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Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)

Meeting to be held at 9.30am on 26th March 2014
in the Boardroom at 148 Old Street, London EC1V 9HQ

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

0930	1	Project Sparrow	Chris Aujard
1030	2	Business Transformation	Chris Day/ Lesley Sewell
1130	3	Approval of 2014-15 Budget and Scorecard Targets	Chris Day/ Sarah Hall
1215	4	Executive Remuneration Framework 2014/15	Neil McCausland
1245		LUNCH	
1305	5	Industrial Relations Update	Kevin Gilliland
1340	6	Chief Executive's Report	Paula Vennells
1410	7	Financial Performance Update	Chris Day
1430		BREAK	
1450	8	Corporate Governance Review	Alwen Lyons
1505	9	Minutes of Previous Meeting and matters arising Committee Minutes for noting Status report update	Alwen Lyons
1515	10	Project Wave	Martin George
1545	11	Items for Noting • Project Maypole • Significant Litigation Report • Health and Safety Report • Cyber/Information Security Update • Sealings	 Alwen Lyons
1555	12	Any other business • Change of directors • Defined Contribution Pension Arrangement	Alwen Lyons
		Date of next meeting: 30th April 2014	
1610		**CLOSE**	

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POST OFFICE LTD BOARD

Initial Complaint Review and Mediation Scheme ("the Scheme")

1. Purpose

The purpose of this paper is to provide the Board with:

1.1. A copy of the advice received from Linklaters about Post Office's legal and financial exposure in relation to the claims made by applicants to the Scheme; and

1.2. An update on planned next steps in relation to the Scheme and other related issues.

2. Background

2.1. At its February meeting the Board asked the Executive to take external advice to assess our legal and financial exposure in relation to the matters raised by applicants in their complaints made to the Scheme. This was, in part, in response to concerns flagged to the Board about:

- the rising costs associated with administering the Scheme;
- the quantum of some of the claims being submitted to the Scheme, especially when compared with our assessment of what we might reasonably consider paying by way of settlement (the so called expectations gap); and
- the extent to which managing the Scheme, and associated issues, is diverting management attention.

2.2. Following that Board meeting Linklaters were engaged to provide us with the relevant advice. The scope of their engagement was agreed by the subcommittee of ExCo established to oversee this work, chaired by the Chief Executive, a draft of which was circulated to the Board for comment. As the Board will be aware, the questions Linklaters were asked to consider are relatively technical in nature and, for that reason, we asked them to include in their advice (see Annex 1) a brief executive summary, which tries to draw out the main legal points. In addition, we have arranged for Christa Band, the Linklaters partner engaged to undertake this work, to attend the Board meeting to present the advice and answer any questions the Board may have. That said, at a high level and by way of an indication of the direction of their advice, it may be helpful to note that one of Linklaters many conclusions, is that: "*There can be no question of a claim for consequential losses [by an SPMR] based simply on the recovery by the Post Office of losses [i.e. the amounts that POL believes were owing to it] if the losses were properly payable and the Post Office was entitled to the money*".

2.3. It perhaps should also be noted that, following feedback from a number of Board members, the advice set at Annex 1 focuses mainly on the question of our legal and financial exposure, and not on the possible changes that could be made to the Scheme, or alternatives to it. It is currently proposed that a further paper will be delivered to the Board at its April meeting setting out the range of realistic options to take matters forward, with recommendations. This

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paper is being worked up by the Project Team, overseen by the ExCo subcommittee with input from Linklaters.

3. Next Steps

3.1. In preparing their advice Linklaters have, in effect, made the working assumption (which we believe to be correct) that there is nothing 'wrong' with the Horizon system. On that basis, the advice from Linklaters is that, in strict legal terms, many, if not all, of the claims submitted under the Scheme would be unsuccessful if they were considered by a Court. Linklaters do, however, acknowledge that there may well be policy considerations, above and beyond pure legal principles, that might sensibly guide any decisions relating to the payment of compensation and/or the future of the Scheme and/or any modifications that might be made to it.

3.2. Linklaters have further acknowledged that any decisions made with respect to the future of the Scheme will carry potential risks – these risks, which include reputational, public relations and political risks, will be reflected in the further report to be delivered to the Board in April. That report will also reflect the dialogue which has been commenced with the Financial Ombudsman Service, which has already provided useful insights into complaints handling.

4. Second Sight

4.1. In addition we were asked by the Board to consider the extent to which Second Sight's engagement could be regularised. Following a period of intense discussions with Second Sight we have reached broad agreement on the engagement letter (on a time and material basis) and, despite initial (and very heavy) resistance from Second Sight, they have now agreed to the inclusion of a 12 month (post completion) non-compete clause. In current circumstances, it is unlikely that Post Office will be able to agree materially better terms with Second Sight without imposing considerably more strain on the relationship with them. The Board's view on whether to push for a more aggressive agreement would be welcome.

5. Insurance

5.1. A paper on insurance cover maintained by Post Office Ltd. has been prepared by the Chief Financial Officer and has been submitted under separate cover.

6. Recommendation

The Board is invited to:

6.1. Note the advice from Linklaters and the steps being taken to develop options for the future of the Scheme and or alternatives to it.

6.2. Should the Board so agree, authorise the signing of the draft engagement letter with Second Sight which includes the 12 month non-compete clause.

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Annex 1

SUBJECT TO LEGAL PROFESSIONAL PRIVILEGE

Dated 20 March 2014

POST OFFICE LIMITED

REPORT INTO INITIAL COMPLAINT REVIEW AND MEDIATION SCHEME

LEGAL ISSUES

Linklaters

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Telephone GRO
Facsimile

Ref Christa Band/ Jonathan Swil

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Annex 1

1 EXECUTIVE SUMMARY

1.1 We set out in this executive summary our key conclusions on the legal analysis of the complaints made by SPMRs about Horizon.

1.2 The relationship between SPMRs and the Post Office is governed by the standard form contract which, according to its terms, allows the Post Office to recover losses and is terminable on three months' notice without the need to specify a reason. The relationship between the SPMRs and the Post Office is one of principal and agent and the SPMRs are not employees. There is no broader duty of care which would extend the contractual duties owed by the Post Office in any respect relevant to the issues in this Report.

1.3 The key factual issue is whether and to what extent Horizon might be said to be reliable, what defects there may be in it and how any such defects might manifest themselves and translate into errors in the state of the account between an individual SPMR and the Post Office. Such relevant legal risks as exist arise only in the event that there are provable malfunctions in the Horizon system which are causative of losses on the part of the SPMR.

1.4 Absent such proof that Horizon is not working as it should, the Post Office should be able to recover losses which the Horizon records indicate are owing on an individual SPMR's account. If the Post Office is entitled to recover losses, then there can be no question of a consequential loss claim on the part of the SPMR relating to their recovery (for example for damage to the SPMR's business or for stress).

1.5 If, in an individual case, a SPMR is able to show that the account between him and the Post Office, as evidenced by Horizon, is inaccurate, he has a claim to the recovery of any losses he has mistakenly paid. This would not carry with it a right to claim consequential losses.

1.6 There may be cases in which the Post Office has given inadequate notice of termination of the contract with a SPMR (for example, terminating him summarily without justification). In those cases, the SPMR is entitled to payment of what he has lost in net income over the period – up to three months. He may also, on the facts, have a consequential loss claim if he argues and establishes that he has lost a chance to sell his business as a going concern in the period for which he should have been entitled to notice.

1.7 Some SPMRs allege that the Post Office has offered them inadequate training and support. We do not think that these claims, even if established, affect the Post Office's ability to recover losses evidenced by the accounts shown on Horizon.

1.8 In summary, we think that, absent proof that Horizon is malfunctioning (either generally or in the specific case) the Post Office has a right to recover losses from SPMRs, the SPMRs have no right to compensation for such losses and the circumstances in which there will be a consequential loss claim are limited to those in which inadequate notice of termination was given, will depend on their facts and should be limited. While we are not in a position to assess the facts of the claims in the Scheme and the specific amounts sought in each of them, it appears to us on the basis of the conclusions above that many of the claims are likely to be over-ambitious and difficult to prove. Accordingly, the total amount that could be successfully claimed in Court by Applicants may well be only a fraction of the aggregate amount (approximately £100 million) which they have claimed through the Scheme.

1.9 We set out below the legal analysis which supports these conclusions.

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Annex 1

2 BACKGROUND

2.1 This Report has been commissioned by the Board of the Post Office Limited ("**the Post Office**") following concerns over the level of claims and costs and other potential legal and financial exposure for the Post Office in connection with the Initial Complaint Review and Mediation Scheme (the "**Scheme**").

2.2 We understand that the Scheme was established in August 2013 with the aim of resolving various allegations that had by then been made by certain interested parties about the Horizon financial transaction and accounting system ("**Horizon**") used by the Post Office and the Post Office's Subpostmasters ("**SPMRs**"). It was claimed by a small, but very vocal, minority of SPMRs that there were problems with Horizon and that if Horizon recorded that there were losses at a particular Subpostoffice this was not necessarily because the SPMR had stolen or otherwise lost money or stock but because Horizon was malfunctioning. This issue attracted political comment and there was debate in Parliament about it.

2.3 Importantly, Jo Swinson, the Parliamentary Under Secretary of State for Employment Relations and Consumer Affairs, noted that there was no evidence of a systemic problem with Horizon.[1] This has also been the Post Office's conclusion on the information so far available to it. We note that there is, so far as we understand it, no objective report which describes and addresses the use and reliability of Horizon. We do think that such a report would be helpful, though there is a decision to be made about how broad and/or thorough it needs to be.

3 AIMS AND OBJECTIVES

3.1 We were initially instructed to prepare a report with the aim of addressing the following key issues:

3.1.1 Whether and to what extent the Post Office has any legal liability with respect to complaints made by applicants to the Scheme ("**Applicants**").

3.1.2 The nature and extent of the risks arising from and associated with the Scheme in its current form.

3.1.3 Whether and to what extent the Scheme, as currently structured, can be sensibly modified in order to improve the efficiency and effectiveness of its operation, and mitigate any of the risks identified above.

3.1.4 The nature of any dispute resolution (or similar) mechanisms that could be established either in order to replace the Scheme or augment its operation. In particular, whether adjudication, arbitration and the use of ombudsman services might be more appropriate than the Scheme.

3.1.5 In the event that a decision is made by the Post Office to discontinue the Scheme, what steps the Post Office could take to minimise any existing legal risks.

3.2 This Report covers introductory matters and the legal issues identified in paragraph 2.1.1 above only. Once the Board has been able to consider the legal issues outlined in this Report we should be happy to assess, in conjunction with the Post Office Executive, how best we can assist the Post Office in addressing the issues in paragraphs 2.1.2 to 2.1.5.

[1] Hansard, 9 July 2013.

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3.3 We anticipate that the Post Office will wish to have regard to, and come to a view on, the following matters, in light of the conclusions reached in this Report in order to guide the Post Office's consideration of the issues in paragraphs 2.1.2 to 2.1.5 above:

3.3.1 Does the Post Office wish to consider paying compensation by reference to principles other than legal entitlement? If so, how will it articulate and apply those principles? How will it justify its position to all SPMRs (Applicants and those who have not complained) and to stakeholders?

3.3.2 Does the Post Office wish to establish a full baseline audit of the functioning of the Horizon system?

3.3.3 How important is it to the Post Office to determine the facts of each individual claim? In any claim is the Post Office's stance to be more conciliatory than adversarial? What are the limits of this approach?

3.3.4 How and to what extent will the Post Office wish to strike a balance between resolving past issues and putting the future operation of Horizon and the relationships with SPMRs on a sound footing?

3.3.5 How and to what extent will the Post Office wish to strike a balance between the matters above and achieving a satisfactory political outcome, including with regard to what has been said in Parliament about the Scheme and Horizon?

3.4 In accordance with our instructions, this Report addresses the issues as a matter of law, only. We fully appreciate that many of the issues will have political and public relations implications for the Post Office or may have such implications in the future. We can certainly, in due course, offer our views as to where such issues may arise in the context of the matters outlined in paragraphs 2.1.2 to 2.1.5 above. Some measure of political engagement will doubtless be called for. It is a decision for the Post Office what measure of criticism or public relations damage it could and should tolerate – this is a factor which applies whether the Post Office decides to compensate SPMRs otherwise than in accordance with their legal entitlements or declines to pay such compensation and thereby doubtless frustrates their expectations. The Post Office may decide that it is sensible to engage specialist public relations advice to guide the management of this issue.

4 BASIS OF THIS REPORT

4.1 The issues in this Report are discussed primarily from the perspective of the legal rights and obligations of the parties involved. In preparing this Report we have assumed that:

4.1.1 the 10 spot reviews and 4 cases with which we have been provided are indicative of all the types of complaint that have been accepted into the Scheme – we have not seen any other cases;

4.1.2 all legal issues are governed by English law; and

4.1.3 we have been provided with all relevant reported decisions. There has been prior litigation on issues directly relevant to those raised in this Report. Whether or not such decisions are strictly binding (and some may be) they are likely to be persuasive.

4.2 Our observations and conclusions are limited by the following:

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4.2.1 we have only reviewed certain documents prepared by or on behalf of Second Sight, the Working Group or SPMRs or the JFSA and have otherwise had no contact with any of those parties;

4.2.2 we have had no contact with Fujitsu, the company which designed, provided and supports the Horizon system;

4.2.3 we are not in a position to test the facts of any of the claims; and

4.2.4 we have been asked not to consider certain matters, including PI and D&O insurance.

4.3 We reference throughout this Report where appropriate the documents from which we have derived facts forming the basis of our views. All other facts referred to herein are based on discussions we have had with the Post Office Scheme project team. We would welcome any comments on facts or background we have stated in this Report which appear to be inaccurate or incomplete. They could affect the views and conclusions we have reached.

5 WHETHER AND TO WHAT EXTENT THE POST OFFICE HAS ANY LEGAL LIABILITY WITH RESPECT TO COMPLAINTS MADE BY APPLICANTS

Duties owed by the Post Office to SPMRs and duties owed by SPMRs to the Post Office

5.1 It is helpful to start this section with an overview of the legal relationship between the Post Office and the SPMRs. That, self evidently, provides the foundation for the issues identified in the various complaints made by SPMRs.

Contract

5.2 There is a contract which we are told is in standard form and which all SPMRs are required to sign. We have a copy described as the 1994 issue of the standard contract with SPMRs, amended to include all contract variations issued since 1994, although the document was never issued in this form to SPMRs ("**the Contract**").

5.3 We understand that certain SPMRs dispute whether they signed a contract at all and there may, in individual cases, be debate about which variations were received and/or are effective. This would be an issue which would need to be resolved in any particular claim. We have assumed in this Report that the contractual terms which apply are those in the version of the document which we have received.

5.4 Under the Contract, the Post Office owes duties to the SPMRs and in principle breach of any of those duties could found a claim. That claim would only be valuable, in the sense of entitling the SPMR to damages, if the breach could be shown to be causative of loss on the part of the SPMR. We highlight relevant terms of the Contract as appropriate below.

Agency

5.5 Clause 1 of the Contract provides that:

> "The contract is a contract for services and consequently the SPMR is an agent and not an employee of Post Office Ltd."

This is important as the agency relationship gives rise to specific duties on the part of the SPMR which are detailed further below (see paragraphs 5.25 and 5.45 below).

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Non-employment

5.6 The SPMRs are not employees of the Post Office. This is critical as it means that there are certain legal protections, both statutory and at common law, to which SPMRs are not entitled. Not only is this clear from Clause 1 of the Contract it was also established in *Commissioners of Inland Revenue* v *Post Office Limited*[2] and we note that in later cases, for example *Moeze Lalji* v *Post Office Limited*,[3] the position seems to have been accepted and the contrary not argued.

No relevant duty of care

5.7 Where the parties are in a contractual relationship, that is the starting point for determining their duties where the conduct in question is covered by terms of the Contract. So if the conduct relied on for the claim is conduct covered by the Contract, the contract should determine the extent of the parties' rights and liabilities. That is not to say that there may not be an implied (or even an express) term to the effect that the party rendering the performance should do so with reasonable skill, care and diligence. Where the party in breach can be said to have performed his contractual duty negligently then the party suffering the loss can claim in either tort (negligence) or contract. But this does not mean that he can rely on a duty of care in negligence to extend the duties owed under the contract.

5.8 If the SPMRs wished to allege that the Post Office owed them a broader duty, not covered by the Contract, then they would need to allege and establish that the Post Office owed them a duty of care. On the usual principles, this would depend on an assumption of responsibility by the Post Office in the relevant respects. The existence of the Contract does not preclude there being a duty of care, but for matters covered by the Contract, the Court should not find that one party assumed a responsibility which would extend the duties he owed beyond the Contract.

5.9 What the SPMR cannot do is to extend the duties of the Post Office by claiming some ill-defined and over-arching duty of care covering all aspects of the relationship between the Post Office and the SPMR, as this would interfere with the allocation of risks under the Contract.

5.10 In the respects which are relevant for the purposes of this Report we do not consider that the SPMR will be able to establish a duty of care and we think that the relevant obligations will be defined by, and limited to, the Contract.

Nature of the complaints made

5.11 We have reviewed the 10 spot reviews and the 4 case Reports conducted by Second Sight that have been provided to us. While they represent only a small sample of the 150 Applications which we understand were accepted into the Scheme, we assume that for the purposes of this Report, they are representative of all the complaints accepted into the Scheme.[4]

5.12 The spot reviews and case Reports generally show that SPMRs' complaints range from substantial monetary claims to a general dissatisfaction with their relationship with the Post

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2 [2003] ICR 546.

3 [2007] EWHC 5 (QB).

4 We understand that while the spot reviews themselves were conducted prior to the establishment of the Scheme, all of the complaints the subject of the spot reviews were subsequently accepted into the Scheme.

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Office as a result of their experiences with Horizon and several other or related complaints somewhere in between (some SPMRs have several of these issues). In particular, we have seen complaints made about:

5.12.1 wrongful "loss recoveries" in respect of amounts reported by Horizon as due to the Post Office, including in some cases, various categories of alleged consequential losses, in one case, following the determination of the relevant loss recovery action against the Applicant in Court and in another, after a SPMR had been suspended and lost access to Horizon;

5.12.2 Horizon-related customer payment malfunctions or lost cheques and transaction corrections resulting in the loss of limited sums (in some cases, under £100);

5.12.3 unauthorised foreign exchange transactions being entered into the Horizon system without a SPMR's knowledge, but without any specific allegation of loss incurred by the SPMR as a result;

5.12.4 printing of excess receipts in respect of a 67p postage transaction;

5.12.5 an inability of Horizon properly to account for GIRO payments and SPMRs having to trust the Post Office about transaction corrections;

5.12.6 criminal charges: in circumstances where the SPMR has been subject to criminal allegations of false accounting but where they say the false accounting arises from cheques being lost in the mail or where they have retracted an admission made under caution to the criminal conduct;

5.12.7 wrongful termination of SPMRs' contracts;

5.12.8 inadequate training given to SPMRs by the Post office in respect of Horizon; and

5.12.9 inadequate telephone or other day-to-day support services provided by the Post Office to SPMRs.

5.13 We have not, nor are we in a position to, investigate the facts of these complaints. They would have to be seen on a case by case basis. Our comments below are based on principles of general application, but the result they produce in any one case will depend on the particular facts. Horizon is a particular issue in this respect and deserves comment of its own (see paragraphs 5.20ff below).

5.14 Some of the complaints made are no more than observations on, and frustrations with, the operation of Horizon. They have not been translated from facts into allegations that a contractual duty has been breached and are not articulated as legal claims.

5.15 Generally, the complaints fall into a number of categories:

5.15.1 wrongful recoveries of "loss" from SPMRs by the Post Office and consequential loses arising therefrom;

5.15.2 wrongful terminations of the Contract and consequential losses arising therefrom;

5.15.3 inadequate training and support leading to losses, both direct and consequential.

The reference to consequential losses covers variously lost earnings (beyond a three month period), damage to other business interests, damage to reputation, stress and ill health.

5.16 We turn to considering each group of claims.

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Wrongful loss recovery

5.17 The Post Office regularly recovers "losses" from SPMRs. This happens by one of four methods:

5.17.1 The SPMR notices that there is a loss shown in his statement of account and makes good that loss without a formal request from the Post Office;

5.17.2 The Post Office requests that the SPMR makes good a loss and the SPMR pays in response to that demand;

5.17.3 The Post Office, after an investigation process which envisages the participation of the SPMR, holds back money from the next payment due to the SPMR to cover a loss which has arisen; or

5.17.4 The Post Office takes civil proceedings for the recovery of a loss and is successful.

5.18 We note that the Post Office recovers losses through any and all of the above methods on a regular basis. The vast majority of SPMRs accept not only the Post Office's legal right to recover such losses, but also the way in which they are calculated through Horizon. The decisions made by the Board now as to the circumstances in which such losses will be "repaid" or reversed will potentially affect not only those SPMRs who have brought complaints to date but also all those SPMRs who have paid losses without complaint.

5.19 There are two main issues in the recovery of losses:

5.19.1 the way in which losses are calculated; and

5.19.2 the Post Office's legal entitlement to seek those losses from a SPMR.

The way in which losses are calculated

5.20 It is this question which has given rise to the dispute between aggrieved SPMRs and the Post Office. It focuses on the operation of Horizon.

5.21 We do not know what was said to SPMRs at the time of Horizon's introduction in 2000 as to its purpose and status. Nevertheless, it seems to be accepted by all involved that Horizon produces and maintains the accounts on which all parties rely.

5.22 The SPMR is, day to day, responsible for inputting transactions to the Horizon system. It provides a record not only of what the SPMR has received from the Post Office by way of stock but also what he has sold, and the cash he has received. Horizon is the only system used to record transactions; the Post Office holds no other relevant records. We understand that during the period covered by the complaints to the Scheme, at least once a month and potentially as often as at the end of every week, a SPMR was obliged to prepare and sign a document entitled "Cash Account (Final)" and send it to the Post Office or complete an equivalent process by declaring via an electronic system the amount of cash that he holds. The SPMR also conducted a manual hand count of cash and stock in the branch and compare them to the levels recorded in Horizon.

5.23 Our understanding of the operation of the Horizon system is far from complete. It would be helpful to understand more about the way in which the statement of account shows the losses. Is it, for example, clear which relate to transactions with or for the benefit of other companies and organisations, for example the DVLA or the DHSS? This may be important when it comes to considering what "caused" the losses in an individual case.

5.24 Section 12, paragraph 4 of the Contract provides:

"The Subpostmaster must ensure that accounts of all stock and cash entrusted to him by Post Office Ltd are kept in the form prescribed by Post Office Ltd. He must immediately produce these accounts, and the whole of his Post Office branch cash and stock for inspection whenever so requested by a person duly authorised by Post Office Ltd."

5.25 This duty to keep an account also arises under the general law by virtue of the principal/agent relationship. An agent is required to keep an accurate account of all transactions entered into within the scope of his agency and he has to be ready to produce that account at any time to his principal. If he fails to keep and produce accounts then the principal is entitled to assume everything against him.[5]

5.26 SPMRs are asked to agree accounts regularly. We understand that they signify their agreement by an appropriate entry on Horizon. If a SPMR disputes the state of his account, he is free not to agree that account on Horizon.

5.27 An agent is usually held bound by his own accounts save if he can show that he made a mistake. Once an account is agreed, the principal can sue on it. We think that there is a good argument that at law, once the SPMR signifies his agreement to an account on Horizon which shows a balance due to the Post Office, the Post Office can sue on this as an account stated. This appears to be the basis of the decision in the *Castleton* case. The principle of an account stated also applies where debts are owed in both directions. So, once Horizon has set amounts owed by the Post Office to the SPMR (if any) against amounts owed by the SPMR to Post Office in Horizon and the SPMR signifies his agreement to them, the accounts are settled. Generally, settled accounts will not be re-opened, unless drawn up under a mistake or the agent is guilty of fraud.[6]

5.28 Horizon is an electronic point of sale IT system used in Post Office branches. It tracks transactions and also records levels of cash and stock. We are told, and can readily appreciate, that Horizon is a complex double entry accounting system, made the more complicated because of the range of products and services which the Post Office sells. It also connects to other systems for particular services, for example, banking.

5.29 Suffice it to say for present purposes that it is possible that Horizon will, at the end of every day and therefore week, show either a shortfall or a surplus. There are two ways in which Horizon could present an inaccurate picture of the "true" state of account between SPMRs and the Post Office. Either the SPMR could have keyed in transactions incorrectly, or there could be some malfunction with Horizon itself. User error is a risk with any system. The Contract would entitle the Post Office to recover in any case where there was user error on the part of the SPMR and this would be the result even if it could be said – as some SPMRs have – that Horizon is confusing or that its user-friendliness could generally be improved.

5.30 It is the reliability of the Horizon system as a matter of principle which is important. If there are doubts about the reliability of the system then this could obviously impact on the Post Office's ability to claim losses since it calls into question whether such losses exist at all. This is the fundamental question and one which has not yet been satisfactorily addressed.

5.31 Second Sight have not done what we would have expected them to do in terms of an investigation into Horizon. The logical and obvious start for their work would have been a

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[5] See Bowstead & Reynolds on Agency, 19th Edition, Article 50, paragraph 6-092.

[6] Ibid, paragraph 6-097 and 6-098

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thorough review and description of how Horizon is supposed to work, its day to day use by the SPMRs and an in principle identification of any weaknesses and likely points of malfunction. This should be done without reference to the facts of any particular case and must be done in conjunction both with the Post Office and Fujitsu. Second Sight should have produced a report which clearly and objectively sets out what is known about Horizon at a level of detail which can then be used as a baseline in any individual case where the complaint is that Horizon was not working properly.

5.32 We understand that Second Sight are due to produce a generic report which will set out and describe themes and the types of loss that they have identified from the Applications that have been submitted to the Scheme. Such a report would not fulfil the objectives we here describe. Nor does the work Second Sight seem to have done so far fulfil those objectives either. They have descended into the detail of individual cases and commented on the particular issues of which complaint is made. They have done so without reference to any robust evidence as to how and why there may have been malfunctions with Horizon or how any such malfunctions could have caused the losses in the particular case. The views which Second Sight have expressed in individual cases are not supported by the sort of detail or evidence which would enable any conclusions to be safely drawn from them. There may be a question as to whether Second Sight have the expertise which would allow them to do the work required to a satisfactory standard.

5.33 We would, further, have expected Second Sight to have discussed its work in progress with the Working Group. Drafts should be available and the parties should have an opportunity to comment. Second Sight seem to have relied on concerns raised by the JFSA[7] to prepare their report which they have used to challenge the Post Office, but they do not address any fundamental questions about the problems with Horizon. These factors further illustrate the idiosyncratic nature of Second Sight's approach.

5.34 Even without the baseline report which Second Sight should have produced, it seems to be accepted generally that there are no systemic weaknesses in the Horizon system. This much has been made plain by:

5.34.1 the Post Office. Anne Chambers, a Fujitsu system specialist, gave evidence in the *Castleton* case to the effect that there was no evidence whatsoever of any problems with the system. We understand that a Dr Gareth Jenkins of Fujitsu provided expert reports for the Post Office in several criminal cases. These reports dealt with the Horizon system. He gave oral evidence in only one case (that of Seema Misra). That case resulted in a conviction. In all other cases the fact that he was not required to give oral evidence strongly suggests to us that there was no substantive challenge to his evidence.

5.34.2 Parliament;[8] and

5.34.3 Second Sight. Its Interim Report of July 2013 concluded: "We have so far found no evidence of system wide (systemic) problems with the Horizon software".[9]

5.35 We find it surprising that, against such a conclusion as to Horizon's general reliability, Second Sight find it possible to make comments in individual cases that it is likely that it is a difficulty with Horizon which has led to the losses. The reasons for such a view are not

[7] See, for example, paragraph 4.1 of the Second Sight Interim Report of July 2013.

[8] See n1.

[9] See paragraph 8.2(a).

explained nor is there any general evidence on which to draw which could provide further illumination.

5.36 Audits are carried out by the Post Office on a regular basis and we assume that these are considered in determining whether Horizon shows an accurate state of account. Given the lack of any sensible information about the operation of Horizon we are unable to comment as to the likelihood that in a particular case the conclusion could or should be reached that it was problems with Horizon which caused the account of a particular SPMR to show a loss.

5.37 There is an important question in this regard: who bears the burden of showing that in a particular case, Horizon did not accurately reflect the state of the account between the SPMR and the Post Office? The SPMR will have regularly signified his agreement to an account – e.g. by signing the "Cash Account (Final)" at the end of each week - which confirms the existence and extent of losses and the Post Office is able to rely on this as a settled account.

5.38 In *Castleton* the Post Office relied on authority to the effect that an agent (the SPMR) who produces accounts for his principal which contain statements that money has been received is bound by those accounts unless he can show that the statements in the accounts were made unintentionally and by mistake.[10]

5.39 The question, therefore, is how would a SPMR show that there had been a mistake and what sort of evidence would be required before he would be allowed to reopen a settled account? The SPMR would need to adduce evidence which when tested and compared against the account in Horizon, showed that he had unintentionally made an error inputting information into Horizon (although even in that case, the terms of the Contract would not absolve the SPMR, as we explain below) or that as a matter of arithmetic or logic, the account stated by Horizon could not possibly be correct. In other words, he would need to do what the SPMR tried but failed to do in *Castleton.*

The Post Office's legal entitlement to seek losses from a SPMR

5.40 In everything we have seen, no point appears to have been taken as to the Post Office's right, as a matter of principle, to recover losses from the SPMR. All the debate seems to focus on the way in which the losses are calculated. Nonetheless, it is important to determine the legal foundation for the Post Office's claim to losses.

5.41 Section 12, paragraph 12 of the Contract is headed Losses. It provides:

> "The Subpostmaster is responsible for all losses caused through his own negligence, carelessness or error, and also for losses of all kinds caused by his Assistants. Deficiencies due to such losses must be made good without delay."

Paragraph 13 makes it clear that this obligation does not cease on the SPMR relinquishing his appointment and extends to losses which come to light after he leaves.

5.42 Section 12, paragraph 17 is also relevant here. It provides under the heading "Relief":

> "Counter losses: A Subpostmaster may exceptionally not be required to make good the full amount of certain losses at his office. If he feels entitled to relief in making good a loss he should apply to Post Office Ltd."

[10] *Shaw* v *Picton* (1825) 4 B&C 715: *Camillo Tank Steamship Co Limited* v *Alexandria Engineering Works* (1921) Times LR 134

This paragraph contemplates that the circumstances in which a SPMR will not be required to make good a loss will be "exceptional" although clearly this issue only arises if the SPMR is liable for the loss in the first place.

5.43 The wording of paragraph 12 is curious. It makes a SPMR responsible for losses caused by his "negligence, carelessness or error" but makes him strictly responsible, with no such qualification, for all losses caused by his Assistants. We do not know what the thinking was behind this distinction.

5.44 In any event, the fact that the SPMR must be in "error" is a low threshold and implies no mental element: the SPMR can be mistaken without being careless and without there being any question of dishonesty on his part. Taken at face value, however, and where the loss is caused by the SPMR rather than his assistant, the SPMR would not, under paragraph 12 be automatically responsible for all losses if it could not be shown that he was at least in error.

5.45 There is another basis for the recovery of losses which requires attention. As noted, the SPMRs are agents of the Post Office. The characterisation of the relationship as that of principal and agent gives rise to a number of duties as a matter of law, though where, as here, there is also a Contract, they have to be seen in the context of what the parties have thereby expressly agreed.

5.46 The agent is required to account in equity to his principal.[11] This is effectively a procedure which enables the financial position as between the principal and agent to be determined. It does not of itself entitle the principal to claim any shortfall. In order to claim whatever losses are highlighted by the taking of the account, the principal has to establish his right to them. For example, this may be through breach of contract or the common law duty of an agent who holds money for his principal to pay over or account for that money at the request of his principal.[12] Moreover, where the agent cannot satisfactorily explain what has happened to the principal's property or money, presumptions may be made against him which will lead to substantive liabilities such as those mentioned above.[13]

5.47 We understand that the Post Office does exercise discretion as to the recovery of losses where circumstances make that a reasonable reaction. For example, we were told that if there is a "scam" which is recognised to be popular the Post Office will take steps to warn SPMRs, it will issue a procedure giving guidance as to how the scam can be combatted and may consider (depending on the circumstances of the particular case) not recovering losses due to the scam for such period as it is reasonable to expect the SPMRs to be familiarising themselves with the procedure. We include this point not because it impacts on the legal liability to repay losses *per se* but because such a practice would narrow very considerably, or remove completely, the scope for a SPMR to argue that a particular loss was caused by something other than his own negligence, carelessness or error, and therefore not recoverable from him.

5.48 In summary, we think that there is a sound contractual basis for the recovery of losses, which is supported or in any event, supplemented, by the general law governing an agent's duties to his principal.

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[11] Bowstead & Reynolds on Agency, 19th Edition, Article 51, paragraph 6-094.

[12] Ibid paragraph 6-099.

[13] Ibid paragraph 6-096.

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Claims for "compensation" for the recovery of losses by the Post Office from SPMRs

5.49 Whilst the issue in the complaints is sometimes referred to in terms of "compensation", this is not an accurate expression for the particular claim insofar as it relates to losses. The question is: in the particular case, did the Post Office have the right to recover losses? If the Post Office did, then there is no question of the SPMR being entitled to "compensation." If the Post Office did not, then again no question of compensation arises: the Post Office is simply unable to claim the money and if it has been paid, the SPMR has a right to recover it. This is a restitutionary, not a compensatory, claim.

5.50 In practical terms, the issue is cases in which the Post Office has, in fact, claimed and been paid the losses and the SPMR is now disputing its entitlement to do so and seeking to "reverse" that payment. It is important to distinguish three groups of cases:

5.50.1 those in which the Post Office has secured a conviction for theft or false accounting and the SPMR is now seeking to claim back the losses on which that conviction was based;

5.50.2 those in which the Post Office has secured a civil judgment for the recovery of the losses; and

5.50.3 those in which there has been payment of the losses (or potentially a claim on the part of the Post Office which has not yet been satisfied but from which the SPMR now seeks relief) but the Post Office's entitlement has not been determined by the civil or criminal Courts.

5.51 The Scheme is only apt to deal with cases in the third group. It is worth noting at this point that Section 2 of the Draft Scheme Settlement Policy states that the objectives of the Scheme are to:

5.51.1 listen to SPMRs concerns;

5.51.2 explain the Post Office's position;

5.51.3 offer solutions where possible;

5.51.4 compensate if loss has been unfairly suffered;

5.51.5 demonstrate that the Post Office is being transparent; and

5.51.6 ensure that the Post Office's decisions are defensible.

<u>Cases in which there is a criminal conviction</u>

5.52 A criminal conviction does not of itself entitle the Post Office to claim the losses from the SPMR but where the SPMR has been so convicted it is clear that the Post Office would be entitled to recover the losses on which the conviction is based as a matter of the civil law, or through ancillary orders made in the criminal proceedings.

5.53 The two offences with which SPMRs are most often charged are theft and false accounting, both of which are offences of dishonesty. If the conviction followed a guilty plea, the SPMR can be properly taken to have made an unequivocal admission as to all the elements of the offence, since the criminal law of England and Wales does not recognise "pleas of convenience". If the SPMR pleaded not guilty, the high standard of proof in criminal proceedings means that it is likely to be appropriate for the Post Office to rely on it in other contexts. In cases involving allegations of theft or false accounting, a

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conviction necessarily involves a finding that the SPMR acted dishonestly, this being a critical element of those offences. In such cases, there could be no strict liability basis for either a guilty plea or a finding of guilt. Moreover, SPMRs facing such allegations would in general have been eligible for legal aid under representation orders (if they could not fund legal representation themselves). It may safely be assumed, therefore, that in general they were legally advised and represented, or had the opportunity to be so.

5.54 If the SPMR has been convicted of a relevant offence the only basis as a matter of law on which the Post Office should entertain a claim for the repayment of sums claimed from the SPMR is if it were to conclude that there were doubts about the evidence on which the conviction was based. However, if the Post Office did so conclude, the situation would be much more complex than simply dealing with certain individual claims for "compensation."

5.55 The Post Office in its capacity as a prosecutor has duties of disclosure which extend beyond the date of conviction in any particular case. In *R v Belmarsh Magistrates' Court (Ex p Watts)*,[14] it was observed that private prosecutors are subject to the same obligations to act as ministers of justice as the public prosecuting authorities. Any material in the possession of the Post Office which might cast doubt on the safety of any particular conviction ought therefore to be disclosed to the convicted party. The "Settlement Principles" in the Draft Settlement Policy of December 2013 state:

> "5.6 Settlements involving convicted Applicants should only be offered where there is clear evidence of a miscarriage of justice."

This is consistent with the above analysis.

<u>Cases in which there is a civil judgment</u>

5.56 If the Post Office has obtained a civil judgment against the SPMR, the Post Office's entitlement is clear and established. The SPMR will have had an opportunity to dispute the claim and an opportunity to appeal the decision should he have been unhappy with it at the time. Indeed, as a matter of law he is prevented from seeking to re-open any issue covered in the prior claim: it is now *res judicata*. This means that the SPMR could not bring a civil claim seeking to reopen the issues covered by the judgment. In certain circumstances, however, he could seek to reopen the issues by seeking permission to appeal the civil judgment after the period within which he is ordinarily only entitled to do so. The appeal Court has a discretion whether to allow such a late appeal and will weigh various factors including the interests of the administration of justice, whether the failure to appeal in time was intentional and whether there is a good explanation for it. A SPMR who has had a civil judgment awarded against him would probably need to show a substantial change of circumstances, such as leading new and material evidence about the workings of Horizon, to have any chance of being given permission to appeal out of time.

5.57 The considerations outlined above in relation to criminal convictions do not apply in relation to civil litigation: in principle the Post Office could repay to a SPMR the sums which it received under the judgment and/or relieve the SPMR of any liability for the judgment debt. But any decision to do so would be entirely voluntary and need careful thought and clear rationalisation. If it could be interpreted as a recognition that Horizon is in fact unreliable then there are obvious consequent complications both for further civil litigation but more importantly in the criminal context (both retrospective and prospective) as detailed above. It may also have political or public relations ramifications.

[14] [1999] 2 Cr App R 188.

5.58 The Scheme information memorandum states that Applicants "may put [their] case through the Scheme even if the Courts have already given judgment against [them]." Rejecting claims simply because there is a civil judgment covering the matter would seem to run counter to this. We do not know the thinking behind including this wording in the Scheme memorandum.

<u>Cases in which the Post Office's entitlement is not yet established by a Court</u>

5.59 If no Court has yet given a decision in relation to a SPMR, the Post Office has a genuine decision to make as to whether or not to press claims for losses or to repay those already recouped.

5.60 Each case would have to be considered on its own facts and depend on what the SPMR alleged about the reasons why the Post Office is not entitled to claim the losses. So far as we can see from the cases considered to date, there are:

5.60.1 general allegations as to the unreliability of Horizon; and

5.60.2 specific allegations as to factors which may have affected Horizon in the particular case.

5.61 General allegations about Horizon do not, we think, help. It would be far more satisfactory were there to be a reasoned Report as to why Horizon is thought to be working properly (if that is the case) but even without that, a general claim that there are "problems with Horizon" is not, we think, enough to cast doubt on the Post Office's claim for losses. The Horizon system works satisfactorily for the vast majority of those who use it and accounts will have been agreed, as noted above.

5.62 Specific allegations as to Horizon's malfunctions have also been made and to some extent "investigated" by Second Sight. These have included or been said to be caused by:

5.62.1 power cuts;

5.62.2 incompatible use of telephone lines with Horizon;

5.62.3 intermittent internet connectivity; and

5.62.4 the ability to "centrally input" transactions and thus directly, and without a SPMR's knowledge, adjust Horizon data sent by a SPMR.

5.63 Second Sight have certainly expressed concern – and more – in relation to certain of these supposed deficiencies in or effects of Horizon. But since they have singularly failed to support their views with any reasoned explanations, still less any clear evidence, it is not possible to conclude that any of these allegations have merit. If brought before a civil Court in this form the Court would have little difficulty in concluding that the case that Horizon was at fault and resulted in losses being inaccurately recorded was not made out.

