

Post Office Limited – Strictly Confidential

POST OFFICE LTD BOARD MEETING (Company Number 2154540)

**Meeting to be held at 09.00 on 18 April 2012
at 148 Old Street, London, EC1V 9HQ in the Board Room**

1	Mails Update	POLB(12)52	Martin Moran/Paul Brown
2	Feedback on BIS FOoG Week and Next Steps plus oral update on FOoG	POLB(12)53	Martin Moran
3	Project Eagle	POLB(12)54	Nick Kennett
Break			
4	Minutes of previous meeting	POLB(12)4 th	Alice Perkins
5	Minutes for noting <ul style="list-style-type: none"> • Sub-Committee Meeting • FRES 	22 nd March 2012 FRES (12)1 st	Alice Perkins
6	Matters Arising <ul style="list-style-type: none"> • Status Report 	POLB(12)55	Alice Perkins
7	Director Appointments	POLB(12)56	Alice Perkins
8	Managing Director's Report including Health & Safety Update	POLB(12)57 POLB(12)58	Paula Vennells
9	Finance/Performance Update	POLB(12)59	Chris Day
10	Vehicle Tender	POLB(12)60	Lesley Sewell/Brian Deveney
11	Any Other Business		
Close			
12	<u>Items for Noting</u>		
	Significant Litigation Report	POLB(12)61	Susan Crichton
	Post Office Ltd - Sealings	POLB(12)62	Alwen Lyons
	Communication Action Group Minutes	POLB(12)63	Alwen Lyons
	Berkeley Report on IT & C Transformation	POLB(12)64	Lesley Sewell

Attendees:

Alice Perkins (Chairman)
Neil McCausland (SID)
Paula Vennells (MD)
Chris Day (CFO)
Virginia Holmes (NED)
Susannah Storey (NED)
Alwen Lyons (Company Secretary)

In Attendance:

Martin Moran
Paul Brown
Lesley Sewell
Brian Deveney

POST OFFICE LIMITED
Board of Directors

EXECUTIVE SUMMARY POLB(12)52

Date of Board: 18th April 2012

Subject:	Mails Strategy Update
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Author/Sponsor:	Paul Brown/Martin Moran
Contributors / Presenters:	Paul Brown and Martin Moran

	Decision	Guidance	Noting
For:			X

Reference previous action point:

BACKGROUND AND CONTENT:
<ul style="list-style-type: none"> • To update the Board on the Mails Market & Strategy • To highlight the progress since the signing of the MDA, including: <ul style="list-style-type: none"> - Collections & Returns - Small Business key initiative • To explain future opportunities being considered in addition to the plan

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	03/04/12
Investment Appraisal completed or financial implications assessed and supported by the CFO	-

Additional presentation:

YES / ~~NO~~

Post Office Ltd – In Strictest Confidence

POLB(12)52

POST OFFICE LTD
Board Paper

Mails Strategy Update

1. Purpose

The purpose of this paper is:

- 1.1 To update the board on progress against the mails strategy. The mails strategy and full update is attached at Appendix 1.

2. Background

- 2.1 Mails accounts for 35% of total Post Office Ltd (POL) income, 35% of profit and 70% of customer branch visits. The successful development of this product pillar is therefore central to the future health of the organisation. A mails profit and loss statement is included at Appendix 2.
- 2.2 In March 2012 POL entered a new long term (10 year) Mails Distribution Agreement (MDA) with Royal Mail Group (RMG). Within the MDA POL agreed to full exclusivity with RMG thus emphasising the importance of both organisations planning and delivering together to protect and grow mails revenues.
- 2.3 POL has a well developed mails strategy which it must deliver to ensure that planned revenues are achieved over the next five years and beyond.
- 2.4 POL and RMG are coming under increased pressure from competitors who are looking to gain a foothold in the growth areas of the mails market.

3. Explaining the retail mails market

- 3.1 POL operates in what is known as the retail mails market, which breaks down into four key sub-market categories and one critical customer group (Small Business) as follows:
- **Parcels** – items that are too large to fit through a letter box and require a higher rate of postage.
 - **Premium** – items which require additional speed of delivery and or security/compensation.
 - **Letters and Stamps** – traditional social mail, stamp sales and some transactional mail.
 - **Collections and Returns** – collection services provided by outlets in the event that items cannot be delivered at the doorstep (failed deliveries) or were ordered online and a collections outlet was selected by the customer for delivery (click and collect), and remote shopping returns.
 - **Small Business** – supporting the mailing needs of our critical small business customer base.
- 3.2 There are many interdependencies between the markets mentioned above; the key points are listed below;
- Retaining small business customers is essential to maintaining market share in the Parcels and Premium markets as 30% (£100m per annum) of mails income is derived from this customer group.
 - Parcels, Premium and Collections and Returns are the market areas which are growing (6%, 1% and 20% per annum respectively) and are therefore attracting the most aggressive competition. Competitors are using

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collections and returns to gain a foothold in the market which in future may allow them to make a significant dent in POL's Parcels and Premium market share as they grow into fulfilment markets.

- Letters and Stamps are in decline (7% per annum) which is expected to continue; it now represents only 10% (£32m per annum) of POL mails income.

3.3 Our strategy focuses upon the Collections and Returns, Parcels and Premium markets and Small Business customer group. It is essential that we make strong progress in developing our strategy to ensure that the competition does not reduce our market share in these key areas. The background of the mails strategy is attached at Appendix 1.

4. Progress and milestones

4.1 POL is currently progressing well with delivering its mails strategy, a full update on progress, milestones and new developments is attached at Appendix 1. A brief summary is detailed below.

- **Collections and Returns**

POL has agreed a joint plan with RMG within the MDA to grow volumes in this market. It is essential that both organisations deliver their commitments in this area as the competition is most aggressive in this market.

POL signed an exclusive contract with RMG on the understanding that with a joint business plan and product proposition in place it would be able to grow volumes considerably in partnership with the UK's leading mail distributor.

POL will deliver a network of 4,000 branches with extended opening hours for collections and returns transactions over the next 12 months. This will include a branch capacity model, storage solutions and extended hours.

RMG will deliver an improved returns product available through POL, an application programming interface (API) to allow POL branches to be selected as a collection point at the retailer's online point of sale and a programme to transfer undelivered items of mail into POL branches rather than through their own delivery office network.

- **Small Business**

POL has been developing some bespoke solutions. These include a pre-pay membership account, followed by a full loyalty scheme later in the financial year 12/13.

- **Parcels and Premium**

POL continues to play to its strength in this area supported by developments for Small Business and Collections and Returns. POL is also working with RMG to develop new products and re-engineer existing products to maximise profit potential.

5. Future developments

5.1 POL is currently working on several future developments to the strategy. The most important potential development in this area is automated Collections and Returns points. This is covered in more detail in the presentation at Appendix 1.

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6. Risks, opportunities and interdependencies

6.1 Working exclusively with RMG to deliver the POL mails strategy presents a number of risks and opportunities which are detailed below.

Risks

- Competition grows and reduces RMG's market share therefore stunting POL's ability to grow in key markets like Collections and Returns and impacting upon POL's parcels and premium business.
- RMG are not able to deliver on the commitments made to grow the Collections and Returns market share which is of such strategic importance to POL. This would allow competitors to erode POL revenues across all of the sub markets.

Opportunities

- RMG remains the dominant mails company and universal service provider in the UK and as such offers POL the protection of growing and retaining its volumes in an exclusive contract.
- RMG has relationships with most of the major retailers in the UK giving POL direct access to help grow its Collections and Returns business.
- POL and RMG have incredibly strong and trusted brands which are recognised as the safe, secure and trusted service for all mails solutions in the UK.
- RMG offers POL the opportunity to grow its Collections and Returns business rapidly through the development of joint product propositions and the transfer of undelivered volumes directly into POL's network.

Interdependencies

- Network transformation is critical to the ongoing development of the mails strategy going forward. Development of key markets will depend upon the additional convenience which this programme will deliver.
- The development of the broader self service proposition will be crucial to delivering some of the future convenience and profitability plays within the mails pillar.
- The pre-paid debit card platform and the wider IT roadmap are critical to delivery across the mails strategy with particular focus on the online and small business areas.

7. Conclusion

- 7.1 POL is confident that its mails strategy is sound and that good progress is being made to date.
- 7.2 POL will need to ensure that RMG are held to the commitments made to develop the strategically important Collections and Returns market. POL will continue to operate at pace to ensure speedy delivery of its key strategic propositions.
- 7.3 POL will also work to develop trials of new propositions and future developments within its markets.

Martin Moran
April 2012

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Appendix 2

Mails P+L 2012-2017

Profit & Loss (£m)	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>Aggregate</u>
Fixed	41.8	40.8	39.8	38.8	40.4	201.6
Variable	302.4	309.6	308.4	312.4	314.3	1547.1
Total excluding Mailwork	344.2	350.4	348.2	351.2	354.7	1748.6
Collections>Returns programme	0.7	3.8	8.1	11.3	12.8	36.8
Mails Income	344.9	354.2	356.4	362.5	367.5	1785.4
Agents Pay ¹	(148.3)	(152.3)	(153.2)	(155.9)	(158.0)	(767.7)
Attributable Crown Time ²	(15.1)	(15.5)	(15.4)	(15.6)	(15.7)	(77.4)
Product Team	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(4.5)
Commercial Mails (additional)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(1.0)
Dangerous Goods	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(20.0)
Share of Voice	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(2.5)
Other contractual (tariff changes)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
Managed Services	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(1.3)
Network ³	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(1.9)
Mails Direct Costs	(169.6)	(174.1)	(175.0)	(177.8)	(180.0)	(876.5)
Contribution	175.3	180.1	181.4	184.7	187.4	909.0

1 Agents Pay is assumed to remain at 43% of total Mails income

2 Crown Time is assumed to remain at 5% of Mails income

3 Network resource requirement to ensure Service Level commitments are met and payment of penalties avoided

POLB(12)52
Appendix 1

Mails Update for the Post Office Ltd Board

April 2012

Strictly Private & Confidential



Mails is the single most important category for the Post Office - it generates 35% of profits, accounts for over 50% of agents pay and delivers 70% of customer visits

PURPOSE OF TODAY

- To provide an update on the mails business progress to date
- To give you an insight into the wider mails market in which we operate
- To give you an understanding of our strategic direction going forward

EXECUTIVE SUMMARY

Where we have come from

- Post Office's mails income has been roughly flat for 5 years but showed significant growth in 2011/12
- In mails we make an annual contribution of £27m from an income of £332m
- We have secured a long term contract with Royal Mail and are beginning to realise opportunities to grow our mails business beyond Strategic Plan levels

What our opportunity is

- To play to our strengths and dominate in the retail parcels and premium markets
- To win and grow our market share in the expanding collections and returns market
- To retain and lock in our critical small business customer base

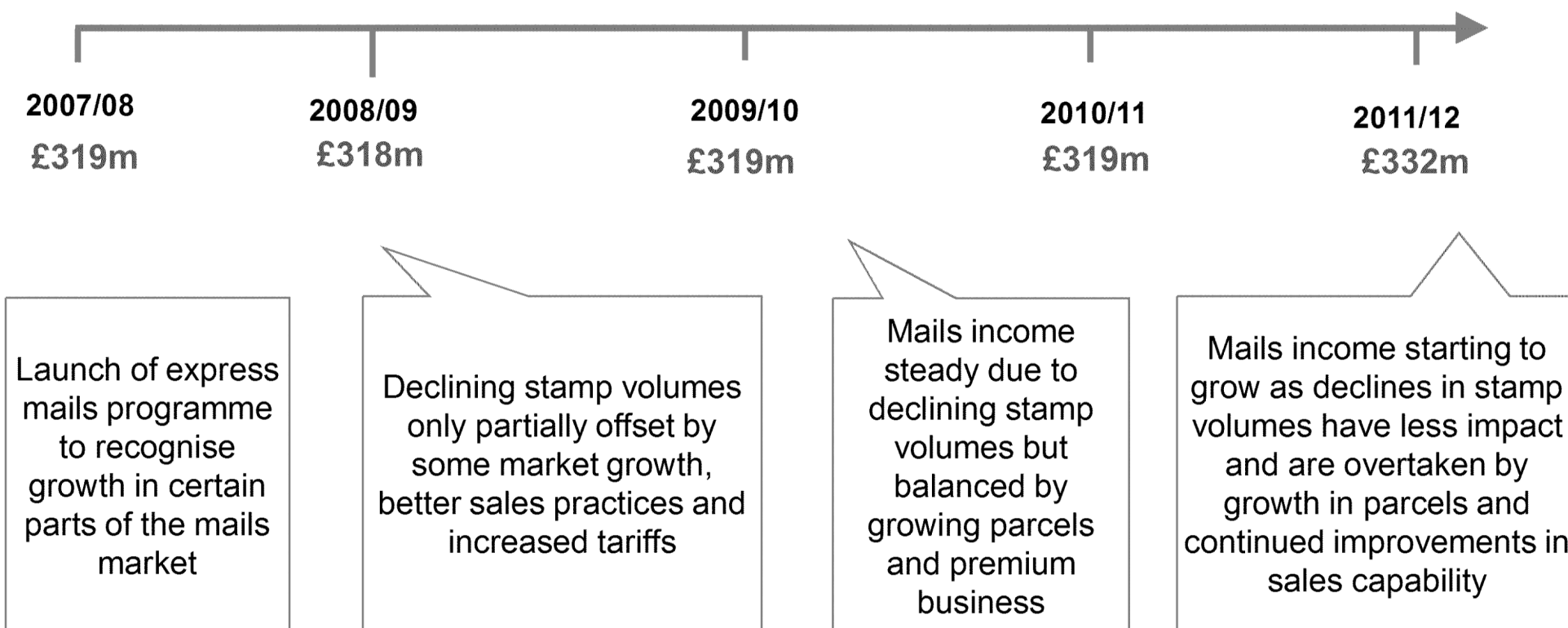
How we take advantage of the opportunity

- We need to meet three critical challenges:
 - Develop our sales and customer experience model to meet the needs of increasingly demanding customers (including improving digital channels and in branch automation)
 - Develop the UK's most convenient and reliable collections and returns proposition
 - Develop our customer relationships with small business and improve the value we add to their business models
- We have plans in place to deliver £1.79bn income over the next 5 years



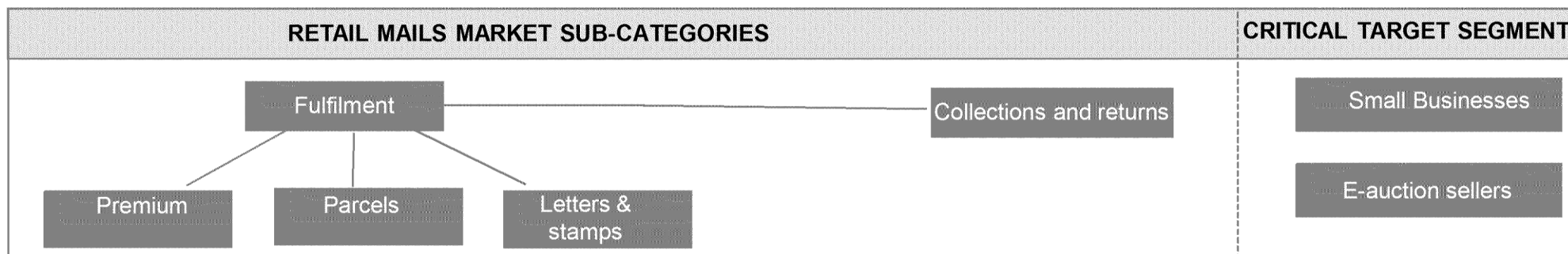
-
- Background
 - Strategy
 - Progress and milestones
 - Future developments

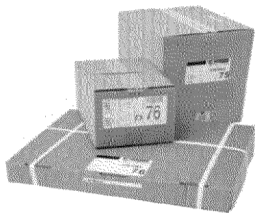


Over the last 5 years our mails revenues have remained fairly static against a backdrop of falling letter volumes; we are now beginning to see growth in revenues driven largely by online shopping trends



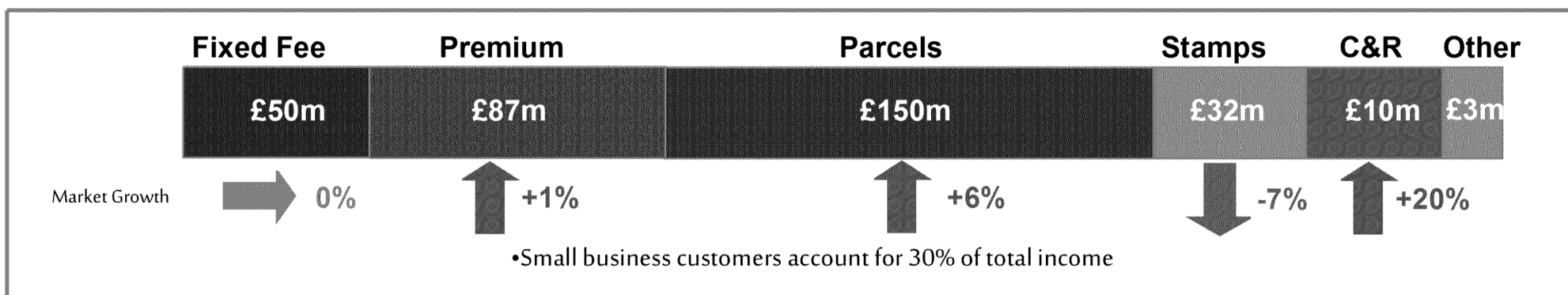


We compete in several sub-market categories and for both consumer and small business customers; we have developed distinct strategies that address these differing market dynamics and customer needs



PREMIUM	PARCELS	LETTERS AND STAMPS	COLLECTIONS & RETURNS	SMALL BUSINESS
 <p>This market is in marginal growth and we are strong within it. Our network and sales expertise allows us to maximise opportunities to match products to customer needs.</p>	 <p>This market is in strong growth. We must continue to take advantage of our unique position. We can play to our natural strengths in this area.</p>	 <p>This is the declining part of our market although it now only represents circa 10%. We must manage decline through growth in other markets.</p>	 <p>A rapidly growing and dynamic market where the competition is gearing itself to win market share. We must be more convenient and have strong joint product propositions with Royal Mail</p>	 <p>Small business accounts for 30% of our mails income. We must create a bespoke proposition which makes this important customer base feel valued.</p>

We have a strong mails portfolio with revenues coming from sub-market categories that are either stable or in growth having already absorbed much of the impact of reducing letter volumes



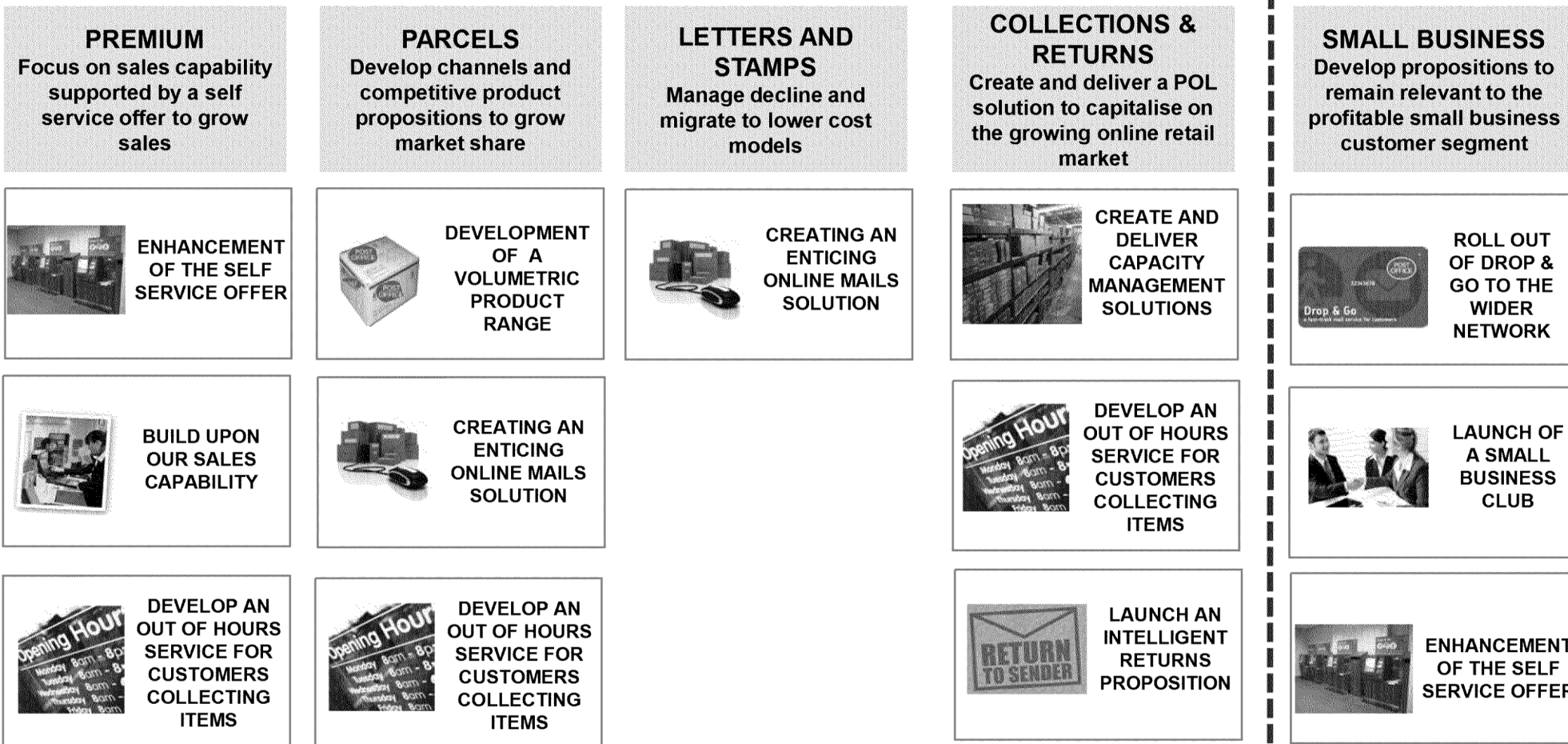
	Premium	Parcels	Letters and Stamps	Collections and Returns	Small Business
Main threat	 TNT announced plans to open parcels shops supported by end to end delivery capability. This could cherry pick profitable urban areas	 They have 5k outlets and a simple parcel offer. We must compete strongly in the collections and returns market to avoid erosion here.	 We are well protected by exclusivity and the market is declining across the board. The threat is minimal	 Our fastest growing competitor with a network to match our scale. We must ensure we match their convenience.	 We must compete on convenience and value with the 400m items a year franking industry.
Headlines	POL is growing in line with the market. This plays to our strengths as we can ensure our customers select the right products for their needs	POL is growing ahead of the market as this area plays to our natural strengths. It is vital we retain our market position	Stamp volume decline is in line with broader market and now accounts for only 10% of total POL mails income.	POL is growing, but well below the overall market. Addressing this is a strategic priority.	POL has substantial market share in the sub £5k market. It is essential that we retain and grow our share in a competitive market.



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- Background
 - Strategy
 - Progress and milestones
 - Future developments



There are five key strands to the mails elements of the Strategic Plan supported by some underpinning enabling activities



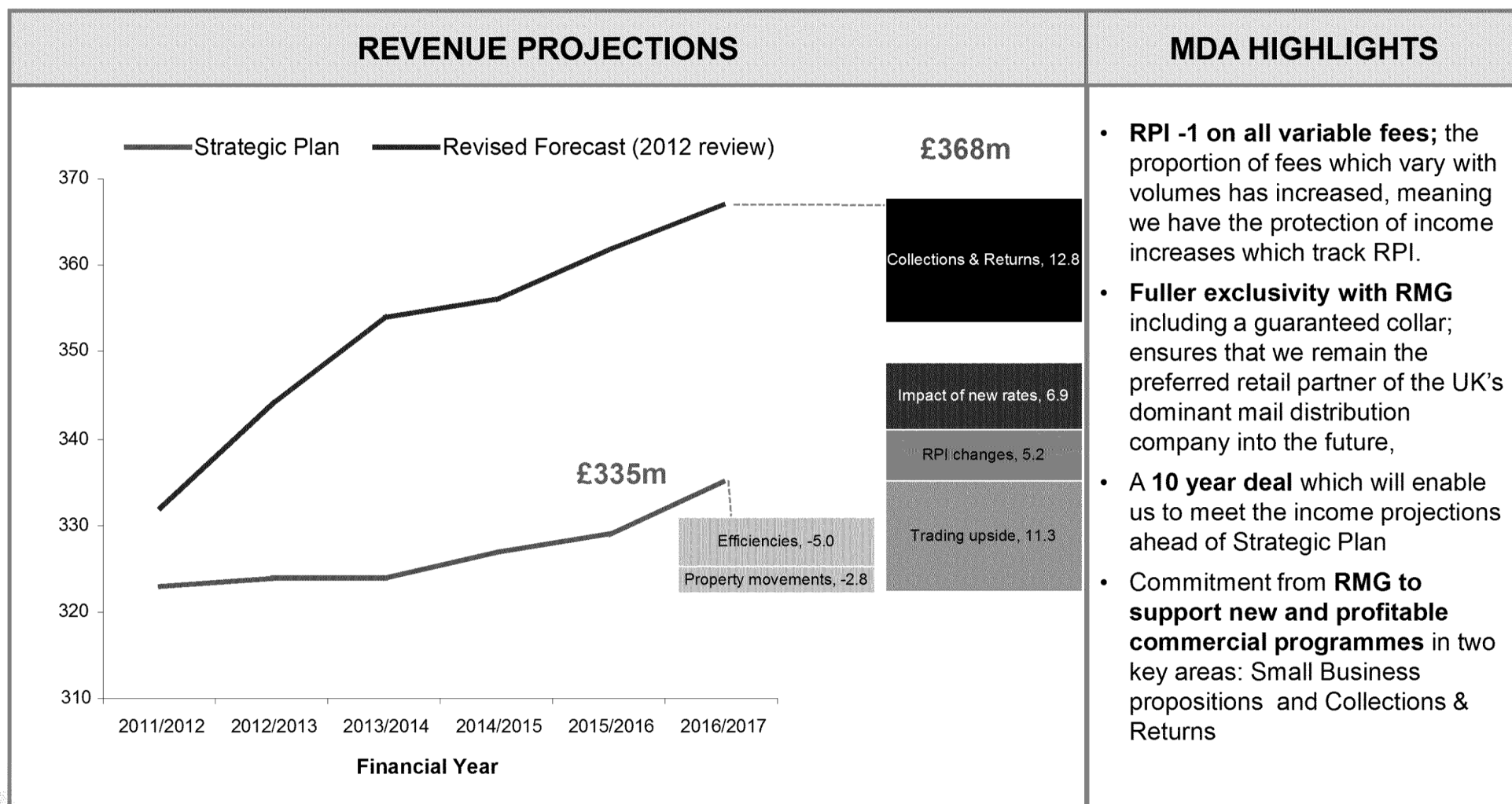
UNDERPINNING ACTIONS FOR ALL CATEGORIES

1. Re-engineer mails products and services, 2. Deliver network transformation, 3. Develop relationship with Royal Mail



-
- Background
 - Strategy
 - Progress and milestones
 - Future developments

Strong negotiation of the Mails Distribution Agreement (MDA) fee structure and opportunities stemming from market trends should allow us to deliver revenues beyond the levels envisaged in the Strategic Plan





We have accelerated our plans to develop a compelling Collections & Returns proposition that will compete in this market and challenge the competition directly.

