poste Italiane is not in top 3
Two main competitors include: DPD and DHL in SW; UPS and DHL in BE; GLS and local player in DK; FedEx and UPS in FR; Hermes and DPD in DE and UK; DHL and GLS in NL; Top 3 in IT: Bartolini, FedEx and UPS

SOURCE: IPC

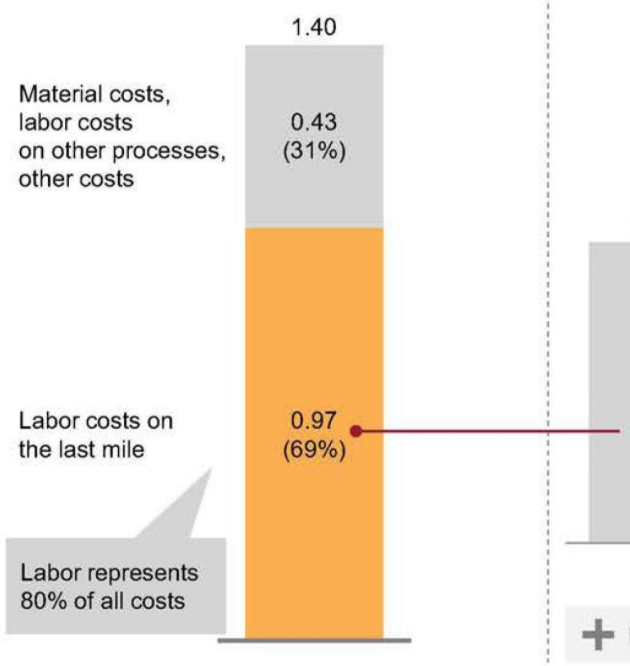
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Legacy costs – parcel production costs are a function of labor costs on the last mile where incumbents have a major handicap vs. low-cost attackers

Low-cost attacker Incumbent

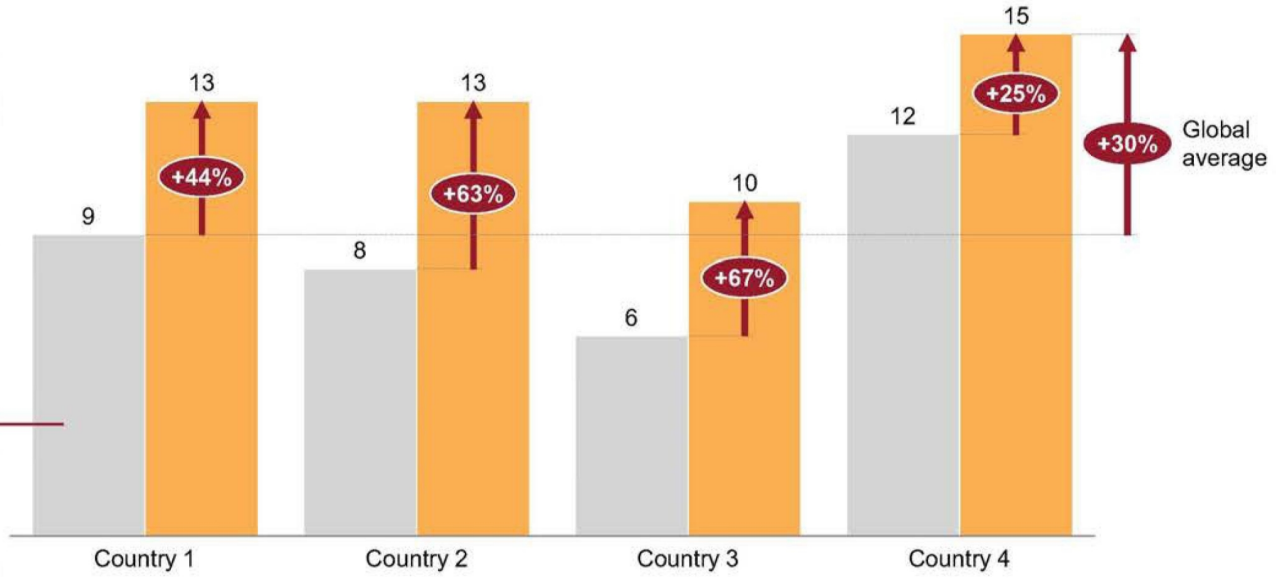
Legacy costs – parcel production costs are a function of labor costs on the last mile …

Parcel production costs by process step, Incumbent example (urban areas), EUR/percent



… where incumbents have a major handicap vs. low-cost attackers

Comparison of labor cost between incumbent and attacker, Labor costs per hour, selected global markets, EUR



+ More rigid labor terms and conditions (working hours, scheduling flexibility, …)

1 Case example for delivery of 1 parcel in Berlin through a parcel network with 125,000 parcels per day

SOURCE: Press

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Innovation gap – postal incumbents find it harder to innovate than their 'digital first' attackers

0	Postal incumbents appear on Forbes' Top 100 Digital companies list		3	Amazon, Alibaba and JD.com all listed within Top 50
#10	FedEx as first Postal/Parcel company on most admired companies list		#2	Amazon ranking
<200	IT Jobs open worldwide for Deutsche Post DHL[1]	VS	2,000	Jobs offered by Amazon within the category of Operations, IT & Support-Engineering[1]
60%	Of FTEs are longer than 10 years with their firm		~1	Year median tenure at Amazon and Google
4.7%	Capital expenditure as a share of total revenue in 2017 by Postal companies		~6%	Capital expenditure on average by Amazon, Alibaba, JD.com

1 May 2019

SOURCE: Forbes, IPC, Fortune

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E-commerce and financial services are important drivers of growth in postal business

Industry revenue share [1]

Percentage



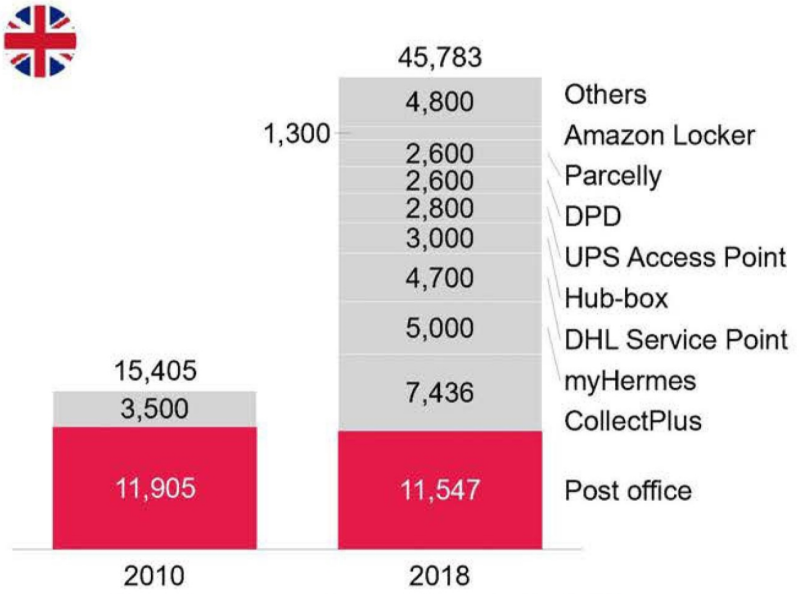
1 Includes IPC members (postal operators from Europe, North America and the Asia-Pacific region). Collectively, their operations deliver 80% of global mail volumes
SOURCE: IPC

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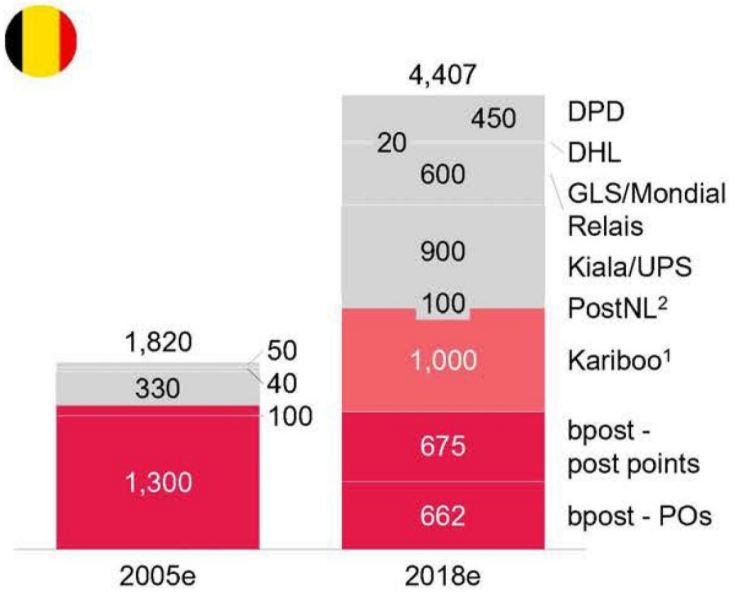
E-commerce shoppers' need for convenient receiving drives explosive growth of parcel retail networks

Post and parcel retail network expansion

of offices



~7 new branches opened every day in the UK between 2010 and 2017



bpost increased its network relying on postal points and non-exclusive parcel shops

1 Kariboo points serve as non-exclusive parcelshops (for bpost and some for competitor PostNL too); 2 PostNL relies on Kariboo and additional own points

SOURCE: UPU; Company Web sites; Press search

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E-commerce supergiants are entering the battle for B2C logistics

Starting to insource | Insourcing at scale | Offering to other parties

	Value pool	Size of the global e-commerce revenue pool[1] USD billions	Supergiant activity: Amazon	Alibaba, Cainiao	JD.com
Enabling (web) services	Web services	~ 55	Offering to other parties	Offering to other parties	Offering to other parties
	Payment/fraud	~ 30	Offering to other parties	Offering to other parties	Offering to other parties
Outbound B2C logistics (incl. cross-border)	E-fulfillment	~ 90	Offering to other parties	Offering to other parties	Offering to other parties
	Linehaul domestic	~ 15	Starting to insource	Starting to insource	Offering to other parties
	Linehaul international	~ 10	Starting to insource	Starting to insource	Starting to insource
	Last mile	~ 115	Insourcing at scale	Offering to other parties	Offering to other parties
	Returns	~ 40	Insourcing at scale	Starting to insource	Starting to insource
	∑	**~ 270**			

Already offering last mile services at scale to e-tailers

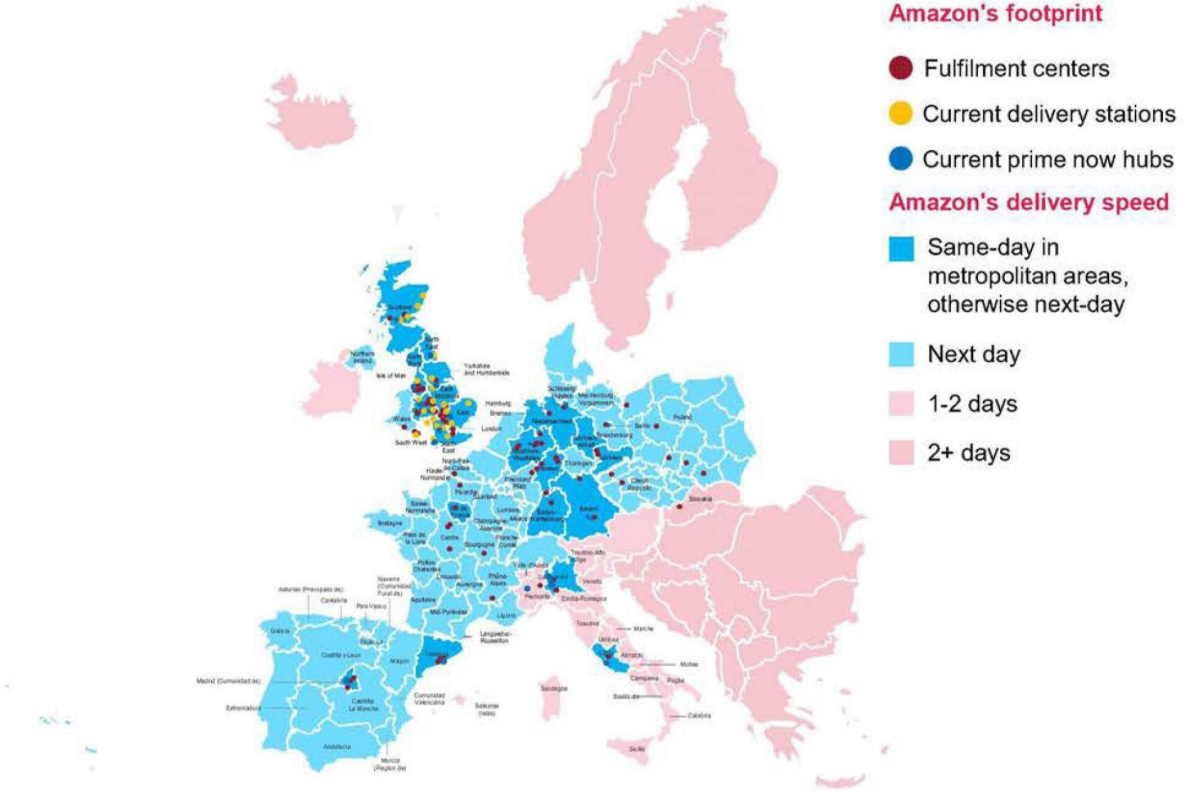
1 Total costs of e-commerce merchants, both in- and outsourced

SOURCE: Industry experts

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Example Amazon: broad fulfilment network as basis for fast delivery across regions

Amazon's fulfilment network and delivery speeds



Implications

Amazon has a broad network of fulfillment center across Europe to enable both scale and speed

Amazon already has a consistent same-day offering in metropolitan areas in main countries

Amazon also leverages its broad fulfillment network to offer fast cross-border deliveries (e.g., Belgium, Portugal, Poland)

1 Best available delivery speed for Amazon Prime customers, delivery speeds for some products and areas may vary

Source: Web search

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Amazon's value proposition is built on operational excellence, scale-induced quality improvements and an integrated offering

What amazon offers…

Operational Excellence

- **Best-in-class fulfillment**, **fast delivery** and **customer-friendly returns** fulfillment
- Branding that drives **end-consumer trust in fast and reliable service**

Scale and Consolidation

- **Superior service levels** currently unavailable to eCommerce merchants
- **Scale effects** for eCommerce merchants

Integration

- Integrated **domestic and international carrier management**
- **End-to-End tracking** across entire value chain

…and what is needed to match it

Inventory Intelligence

- **Distributed Order Management system** with **integrated optimization algorithm for cost and speed** in FC network

eFulfillment

- **Integrated fulfillment center network** to allow **fast shipping** and easy localization
- **Late cutoffs, rigorous cutoff manage-ment** and service promise transparency

Int'l Mid Mile

- **Direct Injections into foreign networks** to limit quality losses
- IT-Integration with and optimized use of **international deferred carrier network**

Parcel delivery

- **Priority processes** to ensure fastest delivery in deferred network (i.e. at affordable cost)

Reverse logistics

- **Integrated white-label returns portal** for direct connection between **returns, inventory and payment**

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Logistics partners can enable a consistent next day service promise across Europe for retailers – matching Amazon on fulfilment center density not a requirement

Amazon's current fulfilment center footprint in Europe

amazon

Number of fulfillment center per country



72 FF center

Theoretical requirements for consistent next-day-shipping in Europe

Possible next day coverage via ground shipping per fulfilment center



~9 FF center

~87% of Amazon‘s 72 fulfillment center in Europe are only **required due to the immense scale of the business** and are strategically located to service high density areas

1 For ground shipping

Source: MWPVL.com

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Governments are increasingly digitising their services, reducing the need for both mail and a physical footprint

Public Sector examples

Sweden

Strong digital agendas in social insurance and tax:

- Social insurance agency: **eliminating paper forms** and manual handling processes
- Tax : **authorisation of annual tax declaration through text message** response to pre-filled tax form

Denmark

Top down digitisation agenda spearheaded by the central digitisation agency:

- **Digitising 80% of all government communication:** non-digital communications to citizens are banned except in rare exception cases

Australia

Service New South Wales developed a unified, **single point of contact** for residents and businesses for more than 800 transactions, including:

- Driver licenses
- Birth certificates
- Seniors1 Cards
- Fair Trading licenses



UK

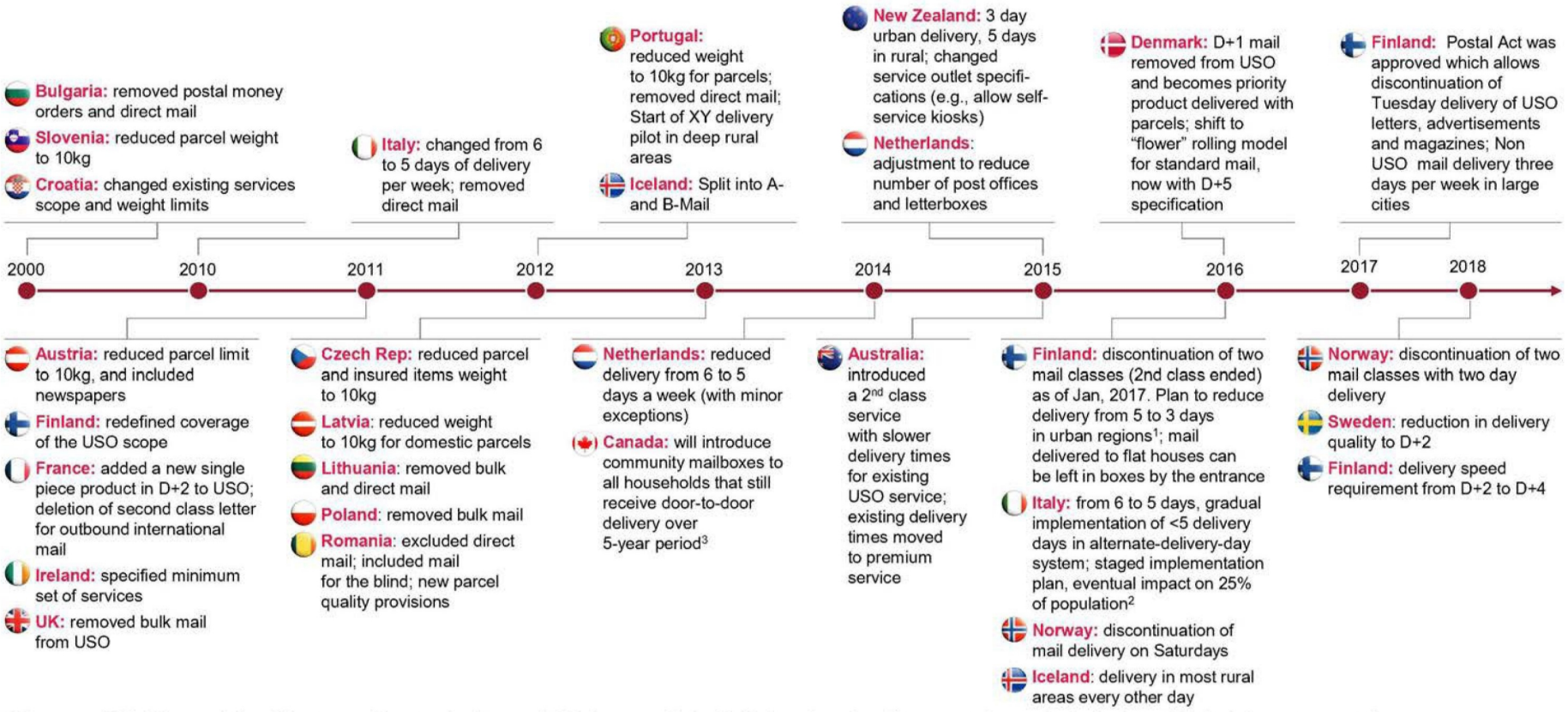
Core services now predominantly online:

- **Tax return submission**
- **Passport renewal**
- **Car tax renewal**, including abolition of physical tax disc
- Renewal of **driving licenses**
- **Booking driving tests** (over 98% booked online)
- **Parking fines** payment



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As volumes decline, operators obtain more important USO scope modification. EXAMPLE



1 Coverage: 85% of the population. This measure is not yet implemented, 2 Delivery standard of 2-13 days depend on distance, product, and urbanization , 3 Halted after government change and review

Source: Press, academic literature search, operators' reporting

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Though, regulatory pressures on network coverage have been increasing in some markets

Portugal

Anacom reviewing minimum required coverage on each municipality, likely to result in increased (branch-like) coverage in 33 locations for CTT

+ 33

VS

Netherlands

The State allowed several USO modifications, including halving number of post offices and letter boxes

- **1,000 offices**
  1,000 down from 2,000
- **8,700 postboxes**
  9,300 down from 18,000

SOURCE: Anacom

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Regulatory debate will stay key lever on the long-run

Regulatory negotiation stays key for postal services entrusted with USO, branch requirement

Themes to address in regulatory management	Peer examples
Optimization within the current requirement	bpost: Stable network size, but outsourcing of operation
Renegotiation of constraint to decrease service cost	postnl: Network size adaption
Negotiation of the financing or alternative delivery of the public service	LA POSTE: Tax exemption for territorial presence and joint post-townhall operation of branches

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Regulatory requirement on network size and proximity is a key lever

	Minimum branch number	Distance criteria
	✓ 12,000 fixed location facilities At least 1 permanent facility in any municipality with more than 2,000 residents	✓ Customers in any municipality with more than 4,000 residents or in adjoining built-up areas shall in general be able to reach a permanent facility within no more than 2,000 m. Additionally, in every district 1 permanent facility shall be located per 80 km². All other locations must be served by mobile postal service units
	✓ At least 1 facility in each municipality[1]	✓ Service points shall be placed so that users have access to a service point within a reasonable distance
	✗	✓ At least 95% of the national population should have access to a complete assortment of postal services within a 5 km reach from where they live. The distribution of service points, with a complete assortment outside residential areas of more than 5,000 inhabitants, shall provide access to at least 85% of the non-urban population within a 5 km radius
	✗	✓ Under the regulatory conditions, Royal Mail must ensure facilities are provided such that the premises of not less than 95% of users or potential users are within 5 km of an access point capable of receiving the largest relevant postal packets and registered mail, and that the premises of not less than 95% of users in each postcode area are within 10 km of such access points
	✗	✓ At least 90% of the population must be able to reach this network within 20 minutes on foot or by public transport (30 minutes if a doorstep collection service exists). In addition, at least one post office in every For financial services included in the USO, at least 90% of the population must have access to the services within 30 minutes by foot or by public transport on average
	✓ Postal Law requires one facility by municipality The Sixth Management Contract provides that bpost must maintain a retail network SGEI of at least 1,300 postal service points, including post offices and third-party-run postal shops.	✗
	✗	✓ Services must be accessible to everyone and be provided at a reasonable distance from one's home or workplace. The density of the access points must take into account the needs of users
	✗	✓ At least 99% of the national population and at least 95% of the population in each department must be less than 10 km from a post office branch. All municipalities with over 10,000 inhabitants must have at least 1 post office branch per 20,000 inhabitants. Additional post office network requirements (following the requirements of La Poste's public service mission of regional planning) do not permit more than 10% of a department's population to be further than 5 km or more than 20 minutes by car under normal driving conditions for the area concerned from the closest La Poste point of contact. The 2010 postal act requires that the postal network consists of at least 17,000 contact points
	✓ The Postal Market Act prescribes a minimum of 1,650 postal service points.	✓ Density criteria newly introduced. Austrian Post must ensure that all municipalities with over 10,000 inhabitants as well as 90% of the people living in the urban areas of all provincial capitals must have access to a postal service point within a radius of two kilometers. In all other regions, the prescribed maximum distance to a postal service point is ten kilometers

1 Service points shall be placed so that users of a universal service have access to a service point within a reasonable distance of their permanent residence. It is also possible to operate a service point that is not at a fixed location

SOURCE: Regulators, Opretators' reporting, Press

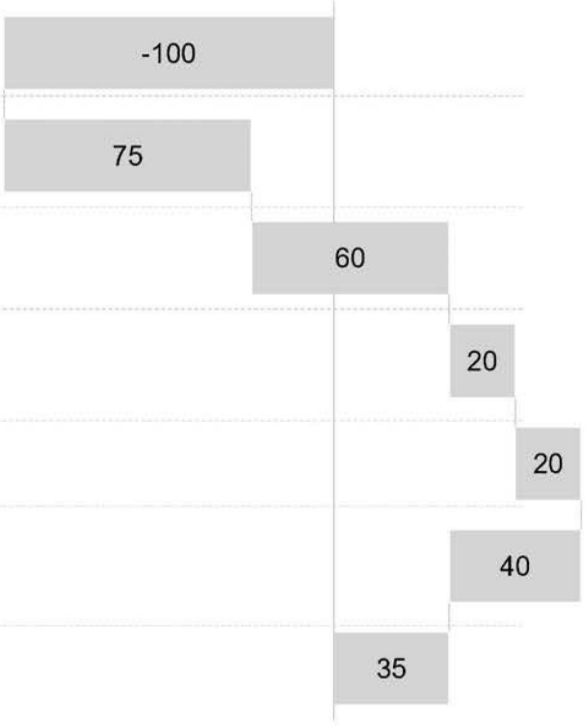
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In light of sector trends, postal players have been optimizing their retail network – example of North American postal player

Key actions

- Review of product portfolio
- Simplifications of retail products and processes
- Full clean sheet redesign of branch formats, pricing and third-party contracts
  - Urban office conversion/closure (~400)
  - Rural office conversion to co-located (~900)
- Optimized retail footprint exploiting new-gained flexibility in USO regulation

EBIT impact, $mn



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Throughout Europe postal companies receive (in)direct subsidies for sustaining the USO

National subisidies postal companies in Europe,
EUR mn

NOT EXHAUSTIVE



	Description
Deutsche Post	Indirect subsidy through **favorable pension arrangements;** replacement of standard pension system for system where government pays part of pensions
Bpost	Subsidies for **providing services of general economic interest (SGEI)**, compensation based on **net cost** of providing these serivces (e.g. Network density, press distribution, basic banking access)
Poste Italiane	General subsidy for **providing USO**
Correos	General subsidy for **providing USO**
La Poste[1]	SGEI subsidy for **transport** and **distribution of press** and to **guarantee network** for delivery of **financial products** (latter given in the form of tax excepmtion)
Posten Norge[3]	General subsidy for **providing USO**, compensation based on reimbursement for loss-making services that are required by the USO

1 Excluding compensation for providing banking services, 2 Based on exchange rate of 1,13 EUR per GBP; network subsidy payment to Post Office Limited
3 Based on exchange rate of 0,10 EUR per NOK

Source: Annual reports postal companies, national supervisors

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Contents

Where We Make Money

Organisational Health Survey Results

Learnings from other post

- Review of postal context
- **Learnings**

Big Bets

Overall process update

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Executive summary – learnings from postal players

There are **three pillars** of learnings from other post players:

1. Winning in competitive growth areas requires **adapting the retail network structure** to better serve consumers (e.g., DHL's dense parcelshop network provides convenience to its e-commerce receivers)
   - **Multi-tiered networks** allow for **improved economics** without compromising on **sales and convenience**
2. Growing the top-line through **non-core, third-party products** usually **fails to create sizeable revenue** streams. Most sizable growth areas are parcels and financial services. **Sales performance programmes** as well as **targeted incentives can be effective** growth levers
3. Remaining competitive with a lean cost base requires **consolidating footprint** and **different approaches to ownership** (e.g., franchise, dealers)
   - **Automation in selected areas**, both in customer-facing activities and in in-store operations, is a **key lever** to improve **customer experience** in a **cost-effective** manner, culminating in the "unmanned branch" (Singapore, Finland)
   - **Strong partnerships with retailers** (e.g. in Canada) have been successful, based on standardised master franchise arrangements and clear understanding of economic benefits of having a post office (e.g. 15% sales uplift for retail)

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We have reviewed over 40 posts globally to identify learnings for postal retail networks



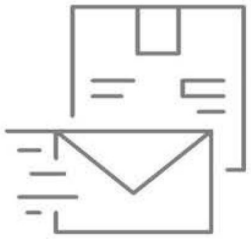
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Three main groups of questions to be addressed



Retail network strategy

1. How can stores help win in growth segments such as e-commerce and FS?
2. What is the right branch segmentation to ensure appropriate and efficient service?



Product & sales

3. What further products should be commercialized and how?
4. How sales in branches can become more efficient?



Operations & economics

5. What ownership model work to control costs while delivering excellence?
6. What is the ideal store coverage and operational model?