5.64 There is a further point: not only would the SPMR have to establish that there was a fault with Horizon or some external factor which would have affected its operation, it would also have to be shown that those facts *caused* the "losses" which the SPMR is now seeking relief from. Second Sight's work, so far as we have access to it, is entirely silent as to their reasoning on this point.

5.65 If the Post Office concludes, in a particular case, that there are reasons for doubting the record which Horizon has provided and on which the claim for losses is based – in other words, where the Post Office concludes that there may be a mistake in the account and there may therefore be a basis for re-opening it - the question arises of how the SPMR's claim for recovery would work. As a matter of common sense, if the Post Office decides that in a particular case it has no entitlement to claim the losses, we anticipate that the Post Office would simply refund the money/relieve the SPMR from the liability without the need for any formal claim or proceeding. But the SPMR would have a claim at law to recover the money and this is important since if the Post Office were repaying/relieving in such a case it may well wish to be sure that it was doing so in satisfaction of a legal obligation.

5.66 The Post Office's right to seek payment of the losses arises both under the Contract and the general law because of the agency relationship. If the losses do not exist – because the records produced by Horizon are not accurate, then there is no right on the part of the Post Office to claim them. Absent express provision to the contrary, it is not a breach of contract to claim money to which you are not entitled. Though it would be a breach of contract to withhold payment from other monies due. So, the question whether a loss recovery is also a breach of contract may turn on how the Post Office recouped the loss. This matters since there may be a claim for consequential losses if there is a breach of contract claim.

5.67 The SPMR would have the burden of showing not only that there were losses but also that there was a causal link between the losses and the actions of the Post Office on which he relies for his claim. Several cases we have seen suggest that there is at best a tenuous link between the alleged failings of Horizon and the loss incurred (if any such link is even alleged). For example, case M014 alleges that long running problems operating Horizon which gave rise to over £8,000 in loss recoveries to Post Office were largely fixed when a phone line was unplugged in a back office. This suggests a) there was nothing wrong with Horizon *per se* b) that the incorrect use of the phone line was an unfortunate error that might have been caused by inadequate training or support or could have been due to incompetence on the part of the SPMR or is an unusual set of circumstances which is not reasonably foreseeable. However, this could still give rise to liability on the part of the Post Office (albeit not in respect of Horizon failures specifically) if the Post Office is found not to be entitled to recover loss in those circumstances because the relevant SPMR's conduct was not negligent or in error, within the meaning of Section 12, paragraph 12 of the Contract.

<u>Consequential losses</u>

5.68 There can be no question of a claim for consequential losses based simply on the recovery by the Post Office of losses if the losses were properly payable and the Post Office was entitled to the money.

5.69 Even if the Post Office was not entitled to, but did, claim losses in a particular case, the SPMR has no claim for consequential losses since the SPMR does not have a claim for damages for breach of contract to which the other losses could be "consequential". We think that the better analogy is that the claim is a resitutionary one and the aim of such a claim is to reverse a financial benefit which has otherwise been received. It carries with it no notion of attendant "losses."

5.70 As we mention above, if the Post Office has, in order to recover losses, withheld money to which the SPMR claims to be entitled then there is in principle a breach of contract claim. However, normally damages for breach of a commercial contract relate to financial losses only, as damages are only awarded for losses reasonably in the contemplation of the parties as not unlikely to result from the breach. Normally, no damages would be awarded for injury to feelings, mental distress, anguish or annoyance. This is so even though such reactions might have been perfectly foreseeable at the time of the contract.[15] Whilst stress which is so severe that it causes an actual breakdown in health may be compensable if it was in the contemplation of the parties as a not unlikely consequence of the breach, it seems highly unlikely that that test would be met here. The SPMR would also have to show, by clear and cogent evidence, that the damage to his health had been caused by the Post Office's conduct in recovering losses to which it was not entitled.

5.71 Damages are also not normally awarded for loss of reputation flowing from a breach of contract, unless the loss of reputation in turn directly causes foreseeable financial loss. So, for example, an employee of a business run corruptly might be able to claim damages for consequential financial loss suffered as a result of reduced future employment prospects by reason of the loss to his reputation as a result of being associated with the business. It seems unlikely such consequential loss would be recoverable here for any loss recovery by the Post Office that is in breach of contract - the fact of the loss recovery would need to be made known widely and the SPMR would need to be able to show that this somehow harmed his future earning capacity.[16]

5.72 We think that the better analysis is that the question of consequential losses only arises if the Contract has been terminated on less than three months' notice, as to which, see paragraph 5.77 to 5.83 below.

Restitutionary claim

5.73 If an SPMR can show that he made a payment on the basis that he was liable to make that payment to the Post Office when in fact he was mistaken as to the existence of the liability, he has a restitutionary claim for the repayment of the money.[17] That claim focuses on the "unjust enrichment" which the Post Office will have received. It is not a damages claim but a restitutionary action for money had and received. For practical purposes this means that there is no question of a claim to consequential loss on the part of the SPMR. All that the SPMR would have to show is that there was no liability to make the payment but he believed that there was and this caused him to make the payment. There is no requirement for fault on the part of the Post Office and it does not matter if the SPMR has himself been careless.[18]

5.74 Such a claim can only work on behalf of the SPMR if the Post Office is not contractually (or otherwise legally) entitled to the payment.[19] On the basis of that analysis, it would mean, therefore, that a settled account would have to be re-opened or that the SPMR would need to show that the Post Office is not entitled to recover loss.

5.75 The restitutionary claim for money had and received will not be available to the SPMR where he appreciated that there was a risk that the Post Office was not entitled to the money but decided to pay on the basis that he accepted that risk. In those cases, the SPMR will effectively have settled the Post Office's claim and this is treated as a compromise which the Courts will not allow the SPMR later to reopen.[20] This is a fact

[15] Chitty on Contracts, 31st edition, paragraph 26-137, 138

[16] Chitty on Contracts, 31st edition, paragraph 26-141 - 142

[17] *Kelly* v *Solari* (1841) 9 M&W 54; *Aiken* v *Short* (1856) 1 H&N 210

[18] *Barclays Bank* v *Simms* [1980] QB 677

[19] *Portman Building Society* v *Hamlyn Taylor Neck* [1998] 4 All ER 202

[20] See *Kelly* v *Solari, Barclays Bank* v *Simms.*

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sensitive issue and would need to be explored in each case. The real question is whether in paying the money the SPMR was prepared to take the risk that it might not be legally due but it was in his interests to pay the money anyway.

5.76 It is also clear that if the SPMR was once entitled to a restitutionary remedy based on his mistake in making the payment, he will lose that right if the dispute with the Post Office is resolved and cannot be reopened. That would be the case if the civil Court had given judgment in favour of the Post Office. Then the SPMR could not recover without also setting aside the judgment. Even if there is no judgment, if proceedings have been started and the SPMR then pays to settle the claim he will be treated as having compromised. The law will not allow such bargains to be reopened, not least because of the concern to achieve and respect finality in litigation.[21] If litigation has not been started then there needs to be a contract of compromise before a restitutionary remedy will be ruled out.

5.77 The Post Office's Draft Settlement Policy of 2013 sets out, in section 5, certain "Principles for Settlement." Those principles indicate the Post Office's approach to settling claims with SPMRs. These include that the SPMR needs to establish that the matters raised have caused them loss, that the alleged harm arises directly out of or was an obviously foreseeable consequence of a breakdown in the business relationship between the SPMR and the Post Office and that settlements will generally be driven by commercial fairness rather than legal principles.

Termination of contracts

5.78 The Post Office is entitled to give three months' notice to terminate the Contract with the SPMR. If in a particular case the SPMR's Contract has been terminated on three months notice, he can have no remedy arising out of that termination. It does not matter that the Post Office based its decision to terminate on facts which turned out to be disputed, flawed or mistaken (such as the reliability of Horizon) as the Post Office is entitled to terminate the Contract on three months' notice for any or no reason.

5.79 The effect of this is that the most that a SPMR may be entitled to is the pay (or whatever entitlements) were due during the notice period, reduced for any costs of doing business if they were not incurred. Moreover, the SPMR is under a duty to mitigate his or her losses and so should look for alternative employment during that three month period. Any unreasonable failure to find an alternative source of income would reduce the claim (though with a three month notice period this is not of huge practical relevance).

5.80 There may well be cases in which the Post Office has terminated the contract summarily – in other words on no notice. Here different considerations may arise. The facts of a particular case may justify summary termination – for example theft by a SPMR may well justify the conclusion that the SPMR is in breach of his obligations and the Post Office can accept that breach as terminating the contract. However, if the facts do not entitle the Post Office to accept the breach as terminating the contract summarily, not only would the SPMR be entitled to claim the three months' remuneration which he would have received had notice been given, he may also have a right to consequential losses within the principles which govern consequential loss claims for breach of contract.

5.81 The normal rule for assessment of contractual damages is to compensate the claimant such that they are put in the position they would have been in had the contract been

[21] *Marriot* v *Hampton* (1797) Term Rep 269

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properly performed. Consequential losses (such as loss of use or lost profits) are also recoverable where they are not considered to be too remote.

5.82 The traditional test for remoteness is whether the loss "may fairly and reasonably be considered either as arising naturally, i.e. according to the usual course of things, from such breach of contract itself, or such as may reasonably be supposed to have been in the contemplation of both parties, at the time they made the contract".[22] The Courts have decided that the meaning of "reasonable contemplation" will depend on the knowledge of the parties at the time of the contract, and that the loss must be "of that kind" contemplated by the parties.

5.83 In any damages claim, there must be a clear link between the defendant's breach and the claimant's loss, or in any event the breach must be the "dominant cause" of the loss. An intervening act of a third party or the claimant itself may break the chain of causation, depending on the court's appraisal of the circumstances of the case, as may intervening events which were reasonably foreseeable by the parties.

5.84 In the case of a SPMR who runs an associated business, such as a convenience store or a newsagent, it may be said by the SPMR that terminating his Contract as a SPMR would be likely to have a knock on effect on the viability of his associated business. Moreover, it might be said that depriving an SPMR of the three month notice period also deprives him of a three month window in which to seek a purchaser of his business as a going concern. If the business does in fact close because of the termination of the SPMR's Contract and there is evidence that it might have been capable of being sold had the SPMR had three months in which to do so, there is the possibility of a claim for such losses. Whether such an argument could be made depends on the facts, not least whether there was an associated business and a candidate to take over the SPMR's role acceptable to the Post Office.[23] In practice in this sort of claim, because the Court is asked to consider a counterfactual which has not arisen, the Court makes an assessment of the prospects of a sale "the loss of a chance" and applies a discount to the claim to reflect this.

Inadequate training and support

5.85 Under the Contract the Post Office is obliged to provide training. Section 15 paragraph 7 provides:

> "7.1 Post Office Ltd will:
>
> 7.1.1 provide the Subpostmaster with relevant training materials and processes to carry out the required training of his Assistants on the Post Office Products and Services;
>
> 7.1.2 inform the Subpostmaster as soon as possible where new or revised training will be necessary as a result of changes in either the law or Post Office Services; and
>
> 7.1.3 where appropriate (for example where clause 7.1.2 of this section 16 applies) update the training materials (or processes) to provide new training materials (or processes) to the Subpostmaster.
>
> However, it is the Subpostmaster's responsibility to ensure the proper deployment within his Post Office branch of any material and processes

[22] *Hadley v Baxendale* (1854) 9 Ex. 341, 354-355.

[23] See *Lalji* v *Post Office Limited* [2003] EWCA Civ 1873, CA

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provided by Post Office Ltd and to ensure that his Assistants receive all the training which is necessary in order to be able to properly provide the Post Office Products and Services."

5.86 This seems clear: the Post Office must provide training and keep it up to date. This is not defined but could well extend to a help-line or other day to day advice on the operation of Horizon. But the SPMR is still responsible for the day to day operation of the Subpostoffice. In other words, the SPMR accepts the consequences of any lack of training provided to his Assistants or their failure to put the training into effect.

5.87 Section 15, paragraphs 1 and 2 of the Contract are also relevant here. They provide that:

> "A Subpostmaster must provide, at his own expense, any suitable assistants with the relevant skills which he may need to carry out the Post Office work in his sub Post Office branch ("Assistants").
>
> Assistants are employees of the Subpostmaster and the Subpostmaster will consequently be held wholly responsible for any failure on the part of his Assistants to:
>
> 2.1 apply Post Office rules or instructions as required by Post Office Ltd;
>
> 2.2 complete any training necessary in order to properly provide Post Office Services …
>
> The Subpostmaster will also be required to make good any deficiency of cash or stock which may result from his Assistants' actions or inactions."

5.88 It is also likely that there would be a term implied into the Contract to the effect that the SPMR should be entitled to reasonable training and support, particularly in relation to bespoke systems or practices, such as Horizon, which he could not be expected to know from his own general knowledge and past experience.

5.89 Many SPMRs do not seem to have a complaint as to the level of training and support which the Post Office has given them. We do not think that this is conclusive. Whilst Horizon operates as a common system and one person's experience of it should be similar to another's, the same could not be said for training and support. It would be quite possible for the Post Office to have failed to meet its obligations in relation to one SPMR whilst easily fulfilling them in relation to many others.

5.90 Moreover, in order for this to translate into a claim against the Post Office, it would have to be shown that it was causative of losses. It is clearly not enough to say: "I was given bad support and any deficiencies in my account must be due to that." There would have to be an investigation of how and why the deficiencies had arisen. Were they in any sense attributable to a failure of training? This may be difficult to establish in any particular case.

5.91 The Settlement Principles contemplate that compensation might be paid where training is inadequate or poor. The principles make clear that compensation will not be paid for general complaints about the standard of training and that the Applicant needs to demonstrate facts peculiar to his circumstances which justify compensation.

Regulation

5.92 It does not appear to us that SPMRs would have a basis for complaint in respect of Horizon by reason of any regulation governing the Post Office's conduct. Although OFCOM has since October 2011 had responsibility for regulating the provision of postal

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services, OFCOM's own website makes it clear that it does not regulate the Post Office. The Post Office does not appear on the FCA register as an FCA-authorised entity. It does appear as an "appointed representative" (in connection with its provision of financial products on behalf of principals such as the Bank of Ireland) and a "payment services agent" (in connection with its provision of money transfer services on behalf of, for example, MoneyGram International). Neither of these functions requires the Post Office to have separate FCA authorisation.

Limitation

5.93 Limitation is a factor which may well be relevant in certain claims. The standard limitation period for claims in contract is six years from the date of breach. For tort claims it is six years from the date on which the loss was suffered. Restitutionary claims are time barred six years from the date of the enrichment on which the claim is based. Any claim brought outside the limitation period can be met with the defence that it is out of time and no further consideration of the merits is required.

5.94 Where the claim is based on a mistaken payment or a fact deliberately concealed from the claimant by the defendant, time does not start to run until the claimant has discovered the mistake or concealment, or could with reasonable diligence have done so.[24] Some of the cases we have seen suggest that SPMRs have been aware well before the Scheme was instituted of the matters about which they have complained to the Scheme. At least in those cases, the deferral of the commencement of any limitation period may not make any difference to the barring of the SPMR's claim.

5.95 The Settlement Principles state:

> "5.11 Settlements should reflect the fact that for the purposes of the Scheme, Post Office will not be relying on any legal limitation or time-bar defence and will consider all Complaints regardless of age."

We do not know what publicity has been given to this statement and whether the Post Office is free to, or indeed wishes to, reconsider its position.

[24] See Limitation Act 1980, s 32(1) and *Kleinwort Benson Limited* v *Lincoln City Council* [1999] 2 AC 349 .

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Strictly Confidential

POST OFFICE LTD BOARD

Insurance issues arising from the Complaints and Mediation scheme

1. Purpose

The purpose of this paper is to set out the insurance-related issues for the Complaints and Mediation scheme and is an update to the paper submitted to the Board reading room in December 2013.

2. Introduction

Until September 2012, insurance for Post Office was provided by an RM Group insurance programme. Following separation, it was decided to mirror the existing insurance programme to ensure Post Office had no less cover than when part of RM.

Post Office's post-separation insurance programme, which was put together with Post Office's newly appointed broker, Miller, covers Property (£250m), Business Interruption (£10m), Employers' Liability (£25m), Public Liability (£50m), Motor (Comprehensive Full Cover), Crime (£400m), Kidnap and Ransom (£20m), and Directors' and Officers' Liability (£20m).

3. Nature of the risk

So far c150 applications have been received of which only about a third have been worked through so the assessment below is based on our estimation of the issues. It is possible, but unlikely, that the pattern of cases might develop in a way that changes this assessment.

4. How much might the compensation cost?

The legal and financial risks arising from the process are covered in a separate Board paper. However, for insurance purposes, it is important to be clear which costs are incurred as a direct consequence of specific legal obligations. Whilst cover would theoretically extend to costs incurred as well as compensation paid, insurers will argue that anything above the level relating to legal obligations represents a 'goodwill' payment that must be funded by the policyholder.

5. What insurance cover might respond?

Summaries of the relevant insurance policies can be found in the annex attached to this paper.

Based on the current position none of our existing policies are expected to respond for the following reasons:

- there is no legal obligation to make material payments
- the levels of excess that would apply
- the precise nature of the cover in place.

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6. Can this assessment be independently verified?

Independent advice has been sought to provide a definitive view on all aspects of insurance ie organisational and personal. This advice will cover what policies Post Office has and what they cover, as well as the actions Post Office has undertaken to fulfil its obligations under these policies. This view will be provided at the Post Office Board meeting.

7. Impact of mediation process on potential claims

As noted above, only payments made due to a legal obligation would be covered so if an insurer did face a claim from a mediation process they would insist on being involved in order to be certain that any payments related to a legal obligation and were not simply goodwill.

8. Directors' liabilities

Directors are highly unlikely to be personally liable in respect of past prosecutions unless a court determines that they have acted maliciously or in bad faith, which is very hard to envisage. In any event the D&O policy provides cover up to £60 million and has a £25,000 excess for claims by the Company but no excess for claims brought against individual directors. It is also retrospective so applies to historical claims. Whether or not the policy will respond in relation to a claim will depend on the circumstances of the claim. However, we have notified our brokers of the circumstances which may give rise to a claim.

9. Our strategy with insurers

In August 2013, we formally notified the insurers for our D&O, Public Liability and Professional Indemnity policies. They have also all received a copy of the Second Sight report.

All the insurers have noted the contents of the report. There has been no further comment from insurers, though this is normal given there are no claims or notifications at this stage.

Post Office's legal advisors (Bond Dickinson) have been instructed to review each application submitted into the Mediation Scheme to identify any matters which could trigger insurance coverage (none have been identified to date).

The strategy remains to keep insurers updated via our brokers. Post Office, Bond Dickinson and Miller will meet once Second Sight provides its report on the Horizon-related "themes" it has identified.

At this meeting, which will be within a week of receiving the Second Sight report, we will discuss next steps including whether:

- insurance cover is available from RM's captive (which is complicated as it is 100% RM controlled);
- individual cases can be treated as connected or interrelated claims for insurance purposes;
- a different approach should be followed in light of the independent report;
- adopting a different approach to dispute resolution to the current Scheme would assist in obtaining insurance cover; and
- insurers should be more fully engaged.

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More generally, we will continue to monitor the position as more cases are submitted to the Mediation Scheme (as mentioned above, to date, only c25% have been received), though clearly the final position will not be known until all the cases have been submitted.

10. Recommendation

The Board is invited to note the position on insurance.

Chris Day
March 2014

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Annex

Directors and Officers Liability (D&O)

D&O Liability provides full cover for Post Office (PO) directors and officers where they are sued as a result of a wrongful act resulting from something allegedly done while acting as a PO manager. The policy will also respond if there is a formal external investigation into an individual's actions or the affairs of the company.

This policy is a joint and several contract between Insurers and each insured individual, which means that any individual can make a claim under the policy, with or without PO's consent.

The policy covers claims against individuals, not PO, so an individual has to be named in a claim for the D&O policy to apply. If there were to be an official external investigation, the policy might also cover some investigation costs (e.g. the costs for a director attending the investigation).

The policy is unlikely to cover mediation, which on its own is neither a claim against an individual nor a formal external investigation.

Public Liability (PL)

Public Liability covers injury or damage to Third Parties arising out of PO's actions. We have notified our PL insurers because a claim against PO for "stress" arising out of this matter could be classed as a third party "injury". This policy however carries a high excess of £250k per claim.

Professional Indemnity (PI)

Professional Indemnity insurance covers a breach of professional duty by PO resulting in a third party loss. This policy covers Civil Liability, Defence Costs and Expenses, Libel and Slander (committed by PO or any person employed by PO), and Breach or Infringement of copyright/intellectual property rights. This policy also carries a £250k excess for each and every claim.

PO's PI cover was purchased last year to cover specific Government Services contracts, which will make it difficult to make a Project Sparrow-related claim.

Further, in addition to the general uncertainty as to whether any PI policy would provide insurance cover for Project Sparrow-related claims, there is also an issue of when PO first became aware of the matters which would give rise to a PI claim. Given that the Second Sight report refers to problems with the Horizon system (and the resultant issues with the sub-postmasters) occurring prior to the PI policy's inception date, underwriters may claim that this was a "known" issue and therefore excluded from the cover.

On separation, PO did not to take out company-wide PI cover principally because it was difficult to foresee a scenario whereby PO would have an exposure for professional negligence (from the information available, there is no evidence of any circumstances or claims being made against PO for professional negligence since it was created c30 years ago, or indeed the RM Group over that period).

This position was supported by historical advice and aligned with RM and their broker's (JLT) view, and the purchase of a PI insurance policy in September 2012 was specifically to meet contractual requirements for the two Government contracts and not because of any foreseen increase in exposure.

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Whilst there is some evidence that PO were misinformed by RM and there was PI cover from 2002 to 2012 it was via RM's captive, therefore any claim will be complex as PO doesn't have any access to any records from the captive. In addition there was an excess of £1m per case. Further action may be taken on this depending how the claims develop.

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Post Office Ltd Board

Business Transformation Programme

1. Purpose

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

1.1 the work completed by the Business Transformation programme since the last Board meeting;

1.2 our proposed next steps to develop a more detailed view of our target operating model as the basis for then procuring our transformation partner(s); and

1.3 our initial assessment of the high level business case for the overall programme.

2. Update on work completed to date

2.1 We have presented two previous papers to the Board, providing updates on the programme and the evolution of our thinking (November 2013 & February 2014).

2.2 Since last month's Board update we have been focussing on three key workstreams:

- **Developing our strategic plan into a clearer vision of the customer-facing organisation we want to be in 2020**: a three day cross-business workshop, facilitated by the Post Office strategy team and McKinsey, started the process of translating our strategy into a more detailed set of customer propositions, set in the context of our rapidly changing commercial environment. The purpose of this work is to ensure that our target operating model is grounded in a clear view of the core capabilities we will require in order to successfully execute our strategy over the next six years and beyond. This is an on-going piece of work which will continue through to mid-2014. Further details of our initial thinking on both the 2020 Vision and target operating model are set out in the slide deck in the Boardpad reading room.

- **Reviewing the full range of partnering solutions:** the Programme team has continued its work on establishing the right partnering approach for the Post Office to deliver business transformation. Supported by a specialist sourcing consultancy, the team has taken into account the approaches of companies that have been through similar processes as well as engaging a number of consultancies who have delivered large scale business transformation programmes. This work is on-going and the final solution will be informed by the design activities detailed in the next section.

- **Developing the business case:** to establish a high-level business case we have examined a number of options to deliver the business transformation. Taking into account the feedback from the Board we have established a base-case built on a number of guiding principles, set out in more detail at section 4.

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3. Next steps

The design phase:

3.1 Based on this work over the past three weeks we have reached the conclusion that it would be appropriate to invest more time in the design phase of the programme before commencing the procurement of our transformation partner (or partners). We will limit this design phase to around 6 months. While this may lead to a delay in the implementation of some of the transformational changes, our view is that it will lead to greater long-term financial benefits and a higher NPV, although this is difficult to quantify at this point. In particular it will reduce the risk of entering into a long-term contract with our transformation partner(s) which subsequently proves to be sub-optimal.

3.2 This design phase will encompass four key activities:

- **Business Process Mapping (BPM):** which will provide us with clearly documented processes setting out the way our business operates today. This 'As-Is' view gives us a baseline from which we can assess our current process and capability maturity, and is an essential first step whatever partnering approach we take.

- **Developing the Target Operating Model (TOM):** building on both the BPM exercise and the work mentioned in paragraph 2.2 to develop a clear customer-facing vision for 2020, we will develop a more detailed cross-business view of our TOM, setting out how we plan to be organised and aligned around our customers in 2020, in terms of people, processes and technology (our 'To-Be' state). In essence, the gap in terms of capabilities and processes between the 'As-Is' view identified by the BPM exercise and the 'To-Be' view developed as part of the TOM is what must be delivered by the Business Transformation programme.

- **Developing the commercial construct for the transformation partner(s):** this analysis will then inform our final partnering approach and the design of the commercial constructs in order to maximise our financial benefits. It will also enable us to give the bidders the necessary information to submit high quality responses.

- **Identifying accelerated financial benefits:** a clear understanding of our existing processes, provided by the BPM work, will allow us to identify and deliver accelerated benefits in support of the 2020 Vision, without waiting for the transformation partner(s) to be on board.

3.3 Together these workstreams represent a substantial body of work, and it is important we get this right. We will therefore procure a design partner (or partners) to support us in this process. The procurement is expected to take 6-8 weeks, and will be expedited as quickly as possible.

3.4 The programme will continue to examine and refine the partnering options and business case, informed by the design work. We will also be identifying options to speed-up the procurement of the transformation partner(s) and reduce the lag caused by spending more time on design, for example by reviewing alternative approaches to meet our Public Procurement Law requirements or looking at the extent to which the two phases can overlap.

3.5 All partnering options would leave us with a gap to the current strategic plan. Options to close this gap are being investigated, such as the accelerated financial benefits from the design phase, the potential benefits from Supply Chain and exiting non-strategic business areas.

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3.6 The transformation partner(s), in conjunction with Post Office, will use the work completed in the design phase to create a transformation roadmap. This will detail the sequencing of, and interdependencies between, the initiatives that they will deliver to realise the target operating model created in the design phase.

3.7 A schematic of the timeline for these phases of work is provided in the slide deck which is available in the Boardpad reading room.

Risk management activity:

3.8 The risk management function has been engaged with the programme team and an exercise to identify, assess and subsequently mitigate the key risks associated with the programme is planned to start during April, when their involvement with the programme will increase substantially. At an appropriate stage, the Board will be presented with a view of the risks and mitigating actions associated with this programme.

Communications and stakeholder planning:

3.9 Due to the nature and timing of the proposed changes, we expect that this programme will have significant external and political interest. An integrated communications strategy is being developed that builds on the work already being undertaken to promote our 2020 Vision both internally and externally.

3.10 We will update the Board on the progress of all these workstreams at its May meeting.

4. Financials:

4.1 The Business Transformation Programme will address the complete Post Office cost base of £1bn. As the slide deck sets out in more detail, agents' pay and Supply Chain are currently being addressed by separate working groups, due to report by June. For the purposes of establishing the base-case business case we have not included them, but they will form part of future iterations of the enterprise wide business case.

4.2 The base-case is modelled on certain guiding principles designed to give us an appropriate balance between benefit delivery and risk to the Post Office brand equity. These principles are not fixed and can be changed should our approach or risk appetite change.

4.3 The guiding principles are that:

- where appropriate, support operations can be outsourced from the start of the contract but offshored only after 18 months;
- transformation activities will result in redundancies.

4.4 The base case indicates the delivery of the following savings:

- an annualised run rate reduction of c. £57m by year 5;
- total cost reduction of c. £460m over 10 years.

4.5 These savings will be delivered in addition to those planned from the existing cost reduction initiatives (such as Crowns and IT), which together with the Business Transformation programme will deliver the following total figures:

- annualised run rate reduction of c. £115m by year 5;
- total cost reduction of c. £1.1bn over 10 years.

4.6 At this stage we have not included the benefits that will be delivered by transformation initiatives that drive incremental revenue via improvements to

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processes such as cross-selling and customer analytics. This will be factored into future iterations of the business case as our design work matures.

5. Requests

5.1 The Board is asked to note the updates in this paper and the next steps being taken by the programme.

Lesley Sewell & Chris Day
20 March 2014

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POST OFFICE LTD BOARD

Approval of the 2014-15 Budget

1. Purpose

1.1 The purpose of this paper is to seek Board approval to the 2014-15 budget.

2. Background

2.1 The Board was taken through the budget at a high level at its January meeting and offered the opportunity to raise challenges. Following further action the Board was sent the budget in detail on 21 February 2014 incorporating responses to the challenges and given the opportunity to ask questions and further challenge assumptions at a conference call on 10 March 2014.

2.2 The budget meets the strategic plan operating profit of £99m (net deficit £61m).

2.3 A summary of the proposed budget is included in Annex A including the cash flow in section 4.

3. Update and actions taken

3.1 At the point of issuing the budget briefing book in February the NTP budget was still subject to change as the branch numbers for conversion were still to be confirmed. The budget for NTP has been reviewed and slightly amended and is included in Annex A. It is still subject to further review and the cash flow budget may be amended slightly once the year end outturn is known.

3.2 The Executive Committee has developed a Key Performance Indicator scorecard and proposed bonus metrics to the Remuneration Committee. A copy of this scorecard incorporating the changes following the Remuneration Committee review is attached at Annex C. The next step will be to finalise the targets for the remaining non financial measures.

3.3 An update on the key questions raised following the Board conference call on 10 March 2014 is attached in Annex D.

4. Recommendations

4.1 The POL Board is asked to

- Note the actions being taken in response to the challenges given and, on that basis;
- Approve the 2014-15 budget; and
- Note the development of the Key Performance Indicators for 2014-15.

Chris Day
March 2014

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ANNEX A

1. Strategic Plan Context

1.1 The budget set out below delivers the Strategic Plan 2014-15 target, as well as the foundation for the Strategic Plan to 2020. This is consistent with the strategic objective of reducing the Network Subsidy Payment to £70m pa in 2017-18 and further beyond that.

1.2 The key objective to deliver operating profit of £99m as set out in the Strategic Plan has been met – a £37m improvement in EBITDAS from 2013-14 Q3 FYF.

2. Background

2.1 The approach to the budget follows that taken in 2013-14 with the required additional stretch to improve EBITDAS in line with the plan delivered through income ambition, cost reduction and delivering strategic transformation. It includes:

2.1.1 continued roll out of the new network models

2.1.2 reducing the existing cost base - £34m cost reduction initiatives taken to budget but there were cost increases that offset some of these savings

2.1.3 reduction and re-focus of project opex to £17m from £28m

2.1.4 improvement in total cost:income ratio from 111% to 106%

2.2 The budget has been prepared consistently with the four core principles of the Strategic Plan.

3. Profit and Loss Account

3.1 The proposed budget Profit and Loss Account is set out in Table 1 below.

3.2 The key objective to deliver operating profit of £99m as set out in the Strategic Plan has been met.

3.3 The operating profit of £99m is £3.0m lower than the Quarter 3 forecast for the 2013-14 outturn, but includes the £40m decrease in Network Subsidy Payment.

3.4 The key changes from the 2013-14 forecast (excluding project one off costs) are:

- **Net income** grows by 5%. In Mails the Royal Mail growth of the new 'click and collect' service is worth £14m, labels volume recovery including new 'drop and go' enhancements £9m and other new products create an £8m upside, although this is offset by a £7m decline in stamps. Financial Services income grows by £18m mainly from insurance, lending and international money transfer. There is a £7m growth in Homephone, due to mainly to price increases and growth of £2m for mobile planned. Government Services income increases slightly as the growth in passports and IDA is expected to exceed decline in DVLA.
  - **Operating costs** (excluding project one off costs) have increased by £20.7m despite staff costs savings of £21.5m mainly from the Crown Transformation Programme. Non staff costs increased by £14.1m and agents costs by £28.1m.

- Staff costs are planned to decrease by £21.5m. This includes savings in Crowns of £15.7m from the Crown Transformation Programme. There are also cost efficiencies across almost all other directorates offset by increases in Financial Services for the new management structure and in Network for call centre staff taken in house.
- Agents' costs are planned to increase by £28.1m mainly due to increased sales volumes but also due to the impact of franchising of £9m. Savings of £6m are included from the move to the Local model.
- Non-staff costs are planned to increase by £14m. The budget includes £13m of savings from the Cost Reduction programme but these savings are more than offset by increases driven by IT costs (including the contractual Fujitsu RPI increase, new TSS costs and the costs of ATOS new services), timing of spend and the decision to re-focus project opex (see below) with the consequence that certain costs have moved back into 'business as usual'.

3.5 The costs of implementing projects (project one-off costs, 'POOC') have decreased significantly from £27.5m forecast for 2013-14 to £17.3m for 2014-15 reflecting the decision to limit such spend to income generating project activity. Some project opex items (£10m – mainly £5.4m for marketing) were deemed to be recurring in nature and these have been moved into BAU non staff costs.

3.6 The exceptional items include impairment of capex, redundancy, agents' compensation and major transformational change costs. The grant income from Government funding is also included as exceptional. The increase reflects the significant extra strategic programme activity arising from the implementation of the strategic plan. The Network Transformation Programme is the largest single element with £149m of the exceptional spend budgeted.

Table 1 Profit and Loss Account

£m	2012-13 Outturn	2013-14 Budget	2013-14 Q3 CFO FYF	2014-15 Strat Plan	2014-15 Budget	2014-15 Budget v Strat Plan	2014-15 Budget v 2013-14 Q3 CFO FYF
PILLARS							
Mails & Retail	404.0	414.6	397.9	430.0	423.9	(6.1)	26.0
Financial Services	279.6	277.4	277.4	295.0	295.2	0.2	17.8
Government Services	133.2	115.9	114.5	117.0	117.0	0.0	2.5
Telephony	45.0	50.4	50.7	60.0	61.8	1.8	11.1
Other	40.7	36.7	39.1	38.0	36.5	(1.5)	(2.6)
Income Contingency	0.0	5.0	0.0	(15.0)	(9.4)	5.6	(9.4)
TOTAL NET INCOME	**902.5**	**900.0**	**879.6**	**925.0**	**925.0**	**(0.0)**	**45.4**
Staff Costs	(257.4)	(256.1)	(260.2)	(236.0)	(238.7)	(2.7)	21.5
Agents Costs	(478.1)	(480.0)	(462.9)	(490.0)	(491.0)	(1.0)	(28.1)
Non-Staff Costs	(261.3)	(258.4)	(260.0)	(269.0)	(274.0)	(5.0)	(14.1)
Total Expenditure	**(996.8)**	**(994.5)**	**(983.1)**	**(995.0)**	**(1,003.7)**	**(8.7)**	**(20.7)**
FRES - Share Of Operating Profits	31.9	31.5	33.0	34.0	35.0	1.0	2.0
EBIT - BAU	**(62.4)**	**(63.0)**	**(70.5)**	**(36.0)**	**(43.7)**	**(7.7)**	**26.7**
One off Project costs (POOC)	(53.4)	(35.0)	(27.5)	(25.0)	(17.3)	7.7	10.2
EBIT - Post Project Costs	**(115.8)**	**(98.0)**	**(98.0)**	**(61.0)**	**(61.0)**	**0.0**	**37.0**
Network Payment	210.0	200.0	200.0	160.0	160.0	0.0	(40.0)
EBIT pre exceptionals items	**94.2**	**102.0**	**102.0**	**99.0**	**99.0**	**0.0**	**(3.0)**
Interest	(0.8)	(5.0)	(2.0)	(5.0)	(3.0)	2.0	(1.0)
Impairment	(65.6)	(167.5)	(140.0)	(179.0)	(205.2)	(26.2)	(65.2)
Exceptionals & Redundancy & Severance Costs	(80.3)	(184.4)	(37.9)	(333.0)	(216.1)	116.9	(178.2)
Government grant utilisation	98.2	316.9	253.1	170.0	170.0	0.0	(83.1)
Profit/(Loss) On Asset Sale	(27.7)	0.0	2.5	0.0	0.0	0.0	(2.5)
Total Profit/(Loss) Before Tax	**18.0**	**62.0**	**177.7**	**(248.0)**	**(155.3)**	**92.7**	**(333.1)**

3.7 The strategic programmes and key initiatives proposed for 2014-15 are shown in Annex B. They include:

- Network Transformation (£149m exceptional, £47m capex)
- Crown Transformation (£35m exceptional, £30m capex)
- IT Transformation and delivery (£17m exceptional, £55m capex)
- Separation (£2m exceptional, £19m capex)
- Commercial and FS (£43m capex)
- Other Network projects including property and Supply Chain vehicles (£3m exceptional, £25m capex)
- Other central projects (£10m exceptional, capex £5m)

3.8 The benefits of all of the programmes have been overlaid into the budget.

4. Cash Flow

4.1 The proposed budget for cash flow is set out in table 2 below.

4.2 The main variance from Strategic Plan is phasing of NTP. The NTP budget continues to be reviewed and assessed and the charge will depend on take-up of agents' compensation during the year. At this point the cash flow has been assumed to be aligned with the exceptional charge as the closing provision for agents' compensation is expected to be of a similar level to the opening.

4.3 The redundancy, provisions and exceptionals cost is driven mainly by NTP and the Crown Programme.

4.4 The capex plan includes NTP £47m, Separation £19m, IT transformation and delivery £55m and Supply Chain £13m.

4.5 The client balances inflow in 2013-14 reflects that the year end weekend coincided with Easter so there was a cash outflow at the end of 2012-13 which unwound in the first week of 2013-14. This is not repeated in 2014-15.

Table 2 Cash Flow

£m	2013-14	2014-15	
	Q3 forecast	Strat Plan	Budget
EBITDAS	(98)	(61)	(61)
NSP	200	160	160
Operating Profit	**102**	**99**	**99**
Depreciation	1		1
Working Capital	(41)	33	8
Client Balances	103	(51)	(19)
Dividends from JVs and Associates	(5)	(3)	(5)
Net Capital Expenditure	(108)	(179)	(205)
Redundancy Provisions and Exceptionals	(142)	(333)	(216)
Pensions (Ex Redundancy)	2		3
Operating Cashflow	**(86)**	**(434)**	**(334)**
Interest	(2)	(5)	(3)
Tax	10		0
Funding	215	170	170
Free Cashflow	**137**	**(269)**	**(167)**

ANNEX B Capex & Exceptionals

£m	Opex			Capex			Exceptional		
Strat Plan Heading	Strat Plan	Budget	Var	Strat Plan	Budget	Var	Strat Plan	Budget	Var
Crown				20.0	30.4	(10.4)	40.0	34.6	5.4
NTP*				31.6	46.9	(15.3)	260.4	149.2	111.2
Network	0.0	0.0	0.0	17.9	25.1	(7.2)	0.0	2.9	(2.9)
Mobile Vans					1.2	(1.2)			
Property				5.9	11.2	(5.3)			
Supply Chain				12.0	12.7	(0.7)		2.9	(2.9)
IT (Replacement & Investment		0.0	0.0	56.0	54.5	1.5		16.9	(16.9)
IT Delivery				56.0	54.5	1.5		2.6	
Transformation								1.9	
Transition								12.4	
Separation	0.0	0.0	0.0	10.0	18.9	(8.9)	0.0	2.4	(2.4)
Other	0.0	(1.8)	1.8	0.0	4.8	(4.8)	33.0	10.0	23.0
HR			0.0		0.3	(0.3)			
Central		(2.4)	2.4			0.0		10.0	
Business Improvements (Sparrow)			0.0		2.5	(2.5)			
Security			0.0		0.9	(0.9)			
Op Model		0.6	(0.6)			0.0			
Finance			0.0		1.2	(1.2)			
Commercial & FS	0.0	19.1	(19.1)	44.0	42.8	1.2	0.0	0.0	0.0
Mails		3.5			1.0				
Foog		2.1			2.4				
Home Services		3.5			2.0				
DMC & Customer		1.0			9.5				
FS Strategy & Risk		0.5			3.0				
Payments & Banking		0.9			1.4				
Sales Strategy		3.3			0.3				
Transactional & Lending		0.4			0.6				
Customer Delivery		0.1			0.1				
Travel & Insurance		2.7		30.0	22.1				
Savings & investments		1.1			0.4				
Central Challenge					(16.2)				
Total ex NTP & CP	25.0	17.3	7.7	127.9	127.9	0.0	33.0	32.3	0.7
Total	25.0	17.3	7.7	179.5	205.2	(25.7)	333.4	216.1	117.4

* The only change since the version provided in the Board Budget briefing document in February has been a minor realignment of the NTP budget. This remains subject to further review.