We have created a **programme management team** to ensure successful and timely delivery of the Collections & Returns plan. This will deliver the following:



An **Out of Hours** solution available in 4,000 outlets including additional secure storage which is accessible even when the Post Office side of the business is closed, to be delivered by March 2013. This will enable us to compete directly with other providers in this market including Collect+.



A **Branch capacity model** for the Network accessible via Royal Mail's customer facing API within this financial year. This will enable retailers to offer customers Post Office branches as a delivery point as an integral part of their online checkout process.



A trial is planned for later in the Spring for an **Intelligent Returns solution** with Amazon. If successful this will be rolled out across all Returns clients from the Autumn, providing clients and customers with valuable MI which provides us with a beneficial USP helping to retain this important customer group



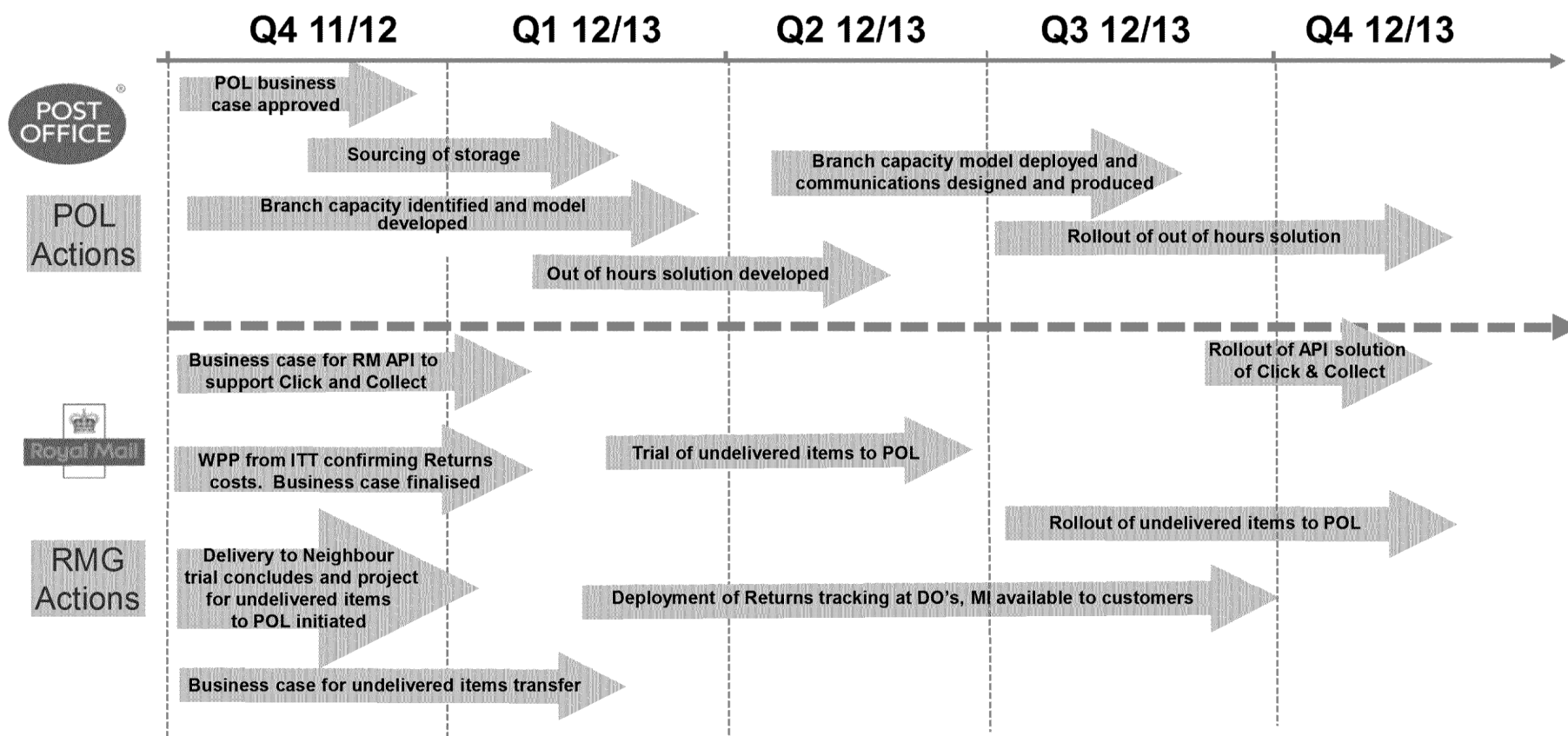
Business development resource has been added to the POL mails team to start working with RMG client sales teams to pitch POL solutions to potential retail clients.

A detailed **project plan** has been developed which gives confidence to the expected timescales.

Collections & Returns are central to the development of our strategy. We will agree a full business plan with Royal Mail by September 2012. A substantial amount of planning and initial delivery have already taken place.



JOINT COLLECTIONS & RETURNS PROGRAMME

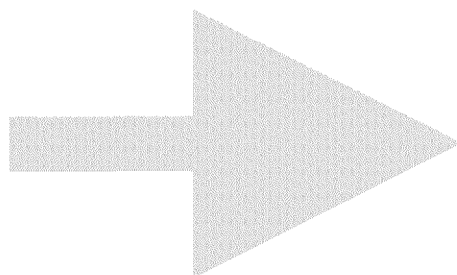


Joint Volume Commitment (m)	11/12	12/13	13/14	14/15	15/16	16/17
Returns	14.0	16.0	18.0	20.8	23.5	25.5
Click & Collect	0.5	0.8	1.3	2.5	4.0	5.0
Failed Deliveries	3.5	4.7	9.0	15.5	22.2	30.0
Total	18.0	21.5	28.3	38.3	49.7	60.5



Small Business - we have been working to develop a set of bespoke propositions that will enable us to retain our existing small business customers and make inroads into the substantial franking market.

A Small Business propositions team is now in place specifically to develop and deliver the key measures of success.



1. To **retain income** from customers who are at risk of moving to competitors or alternative channels – this income is worth circa £100m per annum to POL
2. Seek to **grow small business income** through winning market share from competitors and alternative channels including the franking market (currently 400 million items per annum)

POL will achieve this by focusing on small business customers who spend up to **£5k per annum** on mails products and services

The Key Initiatives

Drop & Go



A **bespoke prepaid** solution which enables small business customers to avoid waiting whilst their mails are processed.

- Full rollout to the Crown Network (March 2012) ✓
- Adaption of the service for use in the Agency Network
- Rollout to a network of 2,000 Agency branches this year

Small Business Loyalty scheme



A tiered **POL loyalty scheme** aimed specifically at small business customers with the initial focus on Mails products

- Agency selection underway to scope customer requirements
- Solution designed and business case produced by Summer 2012
- Delivery of Loyalty scheme – by end 2012/13

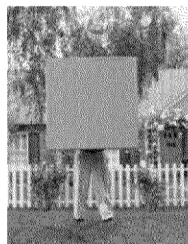
Ensuring that we continue to create compelling customer solutions in the growing Parcels and Premium product markets is vital. It is an area where POL is the clear market leader for retail customers, however competitors are looking to make inroads into our market share



Our key activities in the Parcels and Premium markets are as follows:



Design and delivery of a **Volumetric range** of products where the postage is an integral part of the price of the packaging. The customer can post any weight of goods in the packaging for a fixed price. The solution will be trialled within this financial year.



We are working with Royal Mail to identify an alternative pricing model for large but light items which are awkward to process and therefore costly, this will help manage profit within both businesses. This is known as **Project Bentley**; a feasibility will take place this year, the aim is to implement the changes next year (2013).



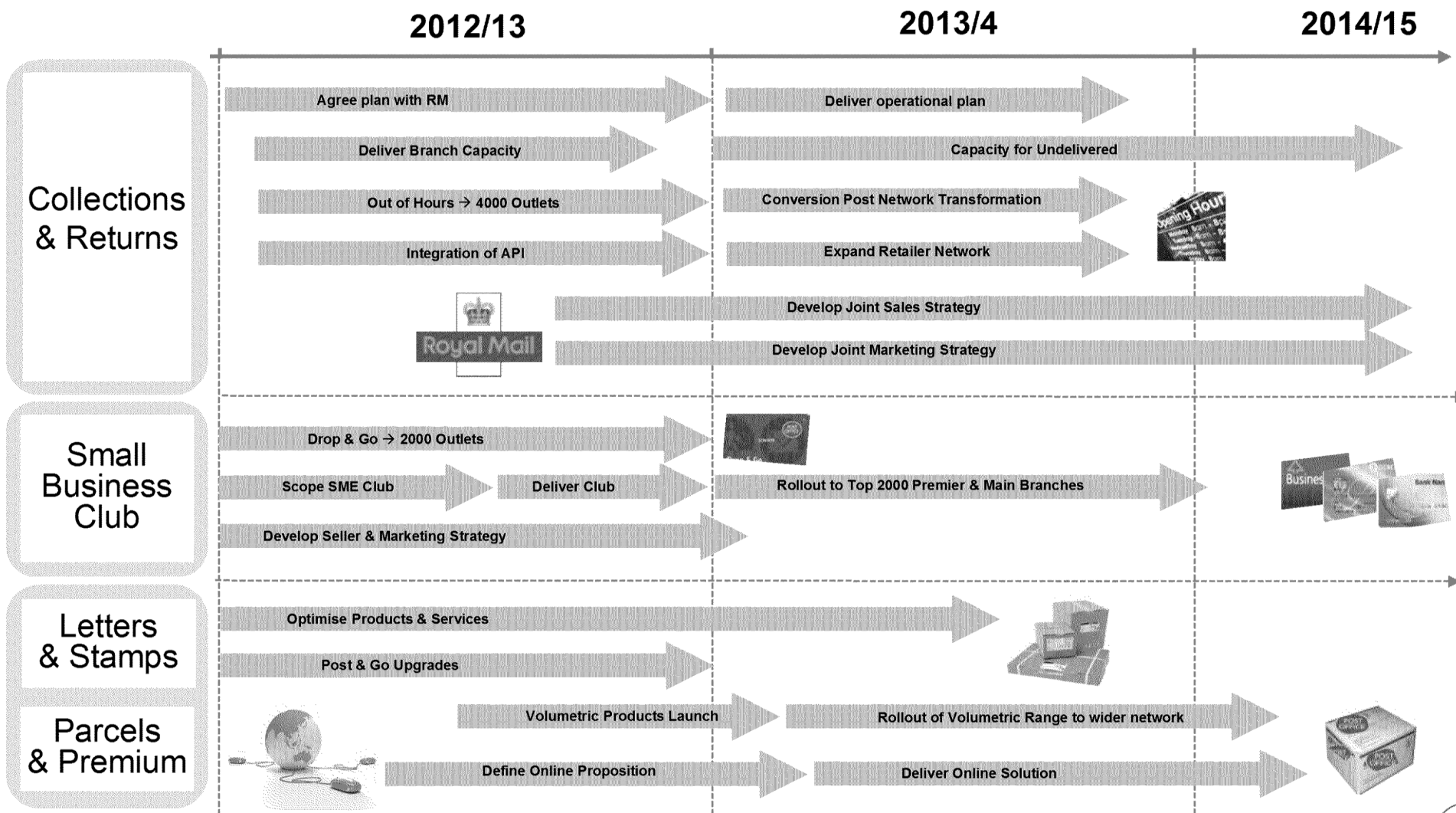
We are **developing our proposition in the online space**, looking at simplifying the customer journey, testing whether we want to create our own Online postage solution, and creating linkages with the online shop for customers looking for stamps and packaging solutions



We will continue to work with colleagues across the business to **focus on and grow our sales capability**, this will be through workshops, coaching and expansion of the Express Mails Specialist role in branches. This will help to deliver an excellent customer experience, driving increased sales and customer loyalty



We have developed an implementation plan for delivering the strategy and have prioritised those elements of the plan which will have the greatest impact on our small business customers



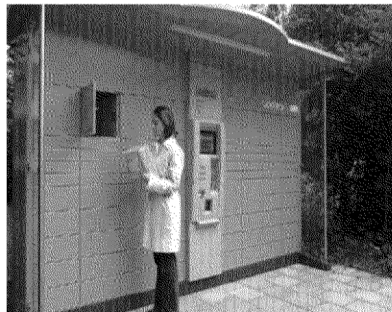
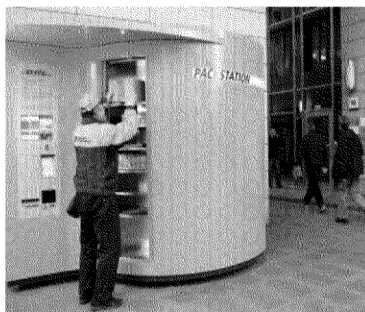


- Background
- Strategy
- Update
- **Future opportunities**



We are also considering future developments which are not currently part of our plan. These include further automation, expanding our convenience and utilising new technologies.

Automated collections and returns stations



We will look to enhance our existing self service model with automated collections and returns stations based upon the success of other European Posts

The German model: Packstation

- First developed in 2001 by the Austrian company Keba
- There are now 2,500 Packstations across Germany with over 1m registered users and the customer base growing rapidly

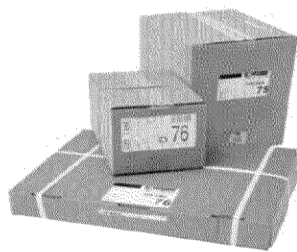


Other international solutions:

Post24 - available in 24 locations throughout Vienna with more locations to roll out soon

SmartPOST – available in 46 locations throughout Estonia and rolling out to Finland shortly

Supporting e-auction traders



eBay solutions:

We will look to develop a range of automated solutions to allow eBay customers to pay for postage online but complete transactions in branch. Opportunities could include:

- Payment of goods upon collection in branch
- Production of postage label print through smartphone barcode
- Management of customer address book and print of address labels
- Link to online shop for packaging requirements

POST OFFICE LIMITED
POLB(12)53
BOARD OF DIRECTORS

EXECUTIVE SUMMARY

DATE OF BOARD: 18 APRIL 2012

SUBJECT:	UPDATE ON BIS WEEK AND FOLLOW UP ACTIONS
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AUTHOR/SPONSOR:	MARTIN MORAN
CONTRIBUTORS / PRESENTERS:	NONE

	DECISION	GUIDANCE	NOTING
FOR:			X

REFERENCE PREVIOUS ACTION POINT:

BACKGROUND AND CONTENT:
THIS PAPER SEEKS TO SUMMARISE THE RESULTS OF OUR WEEK OF EVENTS AT THE BIS CONFERENCE CENTRE DURING WEEK OF 5 TH – 9 TH MARCH AND TO DETAIL NEXT STEPS BEING TAKEN TO FOLLOW UP ON NEW OPPORTUNITIES

RECOMMENDATION (IF DECISION REQUIRED)	DATE
RECOMMENDED BY THE EXECUTIVE TEAM	03.04.12
INVESTMENT APPRAISAL COMPLETED OR FINANCIAL IMPLICATIONS ASSESSED AND SUPPORTED BY THE CFO	-

ADDITIONAL PRESENTATION: NO

POLB(12)53

POST OFFICE LTD BOARD**Feedback on BIS FOoG Week and Next Steps****1. Purpose**

The purpose of this paper is to:

- 1.1 Provide feedback on BIS FOoG Week, 5 - 9 March 2012
- 1.2 Outline next steps

2. Background

- 2.1 In December 2011, FOoG conducted a survey of central and local government officials to measure their perception of Post Office. Over 2,600 (7% of sample) completed the survey. The findings revealed:

- 4 out of 5 believe the Post Office network is declining
- Officials rate digital services as most likely to support them achieve their objectives – but did not associate Post Office with digital-based services
- Officials view Post Office as 'trusted', 'secure' and 'community-based' but do not see it as 'competitive', 'dynamic' or 'innovative'

- 2.2 These findings provided the basis to develop a measurable communications and engagement programme, the objectives of which are to improve perception around these key areas. The survey will be repeated towards the end of this year to measure progress. One key element of this plan was to run a week of events for civil servants in the Business Innovation and Skills (BIS) conference centre to help address some of these perceptions.

3. Activities

- 3.1 FOoG organised a week-long series of nine seminars for civil servants. Themed 'Delivering Public Services in the Digital Age', the seminars addressed a range of policy issues relating to the delivery of public services and featured high-level government and Post Office speakers. Taking place at The Conference Centre, BIS, London SW1, they were supported by a new, bespoke exhibition, a reception, a working dinner (local government), a new video (shown at every event) and new booklet.
- 3.2 Post Office communications focused on its strategy for investment and modernisation and an end to closure programmes; innovation and ability to meet the needs of Government in providing cost effective delivery of public services supporting the digital by default agenda.
- 3.3 Promotional activities included emails to 35,000 civil servants (twice), advertising and editorial coverage in Civil Service World (sent to 35,000 civil servants) and individual telephone calls. This generated:

- 648 registrations (almost all civil servants from across Government, many at senior levels)
- 485 actual attendees of which 70% were senior civil servants
- 2000 visits to FOOG events web pages during February
- 1000 visits to other FOOG pages during February (compared to a total of 200 visits to all FOOG pages in January)
- 17 national local government representatives and trade editors attended the dinner

4. Activities/Current Situation

4.1 The events provided the opportunity for high quality engagement with senior officials. They generated the following new leads that are being actively pursued by FOOG client directors:

- Ministry of Justice
- HMRC
- Office of the Public Guardian
- Identity and Passport Service, Home Office
- Department for Transport
- Food Standards Agency
- Dept for Environment, Food & Rural Affairs
- DVLA
- Dept for Work & Pensions
- Citizen Advice Bureau
- Local police forces

4.2 The 648 new contacts will be added to an existing database of 1100 civil servants, acquired from previous events, to form the basis for an e-marketing programme commencing May 2012.

4.3 All individual opportunities are being followed up by our Client Directors and will be added to and tracked through our sales pipeline. New opportunities have emerged around train ticketing, the HMRC Valuations Agency, Job Centre plus, Power of Attorney processing, financial advice and police administration services.

4.4 FOOG will be building on its experience and learnings from BIS Week to host a programme of high level dinners and roundtables with Ministers, Permanent Secretaries and senior officials, commencing in May with a roundtable for Chief Information Officers. Other round tables will be focusing on some of the themes discussed at BIS week with a smaller targeted audience.

5. Recommendations

The POL Board is asked to:

5.1 note the activities, outcomes and next steps

Martin Moran
April 2012

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POLB(12)54**POST OFFICE LTD****Project Eagle Negotiations****1. Purpose**

This paper provides an update to the Board on the negotiations and contract finalisation with the Bank of Ireland UK plc (BoI) under Project Eagle. The paper seeks the Board's support of the position achieved and the granting of authority to management to proceed to signing. At the Board meeting relevant executives from KPMG and Linklaters will be available to respond to any questions on the valuation/termination arrangements and legal contract respectively.

2. Background

- 2.1 Post Office has been in extended negotiations with BoI to:
- Significantly improve the value Post Office gains from the relationship;
 - Create an effective bi-lateral agreement with enhanced flexibility, removing the complexities and inefficiencies of the existing joint venture;
 - Implement effective termination rights for Post Office in the event of a significant deterioration of the financial standing of BoI or its parent¹;
 - Remove various contractual obligations on Post Office that could restrict flexibility in implementing Network Transformation (NTP) and impose unnecessary investment requirements to receive Gamma payments².
- 2.2 BoI is under no obligation to renegotiate the relationship with Post Office and there are no mechanisms to force a contract renegotiation.
- 2.3 At its December 2011 meeting, the Board approved a mandate to enable management to sign a Heads of Terms (HoTs) and conclude negotiations (see Appendix 2).
- 2.4 In seeking to close the contract, Post Office sought confirmation from HMG that, within the context of the wider agreement it would be supportive of Post Office granting a three year extension to BoI to 2023. Post Office received confirmation on 1st March 2012 from the office of the Minister for Employment Relations, Consumer and Postal Affairs that he is content "for POL to proceed with its current renegotiation of the BOI/POL 'POFS' JV, based upon the renegotiated package". In providing this response, the Minister gained input from HM Treasury³.

3. Contract Status

- 3.1 Post Office and BoI signed HoTs on 29th December 2011, setting out the key commercial and structural principles of the future relationship between the Parties. The Parties have subsequently been negotiating the details to enable these principles to become operational.
- 3.2 While the contract is still being finalised and some issues remain outstanding, management is confident that the contract will be finalised in the next three

¹ The current joint venture contract provides ineffective termination rights to Post Office.

² Details of Gamma payments, obligations and potential constraints on Post Office are set out in Appendix 1.

³ The key components of the departmental submission to the Minister are set out in Appendix 3.

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weeks, that enshrines the position discussed at the December 2011 Post Office Board meeting (subject to comments in Paragraph 4 and Appendix 4), with some additional benefits to Post Office having been agreed during its finalisation.

- 3.3 In competing the drafting a significant complexity has been the necessity to migrate material components of the existing (Midasgrange) agreements into the new contract. In the HoTs the Parties anticipated that matters where it is silent (ie no new commercial or structural changes were envisaged), the position established in the existing agreements⁴ would continue.
- 3.4 This principle has proved to be very complex to navigate as the original agreements were explicitly based on the primacy of Midasgrange at the core of the relationship, assigning it critical roles, rights and obligations. Whilst such obligations resided in Midasgrange, both Parties had some protection through its governance and voting processes; migrating these rights and obligations to either party without the protection afforded by the Midasgrange voting structure risks, risks exposing the other party.
- 3.5 In addition the Parties are seeking to ensure a continuation of the contractual structure between the existing and future arrangements to avoid the risk of impacting Midasgrange third party contracts; of particular concern is the Junction contract which has a change of control clause linked to the MSIA; this could allow it to terminate the contract and enforce penalty and termination payments. Linklaters will present to the Board their view of the risks associated with this matter and the protection in place to ameliorate.

4. Key Matter Arising and Post Office Commitments

- 4.1 Appendix 4 sets out the key matters from the contract finalisation that were not identified on the Head of Terms, required further negotiations or where the terms to Post Office have improved materially. All other terms, except as qualified in this paragraph 4 are as agreed in the Board meetings from December 2011 to March 2012.
- 4.2 The HoTs removed formal commitments on Post Office, while establishing more general intentions; in particular the HoTs:
 - Removed the specific Gamma obligations on branch and FSSs⁵ numbers (Appendix 1), thereby removing the risk of frustration on NTP and avoiding the requirement to invest in un-necessary FSS capacity;
 - Confirmed that Post Office will still receive the Gamma payments, despite the removal of the obligations (and Post Office's failure to meet the FSS obligation);
 - Stated that Post Office intends to establish 2,000 Main branches and that Bol will seek a threshold number of branches selling financial services;
 - Confirmed that Post Office is committed to enhancing its Financial Services sales capability; the actual number of FSSs will be set by Post Office to achieve the sales plan;
 - Committed Post Office to invest £4.0 million annually to build its financial services capability.

⁴ Shareholders Agreement, Manufacturing & Support Intermediation Agreement (MSIA), Intermediary Agreement and various product Appointment Agreements and Product Appointment Letters.

⁵ Financial Services Specialists based in Crowns and dedicated to selling financial services products.

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- 4.3 To close these issues and provide BoI some comfort as to Post Office's long term commitment to financial services, the proposed agreement confirms that, Post Office will from 2012 to 2016 maintain at least:
- 1,000 branches capable of selling financial service products⁶. Post Office currently exceeds this number;
 - 200 sales representatives, dedicated to selling financial services products; there are currently c375 FSSs.
- 4.4 From 2016 (ie after NTP) Post Office will maintain a minimum of 1,250 branches capable of selling financial service products. Such branches would comprise Mains and Premiers (of which there are targeted to be 4,000), any remaining Crowns and any unconverted Step Agency branches.
- 4.5 The threshold targets in 4.3 and 4.4 are both significantly below the levels planned by Post Office through the NTP and the financial services sales strategy⁷.
- 4.6 In the event of Post Office failing to achieve the target set out in 4.4 (only) and that this is reasonably likely to have a material adverse impact on the achievement of the objectives of the financial services business, BoI will have the right to seek to re-negotiate the commercial terms to reflect the changes to the business channel mix. In the event of a failure to resolve this issue, BoI will have the right to terminate the contract⁸.
- 4.7 The branch and sales representative targets set out in 4.3 and 4.4 are not onerous, being well within Post Office's sales and retail strategies; they are, however, a minimum needed to assuage BoI concerns that Post Office will not continue to provide an effective retail sales capability for financial services and are critical in closing the wider agreement. The removal of the Gamma commitments, while Post Office will still receive the monies, will remove the un-necessary investment in FSSs and risks of frustration on NTP.

5. Other Matters

- 5.1 *Communications* – a strategy is being finalised between Post Office, BoI and the Department of Business, Information & Skills to manage external communications once the contract has been signed; a particular focus is the management of any negative reaction to the contract extension.
- 5.2 *Shareholder Executive* – The original agreement to establish the joint venture with BoI required formal approval of the shareholder under the Articles of Association of Royal Mail Holdings plc. The strategic and other changes envisaged in the new contract will require shareholder approval under the Articles of Association of Post Office Limited. This will be sought following contract finalisation.
- 5.3 *Tripartite discussions* – In the discussions with HMG, Post Office proposed establishing a tripartite working group comprising HM Treasury, the Financial Services Authority and Post Office to monitor the financial standing of BoI and

⁶ In these branches Post Office will undertake sales conversations (a) in a face-to-face manner with customers, enabling sales completion in branch, and/or (b) generating a sales lead for remote sales completion; and/or (c) generating an application through the branch, mail, internet or telephone channel.

⁷ As presented and discussed at the March 2012 Post Office Board meeting.

⁸ This is the proposal with BoI; Post Office management assesses the likelihood of BoI terminating as very low as it would leave it without a retail banking growth strategy.

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its parent and assess contingency plans in the event of a deterioration that could result in a termination event. This group is being established under the auspices of the department of Business, Innovation & Skills.

6. Business Case

- 6.1 The business case for Eagle including the implementation costs generates a five year NPV of c£95 million. This is based on the current projected sales growth (with only limited benefits from investment in the Financial Services Sales Program), implementation and additional staff costs.

7. Recommendation

- 7.1 The Board is asked to note this paper, ratify the key terms agreed and confirm its approval for management to proceed to signing.

Nicholas Kennett
Director, Financial Services
April 2012

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Appendix 1 – Gamma Deed of Variation

In 2007 the Parties agreed a Deed of Variation to the original joint venture agreement. This provided a staggered payment of £50 million to Post Office over six years and a six year extension to the contract to 2020. In return Post Office made various commitments relating to its capability to deliver branch-based sales of financial services products

To date Post Office has received all Gamma payments (£26 million) despite not fully meeting the obligations. A further payment of £9 million is due in April 2012 for 2011/12. Subsequent Gamma payments are: £8 million for 2012/13; £5 million for 2013/14; £2 million for 2014/15.

Eagle removes all Gamma obligations, but locks-in the remaining payments.

The key obligations on Post Office include:

Contractual obligations giving rise to Gamma payments (each comprising one third):

- Post Office must maintain at least 15 percent (but expected to be 20-40 percent) of the customer area in each Crown for financial services activities. Bol has confirmed that this obligation has been delivered to date.
- Post Office must have completed a substantial refurbishment of the named Crowns by the end of 2010/11. Expenditure was expected to be c£40 million. Bol has confirmed that this obligation has been delivered.
- By 31st March 2009, Post Office must have at least 740 dedicated and specialist Financial Services Specialists (FSS) in Crown branches. In each subsequent year Post Office must maintain an average of at least two FSSs per Crown branch. Post Office has never met this key obligation and neither the NTP or the financial services sales programs anticipate this number of FSSs⁹.