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1 DHL is building a dense parcelshop network to provide convenience to its e-commerce receivers



Deutsche Post

- Offers proximity access to parcel sending for individual customers
- At target state, DHL aims to have 20,000 parcelshops (today ~11,000 parcelshops, 13,000 retail outlets and 3,700 parcel lockers)
- Low and variable cost operations
- Basic product offering - parcel receipt, send and returns, domestic stamps
- Only needs basic equipment (a handheld scanner, label printer) and inventory is minimal

SOURCE: DP DHL; Press

POST OFFICE

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1 SingPost redesigned branches to reflect e-commerce ambition

From…

Change Alley Post Office

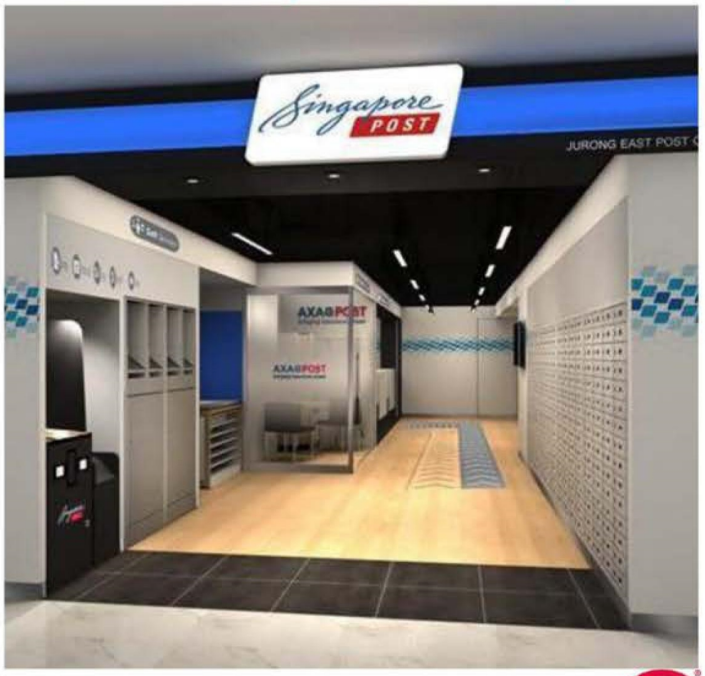
Post Office as key customer touchpoint does not reflect SingPost's vision and transformation



To…

Ocean Financial Center

New branch with 60% less overall space, but 24/7 self service zone occupies 48% of total space



SOURCE: SingPost

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1 Canada Post tests a concept store to meet online shoppers' needs



- Drive-thru parcel pickup
- All-in-one self-serve shipping station
- A fitting room where customers can try on the outfit they bought online and if needed, return it immediately
- Self-serve vending kiosk
- Extended hours: self-serve 24/7, opening 9-9 on weekdays, 9-5 weekends

SOURCE: Canada Post

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1 Poste Italiane has established a leading FS business through BancoPosta

BancoPosta

BancoPosta starting position

- Large incumbent utility with 8m customer, 150k employees and €0.5tn in assets
- BancoPosta can offer a full suite of products without a banking license
  - BancoPosta cannot lend to the public directly, but can be an intermediary
- BancoPosta is, however, required to **maintain ring fenced capital**





Key developments

- Since 2001, BancoPosta has innovated and **grown its product range in a steady** and managed way
  - They moved from current accounts and payments, to prepaid cards, and on to mobile payments
  - Other products include **lending, mutual funds, insurance**
- BancoPosta has managed this growth **through numerous partnerships**
- **Banking clients receive several advantages**
  - Priority postal branch services; Discounts on postal and other products; Easier online money transfers

Outcome

- In 10 years, BancoPosta **more than doubled the market share** in terms of number current accounts
- Moving to **expand wealth management and increase distribution** of loans, mortgages and P&C insurance
  - **Strongly positive market reception** to renewed 5-year strategic vision: double digit share price increase
- The postal networks allows for **nearly 3x the number of branches** versus the next largest bank

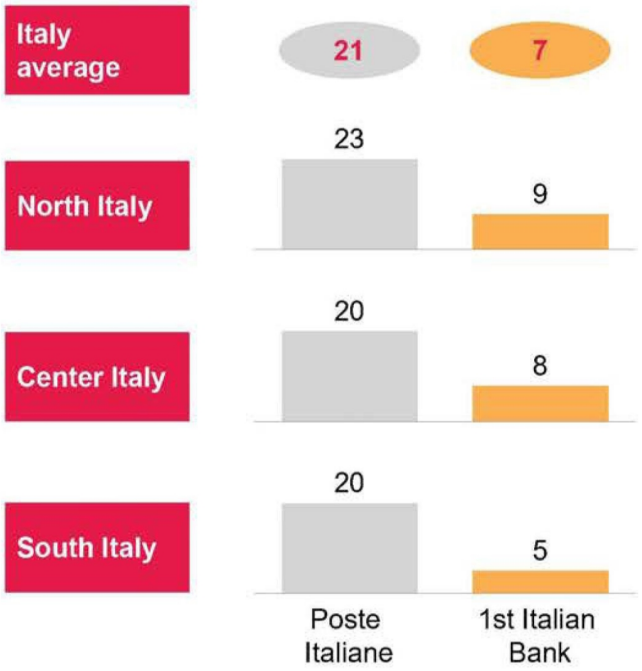
SOURCE: Poste Italiane

POST OFFICE

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1 Poste Italiane created a competitive advantage in financial services with its large branch network

Coverage of Italian population, Branches / 100k inhabitant



Posteitaliane

Italy's leading customer distribution network

Mail & parcel
- Unrivalled physical distribution network

Payments, mobile & digital
- Italian payments champion
- Advanced customer data capabilities
- Leading financial web and app platforms

Financial & insurance
- Market leading product distribution network

Poste has nearly 50% of population as a customer, 18% share in savings accounts, 8% in consumer loans and outperforms peers on ROE (~23%)

SOURCE: Poste Italiane investor presentation

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1 Poste italiane : The FS play

2017

Main business units	Mail and parcel	Financial services	Payments, mobile and digital	Posteitaliane Insurance
Key financials				
Revenues, € Bn	~3.6	~5.4	+0.6	24.4
EBIT, € Bn	-0.5	+0.6	+0.2	+0.8
TFA[1]		506		
Commercial figures	▪ ~110m parcels/year ▪ ~30% B2C market store	▪ ~34m customers ▪ ~13k post offices ▪ 15m daily visits	▪ ~25% e-commerce payments ▪ ~25m cards issued ▪ ~104bn1 pay-ments transactions ▪ 3m Telco customers	▪ ~22% market share on life GWP

1 Total financial assets

POST OFFICE

74

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1 La Poste is expanding financial product portfolio and adjusts the branch environment





- La Poste Bank and BPE collaborate to offer private banking services targeting the postal bank's 600,000 affluent clients
- Early 2019, BPE has 75 offices, BPE-spaces in 45 post offices complement its own branches deploying private banking spaces in some of its post offices

SOURCE: La Poste; Press

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1 Portugal's CTT has moved up the FS value chain from distribution to creating and broadening the product offering

ctt

Where CTT started

- In 2015, Banco CTT was created as legal entity with banking license provided by Bank of Portugal
- **Prior to this, CTT offered very limited financial services**
- CTT had a very strong existing mass market postal customer base
- The initial approach was for a **low risk balance sheet strategy**



Dedicated counter space

Key developments

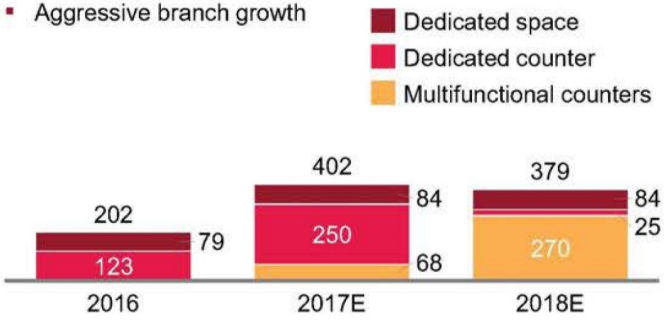
- The bank **focuses on the mass market,** offering simple, transactional products
  - Principles of **fairness, transparency, low cost**
- Lending began as an intermediary, in partnership with Cetelem
  - It is **gradually increasing its exposure to credit risk** and broadening the product range
- The initial **51 branches have expanded to ~200, built off CTT's postal network**
  - Branches have either multifunction counters (with postal), dedicated counters, or dedicated space
- **Digital focused**

Outcome

- **Strong customer growth, and move to breakeven (2015 v 3Q16):**

Net loans €m	0	3.0
Deposits €m	0.1	182.3
Net profits €m	-0.6	N/A

- Aggressive branch growth



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1 Within FS we see different strategies for posts

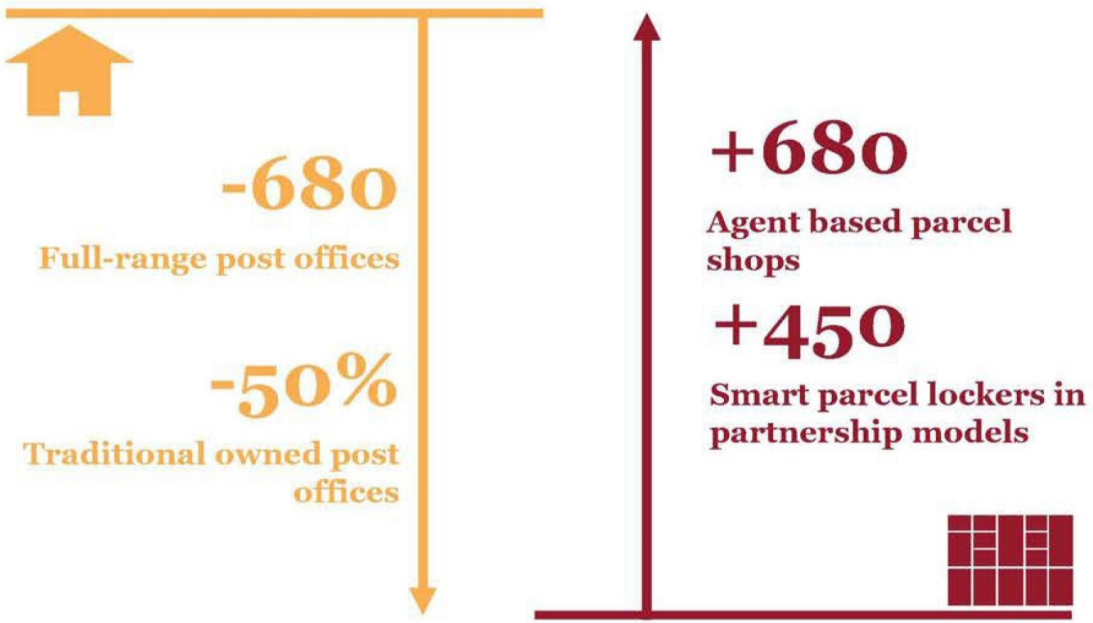
Traditional approach → Radical moves

	A Last Mile Utility for all F2F needs	B Classic Postal Bank model with Distribution only	C Digital Customer Interface provider	D Become Ethical Bank	E Ecosystem covering FS (Fintech) + non-FS
Description	▪ Offer branch services for existing banks ▪ Expand into KYC/ ID verification for credit checks etc	▪ Expand current offering (e.g., credit cards, loans) ▪ Negotiate best possible distributor terms	▪ Act as aggregator of all financial relationships (PSD2 play) ▪ Offer 3rd party and own products	▪ Build a fair ethical bank based on brand trust ▪ Fair and transparent themed	▪ Become key gateway that spans FS and related sectors ▪ Partner with Fintech ▪ Build ecosystem
Potential operating model	▪ Fee-based partnership with banks	▪ JV with traditional banking to act as intermediary	Multiple models possible depending on product choice – opportunity to take origination revenues either directly as a bank or in JVs		
Example players	POST OFFICE Money	LA BANQUE POSTALE JP BANK BancoPosta	ctt Revolut bud. OnTrees	Nationwide Building Society	Alipay IdeaBank WeChat POST OFFICE

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2 Retail networks have to be adapted to maximize customer convenience

European post and parcel player example

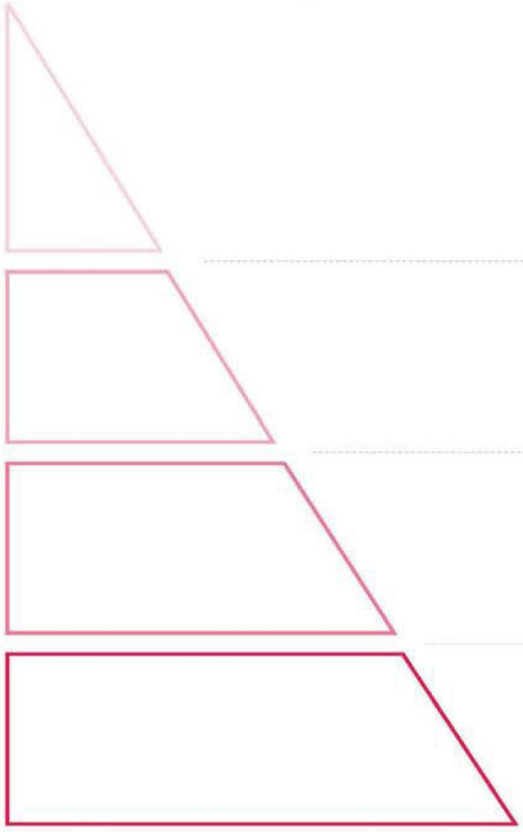


Key considerations

- **Maximizing convenience** through longer opening hours and additional (community) services
- **Improving accessibility** for pickup and returns through more access points
- **Creating lock-in effect** with e-commerce customers through parcel lockers
- **Providing attractive agent incentives** in a post-mail environment

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2 Successful postal peers transformed their branches in multi- tiered networks to allow sales, convenience and lower cost



1 Sales focus

Large offices with a wide range of services

Primary goal is to provide the highest quality service and ensure a positive brand perception

2 Service focus

Mid-sized offices with an optimal set of services

Primary goal is to provide **fast, efficient and high-quality** of large volumes of transactions

3 Local Access

Small offices with a narrow range of core services

Primary goal is **meet the accessibility criteria**/social needs or **provide a response to the competition**

4 Direct Channels

A set of alternative channels provides more options to the customer and increases the quality of customer service – **mainly websites, mobile applications, call centers**

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2 For example, La Poste has 3 outlet formats, to which DPD adds parcel shop and locker network

LA POSTE

Own operated office

- ~8,700 outlets
- 1-2, 3-5, 7-8 counters, banking dedicated office or counter in medium and large offices
- Private customers, SME and corporate
- Service offers
  - Full range postal
  - Full range financial services
  - Full range of mobile and digital services
  - Third party services



3rd-party municipality outlet

- ~6,500 outlets
- 1-2, 3-5 counter, banking dedicated counter in medium ones
- Municipality branches are operated partnership with a town hall or group of municipalities
- Private customers1
- Service offers
  - Large scale of post, parcel services
  - Most commonly used FS



3rd-party retail outlet

- ~2,000 outlets
- 1(-2) counter at retailer
- Framework agreements with a few large retailers (Franprix, Total, Carrefour) but also individual retail contracts
- Private customers1
- Service offers
  - Most commonly used post, parcel and basic financial service



DPD Pickup (parcel shop)

- ~7,800 in France (31,200 in Europe)
- 1 counter
- Equipment: handheld scanner, label printer, scale
- Private customers, SME
- Service offers
  - Parcel sending, return and receiving (direct order to shop or failed home delivery)
  - Product exchange, sending and receipt of equipment for repair (e.g., set-top box)
  - Parcel shop to parcel shop sending France and international within DPD European network



DPD Pickup Station (parcel locker)

- ~350 (250 in stations, 150 in post offices)
- Private customers
- Service offers
  - Parcel receipt on choice of customer to order in locker



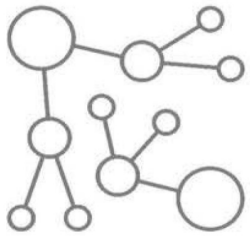
1 Or SMEs behaving like private customers

SOURCE: La Poste; Press

POST OFFICE

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Three main groups of questions to be addressed



Retail network strategy

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Product & sales

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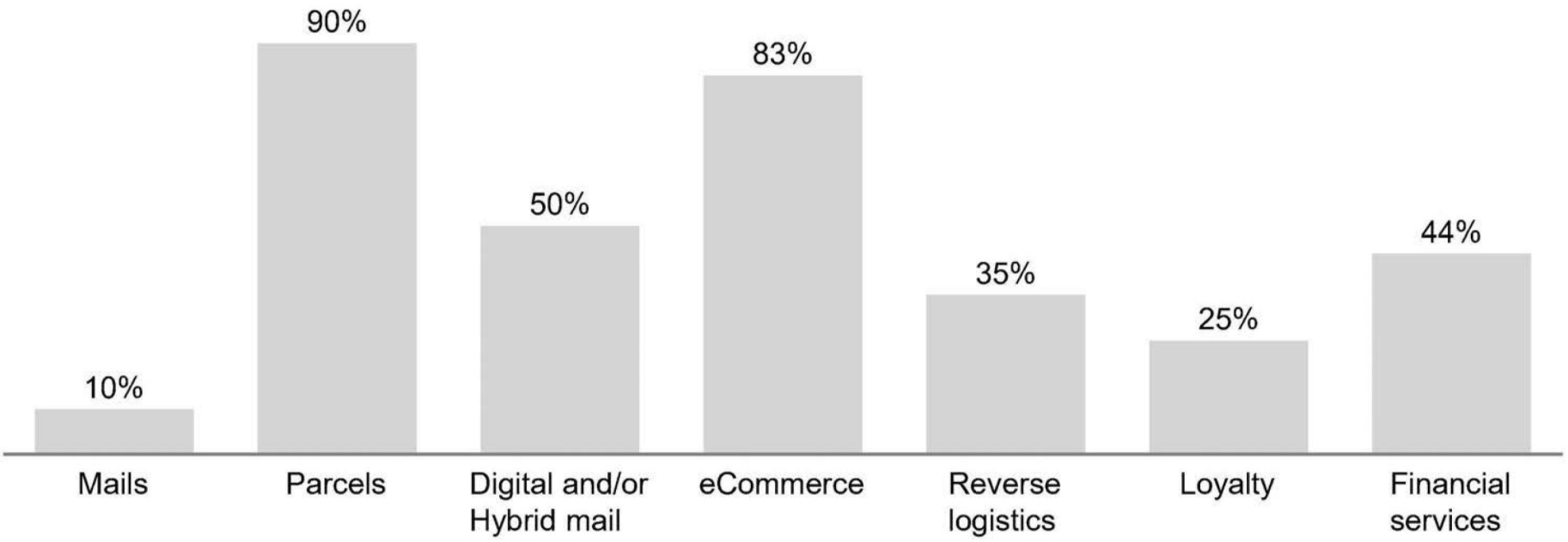
3 Postal players have attempted to sell various non-core, third-party products in offices

Description	Example operator
Mobile phones, prepaid cards and subscriptions	Various operators
Fixed line and internet subscriptions	UK Post Office
Stationery	Commonly offered
Personal computers and other electronic items	Swiss Post in the past, Austrian Post
Various items (e.g. consumer electronics) via mail order	Poste Italiane
Books/CDs/DVDs	Commonly offered
Gift vouchers	UK
Public transport tickets/subscription	Czech Post
Event tickets	China Post for Expo
Flight ticket booking & payment (Jetstar airlines)	SingPost
Cinema ticket booking & payment	SingPost
Toys and games	Australia Post
ID photo service	Australia Post
Copy and fax services	Austrian Post
Drop off and pickup point for computer repair services	SingPost
Travel services, e.g., rental car, airline and hotel booking	UK Post Office

SOURCE: Press; Operators; Interviews

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3 What are the services you see being the most important to success over the next 5 years?



NOTE: Multiple answers were allowed
SOURCE: Escher

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3 EU peers offer varied level of government services and often decoupled from branch network

NOT EXHAUSTIVE

Italic Service provided outside post office

Country	Payment services	ID verification, authentication, enrolment	E-government services	Official document applications and renewals[1]	Other government services
ctt Citizen Bureau Areas[2]	▪ Reimbursement requests concerning health expenses ▪ Utility payments ▪ Toll road payments	▪ Notarial or judiciary certificates ▪ Real estate, civil or commercial certificates requests	▪ n/a	▪ Driving license renewal ▪ Residence permit renewal ▪ Registering foreign workers' contracts ▪ Registering intellectual property	▪ Scheduling appointments at the hospital or healthcare center
Posteitaliane	▪ Vehicle tax ▪ Social welfare payments ▪ State pension payments ▪ Payment services for unbanked citizens ▪ *Electronic payment for customs duties* ▪ *Electronic payment services for INAIL (insurance for workplace accidents*	▪ PosteID application	▪ *With PosteID, users can enter into SPID, a single login system for access to all online services of the Italian public administrations (e.g. INPS, social security institution, and INAIL)*	▪ Passport services ▪ Health card application ▪ Application for cards of welfare benefits ▪ 5700 offices operate citizen help desk, which allows multiple services, e.g. land registry, residence permit personal certificates applications	▪ *Integrated notification services: manages selected government official communications towards citizens (e.g. traffic fines)* ▪ *End to end management of PosteVita fund, a national health insurance system for companies and public administrations*
SWISS POST	▪ *Adminpay - secure online payment for e-government*	▪ *Video ID checks* ▪ *SuisseID (likely 2020)*	▪ *Vivates - secure eHealth data exchange* ▪ *E-voting platform*	▪ n/a	▪ *Postal voting* ▪ *Secure delivery and digital access to court documents*
bpost	▪ Cash transactions for unbanked citizens	▪ n/a	▪ *E2E license plate management*	▪ Fishing permit	▪ *Medical document distribution* ▪ *Traffic fine management* ▪ *Treasury's financial transactions* ▪ *Pensions' home distribution*

1 Typically, not all services offered in all States/Counties/Regions and all Pos, 2 In 300 POs

SOURCE: Operators' websites and reporting; Press

POST OFFICE

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3 "Lessons learned" from other postal services companies yield several insights for POL direction

1. Every post has made attempts to **grow outside the core** in "adjacent" markets. The vast majority of these efforts has **failed to create either sizeable revenue streams** (more than £20m per annum) or profits. E.g., mailroom management, ID validation, secure email, digital letterbox, document archiving, warehousing, postie add on services (meter reading) etc

2. The **successes** have been **primarily from legacy assets, in particular growth of financial services and mobile** (e.g., Poste Italiane), as well as parcel markets

3. Other posts have, in general, **failed to incubate new businesses organically**. There have been some **successes** in making acquisitions, especially in two areas:
   - **Rollup of other express or parcel operators** (DHL Express in Europe, UPS and Fedex globally)
   - **Acquisition** of businesses which have subsequently been **run at arm's length** in order to preserve different culture and people processes e.g. Deutsche Post acquisition of digital marketing boutiques Nugg and Admail

SOURCE: Press; Operators; Interviews

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4 Sales scripts, tools can boost in-branch sales

Best practices from retail and banking environment

- Standard and well-known to staff **scripts** for basic products is use
- A **heatmap of potential cross and up-sell situation** identified and staffed trained on transitions if recognizing any of the triggers
- Staff is coached on **translating products knowledge** to a language understandable by any customer
- Adequate **training and coaching** e.g., via role plays providing experience on how to deal with different customers
- Regular **monitoring**, **feedback** and performance dialogues are provided to staff

Counter clerk trigger-selling chart example



Simple visual and IT tools help track process and progress



Visual sales performance management board



Branch manager's CRM tool

SOURCE: POL; Postbank; Hitachi Dynamics CRM

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4 Branch-specific incentive practices can lift sales

RETAIL BANKING EXAMPLE

Best practices at retail banks

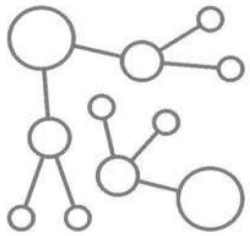
- Pay out **incentives frequently** and more often to create right frontline motivation
- **Create gradual incentives** to drive growth – don't create strong step function
- Ensure employees clearly **understand how their incentives tie to overall goals** of the institution
- Prioritize strategic objectives (e.g., tiered quotas)
- **Drive collaboration** amongst sales teams (e.g., group bonus)
- Use leverage in financial incentives to drive appropriate employee behavior
- Provide **attractive non-cash incentives** to conveys importance and special appreciation
- **Build loyalty** to the company through unique and culture-specific awards

Examples at postal operators

Deutsche Post	Incentivizes to postal clerks by providing possibility to become financial advisor in case of stellar performance
La Banque Postale	Recruits and manages postal banking staff as in banks: employees specialize in products, they are in charge of a client portfolio, there is separation of staff for retail and corporate banking staff, incentivized for sales
Post	Luxembourgish Post provides incentive-pay for both financial services and telecommunication sales staff
EU postal incumbent	Team incentive for most successful office in sales of third-party product

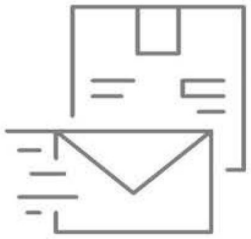
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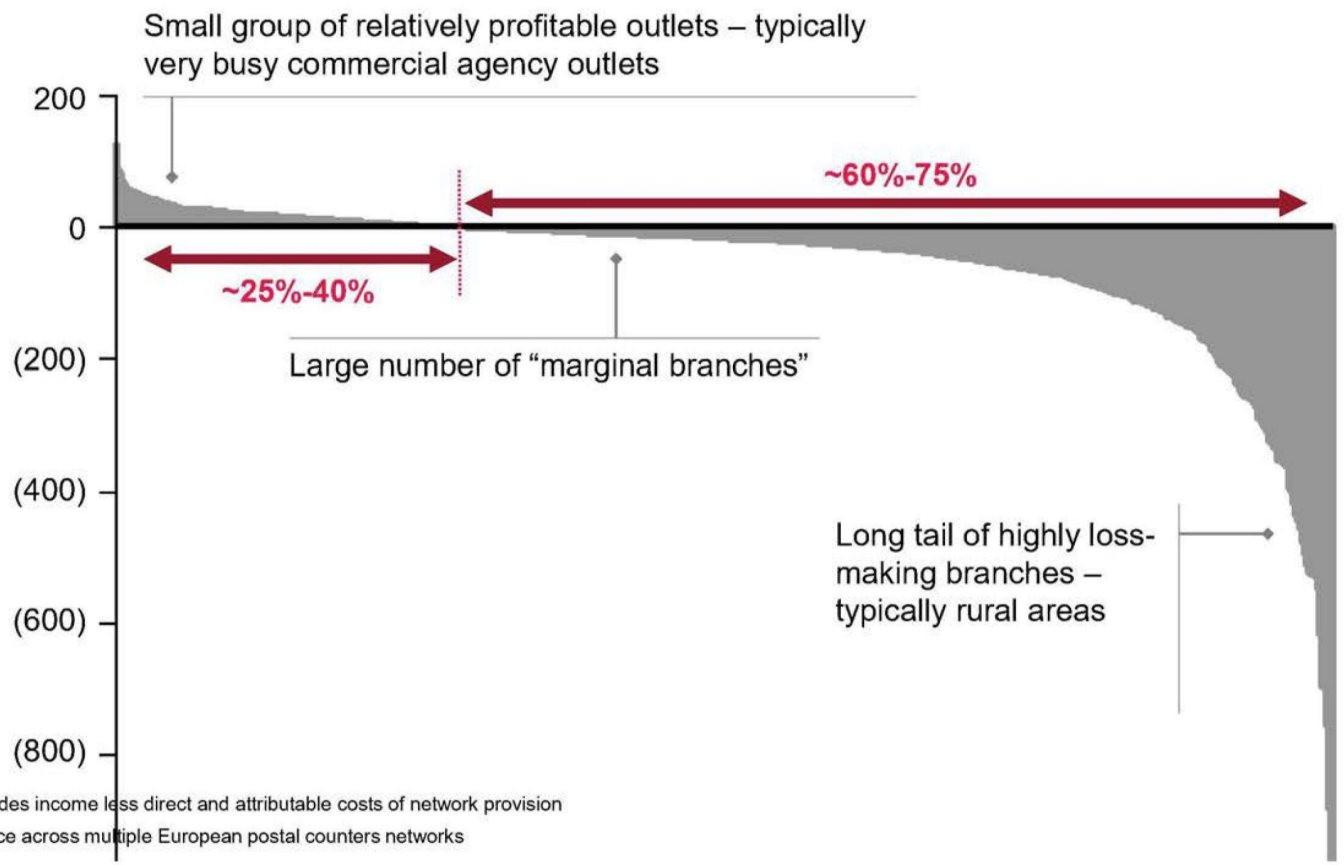
Operations & economics

5. What ownership model work to control costs while delivering excellence?
6. What is the ideal store coverage and operational model?