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ANNEX C Key Performance Indicators

The following scorecard metrics and targets have been agreed by the ExCo.

The branch compliance metric is being re-designed to focus on the most critical compliance deliverables. The Cash flow and Crown P&L targets will be set once the year end position is known.

	2013-14	2014-15				
Key Performance Indicators	**Latest FYF**	**Status**	**Bonus %**	**Threshold**	**Target**	**Stretch**
Growth						
Total Net Income (excl NSP) £m (Bonus)	870	Existing	20%	915	925	945
Operating profit £m (Bonus)	108	Existing	25%	-	99	119
Earnings before Interest, Tax, Depreciation, Amortisation and Subsidy (EBITDAS) £m	(91.2)	Existing			(61.0)	
Free cashflow £m #	137	Existing			[(167)]	
Customer						
Customer Satisfaction**	87.0%	Existing			89%	
Easy to do business with (Bonus)**	43.0%	Existing	15.0%	47%	47%	49%
Net Promoter score**	(3)	Existing			+2'	
Queue time % < 5 minutes - Top 1k branches	81.0%	Existing			81%	
Branch - Compliance	98.0%	Change			TBC	
People						
Engagement Index % (Once a year) (Bonus)	51%	Existing	15.0%	-	55% (or 13-14 outturn if higher)	57% (or 13-14 outturn +2 if higher)
Subpostmaster Engagement	n/a	New			48%	
(No.) % of BME appointments over total recruits at senior leadership and senior manager	10%	Existing			7%	
(No.) % of Female appointments over total recruits at senior leadership and senior manager	49%	Existing			45%	
'Post Office values the diversity of its workforce'	n/a	New			66%	
Modernisation						
Crown Profit (Loss) - 'exit rate' £m (Bonus) **** #	n/a	New	12.5%	-	0	TBC
Crown Profit (Loss) -full year £m #	(26.8)	Existing			[(£11m)]	
NT Conversions - contract signatures (Mains & Locals)	3,100	Existing			4,800	
NT Branches Open (Mains & Locals)*** (New Bonus)	1,950	Existing	12.5%	-	3,600	3,700

Bonus worthy metrics
New or changed metrics
** Monthly = 3 month average. YTD = 12 month average
*** YTD and FY = cumulative including prior years
**** The precise calculation is to be agreed but will be based on an annualised Crown P&L derived from the 2014-15 exit position. The budget for this will be calculated in parallel with the full year Crown P&L budget and will be complete by the end of April.
# Target still to be finalised - awaiting year end data

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ANNEX D Response to Board questions

Pay costs

It was noted that the budget does not include provision for any consolidated pay rises but does include an amount of £2m to allow for lump sums to be paid again for managers and admin. It is assumed that Crown staff and managers will be paid Business Transformation payments only.

The board asked how much a 1% consolidated pay rise would cost for managers and admin. This has been estimated for all key pay categories as follows including NI and pension at current rates. Note that the cost of the people assigned to NTP would be borne by the programme within exceptional costs.

Managers

£m	BAU	NTP
Crown	0.2	
Supply Chain	0.1	
Admin	0.7	0.3
	1.0	0.3

Admin grades

£m	BAU	NTP
Crown	0.7	
Supply Chain	0.4	
Admin	0.1	0.1
	1.2	0.1
Total	2.2	0.4

Staff cost savings

The board asked what the key initiatives underpinning the savings in people costs were. These are summarised below:

Crowns	15.7	CTP activity
Supply Chain	2.5	Remodelling CVIT (30 heads) £1.1m, CVIT overtime £0.5m, Manchester Cash Centre closure £0.7m
Strategy	2.3	Outsource to ATOS (offset by increase in non staff costs)
Bonus	2.5	Consequence of lower overall headcount £1m and assume that under-accrual in 2012-13 is not repeated £1.5m
Commercial	0.8	Restructure of product teams
Finance	0.6	Collapse roles and absorb work, efficiency from new finance system
HR	0.6	HRSC efficiencies
	25	
Offset by increases	-3.5	
Net reduction	21.5	

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Cash Flow

Three questions were asked as follows:

1. To provide a high level bridge of the numbers from this year's FYF to next year's plan

The main differences between the forecast cash inflow of £137m for this year and the £167m cash outflow for next year are as follows:

Higher investment in transformation programmes £173m
Lower non-NSP funding £45m
Working capital changes £73m – mostly due to the impact of Easter on the March 2013 balances as year end coincided with the Easter weekend. This results in a cash outflow before the weekend and a cash inflow in the week after (ie the first week of 2013-14) and this is not repeated.

2. To advise on the level of net borrowings this year and next year vs strategic plan

A comparison of the borrowings between the 2010 plan and the Q3 forecast is shown below. This shows that the net liquidity is £697m rather than £163m, so an improvement of £534m. Investment is £278m lower, at £467m, so the improvement from management actions (mostly around working capital) have resulted in an improvement of some £256m (c£40m this year from changes in DVLA contract).

Funding analysis
March 2014 and 2015

£m	2010 plan for 2014	Q3 fcast 2014	2010 plan for 2015	Budget 2015
Network Cash	702	755	730	769
Cash in bank	50	10	50	40
Loan	(589)	(68)	(415)	(153)
Net Liquidity	163	697	365	656

3. To assess the level of working capital next year given the experience of this year

The assessment of working capital for next year is that there will not be another material improvement in working capital as in previous years – see above. This is because none of the contracts that have a material impact on working capital are due to be re-negotiated.

The working capital analysis is based on previous years' outturn as well as known changes and this methodology is carried out for all working capital items.

The main points of note on working capital are:

- Royal Mail now included in both debtors and creditors
- March 2013 coincided with Easter which resulted in higher debtors for ATM and Card Account and higher creditors for Santander and DVLA
- Underlying business creditors largely unchanged except for accruals for higher project spend

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- Improved DVLA settlement terms improved working capital by c£30m
- Because of the timing of pay day, March 2015 period end includes a large pay creditor which is forecast to be offset by lower project accruals.
- Easter next year is immediately after year end which will increase card account debtor and Santander creditor (but not ATM as Easter is week after not coinciding as in 2013 or DVLA as settlement terms have changed)
- Network cash is expected to remain flat – the increase is due to increased debit card balances as usage increases.

The final cash flow budget will be amended to reflect the closing year end balance sheet. Whilst this may change line items it will not change the net cash flow materially.

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Executive Remuneration Framework 2014/15

1. Purpose

Following the Remuneration Committee meeting of 11 March 2014, the Committee wish to recommend to the Board the outcome of their discussions. The purpose of this paper is to:

1.1 To recommend to the Board the level of base pay of the Executive Directors for 2014/2015;

1.2 To recommend to the Board the STIP scorecard measures for 2014/2015 (annexe 1 - paper submitted to the Remuneration Committee with subsequent changes highlighted in yellow);

1.3 To recommend to the Board the LTIP performance conditions for the award dated April 2014/2017 (annexe 2 - updated Remuneration Committee paper).

2. Base Pay

2.1 The last date of increase of the CEO salary was on 1 April 2011 on her appointment as MD of the Post Office. The CFO joined on 1 August 2011 and his salary is unchanged since the date of joining.

2.2 The Executive Directors' salaries set a salary ceiling for any future senior hires. Market research has shown that these salaries are below the market median. While the majority of FTSE 250 companies increased their salaries in 2013 by around 2% to 3%, around 20% of companies froze their salaries.

2.3 Post Office is in the midst of industrial relations dispute. It has communicated to the business that there will be no consolidated pay rise and this has led to industrial action having been taken by both non-managers and managers over this pay position.

2.4 The Remuneration Committee debated the approach to the Executive Directors' salaries at length. It agreed not to award an increase to base pay for 2014/15 but recognised that this would mean a growing gap between the business and the market benchmark and acknowledged that this position is unsustainable.

3. STIP Measures and Targets 2014/2015

3.1 Last year, the Remuneration Committee made the STIP targets significantly tougher. Together with the business underperforming in some areas this will result in lower bonuses being paid this year. The framework for 2014/15 will maintain the level of challenge in these targets. The Shareholder has stated a preference to minimise the number of threshold targets used within the bonus worthy measures of the scorecard.

3.2 The Remuneration Committee discussed the shape of the STIP 2014/2015 taking into account the impact of the current measures and targets. It has agreed to maintain the existing 6 measures but made the following changes:

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- To increase the bonus weighting of the Engagement Index to 15% and remove the threshold to signify the importance of our workforce;
- To decrease the bonus weighting of the Customer metric to 15% and remove the threshold;
- To replace the Crown P/L full year target with a breakeven exit run rate target. The business has a firm commitment to meet this target which is explicit with our Shareholder.

3.3 The Remuneration Committee also debated increasing the weighting of the Crown P/L target from 12.5% to 17.5%. The Executive Committee considered that the current weighting was appropriate and maintained the right level of focus. The target remains at 12.5% but the Board will track progress throughout the year.

3.4 Appendix A shows the proposed Post Office scorecard for 2014/15 compared to the current scorecard for 2013/14.

4. LTIP Performance Conditions and Design

4.1 There are two performance conditions which remain the same as the previous year. The first performance condition is to maintain Access Criteria and this will act as a gateway. If the Access Criteria is not met, no payment will be made under the scheme.

4.2 The Remuneration Committee debated changing the Access Criteria performance condition to a target of 12,000+ Access Points. After discussion with the Executive Committee it was agreed to maintain the current performance condition of Access Criteria as a gateway but Access Points will be tracked and monitored throughout the year.

4.3 The second condition is Earnings Before Interest and Tax, Depreciation, Amortisation and Subsidy (EBITDAS) with a target in line with Strategy Plan of £30m by March 2017. The level of threshold and stretch has been kept broadly consistent with last year.

5. Recommendations

5.1 The Board is asked to accept the recommendation on base pay for the Executive Directors;

5.2 The Board is asked to accept the recommendations of the STIP scorecard for 2014/2015;

5.3 The Board is asked to accept the recommendation for the LTIP performance conditions for the award dated April 2014.

Neil McCausland
Chair, Remuneration Committee, March 2014

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Appendix A

Proposed Scorecard 2014/2015

	2013-14					2014-15				
Key Performance Indicators	**Bonus %**	**Threshold**	**Target**	**Stretch**	**Latest FYF**	**Bonus %**	**Threshold**	**Target**	**Stretch**	**Rationale**
Growth										
Total Net Income (excl NSP) £m (Bonus)	20%	890	900	920	870	20%	915	925	945	Target is budget
Operating profit £m (Bonus)	25%	102	102	120	108	25%	-	99	119	Target is budget - Stretch aligns to LTIP
Customer										
Easy to do business with (Bonus)	20.0%	44%	44%	46%	43%	15%	-	47%	49%	Threshold removed for 2014/15
People										
Engagement Index % (Once a year) (Bonus)	10.0%	55%	56%	57%	51%	15%	-	55%	57%	Target should be an improvement from 2012-13 (prior to IR issues) and threshold removed
Modernisation										
Crown Profit (Loss) - 'exit rate' £m (Bonus) * #	N/A	(23.0)	(23.0)	(20.0)	n/a	12.5%	-	0	3#	New bonus measure for 2014/15
Crown Profit (Loss) -full year £m #	12.5%	(23.0)	(23.0)	(20.0)	(26.8)					No longer bonus worthy
NT Conversions - contract signatures (Mains & Locals)	12.5%	2,880	3,000	3,600	3,100			4,800		No longer bonus worthy - Aligns with LTIP
NT Branches Open (Mains & Locals)*** (New Bonus)	N/A		1,950		1,950	12.5%	-	3,600	3,700	New bonus measure for 2014/15

*The precise calculation is to be agreed but will be based on an annualised Crown P&L derived from the 2014-15 exit position.
Awaiting year end data

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POST OFFICE LTD

Annex 1 - Post Office Short Term Incentive Plan Measures 2014/2015

Paper originally submitted on 11 March 2014 - amended paper with changes highlighted

1. Purpose

The purpose of this paper is to

1.1 To seek approval from the Remuneration Committee on the proposed Post Office Scorecard for 2014/2015 in particular relation to those measures which are bonus worthy.

2. Background

2.1 The STIP for 2014/2015 for all senior leaders is based on the Post Office Scorecard with a multiplier range applied dependent on performance.

2.2 The principle of maintaining challenging targets has been applied by making the income target progressively tougher. The stretch ensures that the leadership team are motivated to overachieve.

2.3 The Shareholder has stated a preference to minimise the number of threshold targets used within the bonus worthy measures of the scorecard.

3 Measures

3.1 There are 6 proposed measures subject to STIP in the Post Office Scorecard (see appendix 1a) split into 4 sections.

- Growth – Total Net Income and Operating Profit
- Customer – Easy to do Business With (ETDBW)
- People – Engagement Index
- Modernisation – Crown Profit/Loss and Network Signatures

3.2 *Growth*

The target figure for net income is the budget figure, which in itself is challenging given the starting point of £875m (expected outturn of 2013/2014).

The operating profit is based on the budget and the stretch has been aligned to the LTIP 2012/2015 to ensure the business remains on plan.

3.3 *Customer*

The metric of ETDBW gives a score to indicate how easy to do business with the Post Office is. The weighting has been reduced to 15% and the threshold has been removed.

It is proposed to include customer satisfaction, net promoter score and 'ETDBW' on the Post Office scorecard however ETDBW is the more significant driver of satisfaction and advocacy and is therefore considered to be the bonus worthy measure. The business has a very clear view of the drivers of this measure with the most important being

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satisfaction and advocacy. ETDBW provides a simple to understand actionable measure to focus on the customer journey than a more sophisticated approach.

3.4 People

The engagement score is extremely important to indicate how our people are feeling and following the discussion at the last Remuneration Committee meeting the weighting has been increased to 15%. The suggested figure for the plan is to use the higher of:-

- the results of the 2013/2014 engagement survey
  or
- the results of the 2012/2013 engagement survey

The Committee is asked to note that given the current industrial relations climate, this year's outturn may be lower than the previous year.

The Remuneration Committee agreed at their meeting on 11 March 2014 to set the target to 55% and the stretch to 57%.

3.5 Modernisation

The metrics whilst achievable are still sufficiently challenging to ensure the Executive Directors and the Leadership Team continue to focus on accelerating the turnaround of the business and provide an incentive to overachieve.

The Remuneration Committee agreed at their meeting on 11 March 2014 to replace the Crown P/L full year target with a breakeven exit run rate target. The business has a firm commitment to meet this target which is explicit with our Shareholder.

The network transformation target has changed to branch openings as opposed to contract signatures.

4 Weightings

The Remuneration Committee debated increasing the weighting of the Crown P/L target from 12.5% to 17.5%. The Executive Committee considered that the current weighting was appropriate and maintained focus. The target remains at 12.5% but the Board will track progress throughout the year.

5. Recommendations

5.1 The Remuneration Committee is asked to approve the Post Office Scorecard with particular reference to those measures which form part of the STIP for Executive Directors.

Neil Hayward
Group People Director
March 2014

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Appendix 1a

Updated Proposed Post Office Scorecard for 2014/2015

	2013-14					2014-15				
Key Performance Indicators	Bonus %	Threshold	Target	Stretch	Latest FYF	Bonus %	Threshold	Target	Stretch	Rationale
Growth										
Total Net Income (excl NSP) £m (Bonus)	20%	890	900	920	870	20%	915	925	945	Target is budget
Operating profit £m (Bonus)	25%	102	102	120	108	25%	-	99	119	Target is budget - Stretch aligns to LTIP
Customer										
Easy to do business with (Bonus)	20.0%	44%	44%	46%	43%	15%	-	47%	49%	Threshold removed for 2014/15
People										
Engagement Index % (Once a year) (Bonus)	10.0%	55%	56%	57%	51%	15%	-	55%	57%	Target should be an improvement from 2012-13 (prior to IR issues) and threshold removed
Modernisation										
Crown Profit (Loss) - 'exit rate' £m (Bonus) * #	N/A	(23.0)	(23.0)	(20.0)	n/a	12.5%	-	0	3#	New bonus measure for 2014/15
Crown Profit (Loss) -full year £m #	12.5%	(23.0)	(23.0)	(20.0)	(26.8)					No longer bonus worthy
NT Conversions - contract signatures (Mains & Locals)	12.5%	2,880	3,000	3,600	3,100			4,800		No longer bonus worthy - Aligns with LTIP
NT Branches Open (Mains & Locals)*** (New Bonus)	N/A		1,950		1,950	12.5%	-	3,600	3,700	New bonus measure for 2014/15

*The precise calculation is to be agreed but will be based on an annualised Crown P&L derived from the 2014-15 exit position.
Awaiting year end data

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Annexe 2 - Post Office Long Term Incentive Plan (LTIP) award date April 2014-2017

Paper originally submitted on 11 March 2014 - amended paper with key changes highlighted

1. Purpose

The purpose of this paper is to

1.1 To seek approval from the Remuneration Committee on using 'access criteria' as a performance gateway for the LTIP 2014-2017.

1.2 To seek approval from the Remuneration Committee on the performance condition target Earnings Before Interest and Tax, Depreciation, Amortisation and Subsidy (EBITDAS) for the LTIP 2104-2017. The performance conditions will be tested during the financial year 2016/2017.

2. Background

2.1 A long term incentive plan is designed to reward sustained performance over the long term. An award (bonus) is promised subject to agreed performance conditions at the end of a specified period. The award may increase or decrease dependent on the achievement of targets as agreed in the performance conditions. Typically the award period is 3 or more years and incentivises Senior Leadership to focus on the long term viability of the organisation, creates value for the organisation and is measured in the final year of the award period.

2.2 Last year, the LTIP award was based on 'access criteria' and EBITDAS. In previous years, performance conditions had been based on operating profit and network contract conversions.

2.2 Invitation to participate in the LTIP is applied to the Executive Committee, Remco and SLP populations.

2.3 The quantum of award remains unchanged as below:

Chief Executive	70% of salary (stretch 98%)
Chief Finance Officer	35% of salary (stretch 49%)
Remco member (14 employees)	35% of salary (stretch 49%)
SLP member (42 employees)	20% of salary (stretch 28%)

3. LTIP Design and Performance Conditions

3.1 The LTIP for 2014 (pay-out 2017) will have 2 performance conditions.

3.2 The first condition is 'access criteria' which stipulates that Post Office must maintain at least 11,500 branches with a set number of requirements. As with the LTIP 2013-2016, if this condition is not met, no payment will be made under the scheme.

3.3 The second condition is Earnings Before Interest and Tax, Depreciation, Amortisation and Subsidy (EBITDAS). The proposed target excludes subsidy, depreciation and amortisation.

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3.4 Pay-out will be calculated on a straight line sliding scale between threshold and target, and target and stretch.

4. Targets

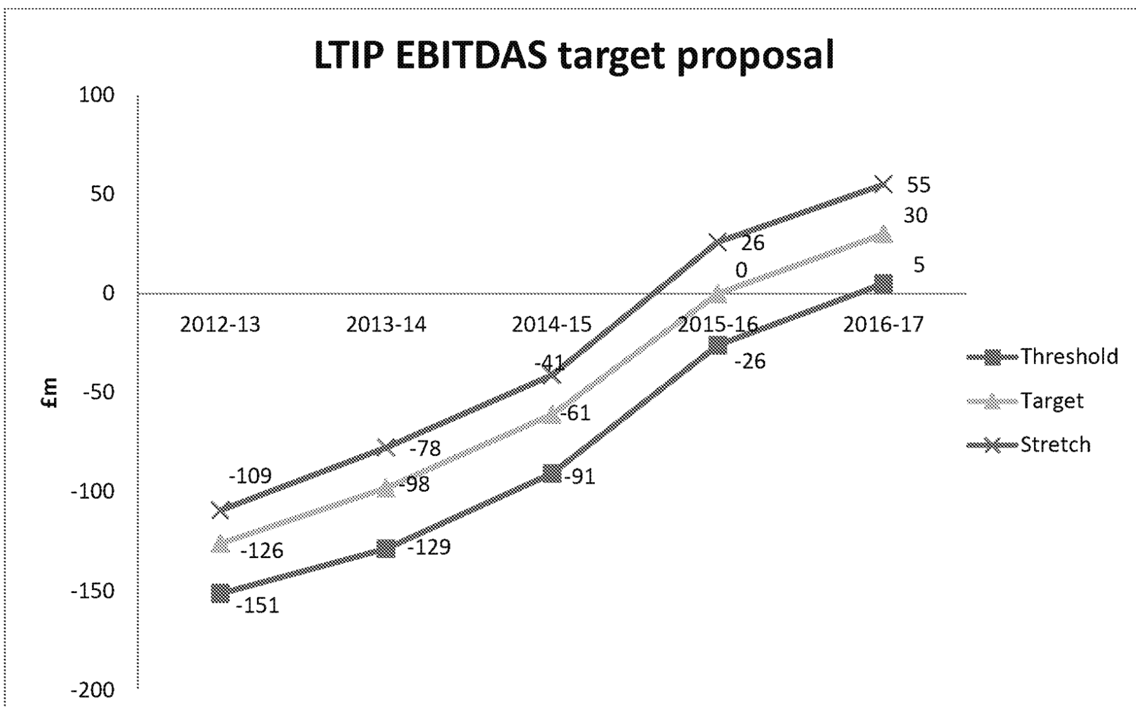
4.1 The proposed targets for EBITDAS for 2016/2017 are designed to maintain consistency of approach with the previous year but to encourage outperformance:

Threshold £5m
On-target £30m
Stretch £55m

Performance Condition	Threshold	Target	Stretch
EBITDAS (LTIP 2013-2016)	-£26m	0	£26m
EBITDAS (Proposal 2014-2017)	£5m	£30m	£55m
Total % of award payable	**80%**	**100%**	**140%**

4.2 The threshold target has been set at 80% to ensure focus remains on accelerating the profitability of the business and the leadership of Post Office is rewarded for outperformance.

4.3 The graph overleaf shows our growth trajectory and the EBITDAS target proposal.



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5. Recommendations

5.1 The Remuneration Committee is asked to approve the use of 'access criteria' as a performance gateway.

5.2 The Remuneration Committee is asked to approve the proposed targets for EBITDAS for the 2014 LTIP award.

Neil Hayward
11 March 2014

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POST OFFICE BOARD

CWU Talks – Update and Noting Paper

1. Purpose

1.1 The purpose of this paper is to:

- Confirm the Post Office position on pay talks with reference to our existing mandate;
- Note the progress in talks on pay with the CWU, which have reached a critical stage, to the Board; and
- Set out, for reference, the details and parameters of a potential pay deal as agreed by ExCo.

2. Background

2.1 The Post Office has held its resolve in the face of sustained industrial action since March 2013, demonstrating to colleagues, unions and other stakeholders that it will not compromise on its objective of getting the Crown network to break even by March 2015.

2.2 Our resolve has taken the CWU into uncharted territory and forced it from its traditional position to the current one, which is different in four main ways. The CWU:

- Accepts that any pay deal must be entirely self-funded and consistent with break-even;
- Accepts that CTP activity, notably franchising, must continue as talks go on;
- Is actively co-operating with and supporting the voluntary redundancy programme we need to deliver as part of CTP; and
- Suspended all industrial action (including the 'sales ban' on FS products) on 20 December.

2.3 Our negotiating position has remained constant and consistent with the agreed mandate throughout – to only agree to a pay deal which will help deliver breakeven. Over the course of the dispute we have amended our position on consolidated pay to allow constructive dialogue with unions and attempt to find a mutually acceptable way forward. This was confirmed as a negotiating mandate for both Crowns and pending talks on Supply Chain and Admin at the Board meeting on 22 January.[1]

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[1] *"Kevin Gilliland explained that the negotiations with the CWU were continuing and making good progress with new staffing arrangements agreed for all branches which would save £12.7m next year. A joint statement had been issued to staff at the branches being franchised and the Union now accepted that incremental savings above breakeven were needed to fund any consolidated pay award. The Board were supportive of this approach, including some consolidated pay, providing it did not undermine the 'red line' of the Crown network getting to break even by March 2015."*

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2.4 Our talks with the CWU have focused on identifying savings over and above the Crown Transformation Plan which we could use to fund consolidated pay and resolve the current dispute. We have also judged any proposal against three further criteria on which we briefed the Board in January 2014, i.e. savings need to be a) genuinely incremental to the CTP plan; b) deliverable and c) able to de-risk getting to break-even.

2.5 We are now confident that we can offer a consolidated pay deal which is entirely consistent with both the mandate and the additional criteria set out above. Our intensive talks since New Year have given us complete clarity on the additional staff savings – above and beyond the CTP plan – which could be realised and used to fund consolidate pay increases. Appendix A sets out the total amount identified and how it could fund a pay deal.

2.6 We have continued talks with CWU in respect of Supply Chain and Admin on the same basis and the CWU has accepted the self-funding principle in these talks as well, although it has challenged whether we can deliver both staff savings and income growth without exceeding our capacity to deliver. We are confident we can do this and are working with the CWU to demonstrate this.

2.7 In Supply Chain, our objective is to deliver our business targets of £2.5m of staff savings and £1.5m of additional income in Supply Chain. The £2.5m of savings would be under significant threat if there was no deal as we have never previously delivered a redundancy programme in Supply Chain without CWU co-operation. Equally, if the CWU was to call industrial action it would put the £1.5m income growth and risk and would also jeopardise existing contracts.

2.8 The situation on Supply Chain is evolving rapidly and talks are scheduled for 20 and 21 March. We will provide a full update at the Board meeting, including the parameters we have set out for a potential pay deal which could be self-funded. The CWU's claim, which we have not accepted, is for a 3% 'no strings attached' for 2014/15.

2.9 We have also continued parallel talks with Unite CMA on the same basis. These have been constructive, with the CMA less keen to push for additional savings to fund a pay rise than the CWU has been. This still represents a risk as we want to maintain the support of our managers (the vast majority of whom have not supported industrial action against our initial pay proposal) and we are working with Unite CMA to secure a deal which would be consistent with our agreed principles as soon as possible.

3. Current position in pay talks

3.1 The CWU's long-held position had been for a pay rise which matches the 9.1%, 3-year deal struck with Royal Mail. They now accept any deal must be self-funding and consistent with achieving break-even. This fundamental change in position means the CWU now accepts it must 'earn' a pay deal. The CWU's current co-operation with our voluntary redundancy programme is practical evidence of this.

3.2 We now have an agreed position on the parameters of a pay deal, which is based on two components.

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3.3 The first component of the pay deal is the recurring savings possible from releasing c100FTEs we have jointly identified as surplus, over and above the original plan. The challenge is now to manage the CWU's aspiration, which is for all of the potential savings to be translated in to a pay rise. Practically, this means the CWU does not want to accept our proposition of 25% of all identified savings being held by Post Office to de-risk break-even. It also wants to 'bank' potential savings now rather than when they are realised (in practical terms, we assert that we could only count a saving once an individual has confirmed, legally, that they will exit the business).

3.4 We have maintained that the principle of gainshare is crucial for the Post Office so that we can de-risk the CTP plan, and also stated that we would not effect any pay rise until we are certain the savings can be realised. While we need to strike a deal that the CWU can sell to its members, we will not agree anything which would expose us to additional risk in terms of delivering savings. Securing a deal on these terms would be a 'first' for the Post Office in its dealing with the CWU.

3.5 The second component of the pay deal is the consolidation of the Mails-related element of the current Sales Incentive Scheme (SIS) for counter staff. This accounts for 42% of the total SIS and is based on a recognition that our Mails products can, and should, be at the core of our services to customers. Ensuring customers get the right mails product is a duty for all our staff, not an option. The new and improved incentive scheme we are developing with CWU support will reflect this, as will our new Standards and performance management regime, which we have also developed as a part of this work. We believe this will drive higher sales and customer service standards in Mails.

3.6 We recognise that this component of the pay deal is a compromise that allows the CWU to present a higher headline pay increase to members than they otherwise would. Crucially, this is 'recycled cash' which does not materially impact the Crown P&L as this money is already paid as a matter of course through the SIS.

3.7 <u>CWU internal position:</u> The CWU remains Royal Mail dominated. Andy Furey, CWU Assistant Secretary and Post Office lead, is under intense pressure from members and peers to deliver a deal or return to industrial action and has been heavily criticised by some members of the CWU's Postal Executive for 'selling out' by co-operating with the Post Office before a pay deal has been agreed.

3.8 It would be in our mutual interest to have resolved the deal before the CWU Annual Conference. If we do not get a deal by this stage, the risk is that the Conference will push Andy Furey into a more radical, uncompromising position which would undermine our progress and make a deal, and co-operation on CTP, less likely.

3.9 The CWU Conference runs 29 April-01 May and we will use this leverage to push for the best deal possible. This would mean concluding our negotiations by the end of March so we can jointly 'sell' the deal to colleagues/members:

- 31 March – 11 April – Two weeks of jointly selling the deal nationwide;
- 11 – 25 April – CWU Ballot; and
- 28 April – Announce ballot result on eve of conference.

4. Pay proposal

4.1 The Crown pay deal would offer a fully-funded consolidated pay rise in exchange for support for the CTP plan, new working practices and an end to the dispute. It would increase our confidence in reaching break even by March 2015. The key points of the potential pay deal on Crowns are:

- A 3-year deal (2012/13-14/15) which would secure CWU support for the CTP (it would also reduce its opposition to franchising);

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- A consolidated pay rise funded by a combination of staff savings over and above the CTP plan and the consolidation of the Mails element (42%) of the Sales Incentive Scheme (SIS);

- A fully-funded pay rise of 3.6% (1.8% without the SIS element) in 2014/15 assuming prudent assumptions on VR acceptance;

- Achieving all the savings identified and full take up of VR would mean this could increase to 6.4% (4.5% without the SIS). While this would be fully funded and further de-risk the plan it would not guarantee achieving breakeven. We do not believe all savings will be achieved due to the VR acceptance rates and a mid-point of c5% (c3.2% without SIS) is more likely;

- A quarterly joint review of savings achieved over 2014/15, which would allow for increases on the 3.6% to be paid once they are certain. This would incentivise the CWU and its members to deliver Crown Transformation; and

- The pre-existing transformation payments of £1300 in Yr 1 and £1000 in Yrs 2 and 3 would still be paid on delivering our transformation targets.

4.2 Twenty-five percent of all savings (c£350k for the 3.6% scenario and c£900k for 6.4%) would accrue directly to the Crown P&L to de-risk the CTP plan, giving both sides the same incentive to deliver the CTP plan. The CWU has suggested that we could hold back further pay rises funded from the Post Office part of the gainshare until we have reached profitability – this is a useful concession as we could offer this, making clear it was dependent on break even and that it would not be released if there was any shortfall.

4.3 We would also secure significant changes in ways of working, namely:

- A joint initiative to replace c.200-250 under-performing colleagues not able to deliver sales targets with new staff more suited to our new culture;

- A shorter process for managing under-performance and exiting staff;

- A new Job Description and performance management process for staff;

- A new Sales Incentive Scheme; and

- A new, compliant Financial Specialists Incentive Scheme.

4.4 It is important to note that any headline figure is in the context of:

- 1.8% of this headline figure is recycled money which would not materially change the Crown P&L. This is a proportion of the Sales Incentive Scheme which would be consolidated;

- The deal would cover 3 years (12-13, 13/14 and 14/15), with a pay rise in 2014/15 and the transformation payments; and

- This deal would come with what the CWU would see as 'strings attached' – significant changes to the way we work.

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5. Impact on Crown Transformation and breakeven

5.1 Our key concern is reaching breakeven. Reaching a deal on the terms set out above would increase our confidence in doing so. In 2013/14, our shortfall in revenues was offset by staff savings but we have no opportunity to do the same in 2014/15 and need to hit our savings and income targets in year.

5.2 Not reaching a deal would make it harder to get to breakeven by March 2015 for the following reasons:

- Renewed industrial action – this would draw management time away from the business, disrupt our Crown branches (albeit we can manage this) and, most unhelpfully, probably mean a return to the 'sales ban' of FS products. In 2013/14, FS sales were slightly below average (c£1k) on days when the action was taken. 2014/15 is a crucial year for FS with our transformed branches, new products and increased sales targets;
- End of co-operation in our voluntary redundancy programme – this has been very helpful to date, with the CWU backing us on tough messages to staff. Andy Furey has been under pressure to withhold this co-operation until after a deal – without one it would come to an end and we would need to push changes through unilaterally. 2013/14 demonstrated that doing this is possible, but tough. This would make it harder to realise savings quickly in 2014/15 and a deal would mitigate this major risk to the CTP plan.

6. Conclusion

6.1 Securing a deal with the CWU would increase our confidence in reaching our target of Crown breakeven by March 2015 by getting union and member support for our activities and resolving the current dispute. We recognise that, given the long-standing nature of the dispute, any deal will involve compromise. However, we are confident that the proposition set out in this paper would be a good one for Post Office and the future of the Crown network. It would also represent a fundamental shift in our relationship with the CWU on pay negotiations for the future.

7. Recommendations

7.1 The Board is asked to:

- Note the update and re-statement of mandate above;
- Note the proposal at Section 4.

Kevin Gilliland
March 2014

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ANNEX A: Breakdown of potential pay deal

This note sets out the assumptions behind each element of the pay proposal which has been discussed on a without prejudice basis with the CWU. The 3.6% figure is the prudent one and is based on levels of savings we are very confident we can achieve. The 6.4% figure is based on achieving all savings and their full year effect and represents the upper limit. In practice we expect c5% to be realised in total. We have been clear to the CWU that this additional money could only be attainable if it is consistent with breakeven and does not worsen the Crown P&L in year.

SCENARIO 1: A 3.6% consolidated pay offer

Headline

- The 3.6% is based on the following assumptions with prudent assumptions on VR acceptance. This is based on a total pot of £2.3m, made up as set out below (note rounded to nearest £0.1m). Any staff savings shows represent 75% of total value due to a gainshare principle. This means the CTP would accrue c£350k, as 25% of total staff savings. The SIS value is 42% of the total scheme.

Table 1: Summary potential savings based on assumptions below

Item	**Savings (£m)**
Leaving the Business With Dignity[1]	0.1
Leave Reserves[2]	0.7
Additional savings from actual staff costs compared to original projections[3]	0.3
Additional savings from more FTEs exited than original CTP plan[4]	(0.1)
Sales Incentive Scheme	1.3
TOTAL	**2.3**

[1] This scheme to exit under-performing staff and recruit new ones more suited to sales and customer service would mean slightly lower staff costs due to lower pension contributions (DC rather than DB).

[2] Leave Reserves are additional to the branch template and are there to cover Annual Leave and Sickness in the branch. Reviewing the level needed in branches has led to 61.7 FTEs being identified as surplus.

[3] The savings above £12.7m from the current CTP VR programme achieved from the profile of staff accepting VR.

[4] Net impact of our prudent assumptions relating to the impact of new Self-Service Kiosks and how many 'bumps' (moving staff from one branch to another to facilitate a voluntary redundancy) we are likely to achieve.

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SCENARIO 2: An up to 6.4% consolidated pay offer

Headline

- The 6.4% is based on the following assumptions assuming full take up of the VR offering and a full year benefit of the plan. This gives a total pot of £3.9m, made up as set out below (note rounded to nearest £0.1m). Any staff savings shows represent 75% of total value due to a gainshare principle. This means the CTP would accrue c£900k, as 25% of total staff savings. The SIS value is 42% of the total scheme.

Table 2: Summary potential savings based on assumptions below

Item	**Savings (£m)**
Leaving the Business with Dignity	0.3
Leave Reserves	1.5
Additional savings from actual staff costs compared to original projections	0.4
Additional savings from more FTEs exited than original CTP plan	0.4
Sales Incentive Scheme	1.3
TOTAL	**3.9**

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POST OFFICE LTD BOARD

Chief Executive's Report

1. Network Transformation Programme

- We will end the financial year with around 3,100 contracts signed (against the target of 3,000 which we met on 14 March) and around 2,050 branches open (against the target of 1,950), leaving us well positioned to accelerate the programme as we start the new financial year.
- Around 8,200 agents (98% of the relevant population) have completed the retail surveys, exceeding our original expectations. All who completed the surveys will receive £2k in their March remuneration. The overall results are encouraging, with more agents volunteering to convert or leave than expected. We are still likely to need several hundred 'guided exits' which have the potential to generate substantial stakeholder opposition, but this is fewer than first expected which should make the risks easier to manage.
- Targets for next year have now been agreed in light of the survey results, with the programme challenged to achieve the top end of the newly modelled best case scenarios: 4,800 contracts signed (in line with the entry threshold for LTIP), 3,600 openings and a stretch target of 3,700 openings (there are two levels for openings as this is the bonus-worthy metric, with the target set at 95% of stretch for in-year openings). These targets are higher than the best case figures set out in our Strategic Plan. While we believe they are achievable, they are clearly challenging and it should be noted that there remain significant risks ahead, particularly with finding sufficient retailers to replace the agents who are leaving.

2. Crown Transformation Programme

- We remain on target to complete the property transformation works in 117 Crown branches by the end of this financial year, with 75 completed to date. Initial indicators on branch performance are positive. Income in transformed Crowns over the last three months has outperformed non-transformed Crowns by 2%. The branches with new FS rooms have seen a particular improvement in FS income, averaging 7% higher performance than non-transformed branches over the same timeframe. All staff working in our retained branches will attend one of our two-day Crown Transformation events, which are designed to sustain these performance improvements by providing training on customer service and new ways of working in the redesigned branch formats. Over 1,000 members of staff have attended these events to date, with over 90% providing positive feedback.
- A major milestone was reached at the end of February with the launch in Harpenden of the first of the new self-service kiosks. Initial feedback from staff and customers has exceeded expectations. Compared to the existing self-service machines, these new kiosks provide a faster, easier customer journey and a wider product offering, with priority service items and second class stamps available, and bill payments and e-top ups due to come on-line in May. Wider rollout has now begun and over 500 kiosks will be in place by the end of the programme in order to support the delivery of counter staff savings.

- In parallel we are making good progress in implementing the counter staff savings, with over £8m of full year savings already banked against our target of £12.7m (503 FTEs). This figure is ahead of our schedule at this stage, and includes the 319 colleagues (267 FTEs) who have accepted a VR offer and a further 76 FTEs via the removal of vacancies. Talks are also progressing with the CMA on the future shape of the management structure in the network to deliver the required savings, with the aim of initiating the consultation on the VR proposals for managerial grades within the next month.

3. Financial services

- Momentum is continuing to build in the mortgages business. In February we achieved £153m of mortgage applications against our target of £123m and our Mortgage Specialists (MSs) had another record month achieving £23m of applications. We expect to achieve around £200m of applications in March, of which around £37m will be through the MSs. Our targets will continue to increase month on month in the new financial year, supported by the current advertising campaign and the extended use of direct marketing activities and data analytics to generate leads. Over three quarters of our MSs have already completed their training and accreditation to provide advice, ahead of the Mortgage Market Review regulations deadline of 26 April. Last month we also launched Buy to Let mortgages through the online and contact centre channels, enabling us to tap into the continued growth in the private rental sector.
- The current account pilot, extended to a total of 110 branches on 20 January, has seen an encouraging improvement in sales performance during the second half of February and into March, driven by local marketing and additional branch sales support. The last 3 weeks have averaged 90 sales versus an average of 65 sales across the preceding 4 week period. We now have around 1,800 current account customers in total.
- The savings business is a core part of the current FS brand awareness campaign and has continued to trade strongly since the start of 2014, with the total book growing by over £800m to a total of around £17bn. Separately, we have secured an extension of the contract with NS&I for the sale of Premium Bonds through our branches until September 2015, delivering additional income of £2.3m in 2014/15 with the potential for further upside as a result of the higher limits announced at the Budget.