Selected contractual obligations not linked to Gamma payments, but where Bol could frustrate Post Office implementing NTP

- Post Office must maintain 373 (named) Crown branches.
- Post Office may, subject to Bol's prior approval, substitute named Crowns with ones of a similar quality (sales performing at no less than 97 per cent) in the same town.
- From April 2012 Post Office can review the profile of the network:
 - Post Office can review Crowns to assess their profitability;
 - If the top 320 Crowns breakeven then Post Office can close up to 50 of the lowest performing branches;
 - If the top 320 Crowns do not breakeven then Post Office can close up to 50 of any Crown;
 - Bol is not obliged to make Gamma payments until the review outcome is agreed, with disputes sent to an independent expert.
- If Bol can demonstrate a loss as a result of the review then Post Office must make good this loss (eg through reduced commission, extending the term or exclusivity periods).

⁹ Payments have been received as Post Office has produced "cost equivalent" investment statements.

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Appendix 2 – Negotiating mandate approved by the Board – December 2011

	CURRENT AGREEMENT	BOARD MANDATE	TARGET POL POSITION	TERMS AGREED WITH BoI
SAVINGS	<ul style="list-style-type: none"> 14.7bps 	<ul style="list-style-type: none"> 22bps 	<ul style="list-style-type: none"> 25bps, rising to 40bps (blended at c28bps+) 	<ul style="list-style-type: none"> 53bps for variable products 26bps for online savings 14bps for fixed rate products This equates to: <ul style="list-style-type: none"> 25bps across the term if today's mix of savings remains constant; or Blended 25bps rising to 28.2bps with POL forecast mix of savings
INVESTMENT	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> No additional investment [unless revenue at least 24bps] 	<ul style="list-style-type: none"> Starting 3bps (equivalent to £4m from savings commissions with 2.5bps increments, £10m cap) 	<ul style="list-style-type: none"> £4m per annum (flat through the term)
CREDIT CARDS	<ul style="list-style-type: none"> £15 [er card sold 	<ul style="list-style-type: none"> £23 blend [sales and balances] 	<ul style="list-style-type: none"> £25 per sale + 25bps on balances [£26 blend] 	<ul style="list-style-type: none"> £21 per sale + 25bps on balances, equating to £23.5 blend
MORTGAGES	<ul style="list-style-type: none"> 10bps for lead generation [33bps (inc 'profit share')] 	<ul style="list-style-type: none"> 30bps 	<ul style="list-style-type: none"> 45bps 	<ul style="list-style-type: none"> 30bps for lead generation 40bps for branch completed sales
PERSONAL LOANS	<ul style="list-style-type: none"> 400bps 	<ul style="list-style-type: none"> 300bps 	<ul style="list-style-type: none"> 400bps 	<ul style="list-style-type: none"> TBC [300bps to start and then review when current account launched]
INSURANCE	<ul style="list-style-type: none"> 65%:35% split Bank adding no value 	<ul style="list-style-type: none"> BoI in 	<ul style="list-style-type: none"> BoI in – subject to showing value add Option to buy at '14 and '16 & no extension beyond 2020 	<ul style="list-style-type: none"> 65%:35% split BoI in BoI to prove value it brings
EXTENSION	<ul style="list-style-type: none"> N/a 	<ul style="list-style-type: none"> No extension <25bps 	<ul style="list-style-type: none"> 3 years, subject to min 25bps, with effective termination rights, HMG approval required 	<ul style="list-style-type: none"> 3 years (subject to HMG approval) BoI (UK) to meet FSA Capital & Liquidity requirements as previously tabled at Board
CONTRACT RESTRICTIONS	<ul style="list-style-type: none"> 373 Crowns; 740 FSs 15% floor space minimum for FS Gamma 	<ul style="list-style-type: none"> Removal of branch and FS number obligations Gamma money paid 	<ul style="list-style-type: none"> Removal of branch and FS number obligations Gamma money paid 	<ul style="list-style-type: none"> Removal of branch and FS number obligations BoI seeking threshold number for Mains and FS Gamma money paid
MARKETING FUND	<ul style="list-style-type: none"> 50:50 through POFS 	<ul style="list-style-type: none"> BoI to fund 	<ul style="list-style-type: none"> BoI to fund 	<ul style="list-style-type: none"> BoI to fund £15m/annum through term Above £15m shared 50:50 between POL & BoI

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Appendix 3 – Key selected extracts from the submission to Minister Employment Relations, Consumer & Post Affairs - these formed the basis of the HMG support of the Contract extension

12. BOI and POL have agreed non-binding Heads of Terms, apart from one outstanding issue regarding management of the insurance business. It is **not** expected that this will alter the key points of the package set out in paragraphs 12-17. *POL has been clear with BOI that any formal agreement on that basis requires endorsement by Government, because it includes an extension of three years to the existing term of the contract.*
13. Services would be delivered through a revised structure, removing the complex current management arrangements. The existing JV company would become a shell company and POL's share would be sold to BOI UK (for minimal proceeds). POL would then contract directly with BOI UK for product manufacturing and distribution. BOI would continue to provide some outsourced services, based on an arm's length contract with BOI UK.

14. Key components of the renegotiated package are:

Components presenting upside to POL:

- Revised commission rates which favour POL. The overall impact would be to move to a blended rate of 25 basis points on the current savings business mix, rising to 28.2 basis points in 2016/17 on the forecast business mix. This compares to a rate of 15 basis points in 2011/12 (see paragraph 14 for more on the impact).
- The removal of obligations on POL to maintain specific numbers of Crown branches.
- New termination rights for POL linked to an event of serious deterioration in the financial position of BOI UK or the failure of BOI (more details below).
- Competitive product pricing and standards commitments by BOI UK.
- A fixed £15 million annual marketing investment by BOI UK.

Components presenting upside to BOI UK:

- A three year extension to the existing contract, taking it to 2023.
- BOI UK to continue to participate in POL's insurance business (to note that POL does not consider this to be a significant 'give').
- POL to invest £4m per annum to improve its financial services sales and business capabilities (with investment incremental to the business plan).
- Limited commitments on branch capabilities.

15. POL forecasts that the revised commission rates alone would increase POL's aggregate personal financial services income in the period 2012/13 to 2016/17 from £200 million (in POL's strategic plan) to £301 million. This uplift does not take account of improvements in sales effectiveness and product mix that are forecast to result from planned investment into financial services. Including that uplift increases forecast aggregate income further to £348 million over the period.

Details of the extension agreement

16. The revised agreement bases the granting of extension upon BOI UK's capital and liquidity position. This would mean that extension would only be granted when BOI UK has met its Core Tier 1 Capital and Individual Guidance Liquidity (ILG) ratio requirements, with a 0.5% buffer above its minimum capital requirement to meet regulatory requirements in a base and stressed scenario. Both of these requirements are set and regulated by the UK banking authorities. BOI UK currently meets these hurdles.
17. POL would gain the right to terminate the contract at any time that BOI UK is below the Core Tier 1 Capital or ILG ratios, as set by the FSA (or relevant regulating authority at

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the time), or BOI is unable to provide the required core product manufacturing services to BOI UK.

18. Because BOI UK sources products and services from BOI, which are required for the agreement between BOI UK and POL to function, POL is also requiring that BOI UK has a contingency plan in place in the event of a failure of BOI, including meeting all related regulatory requirements. Failure to have such a contingency plan or the failure of BOI will both provide termination rights to POL.

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Appendix 4 - Key Agreement Terms

The following are the key components of the Eagle agreement on which the Heads of Terms were silent or incomplete or which arose from the removal of rights and obligations from Midasgrange (see also Paragraph 4 above):

- **Midasgrange valuation** – The Heads of Terms identified that Post Office will receive 50 percent of the net asset value of the company at the Completion date in exchange for its shares. Post Office is due to receive c £10 million (versus carrying value of c£5 million), with adjustment for:
 - Insurance assets and liabilities and other insurance matters not on the balance sheet will be passed through as cash transactions through the management of the insurance business to 2014;
 - The balance sheet includes a provision for deferred tax losses of c£6.7 million; while this is on the Midasgrange balance sheet, it is unlikely that the company would have been able to utilise them for some time; similarly the ability of Bol to utilise the tax losses is uncertain. As a result the Parties have agreed that the Post Office will receive the benefit of these as they are realised, with Bol committed to ensure that where reasonable these credits will be used;
 - Redundancies incurred as part of the migration of staff into either Post Office or Bol (the Heads of Terms anticipated that these would be deducted from the valuation).
- **Valuation at termination** – a critical issue has been to establish a valuation regime that ensures that Bol is incentivised to continue to build the Books¹⁰ up to the Transfer Date and that there is sufficient value available to interest new partners. The key principles are:
 - At expiry and the migration to a new partner the agreement envisages a three stage approach:
 1. All Books migrate to the new supplier;
 2. The Books transfer at “par”, with all liabilities moving at face value and loans adjusted for specific provisions and certain non-performing balances;
 3. Bol is compensated for the loss of future value based on a discounted cash flow of the net run-off value of the various Books in place at the time of transfer.
 - The process will be driven by an Independent Expert (IE) who will:
 1. Establish the discount rate to use on the run off value of the books, based on the prevailing market conditions,
 2. Assess the run off profiles of each product portfolio based on the normal run of business, including costs incurred and fees payable to Post Office.
 - The payment to Bol cannot be less than zero.
 - In the event of an early termination due to cause, one of two scenarios occur:
 1. Where Bol can continue to operate normally, and is able to sell/service products (a “Managed Termination”), the above methodology will apply except that the payment to Bol can be less than zero and Post Office can claim damages;
 2. Where Bol can no longer provide a normal service (a “Distressed Termination” e.g., insolvency or significant run), “par” cannot be protected

¹⁰ The Books are the balances held on behalf of Post Office customers and loans extended to customers. These will be transferred to the new partner in their entirety.

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and Post Office will provide reasonable endeavours to maximise the value to the Bank of the sale of the Books.

- A Managed Termination may become a distressed event.
- **Insurance** – agreement as per the mandate agreed at the January 2012 Board meeting, plus:
 - Post Office has a one-way call option from September 2014 to acquire the insurance businesses from Bol;
 - The acquisition value would be assessed by an independent IE, based on an open market price, including the value to Bol of its existing rights to 2020.
 - **Travel Insurance** - Bol currently has the right to match the commercial terms of the best proposal to Post Office to provide travel insurance. Post Office is planning to go to the market in 2012/13, and this right would severely constrain achieving the optimal outcome. Bol has agreed to relinquish this right.
- **Liability** – while the Midasgrange assigns liability caps to Post Office and Bol of £125 million and £75 million respectively, Linklaters are of the view that these are not enforceable. As a result both Parties are providing unlimited liability protection to the other party.
 - The agreement will establish a liability cap on each party.
- **Exclusivity** – the details are still to be finalised. However, the Parties have agreed that where Bol does not want to or is unable to provide a product or service (either itself or through a 3rd party) its right to exclusivity will fall away. Protections will be put in place to give Bol comfort that Post Office will not “engineer” such a situation. This position is a significant improvement of the current position to Post Office.
- **Deed of Repayment (DoR)** – the existing contracts included provisions that enabled Bol to reclaim Gamma monies in the event that the contract (and the extension to 2020) was struck down. Bol sort a similar DoR for the new contract. Post Office did not accept this new DoR, but the original one will continue, amended to take account of the removal of Gamma.
- **Competitiveness** – Bol has agreed that all products (features, services and particularly pricing) will be benchmarked against leading providers by product and channel. Bol will be required to price products against these benchmarks. This is a key win for Post Office as it enables us to challenge the established financial services brands and provide our customers with true value.

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Post Office Limited

(company no. 2154540)

Minutes of the meeting of a Sub-Committee of the Board
held at 148 Old Street, London, EC1V 9HQ
on 22nd March 2012 at 2.30 p.m.

Present:

Paula Vennells

Managing Director, Post Office Limited (Chairman of the meeting)

Chris Day

Chief Financial Officer

In Attendance

Alwen Lyons

Company Secretary

Susan Crichton

Legal & Compliance Director (by telephone)

The Post Office Limited Board on 15th March 2012 had appointed a Sub-Committee to the Board (the Sub-Committee), comprising Paula Vennells and Chris Day, to give effect to the legal requirements necessary for the transaction to go ahead to move Post Office Limited to become a sister company of Royal Mail Group Limited.

- (a) The Chair reported that:
- i. Royal Mail Holdings plc (RMH), the Company's ultimate parent company, and certain of its group companies including the Company are undertaking a proposed reorganisation (the Transaction);
 - ii. it is proposed that, among other things, the Transaction include the transfer of the entire issued ordinary share capital of the Company from Royal Mail Group Limited (RMG) to RMH and the issue of one special rights redeemable preference share of £1 in the capital of the Company (the Special Share) to one of Her Majesty's Secretaries of State; and
 - iii. the purpose of this meeting was to consider and, if thought fit, to approve certain actions in respect of the Transaction.
- (b) The Sub-Committee acknowledged the Transaction and resolved that it is in the best interests of, and for the proper purpose of, the Company to undertake certain actions in respect of the Transaction, as far as they relate to the Company, and that the Transaction would promote the success of the Company.
- (c) A draft of a secondment termination agreement to be entered into by the Company and RMG (the Secondment Termination

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Agreement) was presented to the Sub-Committee. It was explained that this document recorded the fact that the existing secondment arrangements were coming to an end and that the termination of this arrangement would be a TUPE event, so that all staff currently provided under this arrangement would transfer from RMG to the Company. The Sub-Committee noted that the agreement also included express wording to allocate liabilities for the transferring staff between RMG and the Company. The Sub-Committee approved the terms of the Secondment Termination Agreement and authorised any Director of the Company to execute the Secondment Termination Agreement on behalf of the Company in the form tabled or with such amendments as the person signing the agreement may, in such person's sole discretion, approve (such signature to constitute approval of any such amendment).

- (d) A draft letter from RMH to Secretary of State seeking approval of the Property Transfer Scheme, was presented to the Sub-Committee, together with a schedule of properties to be transferred. The Sub-Committee noted the content of this letter, which was to be countersigned by RMG, Royal Mail Estates Limited and POL, and authorised any Director of the Company to counter-sign on behalf of the Company in the form tabled or with such amendments as the person signing the agreement may, in such person's sole discretion, approve (such signature to constitute approval of any such amendment).
- (e) A draft stock transfer form to effect the transfer of the 50,003 ordinary shares of £1 each in the capital of the Company (the Ordinary Shares) from RMG to RMH (the Share Transfer) was presented to the Sub-Committee. The Sub-Committee resolved that, subject to the receipt of the duly executed stock transfer form in the form, or substantially the form, tabled at the meeting and the presentation of such document for registration in accordance with the provisions of the Articles of Association of the Company:
 - i. the Share Transfer be approved;
 - ii. the Secretary be instructed to register the Share Transfer in the Company's Register of Members and to prepare the necessary new share certificate, following cancellation of the existing share certificate; and
 - iii. any two Directors or any one Director and the Secretary be authorised to execute the new share certificate in respect of the Ordinary Shares in the name of RMH.
- (f) The Sub-Committee noted that, subject to completion of the Share Transfer, it was proposed that the Articles of Association of the Company be amended to reflect the changes to the

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structure of the group pursuant to the Transaction, as well as to reflect the implementation of the Companies Act 2006 and the Postal Services Act 2011, among other things. The Sub-Committee also noted that it was proposed that the Company remove its objects clause together with all other provisions of its Memorandum of Association in accordance with the Companies Act 2006. A draft of the proposed new Articles of Association of the Company (the New Articles) was presented to the meeting, together with a note explaining the principal changes. The Sub-Committee acknowledged that the adoption of the New Articles in the form, or substantially the form, tabled at the meeting by the Company and the deletion of the provisions of its Memorandum of Association would require a special resolution to be passed by its sole member at the relevant time.

- (g) The Sub-Committee noted that it was proposed that, following the completion of the Share Transfer and in accordance with the New Articles, one special rights redeemable preference share of £1 in the capital of the Company (the Special Share) be issued to the Secretary of State. A subscription letter signed by the Secretary of State in respect of the Special Share was presented to the Sub-Committee (the Subscription Letter). The Sub-Committee acknowledged that the issue and allotment of the Special Share by the Company to the Secretary of State would require that the Company's sole member pass an ordinary resolution to give authority to allot the Special Share and a special resolution to disapply pre-emption rights.
- (h) The Sub-Committee discussed the shareholder approvals required to effect the steps referred to above and it was resolved that written resolutions of the sole member of the Company to approve these steps be recommended. A draft of the proposed written resolutions of the Company (the Written Resolutions) was presented to the Sub-Committee. The Sub-Committee approved the Written Resolutions and authorised and instructed the Secretary, subject to completion of the Share Transfer, to send the Written Resolutions (with any such amendment as the Secretary may in her sole discretion approve) to RMH (as the sole member of the Company at that time) for execution and to send a copy to the Auditors.
- (i) The Sub-Committee resolved that, subject to the Written Resolutions being passed, the terms of the Subscription Letter be approved and that:
 - i. the Special Share be issued and allotted to the Secretary of State;
 - ii. the Secretary be instructed to register the Secretary of State as the holder of the Special Share in the Company's Register of Members and to prepare a share

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certificate in respect of the Special Share; and

- iii. any two Directors or any one Director and the Secretary be authorised to execute a share certificate in respect of the Special Share in the name of the Secretary of State.
- (j) The Sub-Committee resolved that Paula Vennells and Chris Day be and are hereby severally authorised on behalf of the Company to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with, and to take any additional actions as are necessary or incidental to carry into effect the Transaction, the purposes of the resolutions referred to above or the transactions contemplated thereby.
- (k) The Sub-Committee resolved that all actions taken by any Director, officer (including the Secretary) or agent of the Company in connection with the Transaction prior to the date of this meeting be authorised, approved, ratified and confirmed in all respects as acts of the Company.
- (l) The Chair instructed the Secretary to take the following steps, subject to receipt of the duly executed Written Resolutions:
- i. file the amended Articles of Association of the Company and a print of the Written Resolutions with the Registrar of Companies;
 - ii. prepare, sign and deliver to the Registrar of Companies a statement of company's objects (Form CC04) and a return of allotment (Form SH01); and
 - iii. make all such other filings as are required in relation to the resolutions passed at this meeting.

There being no further business the meeting closed.

GRO

In Strictest Confidence

**FRES (12)1st
FRES12/01-13**

FIRST RATE EXCHANGE SERVICES Ltd

(Company no. 04287490)

&

FIRST RATE EXCHANGE SERVICES HOLDINGS Ltd

(Company no. 04287534)

**Minutes of the 55th meeting of the Board
held in the Boardroom, Eastcheap Court, 11 Philpot Lane, LONDON
EC3M 8BA on 23 February 2012**

Directors present:

Paula Vennells (Chair)
Des Crowley
Kevin Gilliland
Gordon Gourlay
Andrew Hardie
Nick Kennett
David McGowan
Liam McLoughlin
Patrick Waldron

In attendance:

Alwen Lyons – Company Secretary

Gary Fitton
Bjorn Larsson
Jon Wood

FRES12/01

WELCOME

Paula Vennells welcomed everyone to the meeting.

FRES12/02

MINUTES

- (a) The Board approved the minutes of the meeting held on 12th December 2011.
- (b) The Board approved the minutes of the Extraordinary meeting held on 24th November 2011.

FRES12/03

STATUS REPORT

- (a) The Board noted the update on actions from the previous board.
- (b) Click and Collect Feasibility: Paula Vennells supported the development as right for customers and an effective way to drive efficiencies, but stressed that the changes may not be easy to achieve.
- (c) Wholesale: Meeting with Chris Day regarding wholesale still to be organised.

**ACTION:
Gordon Gourlay/
Kevin Gilliland**

- (d) Regional Sales Performance: Des Crowley asked for a report to the next Board meeting explaining the variations in regional sales performance and highlighting the initiatives being considered.

In Strictest Confidence

FRES12/04

BUSINESS REVIEW

- (a) The Board noted the MD Business update for January 2012, in particular:
- (b) The business continues to be on track to deliver PBT of £84m, with margins and cost control offsetting the deficit in sales.
- (c) Feedback from the market suggests that travel firms have taken out as much capacity as possible and their projections for 2013 are more positive. Gordon Gourlay to keep the Board updated in future reports.
- (d) Quarter 4 Campaign: The quarter 4 marketing campaign was producing good results. Liam McLoughlin asked how the effectiveness was tracked. Gary Fitton reported that the new 'QR' codes would make tracking easier. Paula Vennells asked that future adverts be appended to Board Papers, and 'QR' responses be reported to the Board.
- (e) Complaints: Customer complaints have improved significantly in the month when compared with the previous year.
- (f) TMC and IP: Sales of TMC and International Payments are growing well, with levels of fraud showing no signs of coordinated activity.
- (g) Average Ticket Value: ATV is increasing, which is an important trend as next year's plan assumes a 2% increase in ATV. Gordon Gourlay advised that the exercise to track the higher ticket band would be re-run to give the Board comfort that the business assumptions were valid.
- (h) Product Competitiveness: Kevin Gilliland suggested that the perception in Post Office branches was that the product was not competitive. It was agreed that Kevin Gilliland and Gordon Gourlay would produce a communication for the Branches, highlighting the product's competitiveness in the market.
- (i) NVQ Travel Training Programme: Paula Vennells asked for the business to investigate sponsorship of the NVQ travel training programme.
- (j) TMC Plus: The costs of developing TMC Plus have increased significantly, although the business case remains strong. Gordon Gourlay and Nick Kennett were asked to investigate the costs and why the initial feasibility was taking longer, and report back to the Board.
- (k) FRES Balanced Scorecard: The Board noted the balanced Scorecard for January.

**ACTION:
Gary Fitton**

**ACTION:
Gordon Gourlay**

**ACTION:
Kevin Gilliland/
Gordon Gourlay**

**ACTION:
Gordon Gourlay**

**ACTION:
Nick Kennett/
Gordon Gourlay**

In Strictest Confidence

**ACTION:
Gordon Gourlay**

(l) The metrics used to measure market share were discussed and Gordon Gourlay explained that a rolling quarter was used, as monthly data can be volatile. Paula Vennells asked that a check be taken with the monthly data against a similar position last year. Liam McLoughlin requested an on-line report to enable the business to see if the market is moving away and the KPI's are missing the trend.

**ACTION:
Gordon Gourlay**

(m) AOP Summary Tracker: The Board noted the Summary Tracker for January.

(n) KPMG are reviewing the cost base of the business, its shape and structure. They have been given a challenge to reduce the cost base by at least 10%. Gordon Gourlay to circulate the terms of reference to the Board and present the report at the next Board meeting. Consider whether input from POL would benefit the review.

FRES12/05

FINANCE REVIEW

**ACTION:
Gordon Gourlay/
Andrew Hardie**

(a) Andrew Hardie introduced the Finance update for 2012;

(b) Year to date sales of £2.071m was 0.3% ahead of last year and 4.3% down against budget. Margins were favourable to budget by 0.21%. Cost savings continued and were £0.8m favourable to budget. There are very few risks to the PBT forecast at this stage;

**ACTION:
Gordon Gourlay/
Nick Kennett**

(c) Nick Kennett asked if Return on Capital was an effective measure for the business. The executive team were asked to consider different measures, and bring them back to the Board for consideration;

(d) The alignment of the Bricks and Mortar network and the on-line offer through Click & Collect will be important to deliver next year's plan. Paula Vennells asked for a detailed joint paper to the next Board covering the technical and delivery processes, the costs/benefits and timelines.

(e) The Board noted the Finance report.

FRES12/06

BUSINESS DEVELOPMENT

(a) Jon Woods joined the meeting and presented his views on future growth through third party non-Post Office partners, with an aspiration of 20% of profit coming from non-core activities

(b) The opportunity at airport sites was discussed and, although the economics were challenging, the effect on customer awareness could be significant.

In Strictest Confidence

ACTION:
Gordon Gourlay

- (c) The Board was supportive of the initiative but stressed the need to ensure fire walls are in place to stop any conflicts of interest between the Post Office and other banks and retailers. Nick Kennett asked that these firewalls be clearly documented to ensure no risk of cross subsidisation

ACTION:
Jon Woods

- (d) Jon Woods would return to the next Board meeting to report progress.

Paula Vennells left the meeting and the Chair passed to Des Crowley.

FRES 12/07

WHOLESALE BUSINESS REVIEW

- (a) Bjorn Larssen joined the meeting and explained the opportunity for working capital management which would release £50m cash. The plan would be in three phases with an initial short term drag on earning.
- (b) Liam McLoughlin asked for assurance that the plan would not affect key staff retention. Gordon Gourlay explained that retention action has already been taken and succession plans were in place if any of the dealers did leave.
- (c) The Board supported the Working Capital Management initiative.

FRES 12/08

2012-13 ANNUAL OPERATING PLAN

ACTION:
Gordon Gourlay

- (a) The Board asked for the updated four year business plan to be presented at the next Board.
- (b) Gordon Gourlay explained that the AOP was put together before the engagement of KPMG on the cost review, so there may be some further opportunities in the plan. Proposed plan shows a PBT of £87m, with risk on opportunities in a range between £84-89m.
- (c) The Board agreed that the shareholders would all want a sustainable Business which optimised margin without damaging the business.
- (d) Dividend: The Board recommended a dividend of £60m subject to reviewing trading conditions and cash throughout the summer, with a minimum value of £55m.
- (e) The Board requested a quarterly Investment & Capital Expenditure Report.
- (f) Des Crowley requested a report to the Board on the tax planning for the business.

ACTION:
**Gordon Gourlay/
Andrew Hardie**

ACTION:
Andrew Hardie

In Strictest Confidence

FRES 12/09

PAPERS FOR NOTING

- (a) Business Management Forum Minutes January 2012: noted.
- (b) Audit and Risk Committee Meeting Minutes February 2012: noted.
- (c) Risk Appetite Statement: noted, but the risk of tiger kidnap procedures to be added to the risk register
- (d) OFT Response to Travel Money Super Complaint: noted.

FRES 12/10

CONFIRMATION OF ARC CHAIRMAN

- (a) Liam McLoughlin proposed David McGowan as the next Chair of the Audit and Risk Committee. Kevin Gilliland seconded.

FRES 12/11

AOB

- (a) Nick Kennett informed the Board that Sarah Munro, Head of Travel Services for Post Office Limited, had resigned. The Board acknowledged the good job she had done and asked Gordon Gourlay to send a note of thanks on behalf of the Board

**ACTION:
Gordon Gourlay**

FRES12/12

CLOSE

There being no further business, the meeting was closed.

FRES12/13

DATE OF NEXT MEETING

- (a) The next meeting of the FRES Board would be held on the 26th April 2012.