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5 Typically only 1/3 of own-operated branches are profitable…

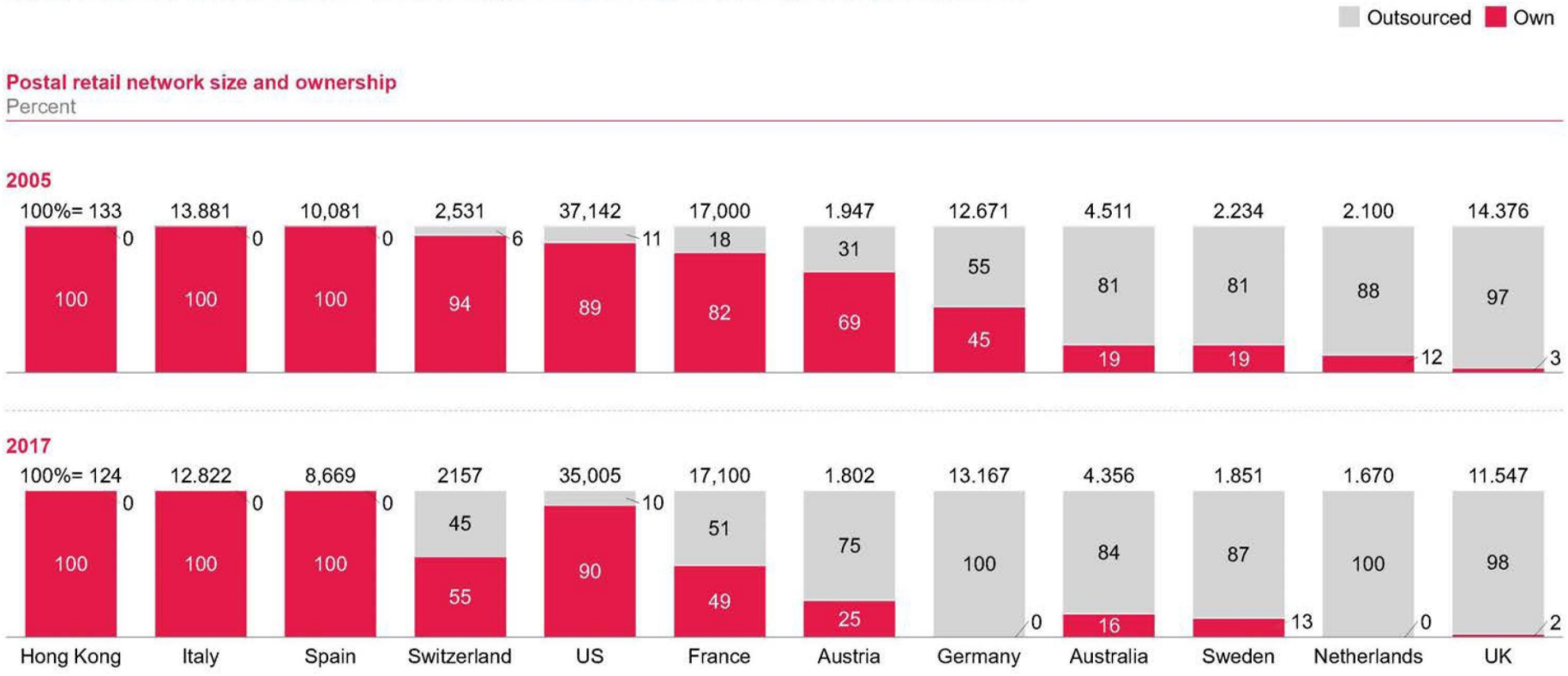
Profit (loss) per branch[1]
€ thousand



1 Net profit per branch includes income less direct and attributable costs of network provision
SOURCE: Typical experience across multiple European postal counters networks

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5 … which leads to a strong trend of outsourcing offices



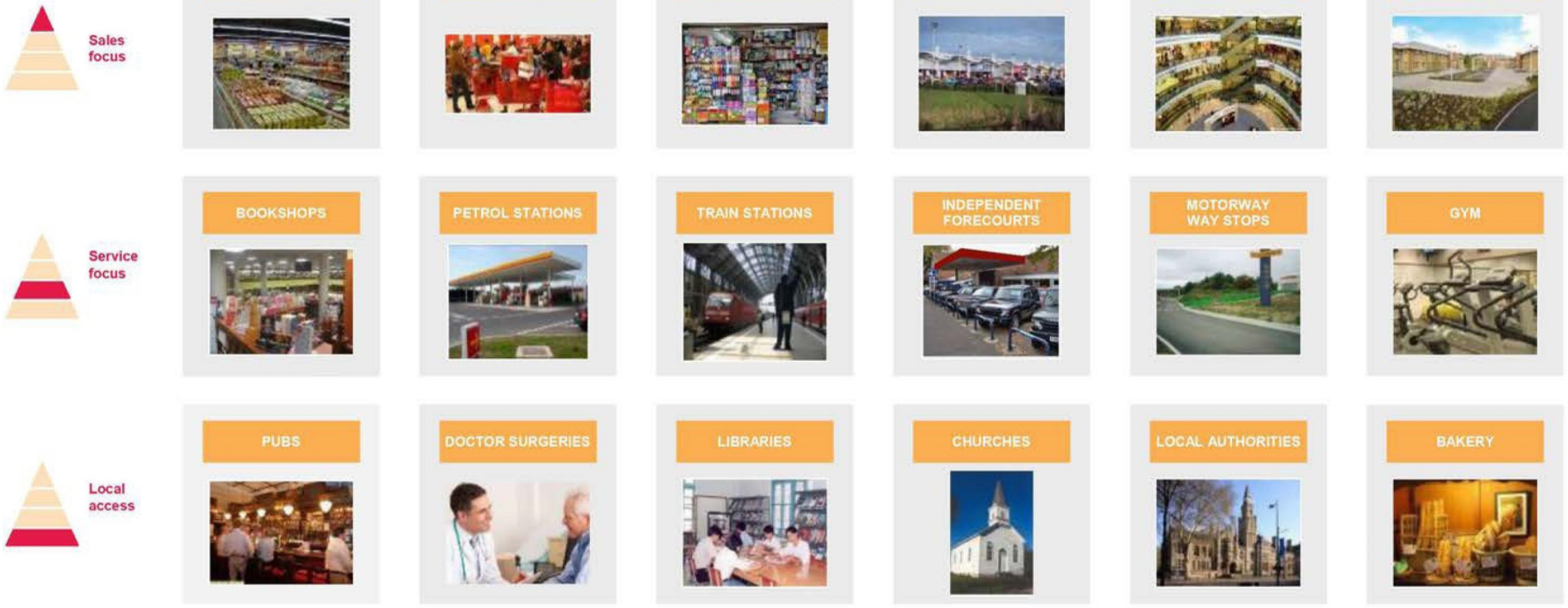
1 PostNL owns offices, but provide services only to corporate clients and were excluded for benchmark purposes

SOURCE: Company websites and annual reports; Regulator reports; Press

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5 Achieving best strategy typically requires relocating many postal branches and innovative approach to partnerships

Where different partners could support the network



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5 Example - Canada Post has transitioned from a fully Direct to more of a Master Franchise model over time

Overview of Canada Post

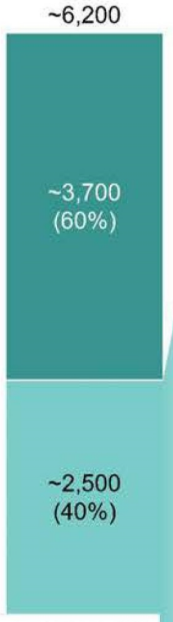
- Canada Post operates **6,200 branches**
- 98% of Canadians **live within 15km** of a Canada Post branch
- Canada Post delivers mails and parcels to around **~16M addresses** per year
- Canada Post generates **~$8.2B annual revenue**



Directly-managed branch



Franchised branch (store-in-store format)



Overview of transition to Master Franchise model

Before franchise model (pre-1987)

- Canada Post **managed 100% stores** directly
- Canada Post sought franchise model to:
  - Improve **customer access**
  - **Reduce costs**
  - Leverage the **retail know-how** of the private sector

Early years of franchise model

- Franchisees were granted exclusive **territory rights**
- Canada Post opened a **franchised store** for every directly managed store it closed
- Post offices were **standalone branches,** rather than store-in-stores

Current state

- Removal of **territory rights**
- **Consistent split of franchised and directly managed branches** over time (~40% franchised, 60% directly managed)
- The organisation has moved from owned stores to a **'store-in-store' format**, particularly in urban areas

SOURCE: Canada Post

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5 Example - Canada Post's Master Franchise model enables a lean organisation structure with standardised, fixed-period contract terms

Overview of Canada Post franchising model

- Sub-franchisee **owns and operates** a Post Office within an existing retail store, e.g., a drugstore
- No exclusive **territory rights**
- **Blended margin of ~20%** for Master Franchisees and additional economic benefits driven by increased customer footfall generated by Post Office products (~15% sales uplift)
- **Contract term of 5 years** with option for a further 5-year renewal
- Minimum of **76 opening hours per week** and **7 days per week**
- No management of store operations, **performance management** of stores conducted on a quarterly basis
- **Explicit preference for household brand names** as partners, as quality is perceived to be better

Example partnerships

SHOPPERS DRUG MART · Loblaws · Hallmark · Sobeys · 7-ELEVEN

Relationship with Shoppers Drug Mart

Overview

- Shoppers Drug Mart, a franchised organisation itself, owns **~50% of Canada Post franchised branches**
- Canada Post agrees a framework with Shoppers Drug Mart but actual contract is signed on a store-by-store basis – **very specific formal contract with standard terms and pricing**
- The Master Franchisee is responsible for paying most of the **setup cost**, i.e., standard fit-out, staging and equipment
- The relationship between Canada Post and Shoppers Drug Mart is **renewed every 5 years**

Insights for POL

- Although Master Franchise models create a leaner agent servicing structure, larger **contract management teams** are required to ensure consistency among franchisees
- **Fixed period contracts** allow the franchised organisation to update arrangement terms if desired, making it easier to change franchise strategy

SHOPPERS DRUG MART

POST OFFICE

SOURCE: Canada Post

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5 Increasing automation plays an important role in transforming network economics and driving future customer satisfaction

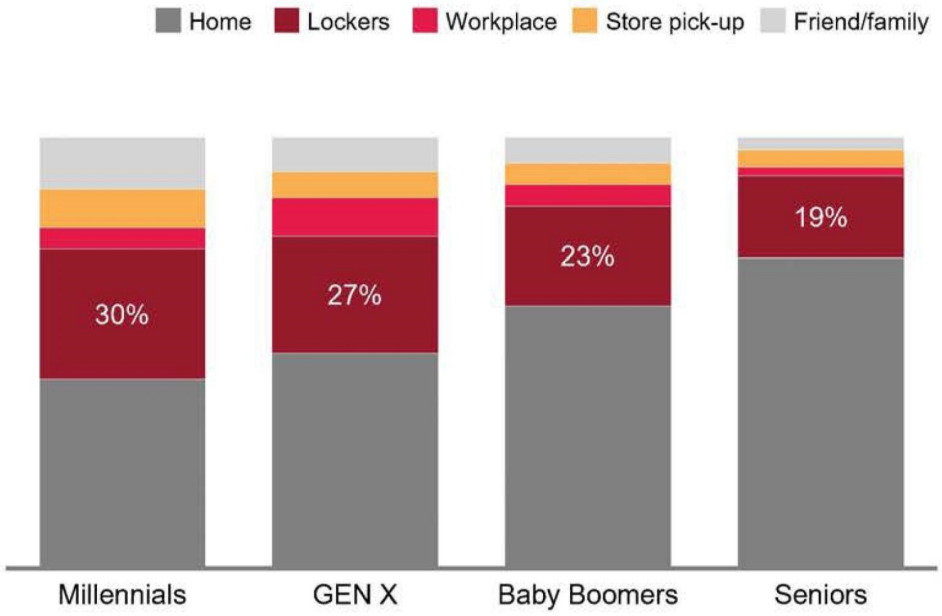
Counter automation mentioned as #1 factor in branch productivity

Escher postal survey responses[1]



Younger generations use significantly more automated delivery method

Doddle survey



1 Survey conducted between July and September 2018. Online survey of Postal leaders worldwide, with 76 total responses from 32 countries

SOURCE: Escher – Future of the post, 2019 report, Doddle - UK presentation on World Mail and Express Europe conference, June 2019

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5 Example - Singapore Post introduced self-service postal machines as early as 1997 and also built up the world's densest parcel locker network

Self-service Automated Machines (SAM) were introduced in 1997 by SingPost

They allow easy access to services without queuing and also outside of office opening hours and often 24/7

SAM specially started to be popular in the early 2000s with introduction 24/7 machines



In 2010, two thirds of the counter network is composed of SAMs. In 2016, only 3 post offices were not equiped with a SAM

Wide range of products and services include: bill payments, government services, top ups and gaming etc.

SingPost introduced Popstations (automated parcel terminals) in 2013 for convenient parcel receipt and return

Network is composed of 139 machines today, with expansion plan of doubling the network on mid-term

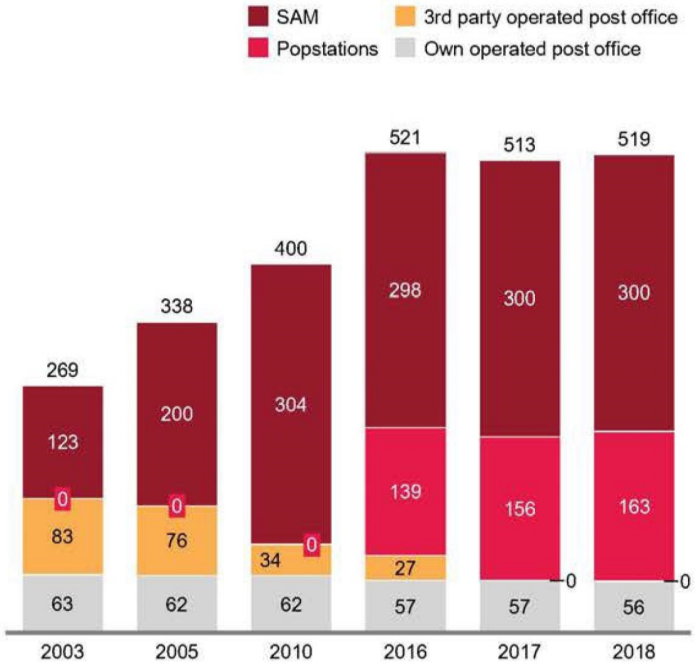
Machines allow parcel sending, receiving and returning and customers can also rent a box for peer to peer e-commerce sending



Both services are especially appreciated by younger generation due to convenience

In 2015, 29 Pos have been renovated all allowing digital access, 24/7 letter, bill payment and parcel services

SingPost retail Network
# of access locations



Source: Singapore Post; Press

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5 Example – Posti starts roll-out of unmanned post offices

- Posti has completed its second unmanned postal kiosk, located outside Posti's headquarters in Helsinki.
- The kiosk features parcel lockers for collection of parcels and lodging e-commerce returns. Customers can also send domestic and international parcels.
- Customers can contact Posti customer service personnel via a video link for help and advice.



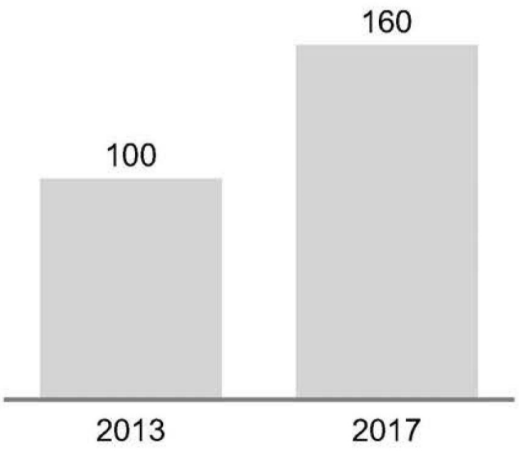
SOURCE: Posti, Press

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5 Parcel lockers gain in popularity and some operators make aggressive bet towards this delivery mode

Overall trend towards expansion of locker networks continues …

of terminals of IPC members, indexed



… with pronounced strategy towards lockers at a few operators

Examples

~3700 terminals across Germany

- Lockers introduced as early as 2001
- Multiple generations of technology tested
- Over 10% of population are registered regular users
- Plans to roll out 7,000 by 2021

~1,600 terminals in 2018

- 40% of the Finns are covered by a seven day parcel distribution via lockers
- Target of 1500 terminals by end 2019, most dense EU network at target state

SOURCE: IPC Global Postal Industry report, 2018, Operators' website and reporting

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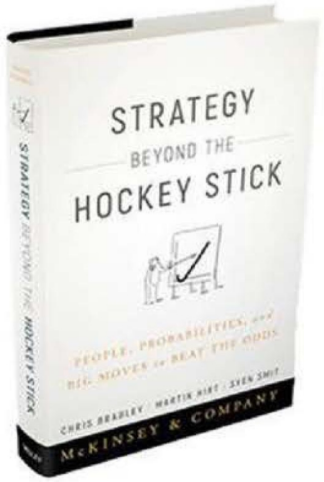
- **Approach to building a portfolio of Big Bets**
- Latest list of Big Bets considered and discarded

Overall process update

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REMINDER: Big Bets will help shape the future of the Post Office

- Research found that a **significant and flexible reallocation of resources to support "big bets"** is one of the **most important drivers of revenue growth and profitability improvement**
- "**Big bets**" are initiatives that require **significant resources and investment** (£10m+ of total CAPEX and exceptional spend over the entire duration of the project) and will materially impact the strategy and/or operating model of the Post Office
- We developed a **methodology by which we propose to assess and choose a portfolio of "big bets"** using **3 dimensions:** financial returns, ease of value capture and fit with the purpose of the Post Office
- Since the previous Board meeting, we have:
  - **Further developed our long list** of potential Big Bets
  - **Assessed the Big Bets** against the 3 said dimensions
  - **Started ruling out some Big Bets** on the basis of poor financials or low feasibility



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We are currently in the 3rd and final stage of our approach to building a Big Bet portfolio

	1 Ideation Finish w/c/ 4 Nov	2 Evaluation Finish w/c 25 Nov	3 Selection
Activities	▪ Generate Big Bet ideas ▪ Structure into categories ▪ Refine Big Bet definitions ▪ Assign primary source of content for evaluation	▪ Build fact base to level needed to decide on Big Bets: – Financial estimates (benefits, investment, terminal value when insightful) – Feasibility assessment – Fit with PO Purpose ▪ Cut Big Bets weak on financials, feasibility or fit with purpose ▪ Make decisions aggressively on weak big-bets to focus on better candidates	▪ **Continue to pressure test / refine big-bets,** maturing financial estimates and feasibility assessment ▪ **Cut weakest individual projects** by financial / feasibility rankings ▪ **Select a portfolio from the individual Big Bets** based on: affordability, timing, risk profile, interdependencies, PO capacity and capability for change ▪ **Step-back and test: can we make these bolder, more ambitious?**
Outputs	▪ Agreed long list of Big Bets	▪ List of excluded Big Bets ▪ List of shortlisted Big Bets with summary 1-pager	▪ **Sequence of Big Bets that will shape the Post Office for next 5 years**

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3 Big Bet selection is first done at a project level, then at a portfolio level

3A Project-level assessment

Evaluate Big Bets under 3 dimensions:

High-level financials

- Investment required and contribution
- Level of granularity: as much as relevant for selection
- Informed by external market view when relevant

Feasibility

- How likely is POL to succeed in implementing and capturing the value
- Informed by external market view when relevant

Fit with POL's purpose

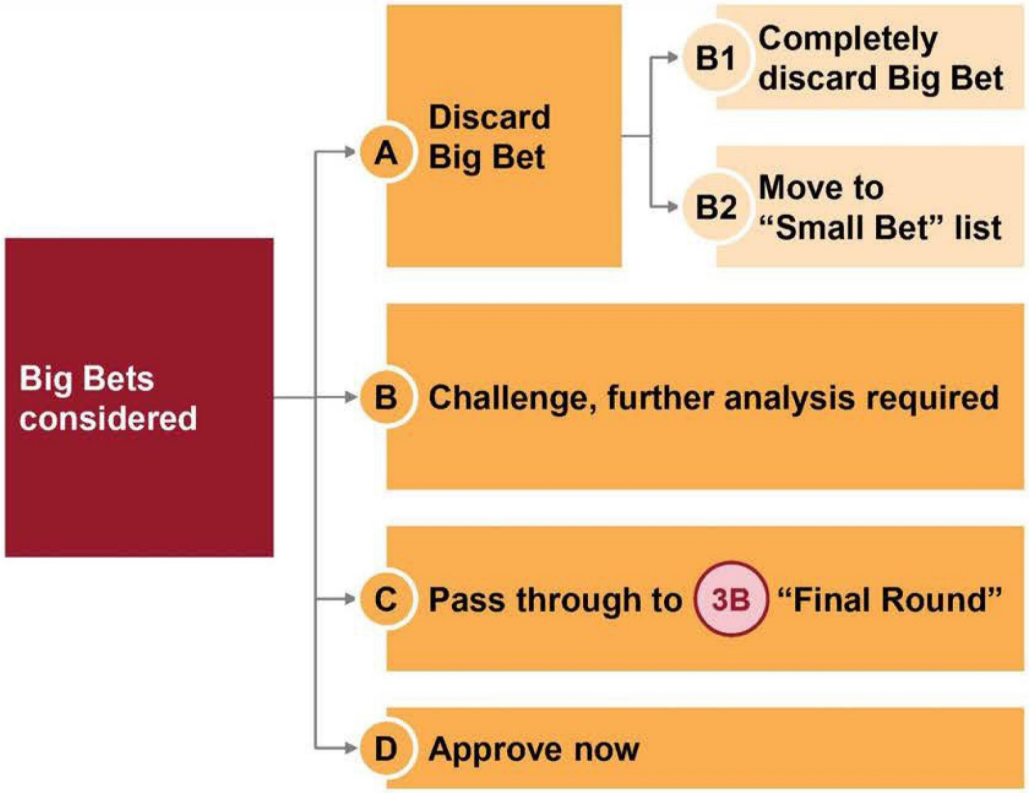
- Will it increase convenience, access for all, ability to help our end customers with everyday tasks, etc.?

3B Portfolio-level assessment

- Bring all remaining potential Big Bets in a single list
- Refine high-level financial as relevant
- Construct Big Bet portfolio options taking into account:
  - Affordability of investment cash flows required
  - Timing and Risk profile of overall portfolio:
    - Does the portfolio offer a healthy balance between higher-certainty and higher-risk/potential payoff Big Bets, and between shorter- and longer-term payoffs?
    - What is the potential correlation between risk profiles of the higher-risk Big Bets?
    - PO capabilities and capacity for change
  - Potential interdependencies between projects

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Big Bet are submitted to a "decision tree" that underlines a rigorous selection process



- **Preliminary Big Bet case is weak**
- **Any further effort** on it should be **stopped**

- **Big Bet case is strong, but total investment <£10m**, therefore moved to "Small Bet" list to be owned by relevant function lead

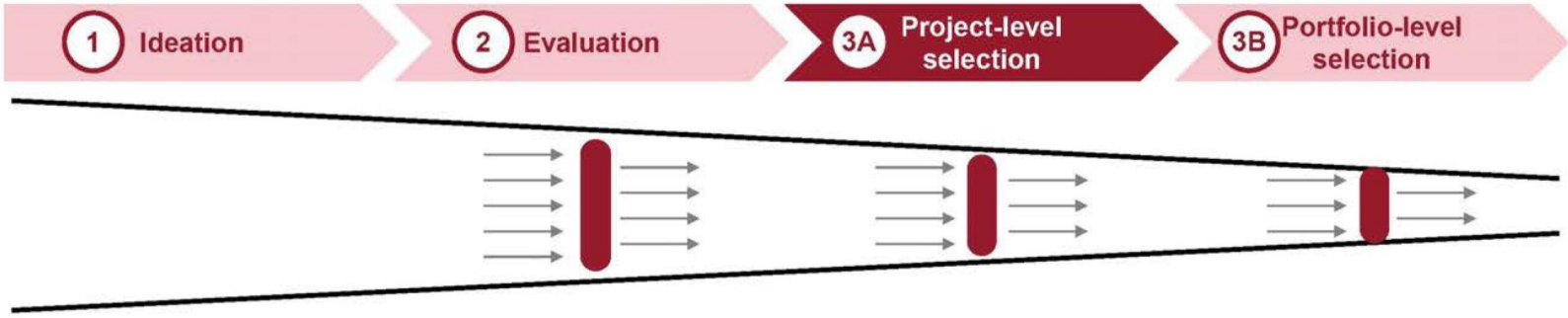
- **Preliminary case is not sufficiently developed** at this stage to make a decision
- **Clear next steps and owners to be identified** and Big Bet to be discussed again

- **Preliminary case for Big Bet is strong**
- **Case to be further developed** in next couple of weeks in preparation for "Final Round"

- **Big Bet is a "must do"** that can be approved without any further discussion

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The result is an iterative process that gets us progressively closer to the recommended Big Bet portfolio



Decision-making activities	▪ No decision at this stage	▪ Rule out those Big Bets whose high-level financials, feasibility or purpose fit are clearly weak	▪ Through an iterative process, reduce the list to a manageable size by ruling out those Big Bets that have the weakest financials and feasibility	▪ Select Big Bet portfolio options based on: – Affordability – Timing – Risk profile – Interdependencies – PO capacity and capability for change
# of potential Big Bets	~40	~25	~15-20	~10-15

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4 Big Bet categories

	Examples of Potential Big Bets
Optimise the product portfolio and grow revenues from the existing product categories	▪ Sell Telco business ▪ Digitise parcel journey ▪ Replace BoI ATMs with POL ATMs
Transform the network and its operations to ensure its sustainability	▪ Redefine the network ▪ Improve customer experience through branch automation
Build technology and digital capabilities to support the business	▪ Modernise Horizon ▪ Build digital and analytics capabilities to support other Big Bets
Right-size the central functions	▪ Right-size the central functions

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Big Bets: Optimise the product portfolio & grow revenues from the existing product cat.

		Big bets	Example of initiatives
Optimise the product portfolio and grow revenues from the existing product categories	Mails and parcels	Digitise the parcel journey	▪ Implement an online parcels business connected to the branch journeys
		Extend the PUDO network	▪ Increase the PUDO points through Payzone and Parcelshop
	Bill Pay	Expand the Bill Pay network	▪ Expand the bill payment network through contract wins and whole estate convenience retailers deals
	Telco	Telco: divest or keep	▪ Divest Telco, or keep Telco & reduce cost base through RFP and potential supplier change
	Banking	Replace BOI ATMs with POL ATMs	▪ Invest in infrastructure to replace current BoI ATMs by POL ATMs
		Grow banking framework business	▪ Invest in marketing campaign to increase awareness ▪ Take a partnership lead approach to develop new services for banks
	Identity	Grow Identity business	▪ Invest to develop Identify service and seek partnership with a bank
	FS	Build an FX transactional proposition	▪ Expand current FX offering to capitalise on market growth within travel Credit/Debit card market
		Develop an online investment service	▪ Develop a white label investment service
		Develop an SME proposition in FS or more broadly	▪ Build an FS SME proposition offering (lending, working cap & invoice finance, international payments, insurance) ▪ Develop SME online platform
	Cross-product categ.	Develop Large Corporates' proposition	▪ Monetise customer relationships by introducing large corporates
		Marketing / Branding investment	▪ Invest in developing a Post Office campaign to reinvigorate its brand
	Adjacencies	Enter the subscription drug fulfilment market	▪ Develop a "click-and-collect" service for non-liquid renewal subscriptions ▪ Offer "community pharmacy" service
	Business model	Move to a platform business model	▪ Move the business towards a consistent white label platform business with maximum outsourcing long term

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Big Bets: Transform the network and its operations to ensure its sustainability

	Big bets	Example of initiatives
Transform the network and its operations to ensure its sustainability	Redefine the network based on customer needs	▪ Continue DMB closure program at accelerated pace ▪ Continue Mains to Locals program ▪ Continue New Network Locations program
	In-branch cash automation	▪ Invest in cash automation through TCRs and automated deposit machines
	In-branch mails automation	▪ Invest in automating in-branch mails customer journey through deploying SSKs
	Improve agents' experience	▪ Modernise agent support (e.g., Branch Hub) ▪ Digitise agent journeys (e.g., training) ▪ Optimise the channel mix and ROI for the agent package taking into account pay, alarms & security, building spend, cash, field teams... ▪ Change Horizon and processes to simplify customer journeys in branches, reducing errors & queues
	Improve supply chain efficiency	▪ Optimise supply chain efficiency, ownership and systems ▪ Outsource cash supply chain ▪ Apply advanced analytics to optimise supply chain logistics
	Develop agents' capabilities	▪ "Super-size" hot housing ▪ Build sales competencies of postmasters

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Big Bets: Build technology and digital capabilities to support the business

	Big bets	Example of initiatives
Build technology and digital capabilities to support the business	Modernise Horizon	▪ Invest to move the Horizon technology onto modern architecture and without any supplier lock-in ▪ Review the business needs that drive complexity into what the future Horizon must do
	Enable management information across POL	▪ Build a MI strategy that enables data-led decision making
	Build customer data and loyalty approach	▪ Build a customer loyalty program underpinned by data & analytics capabilities
	Platform capability building	▪ Build a POL own platform that allows owning customer data across POL online businesses

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Big Bets: Right-size the central functions

	Big bets	Example of initiatives
Right-size the central functions	Right-size the central functions	▪ Zero-base lowest run cost for staff costs and non-staff costs that will support the business ▪ Leverage tools such as digitisation, automation and spans & layers to transform and right size the central functions for: -SLP-grade managers -Supply chain -(not DMBs)
	Undertake review of Ts&Cs challenges such as MTSF	▪ Undertake review of employees Ts&Cs to close the gap with market average metrics

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Discarded Big Bets

Big bets	Example of initiatives
Insurance: divest or grow faster	▪ We should not divest insurance because it is an important profit contributor (13% of total PO contribution in FY2018-19) ▪ Equally, there is currently no case to invest materially in Insurance given the Post Office has recently done this ▪ Therefore the recommendation is to carry on growing Insurance as BAU
Build a retail banking customer hub	▪ The feasibility of such an initiative is very low for the Post Office: the cost would be high, new capabilities would be required, and the benefits are highly uncertain
Build a B2B cash handling business	▪ The feasibility of such an initiative is very low: This has been tried by multiple posts in the past and none of them have succeeded. This is due in part by typically bespoke customer needs that are difficult to satisfy at scale
Enter the energy market	▪ High brand risk (e.g., wholesale price increase) with limited benefit upside ▪ An option to enter this market by playing the role of an aggregator (e.g., Uswitch) is also unattractive given a very high competitive space
Stand up last mile delivery proposition	▪ Post Office would not have strong delivery economics, especially when compared with dedicated delivery players, e.g. the Royal Mail