4. Mails

- As reported last month, we are pursuing a number of sales and marketing initiatives to maximise the recovery of mails income in Q4 and drive momentum going into the new financial year. The Valentine's Day promotion achieved a 4% uplift on Special Delivery volumes compared to the previous week whilst the upcoming Mother's Day promotion is designed to boost what is typically one of our biggest Special Delivery sales weeks outside of Christmas. These initiatives will be complemented by the RM 'We Love Parcels' campaign now underway, which includes high profile TV advertising.
- We are separately targeting small business customers during March, promoting both the Drop & Go service and the new pricing of small parcels through a combination of branch, online and outdoors advertising and direct mailing of 750,000 SMEs. We have also introduced a one month staff incentive of a £10 gift voucher for every Drop & Go sign-up

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(provided they spend over £150 in their first month), which resulted in an 84% increase in sign-ups during the first week (from 220 to 404). The total number of Drop & Go customers now stands at over 21,000.

5. HomePhone and Broadband

- Call Centre performance has remained broadly stable during February and March, although dipped slightly below the SLA requirements: 77% of calls were answered in 20 seconds (against a target of 80%) and abandonment increased to 7% against a target of 5%. The performance was skewed due to a major network outage affecting multiple service providers in London, which generated additional calls into both the customer care and technical support lines. Complaints levels are not declining as quickly as we would like and we are therefore continuing to work with Fujitsu to drive improvements in the resolution of issues, both in terms of speed and quality. We are also continuing to engage periodically at CEO level, to ensure Fujitsu remain completely focussed on delivered the appropriate standards of customer experience in support of our products.
- We will be commencing our re-launch plan at the end of this month, starting with a £50 bill credit for new customers signing-up from 31 March and followed by the new pricing structure which comes into effect from 14 April. Alongside continued network engagement, we will also shortly be launching our new offer for staff and sub-postmasters of free broadband if they sign-up to our phone service.

6. Colleague offers

- This offer of free broadband represents the first stage in a broader strategy to drive product advocacy and sales through targeted offers for our staff and sub-postmasters. We already offer insurance discounts, commission free travellers cheques and 0% balance transfers for our credit cards, and we will be raising the profile of these alongside the broadband offer during April. This will then be followed by a mortgage offer (which we are expecting to launch in May in the form of £500 cash back against the arrangement fee) and then further mails and travel money offers which are under development.

7. Post Office Advisory Council

- The Post Office Advisory Council held its inaugural meeting on 19 March, chaired by Tim Franklin. Martin George and Kevin Gilliland led a session on the 2020 strategy and network transformation programme, and the Council then explored our public purpose and how we deliver this in the context of the drive towards commercial sustainability. Both sessions prompted some excellent questions and ideas, with the quality and diversity of the membership and their shared enthusiasm for the Post Office clearly evident. We are now collating the feedback and planning our approach to future meetings, with a focus on ensuring the Council delivers on our aim of creating a constructive sounding board and critical friend for the business. We will also be engaging with individual members outside of the main meetings, for example Martin George will be seeking input from the small and large businesses represented on the Council to help develop our mails propositions.

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POST OFFICE LIMITED

Performance Report

February 2014

Produced By : Financial Control and Compliance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Contents

Headlines

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February 2014

Profit & Loss

FYF - Following a P11 review of risks and opportunities the CFO FY PBIT forecast is now at £108m. The worsening is driven by the Telephony position which worsened more than expected in P11. The net income CFO FYF now stands at £870m, £30m below budget. Cost reductions continue to cover this shortfall.

YTD - Operating profit at P11 was £106.6m, which was £15.0m favourable to budget of £91.6m, and £2.4m adverse to prior year.

- **YTD net income** performance of £791.4m remains the key concern with an adverse variance of £35.4m compared to budget (mainly Mails £20.5m, Lottery £6.6m and Telephony £3.7m).
- **YTD staff costs** are now £0.9m adverse following the managers' unconsolidated lump sums in lieu of pay award recognised in the period.
- **YTD subpostmaster costs** were £29.7m favourable to budget, mainly due to lower sales income £17.1m and sales mix £3.6m (parcels), £3.0m WHS provision and £2.9m budgeted for 2013-14 but incurred in 2012-13.
- **YTD non people costs** were £13.6m favourable to budget, driven by £8.3m VAT recovery relating to H1 and the last year and £6.1m due to the scrutiny of purchase orders in P10, offset by the adverse variance due to Horizon costs originally budgeted for in the prior year.
- **YTD Project costs** were £6.3m favourable with the underspend driven by the movement of separation costs to exceptional items and revised purchase delivery dates moving costs from P11 into P12.

Period 11 - Operating profit of £3.2m was £3.6m adverse to budget..

- **P11 net income** was £6.7m adverse of which Telephony was £4.0m adverse and Mails £1.7m. The Mails variance was driven primarily by second class labels (£1.0m) and Lottery (£0.5m). The Telephony variance is as a result of resolving data issues that we are experiencing with Fujitsu. There are still outstanding issues in this area and we are working with Fujitsu to resolve them.
- **P11 costs** were £0.7m favourable comprising primarily of £2.8m lower non staff costs and £1.4m higher staff costs. The non-staff cost variance is primarily due to a further £2.0m VAT rebate and the staff costs variance is due to recognising in period that the unconsolidated managers' pay award (budgeted evenly throughout the year) would be paid in respect of this financial year.

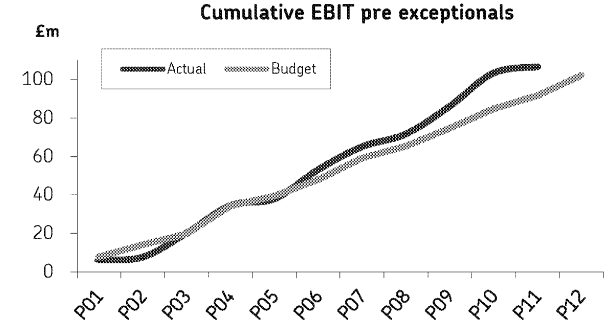
Crown P&L - YTD

The Crown loss is £1.3m adverse to budget. Income was £3.7m adverse and costs were £2.0m favourable and the share of JV was £0.4m favourable.

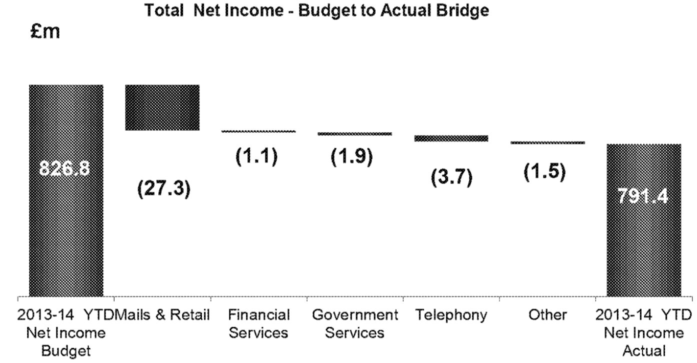
Cashflow

The YTD cashflow was an inflow of £313m which is £258m favourable to the P11 budget of £56m and £176m favourable to the Q3 FYF of £137m. The main driver for the favourable variance is the slower than planned capex and exceptionals expenditure on the transformation projects and the DVLA balances. Some of the inflow in the YTD will reverse by year end to outturn close to Q£ FYF due to both P11 and P12 payroll impacting in the month and continued capex and exceptionals investment.

Cumulative EBIT pre exceptionals



Total Net Income - Budget to Actual Bridge



Financials	Year to Date		
	Act	Target	Var
Total Net Income (excl NSP) £m (Bonus)	791.4	826.8	(35.4)
Operating profit £m (Bonus)	106.6	91.6	15.0
Free cashflow £m	313.4	55.7	257.6
Crown Profit (Loss) £m (Bonus)	(23.2)	(21.9)	(1.3)
Non Financials			
Queue time % < 5 minutes - Top 1k branches	82.0%	80.5%	1.5%
NT Conversions - (Mains & Locals) (Bonus)	2913	2789	124

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Profit & Loss Statement

February 2014

£m	Current Month Actual	Current Month Budget	Current Month Variance	Prior Year Period Actual	Prior Year Period Variance	Year to Date Actual	Year to Date Budget	Year to Date Variance	Prior Year YTD Actual	Prior Year YTD Variance	Full Year Q2 Forecast	Full Year Budget	Full Year Variance	Prior Year Outturn	Prior Year Variance
TOTAL GROSS INCOME	**72.8**	**78.2**	**(5.5)**	**77.3**	**(4.5)**	**894.7**	**930.3**	**(35.6)**	**927.1**	**(32.4)**	**998.8**	**1,012.2**	**(13.4)**	**1,023.6**	**(24.8)**
Cost of Sales	(9.7)	(8.5)	(1.2)	(10.4)	0.7	(103.3)	(103.5)	0.2	(109.4)	6.1	(111.2)	(112.2)	1.0	(121.2)	10.0
TOTAL NET INCOME	**63.1**	**69.7**	**(6.7)**	**66.9**	**(3.8)**	**791.4**	**826.8**	**(35.4)**	**817.7**	**(26.3)**	**887.6**	**900.0**	**(12.5)**	**902.4**	**(14.3)**
Staff Costs	(21.3)	(19.9)	(1.4)	(17.7)	(3.6)	(237.3)	(236.4)	(0.9)	(230.9)	(6.4)	(259.2)	(256.1)	(3.1)	(257.4)	(1.8)
Subpostmaster Costs	(37.0)	(36.2)	(0.8)	(35.6)	(1.5)	(413.1)	(442.7)	29.7	(430.5)	17.4	(468.9)	(480.0)	11.1	(478.1)	9.2
Non-Staff Costs (including Interbusiness)	(19.0)	(21.8)	2.8	(21.9)	2.9	(228.4)	(241.9)	13.6	(229.2)	0.8	(261.2)	(257.6)	(3.6)	(260.7)	(0.5)
Depreciation	(0.0)	(0.1)	0.0	0.5	(0.5)	(0.4)	(0.9)	0.5	(0.3)	(0.0)	(0.8)	(0.9)	0.0	(0.4)	(0.4)
Total Expenditure (pre POOC)	**(77.3)**	**(78.0)**	**0.7**	**(74.7)**	**(2.7)**	**(879.1)**	**(921.9)**	**42.8**	**(890.9)**	**11.8**	**(990.1)**	**(994.5)**	**4.4**	**(996.7)**	**6.6**
FRES - Share Of Operating Profits	1.3	1.4	(0.1)	1.1	0.1	30.8	29.6	1.2	29.8	1.0	33.0	31.5	1.5	31.9	1.1
EBIT - BAU	**(13.0)**	**(6.9)**	**(6.1)**	**(6.6)**	**(6.4)**	**(56.9)**	**(65.5)**	**8.6**	**(43.4)**	**(13.5)**	**(69.5)**	**(63.0)**	**(6.6)**	**(62.4)**	**(7.1)**
One off Project costs (POOC)	0.9	(1.6)	2.5	(3.5)	4.3	(21.1)	(27.4)	6.3	(37.7)	16.6	(28.5)	(35.0)	6.5	(53.4)	24.9
EBIT - Post Project Costs	**(12.1)**	**(8.5)**	**(3.6)**	**(10.1)**	**(2.1)**	**(78.0)**	**(93.0)**	**15.0**	**(81.2)**	**3.2**	**(98.0)**	**(98.0)**	**0.0**	**(115.8)**	**17.8**
Network Payment	15.4	15.4	0.0	15.8	(0.5)	184.6	184.6	0.0	190.2	(5.6)	200.0	200.0	0.0	210.0	(10.0)
EBIT pre exceptionals items	**3.2**	**6.8**	**(3.6)**	**5.8**	**(2.5)**	**106.6**	**91.6**	**15.0**	**109.0**	**(2.4)**	**102.0**	**102.0**	**0.0**	**94.2**	**7.8**
Interest	0.2	(0.5)	0.7	(0.1)	0.4	2.9	(4.5)	7.4	(1.0)	3.9	(2.0)	(5.0)	3.0	(0.8)	(1.2)
Impairment	(6.0)	(18.9)	12.9	(4.9)	(1.1)	(79.7)	(149.5)	69.8	(53.2)	(26.5)	(140.0)	(167.5)	27.5	(65.6)	(74.4)
Exceptionals & Redundancy & Severance Costs	(65.4)	(19.3)	(46.1)	(12.7)	(52.7)	(82.8)	(170.9)	88.1	(57.8)	(25.0)	(37.9)	(184.4)	146.5	(77.0)	39.1
Government Grant Utilisation	67.7	20.2	47.5	2.9	64.8	289.5	296.2	(6.7)	68.1	221.4	253.1	316.9	(63.8)	98.2	154.9
Profit/(Loss) On Asset Sale	0.0	0.0	0.0	0.3	(0.3)	3.4	0.0	3.4	(27.7)	31.1	2.5	0.0	2.5	(27.7)	30.2
Colleague Share/ Business Transformation Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.3)	3.3
Total Profit/(Loss) Before Tax	**(0.3)**	**(11.7)**	**11.4**	**(8.8)**	**8.6**	**239.9**	**62.9**	**177.0**	**37.4**	**202.5**	**177.7**	**62.0**	**115.7**	**18.0**	**159.7**

Period vs. Budget

Operating profit (EBIT) of £3.2m was £3.6m adverse to budget.

BAU was £6.1m adverse due to:

- Lower income of £6.7m, due primarily to Telephony which was £4.0m adverse. This was driven by alignment to the latest Fujitsu estimates, lower customer numbers and a catch up charge relating to customer broadband usage.
- Higher staff costs of £1.4m reflecting the accrual for the 2013-14 managers lump sum pay award, and
- Higher subpostmaster pay of £0.8m, mainly a true up to align to final P10 volumes caught up in P11, partially offset by £0.7m WHS provision utilisation.

Offset by:

- Lower non staff costs of £2.8m due to a £2.0m VAT recovery.

Project One-off variance of £2.5m favourable relating to the delay of some costs from P11 into P12.

Below EBIT

Due to the combined effect of the new strategy and the recent survey sent to subpostmasters, we have seen an increase in potential leavers for which we have increased our provision (offset by increased grant utilisation).

YTD vs. Budget

Operating profit (EBIT) of £106.6m was £15.0m favourable to budget.

BAU variance of £8.6m favourable was mainly due to:

- Lower subpostmaster costs of £29.7m mainly due to; £17.1m relates to lower sales income, £3.6m sales mix (parcels), £3.0m WHS provision and £2.9m budgeted but incurred in 2012-13,
- Lower non staff costs of £13.6m due to VAT recovery relating to H1 and prior year of £8.3m, purchase order efficiency drive of £6.1m, offset by Horizon costs originally budgeted for in prior year, but incurred this year, and
- Higher FRES JV income of £1.2m.

Offset by:

- Lower income of £35.4m, mainly Mails £20.5m and Lottery £6.6m, Mails performance was impacted by lower parcel volumes following the RM price changes in April, but new parcel formats have been introduced at the end of October. Lottery continues to underperform and Telephony is also adverse as in Period commentary, and
- Higher staff costs of £0.9m due to the pay award accrual added in P11,

Project One-off variance of £6.3m favourable. The underspend is driven by the movement of Separation costs to exceptionals, slower spend to date and the P11 accrual realignment.

Below EBIT

Exceptional costs are favourable mainly due to a £102m unbudgeted credit relating to the change in pensions terms. The underlying variance is due to slower pace of capital spend and operating exceptionals, including agents compensation, compared to budget. Government grant utilisation follows this trend, but also included utilisation against the remaining 2012/13 exceptional costs. The profit on sale related to the lease surrender of Midway House.

YTD vs. Prior Year

Operating profit (EBIT) of £106.6m was £2.4m adverse to prior year.

Like for like BAU adverse variance of £13.5m was mainly due to:

- Lower net income of £26.3m. The variance versus prior year is driven primarily by the stamps buy forward ahead of last year's price increase and lower parcel volumes this year. Government Services also decreased as a result of lower rates from the new DVLA contract and falling Card Account customers. NS&I income fell as NS&I migrated its customers to its online channel, and
- Higher staff cost of £6.4m adverse to prior year due to higher pension costs, pay awards and increased headcount.

Offset by:

- Lower subpostmaster costs £17.4m favourable variance to POL; £11.2m due to lower sales, predominantly Mails including buy forward pre price increase, £4.1m lower fixed pay from unfreezing the Core Tier Payment and roll out of Locals and £3.2m charged in 2012-13 relating to the DVLA rate change, partially offset by £1.0m increase in Mails Segregation payments,
- Lower non staff costs of £0.8m due to the VAT rebate received this year, partly offset by the increased IT costs (mainly Horizon), timing of marketing spend, and the removal of the FX bureau rebate received in H1 last year, and
- Higher JV income of £1.0m.

Non like for like favourable variance of £11.0m was due to:

- Lower project costs of £16.6m, offset by
- Lower Network payment of £5.6m.

Below EBIT

NT exceptionals including compensation are ahead of the equivalent pace in 2012/13. 2013/14 grant utilisation includes £30m against 2012/13 exceptional costs not covered by the 2012/13 grant.

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CFO High Level Profit Forecast At Period 11

February 2014

£'m	Income	JV Income	Costs	NSP	EBIT	Explanation of items	P11vP10 EBIT var
Budget	**900**	**32**	**(1,030)**	**200**	**102**		**0**
Downsides							
Mails income	(27)				(27)	Worsening trend requires greater recovery action.	0
Lottery income	(7)				(7)	Continuing trend with no improvement	0
Gov't Services income	(4)				(4)	No IDA income -£2m; POCA -£1m, Motoring -£1m	0
FS income	(5)				(5)	ATM's -£2m; 'unassigned income' -£2m; Other products -£2m	0
Telephony volume and broadband costs	(2)				(2)	Lower sales volume and higher cost of sales largely for customer broadband usage	(2)
Other income/ POOC contingency	(5)		5		0	Income challenge £5m matched with POOC budget	0
Staff efficiency			(2)		(2)	Original ExCo agreed task (was £3m)	0
Staff cost risk on phasing of CTP			(1)		(1)	Delay to VR letters during union negotiations costing c£100k per week	0
Fujitsu costs			(2)		(2)	Expected last year	0
IT&C efficiency task			(3)		(3)	Strategy's accepted task	0
Mails segregation penalty			(1)		(1)	Penalty reduced as negotiation with RM for additional income unsuccessful.	2
Telephony IP stream migration			(2)		(2)	Cost of broadband service provided by BT during transition to Fujitsu has been higher due to higher regulated rates and customer usage	(2)
Bonuses			(1)		(1)	PY flowthrough	0
Agents pay - sales impact			22		22		0
NT Locals delays			(2)		(2)		0
Agents segregation payments			(1)		(1)	£1m budgeted and £2m expected	0
POOC overspend			(2)		(2)	Underlying overspend - Sparrow	0
VAT on expenditure with Royal Mail			(1)		(1)	RM charges incur VAT from October net of saving from VAT recovery rate improving in H2	0
Non staff savings task			(1)		(1)	Finance task not underpinned	0
	(50)	0	8	0	(42)		(2)
Mitigating actions							
Mails income - dangerous goods	6				6	£7.8m of additional income, assumes volumes and compliance levels achieved.	0
Mails income - format changes/campaigns	2				2	Shoebox' from end Oct and International conformance reduced in P10 reflecting performance	0
Mails segregation					0	Income to negotiate for correcting action (to offset penalty above) removed as negotiation unsuccessful.	(3)
International rates	0				0	Negotiation relating to international pricing	
Lottery price rise					0	Camelot price rise from 3rd October has not had desired impact	0
Gov't - volume trends	2				2	Passports and UKBA AEI volumes	0
DVLA change control	1				1	Release income for work related to tax disc removal	0
IDA	1				1	Opportunity to reclaim investment costs from Govt programme	0
FS income - Santander volumes	2				2	Horizon volumes higher than clients; now taken and completed.	0
FS income - Junction deal	3				3	£2.5m backdated additional commissions when Junction deal signed. Booked in P8	0
FRES upside (higher ATV's)		1			1	Aligns to FRES budget, could be further upside as higher ATV's - on track	0
PhotoMe income	1				1	£1m backdated income now mostly recognised	0
Supply Chain external income	2				2	Volume related	0
IT&C savings			3		3		0
Telephony implementation			2		2	3 month saving from amortisation of set up costs, due to delayed migration. Taken in YTD	0
Additional marketing			(1)		(1)		(1)
Agents mix			5		5	Budgeting point on mix	0
Agents DVLA timing			3		3	DVLA lump sum payments were accrued last year but budget did not assume this. In YTD position	0
POOC			5		5	Separation to exceptionals, Cust Mgt to capex	0
Agents VAT			1		1		0
Agents pay - sales recovery			(4)		(4)	Estimated	0
Agents WHS provision utilisation			3		3	Provision relating to original contract utilised but not in budget	0
Pay award 12/13 not consolidated			0		0		0
Other savings			5		5	Pay award budget not required, GRNI release, general run rate savings	4
VAT upside			5		5	Impact of higher recovery rate in 12-13 and H1 13-14 now fully brought to forecast	0
	20	1	27	0	48		0
Latest View at P11	**870**	**33**	**(995)**	**200**	**108**		**(2)**
Variance to budget	*(30)*	*1*	*35*	*0*	*6*		

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Crown Profit & Loss Statement

February 2014

	Period			Prior Year Period		Year To Date			Prior Year YTD		Full Year			Prior Year
£m	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Actual**	**Budget**	**Variance**	**Actual**	**Variance**	**Q3 Forecast**	**Budget**	**Variance**	**Outturn**
Income and Distributions														
Variable income														
- Mails	2.9	3.2	(0.3)	3.1	(0.2)	36.6	39.8	(3.2)	40.9	(4.3)	39.7	43.2	(3.5)	44.8
- Financial Services	2.1	2.1	0.0	2.1	(0.0)	26.2	25.9	0.3	27.7	(1.5)	28.5	28.2	0.3	30.4
- Government Services	1.9	1.8	0.1	2.4	(0.6)	19.7	18.2	1.4	23.4	(3.7)	21.2	20.2	1.0	26.4
- Telephony	0.1	0.1	(0.0)	0.1	(0.0)	0.7	1.0	(0.3)	1.2	(0.5)	0.8	1.3	(0.4)	1.3
Fixed income	1.9	1.9	(0.0)	2.1	(0.2)	23.4	22.5	0.9	25.6	(2.2)	25.5	24.8	0.7	28.2
Gamma/ Other	0.9	1.2	(0.3)	0.6	0.2	10.9	13.7	(2.8)	9.7	1.2	12.0	14.7	(2.7)	10.9
Renewals and Retentions	1.0	1.3	(0.3)	1.4	(0.5)	16.3	16.3	0.0	10.2	6.1	18.5	17.7	0.8	11.1
Total Income including Gamma/other	**10.6**	**11.5**	**(0.9)**	**11.9**	**(1.2)**	**133.8**	**137.5**	**(3.7)**	**138.7**	**(4.9)**	**146.2**	**150.1**	**(3.9)**	**153.2**
Direct Product Costs	(0.9)	(0.2)	(0.7)	(0.5)	(0.4)	(5.5)	(5.3)	(0.2)	(6.4)	0.9	(4.8)	(5.0)	0.1	(8.3)
Branch costs														
- Staff	(7.7)	(7.9)	0.2	(8.6)	0.9	(98.6)	(98.2)	(0.5)	(106.0)	7.4	(106.5)	(106.0)	(0.4)	(117.9)
- Property	(2.7)	(2.7)	(0.0)	(2.9)	0.2	(32.0)	(32.7)	0.7	(32.1)	0.1	(35.3)	(35.4)	0.0	(36.9)
- Other branch costs	(0.4)	(0.3)	(0.1)	(0.9)	0.5	(3.9)	(3.5)	(0.4)	(5.4)	1.5	(4.3)	(4.7)	0.4	(6.3)
Infrastructure costs	(2.0)	(1.8)	(0.2)	(2.5)	0.5	(19.5)	(20.3)	0.7	(20.5)	1.0	(22.7)	(22.9)	0.1	(22.5)
Allocated central costs	(0.4)	(1.0)	0.6	0.0	(0.4)	(6.4)	(7.9)	1.5	(6.6)	0.2	(9.0)	(8.4)	(0.6)	(7.7)
Total Expenditure	**(14.1)**	**(13.9)**	**(0.2)**	**(15.3)**	**1.2**	**(166.0)**	**(167.9)**	**2.0**	**(177.1)**	**11.1**	**(182.6)**	**(182.2)**	**(0.4)**	**(199.7)**
JV Share of Profits	0.4	0.4	(0.0)	0.3	0.0	8.9	8.6	0.4	8.9	(0.0)	9.6	9.1	0.5	9.6
Statutory PBIT	**(3.1)**	**(2.0)**	**(1.1)**	**(3.1)**	**0.0**	**(23.2)**	**(21.9)**	**(1.3)**	**(29.5)**	**6.2**	**(26.8)**	**(23.0)**	**(3.8)**	**(37.0)**

Summary

Income £3.7m less than plan.

- Mails - Both Focus and Standard Income streams continue to underperform against target. Crown trainers have Mails as the number one priority to ensure proactive management of the forthcoming tariff and international changes whilst reinforcing the standard conversations. This alongside a tactical incentive scheme should deliver a performance lift over the final weeks of the year.
- Main drivers of favourable Government income are UK Visa & Immigration (UKVI) (due to backlog in applications) £0.7m, ID Services £1m and Passports- £0.4m, this is offset by Motorist services (DVLA Licences and AEI) which are £0.6m behind target.
- Financial Services - Savings continue to deliver ahead of target offsetting the shortfall on Life/Credit Card. Mortgage sales run rates continue to increase as the team moves towards full strength but income remains £0.3k adverse to plan. Above target performances on Premium Bond and Postal Order keep the overall FS pillar above target

Costs are £2.0m lower than plan:

- Staff overspend due to delays in CTP partially offset by savings from industrial action.
- Other mainly driven by VAT recovery and a purchase order efficiency drive.

FYF at Q3 was £3.8m adverse to budget reflecting the lower Mails income. The latest FYF view is a loss of circa £26m to £27m with a worsening on income and an improvement on cost.

Cost Management update

February 2014

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Progress since P10 update

Value and confidence

- Progress has been made on the re-structure of Product/Commercial teams to drive customer focus and reduce duplication (£1.2m impact in the FY14/15 budget). A plan for a 1 May implementation is now in place.
- The anticipated total value of initiatives in FY14/15 is unchanged at £42.1m (£34.2m budgeted, £7.9m unbudgeted).

Delivery and governance

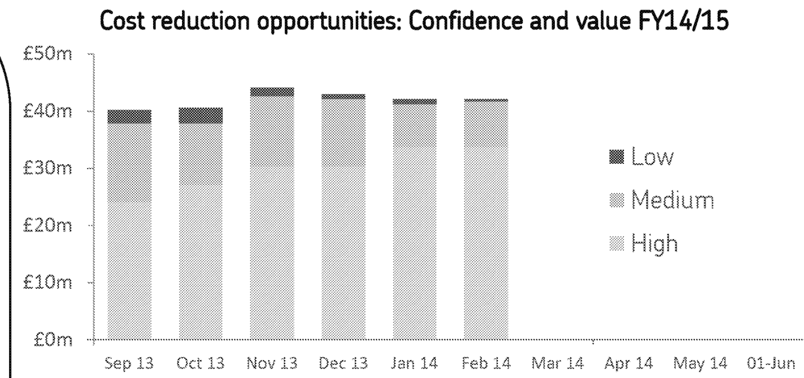
The "Delivery Stage" based measure for FY14/15 cost reduction initiatives shows:

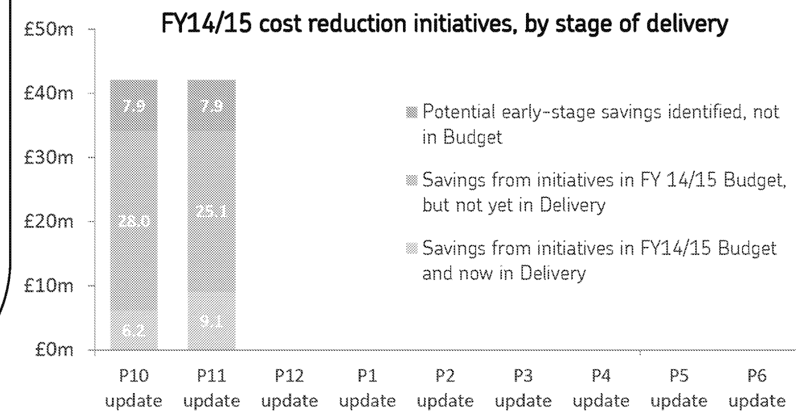
- Initiatives currently in delivery will contribute £9.1m of cost reductions in FY14/15. This is up from £6.2m last month, due to further voluntary redundancy acceptances in the CTP and procurement savings.
- Benefits from initiatives that are in the budget, but not yet in delivery, total £25.1m. Of these, implementation plans have been developed for £17.9m (71%)

Next steps are to continue to move FY14/15 programmes into delivery, develop early stage initiatives and identify other areas for potential cost reduction.

Strategic initiatives for FY15/16 and beyond

The strategic business transformation programme provided a progress update to the Post Office Board in February 2014. Options were presented on using a single transformation partner or a number of partners to help realise strategic savings over a 10 year period. The Board provided challenges including: scale and ambition; partnering models; consideration of TUPE, jobs and the wider political landscape; and consideration of how similar transformations have been managed politically. The programme will return to the Board in March 2014 having considered and analysed the Board's challenges.





Overview of high impact initiatives (excluding CTP)	Directorate	FTE impact	FY14/15 (£m) Confidence				Delivery status	Significant changes since P9 update
			L	M	H	Total		
- Procurement savings in Network and Supply Chain (£2.6m Facilities Management; £1.2m Fleet Maintenance; £1.5m Official Mails, £1.0m Branch consumables etc)	Network & Supply Chain				6.2	**6.2**	1.5	New delivery (1) Branch Consumables savings and (2) Scales mainenance savings, total £0.7m budget impact in FY14/15
- Reduce cash delivery frequency and move to single person operation	Supply Chain	50		1.8		**1.8**	Planning	
- Reduce cost and volume of Official Mail	Finance			1.3		**1.3**	Planning	
- Restructure Commercial to reduce duplication and increase customer focus	Commercial	10		1.1		**1.1**	Planning	
- Manchester Cash Centre Closure	Supply Chain	20			0.7	**0.7**	0.7	
- Restructure Audit and Training team in the Agency network	Network	20		0.7		**0.7**	Planning	
- Deliver remainder of Finance Roadmap Programme savings	Finance	15			0.7	**0.7**	Planning	
- Restructure call centres transferring from Royal Mail and improve efficiency	Network	20			0.6	**0.6**	Planning	

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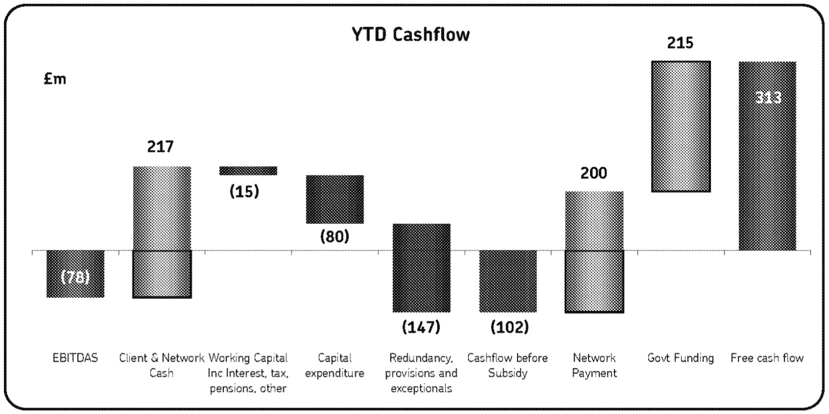
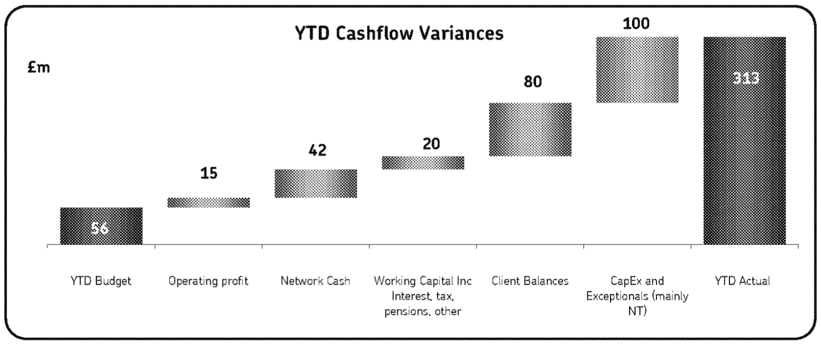
Cashflow Analysis
February 2014





Cashflow

The YTD cash inflow of £313m is £258m favourable to budget of £56m, with the outturn still expected to be in line with the Q3 forecast.
This favourable variance is forecast to be maintained and outturn at c.£130m at year end.
The current favourable variance is mainly due to:

- Capital expenditure and exceptionals combined are £100m favourable to budget due to lower than planned NTP and CTP expenditure.
- Client balances are £80m favourable driven by the DVLA balance which is a mixture of favourable contractual settlement change and new registrations.
- Operating profit is £15m favourable to budget.
- Working capital is net £20m favourable.
- Network Cash balances are £42m favourable to the budget due to lower holdings mainly in cash centres.

	YTD	Full Year		
£m	Actual	CFO Q3 Forecast	Budget	Variance
Operating Profit	**106.6**	**102.0**	**102.0**	**0.0**
Working Capital	(28.6)	(41.2)	(41.2)	0.0
Client Balances	9.9	(11.4)	(44.4)	33.0
Network Cash	206.9	114.6	114.6	0.0
Capital Expenditure	(79.7)	(110.0)	(167.5)	57.5
Government funding	215.0	215.0	215.0	0.0
NSP in advance	15.4	0.0	0.0	0.0
Exceptional Items	(146.6)	(141.5)	(198.8)	57.3
Other	6.0	1.2	(1.3)	2.5
Free cashflow before interest, tax	**304.9**	**128.7**	**(21.6)**	**150.3**
Interest	(1.7)	(2.0)	(5.0)	3.0
Tax	10.2	10.3	10.3	0.0
Free Cashflow	**313.4**	**137.0**	**(16.3)**	**153.3**

Network Cash

£m	Prior Year	Mar-13	P11		
	P11	Opening	Actual	Budget	var
Retail, Cash Centres	588	650	458	513	55
Bureau	47	59	51	72	21
Cheques, debit cards	87	161	153	120	(33)
Network Cash	**722**	**870**	**663**	**705**	**42**

	Opening	P11
Headroom (£m)	**838**	**906**

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Business Scorecard
February 2014

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Key Performance Indicators	Current Month			Year to Date			Prior	Full Year			2012-13
	Act	Target	Var	Act	Target	Var	Year	Latest view	Target	Var	Outturn
Growth											
Total Net Income (excl NSP) £m (Bonus 20%)	63.1	69.7	[redacted]	791.4	826.8	(35.4)	817.7	870.0	900.0	[redacted]	902.4
Operating profit £m (Bonus 25%)	3.2	6.8	[redacted]	106.6	91.6	15.0	109.0	108.0	102.0	6.0	94.2
Earnings before ITDA and Subsidy £m*	(12.1)	(8.5)	[redacted]	(77.7)	(92.1)	14.5	(80.8)	(91.2)	(97.2)	6.0	(115.4)
Free cashflow £m	124.4	21.3	103.1	313.4	55.7	257.6	264.4	137.0	(16.3)	153.3	132.2
Customer											
Customer Satisfaction**	85.2%	88.0%	[redacted]	87.0%	88.0%	[redacted]	87%	87%	88%	(1)%	87%
Easy to do business with (Bonus 20%)**	36%	44%	[redacted]	42%	44%	[redacted]	N/A	43%	44%	[redacted]	N/A
Net Promoter score**	(3)	5	[redacted]	(4)	5	[redacted]	N/A	(3)	5	[redacted]	N/A
Queue time % < 5 minutes - Top 1k branches	84.1%	83.0%	1.1%	82.0%	80.5%	1.5%	80.8%	81%	81%	0.0%	80.7%
Horizon availability	99.9%	99.7%	0.2%	99.8%	99.7%	0.1%	99.8%	99.9%	99.7%	0.2%	99.8%
Branch - Compliance (new basket)	97.2%	98.0%	(0.8)%	97.5%	98.0%	(0.5)%	98.5%	98%	98%	0.0%	97.8%
People											
Engagement Index % (Once a year) (Bonus 10%)	51%	56%	[redacted]	51%	56%	[redacted]	55%	51%	56%	[redacted]	55%
(No.) % of BME appointments over total recruits at senior leadership and senior manager	13%	4%	9%	11%	4%	7%	N/A	10%	4%	6%	N/A
(No.) % of Female appointments over total recruits at senior leadership and senior manager	13%	40%	[redacted]	46%	40%	6%	N/A	49%	40%	9%	N/A
Modernisation											
Crown Profit (Loss) £m (Bonus 12.5%)	(3.1)	(2.0)	[redacted]	(23.2)	(21.9)	[redacted]	(29.5)	(26.8)	(23.0)	[redacted]	(37.0)
NT Conversions - contract signatures (Mains & Locals) (Bonus 12.5%) ***	183	210	[redacted]	2,913	2,789	124	912	3,100	3,000	100	1,450
NT Branches Open (Mains & Locals)***	177	113	64	1,754	1,836	(82)	N/A	1,950	1,950	0	507

Bonus worthy metrics
* ITDA Interest, Tax, Depreciation, Amortisation
** Monthly = 3 month average.   YTD = 12 month average
*** YTD and FY = cumulative including prior years

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Network Transformation Scorecard - Mains

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

	Key Performance Indicators	Current Month % Actual	Current Month % Control Group	Current Month % Var	Actual Sample Size	Ave £'s per branch Actual	Ave £'s per branch Control Group	Ave £'s per branch Var
POL	Finance Approved Investment per Mains £000	-	-	-		(42)	(42)	0
	Total Income: Post vs Pre Conversion							
	Branches live 6-12 months	11%	7%	4%	357	964	498	466
	Branches live 12-24 months	7%	7%	0%	41	606	498	109
	Focus Income: Post vs Pre Conversion							
	Branches live 6-12 months	28%	19%	9%	357	556	298	258
	Branches live 12-24 months	21%	19%	2%	41	441	298	143
Agent	**Agents Remuneration: Post vs Pre Conversion**							
	Branches live 6-12 months	7%	(1)%	9%	357	455	(77)	532
	Branches live 12-24 months	2%	(1)%	4%	41	148	(77)	226
	Customer Sessions							
	Branches live 6-12 months	2%	(3)%	4%	357			
	Branches live 12-24 months	(5)%	(6)%	1%	41			
	Operator Feedback on Retail Sales Performance	9%			120			
	Operator Satisfaction	78%			121			

		Actual	Target	Var	Actual Sample Size
Customer	Average Increase in Opening Hours	35%	20%	15%	930
	Customer Satisfaction	98%	90%	8%	30
	Queuing Times	2m 16s	< 5 mins	2m 44s	63

Mains

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

The following products are performing particularly well:

- Travel insurance
- Passport check and send
- Cash withdrawals
- Growth bonds
- Insurance products

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

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

Customer

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

Network Transformation Scorecard - Locals

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

	Key Performance Indicators	Current Month % Actual	Control Group	Var	Actual Sample Size	Ave £'s per branch Actual	Control Group	Var
	LOCALS							
POL	Finance Approved Investment per Local £000	-	-	-		(11)	(11)	0
	Total Net Impact: Post vs Pre Conversion							
	Branches live 6-12 months							
	Income	(2)%	1%	(3)%	118	(44)	19	(63)
	Actual Fixed pay savings					930	0	930
	Actual Net impact					886	19	867
	Branches live 12-24 months							
	Income	(3)%	1%	(4)%	73	(97)	19	(116)
	Actual Fixed pay savings					896	0	896
	Actual Net impact					798	19	779
Agent	Customer Sessions							
	Branches live 6-12 months	8%	(1)%	9%	118			
	Branches live 12-24 months	4%	(5)%	8%	73			
	Operator Feedback on Retail Sales Performance	13%			29			
	Operator Satisfaction	70%			23			

		Actual	Target	Var	Actual Sample Size
Customer	Average Increase in Opening Hours	111%	80%	31%	570
	Customer Satisfaction	94%	90%	4%	30
	Queuing Times	1m 52s	< 5 mins	3m 08s	25

Locals

Branches that have been converted to a Locals model are performing below expectation due to the sharp decline at the point of conversion.