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POLB(12)55

**POST OFFICE LIMITED BOARD
Status Report**

No.	REFERENCE	ACTION	BY WHOM	STATUS
		1. Actions Appertaining to Governance		
1a	November 2011 POLB11/54(e)	To update the Board on the review of future Executive Team Structure and Accountabilities.	Paula Vennells	In hand, to be discussed by Paula Vennells, Chairman and NEDs to feed into the individual Senior Executive's end of year PDR and future organisation design.
1b	January 2012 POLB12/06 (a)	Susan to bring back a revised Governance proposal to the Board once she has met with the Chairman to discuss this further.	Susan Crichton	Discussed at the March Board.
1c	March 2012 POLB 12/37	Resignation of Les Owen. TM01 form to be filed with Companies House.	Alwen Lyons	Complete.
1d	March 2012 POLB 12/40	Susan Crichton and Chris Day were asked to update and circulate a proposal for Delegated authorities below SHEX level.	Susan Crichton/ Chris Day	Complete. Revised schedule attached as Appendix A.
	March 2012	The Board resolved that a sub-committee be formed to give effect to the legal requirements necessary for the Transaction to move POL to become a sister company of RMG. Minutes of the sub-committee to be circulated to the Board.	Alwen Lyons	Complete. Minutes included in April Board packs.
		2. Actions Appertaining to IT & Procurement		

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2a	<p>November 2011 POLB11/62©</p> <p>January 2012 POLB12/03 ©</p>	<p>The Chairman requested a deep dive to be organised to cover procurement and governance.</p> <p>The Chairman requested that the IT Board paper is clear with practical language to highlight what the IT changes will mean to the Business on the ground. A deep dive was suggested.</p>	Lesley Sewell	<p>A session is scheduled for the March Board on Infrastructure (IT and Procurement). Complete.</p> <p>Mike Young will ensure that practical language is used in the IT paper and arrange individual sessions with Board members before the March Board. Complete</p>
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2b	March 2012 POLB 12/28	The Chairman understood that Berkeley Partnership had challenged the concept of the towers within the framework. Lesley Sewell to take a further look at the different approach suggested by Berkeley Partnership.	Lesley Sewell	<p>Berkeley provided a useful summary of the option to consider multiple 'application' towers, with the primary benefits being: promotion of more competition in establishing run cost of new services, and enabling phased re-procurement of each individual app tower as they reach their individual end-of-life (vs forced re-procurement under a single run provider).</p> <p>The report agreed that there is no 'right answer' and support our stated procurement approach of engaging in competitive dialogue with suppliers to discuss the most beneficial tower construct. Single or multiple app towers will be identified as part of this competitive dialogue as best fits the needs of the Post Office, particularly with consideration to the existing Horizon 'app' tower and on-going evolution of that platform to meet business transformation needs in parallel to the re-procurement activities.</p> <p>A copy of Berkeley's note on this subject is tabled as a noting paper for the April Board.</p>
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2c	March 2012 POLB 12/28	Les Owen asked if the Service Integrator (SI) model had been successfully deployed in other organisations. Lesley Sewell to find a business who are already successfully using the SI and similar structure to benchmark, including the retail/services sector.	Lesley Sewell	Deloitte are still to provide this material for detailed examples. By way of additional support to the SI model: the programme also recently held a successful Market Engagement Day. Much of the feedback received supports the planned model in terms of use of an SI layer (see attached for the summary of feedback received from the suppliers who attended the day). We will also seek proven models via Gartner as well as Deloitte
2d	March 2012 POLB 12/28	The Chairman asked Lesley Sewell and Chris Day to provide a breakdown and explanation of the optimised expected cost scenarios for the Board.	Lesley Sewell/ Chris Day	This is being developed for submission at the end of April.
	March 2012 POLB12/42	Horizon Update – Lesley Sewell to return to the Board with the outcome of the tactical and strategic reviews and the options available for the future.	Lesley Sewell	An agreed approach has been developed with both Fujitsu undertaking a tactical review targeting the specific recent issues and an independent organisation being engaged to establish a strategic risk and resilience review across Horizon and the broader Post Office infrastructure. The Fujitsu tactical review will report back mid-April; the strategic review will provide initial output mid-May.
3. Actions Appertaining to Financial Services				
3a	September 2011 POLB11/48(d)	Current Account: The target for introduction is 2013 but a full proposition needed to be presented to the Board.	Nick Kennett	In hand; target date should read 2012/13 and will come to a Board in 2012 (July).

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3b	November 2011 POLB11/56©	The Chairman asked Nick Kennett and Kevin Gilliland to present a joint paper to the Board in the New Year covering the Financial Services future sales plan.	Nick Kennett	In hand; on Board Agenda for March. Completed.
3c	January 2012 POLB12/10(c)	Eagle Contract Termination: If the evergreen right was not negotiable then Nick Kennett was asked to ensure the resolution period was long enough for POL to find an alternative provider.	Nick Kennett	Ongoing as part of Eagle negotiations.
3d	February 2012 POLB12/24(a)	Eagle: Target date of early March for signing the contract and Nick Kennett will bring the final agreement to the March Board	Nick Kennett	Not yet signed. Expected to be substantially complete for review at April Board.
3e	March 2012 POLB 12/30	Neil McCausland suggested that the new FSR model be built into the Crown Trial, including branch incentives.	Kevin Gilliland	A designated desk situated in a quiet zone for FOoG customers has been built in to Phase 2 Birmingham. We will be trialling the new FS strategy in Birmingham. We now have Sales Force in Birmingham and in June we will trial the Hub and Spoke model initially for mortgages.
3f	March 2012 POLB 12/36	Les Owen and Nick Kennet to discuss an alternative proposal with regard to valuation of future proposal. Nick Kennet to send a note round to the Board to summarise the discussion.	Nick Kennet	To be included in submission to April Board
3g	March 2012 POLB 12/36	Nick Kennet to relay to the Bank the Board's disappointment at the re-opening of discussions on FSR numbers, which they thought had been settled.	Nick Kennet	Complete.
4. Actions Appertaining to Network Transformation				

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4a	December 2011 POLB11/69(d)	It was agreed that an updated Crowns plan be brought back to the Board next year to cover the new economic model; optimum self service vending; and the impact on Crown branch numbers.	Kevin Gilliland	In hand, This will be part of the NTP presentation to the Board in March. Completed.
4b	December 2011 POLB11/69(k)	The Board to be provided with 2-3 bullet points to explain the facts in the event of adverse publicity or contact by MPs, local dignitaries or Subpostmasters.	Alana Renner	The Board will be alerted to and briefed ahead of (wherever possible) any major adverse publicity regarding the Post Office. The Board will also receive a brief ahead of any major news releases to ensure they have key messages to handle any high level enquiries. Ongoing.
4c	January 2012 POLB12/03(a)	Kevin Gilliland to include in his NTP update to the Board in March how the Business intended to prioritise the offices as the models had very different commercial implications.	Kevin Gilliland / Chris Day	In hand, will be included in the March Board presentation. Complete.
4d	March 2012 POLB 12/29	Neil McCausland asked for reconciliation between the numbers in the Crowns paper presented by Kevin Gilliland and the Crown P&L.	Kevin Gilliland/ Chris Day.	
5. Actions Appertaining to Board Reports				
5a	November 2011 POLB11/57(e)	Paula stressed that queuing times was an area on which the Business focussed heavily and suggested a strategy paper comes to the Board on this topic.	Kevin Gilliland (Paula Vennells)	In hand, Kevin will bring this to the June Board.
5b	January 2012 POLB12/06 (a)	Chris Day to speak to Matthew Lester (RMG CFO) regarding 'Going Concern' discussions as part of the Board's governance, and introduce the necessary reporting process at the Board.	Chris Day	Ongoing – Chris Day to report back to February Board. Update 9 th February – Chris Day confirmed that POL's Going Concern status would be covered within the RMG consolidation for this year. A paper would be provided to the Board (May) on the proposed Going Concern process/external audit for FY 12/13.

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6. Actions Appertaining to POL Remuneration				
6a	January 2012 POLB12/01(b)	LTIP: The Chairman asked that a proposal be brought back to the Board based on the discussions to date (including higher ranges for CEO and CFO) with a gateway for Network Conversions; a small reward for achieving 90% of the financial target; but with the main bonus at 100% and significant rewards for hitting stretch targets. It was agreed that the work needed to be completed as quickly as possible to enable a proposal to the Shareholder before the end of the financial year.	Matthew Starks	Work is on-going with New Bridge Street to re-model the LTIP in line with the feedback provided by the Board and to establish the metrics with the Finance team. The revised proposal will be represented to the board in March though, following a suggestion by Alice Perkins, this may be able to be considered sooner, but outside a main board meeting. Extraordinary board meeting 29 th February. Ongoing
6b	February 2012 POLB12/20©	PDR scoring – Les Owen requested two-dimensional matrix rating performance and potential. Paula Vennells suggested the inclusion of potential ratings for the Top Team in the succession planning paper.	Pauline Holroyd	Session scheduled for May Board.
6c	January 2012 POLB12/01(d)	Managers Pay 2011-12: Discussions are continuing with the CMA and Matthew Starks will update the Board if there are any significant changes or the pay deal is agreed.	Matthew Starks	Update contained within Managing Director Update: POLB(12)19. Complete.
7. Actions Appertaining to Finance				
7a	September 2011 POLB11/43(e)	Ongoing development of commercial finance capability is required.	Chris Day	Ongoing – process for recruiting Head of Commercial Finance underway.
7b	March 2012 POLB12/38	In relation to the 2012-13 Budget the Chairman suggested that Paula Vennells and Chris Day discuss the medium cost reduction challenge with the Executive Team to decide how they will improve productivity without jeopardising the major transformation programmes, and report back to the Board.	Paula Vennells/ Chris Day	Ongoing – likely to require consultation with external specialist consultancies on best practice prior to making recommendations to ET/Board.

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7c	March 2012 POLB 12/38	Chris Day to circulate to the Board the updated budget figures including contingency.	Chris Day	The challenge and contingency has been done as set out in the Board paper for 15 March. Following the year end and as intercompany balances have finalised with Royal Mail there have been some further minor amendments. A final bridge from the 15 March Board paper to final budget will be provided with the Period 1 reporting.
8. Actions Appertaining to Front Office of Government				
8a	February 2012 POLB12/18(e)	The DVLA Tender would return to the July Board but Paula Vennells would keep the Board updated on any significant changes should they arise in the interim.	Paula Vennells	Ongoing
9. Actions Miscellaneous				
9a	January 2012 POLB12/03(d)	Olympics: A noting paper to be brought to the March Board detailing the work underway to mitigate any disruption caused by the Olympics.	Mike Young	On March Board agenda.
9b	January 2012 POLB12/07	Integrity of Horizon System: Susan Crichton to clear the audit report with the external lawyers and, if possible, to give the report privileged status and circulate it to the Board.	Susan Crichton	Final amendments to report awaited.

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11. Actions Appertaining to Personal Injury Referral Fees				
11a	February 2012 POLB12/25	Nick Kennett to investigate the flow of fees to ensure there is no inducement of wrong behaviours.	Nick Kennett.	Complete.
	March 2012 POLB 12/32	Neil McCausland to take ownership of this issue going forward to ensure the business was getting the required information and challenging Junction to ensure that the Post Office was beyond criticism.	Neil McCausland/ Nick Kennett	Ongoing.

Proposal: authorities to commit spend or implement change

ShEx Consent Required Under Articles of Association

SHEx	> £50m
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Authorise

	Planned Spend	Unplanned & Complex Spend	Decisions with brands and risk impact
	<u>Value</u>	<u>Value</u>	<u>Description</u>
Board	> £20m	>10m	Carries significant risk (ERM score4). Attract public and media interest Risk of impact on brand value New product
POLIC/ ET	£5-20m	£0.5-10m	Carries significant risk (ERM score 3). Attracts local public and media interest Impact on customer experience Changes to products
CFO	£1-5m	£0.25-0.5m	Price changes
Director	<£1m	<£0.25m	N/A

To be reviewed at the end of 2012/13.

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Planned Spend

Covers both bau costs of running the business and projects approved in the budget unless deemed in the budget to be complex.

Includes: extending a product range, system upgrades, and property projects.

Examples:

- Horizon releases
- Rhino Doors cash centre security upgrade
- Payment Card (PCI) security compliance
- Marketing campaigns

Unplanned & Complex Spend

Spend not in budget and projects in the budget that were identified as complex.

Includes: product development, acquisition of new system, major capital spend

Examples:

- IT Transformation
- Channel Integration
- Returns and Collections
- Olympics
- FOOG tenders

Change with Risk

Any activity that places business at risk (refer to ERM score).

Includes: change of supplier, compliance cases, and single person vehicles.

Examples:

- HomePhone and Broadband supplier selection
- PINpads
- Eagle
- Sale of credit cards in branch

Brand Impact

Significant issue that will be noticed by all customers and significantly impact a group of customers.

Includes: completely new product, change to product, new branch model

Examples:

- POCA statement frequency,
- Premier trial
- Online retail shop
- Cheque acceptance
- Project POLO

NB some cases will fit under more than one heading.

POLB(12)56

POST OFFICE LTD BOARD

Appointment of Directors

The Board is asked to ratify the appointment of:

Virginia Holmes as Director of the Company effective 4th April 2012,

to approve the appointment of:

Susannah Storey as Director of the Company effective 18th April 2012,

and to authorise the Company Secretary to make all necessary filings with Companies House.

Alwen Lyons
April 2012

POLB(12)57

**POST OFFICE LTD BOARD
Chief Executive's Report****Strategic Programmes:****1. Network Transformation (NT)**

- The programme remains on track to deliver 1200 new operating model formats by the end of March 2013. Interest in the new models continues to gather momentum, assisted by the national media launch, a further 50+ face to face events with agents across the UK and a robust Post Office presence at the National Convenience Show. The survey via Horizon on line has been reopened and agents are being encouraged to tell us their views.
- Our approach to selection and prioritisation of branch activity was agreed at the last POLB and initial engagement with volunteer Agents is on schedule to begin from the middle of April. In preparation for this activity, a structured training course started on the 26 March for a team of circa 80 Field Change Advisors. Training will equip them to have meaningful conversations with Agents about the features and benefits of the new operating models and their suitability for conversion, as well as a thorough understanding of the end to end process for implementation.

2. Crowns

- **Birmingham Premier Pilot:**
 - Overall sales performance is 119% (weeks 35-51), and 113% (weeks 40-51) since we removed the additional support. Focus sales have been 108% and 102% (vs control branches 102% and 97% for the same period).
 - Average queuing time for customers using counter services since go live is now averaging circa 75% served in less than 5 minutes, with P&G migration averaging 76% of available Mails & Retails products. This compares to 39% prior to pilots.
 - A full post implementation review is underway to identify savings that can be realised from the additional P&G kiosks and identify key individuals who could become ambassadors for the Crown Transformation Programme. Customer research is also being completed to support phase two which will focus on longer opening hours, more automation (ATM), improved point of sale and signage, open plan travel positions, dedicated Government Services Front Office area. Phase II will also trial the new approach to FS sales (appointments/FS advisor to cover several offices).
- An additional 3 pilot sites are being sought (in addition to Chester and New Malden), 12 tactical sites will be implemented by the end of September to realise efficiencies from the introduction of more P&G kiosks in high mails branches, and to further test the assisted self-service model.
- Crown Transformation pay discussions with CWU have progressed well. We have gained their support in principle to implementing a range of changes to reduce the P&L deficit in exchange for unconsolidated cash payments, though they are reserving their right to ask for some form of consolidated payment to be included in a final deal. We have managed within accounting rules to accrue these payments in the 2011/12 budget, this approach has the support of our external auditors. In conjunction with the unions a process has been implemented to analyse the detailed working practices of the Crown network, to identify specific areas where we can increase productivity and reduce costs.

3. Front Office of Government

Agenda item

4. Efficiencies

A proposal for a structured 3 year efficiency plan, to evidence value for money to the taxpayer of the spend to transform the Post Office network, will be submitted to the ET late April and, if agreed, to the POL Board in May. Also, over the coming months, we plan to investigate options for addressing the structural cost base of the business in the medium term, and how this might be achieved without jeopardising the implementation/execution of NTP and other major programmes.

5. Separation and Independence

From 1 April 2012 Post Office absorbed the workload associated with the first 66 of 129 services currently provided by Royal Mail. Union consultation on the TUPE process concluded positively. Letters explaining the impact of the change of employer to Post Office Ltd, effective from 2 April, were sent to the home addresses of all colleagues week commencing 2 April. The programme continues to work on driving down the one-off costs of separation and latest indications are that costs will be sub-£30m compared with the original estimates of £36m to £46m. The like for like operational expenditure following the cessation of all services from Royal Mail is anticipated to be £5m pa less than the current inter-business charge.

6. Post Office Financial Services (Eagle)

Agenda item

7. IT Landscape

The IT&C Transformation programme continues to make progress with procurement activities, organisation design and staff engagement well underway. Following POLB approval of the business case on 15 March, a series of colleague and supplier engagement sessions took place, with a Market Engagement Day held on 29 March with 40 potential suppliers to generate interest in the procurement and provision of IT services. In parallel, we have shortlisted 9 -13 suppliers for each of our 3 call-off frameworks (IT Consultancy, IT Products and IT Solutions Delivery). Focus over the coming weeks will be on finalising the organisation design and the release of OJEU notices to commence procurement of our Service Integrator, Service Desk and IT Towers.

Business as Usual Report:**1. Managers Pay**

The Post Office Managers 2011/12 pay offer of £2.2m (average 1.5% with some rates varying for certain grades/functions – see POLB12(06) for details) went to ballot on 28 March and has been accepted with 72% voting in favour of the deal. Pay talks for 2012/13 will commence soon.

2. Performance Assessment

The performance review process for managers has commenced. As at year end 81% of individuals had submitted their self reviews and individual face to face performance discussions are taking place. Peer comparison discussions are being held across directorates with a target of 27 April for completion and scores to be submitted to HR Service Centre. The ET will meet on 8 May to review the senior leadership population in

terms of performance and, for the first time, also include a discussion on their individual potential.

3. **TUPE Transfer and Pensions**

Both these processes happened successfully and in terms of the TUPE transfer this has created no 'noise' or disquiet from any of our people. This is a very significant achievement and is attributed to the intensive discussions that were held with both unions over 5 months prior to the transfer and the communications issued to our people. The pension scheme is now fully funded but there will be further work during this year to implement a Post Office governance framework, work with trustees to conclude the actuarial valuation and the deployment of new legislation in terms of Workplace Pensions Reform.

4. **NFSP**

- We have begun preparations for the NFSP conference in May where we anticipate the main focus to be NT along with the new opportunities emerging from Front Office of Government. The Terms of Reference for the re-constituted Strategic Partnership Board will be agreed by the ET on 17 April, with the first meeting to be held on 23 April 2012.
- Discussions have commenced with NFSP regarding the annual remuneration review. Our offer is funded by a combination of accruals from 11/12 and revenue arising from Mails tariff increases.

5. **Quarter 1 – 12/13 Product Campaigns**

- **Easter Travel Money – 19 March to 15 April**
Multi media campaign (press, range of in branch material, direct mail and ATMs, digital display and search) promoting specific currency deals which support our value position: get a better rate on Euros & Dollars when you spend over £500 or £1000 and a series of weekly changing country currency deals such as best rates on Turkish Lira.
- **Travel Insurance – 19 March to 15 April**
Travel Insurance campaign using in branch and digital channels promoting the opportunity to win Kindles when you buy our Annual Multi-trip and Single Trip policies backed up by the customer peace of mind you get from the high quality of cover that we offer.
- **Premier cash ISA - 9 April to 20 May**
Multi media (press, range of in branch material, direct mail and ATMs, digital display and search) campaign promoting launch of Premier Cash ISA Savings product with a best Buy 3.01% rate (top 3 in market).
- **Car and Home Insurance – 16 April to 20 May**
A predominantly in branch campaign designed to build on the Q4 Insurance campaign continuing to promote guaranteed to beat your renewal quote by £50 for Home Insurance and Free Breakdown cover for Car Insurance plus 10% off for Over 50's. The campaign will be supported by the BAU activity of direct mail, search and aggregator.
- **HomePhone and Broadband – 21 May to 24 June**
In branch, direct mail and press campaign launching the addition of the "Anytime" package to our Homephone and Broadband product. For £4.50 per month customers can make any number of calls at anytime throughout the day. We are also making customers aware that we are up to £50 cheaper on line rental than TalkTalk and BT. Ahead of this the new line provide offer will continue.

- **Collectables and the Diamond Jubilee – 21 May to 24 June**

A campaign aimed at Royal fans and lovers of national events promoting collectables commemorate the Diamond Jubilee. We will be using Sunday supplements in national newspapers during Jubilee weekend as well as direct mail to existing collectors, email, branch posters, search, digital display, and PR. These products have been on sale throughout 2011/12 and have already contributed £6.3m revenue at 12% margin. The margin will increase this year to 20% as a result of improved MDA rates.

6. **Olympics**

Preparations for the Olympics remain on track. Construction of the two Post Office branches in the Olympic Park commences on 14 May. We are awaiting agreement from our agent in Russell Square, who has provisionally agreed to extend opening hours into the evening and weekends to serve the world's media. Business continuity plans are in place, working closely with RML, to minimise operational impacts and to ensure up to date communications with customers. We are planning to deploy alternate working arrangements for HO staff to reduce commuter traffic by 30% in line with Government targets, with three 'dry runs' planned for 14 May, 12 June and 4 July.

7. **Mails**
Agenda item

Paula Vennells
13 April 2012

POST OFFICE LTD BOARD

Health & Safety Report

1. Purpose

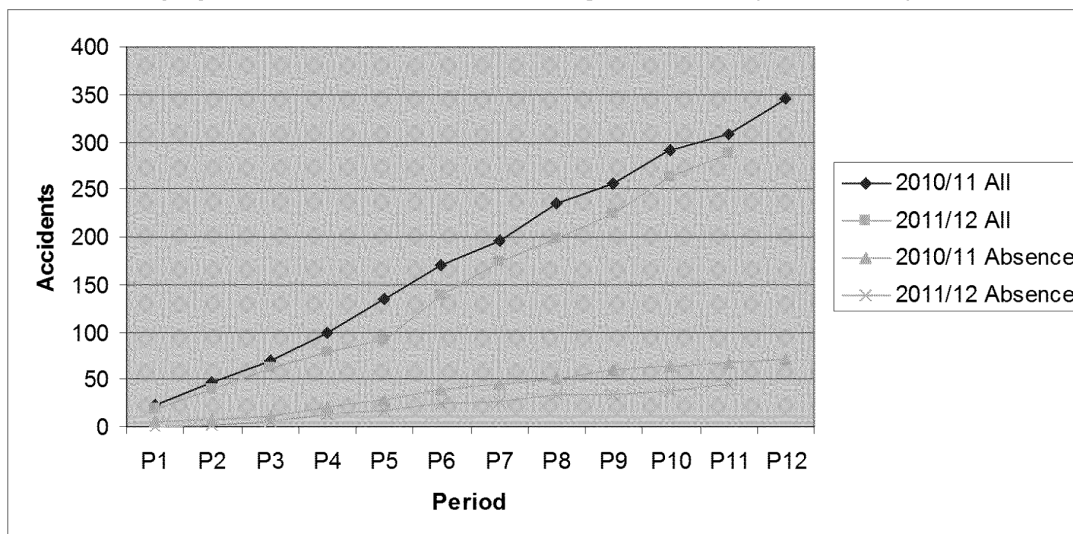
The purpose of this paper is to:

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

2. Current Situation

2.1 Total number of injury accidents, year to date, is better than target at 6.8% down on last year and accidents involving absence are also significantly better than target at 32.8% down on last year. The per 1000 staff in post comparison indicator, which takes account of head count fluctuation year on year, is showing a similar decrease for absence accidents. Both Crowns and Supply Chain are showing significant progress in embedding the safety management system and thereby reducing accidents. The ratio of absence accidents to number of heads remains significantly higher in Supply Chain than in Crowns, this is an indicator of the different risk profiles associated with the activities and tasks undertaken. The ratio of absence accidents to all accidents has improved from 1 in 4.6 to 1 in 6.0. This indicates that, in general, injuries from accidents are becoming less severe, accepting that there were three exceptions that resulted in long absences.

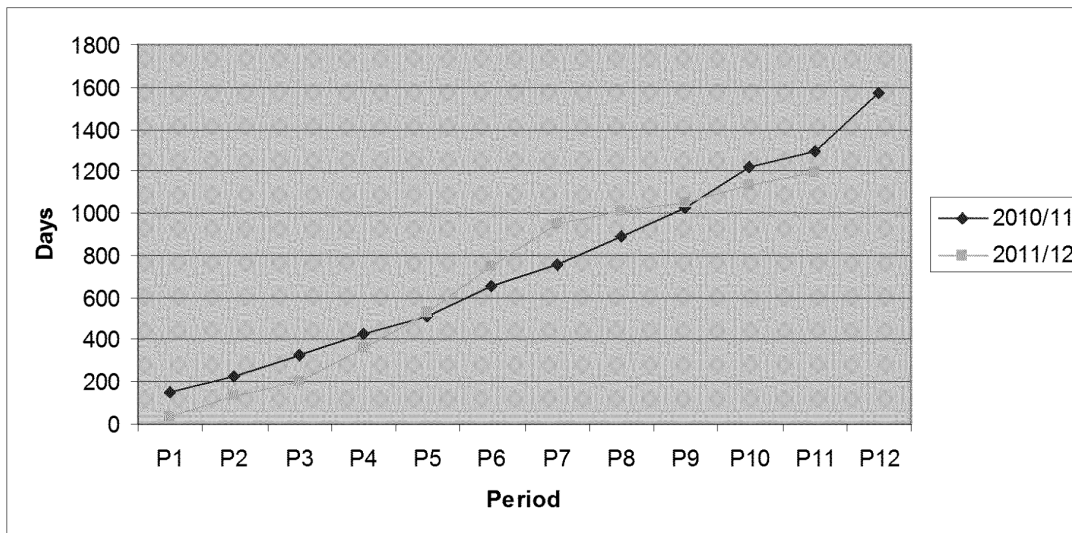
Table 1 All Injury accidents and those resulting in absence (Cumulative)



2.2 The number of days lost due to accidents is now showing a decrease of 7.7%, year to date, following an increase during periods 5 to 9. The adverse spike in performance was due to 3 long term absences related to accidents at work compared to one long term absence during the same year to date period last year. All three have now returned to work following active occupational health service provider interventions. (Table 2)

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Table 2 Days lost resulting from injury accidents (Cumulative)

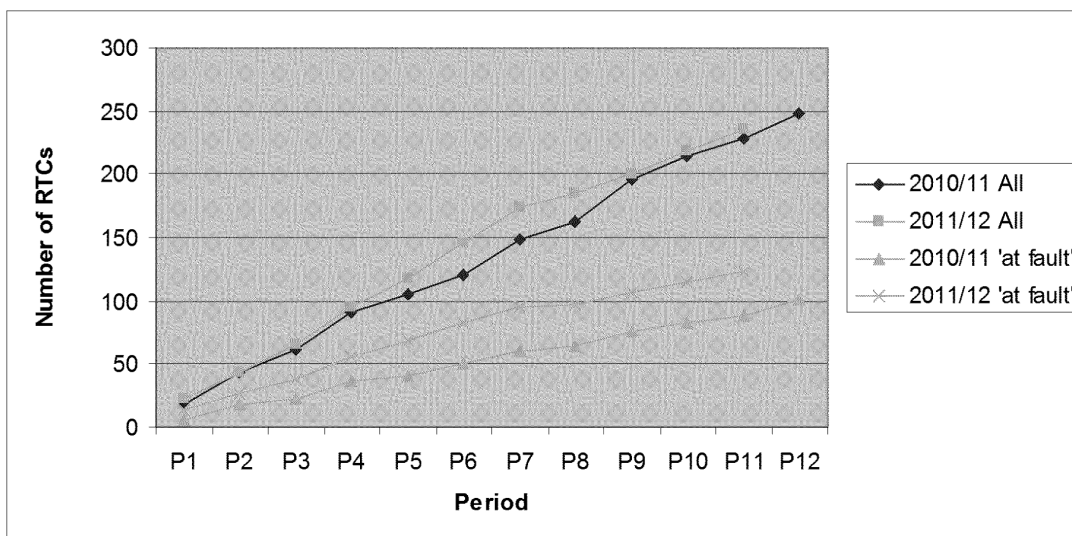


2.3 Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) accidents are down 21.1% year to date from 38 to 30. Crowns and Supply Chain continue to perform favourably against the two benchmark metrics – the retail sector for Crowns and a comparable CViT organisation for Supply Chain.