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PSG: Overall Project Plan

Workstreams	PHASE I: Baseline and Theme	Phase II: Strategy Development	Phase III: Syndication and Iteration
	4 weeks (30 Sep to 25 Oct)	*7 weeks (28 Oct to 13 Dec)*	*5 weeks (6 Jan to 7 Feb)*
Strategy and Growth	▪ Provide a fact base to assess POL's markets and customers ▪ Start assessing the "strategic balance sheet" of POL ▪ Brainstorm alternative Purposes ▪ Identify emerging themes that would inform the future strategic "Big Bets" ▪ Design a Customer Insight survey	▪ Articulate Post Office purpose ▪ Define the future strategy and start answering the strategic questions listed earlier, e.g.: – "Big bets" – Markets should we play in – Attractive growth opportunities – Strategy financials / economics ▪ Launch the Customer Insight survey	▪ Syndicate and refine the strategic choices, and finalise the answer to the strategic questions ▪ Articulate the 2-3 "Big Bets", including resources needed to support them ▪ Prioritise initiatives to embed Purpose and Strategy ▪ Integrate with 5 year plan
Organisational capabilities	▪ Launch the Organisational Health Index (OHI) survey ▪ Provide targeted expert support to the Zero-Based review of the organisation	▪ Playback the results of the OHI survey ▪ Identify the leadership steps to shape the actions informing the strategy ▪ Continue ZBB acceleration	▪ Drive OHI survey results into target behaviours and interventions
Technology	▪ Identify major problems posing a threat to continuity of the business ("lights out" risk)	▪ Baseline technology ▪ Identify implications for the business strategy	▪ Prioritise technology initiatives to deliver strategy
Board meetings	▪ 29 October 2019	▪ 26 November 2019 ▪ 19 December	▪ 28 January 2020

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Overall PSG plan: several workstreams come together to feed into Big Bets over next 4 weeks

	Output	November	December	January
Purpose	**A refreshed statement of our purpose that states what POL stands for and…**	Gather inputs from wide group of stakeholders	Test early purpose statements	Finalise purpose statement
Customers & Postmasters	**Resonates with our customers and our Postmasters**	Understand what customers and postmasters think through engagement and surveys	Feed results into iterations of the Big Bets	Engage postmasters with findings (may be later)
Big Bets	**Captures the coherent set of services we will invest money and effort into**	**Create long-list with estimated financials and feasibility; shortlist best**	**Iterate portfolio of Big Bets with learnings from Purpose, Customer and Financials**	**Select portfolio and engage stakeholders to confirm**
Financials & Markets	**Aligns us to where POL can be profitable within our investment envelope**	Estimate product and channel profitability; analyse markets for difficult Big Bet decisions	Improve financial forecasts and feasibility assessments where required for shortlisted Big Bets	Build PO financial forecasts
Org capabilities	**Fits our capabilities and motivates our people**	Baseline the organisation to understand changes needed to deliver Big Bets	Review ways to strengthen effectiveness of Product and Partnership	Identify leadership actions to shape the culture needed to support Big Bets
Technology	**Is supported by a funded set of technology changes**	Diagnose issues with technology and identify what it takes to move forwards	ITLT works on addressing issues and designs project to identify Horizon way forwards	ITLT starts project to understand Horizon and identify a costed way forwards Q1 2020
Integration	**Brings together all the above in board papers + unified plans**	Feed Purpose, Customers & Postmasters and Financial & Markets inputs into Big Bets	Ensure coherence of Big Bet iterations with Purpose and Customers & Postmasters view	Feed Big Bet choices into financial forecast

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We are engaging postmasters through "curry nights", 1-on-1s and an online survey

Curry Nights and 1-on-1s

Current progress

Engaged **over 80 postmasters** at "curry nights", including:

- Diverse **blend of branch formats/ locations** (rural, suburban, urban)
- **Varying tenures** ranging from <1 year to 33+ years
- The **youngest postmaster** in the UK at 22 years old
- Postmaster for the only Post Office run by a **town council**
- Third **generation postmaster**, handed down in the family since 1932

Next steps

- Final "curry night" with ~15 **London area postmasters**
- **10+ 1-on-1 conversations** with high performing postmasters scheduled for w/c 25 Nov

Curry nights

	Location	Date
A	Eastbourne	Mon 4th ✓
B	Burton-on-Trent	Tue 12th ✓
C	Weston-super-Mare	Thu 14th ✓
D	Cambridge	Mon 18th ✓
E	Manchester	Tue 19th ✓
F	Guildford	Thu 21st ✓
G	London	Tue 26th

One-on-ones

1 England
2 Wales
3 Scotland
4 Northern Ireland

10+ post-masters; w/c 25th



Survey

Current progress

- Sent to **~6,000[1] postmasters** at 18:00 on Friday 15 Nov
- **6% response rate** by end of first week of survey being live
- **Reminder email** sent Friday 22 Nov

Next steps

- **Area Managers will follow-up to encourage people** to complete survey during routine branch visits
- **Close survey** Friday 29 Nov and analyse results

Early results



1 ~6,000 represents postmasters that opted in to communications per GDPR restrictions; DMBs were excluded from this survey as their input was taken in the OHI survey

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Post Office Purpose, Strategy and Growth

24 January 2020

This paper seeks to reflect current progress in the process of defining the Post Office's Purpose and future Strategy. While there is more to do and cost and benefits need to be refined, I wanted to give full transparency on our thinking at this stage of the process, for your input.

CONTEXT

As a commercial organisation with a social purpose, the Post Office faces complex dynamics. To chart a path forward, the Purpose, Strategy & Growth (PSG) team has since October 2019 conducted quantitative research across customers (4,000+ consumers; 800+ SMEs), postmasters (~900 survey participants), POL colleagues (OHI survey of 1,770 participants with a 73% response rate); the team has also built on learnings from other posts, from transforming incumbents and from digital attackers. This paper sets out the findings from this work: the assets we start with; the challenges we face; a revitalised purpose; the strategy including investments we need in our postmasters, our customers, our people and our business; and finally the enablers to ensure successful delivery.

OUR STARTING POINT

The Post Office matters to the UK

What we do matters:

- To consumers, which we serve through the 10.3m customer sessions in branches and 1.3m visits on our website every week
- To communities, through ~11,500 branches throughout the nation plus our digital presence (the Government's own research has found this network delivers £4-10 billion of social value to the UK each year)
- To the vulnerable, whom we serve through ~4,000 community (traditional and outreach) branches
- To small businesses, as 93% of the total 5.9m of them in the UK use the Post Office, over half of at least once a month and almost a third at least once a week.

Strengths as our foundation

Our integral role in the fabric of the UK is based on a set of strengths:

- Post Office remains one of the most trusted institutions in the UK: 58% of consumers give the Post Office a rating of 8+ out of 10 on how much they trust the organisation. We also have clear headroom to competitors on reputation, service and convenience for parcels thanks to the care of our postmasters across our branch network.
- Our branch network continues to deliver an advantage for mail and parcels customers, who value this convenience over that of our next closest competitor (65% of participants in our customer survey agreed or strongly agreed that they had a PO branch close to their home/office vs. 50% for our best competitor).
- Our network also provides convenient access to critical banking services of major UK banks. Some 8 million customers every year already turn to the Post Office for their everyday cash and banking needs, and the convenience of our network promises to be increasingly important for the 58 million cash users in the UK who see banks continuing to rationalise their own branches. Helped by the recent change in pricing, Cash & Banking revenues are set to grow ~50% over the next two years.
- We have also created businesses outside our core (financial services, insurance, telecom) that make a large contribution and which, delivered through digital channels, are a proof of concept of our ability to deliver platform plays, leveraging our brand and access to customers.

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External challenges

However, we face a set of challenges in the markets where we play:

- The parcels market is becoming intensely competitive given the growth of Amazon as a logistics player, alongside aggressive rivalry from both low-cost players (Yodel, Hermes) and high-quality players (e.g., DPD). While the parcel market is growing at 10% p.a. (according to Ofcom), the letter mail market continues to decline at an accelerating rate (7-9% p.a.).
- The Post Office's Banking & Cash counter services have good momentum for the next three years, but will inevitably decline in the long term (UK cash payments fell by 16% from 2017 to 2018), with volumes potentially dropping faster over the coming years given re-negotiated prices.
- There are competitive challenges to young customers and SMEs – two important segments for our parcels and FS markets. Relevance and trust are notably lower for young customers, with other competitors rated higher than the Post Office for core attributes. This challenge is even steeper for SMEs where POL is perceived to be broadly in line with market average across many features (not leading, as it is for consumers), with a large gap to other competitors on important ones (e.g., "Makes the parcels drop-off easy", "Always have staff available quickly to help me").
- With the exception of travel money and travel insurance, POL has not yet fully established Financial Services as a medium-term growth engine within either the consumer or SME segment. Customer research highlights that there is not yet a clear "right to play" in this category with more credibility needed on expertise and ability to make customer financial transactions easy, relatively low overall awareness across many products (including life insurance at 33%, credit card at 31% and mortgages at 20% prompted awareness) and a strong negative halo driven by poor previous branch experience that leaves both consumers and SMEs assuming that any digital experience would probably be poor or uncompetitive. In those areas of strength, e.g., forex where we are #1 in physical transactions, we have not yet fully expanded our proposition to drive growth. For example, within the debit card space which is growing at double the rate of our core cash market, we are missing a proposition.
- Finally, Post Office faces a range of digitally-enabled (e.g., Monzo, Tide) and gig-economy (e.g., Hermes, Yodel) competitors who operate with a lower unit cost structure, greater agility and a primary focus on scale rather than profitability, which creates a substantial competitive challenge affecting Post Office's online propositions, especially insurance, forex and savings.

A growing imperative to modernise the Post Office as an organisation

In the face of these market shifts, the need for the Post Office to modernise is significant. This means addressing a number of organisational challenges:

- Post Office has a high-cost operating model, with limited deployment of process digitisation or analytics. This means that there are currently ~3,850 FTEs in POL against a potential target state of ~1,600.
- Trust needs to be re-established with postmasters (given, for example, the GLO). Retailers view Post Office processes as onerous (e.g., training, onboarding, inventory ordering) and this means that the Post Office format is not always compelling to them.
- Diversification has resulted in a complicated set of products which make it harder for our talented people to deliver leading positions and services. Mails & Parcels, Cash & Banking and Financial Services account for 76% of FY2019/20E direct contribution (including PayZone), but managerial focus, best PO team capabilities and change budget do not reflect this, with topics such as BillPay (including PayZone) and Identity (respectively 1% and 3% of FY2019/20E direct contribution) taking disproportionate oversight and investments.

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- Collectively this means that we are challenged in supporting our people. We have bottom-quartile organisational health overall relative to relevant peers, with particular gaps in: clarity of strategic direction, role clarity, personal accountability, external/competitor orientation and innovation.
- Furthermore, the Post Office suffers from the combination of a total dependence on third parties for all technological needs with very low maturity in vendor management capability. Horizon has contributed to extremely high IT costs (running at ~£90m vs. initial benchmarks of ~£50-60m) as well as severely hampering both technological change and our ability to deliver our postmasters' demands for "easy" services and journeys to offer to their customers. Post Office has the challenge of an unsustainable physical branch network to self-fund. There is a significant portion of the network that is loss-making, with an estimated support cost of £74m, predominantly driven by the need to support out geographic and access criteria, alongside some legacy fixed agent pay contracts.
- Finally, Post Office is facing a dramatic reduction in change funding (from GRO in FY2018/19 to GRO excluding GLO reserve funding in FY2020/21E). There is an envelope of GRO for change in FY2020/21 after delivering projects required to "keep the lights on". Finalising the DMB exit programme alone will absorb GRO of that spend. These numbers are preliminary and will be confirmed at a later Board meeting as part of the 5 Year Plan update.

CLARIFYING OUR PURPOSE

A first step to orient the organisation is to set a clear purpose behind which we can rally. Informed by our research, and reflecting our Business to Business to Consumer (B2B2C) nature, we believe there are three major "ingredients" to the Post Office Purpose:

1. Thriving Postmasters

We put postmasters first because without them we have no business – we will be 100% franchised within 18 months. They serve our shared customers. We need to improve our relationship and our trust. We are already increasing remuneration, improving transparency and modernising operational processes. Beyond this we will discuss with Government how we can align our interests with those of postmasters more permanently – for example through greater postmaster involvement in Post Office governance, sharing of profitability and even change in ownership.

Serving our postmasters better means:

a) radically increasing our efficiency to offer valuable, competitively priced services

b) focusing and innovating to maintain our lead in core markets in the face of competitive disruption

c) rethinking our support and franchise model for our postmasters to better serve their needs.

2. Ease & Access

We need to deliver consistently on those attributes that we have seen matter to our consumers, ie.:

a) Services and products that are easy to use and make our customers lives easier. Customers, postmasters and multiple partners alike overwhelmingly and consistently across categories emphasise the importance of this. It is clearly a critical plank to remaining competitive.

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b) Access to services that they wouldn't otherwise be able to tap into without our physical/digital support, particularly in Mails & Parcels and Cash & Banking.

This speaks to the importance of our social purpose and providing services for all communities across the UK, not just a subset of the population. By providing efficient models and formats, we can help communities access postal and cash & banking services.

As we increase ease and access for our customers, we will equally focus on ease and access for our postmasters. We must make it "easy" for our postmasters and multiple partners to work with us. Our technological and organisational barriers have created layers of friction which we simply must remove. And our focus on access to postal services will help our postmasters provide access to their communities.

3. Service-oriented central support. By simplifying what we do and addressing gaps in strategic direction and role clarity, celebrating where our teams are taking personal accountability, and focusing our efforts on initiatives that clearly move the needle on our competitive position (through efficiency or innovation) we will offer a much richer and more rewarding environment for our most talented individuals and better serve both postmasters and customers.

We will take forward further work to blend these ingredients into a single purpose statement.

STRATEGY

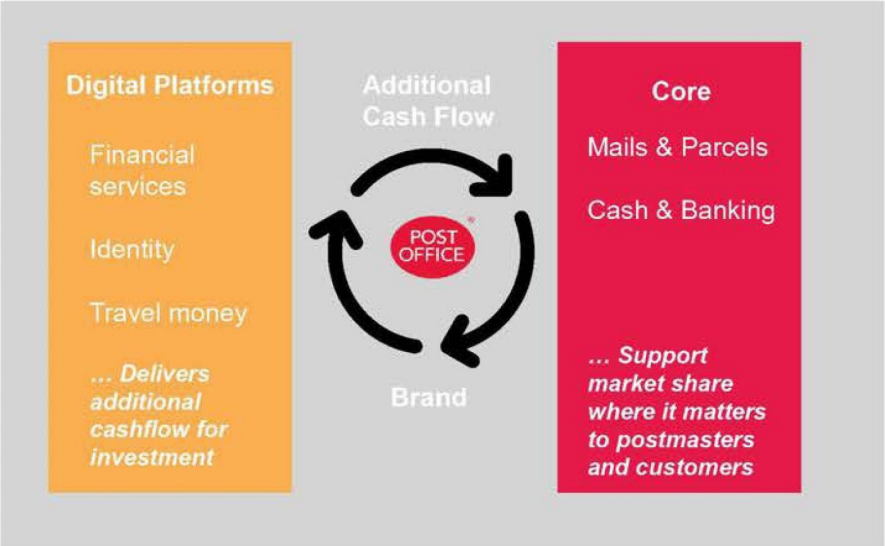
Economic foundations

To carry on delivering for our customers, we all have to be commercially sustainable – not just POL. This has to be worth it for customers, for postmasters and for the clients who pay our bills.

Realistically, a branch network that aims to be everywhere, will not be able to support itself commercially. We will have digital businesses, but their role is not to grow for the sake of it: their role is to make profits that turn into cash and sustain the network. And if we need more money for investment, we will consider selling a business to fund the changes we need.

We have to generate cash because that is what we can invest, and in rapidly-changing markets with changing technology and customer needs, we need to keep investing. This virtuous flywheel is depicted in the exhibit below.

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Pillars of the strategy

The strategy has three major components:

1. **Simplify to increase agility and to deliver to customers and postmasters:** remove the complexity that creates barriers to change, freeing cash for reinvestment
2. **Defend the core:** double down on and consolidate our position in Mails & Parcels and in Cash & Banking to give us a strong platform for the future
3. **Use platform plays as a means to fund our core and to deliver purpose:** support highly-contributing opportunities consistent with our brand that can be used to drive cashflow to reinvest in our core services for our postmasters and customers.

1. Simplify to increase agility and to deliver to customers and postmasters

In any given year, we have a limited amount of income to share with clients and postmasters. Every penny we spend means less for customers and postmasters and it is our absolute duty to be as efficient as we can be. We will therefore seek to become the world's leanest post office, not just to hit our own targets but because it is critical to delivering our purpose. This will create oxygen for investing in our postmasters, our people and our growth engines.

The major components include:

- **Right-sizing the central functions**: in the short term this means reducing central costs by streamlining the commercial organisation. In the longer term there is further opportunity from digitising functions and the overhaul of the franchising support model. The initiative can reduce costs by ~£33m per annum at run-rate (FY2023/24E), freeing up cashflow and enabling faster decision-making through a more focused approach.
- **Redefining the network and formats:** to ensure the network is fit for purpose, we will complete the DMB franchising effort, convert Mains to Locals and review what is the sustainable size and structure of the branch network going forwards.
- **Improving supply chain efficiency:** we will determine which parts of supply chain are better outsourced than retained in-house, and over what time period. Our high-level assessment suggests that as-is optimisation of the

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supply chain (e.g., by applying advanced analytics solutions to routing and footprint design) could unlock ~£5m benefits p.a. at run-rate (FY2023/24E).

- **Overhauling Technology:** Horizon in its current form is a high-cost system (forming an important part of total IT costs which run at ~£90m vs. initial benchmarks of ~£50-60m) with limited flexibility to deliver business needs going forward. Clearly a robust and flexible system is needed to serve our postmasters and customers. The current hypothesis is that delivering this will mean migrating at least some – if not all – use cases away from Horizon, together with implementing a vendor transformation journey, to support our future strategy. However, Horizon documentation is limited and so a first step should be a diagnostic sprint, which our supplier Fujitsu has already indicated they would be interested in doing collaboratively with the Post Office, to determine the best way forward.
- **Reimagine postmaster experience and support:** we will develop a clearer franchise model with better support to the postmasters. The target franchise model will determine POL's best structure of field support and level of digitisation/automation.
- **Enabling management information:** in the short term we will build infrastructure to enable MI across POL, paving the way to its consistent use in data-driven decision making. In the longer term we will also build our digital and analytics capability to enable delivery of both efficiency and innovation objectives.

Product rationalisation vs project rationalisation:

- We have reviewed opportunities for product rationalisation, for example of products with lower awareness (e.g., mortgages, life insurance). Our assessment is that stopping products is the wrong path forward: all products make a positive financial contribution (average ~40%, and in many cases >70% in FY2018/19), so that withdrawing them would immediately reduce the absolute profit that is needed to fund the branch network, without allowing us to simplify the underlying operating model. Project Blueprint identified significant savings in support costs (target potential of ~1,600 FTE) available even assuming an unchanged product portfolio.
- Conversely, we believe there is an opportunity to rationalise change projects and change spend. This year we have been running 130 capex or exceptional change projects, ranging all the way from thought pieces to delivery. Next year we will bring this number down to 20-30% of that figure. Projects not on the list will be placed on the back burner and we will stop work on them. We will focus relentlessly on making fewer changes better. This means projects such as Youth Strategy, Insurance acquisitions and replacing Swindon will be mothballed.
- We will consolidate the remaining change spend into fewer more material initiatives – as set out in the "big bets" below.
- We will also focus where we spend time and energy within our product groups, investing marketing money and resources against products where we have a clearer right to play and an opportunity to drive conversion, rather than diluting our efforts by trying to move the needle across the full portfolio.
- Taken together, these steps will enable us to do change better and to strengthen our own core disciplines: change delivery, managing our contracts and complying with our Regulators all have to be part of our focus.

What we will **NOT START**:

- **Adjacent markets where we have no basis for winning (e.g., energy, other utilities):** we reviewed an extensive list of adjacent opportunities and concluded that economics and feasibility are low. Other post offices around the world that have entered these adjacencies have overwhelmingly failed
- **Adjacent operational services, e.g., cash for third parties:** this is deprioritised due to low feasibility. This has been tried by multiple posts globally in the past with no success, due in part to typically bespoke customer needs that are difficult to satisfy at scale
- **Last-mile delivery and pick up:** here the Post Office would not have strong delivery economics, particularly when compared with dedicated delivery players, e.g., Royal Mail.

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What we will NOT invest in to grow:

- **Digital Identity under the current model:** benefits are highly uncertain (who will pay) and investment is expensive
- **Government services (including POCA, but excluding Identity):** these offer a low contribution of product category overall and diffuse organisational focus
- **Bill payment:** this is a driver for only 9% of visits to branches; bill pay is a commoditised market that offers low profitability.
- **Insurance:** we have already invested substantially in this business in the last few years. We now are looking for the business to deliver returns as BAU for the next two years without further investment. We will review progress and confidence after a year to confirm the direction and whether any other option e.g., divestment should be considered at this point.

2. Strengthen our core businesses of Mails & Parcels and Cash & Banking

We have an opportunity to shore up our competitive position in Mails & Parcels and Cash & Banking to increase profits that will both support our return to our shareholders and create a robust bottom line on which we can build for the future. Of £422m direct contribution (excluding PayZone) in FY2018/19, £153m (36%) comes from Mails & Parcels and £52m (12%) from Cash & Banking. In the baseline this rebalances to £143m (33%) and £121m (28%) by FY2020/21E. We will start to invest in initiatives to support the core from FY2020/21E.

Core components of supporting Mails & Parcels includes:

- Digitising the parcel journey: setting up a POL online channel that provides the ability to sell postage online, to track parcels and to pick POL locations for click and collect
- Automating in-branch mails: launching the tendering process for automated Self-Service Kiosks (SSKs) across selected branches of the network
- Achieving the best possible deal with the Royal Mail in the context of the ongoing negotiations
- Reviewing the shift to multicarrier options.

We have launched a next phase to detail our mails strategy further.

Actions to maximise our position in Cash & Banking over the next three to five years include:

- Launching local marketing campaigns (e.g., local events in communities) targeting SMEs to increase their awareness and consideration of POL cash services
- Launching the tendering process for cash automation machines including automated cash deposit machines for customers inside branches, teller-cash recycling machines for postmasters and ATMs of selected branches when they are due to be phased out by Bank of Ireland
- Preparing for negotiations for the Banking Framework #3 to share benefits as further high street branches close.

3. Use platform plays to fund our core and deliver our purpose

We have made progress during the past decade in establishing platform businesses. We have 12 people running a Telco business that generated £153m of revenues in FY2018-19, 10 in mails for £351m, 39 in cash & banking for £175m, and 50 in FS for £146m.

It is now time to start exploring our *next* platform options so that we have a continuing basis for continued growth and relevance. These could include:

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- **Exploring opportunities to launch a FOREX debit card.** Forex represented 42% of Financial Services revenues in FY2018/19 and leads competitors on consumer perception of critical attributes. The opportunity exists to develop a debit card proposition to defend the forex business
- **Exploring the option to partner to create a new SME proposition:** SME financial services represents a ~£3.8b profit pool in the UK (2018). While there is much competitive activity to serve SMEs, we could see several domains (e.g., working capital, near-prime lending) where Post Office could play. This would be in a "platform play" with the Post Office providing access to customers and a partner manufacturing products and handling regulatory compliance
- **Explore the option to provide a "democratised" investment proposition.** Partners have expressed interest in providing Post Office with a set of investment products
- **Exploring a platform play in Identity:** Digital Identity is an area where we have chosen not to invest in given challenging returns. However, we are exploring a potential partnership where we operate as a platform for other providers.

A key success factor to delivering platforms will be building capability within the Post Office to work effectively and efficiently with its existing and new corporate partners.

In the interest of enforcing simplicity, we will not investigate any further new initiatives in the next 12 months and invest in any of the above only once the proposition and case is clear, proactively terminating options that do not meet the bar.

FINANCIAL PROFILE AND SEQUENCING

Across these three pillars, investment would total up to GRO in FY2020/21] for GRO of annual recurring benefits across the "big bets" identified against each of these themes. [These numbers are preliminary and incremental to substantive "keep the lights on" change spend in 2020/21 and beyond. The net position and implication for funding will be confirmed at a later Board meeting as part of the 5 Year Plan update.]

GRO

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Given the need for substantive spend to "keep the lights on", spend that is expected to require a significant proportion of the total spend envelope over the next several years (e.g., [£64m] in FY2020/21), to deliver this incremental change we aim to sell our Telco business to co-fund change and – at least partly – loosen our current cash constraints. A role for government will still be required, particularly given the ongoing (and growing) burden of loss-making branches.

Sequencing will clearly be critical to delivering these opportunities to manage both cash and management bandwidth. The focus of the next 12 months will be on simplification and investment to defend the core in FY2020/21. We will limit ourselves to exploration of growth options rather than delivery. Depending on the confidence built in each initiative, more focus will be given to them from FY2021/22. Furthermore, no new opportunities will be added in the next year. Any new ideas will be added to a backlog and explored in one year's time to ensure focus.

Following through on this strategy in the next two years, we will declare success if we have:

- Rallied our postmasters and colleagues around our strategy and purpose
- Seen a material uptick in our organisational health and underlying key cultural components
- Delivered benefits of £50m from the "big bets"
- Secured funding to support the investments required
- Agreed a clear path to dealing with our estate with our stakeholders
- Created a simpler, flatter organisation of ~2,000 FTEs with a clear path to achieve ~1,600
- Completed DMB franchising and improved our network/franchising model/operations strategy
- Completed the RMG negotiation and started executing the remaining components of the Mails Strategy
- Begun re-platforming Horizon with clarity on a path to building our digital capabilities
- Clarified the propositions to drive growth, stopping those that are unattractive and kicking off steps to deliver the top priority that we identify.

OUR PEOPLE

Our people want and need to be part of the journey. These changes will enable us to create compelling roles, that offer a clear part to play in the business, that have true accountability and that offer an opportunity to be part of a journey of automation, digitisation and modernisation. As a leadership team, we will need both to equip our teams to make this shift and to role model the change that we want to see.

We have already kicked off some important components of internal role modelling through the launch of the 10@10 and trading meetings to bring transparency and underline the need for accountability.

A new GE structure will shortly be announced, and I will share this with you on Tuesday. We will work over the next month to ensure clear accountabilities and role descriptions at GE-1. The structure will follow our strategic needs:

- A focus on postmasters in a dedicated Network and Franchise team
- The commercial businesses brought together so we can focus on customer needs and work as a single team, not individual product silos leading to suboptimal management time, talent and investment allocation
- An Operations and Supply Chain leader positioned on the GE, with specific accountability for the delivery of our GLO strategy. Additionally, a focus on simplifying and consolidating operations, resolving the extent to which we digitise operations and ensuring that we offer our postmasters robust, simple processes
- An elevated Marketing and Brand team, reflecting the need for a step change in marketing activity to define and deliver the brand promise, aligned with the purpose and strategy, and to define effective campaigns to support priority products with clear ROI

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- An integrated Communications and Corporate Affairs team. A substantial communications effort will be required to embed the new purpose and strategy. This must be consistent internally and externally, with a clear mechanism for postmaster engagement and involvement
- A clear Chief People Officer role to address the burning platform change in culture and organisation that we require, immediately
- Our CIO – while an existing role – will have a particular focus on resolving outstanding questions around Horizon to ensure we have a robust, flexible platform with which to serve our postmasters and customers

This represents a flat structure where each activity is carried out in one place and one place only for our whole business. This will not only make us more efficient, but critically ensures the leadership team gets closer to customers and postmasters. Our structure will enable us to ensure greater role clarity, clear accountability for outcomes as well as improved consequence management. A priority for each GE member will also be to start addressing our capability gaps throughout our organisation to ensure we are equipped to deliver the strategy.

As laid out above, we will need to be ruthless in our prioritisation. Again, we will role-model this from the top. In the next 18-24 months we plan to dedicate:

- 35% of GE time to simplification
- 35% of GE time to strengthening our core businesses of Mails & Parcels and Cash & Banking
- 15% of GE time to exploring our next platform options
- 15% of GE time to other topics

Finally, we will kick off a comprehensive engagement and communications programme in February to explain our strategy and to bring to life what it means for the different parts of the organisation including the individual behaviour changes needed (and expected) for delivery. A critical part of this will be bringing to life our learnings from the GLO and the imperatives for change this brings for our business. This will run in parallel to our programme of ongoing engagement with postmasters and a customer campaign to start the process of modernising and re-energising our brand.

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Thriving Postmasters. Ease & Access. Service-oriented central support.

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Bonus Scheme Rules Review

Author: Maxine Cross / Laurence O'Neill Sponsor: Lisa Cherry Meeting date: 26 November 2019

Executive Summary

Context

Further to the 18/19 bonus approval cycle a high-level initial review and benchmarking exercise was undertaken of our current STIP and LTIP scheme rules with specific regard to POL's ability to apply discretion, malus and clawback to reduce or recover bonus awards.

On 23 September 2019 RemCo agreed proposed changes to the discretion, malus and clawback provisions in principle, subject to the question of to which grades of employees the changes ought to apply. They agreed that any changes should be applied from 1 April 2020 and not earlier. Since 23 September the reward team have identified a number of further routine changes that could be made to the STIP scheme to bring it up-to-date and in line with POL's existing practices. This paper sets out the recommended changes to the LTIP and STIP scheme rules, suggests a procedure to implement the changes in advance of 1 April 2020 and advises of the potential risks.

Questions addressed in this report

1. What are the final changes recommended to the Malus and Clawback provisions of the STIP and LTIP?
2. Which employee populations (grades) should those changes be applied to?
3. What further routine changes are recommended to the STIP scheme rules to bring them up-to-date and in line with POL's existing practice?
4. What is the procedure recommended to implement the changes from 1 April 2020?
5. What are the material risks of implementing the changes?