Branches converted 12-24 months ago included a large number of service issues, where the decline was steep, taking these branches longer to recover.

Branches converted in the last 12 months have also seen a decline at point of conversion but have improved each month and are tracking towards recovering their pre conversion position at around the 12 month point.

Further work is underway to reduce the gap further. It's recognised that Local operators require more support after converting to ensure they manage their Post Office effectively within the retail environment. A new (but small) team of Local relationship managers has recently been established (Dec 13) to work with a sample group.

Additional analysis is in progress to determine all of the factors that contribute to the drop off at conversion. Learning from this analysis will be used to inform our approach for all future conversions. Analysis will focus on onsite, offsite and multiple partners.

The positive for the agents is that customer sessions/footfall is greater and this should support their retail growth.

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

POL

- Products such as bill payments, etop ups, cash withdrawals and moneygram have delivered growth for these branches – with associated footfall. This has been offset in income terms by poorer performance on more complicated products.
- Fixed pay has been reduced to zero for all converted branches, in line with the strategic plan.

Agent

- Customer sessions indicate that retailers are benefiting from greater footfall that should support their retail growth.
- The footfall is delivering quicker but lower value Post Office sales which in turn should allow the retailer to utilise their staff in different ways or reduce their staff costs.

Customer

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

Transformation Delivery Heat-map

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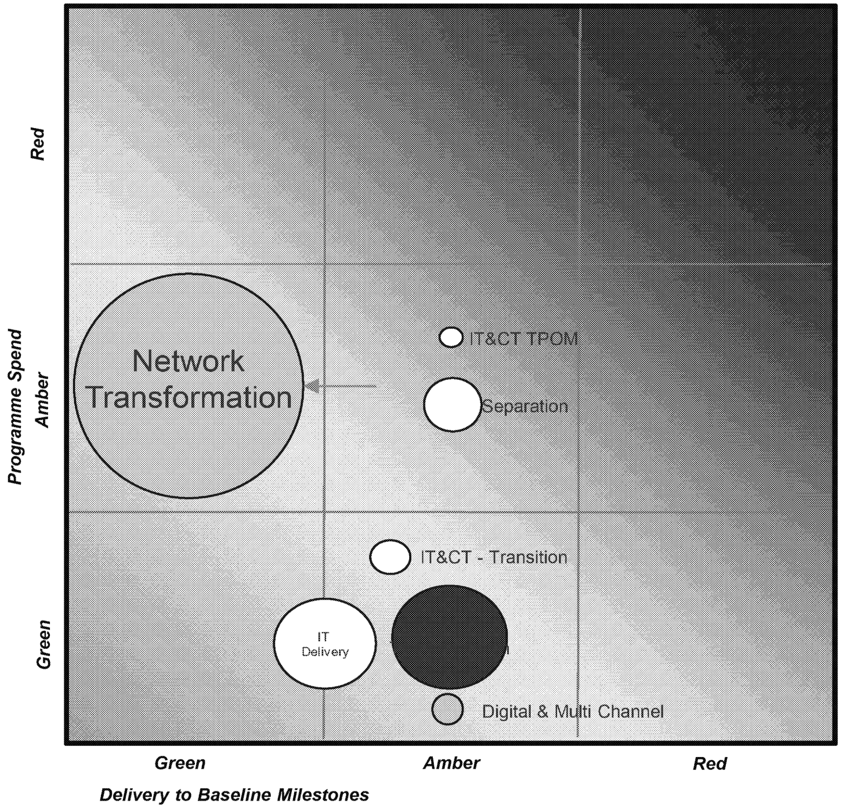
February 2014

Current heatmap represents in-year programme status. Future reports will show status across the life of the programmes and consider the broader risks as we progress our Business Transformation Programme.
A revised reporting format will be used from April 2014 (replacing this summary) aligned with new business governance and to improve clarity of content.



Summary of key items of TB Discussion
Network Transformation - End of year target of 3000 contracts signed was achieved on 14th March with 1876 branches converted and expectation to hit year-end target of 1950 very soon. Long term risk raised regarding the programme delivering a different mix of new models v's the previous commitments, with discussion at ExCo prior to Board strategy day in June.
Crown - Transformation Board discussed income growth as the biggest risk to the programme objective of a break even run rate by March 2015 and tasked the Commercial Committee to investigate the actions required to address the income shortfall.
IT Delivery - Transformation Board were made aware of a risk that until the plans for implementing new End User Computing suppliers (for both Post Office and Royal Mail) are known, a risk remains around how the two plans impact each other and their interdependencies. A longer term risk was also highlighted around the timescales required for the Point Of Service futures programme (replacement of Horizon) and how this aligns with the end of the current Transitional Support Services agreement with Fujitsu. This continues to be managed within the programme.
Separation - The MSA Board (joint Post Office and Royal Mail executive forum for Separation) have: - Agreed joint view of progress / status; - Endorsed the revised MSA governance structure, as we move more to an IT orientated programme; - Agreed all the proposed Change Requests, which has resulted in the move of three IT workstreams into 2015, and two business workstreams through until September 2014.
IT&CT Tower Procurement and Operating Model - Transformation Board discussed Fujitsu's view that we have a risk to delivering our execution plans for the IT Towers model to time. The potential risk and impact on IT programmes is being investigated and a summary will be issued to Transformation Committee members.
Key Decisions: • Business Transformation, Branch Support and Network Expansion Programmes will be governed by Transformation Committee. • Transformation Committee will oversee the financial (economic) success of the new branch models implemented under Network Transformation Programme and the Commercial Committee will oversee the revenue growth of the new models. • Revised reporting (one page dashboard per programme) and business risk reporting to Risk Committee to be implemented from April in line with new business governance. • Agreed the most appropriate governance forums to address the enterprise themes identified at February Transformation Board.

Colour of Circle reflects 2013-14 financial benefits (N.B. NT reflects wider business benefits beyond financial)

(Sizing based on 14-15 costs to illustrate the scale of the programme)

Shows movement from last period

NT	Network Transformation Programme
CT	Crown Transformation Programme
IT&CT - TPOM	IT & Change Transformation Programme - Tower Procurement Operating Model
IT&CT - Transition	IT & Change Transformation Programme- Execution of new IT Operating Model
DMC	Digital & Multi Channel Programme
Separation	Separation of business and IT Services from Royal Mail
IT Delivery	Strategic upgrades of IT applications and infrastructure

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POST OFFICE LTD BOARD

Corporate Governance Review

1. Purpose

The purpose of this paper is to:

1.1 Note Post Office's current level of compliance with the UK Corporate Governance Code which applies to listed companies;

1.2 Confirm and approve terms of reference for the Board sub-committees and for the Board itself, including a Schedule of Matters reserved for Board decision together with the Executive Committee terms of reference;

1.3 Consider and approve a more formal definition of the roles of the Chairman and Chief Executive; and

1.4 Confirm and approve the Delegated Authority limits.

2. Background

2.1 A review of the Corporate Governance arrangements in place is undertaken on an annual basis. This is to ensure that the governance structure is effective and compliant with the UK Corporate Governance Code.

2.2 Since the last review (January 2013) the Mutualisation Committee has been subsumed into the Board, and a new committee - Financial Services, has been set up. Each Committee has recently reviewed its terms of reference, and recommend them to the Board for approval. The Post Office Advisory Council has also been set up but is not part of the Governance Structure – its purpose is to provide a forum for Post Office stakeholders and other experts to discuss issues of interest and importance that impact on customers and stakeholders and their communities.

2.3 A detailed study has also been undertaken of the areas in which Post Office cannot, or does not, currently comply with the detailed provisions of the UK Corporate Governance Code. There is no statutory obligation on the Post Office to "comply or explain", as listed companies must do in their annual reports, but best practice would be for the Chairman to comment within the Annual Report and Accounts on how Post Office has implemented corporate governance principles in the year under review. It should be noted that Post Office's corporate governance position is much stronger since the last review with the publication of its Annual Report in August 2013.

2.4 There have been a number of corporate governance developments that will need to be considered as part of the Annual Report for 2013/14 – these are detailed in the analysis referred to in 3.1 below. They include a section on diversity within the Nominations Committee report, and a report on performance evaluation of the Board.

3. Documents

3.1 An analysis of Post Office's compliance with the UK Corporate Governance Code is attached to this paper.

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3.2 The following documents can be found in the Reading Room under Corporate Governance Review:

- For information, the Board Structure
- Terms of Reference for the Post Office Board, including a Schedule of Matters reserved for Board decision
- Terms of reference for the Audit, Risk and Compliance, Remuneration, Nominations, Pensions and Financial Services Committees
- A draft "roles and responsibilities" paper which confirms the separation of powers of the Chairman and the Chief Executive
- Matrix of Delegated Authorities for contract approvals, commitments of expenditure and implementation of change
- Delegated Authorities for Remuneration Matters
- For information, a copy of the Board Effectiveness Review Summer 2013

4. Recommendations

The Board is asked to:

4.1 note the current level of compliance with the UK Corporate Governance Code;

4.2 approve the terms of reference presented for the Board, including a Schedule of Matters reserved for Board decision, Board sub-committees and the Executive Committee;

4.3 approve the definition of the roles of the Chairman and Chief Executive; and

4.4 approve the matrix of Delegated Authorities and the Delegated Authorities for Remuneration Matters.

Alwen Lyons
18 March 2014

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UK Corporate Governance Code and DTR requirements[1]

Status as at 18 March 2014

	LEADERSHIP	
PRINCIPLE A1: The Role of the Board	Every company should be headed by an effective Board which is collectively responsible for the long-term success of the company. The Board should provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. Directors should act in what they consider to be the best interests of the company.	
	Code provisions	**Status March 2014**
A.1.1	The Board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the Board operates, including a high level statement of which types of decision are to be taken by the Board and which are delegated to management.	The Board meets regularly and Board dates have been diarised until March 2015. A schedule of matters reserved for the Board is in place and due to be re-approved at the March meeting. An appropriate statement on decision making was made in our first annual report since separation, the Annual Report 2012/13, and a similar statement is planned for inclusion in the Annual Report 2013/14.
A.1.2.	The annual report should identify the Chairman, CEO, SID and Chairmen and members of Board committees. It should also set out the number of meetings held and individual attendance by directors.	The Annual Report 2012/13 met these requirements and these details will be included in the Annual Report 2013/14.
A.1.3	The company should arrange appropriate insurance cover in respect of legal action against its directors.	Separate D&O insurance for the Post Office has been put in place.

1 DTR requirements are shown only where they extend Code provisions

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PRINCIPLE A2: Division of Responsibilities	There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	
A.2.1	The roles of the Chairman and Chief Executive should not be exercised by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board.	The role of the Chairman is undertaken by Alice Perkins and the role of the Chief Executive is undertaken by Paula Vennells. The roles are clearly separated and the formal delineation of responsibility is to be considered at this Board meeting.
PRINCIPLE A3: The Chairman	The Chairman is responsible for leadership of the Board and ensuring its effectiveness. The Chairman should: • set the Board's agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues; • ensure that the directors receive accurate, timely and clear information and should also ensure effective communication with shareholders; and • promote a culture of openness and debate by facilitating the effective contribution of non-executive directors and by building constructive relations between executive and non-executive directors.	
A.3.1	The Chairman should be independent on appointment. The Chief Executive of a company should not immediately go on to become the Chairman of the same company. .	The Chairman was independent upon appointment.
PRINCIPLE A4: Non-Executive Directors ("NEDs")	As part of their role as members of a unitary Board, non-executive directors should constructively challenge and help develop proposals on strategy. NEDs should: • scrutinise management's performance in meeting agreed objectives and monitor the reporting of performance; • satisfy themselves on the integrity of financial information and the quality of financial controls and systems of risk management; • determine appropriate levels of remuneration of executive directors; • have a prime role in appointing and removing executive directors and in succession planning. *Post Office Limited's Articles of Association give further rights to the Shareholder in respect of the remuneration and appointment and removal of directors.*	

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	Code provisions	Status March 2014
A.4.1	The Board should appoint a Senior Independent Director (as a sounding board for the Chairman, an intermediary for other directors and to be available to shareholders if necessary).	Neil McCausland is the current incumbent.
A.4.2	The Chairman should hold meetings with the NEDs without the executives being present. Led by the SID, the NEDs should meet without the Chairman present at least annually, to appraise the Chairman's performance, and on such other occasions as are deemed appropriate.	The NEDs have regular breakfast meetings, the last of which was held on 21 January 2014. Neil McCausland led the process for evaluation of the Chairman last year and a similar evaluation will take place this year.
A.4.3	Where a director has concerns about the running of the company or a proposed action, which cannot otherwise be resolved, the concern should be recorded in the minutes. On resignation, a NED with any such concerns should provide a written statement to the Chairman for circulation to the Board.	The Company Secretary will record concerns if and when they arise.
	EFFECTIVENESS	
PRINCIPLE B1: Composition of the Board	The Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The Board should be large enough to manage business requirements but not so large as to be unwieldy. The structure should be such that no individual or small group can dominate the Board's decision-taking. In considering Committee membership, the value of refreshing the membership and not placing undue reliance on particular individuals should be taken into account. No one other than the Committee Chairman and members is entitled to be present at a meeting of the Nomination, Audit or Remuneration committees, but others may attend at the invitation of the Committee.	
	Code provisions	**Status March 2014**
B.1.1	The Board should identify in the annual report each NED it considers to be independent.	The NEDs' independence was reported in the Annual Report 2012/13 and will be included in the Annual Report 2013/14. In line with the Code, any director who is also an employee of the

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		Department of Business, Innovation and Skills is not considered to be independent.
B.1.2	At least half the Board, excluding the Chairman, should comprise independent NEDs.	The Board satisfies this provision.
PRINCIPLE B2: Appointments to the Board	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board. The search for Board candidates should be conducted and appointments made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Board should satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management so as to maintain an appropriate balance of skills and experience and to ensure progressive refreshing of the Board.	
	Code provisions	**Status March 2014**
B.2.1	A nominations committee should lead the process for Board appointments and make recommendations to the Board. A majority of its members should be independent NEDs. The Chairman or an independent NED should chair the committee. The Chairman should not chair the committee for the appointment of a successor Chairman. The committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.	This is specified in the terms of reference for the Nominations Committee, a slightly amended version of which is presented to the Board for approval at this meeting. The Post Office Nominations Committee is comprised of the Chairman and two independent NEDs. This is specified in the terms of reference. The terms of reference have been made available via the Post Office website.
B.2.2	The nominations committee should evaluate the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.	All appointments were based on getting a balanced Board. Criteria included a strong retail background, accounting and audit expertise, financial services experience, detailed knowledge of pensions and investments and understanding of Government.
B.2.3	NEDs should be appointed for specified terms. Any term beyond six years for a NED should be subject to particularly rigorous review and take into account the need for progressive refreshing of the Board.	All NEDs, apart from the Chairman, have been appointed for a specific term. The Chairman's appointment is on a rolling 12 month basis. All terms of appointment are subject to ShEx consent.
B.2.4	A separate section of the Annual Report should describe the work of the nomination committee, including the process it has	An overview was provided as part of the Corporate Governance Statement in the Annual Report 2012/13. The presentation of the

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	used in relation to Board appointments. This section should include a description of the Board's policy on diversity, including gender, any measurable objectives set for implementing the policy and progress in achieving the objectives. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a Chairman or NED. Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any other connection with the company.	work of the NomCo will be considered as part of annual report planning. This is a new requirement added to the Code for financial years beginning on or after 1 October 2012. A section on talent and diversity was included in the Performance review in the Annual Report 2012/13 and the presentation of this section will be considered as part of annual report planning. New director searches and appointments will be controlled by the Nominations Committee and this provision will be considered. All appointments require ShEx consent.
PRINCIPLE B3: Commitment	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	
	Code provisions	**Status March 2014**
B.3.1	The nominations committee should prepare a job specification for any appointment of a Chairman, recognising the need for availability in the event of crises. Chairman's other significant commitments (and those of directors in B.3.2 below) should be disclosed to the Board before appointment and included in the annual report.	This is included in the Terms of Reference and would be undertaken in conjunction with ShEx. All directors complete a record of other commitments upon appointment. Biographies of all directors appear on the website, were included in the Annual Report 2012/13 and will be included in the Annual Report 2013/14.
B.3.2	The terms and conditions of NED appointments should be made available for inspection. The letter of appointment should set out the expected time commitment.	In line with the Companies Act 2006, directors' service contracts are available for inspection at the Company's registered office. A set time commitment (number of days per week) is stated for the Chairman.
B.3.3	The Board should not agree to a full time executive taking on the Chairmanship or more than one non-executive directorship in a FTSE100 company.	This provision does not currently apply to the Post Office.

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PRINCIPLE B4: Development	All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge. The company should provide the resources for developing and updating directors' knowledge and capabilities. To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.	
	Code provisions	**Status March 2014**
B.4.1	The Chairman should ensure that new directors receive a full, formal and tailored induction on joining the Board.	An induction programme has been developed and is arranged for all new directors.
B.4.2	The Chairman should regularly review and agree with each director their training and development needs.	Specific topics are covered in workshops and briefings. Individual needs may be addressed as part of future Board evaluations.
PRINCIPLE B5: Information and Support	The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Under the direction of the Chairman, the company secretary's responsibilities include: • ensuring good information flows; • facilitating induction; • assisting with professional development as required; and • advising the Board, through the Chairman, on all governance matters.	
	Code provisions	**Status March 2014**
B.5.1	The Board should ensure that all directors have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties.	Independent advice is arranged as required. Committee terms of reference include provisions to obtain professional advice as needed.
B.5.2	All directors should have access to the company secretary who is responsible to the Board for ensuring that Board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the Board as a whole.	Alwen Lyons, the current incumbent, is available to all directors. The appointment and removal of the Company Secretary is a matter for Board resolution.

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PRINCIPLE B6: Evaluation	The Board should undertake a formal and rigorous evaluation of its own performance and that of committees and individual directors, in line with the Code. The Chairman should take action from this evaluation as required and individual evaluation should aim to show whether each director continues to contribute effectively.	
	Code provisions	**Status March 2014**
B.6.1	The Board should state in the annual report how performance evaluation of the Board, its committees and its individual directors has been conducted.	This is a new Code requirement for companies with financial years beginning on or after 1 October 2012. A section will be included in the Annual Report 2013/14.
B.6.2	Evaluation of the Boards of FTSE 350 companies should be externally facilitated at least every 3 years.	The Board internally evaluated its performance in 2013. The timing of any external facilitation will be considered as part of the Board evaluation process.
B.6.3	The NEDs, led by the SID, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors.	The process of performance evaluation of the Chairman was led by Neil McCausland in 2013 and a similar approach is planned for this year.
PRINCIPLE B7: Re-election	Section B7 is not relevant to the Post Office – it requires the annual re-election by shareholders of directors of FTSE 350 companies.	
	ACCOUNTABILITY	
PRINCIPLE C1: Financial and Business Reporting	The Board should present a fair, balanced and understandable assessment of the company's position and prospects. This responsibility extends to interim and other price-sensitive public reports and reports to regulators as well as to statutory information. The Board should establish arrangements to enable it to ensure that information presented meets the above criteria.	
	Code provisions	**Status March 2014**
C.1.1	The directors should explain in the annual report their responsibility for preparing the annual report **and state that they consider it as a whole to be fair, balanced and understandable, providing the information necessary for shareholders to assess the company's performance, business model and strategy.** There should be a statement by the auditor about their reporting responsibilities.	Responsibility statements were included in the Annual Report 2012/13. Suitable wording will be considered as part of annual report planning, in light of the updates to this provision for financial years beginning on or after 1 October 2012 and as highlighted within the text.

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C.1.2	The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company.	This was included in the Annual Report 2012/13 as part of the business review. However, under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the business review has now been replaced with a strategic report for financial years ending on or after 30 September 2013 and any inclusions in the Annual Report 2013/14 will be made in line with this legislation.
C.1.3	The directors should report in annual and half yearly statements that the business is a going concern, with supporting assumptions or qualifications as necessary.	Going concern status is monitored by Finance and is reported on at year end and half year.
PRINCIPLE C2: Risk Management and Internal Control	The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.	
C.2.1	The Board should, at least annually, conduct a review of the effectiveness of the company's risk management and internal control systems and should report that they have done so. The review should cover all material controls, including financial, operational and compliance controls.	The ARC has reviewed the top risks and reported to the Board in November 2013, when a discussion was held. Risk management is a key focus for the Board, its committees and the Executive Committee and was discussed at the March ARC and the 13 March ExCo. An internal audit programme is in place.
PRINCIPLE C3: Audit Committee and Auditors	The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.	
	Code provisions	**Status March 2014**
C.3.1	The Board should establish an audit committee of at least three independent NEDs. In smaller companies the Chairman (if independent on appointment) may be a member of, but not chair, the Committee. The Board should satisfy itself that at least one member of the Committee has recent and relevant financial experience (DTR 7.1.1R requires at least one member to have competence in accounting and/or auditing).	The Audit, Risk and Compliance Committee has been established under the Chairmanship of Alasdair Marnoch, who has recent and relevant financial experience.
C.3.2 and C.3.3	The main role and responsibilities of the Committee should be set out in written terms of reference, which should be made available.	Terms of Reference for the ARC are in place, were reviewed at the November ARC and are recommended for ratification at this meeting. They include the matters set out in more detail in Code

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		provision C.3.2 and are available on the Post Office website.
C.3.4	Where requested by the Board, the Committee should provide advice on whether the Board can make the statement referred to above in section C.1.1 (i.e. the report should be fair, balanced and understandable).	This is a new Code requirement for companies with financial years beginning on or after 1 October 2012. The ARC reviews the annual report and recommends it to the Board for approval. The report is being drafted with the aim of reassuring the Board that they are able to make a statement that the report is fair, balanced and understandable.
C.3.5	The Committee should review arrangements for staff to raise concerns and for concerns to be investigated ("whistle-blowing")	This was reviewed by the ARC in February 2013 and a policy is in place.
C.3.6	The audit committee should monitor and review the effectiveness of the internal audit activities. The reasons for the absence of such a function should be explained in the relevant section of the annual report.	An internal audit department has been established and regularly reports to the ARC.
C.3.7	The Committee should have primary responsibility for making a recommendation on the appointment/reappointment/removal of external auditors (FTSE 350 companies should put the external audit contract out to tender at least every 10 years). If the Board were to disagree with a recommendation on external audit made by the Committee, an explanatory statement would need to be made by the Committee. DTR 7.1.3R requires the Committee to monitor the independence of the statutory auditor and in particular many provision of additional (i.e. non-audit) services.	The responsibility is included in the ARC's Terms of Reference. The ARC keeps the independence of the external auditor under review.
C.3.8	A separate section of the annual report should describe the work of the Audit Committee.	An overview was provided as part of the Corporate Governance Statement. The presentation of the work of the ARC will be considered as part of annual report planning.

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REMUNERATION		
PRINCIPLE D1: Levels and Components of Remuneration	Levels of remuneration should be sufficient to attract, retain and motivate directors but a company should avoid paying more than is necessary. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. Performance-related elements should be stretching and designed to promote the long term success of the company. Remuneration committees should use comparisons with caution to avoid an upward "ratchet" effect and should be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.	
	Code provisions	**Status March 2014**
D.1.1	In designing incentive schemes for executive directors, a remuneration committee should follow the detailed provisions set out in Schedule A to the Code.	Post Office must receive consent from ShEx for any changes to executive directors' remuneration. Only basic pay is pensionable. The requirements for stretching performance criteria to promote the long term success of the company, for rewards not to be excessive and for remuneration incentives to be aligned with risk policies and systems are noted. Executive directors have claw back provisions in their employment contracts, short term incentive schemes and long term incentive schemes.
	Note: the Listing Rules set out the detailed requirements of a full directors' remuneration report. The information to be included differs from the statutory information required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and would include each element of remuneration, including basic pay, benefits, pension contributions and incentives.	A Directors' Remuneration Report was included in the Annual Report 2012/13 which was fully compliant with the provisions of the Companies Act 2006 to the extent that they are required for an unlisted company and early adopted certain proposed legislative requirements for disclosure of directors' pay being put forward to listed companies. Revised directors' remuneration regulations took effect for Annual Reports for financial years ending on or after 30 September 2013. The draft report and how the revised regulations will be reflected in the report was considered by the RemCom at their March meeting and a suitable report will be produced in light of these discussions.
D.1.2	Relates to statements to be made about the earnings of an executive director received from Non-Executive directorships	There are no current Post Office directors holding such a position.

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	where the company has released a director for this purpose.	
D.1.3	NED remuneration should reflect the time commitment and responsibilities of the role and should not include share options or other performance-related elements.	NED remuneration is agreed by ShEx. It is a fixed fee and not performance-related.
D.1.4	RemCom should consider carefully commitments to directors in the event of early termination, to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.	Included in the RemCom's Terms of Reference as part of their duties and responsibilities.
D.1.5	Notice periods should be set at one year or less.	Maximum notice period to be given by Post Office is 12 months (6 months' notice needs to be given by a director).
PRINCIPLE D2: Procedure	There should be a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration of individual directors. No director should be involved in deciding his or her own remuneration. The RemCom should consult the Chairman and/or CEO about proposals relating to other executive directors and be responsible for appointing any consultants, in both of the above cases taking care to recognise and avoid conflicts of interest. The Chairman should ensure that contact is maintained with principal shareholders about remuneration.	
	Code provisions	**Status March 2014**
D.2.1	The Board should establish a remuneration committee of at least three independent NEDs. The Chairman may be a member of, but not chair the Committee if s/he was considered independent when appointed. The Committee should make available its terms of reference. Where consultants are appointed, they should be identified in the annual report and a statement made as to whether they have any other connection with the company.	RemCom has been established under the Chairmanship of Neil McCausland. Alice Perkins and Virginia Holmes are the additional members. The terms of reference are available on the Post Office website. This is a new Code requirement for companies with financial years beginning on or after 1 October 2012. The provision of this information will be considered as part of annual report planning.
D.2.2	RemCom should have delegated responsibility for setting	RemCom's terms of reference specifies certain levels of

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	remuneration for all executive directors and the Chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration of senior management (as defined by the Board but normally including the first layer of management below Board level).	responsibility for the remuneration of the executive directors, the Chairman and senior management, with reference to those aspects of remuneration that require ShEx's consent.
D.2.3	The Board itself, or the shareholders, should determine the remuneration of the NEDs within the limits set by the Articles of Association.	ShEx sets the remuneration of NEDs. The limit in the Articles of Association is £400,000 p.a. in aggregate.
D.2.4	Shareholders should be invited specifically to approve all new long term incentive schemes and significant changes thereto.	ShEx approves all changes in directors' remuneration, including incentive schemes.
RELATIONS WITH SHAREHOLDERS		
Principle E1: Dialogue with Shareholders	There should be a dialogue with shareholders based on mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. While most shareholder contact is typically with the chief executive and finance director, the Chairman should ensure that all directors are made aware of shareholders' issues and concerns. Code provisions E.1.1 and E.1.2 are designed with institutional shareholders in mind but the Post Office complies with the principles.	
Principle E2: Use of the AGM	This provision is not relevant to Post Office which, as a private limited company, is not required to hold General Meetings.	
FCA Disclosure and Transparency Rules (where they differ from the Code)		
The Listing Rules require a statement of whether a company has complied throughout the period with all relevant provisions of the Code and the company's reason for any non-compliance.		The Company is able to state that it complies with the principles of the Code to the extent possible and can refer to areas for development for the coming year. Post Office included a statement to this effect in the Annual Report 2012/13 and a similar statement will be included in the Corporate Governance Statement for 2013/14.
The DTRs require listed companies to produce a corporate governance statement which must be included in the directors' report, or in a separate document with the annual report, or be published on the company's website (DTR 7.2.1R).		Such a statement was included in the Annual Report 2012/13 and is planned for 2013/14.

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The statement must contain a description of the main features of the company's internal control and risk management systems in relation to financial reporting (DTR 7.2.5R and 7.2.10). It must also describe the composition and operation of the main management and supervisory bodies.	
Changes in regulation since the last corporate governance review	
Updates to the Code have been highlighted in the above. More generally, BIS has announced changes to narrative reporting (requiring statements on diversity, production of a strategic report, to replace the business review and removing the requirement for some of the existing disclosures in the directors' report) and recommendations on the disclosure of directors' remuneration by listed companies. The changes took effect for companies reporting on financial years ending on or after 30 September 2013.	Updates to remuneration disclosure have been considered by the RemCom as part of the Directors' Remuneration Report. Updates to narrative reporting, including the strategic report and directors' report, are being considered as part of Annual Report 2013/14 planning. The ARC received a detailed update on governance updates from Ernst & Young and Annual Report planning at its March meeting.
Potential regulation changes	
There are likely to be changes to the Corporate Governance Code proposed as a result of Financial Reporting Council (FRC) consultations, specifically on executive remuneration, risk management and internal controls. Similarly, FRC Guidance is expected on risk management, internal control and going concern. Both sets of changes are anticipated to apply to reporting periods commencing on or after 1 October 2014. There may also be more European legislation passed on diversity. Updates will be monitored and action recommended as required.	

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POLB 14(2nd)
POLB 14/15-14/30

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

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

Present:

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

In Attendance:

Alwen Lyons	Company Secretary
Richard Callard	Non-Executive Director designate, Shareholder Executive
Neil Hayward	Group People Director (items 14/16 and 14/21)
Lesley Sewell	Chief Information Officer (item 14/16)
Brian Deveney	Business Transformation (item 14/16)
Tim Lloyd	Alsbridge (item 14/16)
Chris Aujard	General Counsel (items 14/17-14/19)
Belinda Crowe	Programme Director for Project Sparrow (items 14/17-14/19)
Mark Davies	Communications Director (items 14/17- 14/20)
Kevin Gilliland	Network & Sales Director (item 14/21)
Nick Beal	Head of Network Development (item 14/21)
Nicholas Kennett	Financial Services Director (item 14/29)
Hugh Flemington	Head of Legal (item 14/29)

POLB 14/15 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting and welcomed Richard Callard, Non-Executive Director designate, Shareholder Executive, who would be attending this and the March Board before taking over from Susannah Storey.

(b) Neil Hayward, Group People Director, Lesley Sewell, Chief Information Officer, Brian Deveney, Business Transformation, and Tim Lloyd, Alsbridge, joined the meeting.

POLB 14/16 **BUSINESS TRANSFORMATION PROGRAMME**

(a) The Board received an update on the progress made to date with the Business Transformation programme. The CEO thanked Lesley for the work completed and explained to the Board that this was work in

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progress and the Business would welcome their input to help shape the final Business Case which would return to the March Board.

(b) Lesley Sewell explained the cost reduction target already embedded in the 2020 strategic plan and size of the potential opportunity (excluding areas which were considered out of scope). The Board challenged the Business to be more ambitious and asked Tim Lloyd from Alsbridge to estimate the potential for further cost reduction. Tim Lloyd explained that the current work had looked at the outsourcing potential, but had yet to quantify the re-engineering opportunity. In his view this opportunity could reduce the cost base by an additional 30 to 40 per cent. (c.£60-£80million).

(c) The Board agreed that outsourcing was feasible but that off-shoring could be more difficult. The Board was concerned about the handling of the staff consequences of outsourcing. They would need to understand the size of the opportunity before taking any decision.

ACTION: Lesley Sewell

(d) The Board asked the Business to be ambitious and return in March with a paper outlining the options for discussion, showing: the different cost reduction scenarios; the full cost of implementation; the possible political ramifications of each scenario; and a timeline showing the critical path for procurement.

(e) Brian Deveney informed the Board that the Business had sought legal advice to confirm that it was fully caught by public procurement regulations. The advice reaffirmed this position and the procurement of a Transformation Partner would therefore take 9-10 months as a minimum.

(f) The Board discussed the use of a consultant to undertake Business Process Mapping (BPM) and establish a Target Operating Model baseline from which the Transformation Partner would work.

ACTION: CFO/ Lesley Sewell

(g) The Board asked the Business to clarify the future CORE business processes before this work progressed. The CFO was asked to ensure the future supply chain strategy and how it related to the Business Transformation was included in the work which would report again to the March Board.

(h) The Board noted the progress made to date.

(i) Lesley Sewell, Brian Deveney and Tim Lloyd left the meeting.

ACTION: Neil Hayward

(j) Neil Hayward updated the Board on the search for a Transformation Director and agreed to circulate the job specification to the Board. He explained that he had spoken to Lesley Sewell who had understood why the Business was looking for an experienced person, but had asked to be considered if no other candidate was found.

(k) Neil Hayward left the meeting

POLB 14/17 **REVIEW OF THE CURRENT PROSECUTION POLICY**

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(a) Chris Aujard, General Counsel; Mark Davies, Communications Director; and Belinda Crowe, Programme Director for Project Sparrow joined the meeting.

(b) The Board received a report reviewing the Company's current prosecution policy, which had been discussed at the Audit, Risk and Compliance Committee ("ARC") on 11 February 2014 and by the Executive Committee ("ExCo") on 13 February 2014.

ACTION: Mark Davies

(c) The Board agreed that any communication regarding the changes in approach to prosecutions should be reactive. The Business needed to revise its key communication messages and be ready with them.

(d) The Board noted the summary of the discussions that had taken place at ARC and ExCo.

(e) The Board approved the implementation of Option B as a new Prosecutions Policy as detailed in Appendix A to the paper.

POLB 14/18 **INITIAL COMPLAINT REVIEW AND MEDIATION SCHEME**

(a) The Board received a report on the challenges facing the Initial Complaint Review and Mediation Scheme ("the Scheme"), and the steps being taken to address them.

(b) The CEO explained that the paper set out the worst case scenario as the Board had requested. The Board were concerned by the potential costs of the scheme and the level of possible compensation.

(c) The CEO agreed with the Board's concerns, and reported that she had met both Sir Anthony Hooper, the independent Chairman of the Working Group, and Second Sight, the forensic accountants working on the mediation scheme, to try and ascertain their opinions on how to progress matters more quickly.

(d) The CEO informed the Board that Second Sight had yet to produce their first written report for the mediation scheme, and that, until such time as a number of reports had been produced, which would be over the next four weeks, Sir Anthony Hooper felt unable to form a view on the best way to manage the scheme going forward. He strongly advised against taking any precipitous action at this stage. Sir Anthony offered to meet the Board at a later date if that would be helpful.

(e) The Board discussed the mediation scheme and possible support for Second Sight to enable a more efficient process.

ACTION: Chris Aujard

(f) It was noted that, in respect of each individual application, the project team were taking extensive advice about the Post Office's potential legal exposure. However, it was acknowledged that, in light of the facts now available, and the projected level of legal claims and costs, it would be sensible to commission more generic legal advice on the overall level of legal and financial exposure (taking account of the possibility of class actions). This advice should consider the steps that could be taken to mitigate any exposure including considerations of alternative structures that might be available to deal with the mediation cases. Such advice should have regard to alternative dispute resolution mechanisms, such as the Financial Ombudsman Service.

ACTION: Chris Aujard/ CFO

(g) The Board asked for an update to be circulated on the position with the Business' insurance underwriters and asked the Business to revisit the legal advice on insurance to ensure it was robust and that the correct disclosures had been made. The Board requested that all future documentation consider potential insurance claims and disclosure.

(h) The Board thanked the team for its candid report and noted the report on the Scheme.

POLB 14/19 **BRANCH SUPPORT PROGRAMME**

(a) The Board received and noted the report on the Branch Support Programme.

(b) Chris Aujard and Belinda Crowe left the meeting.

POLB 14/20 **MUTUALISATION – STATEMENT OF PUBLIC PURPOSE**

(a) The Board received an update on the preparation of the Statement of Public Purpose of the Post Office.

ACTION: Mark Davies

(b) Mark Davies reminded the Board of the work instigated by Sue Barton, Strategy Director, on 'why does the Post Office exist' and promised to circulate the comments received from the Board.

ACTION: All/ Mark Davies

(c) The Board discussed the Public Purpose Statement and agreed to feed their comments into Mark Davies. The resultant changes would be made and the final statement agreed with the Chairman and CEO. This final statement would be circulated to the Board for information.

(d) Mark Davies updated the Board on the Post Office Advisory Council and circulated a list of the proposed membership. He reported that the inaugural meeting would take place on the 19th March, to be preceded by a dinner the evening before. The Board thanked Mark Davies and Jane Hill in his team for an excellent result.

(e) Mark Davies left the meeting.

POLB 14/21 **NETWORK AND CROWN TRANSFORMATIONS/INDUSTRIAL RELATIONS UPDATE**

(a) Kevin Gilliland, Network & Sales Director, Neil Hayward, Group People Director, and Nick Beal, Head of Network Development, joined the meeting.

(b) The Board received an update on the Network and Crown Transformations, along with an update on Industrial Relations.

(c) Kevin Gilliland expressed his confidence that the Business would

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reach its year end targets for Network Transformation contracts signed and branches opened. He explained that the retail surveys received enabled the Business to produce a proposal on next year's targets, which would be completed within the next couple of weeks.

(d) Kevin Gilliland reported that over a thousand branches were now open on a Sunday. Mains branches were performing well against target; however, Locals were seeing a downward trend in mails products.

(e) The Board discussed the change in Locals which could lead to a more transactional relationship with the customer and a move away from the traditional community spirit. Kevin Gilliland acknowledged that this was a risk but still felt that more could be done through initial training to enhance the Locals offer.

(f) The Board sought assurance that the Memorandum of Understanding (MoU) with the NFSP would ensure support for Network Transformation (NT), especially if a 'cliff' had to be used. Nick Beal explained that the MoU included specific requirements for the NFSP to support the delivery of NT to the whole network by 2018, so the 'cliff' was understood. He also reassured the Board that NFSP payments would not commence until after the MoU was signed which would be after the May NFSP conference, a timescale which the Business supported.

ACTION: CFO/ Kevin Gilliland

(g) The Board asked Kevin Gilliland and the CFO to make the NT report in the performance pack clearer for the Board.

(h) The Board noted the update on the Network and Crown transformations and the current Industrial Relations situation.

(i) Neil Hayward, Kevin Gilliland and Nick Beal left the meeting.

POLB 14/22 **CHIEF EXECUTIVE'S REPORT**

(a) The Board noted the Chief Executive's report.

(b) The CEO reported that she and the Chairman had a meeting with the Secretary of State, Vince Cable, where they would explain the plan through to March 2015 and discuss any risks and opportunities. She would also be meeting the interim Minister before the NFSP conference in May.

POLB 14/23 **FINANCIAL PERFORMANCE UPDATE**

(a) The Board received a financial performance update for January 2014.

(b) The CFO explained that there may be some small upside in this year's profit which would be used, if possible, to de-risk next year's target.

ACTION: CFO ALL

(c) The CFO reported that the Budget Book for 2014/15 had been circulated and that the shape of the budget had not changed from that previously discussed with the Board. The Board agreed to feed in questions to the CFO and indicate if a conference call was required to discuss the detail.

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POLB 14/24 **POLICY ADOPTION**

(a) The Board received a report on new policies recently adopted by ExCo, which covered Anti-Bribery, External Data Protection (Information Security) and Data Sharing (Information Security)
.

ACTION: Chris Aujard

(b) The Board asked that the gifts and hospitality procedures be aligned to ensure permission is obtained for hospitality and retention of gifts.

(c) The Company Secretary confirmed that once confirmed the policies would be cascaded through the organisation.

(d) Subject to this one change the Board noted and confirmed the adoption of the Anti-Bribery, External Data Protection (Information Security) and Data Sharing (Information Security) policies with immediate effect.

POLB 14/25 **MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**

(a) The minutes of the Board meeting held on 21 January 2014 were approved for signature by the Chairman.

POLB 14/26 **COMMITTEE MEETING MINUTES FOR NOTING**

(a) The Board noted the minutes of the Nominations Committee meeting held on 6 November 2013; and the Remuneration Committee meeting held on 6 November 2013.