2.4 The number of road traffic collisions (RTCs) year to date is showing an improving trend from period 7 although having increased by 2.6% on last year from 229 to 235 with the percentage of 'at fault' collisions showing a neutral trend over the past 4 periods although up from 38.9% to 52.3% on last year. (Table 3) While road traffic collisions account for less than 3% of the overall number of injury accidents they have the potential for high impact in terms of injury and loss. The activities to improve performance are identified in 3.1 below.

Table 3 Road Traffic Collisions (cumulative)

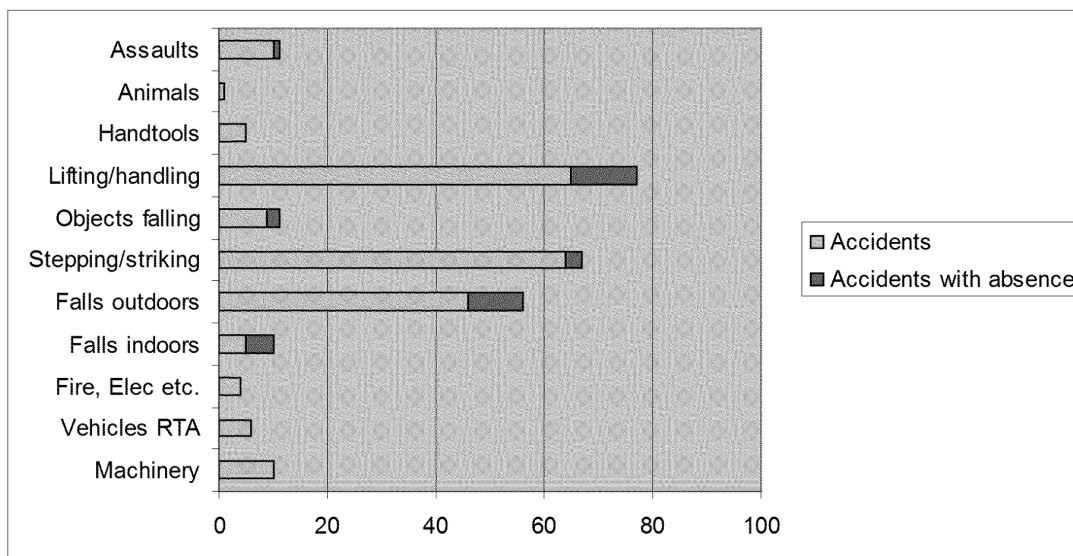
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- 2.5 Robberies on Post Office Cash and Valuables in Transit (CVIT) crews are down 43% on last year from 54 to 31, year to date. Physical injuries during robberies, of which there have been 15 year to date compared to 21 last year, remain relatively minor in severity. Fire arms have not played a significant part in the majority of robberies with 3 robberies, year to date, being enabled by the presence of fire arms compared to 18 last year. The activities that are considered to be having a positive impact on the robbery risk are listed at 3.2 below.
- 2.6 Robberies on the Post Office network are 10.6% down on last year, year to date, from 123 to 110. Burglaries are up 14.4% on last year, for the same period year to date, from 125 to 143. Physical injuries sustained during these incidents have increased from 31 last year to 39 this year but remain predominantly relatively minor in severity.
- 2.7 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 impact. However the lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.

Table 4. Types of accident



3. Activities

- 3.1 Road Risk – Current activities to mitigate road risk are:
 - Road risk forum established to scope road risk reduction initiatives
 - Analysis of effectiveness of face to face training given to high risk drivers - top 50 -has indicated that accidents amongst this community have reduced significantly
 - Eye sight checks for operational drivers 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 high visibility seat belt sleeves

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- Safety team input to vehicle specification
 - Safe driver of the year award introduced
 - Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice
- 3.2 CViT Robbery and Injury – The following factors and activities are considered to be having a significant impact on mitigating the robbery risk:
- Active liaison activities with the police and increased police support activity
 - Significant arrests - reducing the number of criminals involved in CViT crime
 - 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
 - Reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
 - Rigorous training/refresher training programme
 - Rigorous compliance programme
 - Migration of robberies towards services that Post Office is less exposed to e.g. ATM robberies.

4. Residual Risks

Driving activities have the potential for high impact/loss and remain a risk however the actions identified above are aimed at mitigating that residual risk.

5. Recommendation

The Post Office Ltd Board is asked to:

- 5.1 Note the overall improvement in safety performance
- 5.2 Note the risk reduction activities.

Simon Eldridge
27th March 2012

POST OFFICE LIMITED
Board of Directors

EXECUTIVE SUMMARY POLB(12)59

Date of Board: 18th April 2012

Subject:	Performance Summary – Period 12
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Author/Sponsor:	Chris Day
Contributors / Presenters:	

	Decision	Guidance	Noting
For:			√

Reference previous action point:

BACKGROUND AND CONTENT:
<p>Full year operating profit of £61.3m was £25.8m favourable against prior year and £25.0m favourable to the full year budget. This result was slightly below the Quarter 3 forecast but within the expected range.</p> <p>The March result was a loss of £16.2m which was £12.3m adverse to budget. This included the anticipated acceleration in project activity with spend of £8.7m in the month, £7.2m higher than budgeted for March. It also included an accrual for £5.5m for lump sum payments to subpostmasters to maintain stability in the network through the forthcoming transformation.</p> <p>The full year cashflow outturn was an outflow of £15m which was £44m favourable to budget primarily due to the improved profit and because the pension deficit payment was not required. Net client balances have been favourable in recent months due to the Santander and Bank of Ireland settlement amendments, but this has been offset this month by higher Network cash in preparation for Easter.</p> <p>The results are subject to audit and this is currently in progress. Key dates to finalising the Post Office Limited accounts are:</p> <ul style="list-style-type: none"> 20 April - Ernst & Young complete their audit work. 21 May – Post Office Audit Committee meets to review the accounts and recommend them to the Board. 23 May – Post Office Board meeting – the Board will be asked to: <ul style="list-style-type: none"> Review the accounts, approve and delegate signature to a sub-committee; and approve the external message for the year end announcement (both Post Office itself and Post Office content within the Royal Mail Report and Accounts). Mid June onwards – expected announcement of Royal Mail results and signature of Post Office Limited accounts. We expect to have to wait until Royal Mail is ready to sign and announce before we can sign our accounts. Post Office external communications will be prepared working closely with Royal Mail and made at the same time as the Royal Mail results announcement.

RECOMMENDATION (if decision required)	Date
Recommended by the Executive Team	N/A
Investment Appraisal completed or financial implications assessed and supported by the CFO	N/A

Additional presentation: NO



POST OFFICE LIMITED

Performance Report

THESE FULL YEAR RESULTS ARE SUBJECT TO AUDIT REVIEW

March 2012

Produced By : Central Reporting Finance Team

For Queries & Comments Contact : Sarah Hall or Kam Bassra

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Headlines – as reported to Royal Mail Group against Q2 Forecast March 2012

Headlines

- External revenue of £64.0m was £0.4m adverse to forecast in the period.
- Operating loss of £16.3m in the period was £8.2m adverse to forecast, driven primarily by project expenditure.

Key Messages:

- Full year Cashflow was £44m favourable to forecast.
- Period 12 profit was adverse to forecast by £8.2m due primarily to £6.4m higher project spend.

Profit Target

Full year operating profit was £61.3m against the forecast of £51.4m, giving a favourable variance of £9.9m.

- Net Income was £1,045.3m which was £8.5m favourable to forecast.
- YTD people costs were £2.0m adverse primarily due to increased agents pay (includes accrual for lump sums to maintain stability in the Network).
- YTD non people costs were £1.8m favourable of which the main variances were: £1.4m from Staff & Agent related plus consumables; £1.0m from reduced spend on IT contractors, Marketing and Legal fees; £0.9m lower compensation payments; £0.9m was property and facilities related and £0.8m other, offset by £3.2m adverse IT expenditure.
- YTD share of Joint Venture profits were aligned to the forecast.
- YTD IB expenditure was £4.0m favourable due to lower property and Official Mail charges.
- Project costs are over spent at the full year by £3.3m.

Year on year the full year profit is £25.8m favourable mainly due to higher net income of £47.6m (which includes the higher Network Subsidy Payment of £30.0m), £5.5m higher share from Joint Ventures profits, offset by £6.5m higher people costs, £6.8m higher non people costs (including IB), and £11.2m more spent on projects.

Cashflow

The YTD cashflow at Period 12 was an outflow of £15m against a forecast (and budget) outflow of £59m, favourable by £44m (Period 11: £47m favourable).

This variance was primarily due to:

- Contract amendment for Bank of Ireland (ATM) and Santander (both one day delay in settlement) have contributed £64m toward the overall variance.

Other variances:

- Profit £25m favourable, pension £22m favourable, dividend received £7m favourable, exceptional costs £6m and other variances net off to £6m favourable.

Offset by:

- Network Cash was £68m adverse (preparation for Easter funding and commencing build-up of Olympic coin holdings) and working capital was £18m adverse.

Focus Product sales (vs. Budget)

YTD focus product sales were adverse by £1.1m driven mainly by Travel Insurance and Bureau where the budget assumed a flat market but tough trading conditions and competition are depressing volumes. There is also below budget performance on Telephony and in Life Insurance which had an ambitious growth target and, although there is small growth year on year, it is not at budgeted levels.

Headcount

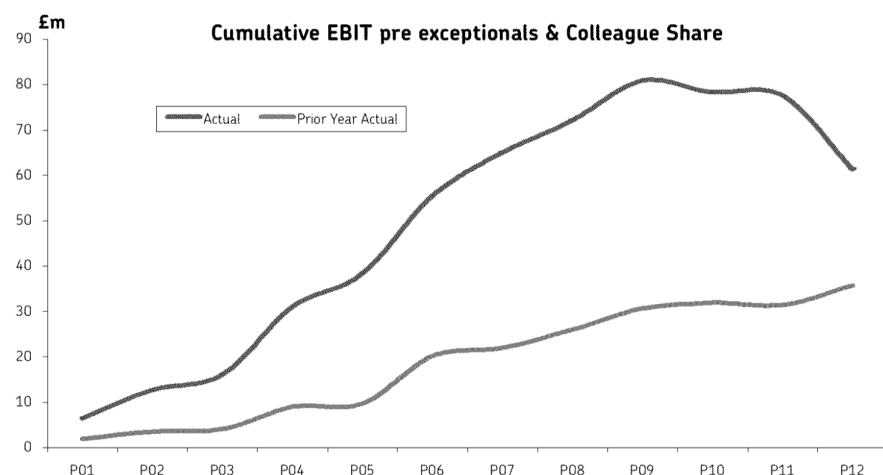
Headcount is 254 favourable to forecast (9 favourable to budget), due to people in place, (post recruitment) for the Network Transformation Programme taking longer than expected. This has been due to delayed release from current roles and notice periods for external recruits. Also the renegotiation with Bank of Ireland not to recruit 440 Financial Specialists has created a variance and current figures stand at 350.

Profit & Loss Statement

March 2012



£m	Current Month			Half Year Forecast		Prior Year Period		Full Year			Half Year Forecast		Prior Year		Q3	FY Vs Q3
	Actual	Budget	Variance	Forecast	Variance	Actual	Variance	Outturn	Budget	Variance	Forecast	Variance	Outturn	Variance	Forecast	Variance
External Income	50.2	51.2	(1.0)	50.6	(0.4)	54.0	(3.8)	621.1	617.6	3.5	613.5	7.6	625.6	(4.6)	618.9	2.2
Interbusiness Income	28.9	27.3	1.6	24.8	4.2	27.0	2.0	358.6	348.3	10.3	355.7	3.0	345.6	13.0	358.3	0.4
TOTAL GROSS INCOME	79.1	78.5	0.7	75.3	3.8	81.0	(1.8)	979.7	965.9	13.8	969.1	10.6	971.3	8.5	977.1	2.6
Cost of Sales	(10.0)	(9.5)	(0.5)	(8.8)	(1.2)	(10.7)	0.8	(114.4)	(120.6)	6.3	(112.3)	(2.1)	(123.5)	9.1	(113.0)	(1.4)
TOTAL NET INCOME	69.2	69.0	0.2	66.6	2.6	70.2	(1.1)	865.3	845.3	20.1	856.9	8.5	847.8	17.6	864.1	1.2
Staff Costs	(22.4)	(19.7)	(2.7)	(22.9)	0.6	(22.9)	0.6	(251.3)	(247.9)	(3.4)	(250.9)	(0.5)	(252.8)	1.5	(251.0)	(0.3)
Agents Costs	(42.4)	(37.5)	(5.0)	(38.1)	(4.4)	(37.9)	(4.6)	(482.9)	(478.3)	(4.6)	(481.4)	(1.5)	(474.9)	(8.0)	(476.8)	(6.1)
Non-Staff Costs	(20.2)	(13.4)	(6.8)	(18.1)	(2.1)	(9.8)	(10.4)	(149.2)	(159.7)	10.6	(150.9)	1.8	(138.2)	(10.9)	(152.0)	2.9
Interbusiness Expenditure	(6.9)	(15.0)	8.1	(7.3)	0.4	(6.6)	(0.3)	(84.9)	(91.8)	6.8	(88.9)	4.0	(89.0)	4.1	(85.9)	1.0
Depreciation	(0.1)	0.0	(0.1)	0.0	(0.1)	(0.0)	(0.0)	(0.4)	(0.7)	0.3	(0.6)	0.2	(0.6)	0.2	(0.7)	0.3
Total Expenditure (pre POOC)	(92.0)	(85.6)	(6.4)	(86.4)	(5.6)	(77.3)	(14.7)	(968.7)	(978.4)	9.7	(972.7)	4.0	(955.5)	(13.2)	(966.5)	(2.2)
POFS - Share Of Operating Profits	0.5	0.0	0.5	0.0	0.5	1.3	(0.8)	(0.6)	0.0	(0.6)	0.0	(0.6)	(3.3)	2.7	0.2	(0.8)
FRES - Share Of Operating Profits	1.8	2.0	(0.3)	1.9	(0.1)	1.5	0.2	31.4	28.0	3.4	30.8	0.6	28.6	2.9	31.1	0.3
EBIT Pre Overhead Allocations	(20.5)	(14.6)	(6.0)	(18.0)	(2.6)	(4.2)	(16.3)	(72.6)	(105.1)	32.5	(85.1)	12.5	(82.4)	9.9	(71.1)	(1.5)
Group Overhead allocations	(0.9)	(1.7)	0.8	(1.7)	0.8	(1.4)	0.6	(19.6)	(20.4)	0.8	(20.4)	0.8	(16.7)	(2.9)	(20.4)	0.8
EBIT - BAU	(21.4)	(16.2)	(5.2)	(19.6)	(1.8)	(5.7)	(15.8)	(92.2)	(125.5)	33.3	(105.5)	13.3	(99.1)	6.9	(91.5)	(0.7)
Network Transformation POOC	(1.7)	(0.9)	(0.8)	(0.9)	(0.8)	0.0	(1.7)	(5.6)	(5.5)	(0.1)	(5.5)	(0.1)	0.0	(5.6)	(2.8)	(2.8)
One off Project costs (POOC)	(6.9)	(0.6)	(6.3)	(1.4)	(5.5)	(1.6)	(5.3)	(20.8)	(12.7)	(8.2)	(17.6)	(3.3)	(15.3)	(5.6)	(20.6)	(0.3)
EBIT - Post Project Costs	(30.1)	(17.8)	(12.3)	(21.9)	(8.2)	(7.3)	(22.8)	(118.7)	(143.7)	25.0	(128.6)	9.9	(114.4)	(4.2)	(114.8)	(3.8)
Network Payment	13.8	13.8	0.0	13.8	0.0	11.5	2.3	180.0	180.0	0.0	180.0	0.0	150.0	30.0	180.0	0.0
EBIT pre exceptionals & Pre Colleague Share	(16.2)	(3.9)	(12.3)	(8.1)	(8.2)	4.3	(20.5)	61.3	36.3	25.0	51.4	9.9	35.6	25.8	65.2	(3.8)
Interest	(0.2)	(0.7)	0.5	(1.9)	1.7	(2.0)	1.7	(4.4)	(9.2)	4.8	(6.5)	2.1	(19.0)	14.6	(4.7)	0.3
Impairment	(15.2)	(2.5)	(12.7)	(4.9)	(10.3)	(6.3)	(8.9)	(36.2)	(32.0)	(4.2)	(36.4)	0.2	(39.8)	3.6	(28.9)	(7.3)
Exceptionals & Redundancy & Severance Costs	1.7	0.0	1.7	(0.9)	2.6	(0.8)	2.5	0.3	(1.0)	1.3	(4.0)	4.3	(14.4)	14.7	(4.0)	4.3
Profit/(Loss) On Asset Sale	0.1	0.0	0.1	0.0	0.1	(0.0)	0.1	1.3	0.0	1.3	0.1	1.1	4.4	(3.1)	0.0	1.3
Colleague Share/ Business Transformation Payments	(2.8)	(6.0)	3.2	0.0	(2.8)	(0.4)	(2.4)	(2.8)	(6.0)	3.2	0.0	(2.8)	(0.4)	(2.4)	0.0	(2.8)
Total Profit/(Loss) Before Tax	(32.6)	(13.1)	(19.5)	(15.8)	(16.8)	(5.3)	(27.4)	19.5	(11.9)	31.4	4.7	14.8	(33.7)	53.2	27.6	(8.1)



Full Year Profit (vs Prior Year)

Full year operating profit of £61.3m was £25.8m favourable against prior year.

Like for like variances of £6.9m were mainly due to:

- Higher net income of £17.6m includes Mails £17.1m, Government Services £6.4m favourable, offset by Financial Services £3.4m and Telephony £2.8m adverse.
- Higher FRES JV profits of £2.9m due to increased volumes and margin performance.
- Higher POFS JV profits of £2.7m due to higher sales.
- Lower staff costs £1.5m driven by Organisational Review reductions offset by pay awards and higher performance/ bonuses.
- Lower interbusiness expenditure of £4.2m.

Offset by:

- Higher non staff costs £10.9m higher. (Prior Year included £9m provision release relating to savings stamps)
- Higher agents pay of £8.0m mainly due to one off payment, and accrual for further lump sums to maintain stability in the network; and
- Higher Group overhead allocations of £2.9m.

Non like for like variances of £18.8m were due to:

- Higher Network Subsidy Payment of £30.0m, and
- Higher project costs of £11.2m.

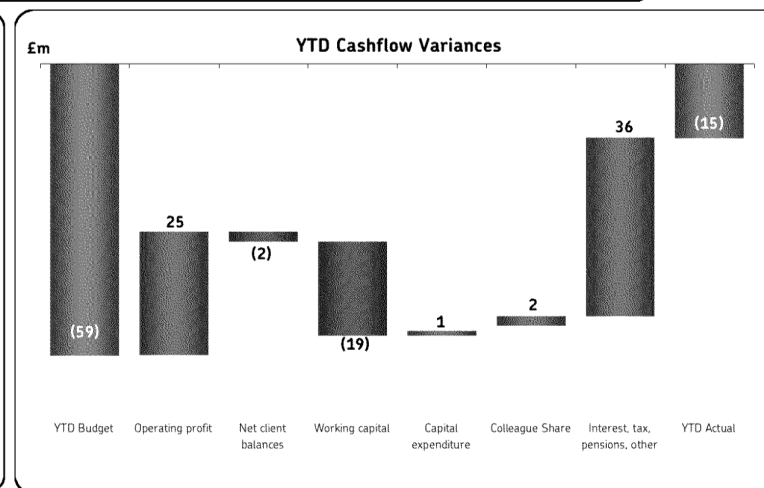
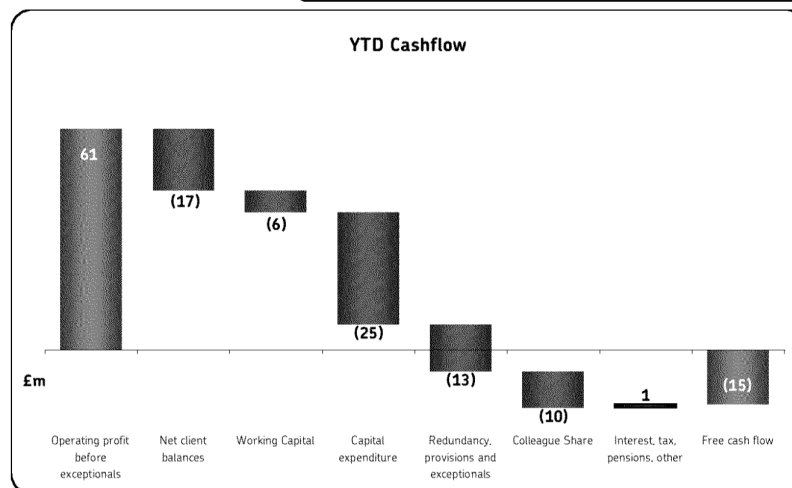
Business transformation payments of £3.4m were charged for Crown Transformation in the month but partially reduced by the release of the unused Colleague Share accrual from the prior year.



Cashflow Analysis & Balance Sheet Summary

March 2012

Cumulative Cashflow was £44m favourable to budget primarily due to the improved profit and because the pension deficit payment was not required. Net client balances have been favourable in recent months due to the Santander 'day c' settlement and the Bank of Ireland settlement amendment, but this has been offset this month by higher Network cash in preparation for Easter.



Balance Sheet

£m	Mar-11	Actual	Budget	Variance
Fixed Assets	108	101	106	(5)
Debtors	82	78	76	2
Cash	705	759	692	67
Client Balances	(156)	(194)	(128)	(66)
Trade Creditors	(246)	(241)	(253)	12
Pension deficit	(316)	(198)	(292)	94
Provisions	(25)	(15)	(10)	(5)
Investments, Funding	45	44	60	(16)
Net Assets	197	334	251	83
Funded by	Mar-11	Actual	Budget	Variance
Capital and Reserves	178	43	190	(147)
Loan	(375)	(377)	(441)	64
	(197)	(334)	(251)	(83)

Cash Management Table

£m	Prior Year	Mar-11	P12		
	Mar-11	Opening	Actual	Budget	var
Retail, Cash Centres	562	562	614	547	(67)
Bureau	47	47	54	50	(4)
Cheques, debit cards	96	96	91	95	4
Network Cash	705	705	759	692	(67)
	Opening	P11	P12		
Headroom (£m)	427	526	509		

Cashflow

The full year cashflow outturn was an outflow of £15m which was £44m favourable to budget, (Period 11: £63m favourable). This variance was mainly due to:

- Contract amendment for Bank of Ireland (ATM) and Santander (both one day delay in settlement) have contributed £64m toward the overall variance.

Other variances:

- Profit £25m favourable, pension £22m favourable, dividend received £7m favourable, exceptional costs £6m and other variances net off to £6m favourable.

Offset by:

- Network Cash was £68m adverse (preparation for Easter funding and commencing build-up of Olympic coin holdings) and working capital was £18m adverse.

Cash Management

- Retail and Cash Centre cash (manageable cost) - £67m adverse against budget, and £52m adverse to prior year, (preparation for Easter funding and commencing build-up of Olympic coin holdings).
- Bureau (manageable cost) - £4m adverse budget and £7m adverse to prior year, (preparation for Easter funding).
- Cheques and debit cards (customer driven) - £4m favourable to budget and £5m favourable to prior year.

Supply Chain control of branch cash has been strong all year, but P12's overall total of £759m is adverse to prior year and budget due to the build up to the Easter break

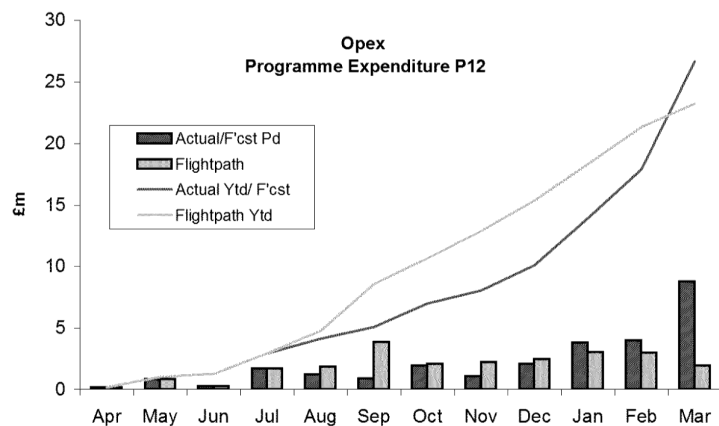


Project Costs (OpEx)

March 2012

OPEX - Programme Expenditure By Directorate

Period 12		Current Month			Full Year			IC	Originally
£k		Actuals	Flightpath	Variance	Outturn	Flightpath	Approved	Requested	
Network	Transformation	(1,727.0)	(879.6)	(847.4)	(5,624.0)	(5,549.0)	(75.1)	(8,158.2)	(3,004.3)
	Crown	(5.8)	0.0	(5.8)	(40.3)	(32.0)	(8.3)	(38.0)	0.0
	Network Other	(46.4)	(300.0)	253.6	(157.2)	(300.0)	142.8	(767.7)	(50.0)
	Crown Transformation	(373.2)	(29.6)	(343.5)	(573.0)	(252.0)	(321.0)	(252.0)	
TOTAL NETWORK		(2,152.4)	(1,209.2)	(943.2)	(6,394.5)	(6,133.0)	(261.5)	(9,215.9)	(3,054.3)
Operations IT	Property	(45.9)	1,523.6	(1,569.5)	(671.7)	(828.7)	157.1	(738.0)	(700.0)
	Security	(230.3)	(32.8)	(197.5)	(518.1)	(377.0)	(141.1)	(430.0)	(308.8)
	Supply Chain	(207.4)	(281.0)	73.6	(374.7)	(369.0)	(5.7)	(603.0)	(100.0)
	Supplier Framework	(98.0)	(165.5)	67.5	(491.3)	(1,040.0)	548.7	(1,759.3)	(1,060.0)
	Technology Road Map	(1,241.6)	(232.0)	(1,009.6)	(1,914.1)	(1,312.1)	(602.0)	(1,627.4)	(730.0)
TOTAL OPS		(1,823.2)	812.3	(2,635.5)	(3,969.9)	(3,926.9)	(43.1)	(5,157.7)	(2,898.8)
Commercial	Government	(595.6)	(713.1)	117.5	(2,897.4)	(3,384.3)	486.9	(2,695.6)	(1,999.0)
	Mails	(600.2)	(108.6)	(491.6)	(1,599.0)	(1,689.2)	90.2	(3,484.6)	(1,749.9)
	Telephony	(1,866.3)	(314.7)	(1,551.6)	(5,252.4)	(2,197.0)	(3,055.4)	(4,892.0)	(2,210.0)
	Direct	(62.5)	(146.4)	83.9	(666.0)	(1,211.4)	545.3	(563.3)	(1,543.0)
	Brand Deployment - Marketin	(189.1)	0.0	(189.1)	(189.1)	0.0	(189.1)	(563.3)	(1,543.0)
TOTAL COMMERCIAL		(3,313.7)	(1,282.8)	(2,030.9)	(10,604.0)	(8,481.8)	(2,122.2)	(12,198.8)	(9,044.9)
Financial Services	Financial Services	(636.2)	(259.6)	(376.6)	(1,453.4)	(2,729.8)	1,276.4	(1,372.2)	(3,495.3)
TOTAL FINANCIAL SERVICES		(636.2)	(259.6)	(376.6)	(1,453.4)	(2,729.8)	1,276.4	(1,372.2)	(3,495.3)
Communications	Communications	(22.7)	0.0	(22.7)	(22.7)	0.0	(22.7)	(1,372.2)	(3,495.3)
TOTAL COMMUNICATIONS		(22.7)	0.0	(22.7)	(22.7)	0.0	(22.7)	(1,372.2)	(3,495.3)
Other	Finance	(228.2)	(30.0)	(198.2)	(403.5)	(177.0)	(226.5)	(303.7)	(319.0)
	Separation	(567.5)	(197.2)	(370.3)	(2,990.6)	(1,028.3)	(1,962.4)	(975.0)	(950.0)
	Legal	0.6	(26.5)	27.1	(106.0)	(106.2)	0.2	(106.2)	0.0
TOTAL OTHER		(795.0)	(253.7)	(541.3)	(3,500.1)	(1,311.5)	(2,188.6)	(1,384.9)	(1,269.0)
Central Held Budget	Centrally Held		253.7	(253.7)		(670.2)	670.2		
Old Programmes Flow thro 2010/11		47.3	0.0	47.3	(177.7)	0.0	(177.7)		
Total POL		(8,695.9)	(1,939.3)	(6,756.5)	(26,122.2)	(23,253.2)	(2,869.1)	(29,329.5)	(19,743.0)
Client Funded		(95.6)	0.0	(95.6)	(541.0)	0.0	(541.0)		
TOTAL POL POOC		(8,791.5)	(1,939.3)	(6,852.2)	(26,663.2)	(23,253.2)	(3,410.1)	(29,329.5)	(19,743.0)



Key Points for OpEx Programme expenditure

Period 12 Full year - £2.9m overspent vs flightpath of £23.3m.