Conclusion / Recommendation

1. The final changes to the STIP and LTIP are those shown tracked in the schemes appended to this paper and summarised in the body of the Report. Broadly speaking they improve POL's right to make reductions to bonuses due under the LTIP scheme, to align that with the STIP scheme. They also clarify the circumstances in which POL might want to exercise discretion, such as where the individual has contributed to damage caused to POL's reputation or some other exceptional event has occurred.
2. It would be possible for Remco to focus the changes to the discretion, malus and clawback provisions on SLP grade and above, simply by limiting the changes to LTIP only (the LTIP only applies to SLP and above). If, however, the committee

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wishes to make these changes to the STIP too it is recommended that the changes be applied to all grades who benefit from STIP. Having different rules applying to different grades introduces complexity. It would also call into question the extent of POL's existing ability to apply discretion to all grades (which we believe we already enjoy). If the proposed changes to the STIP are met with strong resistance from Unite the Union (which is not anticipated) we can consider a revised approach at that time.

3. The further, routine/additional changes recommended to the STIP scheme are those shown tracked in the STIP scheme appended to this paper. The key changes are summarised in the table in the body of the Report.
4. We do not believe we are obliged to agree the changes with the employees or Unite. As a matter of good employee and industrial relations, however, and to avoid claims in the future that the changes are void because they were made without employees' knowledge, we recommend we should notify Unite and the employees of the changes. GE and senior management will be notified by Nick and Lisa in December. Unite will be notified of the changes in mid-January 2020. If employees or Unite challenge or resist the changes, POL will assess the strength of any argument and respond accordingly. If we are concerned by the arguments raised we will return to Remco on 11 February 2020 to obtain Remco's further instructions.
5. There are number of material risks in implementing these scheme rule changes. They are as set out in the table in section 5 of this report.

Input Sought

1. RemCo is asked to approve the recommended changes to the STIP and LTIP schemes.
2. As far as the changes to the discretion, malus and clawback provisions of the STIP are concerned Remco is asked to confirm they should apply to all grades (as recommended) or just to specific grades?
3. Remco is asked, in view of the risks, to agree the proposed roadmap for implementing these changes for 1 April 2020

Input Received

4. Pinsent Mason (Legal advisers)
5. Legal
6. Human Resources to include: Reward, Employee Relations and Interim Group HRD

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The Report

1. What are the final changes recommended to the Discretion, Malus and Clawback provisions of the STIP and LTIP?

The suggested improvements are:

Scheme	Changes
• LTIP (Changes shown in the mark-up at appendix 1).	Amended the rules of the LTIP to provide for a discretionary override to avoid formulaic outcomes in compliance with the requirements of the 2018 UK Corporate Governance Code. Gives POL the same discretion to reduce LTIP awards as POL enjoys for STIP. Included further triggers to the clawback provisions in rule 11 of the LTIP, i.e. serious misconduct or fraud, serious reputational damage, material corporate failure and other exceptional events at the discretion of the Remco. Given the expanded triggers for clawback, it is now appropriate to include a malus provision in the LTIP. **See in particular clauses 5.2 and 11.**
• STIP (Changes shown in the mark-up at appendix 2)	Amended the STIP Terms and Conditions to include a similar provision to LTIP. **See in particular subheadings "Payment calculation" and "Malus and Clawback"**

2. Which employee populations (grades) should the changes be applied to?

Since it is only the grades from CEO/CFO down to and including SLP who are primarily responsible for implementing the material decisions of the company, Remco may take the view that focus of any changes should be on those grades. This could be done by making the changes to the LTIP only, as the LTIP applies to SLP and above. If Remco does wish to make changes to the STIP then it would be open to Remco to specify that the changes apply only to certain senior grades. If the changes were specified to apply to grade 3a and above only, it would avoid potential for dispute with Unite because Unite does not represent those grades.

There is however a benefit to ensuring the scheme rules are consistent across all grades. The need for consistency should weigh heavily in any decision. Also, if we were to say that the changes only impacted employees of, say, SLP grade and above

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it could be used to suggest that Post Office does not already have absolute discretion to reduce awards in respect of other grades.

It is therefore recommended that any changes made to the STIP should apply to all applicable grades. The consideration as to whether to exercise discretion in relation to specific grades or all grades can be taken in the future in the event that a reduction or clawback of awards is considered, in accordance with the necessary legal advice.

1. What further / additional changes are recommended to the STIP scheme rules to bring them up to date and in line with existing practices?

It is also recommended that the following routine amendments are made to the STIP scheme:

Rule	Change	Rationale
Salary date for purpose of bonus calculation is 1 January	Change to 31 March of the performance year	To ensure salary at end of performance year is used
Treatment of changes during the performance year	Propose that treatment of salary / grade changes during the year are treated consistently	Current practice and rules are inconsistent and unexplainable
Clarification on "Good leavers"	Updated good leaver provisions, including that people "retiring" are not considered good leavers	Wording is unclear and complex. Also avoid age discrimination claims from younger employees who would not be treated as good leavers if resigning.
Treatment of colleagues who are subject to disciplinary warnings or process	Clarify that if a colleague is subject to a disciplinary process on the Payment Date payment may be delayed pending the outcome.	This is to avoid paying in circumstances in which we might then seek to clawback
Calculation method based on 365 days	Current rules state 260 days, whereas in practice the calculation is done on 365 days.	365 days is typical and allows more accurate calculations for pro-rata bonus payments.

2. What is the process recommended to implement the changes from 1 April 2020?

The route to implementing the changes depends on the current status of the bonus scheme rules (in particular whether the rules are contractual or not), the response to the proposed changes by the employees or their trade union, and POL's appetite for risk.

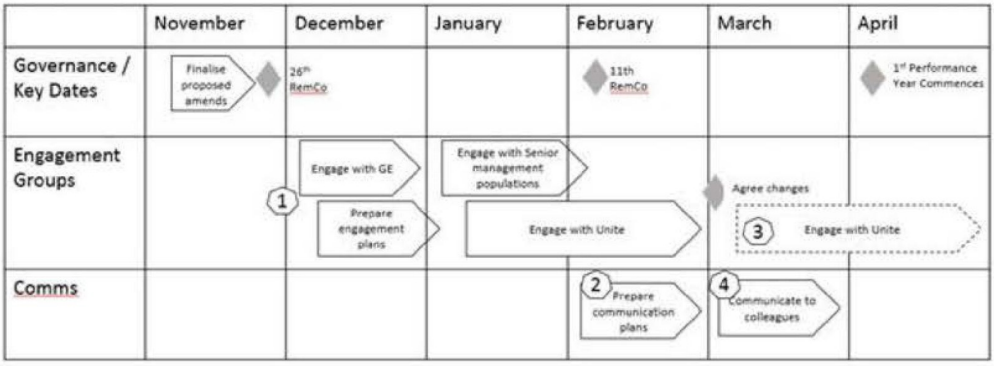
At one end of the spectrum, the changes might be implemented simply by making the proposed changes to scheme rules unilaterally and communicating the changes to

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employees. At the other end of the spectrum, employees or Unite may argue that the scheme rules have contractual effect and that, in order to effect the changes without agreement, we would need to collectively consult with the employees or their representatives and potentially dismiss and re-engage the employees on the new terms (i.e. the amended scheme rules).

It is believed the changes can be implemented unilaterally by telling the impacted populations that the changes will be applied. To avoid any negative implications of doing this, however, we would propose to engage and inform Unite and the senior populations of the changes.

Assuming that the recommended changes as outlined in this paper are agreed the following timeline will be followed to implement the changes.



1. Timeline will be subject to progress of discussions with Unite and Senior populations and we may need to revert back to RemCo in February if amendments are suggested. Suggest 45 days is possible within the timeline, should the Unions argue that consultation / negotiation is required
2. Commencement of communications plans will form part of wider engagement activities with internal comms and Unite
3. Engagement process with Unite may progress beyond target agreement date and may continue into beginning of the performance year
4. Comms to colleagues of changes will be subject to agreement with the unions. There may be a holding statement which confirms that changes are being discussed

3. What are the material risks of implementing the changes?

In embarking on making the above changes a number of material risks should be noted.

	Risk	Mitigation	RAG
1.	Based on known, standard contractual documentation, it is understood the changes can be made unilaterally. There may, however, be different (historic) employment contracts amongst the	We could perform an analysis of historic contracts to ascertain the likely risk. However the level of cost/effort required versus the likelihood of occurrence	

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	workforce which do not permit unilateral change. The risk is that the changes we make might not, for those contracts, be effective, which could result in claims from employees on those contracts.	is minimal. We would deal with any individual anomalies on a case by case basis unless there is a widespread issue	
2.	There is mistrust amongst the senior leadership populations in terms of how the changes will be applied in the future, especially amongst the Group Executive who were impacted by the STIP reductions in the 2018/2019 payment process.	We (Nick and Lisa) engage with the GE about the scheme rules both as a group and on an individual basis	
3.	The employees or unions argue that the bonus scheme rules are contractual and that, to change them, we must obtain their agreement or must dismiss and re-engage.	We approach the changes on the assumption that we have the right to unilaterally amend them (which is most likely). If we meet with credible and robust resistance we will revert to Remco for further instructions in Feb 2020.	
4.	The unions could seek to turn this into a story of POL trying to erode employee benefits and could conflate this with a number of other adverse matters in the ER space, to manufacture a 'trade dispute' off the back of which they could ballot for industrial action.	Early engagement and taking into account their feedback to shape our final thinking to give assurances that this is simply a better definition of the discretion we already enjoy rather than anything which detracts from employees current benefits.	
5.	Even though we make the changes, any future decision to reduce bonus awards is likely to meet with resistance and claims, particularly if they are widespread and impact Unite grades.	Remco to take legal advice prior to implementing reductions or clawback in future.	
6.	The changes could be seen as an erosion of benefits/standards, particularly when considered in light of other things such as £95k exit cap and no PMI for new joiners.	Comms explaining that the purpose of these particular amendments is more about aligning our schemes with comparators, which include similar provisions.	

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Appendices

1. Appendix 1 - Long Term Incentive Plan 2012

2. Appendix 2 - Post Office Bonus Scheme Terms and Conditions

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WORKING DRAFT 1: 18 September 2019. Suggested changes re discretion/malus and clawback.

Post Office Limited

LONG TERM INCENTIVE PLAN 2012

Adopted by the Remuneration Committee of Post Office Limited on [ ] 2012 and amended by the Remuneration Committee of Post Office Limited on 1 May 2013 and on [ ] 2019.

Expiry date: 31 March 2022

The Plan is a discretionary benefit offered by Post Office Limited for the benefit of its group employees. Its main purpose is to increase the interest of employees in the Post Office's long term business goals and performance. The Plan is an incentive for employees' future performance and commitment to the goals of the Post Office.

This Plan is being offered for the first time in 2012 and the remuneration committee of the board of Post Office Limited shall have the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted. Eligibility under the Plan does not create an automatic right to eligibility under any other plan introduced by either Royal Mail Holdings plc or Post Office Limited

Any cash received under the Plan is **not** part of salary for any purpose except to any extent required by statute.

The detailed rules of the Plan are set out overleaf.

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An Aon Hewitt company

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1. DEFINITIONS AND INTERPRETATION

1.1 In the Plan, unless the context otherwise requires:

"**Award**" means a conditional right to receive a Cash Amount;

"**Award Date**" means the date on which an Award is granted;

"**Board**" means the board of directors of the Company or a duly authorised committee of the Board or a duly authorised person;

"**Bonus**" means any amount payable to an employee under any bonus arrangement operated by any Group Member;

"**Cash Amount**" means the amount of cash under a Pay Out;

"**Clawback**" means an obligation to repay the amount referred to in Rule 10.2 and Rule 11.2 (*Amount to be subject to Clawback*);

"**Committee**" means the remuneration committee of the Board or a person duly authorised by such committee and, on and after the occurrence of a corporate event described in Rule 9 (*Change of ownership and other corporate events*) in circumstances where the Committee decides that Awards Pay Out, the remuneration committee of the Board as constituted immediately before such event occurs;

"**Company**" means Post Office Limited (registered in England and Wales with registered number 02154540);

"**Control**" means control within the meaning of section 995 of the Income Tax Act 2007;

"**Deferral Period**" means, for any Award, the period commencing on its Award Date and ending on its Normal Pay Out Date;

"**Early Pay Out Date**" means either:

(a) in circumstances where Rule 8.3(a) (*Death*) applies, the later of:

(i) the date of cessation of employment or office of a Participant as a result of their death; and

(ii) early determination of any Performance Condition relating to such cessation; or

(b) if Awards Pay Out under Rule 9.1 or 9.2 *(Change of ownership and other corporate events),* the date of the relevant event in such Rules;

"**Executive Director**" means an executive director of the Company;

"**Executive Committee Member**" means the group of the most senior executives of the company who are not Executive Directors of the Company and means any person who is eligible to be

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granted an Award under Rule 2 (*Eligibility*) whose remuneration is the direct responsibility of the Committee on the relevant Award Date;

"**Financial Year**" means a financial year of the Company;

"**Group Member**" means:

(a) the Company, any Subsidiary of the Company, a body corporate which is the Company's holding company (within the meaning of section 1159 of the Companies Act 2006) or a Subsidiary of the Company's holding company other than Royal Mail Holdings plc and its Subsidiaries (with the exception of the Company and any of its Subsidiaries);

(b) a body corporate which is a subsidiary undertaking (within the meaning of section 1162 of the Companies Act 2006) of a body corporate within paragraph (a) above and has been designated by the Board for this purpose; and

(c) any other body corporate in relation to which a body corporate within paragraph (a) or (b) above is able (whether directly or indirectly) to exercise 20% or more of its equity voting rights and has been designated by the Board for this purpose

and "**Group**" shall be construed accordingly;

"**Normal Pay Out Date**" means the date on which an Award Pays Out under Rule 5.1 (*Timing of Pay Out: Normal Pay Out Date)*;

"**Participant**" means a person who holds an Award including their personal representatives;

"**PAYE**" means pay as you earn as it applies to income tax pursuant to Income Tax (Earnings and Pensions) Act 2003 and the PAYE regulations referred to in it and as it applies for National Insurance contribution purposes under the Social Security Contributions and Benefits Act 1992 and regulations referred to in it.

"**Pay Out**" means a Participant becoming entitled to have a cash sum transferred to them under an Award subject to the Rules of the Plan and "**Pays Out**" shall be construed accordingly;

"**Performance Condition**" means a condition related to performance which is specified by the Committee under Rule 3.1 (*Terms of award*));

"**Plan**" means the Post Office Long Term Incentive Plan 2012 including any Performance Condition, as amended from time to time;

"**Remuneration Committee Population**" means any role eligible to be granted an Award under Rule 2 (*Eligibility*) whose remuneration, specifically the LTIP award, is under the auspices of the Committee on the relevant Award Date and who is not an Executive Director or an Executive Committee Member;

"**Rule**" means a rule of the Plan;

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"**Salary**" means an employee's base salary (excluding benefits in kind or any cash paid in lieu of any benefit in kind), expressed as an annual rate payable by the Group to the individual on the Award Date (or such earlier date as the Committee shall determine). Where a payment of salary is made in a currency other than sterling, the payment shall be treated as equal to the equivalent amount of sterling determined by using any rate of exchange which the Committee may reasonably select;

"**Senior Leadership Population**" means any role eligible to be granted an Award under Rule 2 (*Eligibility*) whose remuneration, specifically the LTIP award, is under the auspices of the remuneration committee of the Board on the relevant Award Date and who is not an Executive Director, an Executive Committee Member or a member of the Remuneration Committee Population;

"**ShEx**" means the shareholder executive of HM Government or any successor to that body;

"**Subsidiary**" means a body corporate which is a subsidiary (within the meaning of section 1159 of the Companies Act 2006); and

"**Tax Liability**" means the total of (i) any amount of PAYE , income tax or primary class 1 (employee) National Insurance contributions (or any similar liability to tax or social security contributions in any jurisdiction) for which any Group Member or former Group Member is liable to account for, or reasonably believes it is liable to account for, or would or may suffer a disadvantage if it were not to account for, to any relevant authority as a result of an Award and/or a Pay Out: and (ii) any interest and penalties that the relevant Group Member (or former Group Member) is liable to account for together with any costs reasonably and properly incurred by the relevant Group Member (or former Group member) as a result of an Award and/or a Pay Out.

1.2 Any reference in the Plan to any enactment includes a reference to that enactment as from time to time modified, extended or re-enacted.

1.3 Where the context admits, a reference to the singular includes the plural.

1.4 Expressions in italics and headings are for guidance only and do not form part of the Plan.

2. ELIGIBILITY

An individual is eligible to be granted an Award only if that individual is an employee of a Group Member on the Award Date but nothing in this Plan shall be deemed to give any such employee a right to participate in the Plan.

3. GRANT OF AWARDS

3.1 Terms of award

Subject to Rule 3.3 *(Timing of award)* and Rule 4 (*Limits*), the Committee may resolve to grant an Award on:

(a) the terms set out in the Plan; and

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(b) such additional terms (comprising a Performance Condition and/or any other terms) as the Committee may specify

to any person who is eligible to be granted an Award under Rule 2 (*Eligibility*).

For the avoidance of doubt, if Awards are granted on an annual basis then an Award may also be granted at any later time in the following 12 months to an individual who becomes an employee of a Group Member during that period and the size of such Award at grant may be pro-rated relative to the size of Award which the relevant individual might have received if they had been employed at the time of the annual grant of Award on such basis as the Committee decides.

Additionally, within the first 12 months, awards will be pro--rated based on any change of hours.

The pro ration formula will follow the same methodology as new starters and good leavers, in that full months will apply on a 36ths basis.

3.2 **Method of grant**

Awards shall be granted by deed executed by the Company.

3.3 **Timing of award**

No Awards can be granted after April 2022 (that being, the expiry of the period of 10 years beginning with the date on which the Plan is adopted by the Committee).

3.4 **Non-transferability and bankruptcy**

An Award granted to any individual:

(a) shall not be transferred, assigned, charged or otherwise disposed of (except on their death to their personal representatives) and shall lapse immediately on any attempt to do so; and

(b) shall lapse immediately if the individual is declared bankrupt.

4. LIMITS

4.1 **Individual limits**

The Committee shall set limits on the maximum value over which any Award shall be granted to any individual. The Schedule to the Rules shall set out these limits.

4.2 **Effect of limits**

Any Award shall be limited and take effect so that the limits in Rule 4.1 are complied with.

5. TIMING OF PAY OUT OF AWARDS

5.1 **Timing of Pay Out: Normal Pay Out Date**

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Subject to Rule 5.3 (*Restrictions on Pay Out: regulatory and tax issues*), an Award shall Pay Out on the later of:

(a) if any Performance Condition and any other condition has been imposed on the Pay Out of the Award, the date on which the Committee determines whether such Performance Condition or any other condition imposed on the Award has been satisfied (in whole or part); and

(b) the third anniversary of the Award Date or such other date or dates as the Committee shall determine on or prior to the Award Date

except where an earlier Pay Out occurs on an Early Pay Out Date under Rule 8 (*Leavers*) or Rule 9 (*Change of ownership and other corporate events*).

5.2 **Extent of Pay Out**

An Award shall only Pay Out to the extent:

(a) that any Performance Condition is satisfied on the Normal Pay Out Date or, if appropriate, the Early Pay Out Date;

(b) as permitted by any other term imposed on the Pay Out of the Award;

(c) in relation to a Pay Out before the Normal Pay Out Date, as permitted by Rule 8.5 (*Leavers: reduction in Cash Amount*) or 9.3 (*Corporate events: reduction in Cash Amount*); and

(d) as permitted under any operation of Rule 10 (*Clawback applying to Awards granted prior to 1 May 2013)* and Rule 11 (*Clawback applying to Awards granted after 1 May 2013 and [ ] 2019*);

SAVE THAT, notwithstanding the above, the Committee, in its absolute discretion, may make such adjustments, including a downward adjustment, to the level of a Pay Out as determined in accordance with this Rule 5.2 in respect of any Award **granted on or after the** [ ] 2019, if it considers such adjustment to be appropriate having taken into account all relevant factors.

5.3 **Restrictions on Pay Out: regulatory and tax issues**

An Award shall not Pay Out unless and until the following conditions are satisfied:

(a) the Pay Out of the Award would be lawful in all relevant jurisdictions and in compliance with any relevant UK or overseas regulation or enactment; and

(b) if a Tax Liability would arise by virtue of such Pay Out then the Participant must have entered into arrangements acceptable to the Board that the relevant Group Member will receive the amount of such Tax Liability in cleared and immediately available funds no later than the business day preceding the day the relevant Group Member is required to pay the Tax Liability to the relevant authority to avoid the imposition of interest or penalties. The relevant Group Member will notify the Participant of the amount of any Tax Liability. The amount will be calculated on the basis of the best estimate that can reasonably be made by the relevant Group Member. Notification of the amount of liability shall not be a condition precedent to the

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Participant's liability under this Rule 5.3, nor shall it limit the Participant's liability under this Rule 5.3. If no such arrangement is made then the Participant shall be deemed to have authorised the relevant Group Member to reduce the size of their Award or Pay Out (as appropriate) and satisfy the Tax Liability on their behalf to ensure that the relevant Group Member receives the amount required to discharge the Tax Liability.

For the purposes of this Rule 5.3, references to Group Member include any former Group Member.

6. PAY OUT

6.1 Payment

Subject to Rules 6.2 (*No payment if under notice*) and 6.3 (*Form and interest*), on or as soon as reasonably practicable after the date of Pay Out of an Award, the Board shall, subject to any arrangement made under Rule 5.3(b) (*Restrictions on Pay Out: regulatory and tax issues*), procure that a Participant's Cash Amount shall be paid to them by their employing company.

6.2 No payment if under notice

Subject to Rule 8.1 (*Good leavers – other than death*), if a Participant is under notice of termination of employment (whether given or received by the individual) on the proposed date of payment of a Cash Amount then their entitlement to the Cash Amount shall lapse immediately prior to such date and no Cash Amount shall be paid to the individual.

6.3 Form of cash and interest

Any payment of cash under this Rule shall be made in sterling and no interest shall be taken into account for the period from the Award Date to the time of payment.

7. LAPSE OF AWARDS

An Award shall lapse:

(a) in accordance with the Rules; or

(b) to the extent it does not Pay Out under these Rules.

8. LEAVERS

8.1 Good leavers – other than death

If a Participant ceases to be a director or employee of a Group by reason of:

(a) ill health, injury or disability evidenced to the satisfaction of the Committee;

(b) subject to Rule 8.2, redundancy (within the meaning of the Employment Rights Act 1996) or any overseas equivalent;

(c) the expiry of a fixed-term contract of employment;

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(d) in the case of Awards held by an Executive Director, an Executive Committee Member or a member of the Remuneration Committee Population, retirement with the agreement of the Committee and in the case of any other Participant, retirement with the agreement of their employer;

(e) their office or employment being with either a company which ceases to be a Group Member or relating to a business or part of a business which is transferred to a person who is not a Group Member;

(f) for any other reason, if the Committee so decides

then, subject to Rule 5.3 (*Restrictions on Pay Out: regulatory and tax issues*) and Rule 9 (*Change of ownership and other corporate events*), their Award shall Pay Out on the Normal Pay Out Date and Rule 8.5 (*Leavers: reduction in Cash Amount*) shall apply.

8.2 **Redundancy/Poor Performance**

If a Participant ceases to be a director or employee of a Group Member by reason of redundancy but the Committee is of the view that the redundancy is attributable in whole or in part to the performance of the Participant then it may decide that the Participant's Award shall lapse on the cessation of employment rather than Pay Out under Rule 8.1.

8.3 **Good leavers – death**

If a Participant ceases to be a director or employee of a Group Member by reason of death then:

(a) subject to Rule 5.3 (*Restrictions on Pay Out: regulatory and tax issues*), their Award shall Pay Out on the Early Pay Out Date and Rule 8.5 shall apply; unless

(b) the Committee decides, subject to Rule 5.3 (*Restrictions on Pay Out: regulatory and tax issues*) and Rule 9 (*Change of ownership and other corporate events*), that their Award shall Pay Out on the Normal Pay Out Date and Rule 8.5 (*Leavers: reduction in Cash Amount*) shall apply.

8.4 **Cessation of employment in other circumstances**

If a Participant ceases to be a director or employee of a Group Member for any reason other than those specified in Rules 8.1 and 8.3 then any Award held by the individual shall lapse immediately on the earlier of (i) cessation of the individual's directorship or employment or (ii) the expiry of 7 days following the Participant giving notice of termination of their directorship or employment.

8.5 **Leavers: reduction in Cash Amount**

Where an Award Pays Out on or after a Participant ceasing to be a director or employee of a Group Member, the Committee shall determine the Cash Amount of that Award by applying the following steps:

(a) applying any Performance Condition and any other condition imposed on the Pay Out of the Award; and

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(b) applying a pro rata reduction to the Cash Amount determined under Rule 8.5(a) based on the period of time commencing on the Award Date and ending on the date of cessation relative to the Deferral Period

unless the Committee, acting fairly and reasonably, decides that the reduction in the Cash Amount under Rule 8.5(b) is inappropriate in any particular case when it shall increase the Cash Amount to such higher amount as it decides provided that such amount does not exceed the amount determined under Rule 8.5(a).

If an Award Pays Out under either of Rules 9.1 or 9.2 (*Change of ownership and other corporate events*) when the holder of that Award has ceased to be a director or employee of a Group Member then this Rule 8.5 shall take precedence over Rule 9.3.

8.6 **Meaning of ceasing employment**

A Participant shall not be treated for the purposes of this Rule 8 as ceasing to be a director or employee of a Group Member until such time as the individual is no longer a director or employee of any Group Member.

The reason for the termination of office or employment of a Participant shall be determined by reference to Rules 8.1 to 8.4 regardless of whether such termination was lawful or unlawful.

8.7 **Death following cessation of employment**

If a Participant dies following cessation of employment in circumstances where their Award did not lapse but it has not Paid Out by the time of their death, it shall Pay Out immediately on their death to the extent determined by reference to the time of cessation of employment.

9. CHANGE OF OWNERSHIP AND OTHER CORPORATE EVENTS

9.1 **Change of Control**

If at any time any person (or group of persons acting in concert) obtains Control of the Company then all Awards shall continue under the Plan subject to such amendments (including as to the Performance Conditions) as the Committee may decide are appropriate in the circumstances unless the Committee decides prior to such obtaining of Control that all Awards shall Pay Out on the obtaining of Control, subject to the terms of any Performance Conditions and Rule 5.3 (*Restrictions on Pay Out: regulatory and tax issues*) and Rule 9.3 (*Corporate events: reduction in Cash Amount*) shall apply.

9.2 **Other Corporate Events**

If at any time the Company is subject to a corporate reconstruction, merger, demerger, sale of a substantial part of its business, mutualisation, scheme of arrangement or any event which the Committee considers to be of a similar nature to any of those events or any event which the Committee considers would change the structure or ownership of the Company then all Awards shall continue under the Plan subject to such amendments (including as to the Performance

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Conditions) as the Committee may decide are appropriate in the circumstances unless the Committee decides prior to any such event that Awards shall Pay Out on the occurrence of the event, subject to the terms of any Performance Conditions, Rule 5.3 (*Restrictions on Pay Out: regulatory and tax issues*) and Rule 9.3 (*Corporate events: reduction in Cash Amount*) shall apply.

9.3 **Corporate events: reduction in Cash Amount**

Where an Award Pays Out under Rule 9.1 or Rule 9.2, the Committee shall determine the Cash Amount of that Award by applying the following steps:

(a) applying any Performance Condition and any other condition imposed on the Pay Out of the Award; and

(b) subject to Rule 8.5 (*Leavers: reduction in Cash Amount*), applying a pro rata reduction to the Cash Amount determined under Rule 9.3(a) based on the period of time commencing on the Award Date and ending on the Early Pay Out Date relative to the Deferral Period

unless the Committee decides that the reduction in the Cash Amount under Rule 9.3(b) is inappropriate in any particular case when it shall increase the Cash Amount to such higher amount as it decides provided that such amount does not exceed the amount determined under Rule 9.3(a).

10. **CLAWBACK APPLYING TO AWARDS GRANTED PRIOR TO 1 May 2013**

10.1 **General**

The Committee may decide at any time within five years of the date on which an Award Pays Out that the individual to whom the Award was granted (the "relevant individual") shall be subject to Clawback if the Committee forms the view that either:

(a) the Company materially misstated its financial results by reason of wilful wrongdoing by one or more employees or former employees of the Company or any Group Member and that such misstatement resulted either directly or indirectly in that Award Paying Out to a greater degree than would have been the case had that misstatement not been made; or

(b) the relevant individual committed an act or acts during the period prior to the Pay Out of the Award which would have entitled their employer to have summarily dismissed the relevant individual from their employment.

This Rule 10 shall not apply after the Company is subject to an event described in Rule 9.1 or 9.2 (*Change of ownership and other corporate events*) where Awards Pay Out under those Rules.

10.2 **Amount to be subject to Clawback**

Where Rule 10.1(a) above applies, the Committee shall decide on the amount to be subject to Clawback which shall be all or part of the net (post-tax) additional value which the Committee considers has been received by the relevant individual as referred to in Rule 10.1.

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Where Rule 10.1(b) above applies, the Committee shall decide on the amount to be subject to Clawback provided that it shall not exceed the net (post-tax) value which the relevant individual received on the Pay Out of the relevant Award.

10.3 **Satisfaction of the Clawback**

The Clawback shall be satisfied as set out in Rules 10.3(a) and/or (b) below.