ACTION: Company Secretary

(b) It was agreed that future Board Sub Committee draft minutes would be circulated before approval by the Sub Committee to ensure a timely update for the Board.

POLB 14/27 **STATUS REPORT**

(a) The Status Report, showing matters outstanding from previous Board meetings, was noted.

POLB 14/28 **ITEMS FOR NOTING**

ACTION: Chris Aujard

(a) The Board noted the status of the procurement of a Data Centre Tower and asked for a further paper after the lessons learned have been considered by the ARC.

ACTION: Company Secretary

(b) The Board noted the update on Cyber Security and Information Assurance. It was proposed that an industry expert be invited to a future Board to present on Cyber Security.

(c) The Board noted the Significant Litigation report.

(d) The Board noted the Health & Safety report.

(e) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1118 to 1128 inclusive in the seal

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register was hereby confirmed.

POLB 14/29 **MONEYGRAM CONTRACT**

(a) Nicholas Kennett, Financial Services Director and Hugh Flemington, Head of Legal, joined the meeting.

(b) The Board was notified of a request from MoneyGram, as part of their new contract due diligence, to allow certain person checks against Board directors and responsible executives. The information provided would already be available at Companies House, and initial checks would only include negative media, sanctions and watch list checks. However, signing the form would enable MoneyGram to make further checks in the future.

(c) The CEO explained that she knew the CEO of MoneyGram and agreed to explain to her, next time they spoke, that the Board were concerned by this requirement.

(d) The Board asked for legal opinion to give them comfort that dealing with MoneyGram, a US corporate managing overseas payments, did not open the Post Office up to any risk of recourse from the US Government.

ACTION: Chris Aujard

(e) Subject to that legal opinion, the Board agreed to the disclosure.

POLB 14/30 **CLOSE**

(a) It was noted that the next Board meeting would be held on 26 March 2014.

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POST OFFICE LIMITED 26 FEBRUARY 2014 BOARD ACTION LOG

REFERENCE	ACTION	BY WHOM
	Strategy	
February 2014 POLB 14/16(d)	The Business to return in March with a paper outlining the options for discussion, showing: the different cost reduction scenarios; the full cost of implementation; the possible political ramifications of each scenario; and a timeline showing the critical path for procurement.	**Lesley Sewell**
February 2014 POLB 14/16(g)	The Business to clarify the future CORE business processes before this work progressed. CFO to ensure that the future Supply Chain strategy and how it related to Business Transformation was included in the work which would report again to the March Board.	**Lesley Sewell/CFO**
February 2014 POLB 14/16(j)	Circulate the job description for the Transformation Director position to the Board.	**Neil Hayward**
February 2014 POLB 14/28 (a)	Further paper on the Data Centre procurement to be brought to the Board after the lessons learned have been considered by the ARC.	**Chris Aujard**
	Project Sparrow & Prosecuting Authority	
February 2014 POLB 14/17(c)	Business to revise its key communication messages regarding the change in approach to the prosecutions policy and be ready with them in case questions arose.	**Mark Davies**
February 2014 POLB 14/18(f)	Commission more generic legal advice on the overall level of legal and financial exposure (taking account of the possibility of class actions) under the Initial Complaint Review and Mediation Scheme. This advice should consider the steps that could be taken to mitigate any exposure including considerations of alternative structures that might be available to deal with the mediation cases. Such advice should have regard to alternative dispute resolution mechanisms, such as the Financial Ombudsman Service.	**Chris Aujard**
February 2014 POLB 14/18(g)	An update to be circulated on the position with the Business' insurance underwriters and the Business to revisit the legal advice on insurance to ensure it is robust and that the correct disclosures had been made. All future documentation to consider potential insurance claims and disclosure.	**Chris Aujard/CFO**

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	Mutualisation	
February 2014 POLB 14/20 (b)	Circulate the comments received from the Board on 'why does the Post Office exist'.	**Mark Davies**
February 2014 POLB 14/20 (c)	The Board to feed their comments on the Public Purpose Statement to Mark Davies, the resultant changes to be made and the final statement agreed with the Chairman and CEO before circulation to the Board for information.	**All/Mark Davies**
	Finance	
February 2014 POLB 14/21 (g)	Make the NT report in the performance pack clearer for the Board.	**CFO/Kevin Gilliland**
February 2014 POLB 14/23 (c)	The Board to feed in questions on the Budget Book to the CFO and indicate if a teleconference was required to discuss the detail.	**All/CFO**
	Miscellaneous	
February 2014 POLB 14/24 (b)	Gifts and hospitality procedures to be aligned under the Anti-Bribery Policy to ensure that permission is obtained for hospitality and retention of gifts.	**Chris Aujard**
February 2014 POLB 14/26 (b)	Future Board Sub-Committee draft minutes to be circulated before approval by the Sub-Committee to ensure a timely update for the Board.	**Company Secretary**
February 2014 POLB 14/28 (b)	An industry expert to be invited to a future Board to present on Cyber Security.	**Company Secretary**
February 2014 POLB 14/29 (d)	A legal opinion to be provided to give the Board comfort that dealing with MoneyGram, a US corporate managing overseas payments, did not open the Post Office up to any risk of recourse from the US Government.	**Chris Aujard**

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POLARC13 (6th)
13/36 - 13/45

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held on Tuesday 19 November 2013 by conference call

Present:

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

In attendance:

Paula Vennells	CEO
Chris Day	CFO
Chris Aujard	General Counsel (GC)
Alwen Lyons	Company Secretary
Sarah Hall	Head of Financial Control and Compliance
David Mason	Head of Risk Governance
Malcolm Zack	Head of Internal Audit
Lesley Sewell	Chief Information Officer (Minute 13/40 only)
Jeremy Midkiff	Senior Manager, Ernst & Young (Minute 13/42 only)

POLARC 13/36 **INTRODUCTION**

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

POLARC 13/37 **MINUTES OF THE LAST MEETINGS AND MATTERS ARISING**

(a) The Committee approved the minutes of the meetings held on 12 September 2013 for signature by the Chairman of the Committee.

(b) The Committee noted the actions list dated 12 November 2013.

POLARC 13/38 **RISK MANAGEMENT – TOP COMPANY RISKS**

(a) The Committee had received an ExCo report on key risks from David Mason, Head of Risk Governance, in the papers for the meeting. The CFO explained that further work had been undertaken since publishing the papers and asked that this be the focus of the Committee's discussions.

(b) The Committee discussed the top six risks as identified by the Business:

- Allegations relating to the integrity of the Horizon system;
- Failure to deliver top line growth in line with strategic plans;
- Operating Model fails to deliver requisite cost savings;

- Inadequate people capability or capacity to deliver transformational change and the strategic plan;
- Non-delivery of Network Transformation Programme; and
- Strike action within Supply Chain could damage ability to distribute cash to network (Industrial Relations/the CWU)

(c) In addition to the above risks, the Business identified three further risks which would be monitored:

- the risk of regulatory action or reputational damage from FS mis-selling;
- the risk of not maintaining the security and integrity of Post Office data; and
- the risk of unsuccessful delivery and operation following IT transformation

(d) The CEO explained that the Business had owners for all the risks and was reviewing the actions and assurance processes which were in place to reduce the risks. The Business would also be reviewing the top risks at the ExCo on a quarterly basis.

(e) The Committee thanked the CEO, noted that a lot of progress had been made on risk identification and review and applauded the proposed approach. The Commitee acknowledged that although good progress had been made to date it stressed the need for further progress to be delivered at a rapid pace.

ACTION: Alasdair Marnoch

(f) It was agreed that the Chairman of the Committee would update the Board at the next meeting. The detail of the risks presented was captured in an update for the Board which is shown as an addendum to these minutes and would be discussed at the next Board meeting.

ACTION: Dave Mason

(g) The Chairman asked that the Business go back 18 months and review the 6 top risks and the 3 further risks to see how many would have been identified at that stage.

(h) The Committee noted and supported the developing approach to risk management in the Company.

POLARC 13/39 **CORPORATE AND NETWORK AUDIT**

(a) The Committee received a paper from Malcolm Zack, Head of Internal Audit, outlining the principles of internal auditing and options for the future, including assurance that a plan was in place to deal with the issues raised.

(b) The CFO explained that the Business had recognised the need for additional resource in the Internal Audit (IA) function but also the need to commission a short piece of external work to look at IT risk and audit. The Committee supported that approach as the IT transformation was complex and an external audit would give the Business assurance.

ACTION: Chris Aujard

(c) The Committee asked Chris Aujard, General Counsel, to undertake a risk review of FS compliance, with input from Tim Franklin, to ensure the Business is responding to changes in regulations and the Mortgage Market Review. A paper should be brought to the next ARC highlighting the Business' compliance scorecard and the work carried out to date.

ACTION: Nick Kennett

(d) The Committee asked that the Director of Financial Services also be invited to the next ARC for this discussion.

(e) The Committee agreed that the Risk Management and IA teams should be focussed on the top 6 risks and 3 further risks and that enough resource should be provided to fulfil this requirement. The CFO explained that the structure for internal network audit would also be reviewed but that this would be done at a later date and did not stop the Business moving on strengthening the corporate IA function.

(f) The Committee noted the plan outlined in the Committee paper.

POLARC 13/40 **IT AUDIT FINDINGS – SOFTWARE LICENSING AND IDENTITY ACCESS MANAGEMENT**

(a) The Committee welcomed Lesley Sewell, Chief Information Officer, to the meeting.

(b) The Committee received a paper from Malcolm Zack summarising the most recent internal audit reports on Identity and Access Management and Software Licensing and assurance that an action plan was in place to deal with the issues raised.

ACTION: Malcolm Zack

(c) The Chairman thanked the Head of Internal Audit for the frank reports which clearly identified the areas of concern. The Committee asked that future reports included deadlines for all actions identified.

(d) Lesley Sewell explained that both audits were important as a baseline for the Business as it separated from Royal Mail Group suppliers and would enable her to ensure the new suppliers fulfilled the audit recommendations as they took over the service.

(e) The Committee noted the outcomes of the reports.

(f) Lesley Sewell left the meeting.

POLARC 13/41 **PROJECT SPARROW AND PROSECUTING AUTHORITY**

(a) Chris Aujard, General Counsel, updated the Committee on the approach to prosecutions brought by the Post Office. He explained that, currently, the Post Office brings criminal prosecutions under s.6(1) of the Prosecution of Offences Act 1985, which empowers any individual or company to bring a private criminal prosecution. He sought the Committee's views on potential changes to the prosecutions policy and further work proposed before any formal recommendation could be made for any changes to the prosecutions policy.

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(b) The Committee discussed the alternative approaches to prosecution but were concerned that if any changes were agreed the timing might influence the mediation process by raising questions on previous prosecutions.

(c) Chris Aujard explained that one of the issues was the perception that subpostmasters had of the Post Office bringing prosecutions for false accounting rather than theft, which was easier to establish. The Committee asked whether the business would still be able to recover branch losses through the Civil Courts. Chris Aujard explained that this would still be open to the Business but it may be slower and not recover as much. He explained that the Business was working to put in controls to support subpostmasters and stop any debts escalating. The Committee supported this but was nervous about changing the approach to prosecutions as in their view this acted as a deterrent.

(d) The CEO thanked the Committee for the helpful challenge. She stressed that the Business was not saying that it would never bring prosecutions, but that it would be more circumspect in the cases it chose to take. She agreed that the current approach was a deterrent but explained that there were other deterrents such as suspension or termination of contract.

(e) The Committee noted that it expected that the number of prosecutions would reduce over time regardless, as a result of the Business' improvements in the overall control framework around the branch network and the provision of support to sub-postmasters, in line with Project Sparrow and Network Transformation.

ACTION: Chris Aujard

(f) It was suggested that the decision on the Company's prosecuting policy should be taken to the January Board.

(g) The CEO updated the Committee on Project Sparrow. She explained that the lesson learned review was complete and the report would be available late November/early December. The CEO drew the Committee's attention to two risks to the delivery of the Project.

(h) The first risk highlighted was that the Business had envisaged that the final number of cases would have been under 100, but as the scheme neared the deadline for application the number of applications was nearer 150, with nearly 50 received in the last couple of days before applications closed. As a result, the timetable will have to be extended as each case will need individual investigation and Second Sight will need to be with us for longer. There will also be a resource cost to the Business which the CFO is aware of.

(i) The second risk that had arisen concerned the compensation that subpostmasters believed they were entitled to. It had become clear from the applications for mediation that there was an expectation gap which the Business needed to mitigate where possible.

(j) The Committee emphasised the need to reach conclusion as quickly as possible and to constrain the costs. It was noted that the Board would receive an update at the November Board meeting.

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POLARC 13/42 **INTERIM REPORT REVIEW AND ERNST & YOUNG HALF YEAR REVIEW FINDINGS**

(a) The Committee welcomed Jeremy Midkiff (JM), Senior Manager, Ernst & Young to the meeting.

(b) Chris Day, CFO, invited the Committee to review the Company's Interim Report and Condensed Financial Statements for the 2013-14 half year.

(c) The Committee also received a report from Ernst & Young (EY) on the Company's Half Year Results 2013 – 2014. JM welcomed discussion on this report.

(d) JM explained the scope of EY's review of the Company's interim financial statements. He noted that this was the first time that the Company had issued interim results under IAS 34 and therefore the scope of EY's review was in accordance with ISRE 2410 and designed to give negative assurance over the interim financial information.

(e) JM indicated that the scope of the review and focus areas were similar in nature to the prior year full audit with focus areas being revenue recognition, counterparty credit risk, pensions, classification of exceptional costs on the income statement and review of corporation tax. Based on the review to date, no findings were highlighted to the Committee except for the reclassification SAD (summary audit difference) related to the presentation of business transformation payments on the balance sheet similar to the prior year end.

(f) JM noted that subsequent events procedures and management enquiries will need to be updated to the expected date of sign-off and that a management representation letter will be required for the interim results.

(g) Finally, whilst specifically not highlighted in the EY interim report, JM highlighted the exceptional credit of £30m in the interim financial information as a result of utilising part of the current year non-network subsidy grant to offset costs which were incurred in the previous financial year. Whilst there is no issue with the accounting treatment adopted by the Business, EY wanted to highlight that this was an area of focus during the interim review as it looked 'odd' to have a gain in the current period financial statements for this specific matter.

(h) No other issues or findings were specifically highlighted to the Committee for their consideration.

(i) Sarah Hall responded that the use of the 2012-13 additional grant had been specified in a designation letter from BIS into amounts for capital and agents' compensation with the balance being available for other spend. Although 2012-13 expenditure was below the total level of the grant, the mix was different and about £30m was spent above the grant level for expenditure that was transformational but neither capital nor agents' compensation. In setting the designation letter for the 2013-14 grant, this issue had been discussed with BIS and the 2013-14 letter allocated a lower level to capital and agents' compensation leaving a greater balance for other transformational spend to cover the amounts in the prior year that had not been covered by the 2012-13 grant as well as

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expenditure in 2013-14. The Shareholder Executive team is aware of this treatment and of the use of the grant to date.

(j) SH highlighted the key changes since the Board had reviewed the Interim Report which mainly arose from the review by the Shareholder Executive team and noted that there would be further changes required should the funding announcement be made before the Interim Report was finalised. It was agreed that these changes would be reviewed by the Board Subcommittee which would be arranged for a date in the last week of November or first week of December.

(k) The Committee noted the Interim Report Review and thanked Jeremy Midkiff.

(l) Jeremy Midkiff left the meeting.

POLARC 13/43 **FINANCIAL SERVICES UPDATE, INCLUDING BANK OF IRELAND (UK) PLC CAPITAL AND LIQUIDITY**

(a) The Committee considered the report received from Nick Kennett, Financial Services Director.

ACTION: Nick Kennett

(b) The Committee asked for a note to update them on the effect of the Bank of Ireland strategy on the savings portfolio and its position as value for money for customers compared to the rest of the savings market.

ACTION: CEO

(c) There was concern that the Current Account rollout was delayed and the Committee asked for a fuller update at the Board.

(d) The Committee noted the update.

POLARC 13/44 **PAPERS FOR NOTING**

ACTION: CEO

ACTION: Chris Aujard

(a) The Committee noted the Information Security and Assurance Group Specific Update on Brands Database. The CEO said that she would check again that we had the right controls in place for the Brands Database. The Committee asked the Business to test whether information security for international payments was covered by the FCA.

(b) The Committee noted the Internal Audit activity update, status of agreed actions.

(c) The Committee noted the report on the Committee's first self-assessment.

(d) Finally, the Committee noted the report on the annual review of the Committee's terms of reference and the Internal Audit Charter and agreed that:

- the terms of reference be ratified; and
- the Charter be approved with the changes detailed in the report.

POLARC 13/45 **CLOSE**

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

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POLARC14 (1st)
14/1 - 14/3

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

Minutes of a meeting of the AUDIT, RISK AND COMPLIANCE SUB-COMMITTEE held on Tuesday 11 February 2014 by conference call

Present:

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

In attendance:

Alice Perkins	Company Chairman
Paula Vennells	CEO
Chris Day	CFO
Chris Aujard	General Counsel (GC)
Belinda Crowe	Project Sparrow Programme Director
Angela Van-Den-Bogerd	Head of Partnerships
David Oliver	Legal Consultant
Alwen Lyons	Company Secretary

POLARC 14/1 **INTRODUCTION**

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

POLARC 14/2 **PROSECUTIONS POLICY**

(a) The Committee received a report which outlined the proposed changes to the prosecutions policy and the way in which Post Office would prosecute criminal cases in the future. The GC explained that the recommended policy would limit criminal prosecutions to cases of egregious misconduct taking into account the factors laid out in the paper.

ACTION: Company Secretary

(b) The ARC discussed the three options as laid out in the paper and supported the recommended option, asking for a review in a year's time.

(c) Angela Van-Den-Bogerd explained her work on Business Improvement and the effect this had on reducing cases coming to prosecution. The ARC asked if this had increased the risk in the business, but it was explained that earlier detection of possible problems along with a more pragmatic approach to suspensions was having a positive effect.

ACTION: Angela VDB

(d) Angela Van-Den-Bogerd clarified that this would not stop criminal prosecutions through the civil courts. A detailed paper on Business Improvement would be provided for the next Board meeting.

ACTION: Mark Davies

(e) The ARC asked for a paper to explain the most appropriate way to communicate the prosecutions policy to be provided for the next Board.

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(f) The Committee approved the recommendations outlined the paper.

POLARC 14/3 **CLOSE**

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

FS 14/1-14/8

POST OFFICE LTD

FINANCIAL SERVICES SUB-COMMITTEE

Minutes of a meeting of the Financial Services Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Monday 27 January 2014

Present:	Virginia Holmes (VH)	Chair
	Tim Franklin (TF)	Non-Executive Director
	Chris Day (CD)	CFO
In Attendance:	Paula Vennells (PV)	CEO
	Chris Aujard (CA)	General Counsel
	Nick Kennett (NK)	Financial Services Director
	Alwen Lyons (AL)	Company Secretary
	Gill Catcheside (GC)	Secretariat

FS 14/1 OPENING OF MEETING

A quorum being present, VH opened the first meeting of the Financial Services Sub-Committee ("FS Committee").

FS 14/2 TERMS OF REFERENCE

(a) The draft Terms of Reference ("TOR") for the FS Committee had been circulated, it being noted that the TOR had also been reviewed by the Board. VH advised that the Board had requested that the activities of First Rate Exchange Services Limited ("FRES"), the joint venture with Bank of Ireland ("BOI"), be included within the FS Committee's Terms of Reference, to ensure that the entire range of Financial Services matters were within the remit of the FS Committee.

(b) It was reported that the Board had considered whether it would be of value to have Gordon Gourlay ("GG"), the MD of FRES, attend the FS Committee meetings. While confirming that GG would add considerably to the deliberations of the FS Committee, NK advised that he had reservations with this proposal and the conflicts of interests for GG as he considered GG's role to be an independent one between BOI and Post Office with duties/obligations to each party to deliver the FRES business.

(c) It was discussed whether GG's position would prevent him from attending the meetings of the Committee, and it was acknowledged that some of the FS Committee's business might place him in a position of conflict.

(d) It was noted that PV had spoken with GG regarding his possible involvement with the Committee, and felt that as long as the conflicts could be managed sensibly that his attendance at meetings would be beneficial.

(e) AL advised that from a governance perspective, neither the Articles

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of Association of FRES and The Post Office, nor GG's Contract of Employment precluded his involvement. It was noted that GG would, in any event, be required to sign a Non-Disclosure Agreement. AL/CA undertook to review GG's position specifically regarding any discussions that might be held on possible mergers or acquisitions.

ACTION: AL/CA

ACTION: PV/NK
ACTION: VH/TF/CD
ACTION:GC

(f) The FS Committee noted that NK was extremely concerned with GG attending meetings and PV undertook to discuss NK's areas of concern outside of the meeting with him, prior to VH, TF and CD meeting with GG to discuss the matter. GC undertook to arrange a convenient time for the Committee members to meet GG.

(g) VH suggested that GG be invited to attend meetings of the Committee when specific FRES items were considered by the FS Committee, when GG's financial services experience would be invaluable. PV apologised for the matter being raised with NK at such short notice, and indicated she would be happy to withdraw the idea of GG's involvement if all parties felt it would be inappropriate.

(h) It was agreed that Martin George would be invited to attend those items which involved a marketing perspective.

(i) It was agreed that, when possible, Financial Services matters would be brought to the FS Committee for debate and consideration in the first instance, and referred to the Board as appropriate. It was envisaged that the FS Committee would meet around four times a year, but that ad hoc matters could be dealt with by telephone or correspondence.

(j) It was noted that, as part of its remit, the Committee would consider, risk management matters before they progressed to the Audit, Risk & Compliance Committee for its consideration and decision.

(k) Ad hoc attendees would be approved by the Chairman prior to the meeting.

(l) It was agreed that the casting vote provision in the Terms of Reference should be removed and that an Annual Review of the Committee's effectiveness should be added. Delegated Authorities would also be included for clarity.

(m) Subject to the above changes, the FS Committee Terms of Reference were agreed, and GC undertook to circulate the approved document to members.

ACTION: GC

FS 14/3 **FINANCIAL SERVICES 2014-2015 PLANS**

(a) The Financial Services 2014-2105 plans had been circulated prior to the meeting. NK advised that the challenge was to sustain the parts of the business that are in structural decline (e.g. Banking and Payments) whilst rapidly growing Personal Financial Services.

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(b) The FS Committee considered the six main activities within the FS plan to enhance revenue. It was agreed that the members required a better understanding of the relative contribution and return on investment for the six activities in FS. NK was asked to consider how he might accelerate the FS plan to help fill the revenue shortfall elsewhere in the Post Office Plan. He was encouraged to think tactically and work together with Martin George to consider how effective marketing might enhance the pace of sales growth.

ACTION: NK

(c) NK gave an overview of the Current Account activity in the test area and confirmed that the pilot had been extended to a total of 100 branches across East of England. NK noted that Post Office is seeking a further extension (potentially into South Wales in mid-2014, followed by a rolling full-rollout to 2000-2500 branches in the autumn); however, these extensions would depend on the success of the pilot and the agreement of the Post Office and Bank of Ireland Boards and of the FCA. It was noted that the current Maestro cards will be replaced with Visa Debit cards in mid-2014.

(d) The opportunities for cross and up selling were discussed. NK advised that the Post Office current account was a key component of the long term cross sell opportunity. However, while the account numbers were still small the business was focusing on leveraging analytical data.

(e) NK/CD was asked to produce a balanced scorecard/dashboard to help the FS Committee monitor the RAG status including run rates of profit & loss, compliance, customer measures and projects/initiatives.

ACTION: NK/CD

(f) NK undertook to provide a promotional/marketing calendar and an analysis of the marketplace and competitors' marketing activity.

ACTION: NK

FS 14/4 KEY DECISIONS FOR THE FS COMMITTEE 2014-2015

(a) The key decisions for the FS Committee anticipated to arise in 2013-2015 were noted. The FS Committee recognised that a number of ad hoc meetings would be required during the year.

(b) AL advised that the FS Committee had delegated authorities from the Board to approve Investments between £20m and £50m and the introduction of new FS products. It was noted that such decisions would typically have gone through the Executive Committee prior to coming to the FS Committee. AL/NK undertook to discuss the delegated authority limits in place outside of the meeting.

ACTION: AL/NK

(c) It was noted that the Annuities and Investments Strategy would be submitted to the FS Committee by correspondence for approval in February 2014.

(d) It was noted that tactically it might be worthwhile accelerating Project Hawk as the incremental income was profit accretive with a top line impact, but that this had not yet been recommended by the Executive Committee.

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(e) The benefits of Project Bounty were discussed.

ACTION: GC (f) GC to prepare a rolling agenda for 2014 to include the anticipated key decisions.

ACTION: NK (g) The FS Committee discussed Post Office's contract with National Savings & Investments, which was currently under negotiation. NK to provide a note to FS Committee members once negotiations had been concluded.

FS 14/5 **RISK OVERVIEW AND FINANCIAL SERVICES RISK REGISTER**

ACTION: NK (a) The Committee noted the Financial Services Risk Map dated 18 January 2014. NK was asked to provide more details including description, responsible individual, mitigation and comments.

(b) The update on various Risk matters, including Bank of Ireland (UK) plc capital and liquidity was considered. It was agreed that Compliance Risk should be added into the next report, and that any Compliance breaches should be reported to the FS Committee.

(c) The FS Committee was advised that the capital and liquidity position of the Bank of Ireland (UK) was required for regulatory and Eagle Contract requirements.

(d) NK advised that the full complement of regional managers was now in place, but that the new branch FS incentive structure was still to be implemented, as it was part of the CWU negotiations.

(e) NK advised that the FCA had carried out a review of the Post Office Mortgage Strategy as part of its regular oversight of BOI and Post Office. It was noted that the report was awaited, but that informal feedback had been very positive.

ACTION: NK (f) It was agreed that the Board should be advised in advance of any FCA visit.

ACTION: NK (g) It was agreed that a paper on the Mortgage Market Review ("MMR"), which comes into force on 24 April, be submitted to the FS Committee. VH asked that all information sent to the FS Committee be submitted via Secretariat to ensure that a central record was kept of all matters reviewed by the FS Committee.

(h) The FS Committee noted the update on various Risk matters, and agreed that it should be submitted to ARC for its review.

FS 14/6 **FUTURE AGENDA ITEMS**

(a) Future agenda items to include:-

Sales Compliance – GC to invite Richard Holden, Director of Operational Risk at BOI.
MMR
How to drive Sales/Sales Capability/Sales Training
FS Incentive Structure

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Bi-annually – Regulatory Market Update

Standing items:
Balanced Scorecard
Future Agenda items
Promotional calendar – to include market and competitor activity.
Compliance Breaches

ACTION: GC (b) GC to produce a rolling agenda/yearly plan and liaise with NK/PV regarding prioritisation.

FS14/7 **ANY OTHER BUSINESS**

(a) NK advised that Travel Money Card had won the award for Prepaid Currency Card Provider of the Year at the Consumer Moneyfacts Awards.

ACTION: ALL (b) VH suggested that it would be useful to have a debrief following the meeting with FS Committee members and PV/NK.

(c) It was agreed that the FS Committee dates for 2014 would be:

2 April 2014	12.00-14.00
10 June 2014	14.00-16.00
8 October 2014	13.30-15.30
3 December 2014	13.30-15.30

FS 14/8 **CLOSE**

There being no further business, the meeting closed.

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FS 14/9-14/11

POST OFFICE LTD

FINANCIAL SERVICES SUB-COMMITTEE

Minutes of a meeting of the Financial Services Sub-Committee of the Board on Monday 10 February 2014 Held by Correspondence

Present:	Virginia Holmes (VH)	Chair
	Tim Franklin (TF)	Non-Executive Director
	Chris Day (CD)	CFO
In Attendance:	Gill Catcheside (GC)	Secretariat

PC 14/9 **INTRODUCTION**

It was noted that a meeting of the Committee was to be held by correspondence to consider the Money Transfer Service Tender and Agreement.

PC 14/10 **MONEY TRANSFER SERVICE TENDER AND AGREEMENT**

A paper on the outcome of the competitive process and subsequent negotiations for a new Money Transfer Services Agreement ("MTSA") had been circulated to the Committee on 6 February 2014 for its consideration and input.

Committee members responded in writing to the Company Secretary

(i) Noting the revised arrangements for Money Transfer Services;
(ii) Noting and endorsing the Executive Committee's recommendation to enter into an MTSA with MoneyGram on the terms outlined in the paper; and
(iii) Authorising a member of the Executive Committee to sign the MTSA on behalf of the Post Office.

PC 14/11 **CLOSE**

There being no further business the meeting was closed.

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PC 13/44-13/51

POST OFFICE LTD

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board held at 148 Old Street, London EC1V 9HQ on Wednesday 20 November 2013

Present:	Virginia Holmes (VH)	Chair
	Chris Day (CD)	CFO
	Susannah Storey (SS)	(by telephone) (for items 13/44-13/47)
In Attendance:	Natasha Wilson (NW)	Head of Reward and Pensions
	Ken Potter (KP)	Pensions Adviser
	Harpreet Singh (HS)	Pensions Adviser
	Ian McKnight (IM)	RMPTL (for item 13/47)
	Tim Giles (TG)	AON Hewitt (for items 13/44-13/48)
	Gill Catcheside (GC)	Secretariat

PC 13/44 OPENING OF MEETING

A quorum being present, VH opened the meeting.

PC 13/45 MINUTES OF PREVIOUS MEETINGS AND MATTERS ARISING

The minutes of the meetings held on 10 September and 7 October 2013 were approved for signature by VH.

The actions list as at November 2013 was noted.

The following matters arising from the minutes were discussed:

a) PC 13/12 – KP advised that Royal Mail Group had considered equity options in the shorter term around 18 months ago but had not supported it. It was noted that Post Office could put forward a proposal to the Trustee, but that IM had advised that there was no need to do so at the current time as the strategy was targeting the agreed objectives.

b) PC 13/33 – KP reported that notice to leave RMPP was no longer applicable for the Defined Benefit Scheme as Post Office was now classed as an Employer in a segregated scheme, and not a Participating Employer.

c) PC 13/34 – CD advised that the issue of whether advisers' fees should be fixed or flexible was being considered, and that Sarah Hall would report back to the Committee with her recommendations in due course. **ACTION: SH**

d) PC 13/37 – It was noted that the Transition Plan had yet to be circulated to the Committee by IM. **ACTION: IM**

e) PC 13/38 – TG advised that an up-to-date allocation of assets had been provided in the latest Investment Report.

PC 13/46 PROJECT ROBIN

CD reported that Project Robin had been approved by the Trustee, all documents had been agreed and circulated to Committee members, and the Deed of Amendment had been sealed putting Project Robin into effect from 1 April 2014. It was noted that the CMA had written to the Company agreeing the pension changes as finally proposed. CD stated that as part of the discussions with the Unions it was agreed that the Business would continue to engage with both the CMA and CWU on pension issues. KP advised that the implementation of the agreed terms of Project Robin was progressing satisfactorily.

CD reported that he would be meeting with Chris Hogg and Joanna Matthews, Chair of the Trustee, prior to Christmas to discuss various pension matters. CD felt that this would help to keep the lines of communication open between the Company and the Trustee

ACTION: KP/HS

KP/HS undertook to prepare and circulate to Committee members a one page summary of the implications/economics of Project Robin following the changes of the original proposal, including its impact on the scheme's surplus.

PC 13/47 **INVESTMENTS**

Ian McKnight of RMPP joined the meeting.

IM presented the Quarterly Investment Report as at 30 September 2013 together with an Investment Strategy Update, which was considered by the Committee.

ACTION: IM

It was noted that the current asset allocation continued to remain a long way from the agreed strategic asset allocation. IM advised that it was anticipated that because of the rate at which the fund managers drew down cash for investment purposes, the asset re-allocation timescale would be Property (6-12 months), Property Debt Fund (1-2 years), EMD (prior to Christmas), and Liquid Distressed EMD (a number of years). The reduction in liability hedging assets and cash from 14.8% to 5.3% would be implemented by the end of Q1 2014. IM undertook to provide the requested transition plan which included timelines, and what assets had been committed and which had been implemented. NW also asked for details of where monthly cash pension contributions were being invested.

ACTION: IM

Because the current asset allocation was underweight relative to Post Office's desired strategy it was unlikely that return assumptions that had been modelled for the risk-seeking assets would be met. VH asked IM to consider whether there were any derivative overlay strategies that could be implemented in the short term to more rapidly replicate the desired exposure. IM undertook to look into this and report via the IWG.

ACTION: IM

The Committee discussed the issue of currency hedging, particularly with respect to the Absolute Return investments where IM advised that the poor Q3 returns of -7% were primarily driven by the weakening of the dollar at the time of the so-called "fiscal cliff"".. IM advised that the ISC had made a conscious decision not to implement a currency hedging programme for POL's non-sterling assets. The Committee asked this to be re-evaluated and IM undertook to raise the matter at the February ISC

ACTION: IM

The performance of individual asset managers was noted. VH requested that the assumptions used for the selection and appointment of the asset managers be included in the report. The report should also show performance against target as well as benchmark.

ACTION: IM	IM undertook to circulate a report from Lazard setting out an explanation of their recent performance.
	SS left the meeting.
ACTION: IM	VH asked that the Investment Report include a front page giving total value and net cash flow, together with an executive summary which would red flag any issues. IM also undertook to include a chart showing asset allocation as agreed in the Statement of Investment Principles ("SIP").
	It was noted that the next meeting of the IWG would be held on 12 December 2013. It was agreed that it was important for a representative of Post Office to attend the meeting, and CD, NW, KP, HS and TG would meet to discuss the matters that should be raised at the IWG.
ACTION: IM	TG advised that the liability hedge currently at three years of future accrual would need to be extended imminently because existing triggers had not been met. It was noted that instead of the soft triggers previously agreed it would be more appropriate to have both soft and hard triggers in place. IM undertook to forward the matrix of the triggers proposed by Mercer for the IWG and ISC to TG for his comments and advice.
	IM left the meeting.
PC13/48	**REVIEW OF INVESTMENT POSITION**
	The Committee considered Aon Hewitt's overview of the Investment Report.
	It was agreed that it was important for the strategic asset allocation to be implemented in line with the SIP, and that this should be fed back to the IWG. The Committee discussed the level of resourcing at RMPP and whether this was leading to a delay in the implementation of the asset strategy.
	TG left the meeting.
PC 13/49	**DEFINED CONTRIBUTION PENSION ARRANGEMENTS**
	The Committee received a report on Defined Contribution Pension Arrangements, and the changes proposed by RMG.
	It was agreed that Section three of the paper was outside of the Committee's delegated authority, and should be a matter for consideration by the Business.
ACTION: HS	It was further agreed that the Committee required a more comprehensive approach on the DC Pension Arrangement options. CD advised that the Business would engage with the Unions in early December regarding the proposals, with a revised paper being submitted to the Committee in the middle of Q1 2014. It was noted that a Committee meeting might be required prior to the next scheduled meeting to make a decision on the type of arrangement to be recommended to the Business.

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PC13/50 **MEETING DATES**

The Committee approved the meeting dates for 2014:-

5 March, 25 June, 8 October and 3 December. All meetings to be held at 148 Old Street starting at 10am.

PC 13/51 **CLOSE**

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

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PC 14/1-14/3 **POST OFFICE LTD**

PENSIONS SUB-COMMITTEE

Minutes of a meeting of the Pensions Sub-Committee of the Board on Wednesday 8 January 2014 Held by Correspondence

Present:	Virginia Holmes (VH) Chris Day (CD)	
In Attendance:	Gill Catcheside (GC)	Secretariat
Apologies for Absence:	Susannah Storey	

PC 14/1 **INTRODUCTION**

It was noted that a meeting of the Committee was to be held by correspondence to consider the Liability Hedging Triggers for the POL Section of the Royal Mail Pension Plan.

PC 14/2 **LIABILITY HEDGING TRIGGERS**

The following papers relating to the Liability Hedging Triggers for the POL Section of the Royal Mail Pension Plan had been circulated to the Committee on 30 December 2013 for its consideration and input:-

(a) A draft presentation from Mercers on Liability Hedging Triggers dated 12 December 2013 ("Mercers' Presentation");
(b) AON Hewitt's advice on the matter; and
(c) A draft letter to Royal Mail Pension Plan.

Committee members responded in writing to the Company Secretary
(i) Noting Mercers' Presentation;
(ii) Noting and agreeing AON Hewitt's advice that the yield triggers were appropriate for the POL Section of the Royal Mail Pension Plan; and
(iii) Approving the draft letter to Royal Mail Pension Plan on the Liability Hedging Triggers.

PC 14/3 **CLOSE**

There being no further business the meeting was closed.

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REMCOM
14/01 – 14/09

POST OFFICE LTD

REMUNERATION COMMITTEE

Minutes of a meeting of the Remuneration Committee of the Board held at 148 Old Street, London EC1V 9HQ on 11 February 2014

Present:	Neil McCausland (Committee Chairman)	
	Virginia Holmes	
	Alice Perkins	
In Attendance:	Neil Hayward	Group People Director
	Fay Healey (FH)	Chief HR Officer
	Alwen Lyons	Company Secretary
	Natasha Wilson	Head of Reward and Pensions

REMCOM 14/01 **INTRODUCTION**

(a) A quorum being present, the Chairman of the Committee opened the meeting and welcomed those attending.

REMCOM 14/02 **MINUTES OF PREVIOUS MEETING AND MATTERS ARISING**

(a) The minutes of the meeting held on 6 November 2013 were approved for signature by the Chairman of the Committee.

ACTION: Natasha Wilson

(b) (REMCOM 13/46 (h)) Natasha Wilson agreed to circulate to the Committee the policy covering Executive Directors, Executive Committee members and Senior Leadership members serving as a NED on the Board of other companies.

REMCOM 14/03 **REVIEW OF TERMS OF REFERENCE**

(a) The Committee received a paper recommending two minor amendments to its Terms of Reference.

ACTION: Company Secretary

(b) The Committee endorsed the Terms of Reference as per Appendix 1 of the paper and agreed to recommend them to the Board for adoption.

REMCOM 14/04 **EXECUTIVE REMUNERATION FRAMEWORK**

(a) The Committee considered a paper outlining the proposed remuneration framework of the Executive Directors for the financial year 2014/15 and the timetable for delivery of this framework.

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(b) The Committee discussed the approach to the CEO and CFO salaries and the recommendation in the paper that no increase be awarded in 2014/15. It was recognised that this would mean a growing salary gap between the business and the market benchmark. Neil Hayward, Group People Director, supported the position but proposed a framework for salary increases over the next three years to ensure that ShEx recognised the need to reconcile, to some extent, the gap between the current Executive Director salaries and the market benchmark.

(c) It was agreed that no changes be made to the Short Term Incentive Plan (STiP) framework and the STiP measures were discussed. The Committee agreed to the following measures:

Total Net Income (excl NSP) £m
Operating Profit £m
Employee engagement Index
Crown Profit(loss)
Network Conversions – openings as opposed to signings

(d) The Committee discussed the need to include sub-postmaster engagement as part of the STiP people measure, but agreed that this would be base-lined in 2014/15 for inclusion in the 2015/16 STiP targets.

ACTION: Martin George

(e) The Committee preferred a 'Net Promoter Score' to that of 'Easy to Do Business With'. It was agreed that the customer measure would be discussed again at the March Remuneration Committee, when the business would either explain when it would be able to move to a 'Net Promoter Score' or, if the Business did not think that it would be an appropriate measure, what the feasible alternatives were.

(f) It was agreed that the percentage weighting assigned to the Customer and People targets be changed to 15% each, but that all other percentage should remain as outlined in the paper at Appendix 2.

(g) The Committee discussed the shape of the threshold, target and stretch for each STiP measure. It was agreed that Total Net Income should have a threshold of £915m, a target of £925m (as per the strategic plan) and a stretch of £945m as this would maintain the changes made last year to harden the targets and move the bonus cylinder to the right. It was recognised that this was a very stretching target but that the business transformation depended on growing the top-line. It was also acknowledged that if threshold was removed there would need to be a debate on target setting to ensure that the STiP was not seen as unachievable. The Committee would consider this different approach next year.