Telephony - £3.1m overspent - Q4 campaign underway and spend is increasing.

Separation - £1.9m overspent

Financial Services - £1.3m underspent

Direct - £0.5m underspent

Government - £0.5m underspent

Supplier Framework - £0.5m underspent

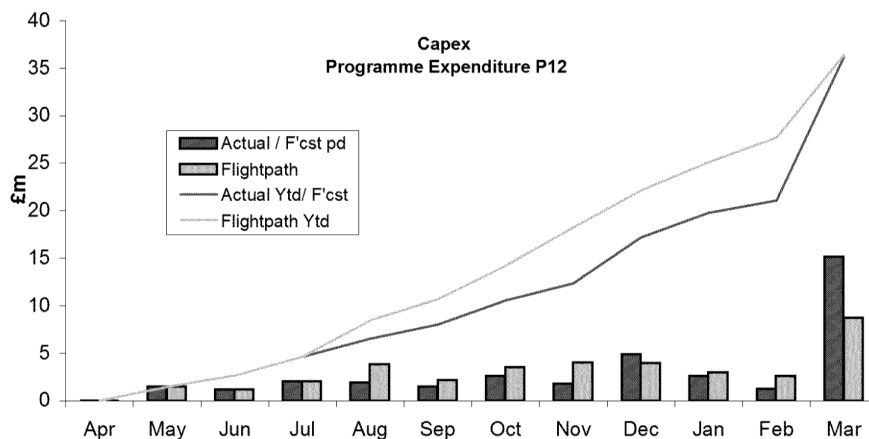


Project Costs (CapEx)

March 2012

CAPEX - Programme Expenditure By Directorate

Period 12		Current Month			Full Year			IC	Originally
£k		Actuals	Flightpath	Variance	Outturn	Flightpath	Variance	Approved	Requested
Network	Transformation	(1,509.4)	(1,300.0)	(209.4)	(3,609.9)	(4,867.9)	1,258.0	(2,383.6)	(4,518.3)
	Crown			0.0			0.0	0.0	0.0
	Network Other	0.0	(250.0)	250.0	0.0	(250.0)	250.0	(133.0)	0.0
	Crown Transformation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL NETWORK		(1,509.4)	(1,550.0)	40.6	(3,609.9)	(5,117.9)	1,508.0	(2,516.6)	(4,518.3)
Operations IT	Property	(1,172.6)	(1,104.6)	(68.0)	(4,377.8)	(5,885.0)	1,507.2	(3,126.2)	(6,185.0)
	Security	(495.8)	0.0	(495.8)	(495.8)	0.0	(495.8)	0.0	0.0
	Supply Chain	(1,039.0)	(3,594.0)	2,555.0	(1,738.2)	(3,936.0)	2,197.8	(3,846.0)	(1,890.0)
	Supplier Framework			0.0			0.0	0.0	0.0
	Technology Road Map	(9,025.9)	(821.0)	(8,204.9)	(18,448.5)	(10,468.6)	(7,979.9)	(11,450.8)	(8,085.3)
TOTAL OPS		(11,733.4)	(5,519.6)	(6,213.7)	(25,060.3)	(20,289.6)	(4,770.7)	(18,423.0)	(16,160.3)
Commercial	Government	(2,061.9)	(848.0)	(1,213.9)	(4,570.0)	(5,272.3)	702.3	(1,507.5)	(4,600.0)
	Mails	(18.7)	0.0	(18.7)	(72.2)	(166.6)	94.4	(312.0)	(700.2)
	Telephony	(61.3)	(90.0)	28.7	(982.2)	(1,200.0)	217.8	(1,309.0)	(1,200.0)
	Direct	(9.7)	(74.4)	64.7	(148.2)	(852.9)	704.7	(335.7)	(871.0)
TOTAL COMMERCIAL		(2,151.6)	(1,012.4)	(1,139.2)	(5,772.6)	(7,491.8)	1,719.2	(3,464.2)	(7,371.2)
Financial Services	Financial Services	0.0	(400.0)	400.0	(26.5)	(405.9)	379.3	0.0	(1,324.0)
TOTAL FINANCIAL SERVICES		0.0	(400.0)	400.0	(26.5)	(405.9)	379.3	0.0	(1,324.0)
Other	Finance	(149.4)	0.0	(149.4)	(2,653.9)	(2,769.0)	115.1	(2,700.0)	(2,700.0)
	Separation			0.0			0.0	0.0	0.0
	Legal			0.0			0.0	0.0	0.0
TOTAL OTHER		(149.4)	0.0	(149.4)	(2,653.9)	(2,769.0)	115.1	(2,700.0)	(2,700.0)
Central Held Budget		0.0	(231.6)	231.6	0.0	(346.2)	346.2	0.0	0.0
Old Programmes Flow thro 2010/11		375.5	0.0	375.5	876.6	0.0	876.6	0.0	0.0
Total POL		(15,168.4)	(8,713.7)	(6,454.7)	(36,246.8)	(36,420.4)	173.7	(27,103.8)	(32,073.8)



Key Points for CapEx Programme expenditure

Period 12 Full Year - £0.2m underspent vs flightpath of £36.4m.

Network Transformation - £1.5m underspent.

Property - £1.5m underspent

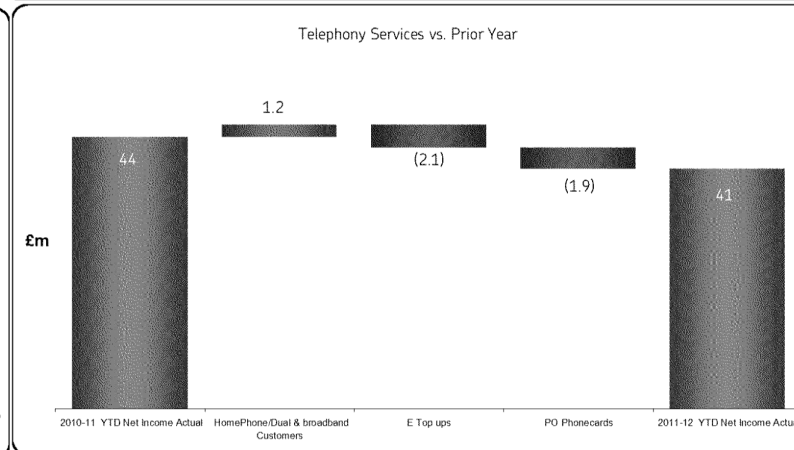
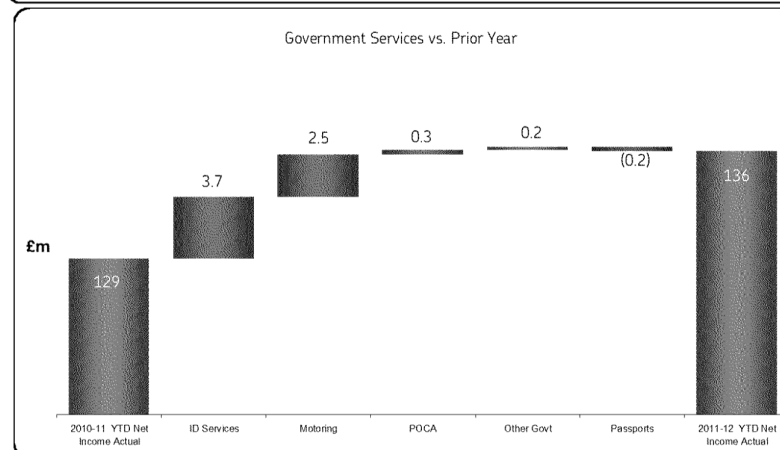
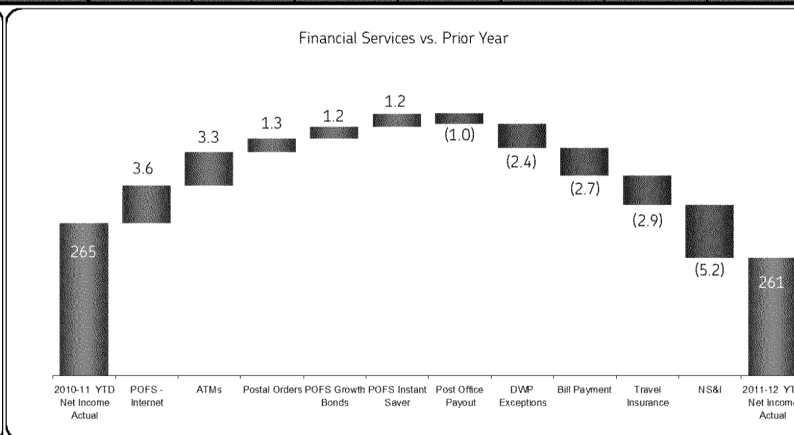
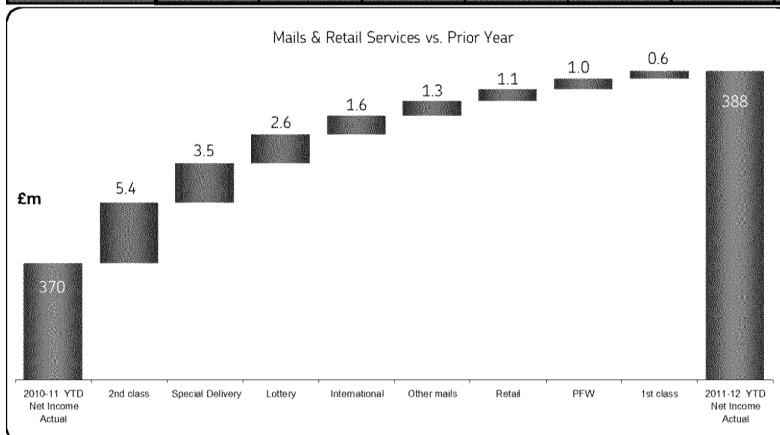
Supply Chain - £2.2m underspent

IT Roadmap - £8.0m overspent - £5m PIN pad spend brought forward at a discount.



Net Income By Pillar
March 2012

Net Income (£m)	Period			Q2 Forecast Period		Prior Year Period		Full Year			Q2 Forecast YTD		Prior Year	
	Actual	Budget	Variance	Forecast	Variance	Actual	Variance	Outturn	Budget	Variance	Forecast	Variance	Outturn	Variance
Mails & Retail	30.8	29.7	1.1	29.0	1.8	29.0	1.8	387.5	372.8	14.8	383.8	3.7	370.4	17.1
Financial Services	18.7	20.2	(1.5)	21.4	(2.7)	25.1	(6.5)	261.5	249.6	11.9	257.3	4.2	264.9	(3.4)
Government Services	11.6	13.2	(1.6)	10.3	1.3	11.0	0.7	135.7	138.5	(2.9)	135.2	0.4	129.2	6.4
Telephony	3.0	3.6	(0.6)	3.6	(0.6)	2.8	0.2	41.4	46.5	(5.1)	44.6	(3.3)	44.2	(2.8)
Network Payment	13.8	13.8	0	13.8	0	11.5	2.3	180.0	180.0	0.0	180.00	0	150.0	30.0
Other	5.1	2.3	2.8	2.9	2.1	2.3	2.8	39.3	38.0	1.3	35.9	3.4	39.1	0.2
TOTAL NET INCOME	83.0	82.8	0.2	81.0	2.0	81.8	1.2	1,045.3	1,025.3	20.1	1,036.9	8.5	997.8	47.6



Pillar Performance - Year on Year Variances

Mails & Retail Services - £17.1m Fav
Overall strong volumes account for c. £10.7m and increased prices from RMG account for c. £6.4m.
2nd Class £5.4m - 26% volume increase in labels.
Special Delivery £3.5m - primarily due to price increases.
Lottery £2.6m - Tuesday draw has increased volumes as have rollovers.

Financial Services - (£3.4m) Adv
NS&I (£5.2m) - Adverse due to NS&I moving towards its own direct channel.
ATMs £3.3m - Fav due to increases in volume as machines reach maturity.
POFIS online £3.6m - favourable driven by higher competitive rate on savings products and new products.

Government Services £6.4m Fav
AEI £3.7m - One off payments impact, but volumes remain below minimum guaranteed levels.
Motoring £2.5m - Price has increased and £1m is for prior year catch up.

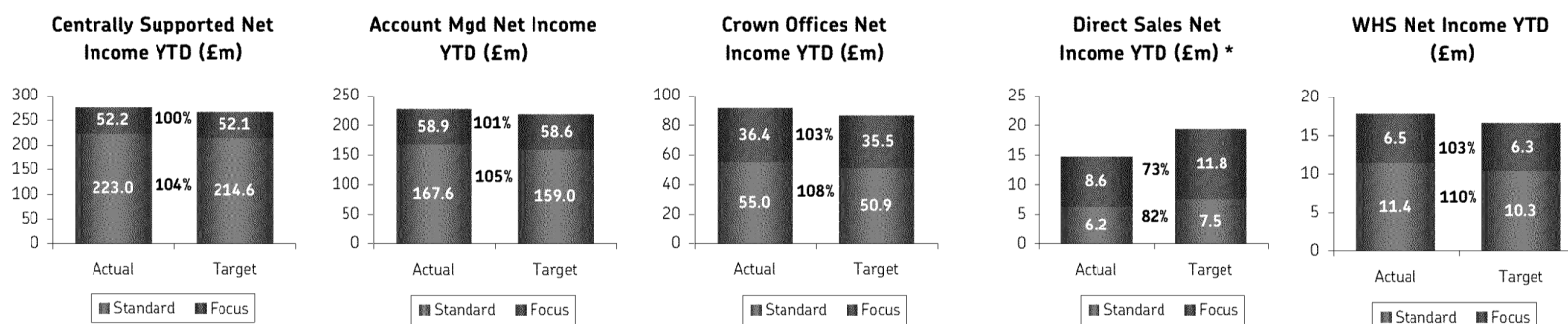
Telephony Services (£2.8m) Adv
Etop-ups £2.1m - Reduction in commission rates accounts for £1.7m adverse variance.
Phone Cards £1.9m - volume reduction (44% of previous year).



Net Income by Channel March 2012

All channels are performing ahead of budget, with only the Direct channel being adverse (by £4.6m full year). Full year Focus Product Income is £1.3m adverse and Standard Product Income is £17.3m favourable to budget, giving an overall favourable income variance of £15.9m. Adverse variance on Focus products (-0.8%) were mainly due to lower Travel Money, Telephony and Travel product sales. Standard products were 3.9% higher than budget mainly due to favourable income from Mails, Lottery and ATMs.

£m	Month			Full year		
	Actual	Budget	Variance	Outturn	Budget	Variance
Targeted Income						
Focus Products						
Crown Offices	3.0	2.9	0.1	36.4	35.5	0.9
WHS	0.5	0.5	0.0	6.5	6.3	0.2
Agents - Managed	4.8	4.8	0.0	58.9	58.6	0.4
Centrally Supported	4.2	4.2	(0.0)	52.2	52.1	0.1
Direct Sales	0.8	0.9	(0.1)	8.6	11.8	(3.2)
Central	0.0	0.00	0.0	0.4	0.0	0.4
Focus Products Total	13.3	13.2	0.0	162.9	164.2	(1.3)
Standard Products						
Crown Offices	4.4	4.0	0.4	55.0	50.9	4.1
WHS	0.9	0.8	0.1	11.4	10.3	1.0
Agents - Managed	12.9	12.4	0.5	167.6	159.0	8.6
Centrally Supported	17.2	16.9	0.3	223.0	214.6	8.4
Direct Sales	0.6	0.7	(0.1)	6.2	7.5	(1.3)
Central	0.0	0.3	(0.3)	0.3	3.7	(3.5)
Standard Product Total	36.0	35.1	0.9	463.4	446.1	17.3
TOTAL TARGETED INCOME	49.3	48.4	0.9	626.3	610.4	15.9
Other Income						
Cash Services	1.8	1.9	(0.1)	21.8	24.3	(2.6)
Gamma	2.5	0.5	2.0	8.4	6.4	2.0
Fixed Income & Other	13.3	15.8	(2.4)	180.3	172.3	8.1
Retentions	2.2	2.5	(0.2)	28.5	31.9	(3.4)
Network Payment	13.8	13.8	0	180.0	180.0	0
TOTAL POL NET INCOME	83.0	82.8	0.2	1,045.3	1,025.3	20.1



* Both target and actual exclude lead generation income

Crown P&L
March 2012



Income is £0.5m favourable in the period and £4.9m (5.7%) full year.
The full year Crown adjusted P&L has outturned £9.8m (15%) favourable to budget and £4.4m (7.3%) favourable to prior year.
Staff costs are marginally favourable to budget but adverse to prior year.

£m	Period			Prior Year Period		Full Year			Prior Year	
	Actual	Budget	Variance	Actual	Variance	Outturn	Budget	Variance	Outturn	Variance
Sales Income - Focus	3.0	2.9	0.1	2.4	0.6	36.4	35.5	0.9	30.9	5.5
Sales Income - Standard	4.4	4.0	0.4	5.4	(1.0)	55.0	50.9	4.1	56.2	(1.2)
Net Income	7.4	6.9	0.5	7.8	(0.4)	91.4	86.4	4.9	87.1	4.3
Staff Costs -FSS	(0.7)	(0.7)	0.0	(0.8)	0.1	(8.9)	(10.6)	1.8	(9.9)	1.1
Staff Costs -Crown	(9.0)	(8.6)	(0.4)	(8.5)	(0.5)	(110.4)	(109.7)	(0.7)	(108.1)	(2.3)
Total Staff Costs	(9.7)	(9.4)	(0.4)	(9.3)	(0.4)	(119.2)	(120.3)	1.1	(118.0)	(1.2)
Crown/Branch/CS Property Costs	(3.1)	(3.2)	0.1	(2.8)	(0.3)	(41.8)	(41.0)	(0.8)	(39.0)	(2.7)
Crown/Branch/CS Losses/Gains and Other	(0.3)	(0.3)	0.0	(0.3)	0.0	(3.2)	(4.2)	1.0	(4.0)	0.8
Cash Holding Costs (Lost Interest) & Foreign Currency Holding Cost	(0.2)	(0.3)	0.0	(0.3)	0.0	(3.0)	(3.9)	0.9	(3.9)	0.9
Total Non Staff Costs	(3.6)	(3.7)	0.1	(3.4)	(0.3)	(48.0)	(49.1)	1.1	(46.9)	(1.1)
Homephone Direct Costs	(0.1)	(0.2)	0.0	(0.1)	(0.1)	(1.9)	(2.1)	0.1	(1.3)	(0.6)
Other Direct Product Costs	(0.7)	(0.5)	(0.2)	(0.3)	(0.4)	(4.0)	(4.1)	0.1	(2.6)	(1.4)
Horizon	(0.9)	(0.5)	(0.3)	(0.7)	(0.1)	(6.8)	(6.6)	(0.3)	(6.6)	(0.2)
POL Cash & Stock Distribution Costs	(0.3)	(0.3)	0.0	(0.3)	0.0	(3.7)	(3.7)	0.1	(3.7)	0.1
Network Equipment/Official Mail/Prism and HelpDesk Costs	(0.4)	(0.4)	(0.0)	(0.3)	(0.0)	(4.2)	(4.6)	0.4	(4.5)	0.3
Network Admin - Channel Specific	(0.4)	(0.4)	0.0	(0.5)	0.1	(4.6)	(4.4)	(0.1)	(6.7)	2.2
Network Admin - non-Specific	(0.2)	(0.3)	0.1	0.0	(0.2)	(3.5)	(3.3)	(0.1)	0.0	(3.5)
Operations - Other Infrastructure Costs	(0.3)	(0.1)	(0.2)	(0.2)	(0.1)	(1.9)	(1.7)	(0.2)	(1.4)	(0.4)
Total Infrastructure Costs	(3.2)	(2.7)	(0.5)	(2.3)	(0.8)	(30.5)	(30.4)	(0.0)	(26.9)	(3.5)
Total Expenditure Costs	(16.6)	(15.7)	(0.8)	(15.1)	(1.5)	(197.7)	(199.9)	2.1	(191.9)	(5.9)
JV Income	0.6	0.6	0.0	1.0	(0.3)	9.2	8.3	0.9	8.2	1.0
EBIT - Targeted Profit	(8.6)	(8.3)	(0.3)	(6.3)	(2.2)	(97.2)	(105.1)	7.9	(96.6)	(0.6)
Total Allocated Costs	(1.1)	(0.8)	(0.3)	(0.3)	(0.8)	(3.5)	(5.1)	1.6	(4.4)	0.9
Other Allocation of Non-Transactional Income	3.2	3.3	(0.1)	2.9	0.3	40.2	42.2	(2.0)	36.1	4.1
P&L	(6.4)	(5.7)	(0.7)	(3.7)	(2.7)	(60.5)	(68.0)	7.5	(64.9)	4.5
Allocations	2.8	0.9	1.9	0.2	2.6	12.6	11.1	1.5	14.3	(1.7)
P & L After Renewal Allocations	(3.6)	(4.8)	1.2	(3.5)	(0.1)	(47.9)	(56.9)	9.0	(50.7)	2.8
Overlays	(0.7)	(0.8)	0.1	(0.7)	(0.0)	(9.4)	(10.2)	0.8	(13.3)	3.9
Adjusted P & L	(4.3)	(5.6)	1.3	(4.2)	(0.1)	(57.3)	(67.1)	9.8	(64.0)	6.7



Business Scorecard March 2012

Key Performance Indicators	Current Month			Full Year			2010-11
	Act	Target	Var	Outturn	Target	Var	Outturn
Performance							
Total Net Income £m	83.0	82.8	0.2	1,045.3	1,025.3	20.1	997.8
Focus product sales - Net Income £m (Bonus)	13.2	13.2	(0.1)	162.9	164.0	(1.1)	81.2
Average sales per FS per week (No.)	7.3	15.0	(7.7)	7.1	9.5	(2.4)	6.8
Direct Sales - Net income £m (Note 1)	1.4	1.3	0.1	14.8	19.3	(4.5)	16.4
All product contribution £m (Bonus)	47.8	57.6	(9.8)	657.1	640.0	17.1	NA
Home and Car Insurance Policies In Force (PIF) (k)	364.0	350.0	14.0	364.0	350.0	14.0	410.0
Financial							
Operating profit £m (Bonus)	(16.3)	(3.9)	(12.3)	61.3	36.3	25.0	35.6
Total operational costs £m (Bonus) (Note 2)	(101.5)	(88.8)	(12.7)	(1,014.8)	(1,017.0)	2.2	(987.5)
Free cashflow £m (Bonus)	(110.9)	(91.5)	(19.4)	(15.0)	(58.9)	43.9	(16.0)
Levels of cash in the network £m	759.2	691.6	(67.6)	759.2	691.6	(67.6)	703.3
Staff costs £m	(22.4)	(19.7)	(2.7)	(251.3)	(247.9)	(3.4)	(252.8)
Agents pay to income ratio %	104.8%	94.7%	(10.2)%	92.9%	95.5%	2.5%	93.6%
Crown staff pay to income ratio %	122.4%	131.2%	8.7%	120.8%	126.9%	6.1%	135.5%
Outstanding Audit Recommendations*	0	0	0	0	0	0	1
Customer							
Customer Satisfaction	88.0%	85.0%	3.0%	86.9%	85.0%	1.9%	85.0%
Customer Complaints*	7,836	7,712	(124)	89,514	90,000	486	87,539
Quality of Service % (Note 3)	95.2%	91.4%	3.8%	93.8%	91.4%	2.4%	86.9%
Crown queue time Crown Branches < 5 minutes*	78.5%	78.7%	(0.2)%	73.2%	75.0%	(1.8)%	65.0%
Call centre 3D Measure (Bonus) (Note 4)*	100.3%	100.0%	0.3%	105.2%	100.0%	5.2%	107.5%
Effect (Bonus)*	84.9%	82.2%	2.7%	83.5%	82.2%	1.3%	80.1%
Impressions Count (Bonus)*	94.3%	93.0%	1.3%	93.6%	93.0%	0.6%	92.1%
People							
HYS engagement index % (Bonus)	58.0%	58.0%	-	TBC	59.0%	-	41.0%
Headcount	7,798	7,807	9	7,798	7,807	9	7,782
Attendance %	96.7%	96.0%	0.7%	96.4%	96.0%	0.4%	96.7%
RIDDOR Accidents (per 1k Heads) (Bonus)*	0.5	0.4	(0.1)	3.9	4.6	0.7	5.2
Compliance Measure (Bonus)	93.9%	95.0%	(1.1)%	94.3%	95.0%	(0.7)%	91.9%
Strategy & Operations							
Network Pilots/Trials Milestones Achieved	76.0%	100.0%	(24.0)%	95.0%	100.0%	(5.0)%	NA
Front Office of Government Milestones Achieved	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	NA
ATM availability %	96.3%	95.5%	0.8%	95.9%	95.5%	0.4%	95.5%
Website availability %	99.7%	99.8%	(0.1)%	99.4%	99.8%	(0.4)%	99.7%
Horizon Availability %	98.9%	99.8%	(0.9)%	99.5%	99.8%	(0.3)%	99.8%

Note 1: Direct Sales is shown excluding Lead Generation income

Note 2: Total Operational Costs is defined as: All Expenditure excluding Cost of Sales

Note 3: QoS target is the average of Retail Standards, Mystery Shopper and Call Centre results.

Note 4: Call Centre 3D target is based on achieving 100% of component targets. 2011-12 targets are more challenging than the previous year.