(a) The Committee may reduce (including reducing to zero) any of the following elements of the remuneration of the relevant individual:

(i) the amount of any future Bonus which would, but for the operation of the Clawback, be payable to the relevant individual; and/or

(ii) the extent to which any subsisting Award held by the relevant individual Pays Out notwithstanding the extent to which any Performance Condition and/or any other condition imposed on any such Award has been satisfied.

10.4 The Committee may require the relevant individual to pay to such Group Member as the Committee may direct, and on such terms as the Committee may direct (including, but without limitation to, on terms that the relevant amount is to be deducted from the relevant individual's salary or from any other payment to be made to the relevant individual by any Group Member), such amount as is required for the Clawback to be satisfied in full. In the event that the relevant individual does not pay such relevant amount in full by the date set out in the terms of payment then that amount shall constitute a debt owed to the relevant Group Member and shall be recoverable as a debt under the Courts and/or tribunals of England and Wales.

11. ~~CLAWBACK~~ CLAWBACK AND MALUS **APPLYING TO AWARDS GRANTED AFTER 1 May 2013** AND [ ] 2019

11.1 **Scope of Clawback**

The Committee may decide at any time within ~~[~~three~~]~~ years of the date on which an Award Pays Out that the individual to whom the Award was granted (the "relevant individual") shall be subject to Clawback if the Committee forms the view that either:

(a) the Company materially misstated its financial results for whatever reason and that such misstatement resulted either directly or indirectly in that Award Paying Out to a greater degree than would have been the case had that misstatement not been made; or

(b) in assessing any Performance Condition and/or any other condition imposed on the Award such assessment was based on an error, or on inaccurate or misleading information or assumptions and that such error, information or assumptions resulted either directly or indirectly in that Award Paying Out to a greater degree than would have been the case had that error not been made; or

(c) the relevant individual committed an act or acts during the period prior to the Pay Out of the Award which would have entitled their employer to have summarily dismissed the relevant individual from their employment; or

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In respect of Awards made on or after [ ] 2019 only:

(d) any act or omission by the relevant participant during the period prior to the Pay Out of the Award:

a. contributed to serious reputational damage to the Company, any Group Member or any relevant business unit; and/or

b. amounted to serious misconduct, fraud, dishonesty or material wrongdoing by the relevant individual; or

(e) a material corporate failure has occurred to which the act(s) or omission(s) of the relevant individual in the period prior to the Pay Out of that Award, has contributed; or

~~(e)~~(f) some other exceptional event has occurred as determined by the Committee in its discretion.

This Rule 11 shall not apply after the Company is subject to an event described in Rule 9.1 or 9.2 (*Change of ownership and other corporate events*) where Awards Pay Out under those Rules.

11.2 **Amount to be subject to Clawback**

Where Rule 11.1(a) and/or Rule 11.1(b) above applies, the Committee shall decide on the amount to be subject to Clawback which shall be all or part of the additional value which the Committee considers has been received by the relevant individual as referred to in those Rules but if the relevant individual is required to repay all or part of such additional value pursuant to Rule 11.3(b) below then the Committee may consider whether that amount should take into account any income tax and national insurance contributions paid by the relevant individual and any possibility of him reclaiming such income tax and national insurance contributions.

Where Rule 11.1(c), Rule 11.1(d),- Rule 11.1(e) or Rule 11.1(f) above applies, the amount to be subject to Clawback provided shall be such amount as the Committee decides is appropriate.

11.3 **Satisfaction of the Clawback**

The Clawback shall be satisfied as set out in Rules 11.3(a) and/or 11.3(b) below.

(a) The Committee may reduce (including, if appropriate, reducing to zero) any of the following elements of the remuneration of the relevant individual:

(i) the amount of any future Bonus which would, but for the operation of the Clawback, be payable to the relevant individual; and/or

(ii) the extent to which any subsisting Awards granted on or after 1 May 2013 and held by the relevant individual Pay Out notwithstanding the extent to which any Performance Condition and/or any other condition imposed on any such Award has been satisfied.

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(b) The Committee may require the relevant individual to pay to such Group Member as the Committee may direct, and on such terms as the Committee may direct (including, but without limitation to, on terms that the relevant amount is to be deducted from the relevant individual's salary or from any other payment to be made to the relevant individual by any Group Member), such amount as is required for the Clawback to be satisfied in full. In the event that the relevant individual does not pay such relevant amount in full by the date set out in the terms of payment then that amount shall constitute a debt owed to the relevant Group Member and shall be recoverable as a debt under the Courts and/or tribunals of England and Wales.

Any reduction made pursuant to Rule 11.3(a)(ii) above shall take effect immediately prior to the Award Paying Out.

11.4 **Reduction in Awards to give effect to clawback provisions in other plans**

The Committee may decide at any time to reduce the size of an Award (including, if appropriate, reducing to zero) immediately prior to such Award Paying Out to give effect to a clawback provision of any form contained in any incentive plan (other than the Plan) or any bonus plan operated by any Group Member. The value of the reduction shall be in accordance with the terms of the clawback provision in the relevant plan or, in the absence of any such term, on such basis as the Committee, acting fairly and reasonably, decides is appropriate.

11.5 **Application of Malus to Awards granted on or after [ ] 2019**

If prior to the Pay Out of an Award granted on or after [ ] 2019 the Committee forms the view that an event as described in Rule 11.1(d), Rule 11.1(e) or Rule 11.1 (f) has occurred, the Committee may determine at their discretion to reduce or cancel any outstanding Award held by the relevant individual as it considers appropriate.

12. **ALTERATIONS**

12.1 **General rule on alterations**

Except as described in Rule 12.2 (*ShEx approval*) and Rule 12.4 (*Alterations to disadvantage of Participants*) the Committee may at any time alter the Plan or the terms of any Award.

12.2 **ShEx approval**

(a) Except as described in Rule 12.3, no alteration to the advantage of an Executive Director to whom an Award has been or may be granted shall be made under Rule 12.1 to the provisions concerning:

(i) an individual's limits on participation;

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(ii) the basis for determining the individual's entitlement to, and the terms of, cash provided under the Plan; and

(iii) the terms of this Rule 12.2

without the prior written approval of ShEx.

(b) No alteration to a Performance Condition applying to an Award held by an Executive Director shall be made by the Committee pursuant to Rule 12.5 without the prior written approval of ShEx.

12.3 **Exceptions to ShEx approval**

Rule 12.2(a) (*ShEx approval*) shall not apply to any minor alteration to benefit the administration of the Plan, to take account of a change in legislation or regulatory treatment for the executive directors of the Company or any Group Member.

12.4 **Alterations to disadvantage of Participants**

No alteration to the material disadvantage of Participants (other than a change to any Performance Condition) shall be made under Rule 12.1 unless:

(a) the Board shall have invited every relevant Participant to indicate whether or not they approve the alteration; and

(b) the alteration is approved by a majority of those Participants who have given such an indication.

12.5 **Alterations to a Performance Condition**

Subject to Rule 12.2(b), the Committee may amend any Performance Condition if the Committee reasonably considers that it would be appropriate to amend the Performance Condition.

13. **MISCELLANEOUS**

13.1 **Employment**

The rights and obligations of any individual under the terms of their office or employment with any Group Member shall not be affected by their participation in the Plan or any right which they may have to participate in it. An individual who participates in the Plan waives any and all rights to compensation or damages in consequence of the termination of their office or employment for any reason whatsoever insofar as those rights arise or may arise from them ceasing to have rights under an Award as a result of such termination. Participation in the Plan shall not confer a right to continued employment upon any individual who participates in it nor eligibility to participate in any other incentive plan adopted by any Group Member. The grant of any Award does not imply that any further Award will be granted or that a Participant has any right to receive any further award or any other award under any other incentive plan adopted by any Group Member.

13.2 **Disputes**

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In the event of any dispute or disagreement as to the interpretation of the Plan, or as to any question or right arising from or relating to the Plan, the decision of the Committee shall be final and binding upon all persons.

13.3 **Exercise of powers and discretions**

The exercise of any power or discretion by the Committee shall not be open to question by any person and a Participant or former Participant shall have no rights in relation to the exercise of or omission to exercise any such power or discretion.

13.4 **Notices**

Any notice or other communication under or in connection with the Plan may be given:

(a) by personal delivery or by post, in the case of a company to its registered office, and in the case of an individual to their last known address, or, where the individual is a director or employee of a Group Member, either to their last known address or to the address of the place of business at which they perform the whole or substantially the whole of the duties of their office or employment;

(b) in an electronic communication to their usual business address or such other address for the time being notified for that purpose to the person giving the notice; or

(c) by such other method as the Board determines.

13.5 **Third parties**

No third party has any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Plan.

13.6 **Benefits not pensionable**

Benefits provided under the Plan shall not be pensionable.

13.7 **Data Protection**

Each Participant consents to the collection, processing and transfer of their personal data for any purpose relating to the operation of the Plan. This includes:

(a) providing personal data to any Group Member and any third party such as trustees of any employee benefit trust, administrators of the Plan, registrars, brokers and any of their respective agents;

(b) processing of personal data by any such Group Member or third party;

(c) transferring personal data to a country outside the European Economic Area (including a country which does not have data protection laws equivalent to those prevailing in the European Economic Area); and

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(d) providing personal data to potential purchasers of the Company, the Participant's employer or the business in which the Participant works.

13.8 **Governing law**

The Plan and all Awards shall be governed by and construed in accordance with the law of England and Wales and the Courts of England and Wales have exclusive jurisdiction to hear any dispute.

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Post Office Bonus Scheme Terms and Conditions

Introduction

- Post Office Limited (the "Company") operates an annual bonus scheme (the "Annual Bonus Scheme").
- All managers are eligible to be part of an annual bonus scheme appropriate to their grade (and, where appropriate, business area).
- The bonus ("Bonus") is discretionary.
- The Annual Bonus Scheme year runs from 1 April to 31 March (the "Scheme Year"). Annual Bonuses are awarded at the discretion of the Company on the Payment Date. Any Bonus will be calculated in accordance with the applicable scheme for the manager. For the purpose of these rules it will calculate based on 365 days in the Scheme Year.
- The bonus payment will be based on salary during the scheme year and pro-rated for periods where salary and/or grade changes.
- Your salary will be calculated based on your salary as at 31 March of each year, unless you experience a change in salary during the year, in which case your salary at the end of each period of change will be used for the purpose of calculating each period of bonus

Eligibility

- Subject to the Special Cases detailed below, you will be eligible to participate in an applicable annual bonus scheme for the area of the business in which you work , provided the following conditions have been met
    - that you are an employee of the Company;
    - that you will have commenced employment on or before 31 December of the Scheme Year ("Minimum Service Requirement");
    - that you remain employed by the Company on the Payment Date; and
    - your contract of employment allows you to participate in the scheme.

Unless the Company, acting in its absolute discretion, decides otherwise, you will NOT be entitled to ANY annual bonus payment for the Scheme Year if you:

- Have left the employment of the Company prior to the Payment Date for any reason other than those listed in the Special Cases below;
- Are under notice of resignation up until the payment date
- Have been dismissed for any reason other than those listed in the Special Cases below, prior to the Payment Date; or
- Are a contractor, casual worker or any other type of worker who is not deemed to be an employee
- You do not meet the Minimum Service Requirement

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Special cases

In some cases you are not entitled to payment of a full year's Bonus. These special cases, together with the rules for calculating your actual entitlement to a Bonus are as follows:

1. Eligible Leavers

- If you are no longer employed by the Company on the Payment Date, because of the following reasons you will be eligible to receive a pro-rata bonus based on the number of days you were at work for the Company during the Scheme Year:
  - You were made redundant
  - You transfer to or from another employing entity that is part of Post Office
  - You were subject to TUPE transfer into or out of Post Office Limited
  - If you have a death in service during the Scheme Year or prior to the award of a Bonus for that Scheme Year being made, then your estate will be entitled to receive a Bonus payment. In such a case the Bonus will be pro-rated to the number of days service for the Company during the Scheme Year.
  - Any other reason determined by the company

2. Sick Leave

- If you are absent from work during the Scheme Year due to sick leave then you will be entitled to receive a Bonus pro-rated to the number of days you were at work during the Scheme Year prior to going on, and/or on returning from sick leave.
- Additionally, if you are entitled to receive Company sick pay for your sick leave then you will be eligible to receive a bonus pro-rated for this period. A Bonus payment will not accrue for the remainder of any sick leave.

3. Maternity Leave

- If you are absent from work during the Scheme Year due to maternity leave then you will be entitled to receive a Bonus pro-rated to the number of days you were at work during that Scheme Year prior to going on, and/or on returning from, maternity leave.
- Additionally, if you are entitled to receive Post Office Maternity Pay for your maternity leave then you will be eligible to receive a bonus pro-rated for this period. A Bonus payment will not accrue for the remainder of any maternity leave.

4. Unpaid Leave

If you take authorised unpaid leave during the Scheme Year then subject to you meeting the Minimum Service Requirements you will be entitled to a partial Bonus. The Bonus will be calculated pro-rata to the number of days worked during the Scheme Year.

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5. New Starters

You will be entitled to receive a partial Bonus provided that you join Post Office on or before 31 December and are otherwise eligible for payment under these rules. Any Bonus payment will be pro-rated to the number of days you have worked during the Scheme Year.

6. Promotions to Management grades

If you are promoted (temporarily or permanently) to a management position from a non-management position during the Scheme Year, you will be entitled to a partial Bonus under this scheme. The Bonus payment will be pro-rated to reflect the number of days worked as a manager during the Scheme Year. You may also be entitled to a pro-rata bonus under any previous incentive arrangements.

7. Changes of Management grade

- If you are permanently promoted to a higher management grade during the Scheme Year you will be entitled to a partial Bonus under each scheme in which you participate. The Bonus payments will be pro-rated to the number of days worked at each management.
- If you permanently move from one branch within the network or area within the Post Office group but remain at the same grade, you will be entitled to a partial bonus under each set of results for the time spent within each particular branch or area.

8. Demotion to Non Management Grades

- If you are re-graded to a non-management grade role during the Scheme Year through no fault of your own, for example due to a business reorganisation, you will be entitled to a partial Bonus pro-rated to the number of days worked at your previous management grade during that Scheme Year. If you are downgraded within management grades during a Scheme Year through no fault of your own, for example due to a business reorganisation, you will be entitled to a partial Bonus payment. The payment will be pro-rated to the number of days you worked at each grade during the Scheme.

9. Temporary transfers or promotions

- If you are temporarily transferred to a different business unit or third party with a different bonus scheme during a Scheme Year the payment will be pro-rated having regard to the number of days you worked in each unit or third party during the Scheme Year.
- If you are temporarily promoted to a higher grade any Bonus payment will be based on your grade immediately prior to the temporary promotion and the annual bonus scheme in which you participated immediately prior to the temporary promotion. Any Bonus payment will be calculated using your salary excluding any additional payments for additional responsibility / acting up allowance. Your acting up payment takes this into account

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10. Change of Hours

- If you change the number of contracted hours worked during the Scheme Year then, subject to all the other rules above, your Bonus will be pro-rated to the number of days worked for each period of a change in contractual hours.

12. Disciplinary procedure

If you have been subject to the Company's disciplinary procedure (for example, you have received a verbal warning) during the Scheme Year, the Company may decide to delay or withhold your payment

Terms and Conditions for Bonus linked to the Measures

Bonus will only be payable if the agreed gateway measure is achieved. If actual performance falls between stretch and target or threshold and target the bonus percentage payable will be pro-rated up or down in a straight-line sliding scale. The maximum to be paid out at stretch is detailed in individual contracts or within the appropriate negotiated scheme. The maximum should not be exceeded unless otherwise stated within the individual annual bonus scheme rules.

Payment date

The Payment Date will normally be in August or at the earliest possible pay cycle provided that the financial results of the Company for the Scheme Year have been subject to the necessary audit requirements and have been announced and, where appropriate, performance appraisal ratings have been recorded.

Discretion

Notwithstanding any other provision of the Annual Bonus Scheme the Company shall have the absolute discretion to make such adjustments, including a downward adjustment, to any Bonus payment due under the Annual Bonus Scheme if it considers such adjustment to be appropriate having taken into account all relevant factors.

Malus and Clawback

- The Company may decide at any time within [three] years of the date on which a Bonus payment is made that you shall be subject to clawback ("Clawback") if the Company forms the view that either:
    - the Company materially misstated its financial results for whatever reason and that such misstatement resulted either directly or indirectly in the Bonus payment being greater than it would have been if the misstatement had not been made; or
    - in assessing any performance conditions applying to a Bonus such assessment was based on an error or an inaccurate or misleading information or assumptions and that such error, information or assumptions resulted either directly or indirectly in that Bonus payment being greater than it would have been had that error not been made; or

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- you committed an act or acts during the relevant Scheme Year which would have entitled your employer to have you summarily dismissed; or
- any act or omission by you during the relevant Scheme Year which:
  - has contributed to serious reputational damage to the Company, any other member of the group or any relevant business unit; or
  - has amounted to serious misconduct, fraud or dishonesty; or
- a material corporate failure occurs to which your act(s) or omission(s) has contributed; or
- some other exceptional event has occurred as determined by the Company in its discretion.

- Where a Bonus payment is made which is greater than it would have been, the Company shall decide on the amount to be subject to the Clawback which shall be all or part of the additional value which the Company considers you received. If you are required to repay all or part of such additional value pursuant by way of a payment from either salary or any other payment due to you then the Company may consider whether that amount should take into account any income tax and national insurance contributions you have paid and any possibility of you reclaiming such income tax and national insurance contributions.
- In all other circumstances, the amount to be subject to clawback shall be such amount as the Committee decides is appropriate.

Satisfaction of the Clawback

- To satisfy the Clawback the Company may reduce (including, if appropriate, reducing to zero) the amount of any future Bonus which would, but for the operation of the Clawback, be payable to you; and/or
- The Company may require you to pay to such member of the group as it shall direct, and on such terms as it may direct (including, but without limitation to, on terms that the relevant amount is to be deducted from your salary or from any other payment to be made to the relevant individual by any member of the group), such amount as is required for the Clawback to be satisfied in full. In the event that you do not pay such relevant amount in full by the date set out in the terms of payment then that amount shall constitute a debt owed to the relevant member of the group and shall be recoverable as a debt under the Courts and/or tribunals of England and Wales.

Application of Malus

If prior to the payment of the Bonus the Company forms the view that an event which would trigger Clawback has occurred, the Company may determine at their discretion to reduce or cancel any Bonus due to be paid to you under the Annual Bonus Scheme.

Amendment

The Company reserves the right to amend, delete, add to or replace all or any of the rules contained herein from time to time at its discretion. Notice of any such

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change will be given to all participating managers within one month of such changes coming into effect.

Miscellaneous

- Your rights and obligations under the terms of your employment with any member of the Post Office group shall not be affected by your participation in the Annual Bonus Scheme or any right which you may have to participate in it. If you participate in the Annual Bonus Scheme you waive any and all rights to compensation or damages in consequence of the termination of your employment for any reason whatsoever insofar as those rights arise or may arise from you ceasing to have rights under the Annual Bonus Scheme as a result of such termination.

- In the event of any dispute or disagreement as to the interpretation of the Annual Bonus Scheme (including the rectification of errors or mistakes), or as to any question or right arising from or relating to the Annual Bonus Scheme, the decision of the Company shall be final and binding.

- The exercise of any discretion by the Company shall not be open to question by any person and you, whether you are a current employee or a former employee, shall have no rights in relation to the exercise or omission to exercise any such discretion.

- Any notice or other communication under or in connection with the Annual Bonus Scheme may be given:

  (a) by personal delivery or by sending the same by post to your last known address, or, where you are an employee of a member of the Post Office group, either to your last known address or to the address of the place of business at which you perform the whole or substantially the whole of the duties of your employment;

  (b) in an electronic communication to your usual business address or such other address for the time being notified for that purpose to the person giving the notice; or

  (c) by such other method as the Company decides.

- No third party has any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Annual Bonus Scheme.

- The Annual Bonus Scheme shall be governed by and construed in accordance with the law of England and Wales and the Courts of England and Wales have exclusive jurisdiction to hear any dispute.

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Cash and Facility Management

Author: Mark Dixon Sponsor: Al Cameron Meeting date: 26 November 2019

Executive Summary

Context

Post Office is funded by Government. We have been receiving investment funding to pay for investment costs, network subsidy to keep unprofitable branches open and we can borrow from BEIS and the Bank Of England to fund both our working capital and branch cash holdings. Over recent years, as set out in the table below, there have been a number of cashflow trends:

1. Trading profit has increased, offset by lower network subsidy.
2. We have deliberately invested more than our investment funding, especially in 2014-15 and 2015-16. Subsequently we have balanced this with cash efficiencies and have reduced net borrowings in this 3YP period after a peak in 2017-18.
3. Working capital requirements have increased in each year.

GRO

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Going forward, investment funding will cease and network subsidy is not agreed. We will be constrained in the amount we can invest. Managing our cash resources will therefore become increasingly important.

Questions addressed in this report

1. How does cash and borrowing work?
2. What progress have we made?
3. What further efficiencies can be delivered?
4. Looking forward, what are the constraints and what can be done about them?

Conclusions

We supply the cash for branches as well as our own working capital.

Our borrowing capacity has three primary limits: a hard limit on what we can borrow from BEIS, a security headroom limit which ensures that branch cash and client debtors exceed borrowing from BEIS and a limit on BoE borrowing based on cash withdrawals.

This security headroom is important to Government as it means that our borrowing is accounted for on their balance sheet as working capital not debt.

Previously, we increased borrowing significantly over a two-three year period by investing more in the business than we were receiving in funding. In the current three-year period to 2021 we are not seeking to borrow to invest and we have managed down borrowing through efficiencies in supply chain.

Further efficiencies can be gained and these would enable us to fund a material GLO settlement. This view is subject to completing funding agreements with Government after March 2021 on the back of an agreed 5YP.

Looking forward, we should be able to manage ourselves so that trading profit and network subsidy can be largely converted to investment spend. However, while we can maintain a healthy facility headroom, security headroom will continue to fall, potentially sharply and we will be operating on fine margins of headroom.

This needs to form part of the funding debate with Government for the period after March 2021. Our focus is to

- Seek to credibly incentivise the business on cash earned rather than profit
- Deliver further cash efficiencies
- Significantly improve our understanding and ability to forecast working capital
- Significantly improve cash flow forecasting and strengthen the team. We are working with Accenture on a proof of concept for cash forecasting. This will require some investment funding.
- Consider the need to sell assets to increase capacity

Input Sought

The Board is asked to note the progress made and comment on the next steps.

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The Report

How does cash and borrowing work?

1. GRO
The trend is for falling withdrawals as declines in POCA and cash usage exceed increases in our share of banking withdrawals. Deposits values are rising through a higher banking share.

2. At 31 March 2019, a reasonably typical example day, we controlle GRO
GRO

3.

4. GRO

5.

6. The working capital flows in the underlying business are much larger and more volatile. We set our borrowing under the RCF 2 days in advance and can access an emergency facility of £50m for issues which arise in that 2 days. The RCF is capped in three ways: the limit we can borrow is formally £950m. However, the Board requires us to operate with a GRO reducing the limit to GRO
GRO

7. At different points in the cycle, either the facility headroom or the security headroom can be a greater constraint. In earlier years, we were holding at lot of cash in branches and borrowing to fund investments. This increased the amount of cash held and the borrowing, reducing headroom against both limits. As we have reduced cash usage, we have widened the facility headroom which is just the difference between our borrowing and £750m but not security headroom, where reduced cash and borrowing net off.

8. GRO

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GRO

What progress have we made?

9. The development in cash can be summarised by year-end numbers as follows:

GRO

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GRO

GRO

What further efficiencies can be made

11. We believe that there are a number of further efficiencies possible totalling GRO

- We have now received BoE permission to vary vault opening hours, enabling us to remove inward and outward REMs at the cash centres by staying open until GRO to process inward REMs and opening at GRO to process outward REMs, removing both from our midnight balance sheet. This should be worth GRO
- We can be tougher on branches not returning excess cash and we believe this could be worth GRO
- We are working to take more risk on "buffer stock" (i.e. the working stock required (mainly coin because of lead times) to ensure that we can meet the demands of the Network). Any reduction in this stock increases the risk that a delay in obtaining stocks (due to stress in the industry or transport issues) will result in branch orders not being fulfilled. The impact is expected to be less significant than the first two actions above.
- We also need to understand working capital movements better so we can refine our forecasts.

GRO

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GRO

Looking forward what are the constraints and what can be done about them?

14. We have done a first piece of untested modelling. The assumptions were:

- GRO

15. As the table below shows, with the fall in withdrawals, access to the NRF falls sharply. However, the overall impact on reducing withdrawals so materially is not in itself disastrous.