(h) It was agreed that threshold and target would be the same for: Operating Profit; Easy to do Business with (if it remained); and Crown Profit (loss). However, the Network Conversions (signings) measure would have a threshold, target and stretch, in line with the funding agreement.

(i) It was also agreed that the Employee Engagement Index measure would have a range of targets and they would be the higher of the baseline result from the spring survey or the targets for 2013/14.

(j) It was agreed that 20% of the CEO and CFO STiP would be based on achieving their personal objectives. The CEO's personal objectives would include mutualisation ways of working with 4-6 significant milestones.

ACTION: Alice Perkins Paula Vennells

(k) These objectives would be agreed before the submission to ShEx and discussed at the next Committee

(l) The Committee discussed the Long Term Incentive Plan (LTiP) performance conditions and agreed that the gateway should change from Access Criteria to a target of 12,000+ access points for delivery by March 2017. The target of £30m EBITDAS (aligned with the strategic plan) was agreed.

(m) The Committee noted the likely outturn for 2013/14 and the effect on bonus and remuneration packages of the CEO and CFO. The members debated the appropriateness of considering special payments because of the reduced remuneration but decided that the outcome reflected that 2013/14 had been a difficult year for the business.

ACTION: Natasha Wilson Alice Perkins

(n) The Board Chairman agreed to share table 1 (section 7) with the CEO once it had been amended to reflect the projected scorecard. A split of the scorecard and personal performance values, as well as the gross values, would be circulated to the Committee.

ACTION: Neil McCausland Neil Hayward

(o) The Committee Chairman suggested that he and Neil Hayward meet with ShEx to give them an understanding of the shape of the CEO and CFO remuneration packages and to get early feedback on the position that they were likely to adopt in respect of these packages.

(p) The Executive Remuneration framework would be finalised at the next Remuneration Committee.

REMCOM 14/05 **2012/2015 LONG TERM INCENTIVE PLAN (LTIP) TARGETS**

(a) The Committee considered a paper on the appropriate measure and threshold target for Network Conversions. It was noted that the gateway measure would be contracts signed.

(b) The Committee challenged the proposed change to the threshold target. It was recognised that the flightpath for NT signatures in the 2014/2018 funding agreement was different to that in the original funding document to 2015. However, the Committee was cautious about lowering the suggested threshold target of 3749 and encouraged the Business to be aggressive in its push for the original target of 4800.

ACTION: Fay Healey

(c) The Committee was reticent to recommend a change of target to ShEx and asked for a report clarifying; when and how targets had been affected by changes to the 2012/2015 strategic plan; if any other ShEx businesses had changed LTiP targets; and the potential impact of not changing the LTiP on key personnel.

(d) The target would be given further consideration at the next Remuneration Committee.

REMCOM **UPDATE ON 2013/14 SUBMISSION TO THE SHAREHOLDER**

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14/06

(a) The Committee received an update on the paper submitted to the Shareholder Executive regarding the 2013/2014 Short Term Incentive Plan (STIP), 2013/2016 Long Term Incentive Plan and change of STIP design for the CFO.

(b) The Committee noted the above.

REMCOM 14/07 **MATTERS DEALT WITH IN CORRESPONDENCE**

(a) The Committee noted the summary of the offer for the appointment of Neil Hayward, Group People Director, previously agreed to by correspondence.

(b) The Committee noted the increase to thesalary of Mark Davies, Communications Director,,as of 1 January 2014, also approved by correspondence.

REMCOM 14/08 **ANY OTHER BUSINESS AND DATE OF NEXT MEETING**

(a) The next meeting of the Committee was scheduled for 11 March 2014 at 9 am.

REMCOM 14/09 **CLOSE**

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

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POST OFFICE LIMITED BOARD
Status Report

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Finance		
1a	July 2013 POLB 13/48(g)	Produce analysis to explain economics of the Crown and agents network models and set up a workshop for those NEDs who would find it helpful.	**Chris Day**	Crown Complete (October Board). Agents – date tbd.
1b	January 2014 POLB 14/5(f)	Ensure that there is common understanding of the position and the precise definition of 'break even' between the Business and BIS via the final budget presentation.	**CFO**	On-going
1c	February 2014 POLB 14/21 (g)	Make the NT report in the performance pack clearer for the Board.	**CFO/Kevin Gilliland**	The scorecard has been reformatted to provide better clarity. Going forward, the quarterly NT updates will include specific reference to the scorecard to provide further explanation. The updates will also be moved to coincide with the fuller quarterly performance sessions, with the next being scheduled for the April Board meeting.
		2. Strategy		
2a	September 2013 POLB 13/87(e) & October 2013 POLB 13/104(e)	Provide a paper for January Board covering the opportunities in the Energy market.	**Martin George**	March Board
2b	January 2014 POLB 14/3(b)	Clarify Business Transformation Objectives, including the impact of public procurement, for discussion at the next Board meeting.	**CFO**	March Board
2c	January 2014 POLB 14/4(a)	The Business to analyse its products by contribution and to recommend to the Board a list of products which would be deprioritised for the next 18 months, so	**CFO**	The Commercial Committee will utilise the report to drive

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		providing opportunities to reduced costs and focus on the areas of greatest return.		recommendations to ExCo, with updates being provided in the quarterly performance pack from Q1 onwards.
2d	January 2014 POLB 14/7(e)	The digital and multi-channel programme to be considered as part of the Business Transformation. The CEO suggested that the new Head of Digital present at a future Board meeting.	**Martin George**	We have engaged a search firm (Odgers) and are currently looking for a Head of Digital. In the meantime, we have created a Digital Board to create a roadmap and manage its implementation as well as moving responsibility for digital marketing into the Marketing team. The Digital team will report directly to the Commercial Director and be responsible for defining, developing and delivering the digital aspects of an omni-channel customer experience. 2014 sees the introduction of a number of important projects such as the launch of a mobile website and common digital platform, as well as a wide range of trials. The Board can be briefed on the status of the digital delivery agenda at any time.
2e	February 2014 POLB 14/16(d)	The Business to return in March with a paper outlining the options for discussion, showing: the different cost reduction scenarios; the full cost of implementation; the possible political ramifications of each scenario; and a timeline showing the critical path for procurement.	**Lesley Sewell**	March Board
2f	February 2014	The Business to clarify the future CORE business processes before this work	**Lesley Sewell/CFO**	March Board

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	POLB 14/16(g)	progressed. CFO to ensure that the future Supply Chain strategy and how it related to Business Transformation was included in the work which would report again to the March Board.		
2g	February 2014 POLB 14/28 (a)	Further paper on the Data Centre procurement to be brought to the Board after the lessons learned have been considered by the ARC.	**Chris Aujard**	To come to May ARC
		3. Project Sparrow & Prosecuting Authority		
3a	July 2013 POLB 13/51(g) September 2013 POLB 13/95(b)	Review of Second Sight report to be provided to ARC explaining how we awarded and managed the contract and include an internal 'lessons learned' review for Project Sparrow.	**Belinda Crow/Alwen Lyons**	To May ARC
3b	September 2013 POLB 13/93(b)	Produce a noting paper to clarify whether any claims on the Business from the Horizon work would be covered by Professional Indemnity or Directors & Officers insurance and whether we had alerted our underwriters. Ensure that the appropriate notifications are made.	**CFO/Alasdair Marnoch**	Appropriate notification to underwriters has been made. Work assessing claims is continuing and the insurance position will be considered in light of this.
3c	January 2014 POLB 14/7(f)	Clarification on whether the Terms of Reference agreed with 2nd Sight precluded them from working with claimants against the Post Office.	**Chris Aujard**	Included in the B48s circulated to the Board
3d	February 2014 POLB 14/17(c)	Business to revise its key communication messages regarding the change in approach to the prosecutions policy and be ready with them in case questions arose.	**Mark Davies**	Included in the B48s circulated to the Board
3e	February 2014 POLB 14/18(f)	Commission more generic legal advice on the overall level of legal and financial exposure (taking account of the possibility of class actions) under the Initial Complaint Review and Mediation Scheme. This advice should consider the steps that could be taken to mitigate any exposure including considerations of alternative structures that might be available to deal with the mediation cases. Such advice should have regard to alternative dispute resolution mechanisms, such as the Financial Ombudsman Service.	**Chris Aujard**	Sparrow paper to March Board.
3f	February 2014 POLB 14/18(g)	An update to be circulated on the position with the Business' insurance underwriters and the Business to revisit the legal advice on insurance to ensure it is robust and that the correct disclosures had been made. All future documentation to consider potential insurance claims and disclosure.	**Chris Aujard/CFO**	Sparrow Noting paper to the March Board.
		4. Risk		

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4a	November 2013 POLB 13/128(f)	ARC to review the top 6+4 risks at its February meeting. Include in future Board agenda.	**Alasdair Marnoch/ Alwen Lyons**	To March ARC.
		5. Mutualisation		
5a	February 2014 POLB 14/20 (c)	The Board to feed their comments on the Public Purpose Statement to Mark Davies, the resultant changes to be made and the final statement agreed with the Chairman and CEO before circulation to the Board for information.	**All/Mark Davies**	Ongoing
		6. Miscellaneous		
6a	February 2014 POLB 14/24 (b)	Gifts and hospitality procedures to be aligned under the Anti-Bribery Policy to ensure that permission is obtained for hospitality and retention of gifts.	**Chris Aujard**	Complete
6b	February 2014 POLB 14/26 (b)	Future Board Sub-Committee draft minutes to be circulated before approval by the Sub-Committee to ensure a timely update for the Board.	**Company Secretary**	
6c	February 2014 POLB 14/28 (b)	An industry expert to be invited to a future Board to present on Cyber Security.	**Company Secretary**	To be included in a future agenda.

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POST OFFICE LTD BOARD

Energy – Noting Paper

1. Purpose

1.1. The purpose of this paper is to update the Post Office Ltd (POL) Board on the recommended way forward for the POL energy proposition.

2. Background

2.1. In January 2014, the POL Executive Committee (ExCo) agreed that while it supported entry to the energy market through a white-label proposition, it still had concerns regarding: POL's capability and capacity to sell energy compliantly; the potential risk of an adverse impact to the POL brand resulting from the limited control over energy prices and negative public perceptions of the big six energy providers (the Big 6).

2.2. Since then further internal stakeholder engagement has been carried out to test the operational and financial viability of launching a white-label energy proposition, based on the most recent proposals received from three of the major energy companies (British Gas, EDF Energy, and Scottish Power).

2.3. This work confirmed the potential opportunity for POL but brought into focus the challenges that POL would face in launching a white-label energy proposition in 2014/15. The programme team have concluded that POL would not be able to devote adequate resources[1], marketing focus[2] and network capacity to launch energy unless other commercial developments such as Financial Services, Mobile or sales efficiency were deprioritised. This is at least in part due to the fact that the regulatory sales compliance requirements of selling energy end to end would have meant that it could only be sold as an assisted sale by Financial Services Specialists.

2.4. There is a backdrop of uncertainty in the energy sector. This is caused predominantly by the Retail Market Review (RMR) being implemented; public dissatisfaction with the Big 6 driving increased switching (many going to new market entrants); and Government applying pressure for further changes to the industry to drive down energy bills. The market dynamics will become clearer over the coming year and may work in POL's favour.

3. Key points

3.1. The energy programme team recommended to ExCo that POL does not continue to pursue launching an energy proposition at this time because;

- It has become increasingly clear that regulatory sales compliance in the energy market will require a high level of assisted sales and supervision which will place an unacceptable strain on POL's capacity to deliver the sales numbers to the required level.

[1] Resources would be required across POL including: additional Project support and a dedicated Proposition Lead.
[2] The campaign calendar and campaigns for 2014/15 have already been planned. The additional of energy could result in diluted / confusing messaging to customers in the context of other major launches for Financial Services and Mobile during 2014/15.

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- Potential changes in the UK energy market, and in particular any direct regulatory action to split wholesale and retail providers, adds a high level of uncertainty and may present POL with a more profitable route to market entry once these changes have been implemented.

- There are significant brand and reputational risks for POL through launching a white-label energy proposition given the limited control that POL would be able to wield on price and quality combined with an inability to truly differentiate in the energy market.

- POL has made a conscious decision to prioritise the pipeline of new product developments and commercial opportunities to ensure excellent delivery. Devoting time and resource to energy would reduce the capacity to carry out these activities effectively.

3.2. ExCo has decided to support the recommendation. The energy programme team still believes that there is an opportunity for POL to develop an energy proposition in the future as customer consideration levels for POL energy are high. The decision outlined in this paper is reflective of prioritisation and timing rather than a loss of commercial benefit.

4. Proposed way forward

4.1. There is still an opportunity for POL to enter the energy market, however 2014/15 is not the right time given the core priorities for 2014/15.

4.2. Therefore ExCo has decided that Programme SPARK (PO Energy) will be closed, and resources reallocated. Programme spend to date is £145k and this decision will free up £200k in 2014/15.

4.3. The PO Energy Programme work to date will be passed to the Strategy Team, who will periodically review the opportunity, based on the market conditions and capabilities which would strengthen POL's position to enter the energy market. An update on this review will be provided to the Board in six months.

5. Risks and Mitigations

5.1. This decision creates a shortfall of £3m in the planned 2014/15 income and a risk to £59m of planned income over the lifetime of the 2020 Strategic Plan if POL ultimately decides not to enter the energy market. Other activity to fill this shortfall will need to be identified; the Commercial team fully accepts the challenge to fill this gap through existing products and services.

5.2. There is a risk that the energy companies may react unfavourably to this change in POL's direction. The impact of this is likely to be minimal as POL has been clear from the outset that launching the proposition would be subject to internal decision making.

6. Decision

6.1. The Board is asked to note the decision to close the Spark programme.

Martin George
March 2014

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POST OFFICE LTD BOARD

Wave Programme – March 2014

1. Purpose

The purpose of this paper is to:

1.1. Update the Post Office Board on the Wave programme following the detailed discussions and commercial negotiations with the vendors underpinning the mobile service;

1.2. Seek approval to sign contracts with the mobile vendors;

1.3. Seek approval to begin the deployment of a mobile service in accordance with the launch strategy outlined in this paper and in support of the objectives outlined in the Strategic Plan;

1.4. Ask the Board to note the investment requirement of £6.6m to establish the service.

2. Key Points

2.1. The launch of a mobile service is fully supportive of Post Office's strategy to offer relevant services to its customers and is a key component of the 2020 Strategic Plan.

2.2. Following approval from the ExCo in November, the team has been fully engaged with 'best in class' vendors to design a flexible, robust and cost effective solution.

2.3. Post Office has now negotiated some highly advantageous commercial terms with the proposed suppliers, providing an industry leading cost base (confirmed by industry experts) and an excellent platform from which to make the proposition a success.

2.4. A full programme of customer research has confirmed that with the right customer proposition there is a significant opportunity for Post Office to acquire a considerable volume of customers and develop a profitable business. The exceptionally competitive cost base offered by the vendors is also a reflection of their perception of the size of the opportunity.

2.5. September 1st 2014 is being targeted for the launch of the initial phase of pre-pay services.

2.6. The product contribution (after investment costs) generated from this programme to 2019/20 is £41.4m.

3. Background

3.1. During 2012 the hypothesis that extending the Telecoms portfolio into the mobile market could be successful and profitable was tested and confirmed through customer research and a 'Request for Information' procurement process.

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3.2. A formal procurement process commenced in January 2013, but despite a fully competitive process being conducted the field narrowed, and Fujitsu was progressed into advanced discussions in July 2013. Although it brought together a 'best in class' supply chain, Fujitsu did not provide Post Office with a viable offer. On 28th October, the process was closed and Fujitsu was disengaged.

3.3. An investigation was conducted to determine the alternative options available to Post Office to enter the market. It was concluded that the optimal method to enter the market was to contract directly with the mobile vendors and for Post Office to act as service integrator and manage the end-to-end service when live. This is the typical model employed by Mobile Virtual Network Operators ("MVNOs"), such as Sainsbury's, Lyca and Talk Talk. The option of entering the market as a reseller was rejected due to the low return achieved.

3.4. Since November 2013, significant effort has focussed on building a solution largely based on the vendors incorporated into the Fujitsu supply chain. The competitive procurement process had identified them as offering leading solutions with very competitive proposals; the most notable (and fundamental) being Everything Everywhere ("EE"). Additional vendors were identified and engaged to fill the roles in the solution previously fulfilled by Fujitsu itself.

4. Current position

4.1. An extensive engagement programme has been undertaken with the vendors to design the solution and operating model, fully define business requirements and negotiate commercial terms.

4.2. The supply of network services from EE will be delivered through a contractual relationship with Transatel rather than direct with EE. The commercial terms have been negotiated with EE directly, but will be passed on through a Transatel contractual relationship. A lengthy process was conducted with EE to ensure Post Office's concerns with a Transatel led service could be addressed and risks mitigated. This process has been satisfactorily concluded.

4.3. The general terms and conditions being offered by the vendors are in line with expectations and within acceptable levels of risk.

4.4. An assessment of the role Post Office will be required to play in its increased scope as service integrator and service manager has been undertaken. Engagement with a number of other MVNOs (Sainsbury's, Colruyt, Talk Mobile) has been conducted to benchmark the size of the organisation and the types of roles Post Office would need to have in place to effectively deploy, operate and manage a mobile proposition. A recruitment process has been undertaken to bring in expert resource to complement existing programme resources in order to reduce risk and build capability. This will continue as the programme progresses.

4.5. In parallel to the procurement process, using the insight generated from the research programme, focus has been put into developing the initial pre-pay customer and colleague propositions to ensure it is compelling, relevant and suitable for our sales channels.

4.6. The sales model and channel strategy have been developed. An initial discussion with the NFSP provided very positive feedback about the proposition and proposed Agent remuneration.

4.7. Post Office is targeting achieving a customer base of 200,000 pre-pay subscribers and 200,000 post-pay subscribers by the end of 2019/20. This will require the acquisition of 10,000 pre-pay subscribers per month and 4,500 post-pay subscribers per month. Customer research has confirmed this is achievable.

4.8. The launch for an initial pre-pay service is being targeted for 1st September 2014 using 50 Post Office branches and a fully featured online sales portal. A national rollout of pre-pay services is targeted for mid-November 2014. In parallel to the deployment of the pre-pay proposition, work to develop the post-pay proposition will begin in summer 2014. It is intended that a launch of post-pay will happen at the beginning of April 2015, and will almost certainly contain a 4G offering.

4.9. Post Office will shortly be ready to sign contracts with the main vendors and has the plans and resources in place to progress to the deployment phase of the programme. Further detail supporting this paper is provided across the following areas in ANNEX 1:

- The competitive landscape and customer insight (Part A)
- The customer and colleague proposition (PART B)
- The sales model, regulatory environment and remuneration proposal (PART C)
- The mobile solution (PART D)
- The vendors and contracts (PART E)
- Key programme milestones (PART F)

5. Options Considered

5.1. The alternative option to enter the market under a 'reseller' agreement was evaluated in November 2013, and was discounted due to the poor returns generated.

5.2. The second option considered is for Post Office not to enter this market. Despite research showing a considerable opportunity for Post Office, success in this highly competitive market is not guaranteed. There is a requirement for Post Office to provide focus and resources across the entire business to help bring about this success. However, the prize is considerable in financial terms and by associating our brand with modern and relevant services.

6. Commercial Impact/Costs

6.1. The financial case has been approved by the ExCo. All financial hurdle rates have been met, with the exception of payback. Payback will be achieved in just less than 4 years and reflects the industry norm for building a telecoms customer base.

6.2. To March 2014, the sunk costs for the Wave programme are £1.45m. Further funding of £6.6m is required to establish the service.

6.3. The contribution generated from the product to the end of 2019/20 is £48.7m (£41.4m after deducting investment costs), with annual contribution of c£23m by 2019/20.

6.4. The delay in launching the service, from the timeline assumed in the Strategic Plan, results in an income shortfall to the Plan, in the order of £30m to 19/20.

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6.5. The key sensitivities in the financial case are customer base size and price. The NPV to 2019/20 is reduced to zero when customer base volumes reduce by 56% and prices across the board reduce by 33%.

6.6. A more detailed P&L and comparison to Strategic Plan can be found in ANNEX 2.

7. Key risks/mitigation

7.1. The key risks and mitigations can be found in ANNEX 3 for reference.

8. Communications Plan

8.1. In the build-up to service launch a full communications plan will be developed. The trial phase will enable us to test and learn in order to refine the communications plan for full launch in mid-November.

9. Conclusion

9.1. The customer research and engagement with our network colleagues has demonstrated that there is an opportunity for Post Office to successfully enter the mobile market, achieve a material volume of customers and create a profitable business. The extensive engagement with the vendors has resulted in the design of a robust, flexible and cost effective solution, giving Post Office the platform upon which to build a successful business. Entering into the mobile market is not without risk and success is not guaranteed. Post Office will need to be steadfastly committed to providing support, focus and resources if the product is to realise its potential. However, the potential return is substantial.

10. Recommendations

The Board is asked to:

10.1. Agree that Post Office is ready to sign the vendor contracts and commence the delivery phase of the Wave programme.

10.2. Note the funding requirement of £6.6m to launch the service.

Martin George
March 2014

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ANNEX 1

PART A: The competitive landscape and customer insight

The mobile market is saturated, with 92% of adults now owning a mobile phone. Despite this, the market is worth £15bn per year and is growing as customers increasingly use their mobile to access data services. Additionally, the opportunity for Mobile Virtual Network Operators "MVNOs" is increasing as customers become increasingly savvy in their knowledge that MVNOs "share" the networks of the big operators and they also seek better value from their provider. The 'big 4' operators still have in excess of 80% of the market, with MVNOs such as Virgin, Tesco, Asda, Lyca Mobile and Giff Gaff sharing 20% market share. In a recent Enders survey, 32% of customers of the 'big 4' stated that when looking at their next service, they intended to move to a MVNO. This has increased from 14% 4 years ago.

In recent years there has also been a decline in the pre-pay market, with customers migrating to post-pay contracts in order to finance an expensive smartphone handset. However this 40% of mobile customers still use a pre-pay service and the market value is £4bn annually. The market decline has slowed in the past year with the increasing availability of low price smart phones. Additionally, the control and flexibility from pre-paid services remains a key feature for many customers either through choice or the lack of availability of post-paid contracts.

This has led to the general 'neglect' of pre-paid customers by the main players in the market, and opening up a significant opportunity to MVNOs. Customers of the 'big 4' remain passively loyal and disengaged from the category. Post Office research indicates that 55% have never switched. MVNOs achieving success in the market are doing so with targeted and unique propositions and leveraging extensive distribution.

An increasing feature in the market is the uptake of SIM only services, where customers seek to save money by retaining phones for longer than the typical 24 month contract period.

Post Office has an opportunity to disrupt the passive loyalty in the market though the extensive branch presence, and the ability to have face to face conversations.

Post Office conducted a comprehensive research programme in 2013 to evaluate the market potential and identify the features to incorporate into a proposition to maximise the demand for a Post Office mobile service.

The output of the research was extremely encouraging with consideration levels for a mobile service from Post Office at the same level as Sky and Sainsbury's. In short Post Office is seen as a credible provider of mobile services. In the survey, 22% of customers were very likely to consider Post Office before and after seeing the proposition i.e. brand strength alone, with a further 14% saying they were very likely to consider the Post Office after seeing the proposition. These groups represent a significant proportion of those in the market for pre-pay services. In total this represents 9m of a possible 25m switching market. The majority (72%) are frequent visitors to the Post Office and over-index on services such as mobile top-up, bill payments, Travel Services and POca.

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ANNEX 1

PART B: The customer and colleague proposition for launch

During 2013, a customer research programme was conducted to test the appetite of the UK population for a mobile proposition from Post Office and also test the optimal pre-pay customer proposition.

The key pieces of insight from the research used to inform the initial pre-pay proposition are:

- In a crowded market with many complex offers customers value simplicity.
- Customers are largely disengaged in the category driving 'passive loyalty' to their existing network (offers are seen as too complex).
- When reviewing the market, customers are drawn to headline offers and are less sensitive to underlying tariffs as they often don't always know what they are currently paying.
- A successful proposition is an offer which can be easily understood and the value quantified quickly. A proposition with a high chance of failure is one asking the customer to invest too much time in understanding the offer and relying on them understanding their current usage in order to quantify it.
- Pay as You Go customers want to be rewarded for their loyalty and often feel like they are treated as inferior to 'contract' customers – paying a premium and receiving no reward.
- The quality of the network and the coverage is critical to give the service credibility.
- Getting a new handset is the main driver in prompting switching with 70% of customers buying their handset at the same time as their network service.

As a result of using the insight, the essence of the launch proposition is built upon 4 key building blocks:

1. Simplicity and Value – "Top-up today and we will Double Your Credit".
2. Reward – "For every £10 you top-up, we will pay £1 into a Handset Reward Fund, redeemable against your next handset".
3. A credible provider – "Using the EE network – the biggest and fastest in the UK".
4. Handsets – "A great value range of handsets and accessories".

The additional features that will be incorporated into the proposition are:

- Usage bundles will form part of the proposition for customers wanting to maximise the value in their top-up e.g. 200 minutes, 200 SMS, 500Mb data for £10 for a 30 day period. Additionally, a data only bundle will be offered for the tablet market.
- A European roaming offer or "Travel Bag"1 will be incorporated into the solution to complement the Travel services we offer and build tactical campaign activity.

[1] All product names are still subject to development. Names indicated are for illustration only.

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- A “Family Matters” feature is being incorporated to address a current gap in the market for parents of younger children seeking ‘security rich’ PAYG service. The offer provides parents with the ‘peace of mind’ that for £2/month their children can call and SMS 2 numbers e.g. mum and dad, regardless of whether the child’s credit has been used up or not. Additionally an online, mobile optimised portal will allow parents to top-up, and control available services e.g. no data after 10pm.

- Although no handset stock will be held in branch, customers will be able to order either online or though Horizon for a next day delivery either to their home address or to the Post Office branch on a ‘click and collect’ basis to the majority of branches.

For launch it is essential that the basics are right and from this we can continue to build on the offer to specific customer segments. Post launch, using industry leading business intelligence capability, customer activity will be continually monitored to identify gaps where customer needs are not being met and revise or launch new bundles and tariffs appropriately. Channel specific offers will enable us to react quickly with more targeted offers.

In order to provide ongoing innovation, the product and proposition roadmaps will start to bring in other features, value added services and the other product pillars to leverage the opportunity. Possible developments include:

- The development mobile services for SMEs, including specific tariffs and new product features. This would form part of a wider SME proposition.

- Proposition collaborations with other products, such as Prepaid Card and Current Account.

- The pre-loading of Post Office apps onto all devices.

- Secure mobile banking services to complement Post Office’s Financial Services offerings.

- The adoption of locational marketing for mobile customers based on their proximity to a Post Office branch and the services relevant to them e.g. “the Post Office is just around the corner, at 205 Old Street, why not pop in today to see our special deals on…..”.

- The supply of corporate mobile services following the expiry of the current BT contract in 2017.

- The supply of digital content and media.

Getting colleague advocacy is critical to the success of the proposition so a compelling colleague offer (and family of colleagues) is being introduced with the initial launch. The offer will provide colleagues with the consumer offer of ‘Double Your Credit’ whilst giving free data. The offer will compare extremely favourable with competitive offers.

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ANNEX 1

PART C: The sales model, regulatory environment and remuneration proposal

The Channels to market

The Post Office branches and Post Office website will be the major channels through which the mobile proposition will be sold. It is anticipated that with minor exceptions, SIMs will be stocked and sold from all branches. Handsets will be sold from the majority of branches, without stock and with varying means of range display.

Marketing support, and in-branch advertising

To support customer awareness and consideration, a marketing budget of £2m is required annually. Spend will be allocated between online and affiliate marketing and more traditional above the line marketing.

The Post Office branch will be required to provide prominent Point of Sale material to merchandise SIMs and to display the handset range. These will be tailored for the individual branch models as required. The sale of SIMs is almost certainly an impulse purchase, with over 1 million distributed every month through every type of retailer. To this end, prominent and innovative ways of merchandising SIMs must be accommodated e.g. queue merchandising, hanging SIM racks. Post Office has a great opportunity to disrupt the passive loyalty in the market and has to overcome its historically ineffective merchandising. To achieve this colleagues from Commercial and Network will work together to trial concepts prior to the September 1st launch in order to ensure we create an effective solution.

In seeking 10,000 SIM sales per month, Post Office is aiming to achieve a less than 1% share of the market for SIM distribution.

Model specific ways of displaying the handset range will be developed. It is unlikely that Post Office will carry display handsets or stock, so innovative ways to display the range associated offers will be used. In larger branches (Crown and larger Agency) digital displays will be investigated, whilst in smaller branches, floor/wall/counter top cardboard displays showing handset range and features will be adopted.

The role of branch colleagues

A commitment to having sales conversations on the back of relevant transactions such as bill payments, POca, and Top Up is required. However, it should be noted that the purchase of a SIM/top up or handset is a relatively low commitment for a customer so conversation time should not be onerous. Additionally, the "Double Your Credit" customer proposition has been created with simplicity in mind.

Our branch colleagues will not be expected to be mobile experts. The handset range offered will be relatively small at around six handsets. Our branch colleagues will be provided with training to provide basic advice about the major features of the range, the tariff, and provide basic porting and unlocking advice. The Brightstar 20:20 call centre will be able to provide the customer with any post sales (or presales) assistance of a more complex nature e.g. transferring data from an old handset, handset settings.

The management and processes for replenishment of SIM stock will follow the same process as with Phonecards, to ensure consistency and simplicity.

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The regulatory environment

As with the Broadband and Phone service, mobile services are subject to regulation by Ofcom. The regulatory obligations for selling pre-pay services are not especially onerous and will not require Post Office to provide colleagues with extensive training or achieve any certification. Essentially, Post Office must comply with General Condition 23 and publish our obligations to these conditions on our website. Additionally, we must ensure that behavioural standards around honesty and conduct are maintained by our colleagues during our sales interactions. Where a handset is purchased, we must also ensure that we comply with distance selling regulations. When selling post-paid services, the obligations become very similar to those in place for the Broadband and Phone products. These are particularly focussed around ensuring that where a customer is entering a contract, they intend and are authorised to do so. Post Office must provide clear and accurate point of sale material so customers are fully informed. When making a sale, the appropriate records must be maintained to provide an audit trail relating to the purchase. Very similar levels of training to those provide for Broadband and Phone will be required to ensure our colleagues uphold our regulatory obligations.

The Agents Remuneration Proposal and Crown P&L

The proposed remuneration for Agents and Partners is to offer a 'back-book' or revenue share approach. Where a sale originates from a Post Office branch, that branch will have 'ownership' and will receive a 5% share of the revenue generated by that customer. This is more than double the most generous deals available to retailers for SIM distribution and should represent an appealing offer to Agents and partners. The revenue share is in addition to the commission the Agent/partner can earn should the customer choose to top-up there.

For the Crown network, the P&L will receive recognition for the full amount the customer contributes to the wider Post Office P&L. Typically a pre-pay customer will generate £250 revenue and £120 contribution over its lifetime. Given these high levels of customer value, the mobile proposition could provide a great opportunity to assist the Crown network with its ambition to become a profitable entity.

The online sales portal

The online shop/portal will provide customers with a complete end-to-end buying journey, complete with range information, tariff and bundle selection, phone unlocking advice and FAQs. The portal can also be used as pre-sales support for customers doing pre-purchase research before perhaps going in branch to purchase. Customers buying handsets online can chose to have their handsets delivered to their home address or to a Post Office on a 'click and collect' basis for added convenience. The portal will be optimised for mobile devices to provide an optimal experience for customers and one they would expect when buying a mobile device.

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ANNEX 1

PART D: The mobile solution

Managing risk with an increased number of vendors

The mobile solution brings together a number of vendors with Post Office acting as the service integrator and managing the end to end solution. There are a number of components within the service, often with different vendors working together to deliver a single process. Many of the suppliers in the supply chain are already working together to deliver services to other MVNOs. This reduces timescales by providing an 'accelerator' to the build process and reducing risk in-life due to familiarity with working practices and processes.

To create further cohesion in the solution, a collaboration agreement will supplement the bilateral vendor contracts. All of the main vendors, including Post Office will be party to this agreement. It is predominantly a service orientated document that sets out the operational interfaces between the key suppliers to ensure the Post Office end to end customer experience is delivered. In the absence of a managed service agreement, the collaboration agreement contractually binds our key suppliers together to deliver the service. The direct contracts contain the key contractual terms between Post Office and the vendor (including the service levels).

The scope of Post Office' role in the solution

With the disaggregation of the supply chain, and moving away from a managed service approach, there is an enhanced service management role for Post Office. A MVNO service management expert has been brought into the organisation to support the service design and negotiation of the service levels with the mobile vendors. In support of the enhanced role, the service management organisation has been designed with engagement and advice from Talk Talk Mobile, Sainsbury's and Colruyt Mobile (Belgium mobile carrier). The areas that will require specific roles following launch include; stock management (devices, SIMs & Number Management), customer care support and complaints, incident management, revenue assurance/fraud management and supplier relationship management.

The solution will incorporate Atos as the incident management service desk.

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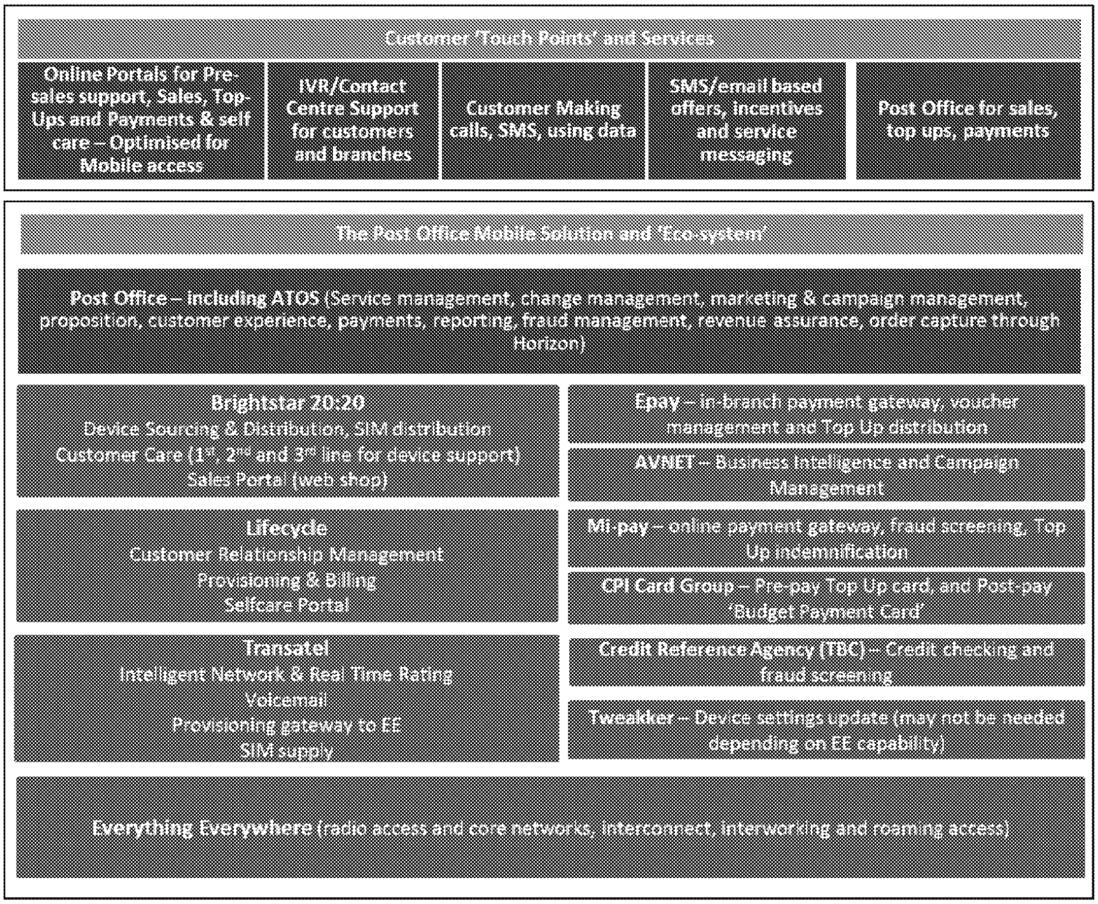
The solution overview

The diagram below illustrates the high level components and the role of each vendor and Post Office:



Despite the solution including a number of vendors, and appearing complex, this is the standard operating model in the market. Other mobile providers such as Sainsbury's have deployed a very similar model very successfully.

Each of the vendors in the solution is expert in their part as a whole has created a flexible solution ready to cope with the fast pace of change and need for innovation in the market.

The distinctive features and highlights within the solution

Within the solution there are some areas of differentiation, allowing Post Office to offer an enhanced experience to customers. The platform is fully integrated for pre-pay and post-pay services, whereas the platforms used by the 'big 4' have been put together in a piecemeal fashion over time. This creates some distinct advantages; the customer experience when migrating between pre-pay and post-pay will be seamless, the availability of a complete account activity and history on a mobile optimised portal for pre-pay customers, and for post-pay customers rating is done in real time, allowing for real time messaging and account control.

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The customer care function within the solution is being carried out by Brightstar 20:20 on a bureau basis. Brightstar 20:20 currently provides call centre services to a number of mobile providers (e.g. Sainsbury's, Tesco, O2) and is a highly skilled and capable call centre. They will provide first line support to both customers and to Post Office branches if needed. A clear advantage Brightstar 20:20 brings is in its expertise in providing technical handset support. They have developed in house software for their agents to remotely take control of handsets to adjust settings and diagnose issues for customers. This level of expertise and support is essential as we will not be expecting our branch colleagues to offer technical support. The initial bureau arrangement allows for a cost effective market entry for Post Office, but also allows for the full branding of Post Office in the delivery of services.

The solution also contains an advanced business intelligence and campaign management functionality using AVNET. This provides Post Office with a complete dashboard relating to product performance, giving aggregated views and also allowing the user to drill down into fine levels of detail. Information such as the sales performance of a handset type, bundle or branch can be viewed in near real time. The AVNET solution also incorporates a campaign management tool, allowing Post Office to communicate with customers via SMS or email using activity triggers to drive value and reduce churn.

The solution contains a feature rich sales and self-care portal, and is optimised for use on mobile devices. For the initial pre-pay phase of the launch, there will be no mobile app, but this can be incorporated fairly easily later.

Incorporated into the solution are two payment partners; epay and Mi-pay. Epay will provide customers with the ability to top-up in Post Office branches and a further 6,000 of the retailers, and Mi-pay will offer online payment services. The Mi-pay solution provides Post Office with fraud protection as all top-ups taken by Mi-pay are fully indemnified. Further top-up distribution through Payzone and Paypoint can be incorporated if required at a later stage.

A further key feature of this solution is the incorporation of fully automated, end-to-end revenue reconciliation and cost validation. This ensures confidence that billing issues causing write offs and customer poor customer experience can be detected and rectified quickly.

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ANNEX 1

PART E: Vendors and Contracts

This section outlines background to the inclusion of the vendors, the services they are providing, and their relative importance to the service and outline information on the commercial deals negotiated.

The commercial deals that Post Office has done (with EE/Transatel, Lifecycle and 20:20) have been confirmed by industry experts as better than industry norms. The leverage Post Office has is that it is simply too big an opportunity for the providers to risk being excluded.

Why the vendors have been selected

The vendors are, in the main, those that Fujitsu had incorporated into its proposal and had been subjected to competition through Post Office's formal procurement process. This gave confidence that Post Office was sourcing 'best in breed' vendors with competitive rates. It provided some acceleration to the process, with the providers offering the same commercial proposals (but without Fujitsu's mark-up).

In the course of defining the technical solution, the services fulfilled by Fujitsu were identified and have been filled by additional 'best of breed' providers, most notably Lifecycle, which is providing the CRM and billing platform.

The key contract – network services

EE is unwilling to contract directly and Post Office will be buying network services from Transatel, although the terms have been negotiated directly with EE. Post Office has agreed a payment mechanism with EE and Transatel that avoids the skewing of Transatel revenues. In practice, working directly with Transatel will give Post Office more flexibility.

The EE airtime rates are especially competitive at 25% below the benchmark expected, but this carries a significant minimum revenue commitment (£16M over 5 years). However, Post Office can exit at relatively low cost (which is insurable) if the service does not achievable viable traction. Exit obligations on Post Office from other providers are minimal.