* These measures are not on the group scorecard



Appendices

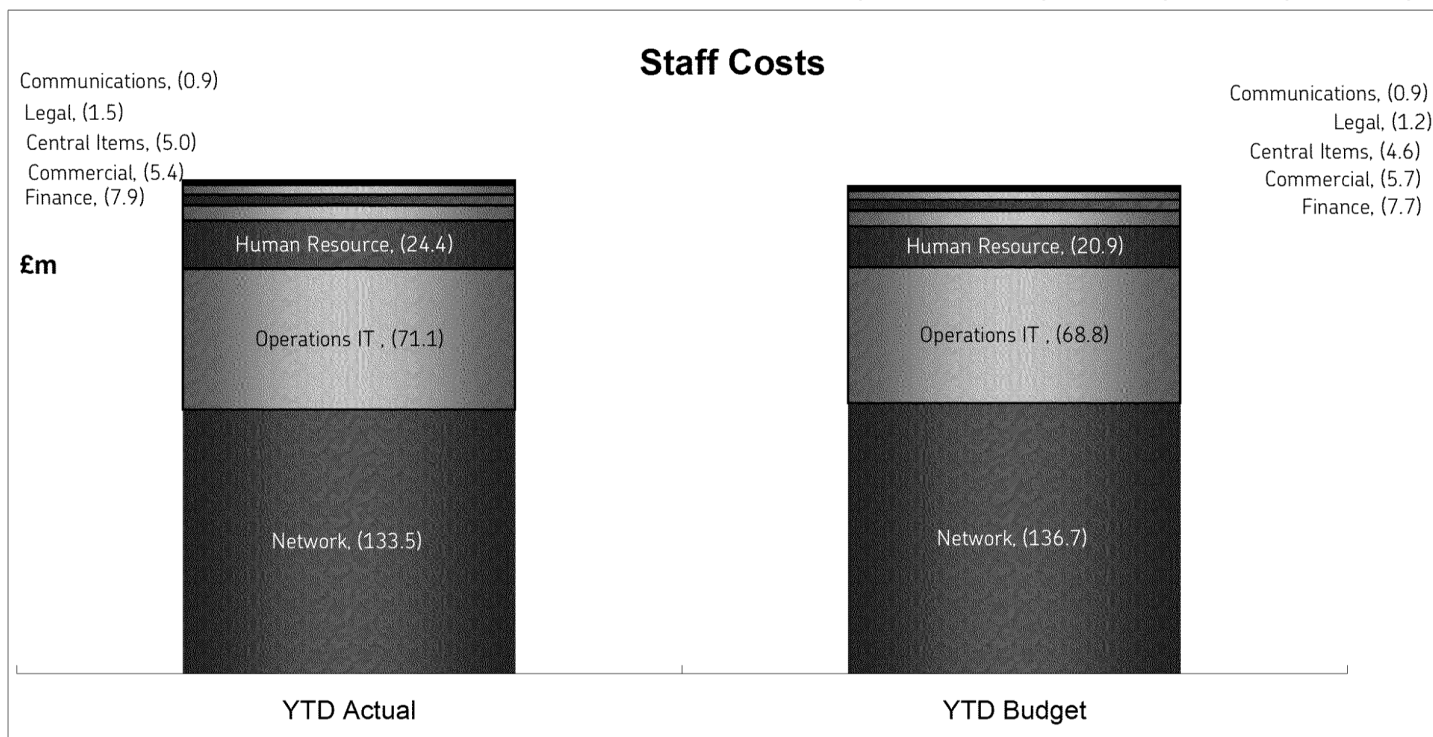


Staff Costs By Directorate

March 2012

YTD staff costs are £3.4m adverse to budget, driven by the unbudgeted pay awards, and higher productivity payments partly offset by vacancies.

POL Headcount	P12		
	Actual	Budget	Variance
Finance	207	203	(4)
HR	115	126	11
Legal	21	15	(6)
MD	4	6	2
Commercial	88	78	(10)
Communications	17	0	(17)
FS	21	0	(21)
Network	5,385	5,486	101
Operations	1,937	1,893	(44)
Chairman's Office	3	0	(3)
Total	7,798	7,807	9

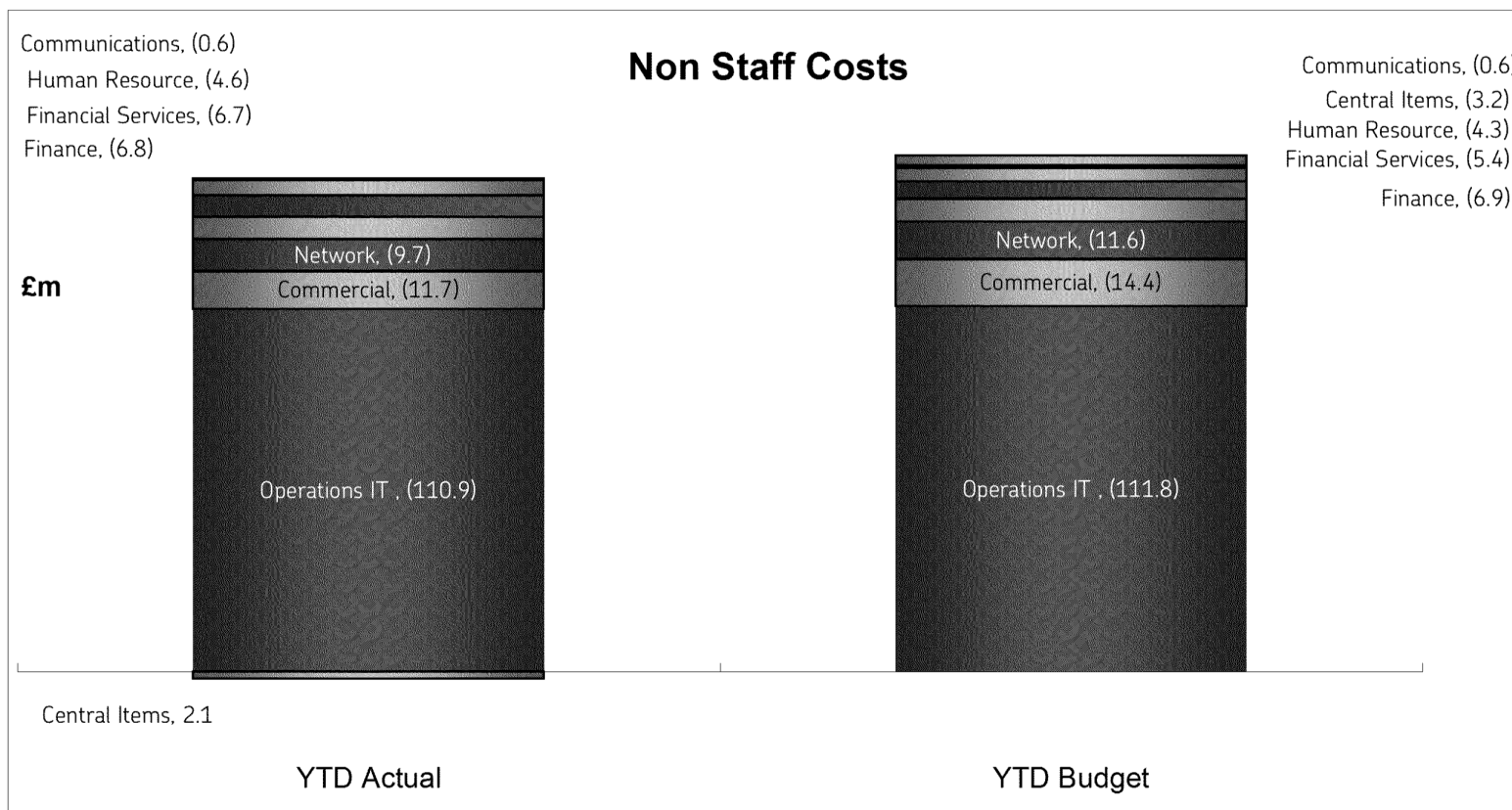


Non Staff Costs - By Directorate

March 2012



Full year non staff costs are £10.6m favourable to budget. This variance includes: the write back of the centrally held WHS TUPE provision; lower spend on printing, stationary and uniforms; lower broadband connection charges due to lower acquisitions; and lower losses.

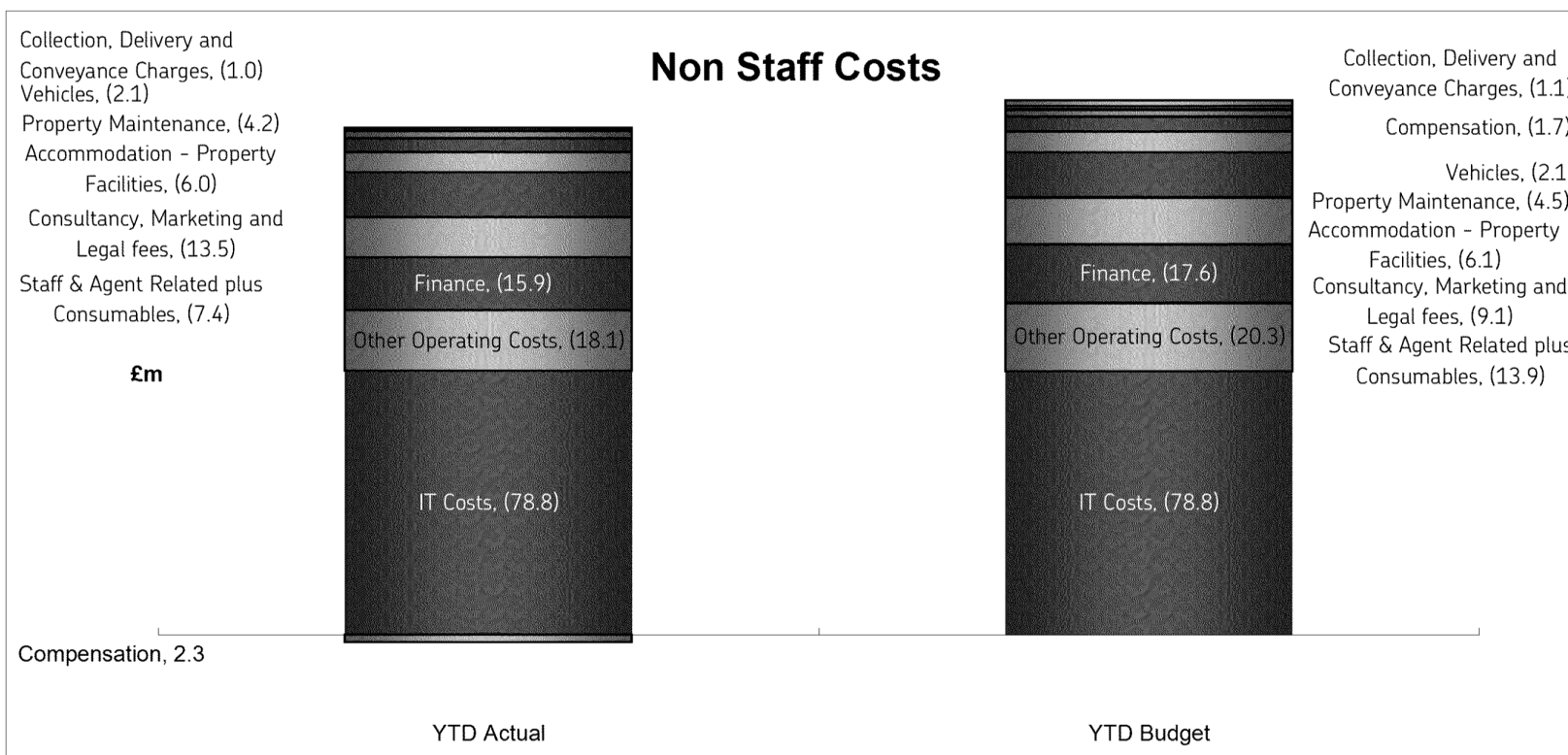




Non Staff Costs by Type

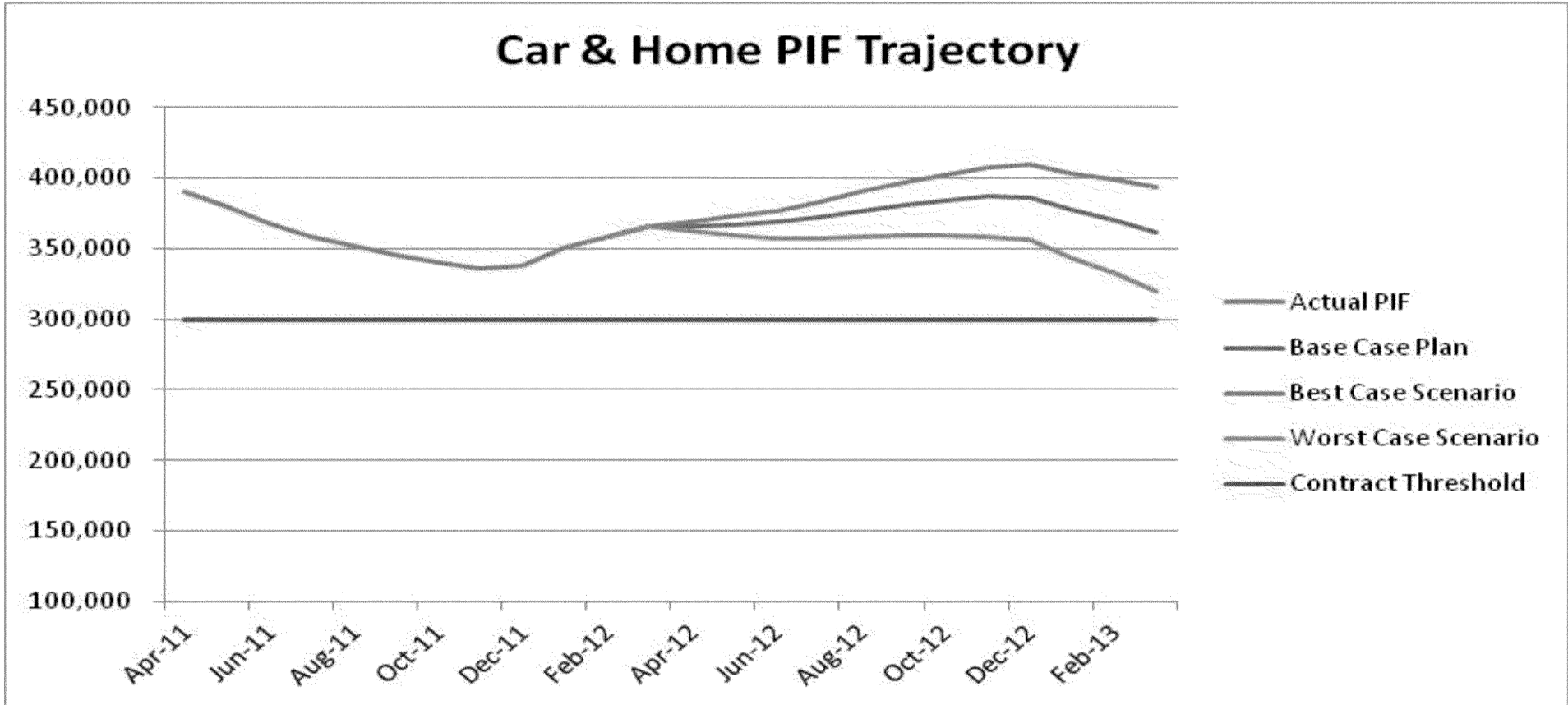
March 2012

Full year non staff costs are £10.6m favourable to budget, with compensation payments being the most favourable (release of WHS TUPE provision), followed by other operating costs (lower broadband connection charges due to lower acquisitions), staff & agent related consumables (printing, stationary and uniforms) and Finance (lower losses).



Car & Home Insurance Policies In Force

March 2012



Post Office Ltd – Strictly Confidential

POST OFFICE LIMITED
POLB(12)60
BOARD OF DIRECTORS

EXECUTIVE SUMMARY

DATE OF BOARD: 18TH APRIL 2012

SUBJECT:	POST OFFICE LIMITED VEHICLES TENDER – RECOMMENDATION TO AWARD
----------	--

AUTHOR/SPONSOR:
MITUL SHAH (GROUP PROCUREMENT) JULIAN TUBBS BRIAN DEVENEY KATH HARMESTON
CONTRIBUTORS / PRESENTERS:
LESLEY SEWELL

	DECISION	GUIDANCE	NOTING
FOR:	YES		

REFERENCE PREVIOUS ACTION POINT:

BACKGROUND AND CONTENT:
<p>THE PURPOSE OF THIS PAPER IS TO:</p> <ul style="list-style-type: none"> 1.1 REQUEST APPROVAL FOR THE AWARD OF 5 FRAMEWORK CONTRACTS TO MEET POST OFFICE LIMITED’S CASH IN TRANSIT (CIT) AND MOBILE POST OFFICE (MPO) VEHICLE REQUIREMENTS 1.2 ‘RECOMMENDATION TO AWARD’ APPROVAL ALREADY RECEIVED FROM POST OFFICE SOURCING COUNCIL ON 21/02/2012 AND ROYAL MAIL GROUP SOURCING COUNCIL ON 28/02/2012 1.3 AGREE WITHIN POST OFFICE GOVERNANCE AND DELEGATED AUTHORITY WHO WILL SIGN THE CONTRACTS ON BEHALF OF POST OFFICE LTD <p>THESE FRAMEWORKS DO NOT COMMIT POL TO ANY SPEND. ALL SPEND UNDER THE FRAMEWORKS WILL BE SUPPORTED BY INDIVIDUAL BUSINESS CASES THROUGH NORMAL POL IC PROCESS</p>

RECOMMENDATION (IF DECISION REQUIRED)	DATE
RECOMMENDED BY THE EXECUTIVE TEAM	03.04.12
INVESTMENT APPRAISAL COMPLETED OR FINANCIAL IMPLICATIONS ASSESSED AND SUPPORTED BY THE CFO	03.04.12

ADDITIONAL PRESENTATION:

YES – DETAILED EXECUTIVE SUMMARY

Post Office Ltd – Strictly Confidential

POLB(12)60

POST OFFICE LTD BOARD

Post Office Limited Vehicles Tender – Recommendation to Award

1. Purpose

The purpose of this paper is to:

- Request approval for the award of 5 framework contracts to meet Post Office Limited's Cash in Transit (CIT) and Mobile Post Office (MPO) vehicle requirements over the next five years.

2. Proposal

The Post Office Ltd Board is asked to approve the award of 5 framework contracts to the following 6 suppliers to meet Post Office Limited's Cash in Transit (CIT) and Mobile Post Office (MPO) vehicle requirements:-

Lot	Description	Framework Supplier
1	Provision of light commercial vehicle chassis (up to 7.5tonne) and associated services	<input type="checkbox"/> Mercedes-Benz (UK) Limited <input type="checkbox"/> Peugeot Motor Company PLC
2	Provision of light commercial vehicle chassis (above 7.5tonne) and associated services	<input type="checkbox"/> Mercedes-Benz (UK) Limited
3	Unarmoured cash in transit vehicle conversions and associated services	<input type="checkbox"/> S.Macneillie & Son Limited <input type="checkbox"/> Johnson Security Limited <input type="checkbox"/> Leicester Carriage Builders
4	Armoured cash in transit vehicle conversions and associated services	<input type="checkbox"/> S.Macneillie & Son Limited <input type="checkbox"/> Johnson Security Limited <input type="checkbox"/> Leicester Carriage Builders
5	Mobile Post Office conversions and associated services	<input type="checkbox"/> Johnson Security Limited <input type="checkbox"/> Leicester Carriage Builders <input type="checkbox"/> Torton Bodies Limited

The contract duration for all of the contracts is 5 years from March 2012 with no extension options and is consistent with the Sourcing Strategy approved by POL Sourcing Council on 5th October 2010.

Ceiling prices for all lots will be fixed for the first 12 months. Mini-competitions and eAuctions will be used, as appropriate to drive business benefit. The intention of this contract award is to create volume flexible contracts (with no minimum commitments) to meet the continued provision of vehicles to Post Office Limited.

The estimated total contract value is up to £27m; which is based on an average of c£5m per annum for CIT vehicle requirements, and up to £2m over the 5-year term for MPO requirements. This is the maximum forecasted spend and is dependent upon actual vehicle demand. Expenditure through the contract will be authorised via the normal delegated authorities.

3. Key Information

Framework contracts, with no minimum volume commitments to any bidders, have been applied with all suppliers across all 5 'lots'. Under these contracts, POL has reserved the right to call off requirements from any supplier in the respective 'lot' or to use mini-competition or eAuctions as appropriate.

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Under these framework contracts, vehicle chassis and cabs will be provided by the suppliers in Lots 1 and 2, as appropriate, with the cash in transit or mobile Post Office conversions being undertaken by the Lots 3, 4 or 5 suppliers.

A RMG light commercial vehicle contract is still live with Mercedes until the end of June 2012, within which it would be possible to order Sprinter chassis cabs up to a maximum of 7.5 tonnes. However the POL contract for cash-in-transit security conversions expired in September 2010 with no ability to further extend.

4. Summary of Procurement & Supplier Selection/Award Process

Is detailed in Appendix A

5. Potential Savings Over the Contract Life

Value will be created through the ability to run mini-competitions and e-auctions. Through other RMG vehicles contracts, this has proven to keep suppliers motivated and proactive towards our business. While it is currently hard to give precise and specific cost benefits of these contracts, based on the current prices paid it is expected a saving of 13% could be achieved particularly for those vehicles where POL will have its highest demand over the life of the contract.

6. Business Benefits

Is detailed in Appendix B

7. Risks/Mitigation

There is a risk that...	Leading to...	Mitigated by...
Volume leverage no longer exists due to a significantly reduced vehicle plan due to preserving cash and extending vehicle lives	Benefits of volume leverage not being achievable	Mini competitions and eAuctions where necessary and appropriate
Fixed ceiling pricing only secured for first year of 5 year contracts	Possible price increases after this first year of operation of the framework arrangement	Mini competitions and eAuctions where necessary and appropriate

8. Recommendations

The POL Board is asked to:

- 8.1 Approve the award of 5 framework contracts to meet Post Office Limited’s Cash in Transit (CIT) and Mobile Post Office (MPO) vehicle requirements

Lesley Sewell
Interim Chief Operating Officer
March 2012

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Appendix A

Request for Information (RFI) – A RFI questionnaire was issued to a number of suppliers in February 2011 with capabilities spanning the scope of POL's potential vehicle requirements. This was done to gain a better understanding of current market capability, trends and innovation, to enable a more informed approach to market at tender stage.

OJEU Notice and Pre-Qualification Questionnaire (PQQ) - Published simultaneously in April 2011. A total of 42 bidders expressed interest across the 5 Lots, of which 29 returned a completed PQQ. 19 bidders were short-listed to the Invitation to Tender (ITT) stage. The procurement has been undertaken under the Public Contracts Regulations (2006) under the Restricted Procedure.

Invitation to Tender (ITT)

The ITT was split into 2 stages – an Initial and a Final Tender Stage. Bidders had the opportunity to provide comments to the proposed terms and conditions and for POL to clarify technical proposals at the Initial Tender Stage. Bidders were then required to accept POL's terms and conditions for the applicable Lot at the Final Tender Stage.

The ITT was published in August 2011. 8 bidders returned a completed Initial ITT response and 6 bidders submitted completed a fully compliant Final Tender Responses. Responses were evaluated against the award criteria weightings set out.

For the Final Tender Stage, no variations were made to the specifications issued at the Initial Tender stage. Where variations to contract Terms and Conditions were made, these were independent of the Bidder which provided comments, and all Bidders for the applicable Lot(s) were made aware of these updates. No significant procurement risk is envisaged.

It was determined that all bidders who submitted Final Tender Responses, were technically competent to provide POL with solutions to meet its business requirements against the relevant Lot(s).

The project has been governed throughout by a cross-functional POL Project Board, which has been kept informed of progress and provided oversight to ensure that POL's business requirements are met.

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Appendix B

Key benefits to be realised through these contracts include:

- **Assurance of Supply** - Secured continuity of supply to POL over the next 5 years to support its Cash in Transit and Mobile Post Office vehicle requirements. This will also save on current ongoing maintenance expenditure of vehicles being utilised beyond their maximum life.
- **Flexibility of Supply** – Supply options for POL through the award of contracts through framework agreements with multiple contracted suppliers, with no minimum volume guarantees. The requirements have also included other vehicles that POL may require over the life of the agreement including a 5T concept vehicle being developed
- **Competitive Supply** - The ability to run mini-competitions and eAuctions, as appropriate, to ensure healthy competitive tension in the market place to further reduce prices (use consolidated volume where possible to achieve this)
- **Supplier Development** – The inclusion of multiple suppliers, including those not previously used by POL, but with capability to meet requirements demonstrated have helped to further improve POL's reputation in the supply market
- **Fixed prices** – ceiling prices fixed for the first year of the 5 year term, with opportunities to reduce vehicle prices by improvements of up to 13% over current prices paid to date. Annual vehicle spend levels will be dependant upon requirements and limited to capital allocation agreed.
- **Supplier Capability** – which has been tested in the specialist vehicle conversion market and ensured a market competitive offering
- **Improved contractual terms** - including penalties for supplier failure

POLB (12) 61

MARCH 2012

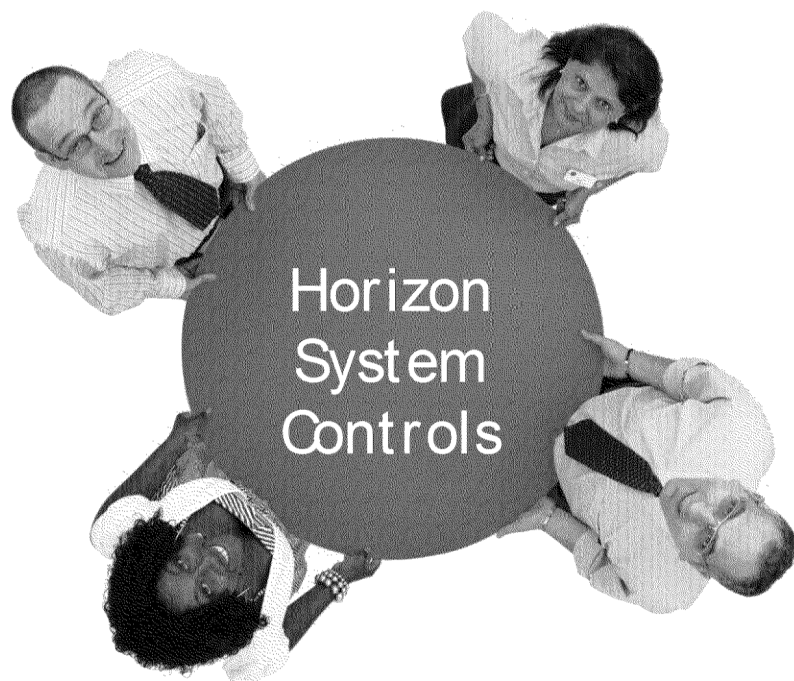
POST OFFICE LIMITED MATTERS - DISPUTE RESOLUTION
PRIVILEGED AND CONFIDENTIAL - CLAIMS OVER £500K OR THOSE OF A SENSITIVE NATURE

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims	POL/HF/CD	Rod Ismay of POL	<p>POL has received notification of a total of five (5) claims from former subpostmasters (SPMs).</p> <p>Each alleges wrongful termination of contract (based on (a) alleged defects in POL's internal processes and (b) alleged defects with Horizon). Each is seeking damages in the sum of circa £150,000.</p> <p>Four of the five claims remain at the pre-action stage (i.e. there are no live court proceedings). Court proceedings were issued in respect of the fifth claim, but this claim has been struck out.</p> <p>Shoosmiths assert that they have consulted on a further 85 cases, which are all likely to raise similar legal issues.</p>	<p>(1) <u>Scott Darlington</u>. Claim rejected on the basis that the SPMR admitted to and was convicted of false accounting. Responded to Shoosmiths on the basis that the SPM can have no claim for wrongful termination in circumstances where he had repudiated his contract.</p> <p>Last correspondence sent to Shoosmiths on 14/12/2011. Shoosmiths are yet to take any further action.</p> <p>(2) <u>Julian Wilson</u>. Position as above,</p> <p>Last correspondence sent to Shoosmiths on 14/12/2011. Shoosmiths are yet to take any further action.</p> <p>(3) <u>Terence Walters</u>. SPMR admitted to false accounting, but not convicted.</p> <p>Last correspondence sent to Shoosmiths on 14/12/2011.</p>	Bond Pearce (Gavin Matthews, Helen Watson)

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
				<p>Shoosmiths are yet to take any further action.</p> <p>(4) <u>Thakshila Somaskandarajah</u>. BP have responded to Shoosmiths stating that the claim is time barred and cannot now be pursued. No response to this letter from Shoosmiths to date.</p> <p>(5) <u>Lynne Prosser</u>. Proceedings were commenced by Prosser in June 2011,</p> <p>POL has been successful in having this claim struck out. Permission to appeal has been refused.</p> <p>Bond Pearce has been instructed to pursue Prosser for costs which are c.£10,000.</p>	

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
<p style="text-align: center; border: 1px dashed black; padding: 5px;">GRO</p>	<p>POL/HF/C D</p>	<p>Angela Van-Den-Bogerd</p>	<p>GRO has made claims under the Equity Act and under the Human Rights Act alleging disability and age discrimination against Shieldex Limited (the franchisee of the branch) and POL. Damages are claimed, but the amount is not specified. The estimated potential exposure (if the claim succeeds) is likely to be in the region of £6,000 to £18,000 plus costs.</p> <p>If POL is found to be a service provider under the Equality Act and, therefore, liable to make reasonable adjustments this is likely to have implications across the Network.</p>	<p>Particulars of Claim have been served on both Shieldex Ltd and POL. The Defence is due on 2 April and is currently being finalised.</p> <p>POL needs to decide whether or not to make a "Part 20 Claim" against Shieldex Ltd for an indemnity in the event that POL is found to be liable for the actions of Shieldex Ltd as its principal.</p> <p>It remains unclear what steps Shieldex Ltd are taking to defend the claim. Bond Pearce have been pressing the solicitors acting for Shieldex Ltd in an attempt to ensure that proper steps are taken to defend the proceedings.</p> <p>In the event that judgment in default is obtained against Shieldex Ltd (should it fail to file a Defence) this will not directly impact on POL, but it may potentially make it more difficult to settle the claim.</p>	<p>Bond Pearce (Ian Newcombe, Dan Fawcett)</p>

This document contains confidential information relating to Post Office Limited. It is intended for the named recipients only and should not be disseminated further.