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GRO

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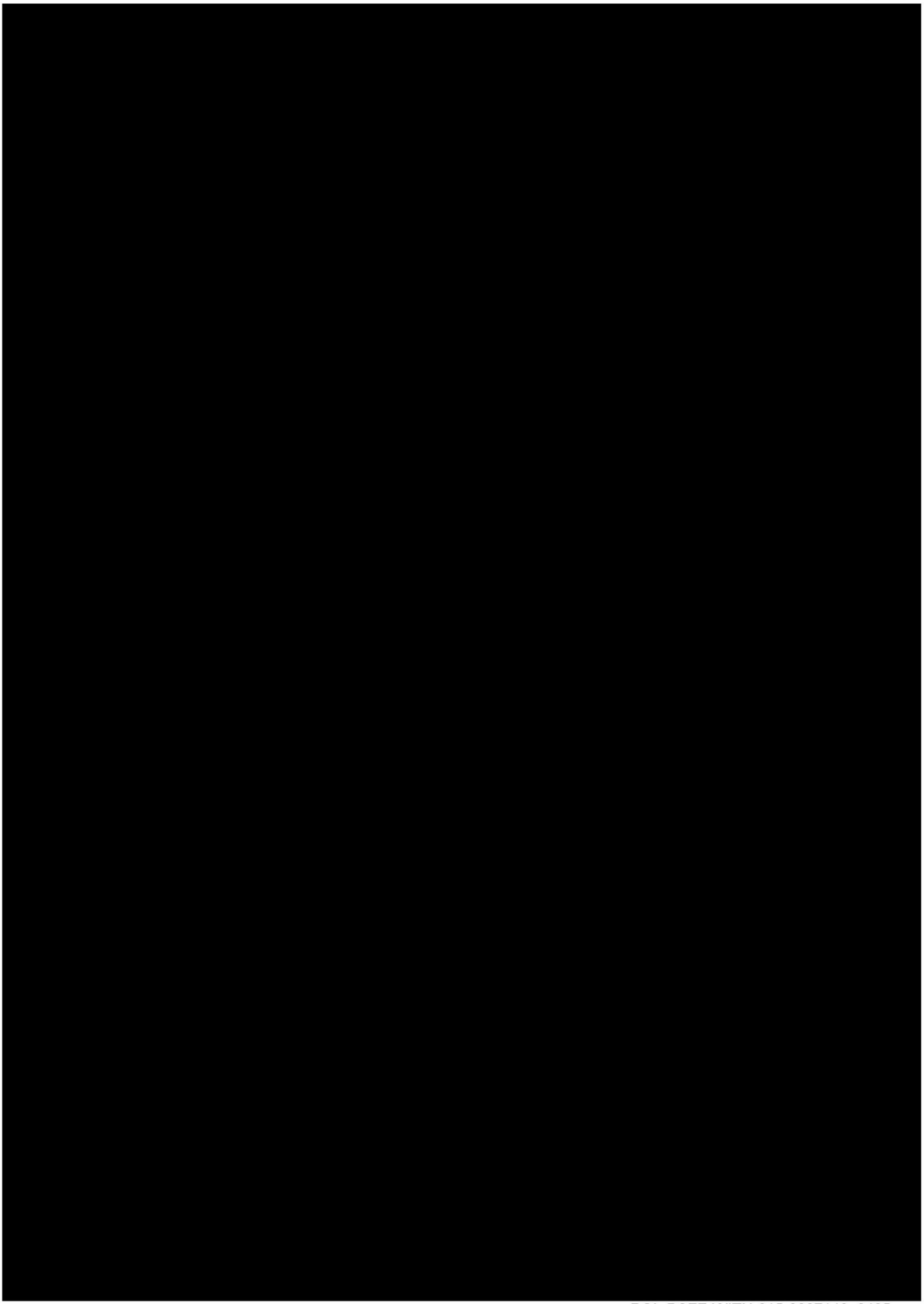
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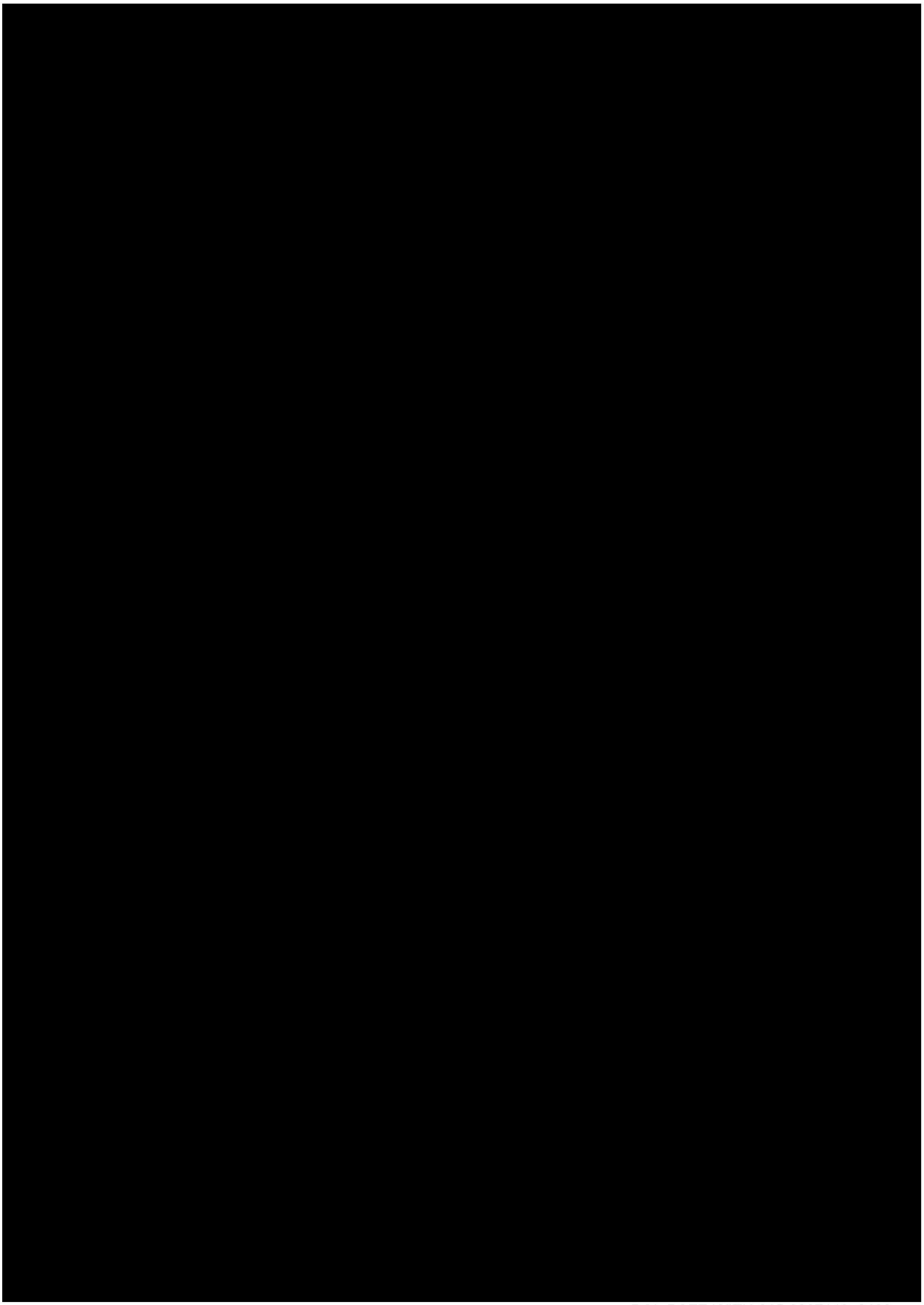
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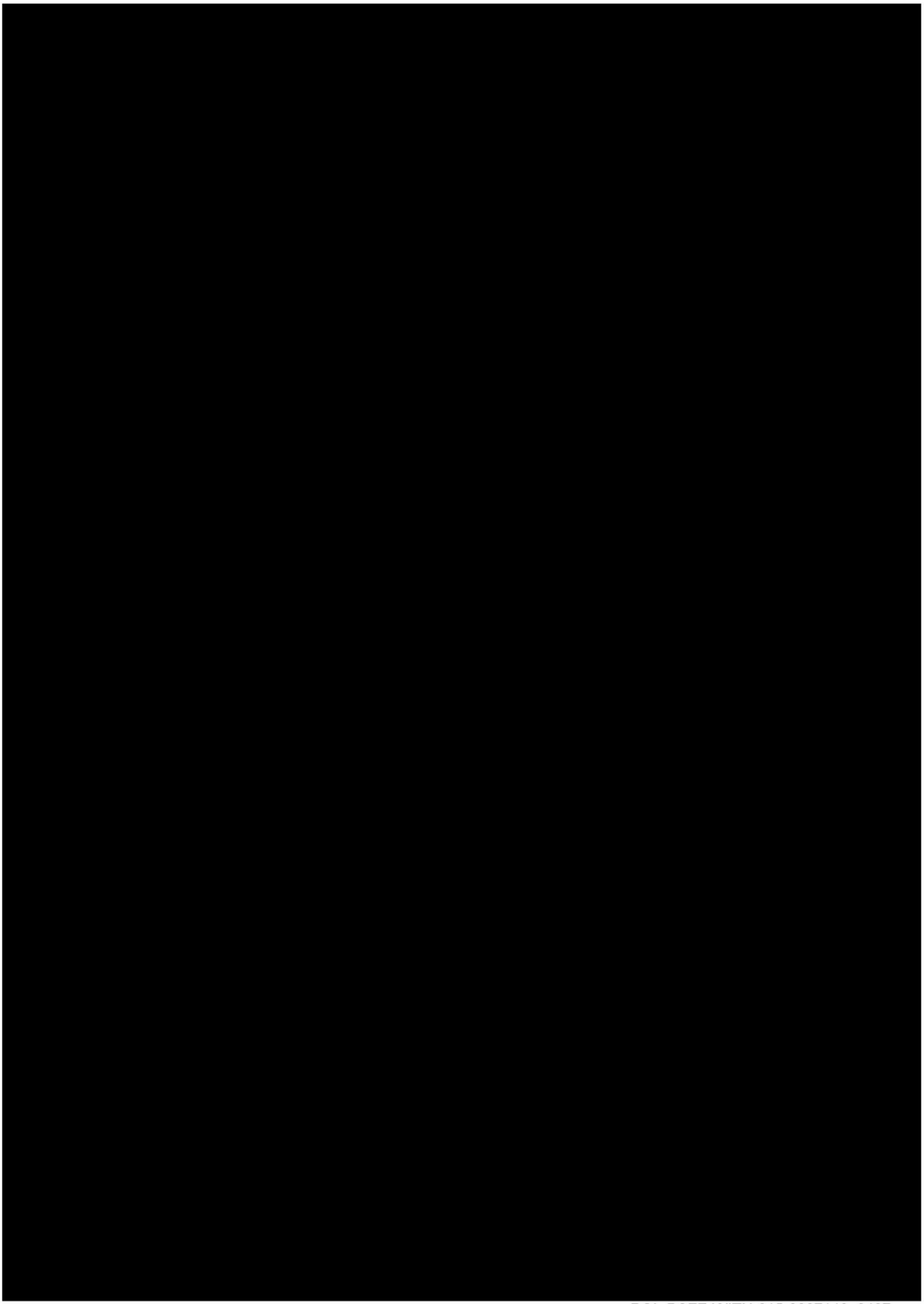
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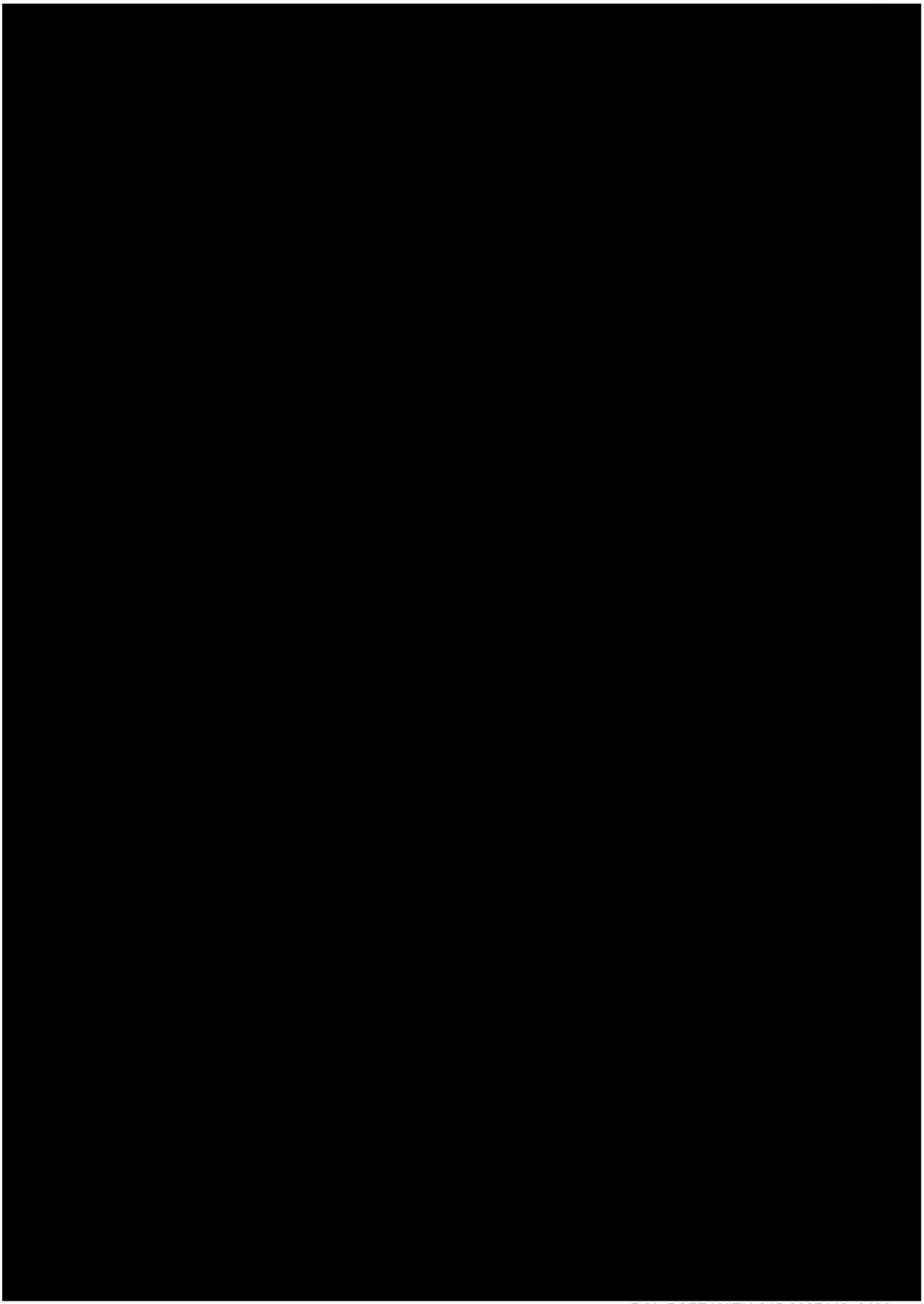
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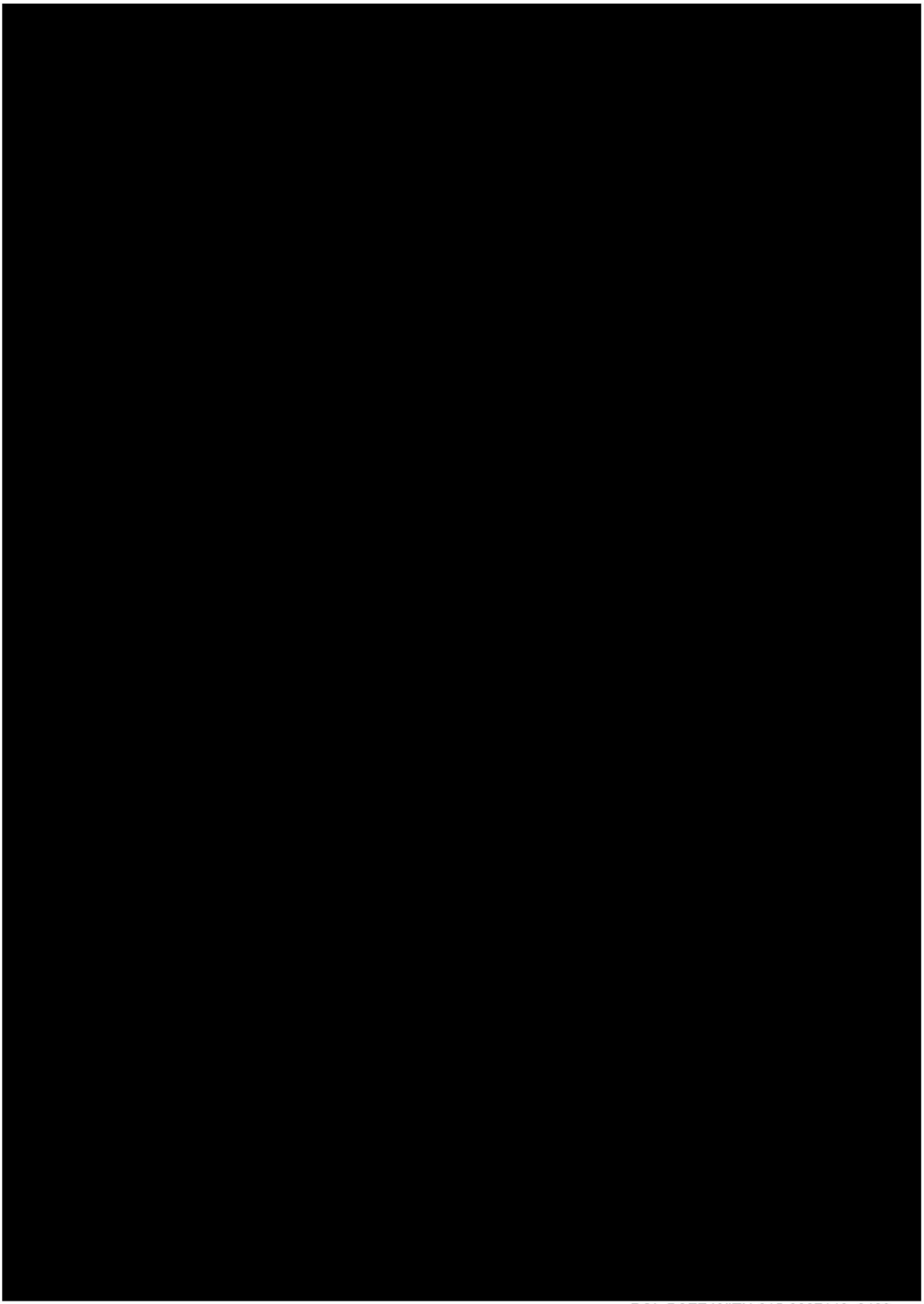
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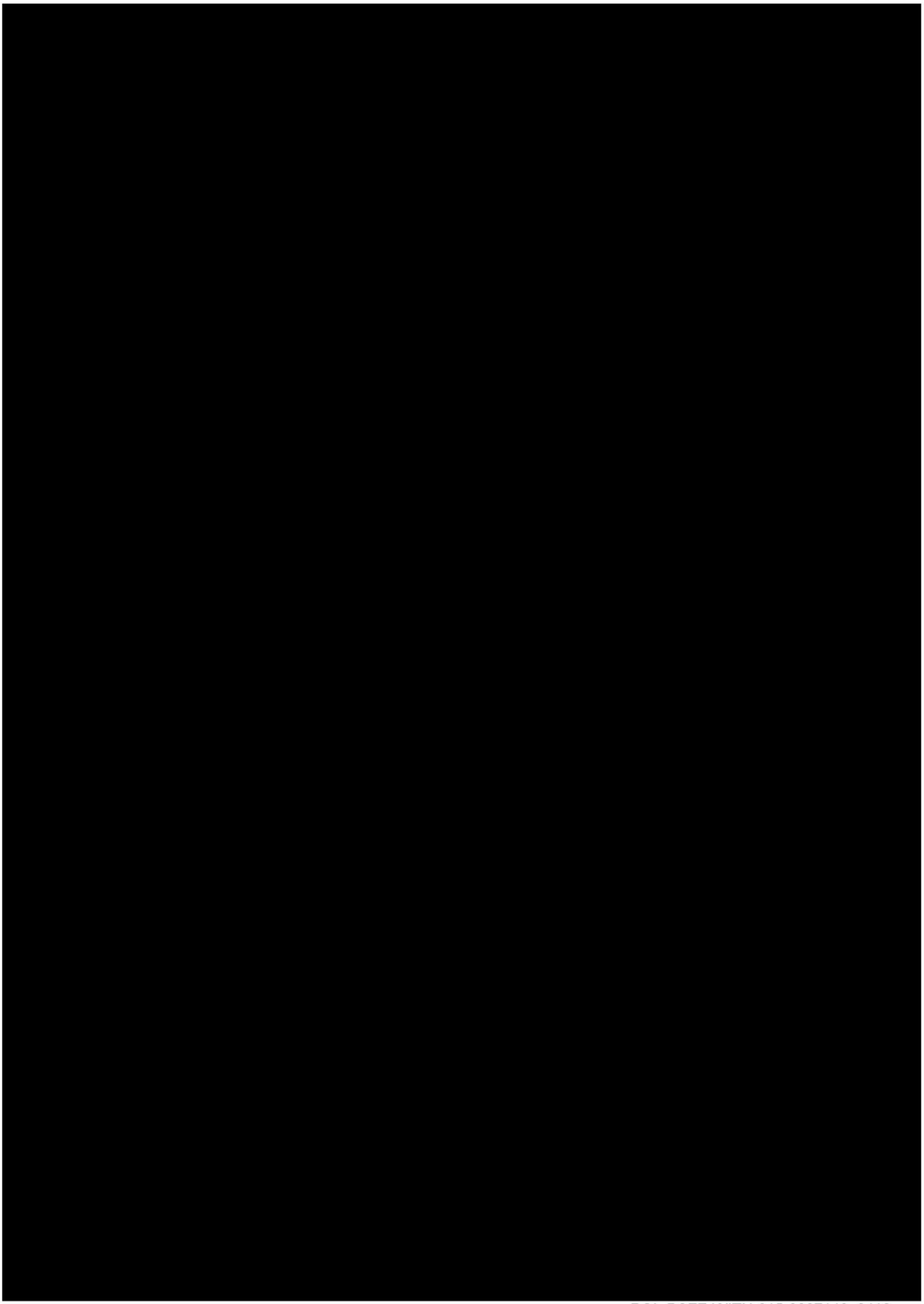
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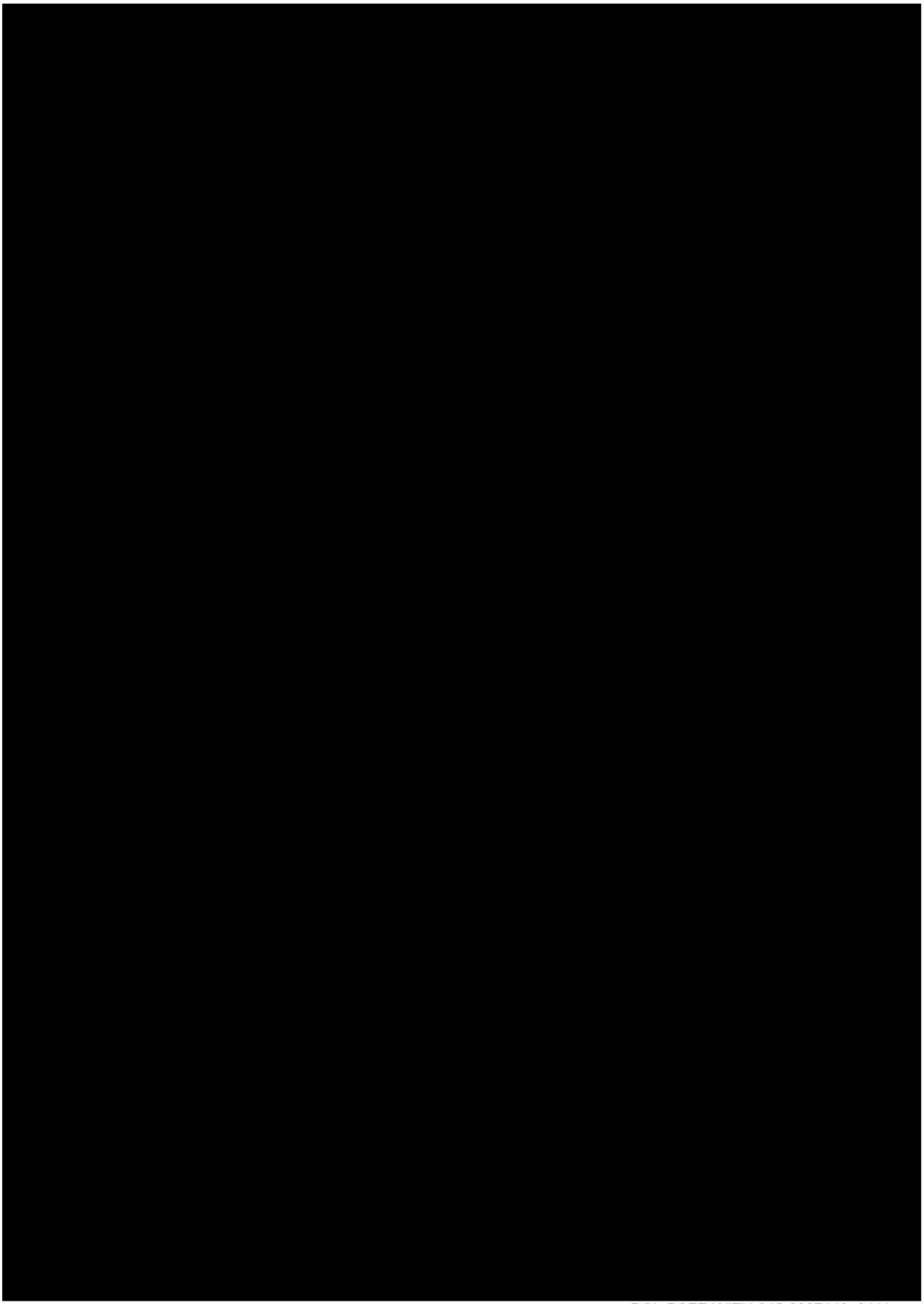
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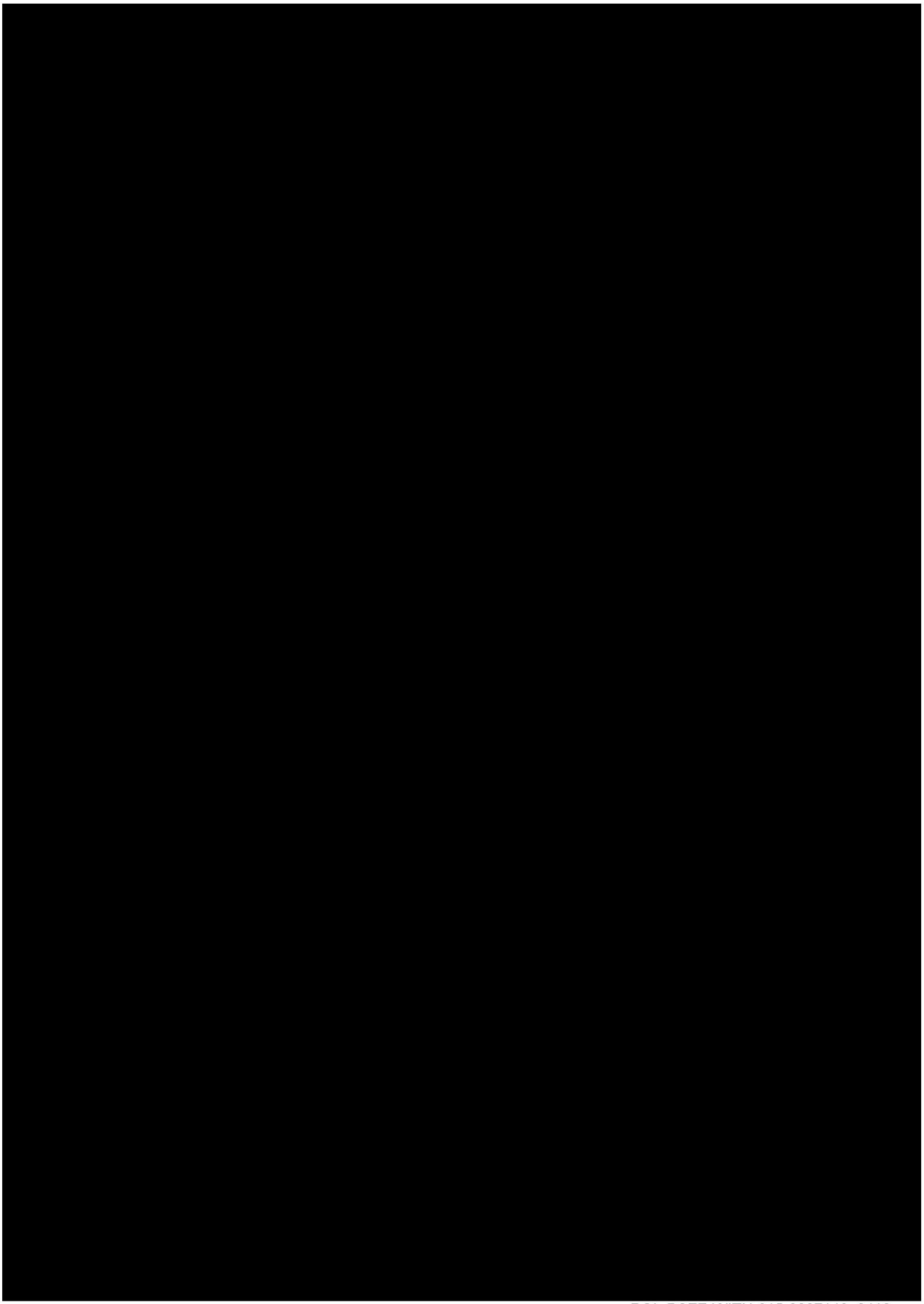