A summary of each of the vendors and their importance to Post Office and experience

The following information provides a summary of each of the vendors, their experience and their relative importance to the overall solution.

- **Transatel (including EE) – High Importance – providing network services and real time rating**; France based Mobile Virtual Network Aggregator/Enabler. (MVNA/E). Key partner of EE supporting MVNOs across Europe. £17M annual turnover, 110 employees. Financially sound and growing steadily.

- **Brightstar 20:20 – High Importance – providing devices, logistics, customer care and online web shop**; Originally the logistics arm of Phones4U, based in the UK, it is now owned by Brightstar, which is a $multi-billion US IT services conglomerate and the world's largest wireless distributor. It has a small, but highly skilled customer care function focussed solely on the mobile industry.

- **Lifecycle – High Importance – providing the CRM, billing and Selfcare capability;** UK based niche telecoms CRM and billing services provider. 30 staff mainly in Newbury. Established 1995. Numerous high profile clients including Gamma Telecom and Viatel.

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- **Mi-pay – Medium Importance – providing online payment services;** UK Venture Capital funded online payment provider specialising in payment optimisation and indemnification against fraud. Development centre is in Romania. Established in 2003 with a host of major clients including Tesco and Vodafone.

- **Epay – Medium Importance – providing branch top-ups and wider top-up distribution;** Payment Gateway Provider (Branch) and distributor of top-ups. UK arm of $1.4Bn US financial services business with strong presence across the UK and Europe.

- **AVNET – Medium Importance – providing business intelligence, segmentation and campaign management capability;** Dublin-based specialist Business Intelligence Provider. Wholly owned by Avnet Inc., one of the world's largest electronic and IT component distributors. Significant customers include Tesco Ireland and Vodafone Ireland.

- **CPI Card Group – Low Importance – providing swipe cards for E top-up;** UK Swipe Card Provider. Previously known as ID Data. Now subsumed within Global CPI Group based in Colorado. Is the incumbent for the Post Office Broadband and Phone Budget Payment Card provision.

- **Tweakker – Medium Importance (but low priority) – providing "Over the Air" device settings ensuring that 'SIM only' customers receive an optimal customer journey with the Post Office.** Niche Danish Device Settings Provider. Established in 2009 it has clients such as Tesco Mobile. Owned by a venture capitalist funded specialist mobile device management Mobilthink, also Danish.

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A summary of the commercial deals negotiated or being negotiated with the vendors is included in the table below.

Vendor	Set-up cost	Ongoing operational cost - over 6 Years	Minimum commitment (included in ongoing costs)	Term and exclusivity
Transatel (Including EE)	£1.1m	£43.4m	£16M 5 year minimum revenue commitment with EE with a break at 2 years (£1.7M) where customer volumes are low. £12k fixed monthly fee to Transatel	5 years from service commencement. Exclusive
Brightstar 20:20	£0.6m	£15.4m for services £37.5m for Devices	£17.5K fixed monthly fee	3 years from service commencement. Exclusive for devices, and Non Exclusive for customer care.
Lifecycle	£0.6m	£1.7m	£14K minimum monthly charge	5 years from service commencement Exclusive
Mi-pay	£0.02m	£0.6m	£2K minimum monthly charge	3 years from service commencement Non Exclusive
Epay	£0.05m	£0.1m	No minimum	3 Years from 31st March 2014 Exclusive for branch Non-exclusive for distribution
CPI Card Group	-	£0.05m	No minimum	3 years Non exclusive
AVNET	£0.03m	£0.7m	£10K fixed monthly fee	5 Years from service commencement Exclusive
Tweakker	-	£0.3m	N/A	TBC

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ANNEX 1

PART F: The programme and key milestones

The scope of the programme is to launch both pre-paid and post-paid services within FY2014/15. The initial programme focus is on the pre-paid development and launch. However, the vendor negotiations and solution covers both prepaid and post-paid capability, to ensure that the Post Office has a solution capable of supporting post-paid and commercials suitable for both phases.

The key milestones for the launch of pre-paid services are as follows:

Key Milestone	**Date**
Authorisation from Post Office governance to sign vendor contracts and commence deployment	March 2014
Key commercial contracts agreed with Transatel, Brightstar 20:20, Lifecycle, Mi-pay	End March 2014
Less time critical contracts signed with epay, AVNET,CPI Card group, Tweakker	End April 2014
Detailed design complete	End April 2014
Build complete	18th July 2014
End to end user acceptance testing complete	28th August 2014
A limited volume launch with 50 branches for pre-pay services	September 1 2014
A full national launch of pre-pay services	Mid November 2014

Although the plan is inevitably time based, strict quality criteria will be in place to ensure that the customer experience and Post Office brand is protected. Hence, the initial limited volume launch planned for September 1st will not commence until there is compete satisfaction with the end to end test results. Similarly, a national rollout will not commence until all material issues highlighted within the initial phase have been satisfactorily resolved and re-tested.

The key milestones for a post-pay launch

Although the technical solution will be capable of supporting a post-paid customer proposition, there is significant work to be undertaken to determine was exactly this will be and how it will be supported within the Post Office. In parallel to the programme activities geared towards launching pre-pay, a post-pay workstream will commence. This will begin in summer 2014 with the design of the customer proposition, with the supporting design complete by December 2014. The build and test phase will complete by March 2015, with a launch at the beginning of April 2015.

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ANNEX 2

P&L and comparison to the Strategic Plan

The high level P&L for the service is detailed in the table below, with a comparison against the Strategic Plan. The shortfall against the Strategic Plan is largely driven by two factors; the significant delay in getting this service to market (12 months) and a refinement in both revenue and cost assumptions. Additionally, the advice of Finance, handset costs have been taken into 'cost of sale' rather than 'other costs', which has the effect of reducing Net Income.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	
£m	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**TOTAL**
Revenue	0.7	9.4	25.1	39.0	51.9	64.3	190.3
Cost of sale	-0.5	-7.0	-12.2	-16.1	-21.2	-23.5	-80.5
Net Income	**0.2**	**2.4**	**12.8**	**22.9**	**30.8**	**40.7**	**109.8**
Other costs	-0.9	-6.3	-9.5	-11.9	-14.8	-17.6	-61.1
Product Contribution	**-0.7**	**-3.9**	**3.3**	**11.0**	**15.9**	**23.1**	**48.8**
Supplier setup costs	-0.3	-0.5	-0.5	-0.5	-0.5	-0.2	-2.4
POL one off costs	-2.8						-2.8
POL one off costs (amortized)	-0.17	-0.29	-0.29	-0.29	-0.29	-0.12	-1.4
Re-procurement costs	0.0	0.0	-0.2	0.0	0.0	-0.5	-0.7
Net Contribution after set-up costs	**-4.0**	**-4.6**	**2.3**	**10.2**	**15.2**	**22.3**	**41.4**

Strategic Plan Submission	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**TOTAL**
Net Income	0.0	24.7	39.1	47.7	51.1	51.1	222.3

Variance to Strategic Plan	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**TOTAL**
Net Income	0.2	-22.3	-26.3	-24.8	-20.3	-10.4	-103.9

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ANNEX 3: Key Risks/Mitigation

The key commercial risks and mitigations are as follows:

Risk	Mitigation
There are delays in the contract signing process with the vendors due to final outstanding issues.	Identification of any issues as early as possible. Manage and escalate issues as necessary.
Post Office does not achieve the necessary customer acquisitions, through a poorly designed customer proposition, marketing support and ineffective merchandising.	The first phase of the launch with 50 branches is intended to establish whether the proposition for full national launch has been pitched correctly. If not, the proposition will be adapted as required. Ahead of the pilot merchandising and marketing concepts will tested to ensure they are effective for the initial phase.
Post Office does not achieve the required customer acquisitions through poor sales engagement or insufficient capacity within the sales channel.	Colleagues from the Network directorate will be involved in the development of the proposition, sales model and remuneration proposal to ensure ownership of the product. A full training programme will be deployed to ensure colleagues are appropriately skilled and informed to sell the product. An attractive colleague offer has been incorporated to assist with advocacy.
A 6 week 'locked down' forecasting window for handsets could result in some exposure on stock obsolescence or 'out of stock' situations where demand has exceeded the forecast. The contract with Brightstar 20:20 will see title to stock transfer approximately 10 days before it is sold and title passes to the customer. However, in order to ensure adequate supply from manufacturers Post Office must commit to a 6 week stock window.	In order to mitigate stock obsolescence risk, Post Office will work with 20:20 to range only mainstream handsets, and close management of stock will indicate where Post Office is not going to achieve its forecast. In these situations, Brightstar 20:20 are contractually bound (although not obligated) to use best endeavours to reabsorb stock into its mainstream supply. Tactical promotionally activity can help increase demand on ranges where obsolescence is a risk. Where an under forecast occurs either Brightstar 20:20 will employ best endeavours to source stock or Post Office can externally source stock from other distributors.
A high level of bad debt and fraud. The mobile market is heavily targeted by fraudsters, and in particular new MVNOs are targeted to exploit weaknesses.	Each of the suppliers will play a part in the detection of various types of fraud, with numerous prevention methods incorporated into the solution. A Post Office role dedicated to fraud and revenue assurance will ensure focus. The level of bad debt forecasted is in line with industry benchmarks at 2% of revenue. A prudent approach will be adopted to the acceptance of customers and policies and refined as expertise grows.

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The key programme and service management risks are as follows:

Risk	**Mitigation**
Outsource of POL activities to ATOS. The planned outsource provides a risk of disruption and confusion that may cause delays in the performance of project related tasks.	Early engagement and close monitoring of staff. Senior level oversight.
Programme planning is reliant upon assumptions. Current planning is based upon experience and high level Vendor feedback. Until the detailed design and planning are completed with and between the Vendors, we will not have real certainty that the target dates can be met.	Early, intense and co-ordinated focus upon design and planning activities. Identify and address issues at an early stage.

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POST OFFICE LTD BOARD

POca Update

1. Purpose

The purpose of this paper is to:

1.1 Update the Board on Project Maypole (Future of POca) and in particular the emerging possibility that NS&I might not be our service provider.

1.2 Advise of the need to commence planning for supplier procurement.

2. Background

2.1 In response to DWP's request for an outline proposition around a future POca replacement service, Post Office proposed a solution that used NS&I as the service provider (to replace the incumbents HP/JPM). The proposal was based on NS&I's estimate of being able to generate up to 1.5% return on the £2bn held overnight in POcas. Current returns are based on overnight LIBOR less 12bp, equivalent to 0.38%. We received feedback on this at a meeting with DWP/Treasury/BIS officials in mid-January: doubts were raised by Treasury officials as to whether NS&I represented the best value option. DWP asked Post Office to develop a more detailed, costed proposal based on what we deemed to be the best value for money approach.

2.2 In order to develop the proposal for presentation to DWP on 20th March, we started more detailed market testing with HP & NS&I. HP has since refused to co-operate in this unless we can guarantee them the business beyond 2017 (something we cannot do, not least because the state aid approval process has just commenced and this will put all commercial arrangements around POca under intense scrutiny). They will however share their initial market soundings, which support the view that more benefit can be realised from the overnight balances.

2.3 NS&I is continuing to develop detailed, costed proposals but discussions with Treasury on 20th February raised further doubts as to whether NS&I could make the investment returns on the overnight balances they originally claimed. Treasury has explained that NS&I is a 'front' for the Government Banking Service and so the most they can return on balances would be 0.25% below base rate (currently 0.25% return would be possible). This seriously undermines the NS&I solution (without the high levels of interest income that were promised, the overall cost of the successor service will be unacceptably high to DWP).

2.4 The meeting with Treasury arose from their Minister (Chief Secretary to the Treasury, Danny Alexander) taking a keen interest in discussions around POca. We understand that the minister has raised concerns with Iain Duncan Smith around the lack of options being offered up by DWP. It was clear from the meeting that Treasury is aligned to DWP thinking, i.e. a longer term arrangement with the Post Office for a replacement product aimed primarily at pensioners. This is encouraging and Treasury has agreed to a continued informal dialogue with Post Office Ltd. This will help us to ensure that the proposal we do put forward to DWP is workable and supported by Treasury.

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2.5 Given the emerging issue with NS&I as a solution, Post Office Ltd now needs to plan for running a procurement to source a new supplier for Card Account. (It should be noted that NS&I continue to discuss their ability to generate interest income with Treasury and appear to be getting greater traction. Treasury has agreed to give us a definitive answer on this issue). The client contract for the new service with DWP can be arranged via DVLA FOCS (target for call-off is June 2014). This will provide DWP with the basis for briefing politicians and Ministers have said they would like to make an announcement before the autumn. Once we have this commitment, we can commence the actual procurement activity (not before the ministerial announcement because the OJEU will be in the public domain and so effectively pre-empt any public commitment from DWP Ministers to a POca replacement service).

3. Proposed Approach

3.1 DWP has confirmed that the DVLA FOCS agreement is suitable for their procurement of the replacement Card Account service. Therefore, a call-off can be awarded to Post Office Ltd directly without the need for DWP to run a public procurement. The focus of this paper is on the sourcing of a service provider by Post Office Ltd.

3.2 So that we are able to fulfil our commitment to DWP to provide a proposal by 20th March, we will conclude market sounding involving HP and NS&I as planned. We will continue discussions with Treasury and obtain confirmation of the position with respect to NS&I. We will also engage with Treasury before we submit our proposal and check they are supportive of the solution we are developing, especially how we propose to use interest income from overnight balances.

3.3 At the same time, starting immediately, we will prepare for the eventuality of having to run a public procurement. This is not the same as commencing a formal procurement: we will only do this once we have commitment from DWP to the replacement service and subsequent to any ministerial announcement. The cost of procurement will be confirmed by the planning process but current estimates are £1m over 18 months.

3.4 We will continue commercial discussions with DWP around using the DVLA FOCS agreement as the contracting route for the Department to procure a replacement service. Our recommendation to DWP is for the FOCS call-off to be used instead of extension of the existing contract. This allows DWP to go through the contracting process once only, is in line with current political guidance and gives Post Office long term certainty. We are also impressing upon DWP that the sooner they can put in place the call-off the better because this allows Post Office Ltd to commence its own supplier procurement.

4. Key Milestones

4.1 Initial planning has identified the following major milestones over the next year:

- 20th March 2014 – Proposal presented to DWP.
- June 2014 – Agreement to move POca service into FOCS contract.
- June – September 2014 – Ministerial announcement.

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- June – September 2014 – If OJEU is required, notice is issued to the market.
- April – June 2015 – New supplier appointed.
- June 2015 – April/June 2016 – New service build.
- April/June 2016 – New service live.

4.2 It should be noted that these timescales are challenging and will be affected by the outcome of the procurement.

4.3 On the assumption that contracts with DWP are confirmed in June 2014 and that a public procurement is needed to appoint new suppliers to Post Office Ltd, we would seek to extend the existing agreement with HP pending the outcome of the procurement process.

5. Key Risks

5.1 At this stage, as we are only advising of the need to start planning for a procurement: a full risk assessment will be part of the detailed planning process should we need to proceed with a public procurement.

6. Recommendations

The Board is asked to:

6.1 Note progress made to date on Project Maypole (Future of POca) and in particular the possibility that NS&I might not be our service provider.

6.2 Note the commencement of planning for a supplier procurement.

Martin George
26 February 2014

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MARCH 2014

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

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/RW	Belinda Crowe / Angela van den Bogerd	This is also the subject of subject of a separate report to the Board for discussion this month. POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made through: - SPMs' MPs; - the "Justice for Subpostmasters Alliance" (JFSA); - defences to court proceedings brought by POL to recover debts from SPMs; and - direct contact with POL. Following discussions with James Arbuthnot MP and JFSA, in July 2012 independent investigator Second Sight Support Services Ltd (Second Sight) was appointed to carry out a review into these allegations. On 08.07.13, Second Sight published a Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself.	Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme aimed at resolving individual complaints made about Horizon. POL has also been developing and implementing a Business Improvement Program to improve the way POL supports SPMs run their branches. The Scheme received 147 applications before applications closed on 18.11.13. The applications are now being progressed through the Scheme under the direction of a Working Group chaired by retired Court of Appeal Judge Sir Anthony Hooper, and comprising representatives from POL, Second Sight, and JFSA. To ensure POL continues to comply with the evidential, public interest, and disclosure standards required for prosecutions, POL has also completed a review of criminal prosecutions brought against SPMs which used Horizon data. POL has also reviewed its approach to prosecutions generally. To date, no claim has been made against POL in the civil courts, and no appeal has been made against any conviction in the	Bond Dickinson

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				criminal courts, following Second Sight's Report.	
Employment	POL/NM	Colin Stretch	Four claims against POL are currently proceeding before the Employment Tribunals. Claims allege unfair dismissal for conduct, race discrimination, and victimisation. One claim also relates to whistleblowing (low risk). Potential exposure to POL over two claims is c.£65,000 with two cases yet to be valued. Claims could require policy changes if upheld (e.g. with respect to race or sex discrimination).	Significant claims continue to be monitored (both internally and with external counsel) and risk assessed as they progress. POL's Communications team is engaged in the event these claims are of interest to the media.	Weightmans
Employment	POL/NM	Colin Stretch	A POL employee who is a Grade 2B Crown Post Office Assistant Branch Manager has submitted 6 Employment Tribunal claims over the past 4 years alleging race discrimination, sex discrimination, bullying and harassment and victimisation against numerous POL managers and a CWU representative. The employee's claims of race and sex discrimination were not upheld. However the employee's most recent ET claim for victimisation did succeed. Judgment will result in an award for 'Injury to Feelings' – damages will be in the bracket of £6k - £19k and it is possible the employee will institute further legal proceedings. POL has been advised that if the employee brings a further claim of unfair and	The employee has consistently complained about what she believes is a campaign against her orchestrated by the area CWU representative on racial grounds. This could present a significant barrier to her re-deployment. Following an unsuccessful mediation between the parties on 10/30/14, POL wrote to the employee repeating the offer made at mediation of c.£50,000 together with a Compromise Agreement. The employee did not accept this. POL is therefore currently considering its options, including whether to institute dismissal proceedings. POL's Communications team is engaged in	Weightmans

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			discriminatory dismissal, compensation is uncapped and could be in the range of £135,000 to £170,000. The employee is currently suspended from work and wants to be re-instated.	this matter.	

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

DESCRIPTION	STATUS
Sub postmaster accused of theft of £78,660.63.	Defendant pleaded guilty on 05/02/13 and was sentenced to 2 years' imprisonment. On 12/07/13 a Confiscation Order was made in the sum of £59,500. The Defendant had 6 months to pay that sum or receive a further 19 months' imprisonment. Payment was not made within that time, and the matter is now with the Court's Confiscation Unit to progress.
Subpostmaster accused of two offences of theft of £175,260 and £9,999.43, and two offences of false accounting regarding the same sums.	On 11/10/13 the Defendant was convicted of theft of c.£175k and sentenced to 2 years' imprisonment. As a consequence of this conviction, no evidence was offered with respect to the theft or false accounting of the c.£10k. Confiscation proceedings have been initiated by POL and are proceeding to a timetable set by the Crown Court. The next hearing of this matter will be on 04/04/2014.
Subpostmaster accused of fraud of £115,172.11.	Defendant pleaded guilty and on 03/05/13 was sentenced to 16 months' imprisonment. POL has recovered £61,000 to date, and is looking to deal with the outstanding sum under a Consent Order. POL may withdraw its Confiscation proceedings if a Consent Order can be agreed.

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POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

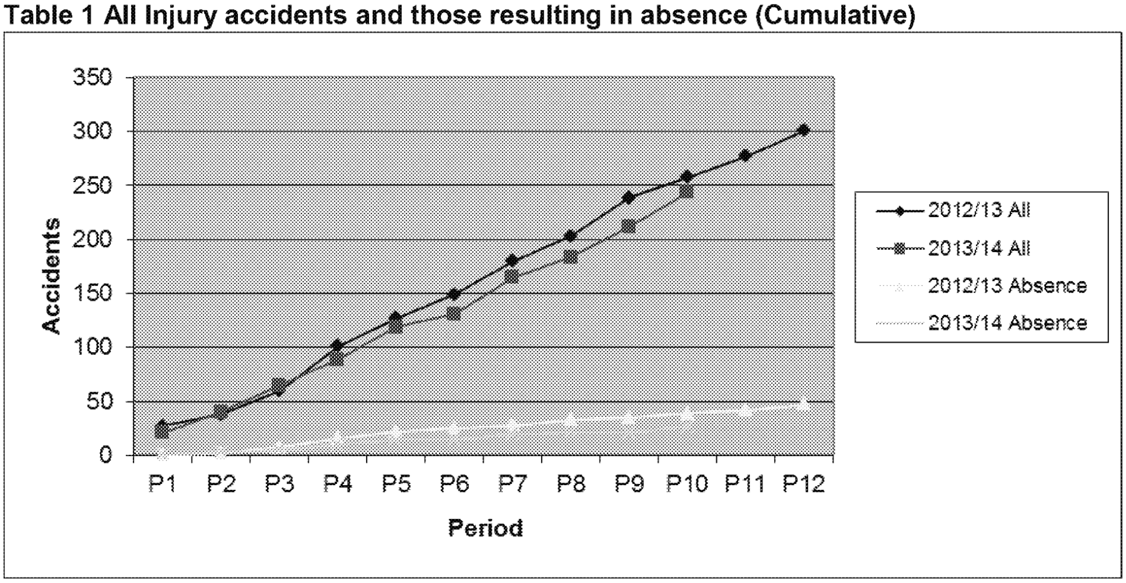
The purpose of this paper is to:

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

2. Current Situation

2.1 Injury accidents, up to period 10, are showing a favourable trend against last year, and against the target reduction of 5% although less favourable than in previous months. Accidents involving absence have decreased significantly from 39 to 27 compared to the same period last year. The “per 1000 staff in post” comparison indicator, which takes account of head count fluctuation year on year, is showing a favourable trend for both ‘all accidents’ and ‘absence’ accidents. (Table 1)

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



2.2 The number of days lost due to accidents is also showing a significant reduction compared to the same period last year and against a target reduction of 5%. This reduction is predominantly due to the absence of major injuries and indicates that not only is there a favourable trend in the frequency of accidents there is also a favourable trend in a reduction of the severity of those accidents. (Table 2 below refers)

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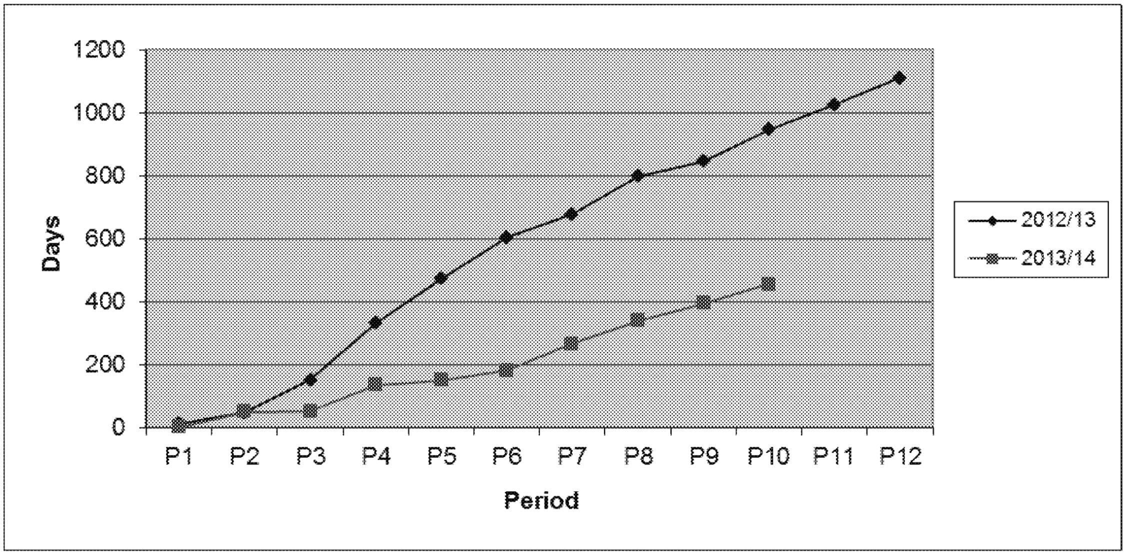
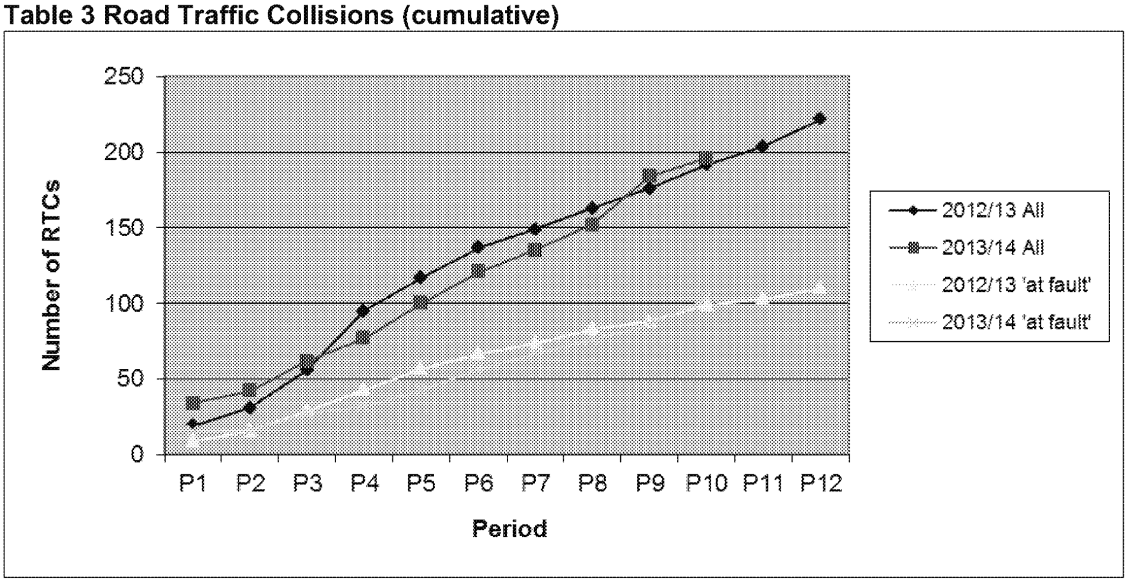
Table 2 Days lost resulting from injury accidents (Cumulative)



2.3 Claims for personal injury as a result of an accident at work are showing an improving trend on past years in terms of both volume and value.

2.4 The total number of road traffic collisions (RTCs) up to and including period 10 is up 2% on last year. The number of incidents where the Post Office driver is 'at fault' is also showing a marginal increase of 2% against the same year to date period as last year. (Table 3) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents are currently becoming a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss.

Table 3 Road Traffic Collisions (cumulative)



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2.5 The majority of accidents currently fall into three main categories: lifting and handling, stepping and striking and outdoor falls. These are high frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions. .

2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down from 44 to 33 cumulative for the past 10 months. Physical injuries during robberies, of which there have been 8, a reduction of 6 on last year, remain relatively minor in severity. The frequency and duration of trauma resulting from robbery incidents has significantly reduced ahead of the reduction in robbery incidents. Support is provided by trained trauma supporters and support resources available through the occupational health service provision. Five of the 33 robberies were enabled by the presence and/or threat of use of fire arms however on no occasions were the firearms discharged. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers).

2.7 Robberies and attempted robberies on the Post Office network, cumulative to period 10, are lower than last year – 92 compared to 95 – 50 of the 92 were successful. Injuries sustained during robberies are down from 22 to 17. Robberies take place predominantly at sub post offices and rarely occur at Crown Branches. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

2.8 Burglaries and attempted burglaries (which do not involve personal attack) have increased slightly from 72 to 77 compared to the same 10 month period last year – 20 of the 77 incidents were successful..

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

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

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies

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- Introduction of new deterrent technologies e.g. Smartwater – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas
- 'Darker nights' security awareness campaign
- Increased use of crime alert communication techniques to Post Offices
- Trialling new point of transfer arrangements to reduce exposure
- Increased use of surveillance vehicles
- A three month 'Crime stopper' campaign in the West Midlands has commenced, aimed at reducing cash in transit robberies

3.3 Health and Wellbeing

Current activities to enhance wellbeing

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

3.4 Safety

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

4. Residual Risks

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

5. Recommendation

The Post Office Ltd Board is asked to:

5.1 Note the overall safety performance
5.2 Note the risk reduction activities.

Neil Hayward
March 2014

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Appendix 1

Significant Incidents (Period10)				
Crowns and Network				
Location	**Loss**	**Circumstances**	**Physical Injuries**	**Any further details**
Hambledon Road SPSO, 1119 Christchurch Road, Bournemouth BH7 6BQ	£645	Friday 10/01/2014, 14:20. 2 males armed with handguns came in and demanded cash. The Spmr threw a handful of cash and then activated the alarm. The males fled.	Nil	
Nile Street SPSO, 12-12a Nile Street, North Shields, Newcastle-Upon-Tyne NE29 0BD.	£9,510	Friday 10/01/2014, 19:08. 2 males forced the front door using a brick, the Spmr ran back to the secure area with the ATM cassette and fell and hit her head. The assailants grabbed the cassettes from the ATM and fled.	Bruising to head	
Norris Green SPSO, 6-10 Lorenzo Drive, Norris Green, Liverpool L11 1BQ.	£66,237	Sat 18/01/2014, 13:00, Two males in balaclavas armed with a knife rushed in via the back door. A member of staff was threatened with the knife and cash was demanded. The assailants took the ATM cassettes during replenishment. CCTV available.	Nil	
Higham Lane LM, 212 Higham Lane, Coventry CV11 6AS	£6,861	Thurs 23/01/2014, 23:15. 3 masked males were waiting outside armed with crowbars when the shop was closing. The assailants forced the front door and threatened the 2 staff members and forced them in to the secure area of the PO. 1 male threatened to shoot them although no gun was seen. The bidi safe was opened and the PO money and shop money was taken along with the main safe keys, and PO drawer and bidi safe keys. The males fled out of the back door.	Nil	

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Hornsea SPSO, 46 Cliff Road, Hornsea, Hull HU18 1LN.	£27,500	Mon 27/01/2014, 18:46. Spmr was in the back and the young shop assistant was on his own in the shop. 2 masked males came in, the Spmr came back in to the shop to find shop clerk tied up on the floor and a shotgun to his head. Spmr was forced to open up the secure area hand over cash. Assailants left via the back door.	Nil	
Lachingdon SPSO, 39 The Street, Chelmsford CM3 6JP.	£1,061	Thurs 30/01/2014, 15:00. A masked male entered through the front door and began smashing the counter glass. The clerk attempted to get the Spmr, when they did not respond the female clerk ran out of a side door to the Estate Agents she returned with the manager from the Estate Agents the male had fled and taken working cash. No alarm pressed, police phoned.	Nil	
Supply Chain (Cash, delivery and collection)				
Nil				

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Post Office Ltd Board

Cyber Security and Information Assurance

1. Purpose

The purpose of this paper is to:

1.1 Update the Board on UK Cyber Security industry initiatives;

1.2 Update the Board on key Information Security and Assurance Group (ISAG) activities;

1.3 Outline risk reduction activities being implemented at Post Office in Cyber Security.

2. Industry Initiatives

2.1 This month ISAG participated in the Senior Information Risk Owner (SIRO) Knowledge Exchange on Cyber Security run by the National Archives on behalf of Public Services. This event was attended by:

- Cabinet Office.
- Communication and Electronic Security Group (CESG), part of Government Communication Headquarters (GCHQ).
- Centre for the Protection of the Nation Infrastructure (CPNI – a Partner of MI5).
- National Savings and Investment.
- UK Export and Finance Department.
- NHS Wales.

2.2 The Cabinet Office noted that the 'Threat Landscape' was changing enormously; whilst in 2009 the biggest perceived threat was to Privacy and Personal Sensitive Data leaks, in 2014 the biggest threat was to Corporate Information.

2.3 The group agreed that much of this was due to the changing way of running businesses, i.e. remote, agile and part-time working coupled with the wide usage of the internet commercially. In line with this trend, Government are reducing their 100 London buildings to 30 by 2015, encouraging staff to work remotely, even though their IT systems are not aligned in many cases.

2.4 The CESG Business Partner has visited Post Office to meet with members of ISAG. CESG have invited Post Office to attend industry Cyber Security Forums, and reiterated CPNI's view that Post Office might play a role should UK PLC undergo a significant disaster. ISAG have engaged with CPNI and a further meeting is to be arranged to discuss how they can provide on-going Cyber Threat information, working with other Government Agencies to make Post Office aware of 'Cyber Trends of Attack'.

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3. Activities/Current Situation

3.1 Incident Summary

There are currently 11 active incidents or breaches that ISAG are managing. One incident is assessed as 'High' and has been managed by the Business Protection Team (BPT). This incident involved historic personal data that was left in a skip outside Southport Post Office. Post Office Communications have been actively engaged. While this is a Data Protection incident, it is not significant enough to warrant Information Commissions Office involvement at this time. It is assessed as being 'High Risk' due to journalistic involvement (risk to reputation).

7 previously reported incidents have been formally closed by the information Security Committee, which met on 3rd March 2014.

The Information Security Committee numbers have been reducing of late with only half of the invited SLT members attending, with deputies sent in some cases (not all with the necessary delegated authority). This is a decision making committee for information security issues and initiatives across Post Office. As such, it is important that all parts of the business are represented by individuals who are senior enough to be able to make decisions on behalf of the business. The Committee is fundamental to the businesses Information Security certifications. The CIO has written to the ExCo to ask for their support to improve SLT attendance.

3.2 Programme/Project Governance

The Self-Service Kiosk programme has been subject to Risk Acceptance Notification, i.e. referred to responsible ExCo members for understanding and acceptance of risk on behalf of the business, due to non-acceptance by ISAG. This is being reviewed currently, with risk mitigation activities by suppliers being carried out to resolve issues.

A further Programme – Mortgage Brain is currently under review and remediation, again for failing Gating for non-acceptance by ISAG.

3.3 Marketing Due Diligence

Regular engagement continues with Marketing due to the high level of reliance on processing personal information. This is proving to be successful and helps promote Post Office to our suppliers as an Information Security focussed company. All known Marketing suppliers are subject to Information Security Review and Remediation plans where applicable, this is an on-going activity.

3.4 IT Supply Chain Transition to ATOS

Regular meetings continue with the Atos team across many disciplines and service categories, key areas include but are not limited to:

- Governance and Risk.
- Incident response and management.
- Help Desk location.
- Segregation of responsibilities.
- Audit and Information Security Assessments including Penetration Testing and Forensic analysis (in case of any breaches/incidents)
- Identity and Access Management

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- Security Incident and Event Management.

ISAG are participating in the PWC review of the Service Integrator Transition Programme.

3.5 Governance Risk and Compliance Tool

The Governance Risk and Compliance Tool is being procured. The procurement will be completed by mid-April, at which point we will begin work on establishing a delivery roadmap.

3.6 Reporting Risk

All Information Security and Assurance unmitigated risks continue to be logged locally and escalated to the Risk and Compliance Committee (R&CC) as appropriate. Data Security is to be subject to an R&CC 'Deep Dive' later this month.

3.7 Assessing the Cyber Security Threat Landscape

ISAG continues to participate in industry events, providing valuable peer interaction and demonstrating Post Offices commitment to protecting its organisation.

3.8 Business Impact Assessment

A key activity in assessing risk is in understanding where Information Assets (critical services, systems, information, people) are located. ISAG are planning to engage with all Directorates and ExCo members to understand the Information landscape. This will provide a whole host of essential information that will be used to prioritise ISAG activity and resources accurately and undertake more meaningful risk assessments. It will also provide ExCo and the Board with a view of where the Post Offices key Information resides.

3.9 Training and Awareness

Information Security and Data Protection training are being combined; key training and communication activities remain on schedule for April and July 2014.

ISAG are engaged with HR representatives to ensure ISAG Policies are reflected in colleague communications and HR policies.

This will be reviewed on an on-going basis and longer term may need a full time resource. Currently this resource is shared informally with Security.

4. Request

4.1 The Board is asked to note the update and support the actions set out above.

Julie George/Lesley Sewell
18 March 2014

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POST OFFICE LIMITED BOARD

Sealings 19 February 2014 – 19 March 2014 inclusive

Register of Sealings

The Directors are invited to consider the seal register and approve the affixing of the Common Seal of the Company to the documents set out against items numbered 1129 to 1140 inclusive in the seal register.

"The Directors resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1129 to 1140 inclusive in the seal register is hereby confirmed."

Alwen Lyons
Company Secretary
19 March 2014

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POST OFFICE LIMITED

Date
19/03/2014

Register of Sealings

Company Number
2154540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1129	24/02/2014	18/02/2014	Licence to carry out works relating to Unit 5, Angel Walk Shopping Centre between London & Henley (Tonbridge) Limited and POL	Alwen Lyons	Jean Reynolds
1130	03/03/2014	28/02/2014	Deed of confirmation of, and amendment to, the standard terms and conditions for Existing Premises Mains Agreements between POL, WHS Travel Holdings Limited and WH Smith High Street Limited.	Alwen Lyons	Sabrina Jethwa
1132	05/03/2014	03/03/2014	Lease of Basement and Ground Floor Shop Unit, 81 High Road, Kilburn, London, NW6 between POL and Phones 4U Limited.	Gill Catcheside	Jean Reynolds
1133	05/03/2014	03/03/2014	Lease of 54/60 High Street and 17 Ram Street, Wandswoth, London, SW18 4LD between Abercorn Investments Limited and POL.	Gill Catcheside	Jean Reynolds
1134	05/03/2014	03/03/2014	Photographic Schedule of Condition relating to 54/60 High Street and 17 Ram Street, Wandsworth	Gill Catcheside	Jean Reynolds
1135	05/03/2014	03/03/2014	Licence for alterations realting to 54/60 and 17 Ram Street, Wandsworth, London, SW18 4LD between Abercorn Investments Limited and POL.	Gill Catcheside	Jean Reynolds
1136	05/03/2014	03/03/2014	Side Agreement relating to 54/60 High Street and 17 Ram Street, Wandsworth, London, SW18 4LD between Abercorn Investments Limited and POL.	Gill Catcheside	Jean Reynolds
1137	06/03/2014	06/03/2014	TR1 relating to Post Office at Unit 1, High Street, Ealing Broadway Centre, London W5 between POL and British Land Ealing BV	Piero D'Agostino	Jean Reynolds
1138	06/03/2014	06/03/2014	Agreement for surrender relating to Unit 1, High Street, Ealing Broadway Centre, London, W5 between POL and British Land Ealing BV	Piero D'Agostino	Jean Reynolds
1139	10/03/2014	05/03/2014	Lease relating to 83 Fore Street, Edmonton, London, N18 2TW between the Mayor and Burgesses of the London Borough of Enfield and POL	Alwen Lyons	Jean Reynolds
1140	13/03/2014	13/03/2014	Deed of variation and grant relating to land adjacent to the Teanlowe Centre Poulton Le Fylde between Booths Partnership Limited and POL	Gill Catcheside	Jean Reynolds

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POST OFFICE LTD BOARD

Change of Directors

1. Purpose

The purpose of this paper is to:

1.1 seek approval for the appointment of Richard Callard as a Director of Post Office Limited with immediate effect; and

1.2 ask the Board to note the resignation of Susannah Storey as a Director of Post Office Limited with immediate effect.

2. Proposal

2.1 It is proposed that Richard Callard is appointed to the Board, to replace Susannah Storey as the Shareholder Executive's representative.

2.2 Richard joined the Shareholder Executive in 2007 and was appointed Executive Director in March 2013. Richard has primarily worked on the Royal Mail, specialising in the state aid and employee shares aspects of the privatisation process. Richard now leads the Green Investment Bank shareholder team and Post Office Limited.

3. Recommendations

The Board is asked to:

3.1 approve the appointment of Richard Callard with immediate effect;

3.2 note the resignation of Susannah Storey with immediate effect; and

3.3 authorise the Company Secretary to make all necessary filings with Companies House.

Alwen Lyons
18 March 2014