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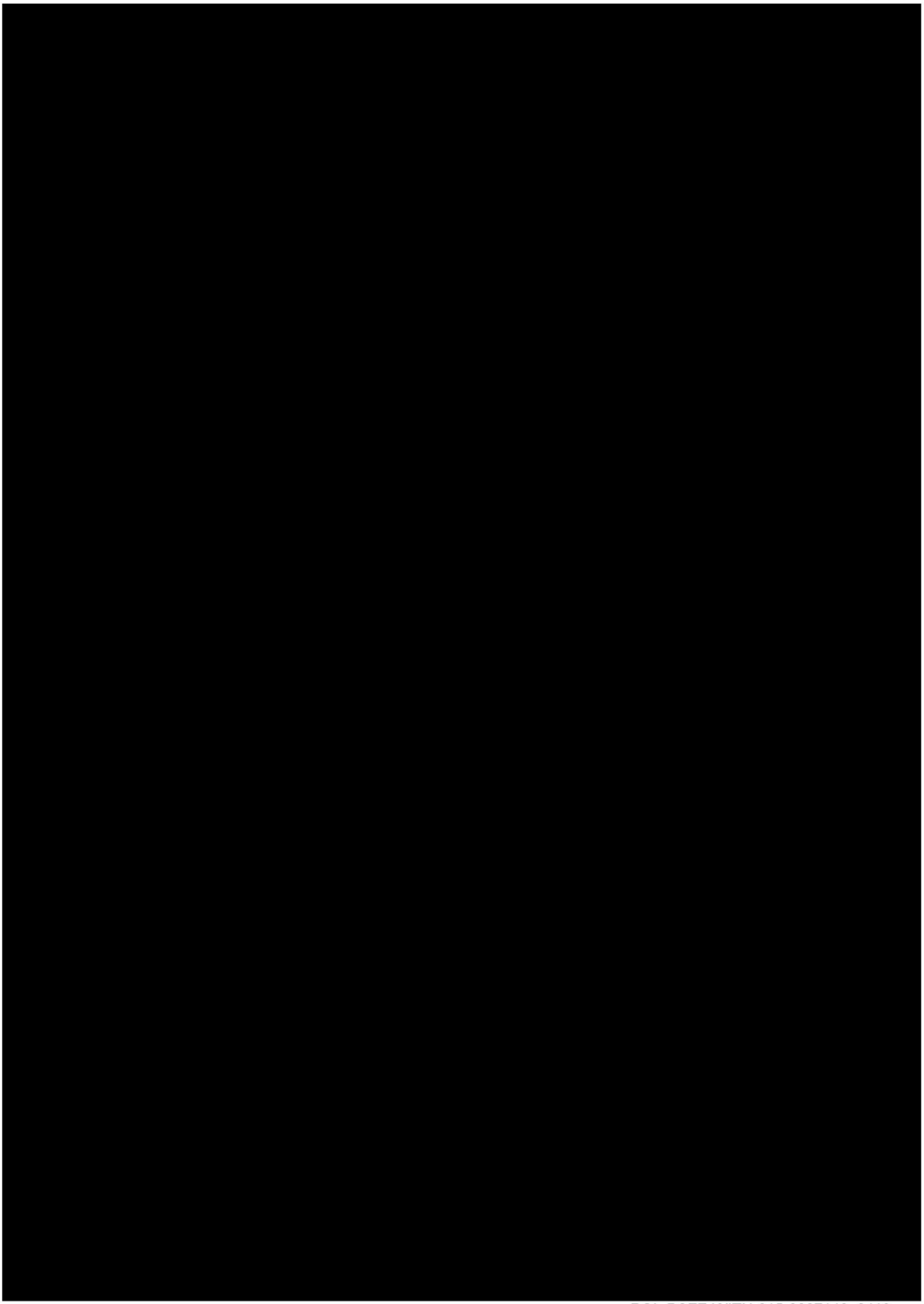
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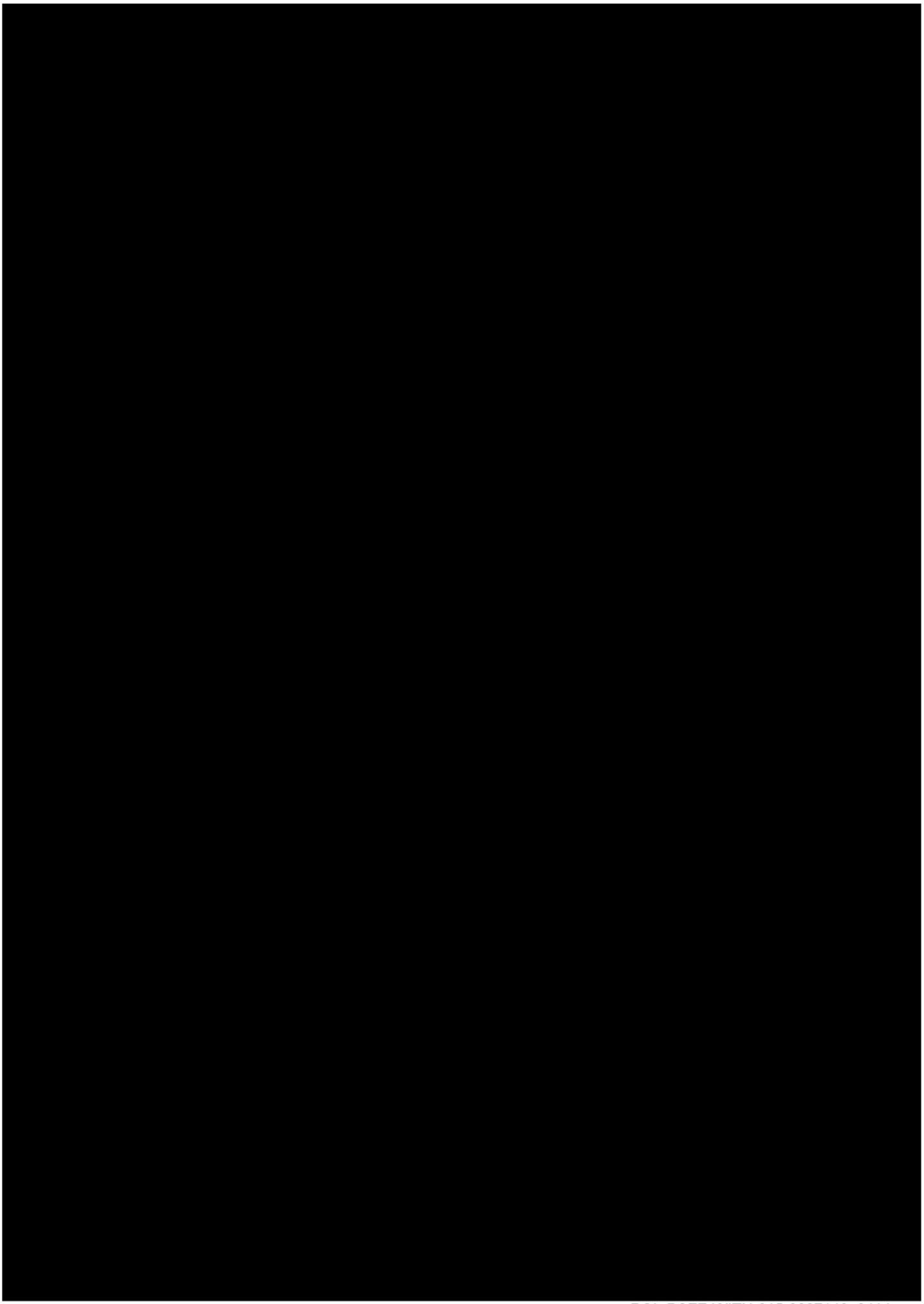
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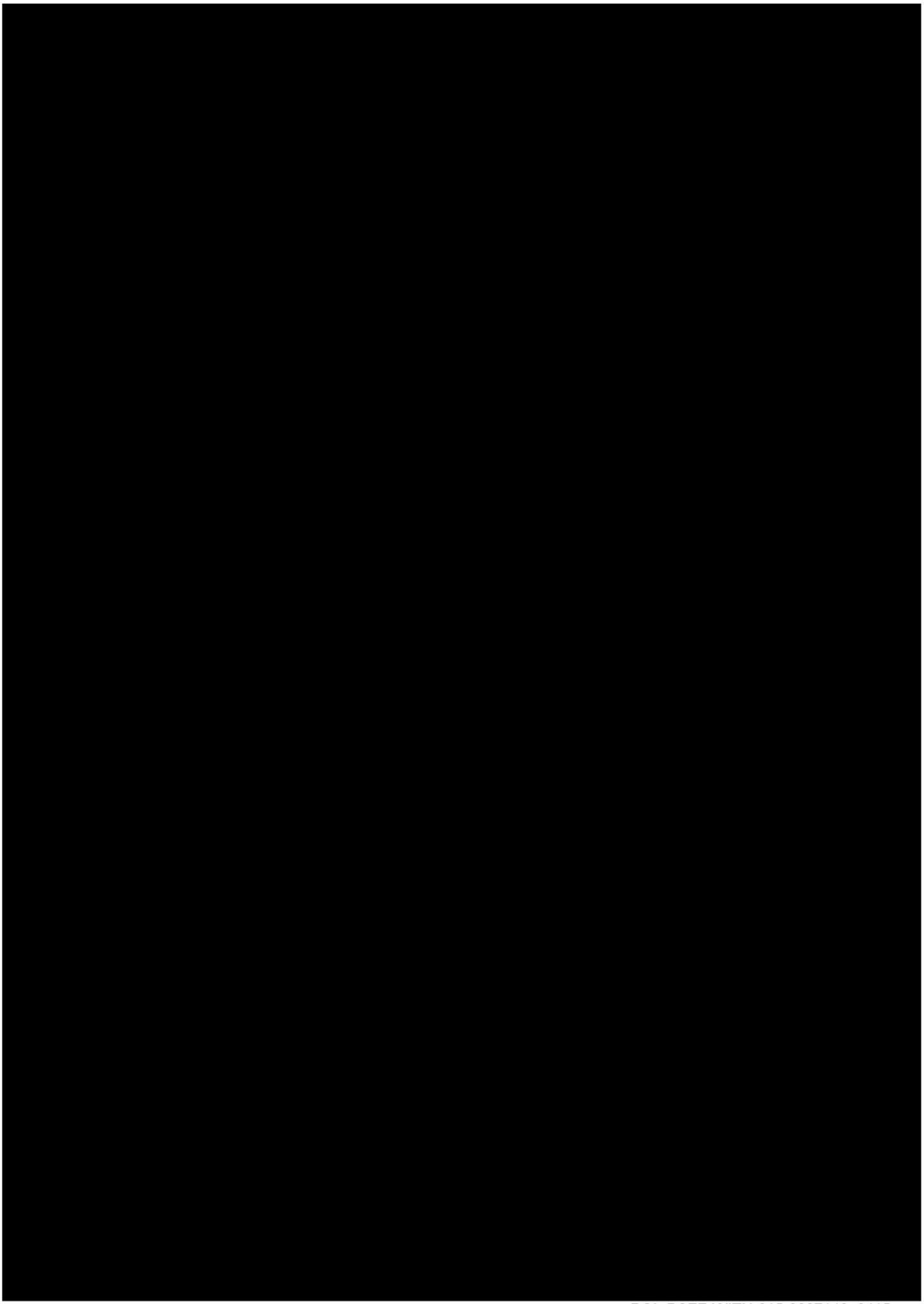
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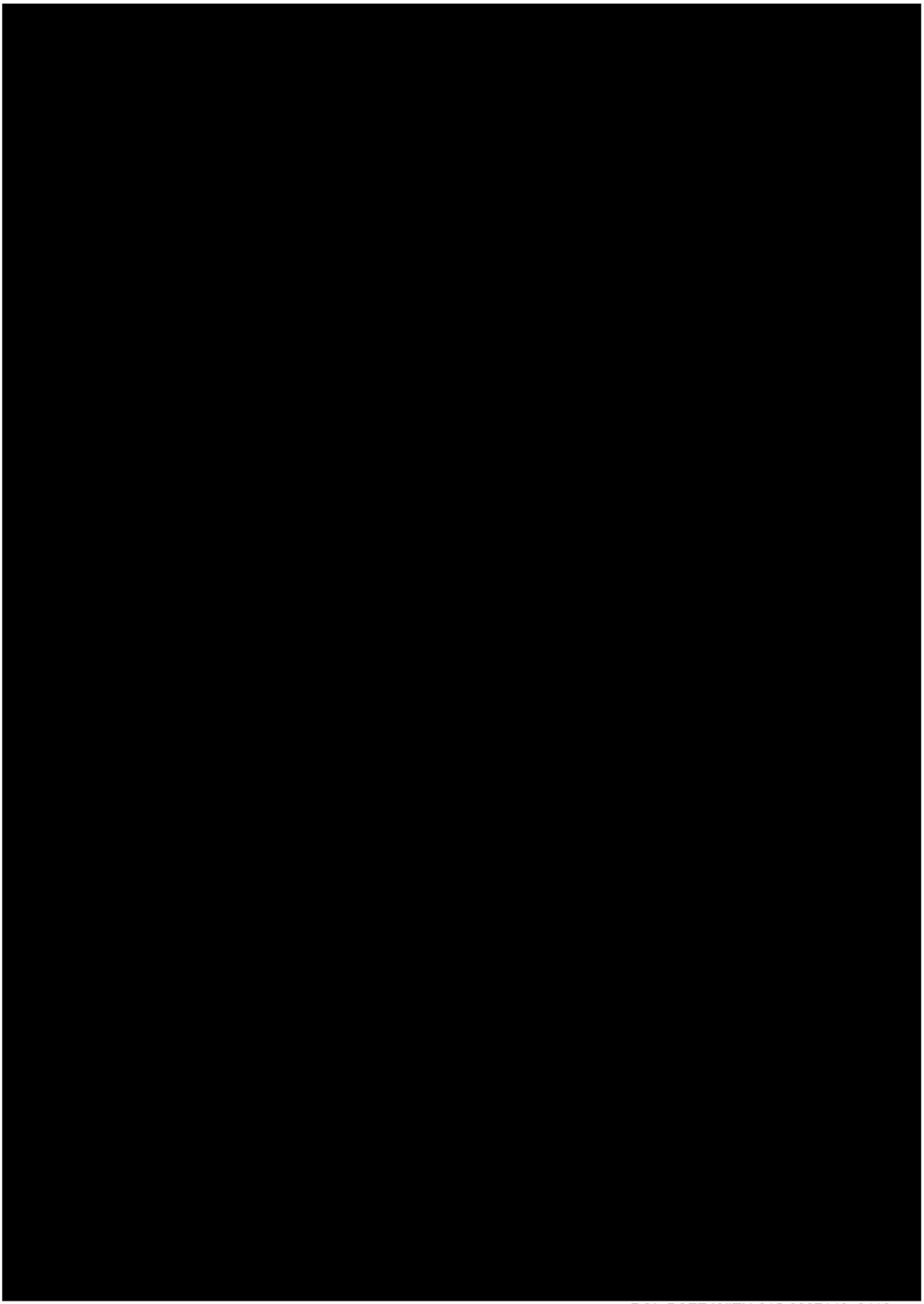
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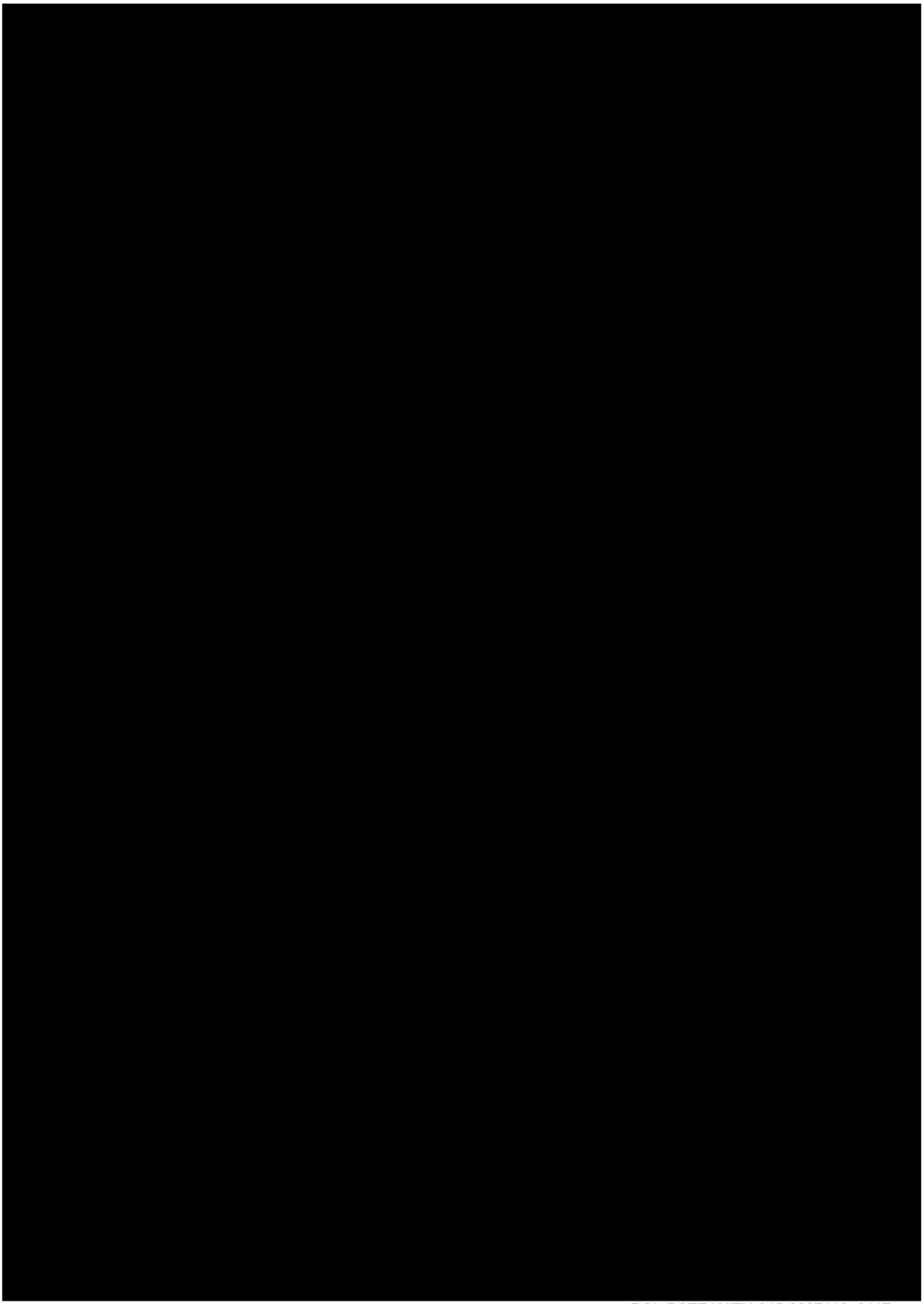
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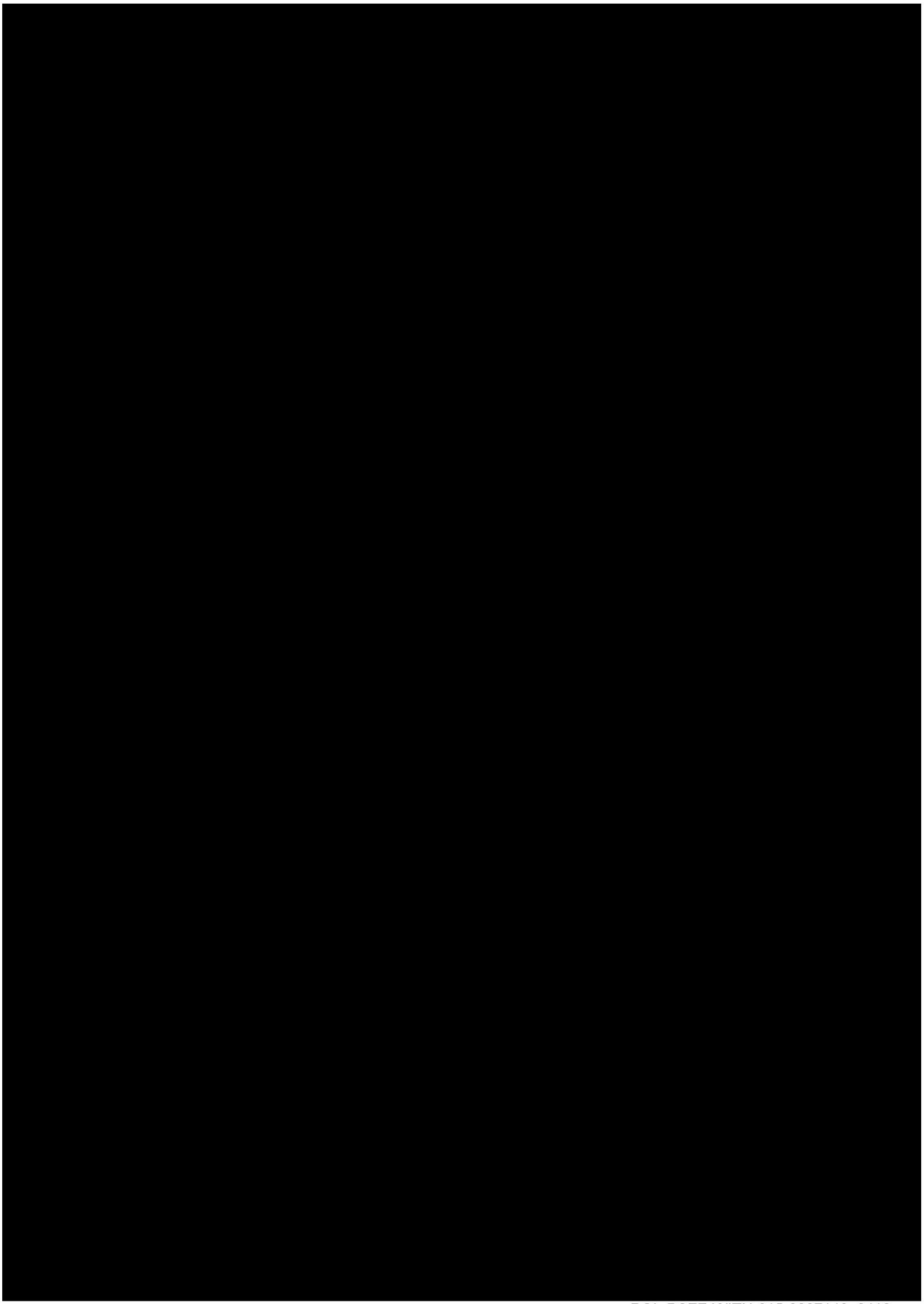
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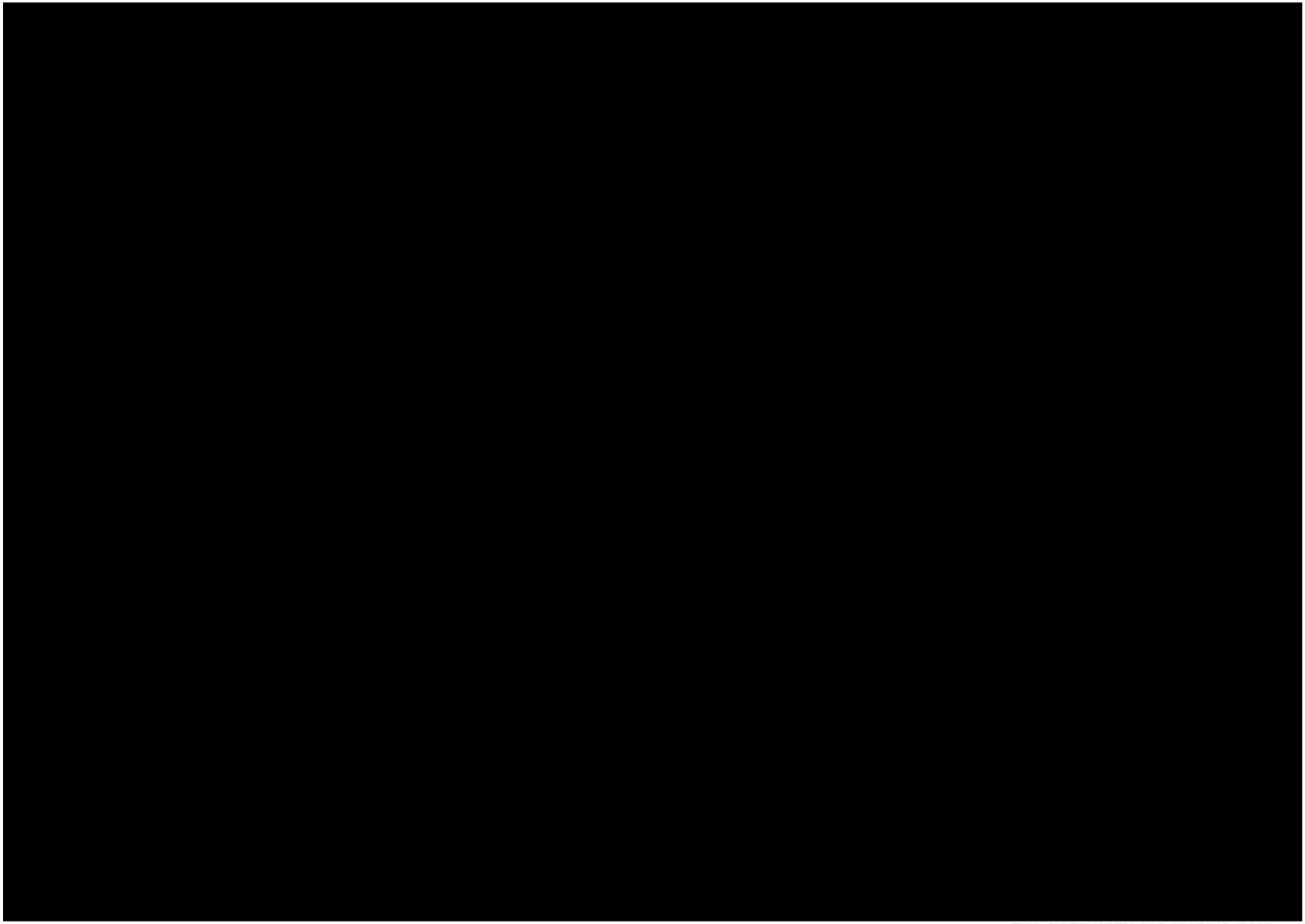
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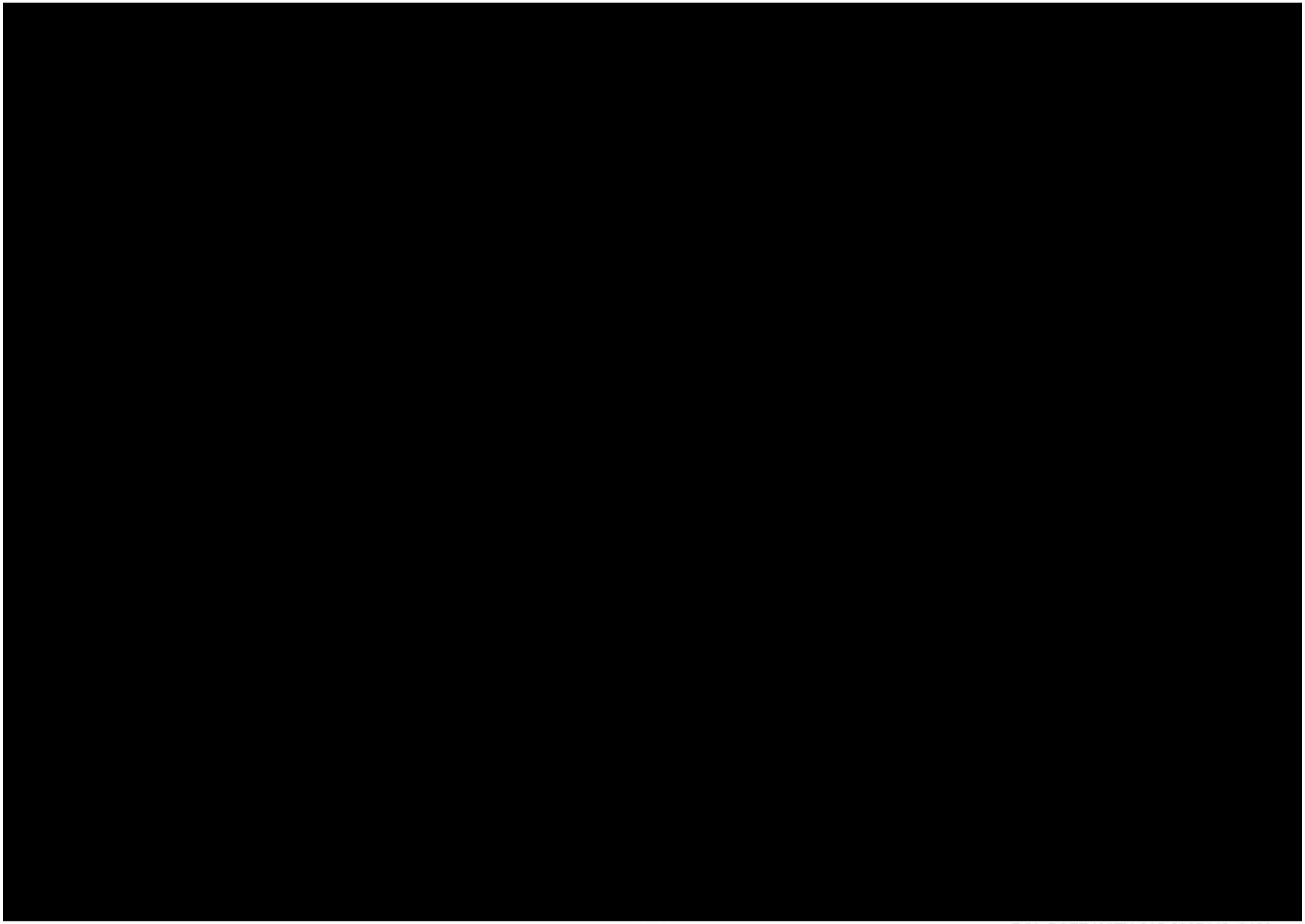
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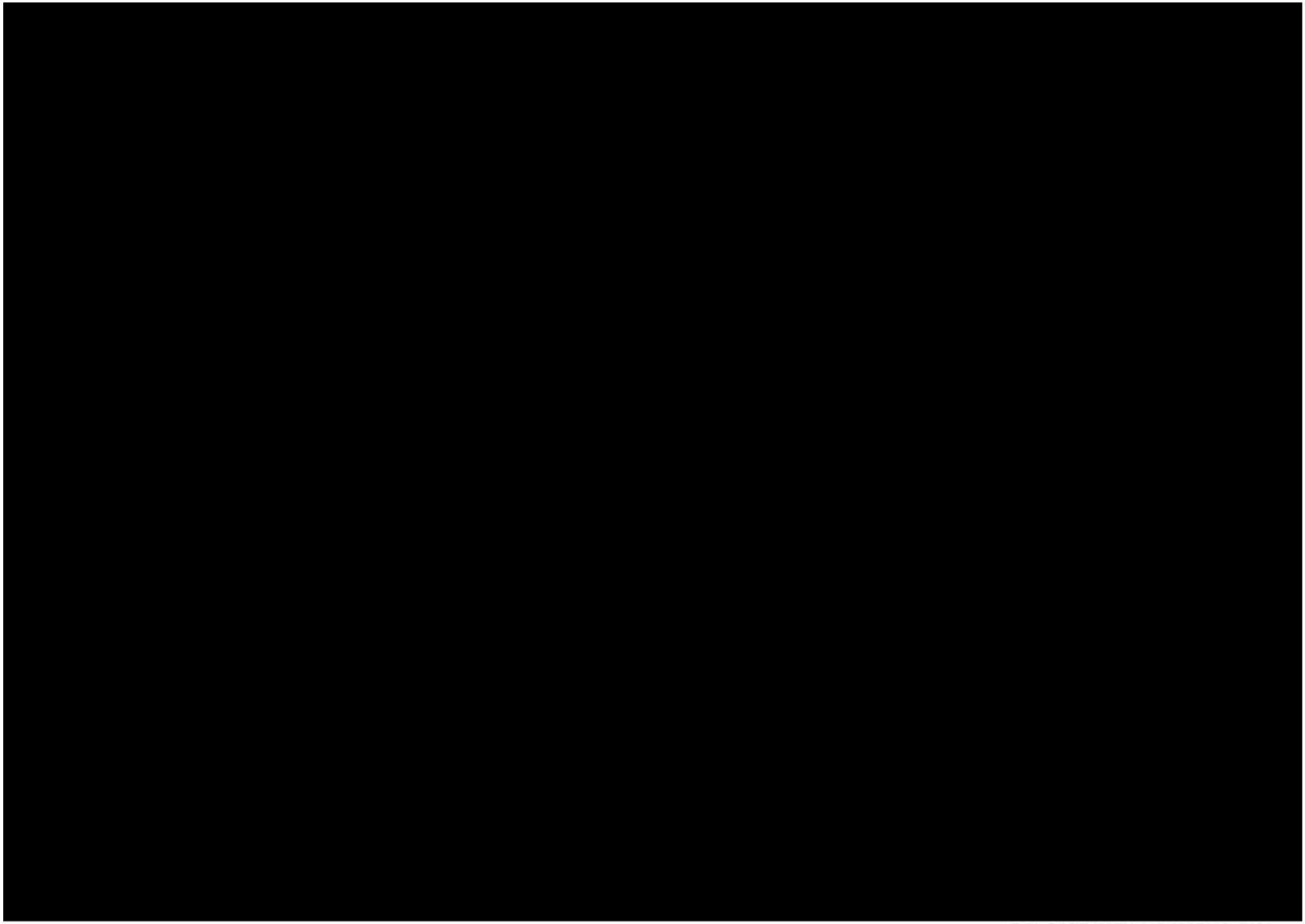
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