Review of Key System Controls
in Horizon
Post Office Limited

Legally Privileged & Strictly Confidential

Assurance Review

March 2012

Internal Audit & Risk Management

Context and Objectives

The Post Office Limited (POL) network of approximately 11,000 branches processes client and business transactions in excess of £100 billion annually. The majority of transactions are conducted on behalf of third parties, for example, receiving payment for domestic utility bills and paying out from National Savings accounts.

Customer transactions are captured on the Horizon (HNGX) electronic point of sale system in branches and transmitted to central systems (utility payment, external banking and POL finance systems) throughout the day. Overnight, daily summaries are transferred into the central accounting system, POL SAP. The translation process between the two systems is enabled by the Reference Data System (RDS). An overview of the component parts of the HNGX system is provided at Appendix A.

The overall objective of the review was to provide assurance that appropriate IT management disciplines provide a stable IT platform, and that suitable internal controls operate over HNGX transactions and the extraction of these for central systems. In the area of management disciplines the review assessed controls over: access to software; change management; capacity monitoring; and system resilience and disaster recovery. With regards to internal controls over transactions the review covered: master data controls; transaction data; SAP Middleware; and batch updates.

The review also assessed the degree to which actions to address the issues raised in the 2011 Ernst & Young (E&Y) Management Letter regarding the HNGX control environment have been progressed by management.

Key Findings and Conclusion

IT Management Disciplines and HNGX Transaction Controls

The following control weaknesses were identified:

- 1. System access:** Access to HNGX in branches is by means of individual user accounts and passwords. However, particularly in sub-post offices, the same user accounts and passwords are often shared between branch staff. The use of individual user accounts is not always practical, e.g. in the case of single terminal branches where time would be lost continually switching between user accounts, and the number and geographical spread of sub-post offices makes it difficult for POL management to ensure access controls are enforced.

Implication: The ability to identify an individual user responsible for inputting a transaction may potentially be compromised.

- 2. Resilience and Disaster Recovery:** Fail-over from the live data centre to the back-up has not been tested since June 2009, although disaster recovery arrangements were tested during the migration to the new system in October 2009. Testing of the business continuity plan has been scheduled for the 24th and 25th of March 2012.

Implication: The period of any inability to trade as a result of a major system outage may be greater than anticipated.

Key Findings and Conclusion - Continued

3. **Master data:** No audit trail exists for change requests received by Fujitsu from the Network Business Support Centre (NBSC). Not all 'approved' requesters are documented or referred to on receipt of a change request. The membership of the Lotus Notes email groups, which are used to authorise the Master Data Teams to make changes to standing data, is not known and has not been subject to recent review. One of a sample of 10 change requests was found to have been handled via the "Fast track" process when it should have come through the normal process, resulting in reduced oversight of the change.

Implication: It is difficult to detect and prevent inappropriate changes being made to master data.

4. **Transaction data:** One of a sample of 5 monthly reconciliations between HNGX generated client transaction summaries and those created by the clients themselves was found not to have a second level review signature. Period-end Senior Management review is not formally signed-off, although it appears to be undertaken.

Implication: Transaction discrepancies may not be identified resulting in third party clients being undercharged or overcharged for transactions.

Conclusion: IT disciplines around functional changes and capacity monitoring were found to be appropriately designed and also operating effectively. However, access to the system in branches, particularly sub-post offices, can be by means of shared accounts. In addition, fail-over from the live data centre to the back-up centre has not been tested since June 2009. This requirement is of particular importance, as highlighted by an outage in the system in December 2011. Testing of the business continuity plan has been scheduled for March 2012. Controls designed to maintain the completeness, accuracy and integrity of transactional data flows within HNGX were effective, with minor weaknesses noted around manual processes for the validation of master data and transaction data. No evidence was found of material discrepancies arising from these issues.

Control Environment: Some improvement required.

E&Y Management Letter 2011

The 2011 E&Y Management Letter identified a number of areas for improving HNGX and other POL IT system controls. This current Internal Audit & Risk Management (IA&RM) review assessed the degree to which management action plans have progressed to address the issues which related to HNGX. Progress has been made in completing the actions arising from the E&Y Management Letter. The E&Y recommendations that require most additional work relate to: inappropriate access to software change management duties (incomplete segregation between software development and migration roles); the process for the identification and resolution of incidents; the recommendations that POL undertakes an architectural review, configure passwords in line with policy and perform periodic scan of passwords as part of a penetration testing schedule. The penetration testing originally planned for January 2012 has been postponed to March 2012 as the business had to prioritise a test to meet Payment Card Industry (PCI) compliance during January.





The findings, summarised in Appendix B on page 9, have been shared with E&Y and reflect our assessment as at the end of January 2012.

Management Response

We agree with this report and its findings, and will act to progress the action plan within the agreed timescales – **Lesley J Sewell**

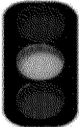



Internal Audit & Risk Management

Summary Findings - IT Management Disciplines

What was done	What was found	Rating
<p><u>Access to Software:</u> Walked through and sample tested access arrangements for branch, POL and Fujitsu technical support staff.</p>	<p>HNGX access in branches, particularly sub-post offices, is often via shared accounts. Access security controls over the “back end” HNGX environment (including Credence / TI) were found to be effective, as were physical security controls.</p>	
<p><u>Change Management:</u> Inspected testing and release management processes, walked through and sample tested completed changes.</p>	<p>Functional changes are initiated and progressed via agreed processes and appropriately approved and tested prior to migration to the live environment.</p>	
<p><u>Capacity Monitoring:</u> Reviewed and sample tested arrangements for monitoring processing capacity.</p>	<p>Transaction processing capacity, including processor utilisation, disk space etc, is proactively managed and monitored by Fujitsu including forecasting of future requirements.</p>	
<p><u>Resilience and Disaster Recovery:</u> Inspected, walked through and sample tested arrangements for ensuring resilience and disaster recovery.</p>	<p>System design resilience is high with frequent failure testing of individual components and sub-systems. “Warm” fail-over arrangements exist between the two data centres, although these have not been tested since June 2009.</p>	

Note: For details of systems and data flows, see “HNGX System Overview” at Appendix A.

Summary Findings - Internal Controls Over Transactions

What was done	What was found	Rating
<p><u>Master Data :</u> Inspected master data input process and data validation routines and tested via walkthroughs and sample testing of changes .</p>	<p>Minor weaknesses were found around: helpdesk-initiated change requests; documentation and verification of “approved” requesters; and use of “fast-track” requests. Data validation routines have been designed and implemented effectively.</p>	
<p><u>Transaction Data:</u> Reviewed and sample tested arrangements for the reconciliation and validation of transaction data.</p>	<p>Client account reconciliations are reviewed by team leaders and balances >£400k are reviewed by second line management. However, no formal senior manager sign-off exists for month-end probity reviews.</p>	
<p><u>SAP Middleware:</u> Inspected data validation controls and tested the reconciliation of inputs to and outputs from Middleware (which translates HNGX data to POL SAP readable format).</p>	<p>A detailed functional specification has been defined and agreed with Fujitsu, covering controls to validate the completeness / accuracy of the interface to POL SAP. Controls relating to data transfer between SAP Middleware and POL SAP appear to be designed and operated effectively.</p>	
<p><u>Batch Updates:</u> Verified data flows across key interfaces to assess whether batch updates are completed accurately and on time by means of walkthroughs and sample testing.</p>	<p>Effective batch processing / interface monitoring controls are in place, automated and managed via Tivoli Workflow Scheduler (TWS). Automated error alerts are raised by TWS to the Service Management team who escalate to either the Logica Application Management team or Fujitsu for resolution.</p>	

Note: For details of systems and data flows, see “HNGX System Overview” at Appendix A.

What is Being Done

Access to software

1. Complete an analysis of the potential misuse of individual Horizon user accounts and passwords in branches. Communicate to branch staff the requirement that accounts and passwords must only be used in accordance with Post Office policy. **Priority 2 (Dave M King – May 12)**

Resilience and disaster recovery

2. Agree with Fujitsu a date for full fail-over testing. **Priority 2 (Lesley Sewell – Completed)**

Master data

3. Develop and deploy a formal process for change requests identified and communicated by the NBSC Helpdesk. **Priority 2 (Lesley Sewell – May 12)**
4. Confirm the current membership of Master Data Change and Property Projects Lotus Notes email groups, ensuring that only current team member addresses are included. **Priority 2 (Lesley Sewell – May 12)**

Importance	No of actions	Completed	by Jun 12
Priority 1	-	-	-
Priority 2	4	1	3

Circulation List

Susan Crichton, Legal and Compliance Director

Christopher Day, Finance Director

Kevin Gilliland, Network and Sales Director

Andy J Jones, Quality and Standards Manager

Dave M King, Senior Security Programme Manager

Neil Lecky-Thompson, Head of Programmes and Planning

John M Scott, Head of Security

Lesley J Sewell, Head of IT and Change

Paula Vennells, Managing Director

Mike Young, Chief Operating Officer

Alice Perkins, Chairman

Derek K Foster, Internal Audit & Risk Management Director

Moya Greene, Chief Executive

Matthew Lester, Chief Financial Officer

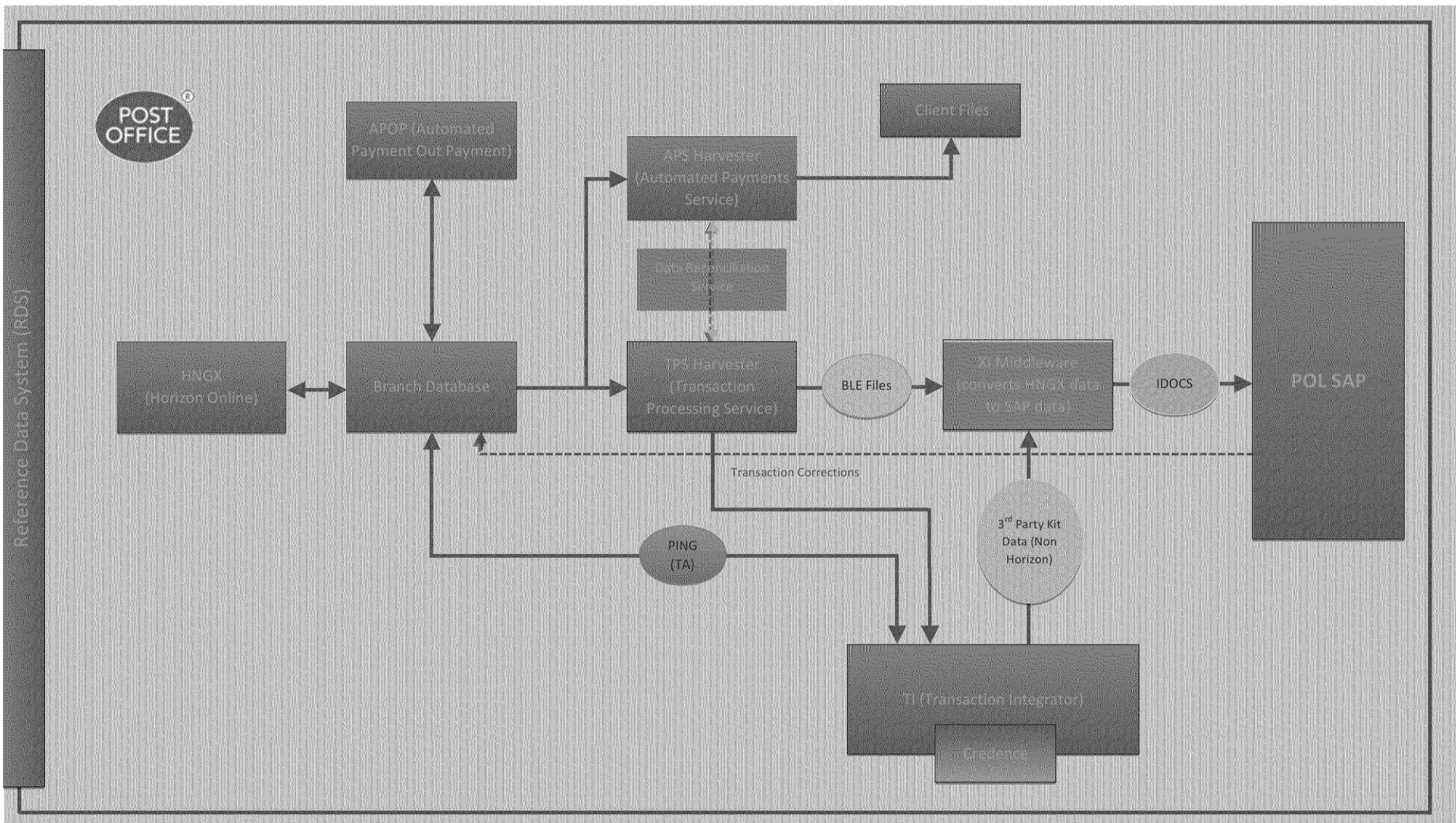
Emily Pang, Chief of Staff

Peter Tansley, Head of Risk & Assurance

Ernst & Young

Internal Audit & Risk Management

Appendix A - HNGX System Overview



Appendix B - Update on Actions Arising from 2011 E&Y Audit

Finding	E&Y Rating	Summary	Status
1	High	Governance of outsourcing arrangement with Fujitsu: POL is responsible for the governance and risk and control frameworks and should have visibility and assurance over their design and operating effectiveness.	Substantial progress made
2	High	Segregation of change management duties: Inappropriate access should be revoked and roles for development and migration to live environment should be segregated.	Further work required
3	High	Change management process: All changes should be appropriately authorised, tested and approved prior to deployment to live environment.	Substantial progress made
4	High	Privileged access: Privileged access to IT functions should be reviewed to determine whether it is appropriate.	Substantial progress made
5	Med	Periodic POL-owned review of user accounts: To assist in the identification of inappropriate access and potential segregation of duties conflicts.	Substantial progress made
6	Med	User administration: Review the current user access policy and strengthen the existing user administration process within POL and third party service providers.	Substantial progress made
7	Low	Infrastructure logical security settings: Undertake architectural review and periodic scan of passwords as part of a penetration testing schedule.	Further work required
8	Low	Password parameters: Review and update the Information Security policy and configure all applications in line with policy requirements.	Further work required
9	Med	Access to generic privileged accounts: Review across all applications. Consider replacing with individual accounts and implement monitoring controls.	Substantial progress made
10	Low	Incident identification and resolution: Regular review of the problem and incident management process to ensure incidents are identified, classified and resolved on a timely basis.	Further work required

The findings above reflect our assessment as at the end of January 2012.

Post Office Ltd – Strictly Confidential

POLB(12)62

POST OFFICE LTD BOARD

Sealings – March 2012

Seal Register

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 number 777 to 785 inclusive in the seal register.

“The Directors resolved that the affixing of the Common Seal of the Company to the documents set out against items number 777 to 785 inclusive in the seal registers are hereby confirmed.”

Alwen Lyons
Company Secretary
April 2012

POST OFFICE LIMITEDDate
11/04/2012**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
777 / POL/JMR	01/03/2012	29/02/2012	Enfield Post Office - 27 Church Street, Enfield, EN2 6AQ Engrossment of a Lease for sealing/authentication on behalf of Post Office Limited. Gade Enterprises Limited Parmjit Signh Dev Sandra Gammage	Andrew Poole	Jean Reynolds
778 / POL/JMR	01/03/2012	29/02/2012	Dingle CO, Post Office Unit within Supermarket at 340 Park Road, Liverpool, L8 4UE Engrossment of a Licence to Alter for sealing/authentication on behalf of Post Office Limited. Somerfield Stores Limited.	Andrew Poole	Jean Reynolds
779 / POL/JMR	01/03/2012	29/02/2012	Ellis Street Car Park, Kirby in Ashfield, Notts, NG17 8DA Engrossment of a Licence to Occupy in duplicate for sealing/authentication on behalf of Post Office Limited. Ashfield District Council.	Andrew Poole	Jean Reynolds
780 / AL6/AL6/364065.555	05/03/2012	05/03/2012	Franchise Post Office Northfield Branch 2 x Release of Obligations Agreements	Neil Owen	Denise Reid (Alva Leigh Doyle - Bond Pearce)
781 / AL6/AL6/364065.555	08/03/2012	06/03/2012	Franchise Post Office Northfield Branch between POL and Robini Limited 1. Franchise Agreement sx2 2. Personal Agreement x4 3. Supplemental Agreement x2 4. No Plans Letter x2	Neil Owen	Denise Reid (Alva Leigh Doyle - Bond Pearce)
782 / AL6/AL6/364065.555	12/03/2012	09/03/2012	Franchise Post Office Palmers Green Branch 1. Franchise Agreement dated 1 March 2012 x2 2. Supplement Agreement x2 and 3. No Plans Letter x2	Neil Owen	Denise Reid (Alva Leigh-Doyle - Bond Pearce)
784	30/03/2012	30/03/2012	Underlease for Post Office premises as part of 12 Quay Street, Haverford West, Dyfed, SA61 1AA	Alwen Lyons	Jean Reynolds
785	30/03/2012	30/03/2012	Licence to Underlet - 2-4 Gatton Road, tooting, London, SW17 0SQ.	Alwen Lyons	Jean Reynolds

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POLB (12)63

Post Office Limited
(company no: 2154540)

Notes of the Post Office Communications Action Group Meeting
held at 148 Old Street, London
on 14th March 2012

Present:

Alana Renner	(AR)	Communications Director (Chair)
Martin Moran	(MM)	Commercial Director
Kevin Seller	(KS)	Head of Government Services
Mike Granville	(MG)	Head of Stakeholder Relations
Nick Kennett	(NK)	Director of Financial Services
Stuart Taylor	(ST)	Head of Post Office Relations RMG

Apologies:

Paula Vennells	(PV)	Chief Executive
Kevin Gilliland	(KG)	Network and Sales Director
Sue Huggins	(SH)	GM Network Services & Transformation
Shane O'Riordain	(SOR)	Communications Director RMG

Guests:

David Gold	(DG)	Head of Public Affairs RMG
Alice Dickerson	(AD)	Public Affairs Manager RMG
David McConnell	(DM)	Communications Manager

POLCAG01/03

Previous meeting Notes

The notes from the previous meeting were agreed.

POLCAG02/03

Previous Action Points

Post Office Integrated Comms' Plan - Action – the CAG **asked** that **AR** arrange for the IC Plan to be shared with ET members on a monthly basis as a noting paper for the performance review meeting. – **Completed**.

Civic Agenda Conference on the 9 March - **Action** – **PV** and **MM** to decide who attends on behalf of Post Office. - **Completed**

Post Office BIS Week Programme - Action - **KS** to prepare a briefing note for **PV** - **Completed**

Action – **AR** to let **PV** have sight of the visuals for any displays being used. – **Completed**

Post Office Annual Parliamentary Report Approach - Action – **MG / AR** to start work on preparing a draft report and bring this back to a future CAG meeting – **Ongoing**, update at April Meeting

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Financial Services Update - the CAG **asked** **NK** to consider the various options and advise on the approach to be adopted at the March meeting. **Completed (in verbal update)**

Network Transformation Programme Communications - Action – The CAG **asked** **AR** to ensure that the MPs letter arrives on the day of announcement within Westminster and Devolved Gov't buildings. - **Completed**

Action – The CAG **asked** **ST** to send a copy of the stakeholder engagement plan to MM and KS, to ensure that client groups are picked-up as part of the briefing process. **Completed**

RM Tariff Update - Action - The CAG **noted** the latest position and **asked** for an update at the March meeting. **Completed (in verbal update)**

Royal Mail Modernisation Conferences - Action – **PV** **asked** that SOR feedback that a Post Office slot should be included in the conference programme. **Completed** – Moya's interview to include reference to separation and network modernisation programme.

POLCAG03/03

Post Office Integrated Communications Plan

The CAG **noted** and **reviewed** the Integrated Communications Plan (March – June 2012). The meeting offered the following observations;

- **Paula / Nick Kennett's** meetings with Personal Finance Editors should take place after the Project Eagle announcement.

- A detailed production timeline has been prepared for the briefing document required for Paula's appearance before the BIS Select Committee on the 15 May. **KG flagged** that the timing of any subsequent report from the Committee, if it contained significant issues, could pose a potential risk to the planned start for roll-out of the NT programme.

- The CAG **asked** that the Postal Affairs Minister and the Perm' Secretary be added to the invitation list for the stakeholder dinner programme.

Action – **DM** to add these stakeholders to the list.

- On the internal communications section, the Vision Launch event will take place on 24 May at Earls Court, London.

POLCAG04/03

Attendance at Party Political Conferences / Working with Think Tanks

The CAG **noted** the suggested approach to working with Think Tanks as a vehicle to make the presence at Party Political Conference more effective and compelling. **NK** raised the issue of how Post Office addresses the risk that the chosen think tanks may produce report content about which we are uncomfortable. **KG**, whilst stating his broad support for the approach, asked how the business would evaluate if

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attendance at a Party Conference represented value for money. The CAG discussed this challenge and felt that, whilst difficult to quantify specifically, the benefits derived are around stakeholder contact, lead generation, profile, and critically in the first year post separation, then having a presence was a political imperative.

In summary, the **CAG endorsed** the broad approach to the working with Think Tanks proposal; however details of the final costs and subject themes need to be circulated.

Action – DM to circulate details following the CAG meeting with a view to members raising any issues prior to work being commissioned.

POLCAG05/03**Projects Alaska, Eagle, Polo (Verbal Update)**

NK provided a verbal update on key FS-related projects.

Alaska – the mail out to those savers affected by the change to the BOI decision to draw back from the Irish Guarantee Scheme took place with minimal customer / external stakeholder interest.

Polo – there have been no significant developments since the last meeting. A range of options are still being considered in respect of the best approach to managing external communications surrounding this project.

Eagle – the internal and external communications are being finalised. The latest expected timing of any announcement is late April.

POLCAG06/03**NT Programme Communications Wash-Up**

AR shared a media / external stakeholder digest pack which summarised the coverage and reaction to the national NT announcement. There has been a limited reaction from MPs immediately following the media launch. The launch generated broadly neutral national media print coverage. National broadcast, along with regional print and broadcast coverage, was overwhelmingly positive, as was coverage in trade titles. **MG** shared that the NT Stakeholder team are preparing to meet local stakeholders. **KG** reminded the meeting that is crucially important how we prioritise this contact. **MG** responded by saying that those stakeholders already identified as requiring early engagement are EDM signatories, BIS Select Committee and other interested MPs. **KG** asked for a NT External Stakeholder engagement grid to be prepared.

Action – the CAG asked **MG/SH** to work up an engagement timeline for politicians.

POLCAG07/03**Post Office Separation Communications**

AR shared with the CAG the high level approach taken and a copy of the agreed Post Office Separation Communications Plan. **SH** asked for clarification on what communications about Post Office separation are being provided to colleagues that work at the House of Commons Post Offices.

Action – **AR** to check approach and advise **SH**.

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POLCAG08/03

Corporate Responsibility Report Approach

The CAG **noted** and **thanked** Alice Dickerson for her presentation around a suggested approach to a standalone Corporate Responsibility report. **NK** asked how we take the suggested approach forward. **AR** – stated that the approach will need to be integrated into the wider CR Strategy being prepared by Pauline Holroyd.

Action – **AR** to ensure that the proposal is shared with Pauline.

POLCAG09/03

RM Tariff Changes (Verbal Update)

DG provided a verbal update on the forthcoming tariff announcement. The **CAG** was **informed** that consumer prices had yet to be confirmed. It was felt by RMG that the BIS Select Committee hearing had been helpful in clarifying the message of an OfCom approved price range rather than a specific focus on a specific tariff for 2nd class stamps. Further details of the discounted stamp scheme for Christmas 2012 are being worked-up in conjunction with Post Office colleagues. The scheme will benefit an estimated 5.3m vulnerable customers. The tariff announcement will be supported by a comprehensive range of customer, colleague and stakeholder communications. This will include a national door drop to all addresses. The expectation is for tough headlines.

POLCAG10/03

April Meeting Agenda

The CAG **noted** and agreed that the following items will be added to the April meeting agenda;

- Presentation on the Post Office Marketing Strategy (Stewart Fox-Mills)

Other suggested items for future agendas include;

- Update on Select Committee approach
- Review of NT pilot lessons learnt
- Approach to attendance at the NFSP Conference

POLCAG11/03

Agenda Standing Items

The CAG agreed that the following should be standing items on future meeting agendas;

- Integrated Communication Plan Update (Alana Renner)
- FS Update on Projects Alaska, Eagle and Polo (Nick Kennett)

POLCAG12/03

AOB – None.

Close.

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Noting Paper

IT&C Transformation – “should the Service Integrator be in-house or outsourced?”

Berkeley’s independent view – for Mike Young (POL COO)

Context

IT & Change are seeking POL Board approval in March to establish an IT&C Transformation Programme and invest £13.4m to deliver it over the next four years. During initial discussions with the Board, the Board has raised questions about whether the ‘Service Integration’ (SI) function within the proposed future IT supply chain model should be outsourced or in-house.

POL has asked Berkeley to conduct a brief review of the IT&C Transformation proposal and business case and provide an independent view on whether the SI function should be outsourced or in-house. As part of conducting this brief review, POL has also asked Berkeley to highlight any other general observations and/or risks.

This note summarises for Mike Young (POL COO), Berkeley’s response to the question, highlighting a number of general observations and risks. These have been discussed and refined through conversations with Lesley Sewell (Head of IT & Change) and Neil Lecky-Thompson (Head of Programmes and Planning, and IT&C Transformation Programme Lead).

Mike intends to feedback, as appropriate, the key conclusions from this brief review to the IT&C Transformation Steering Group on Monday 5th March, the Executive Team on Tuesday 6th March and POL Board on 15th March.

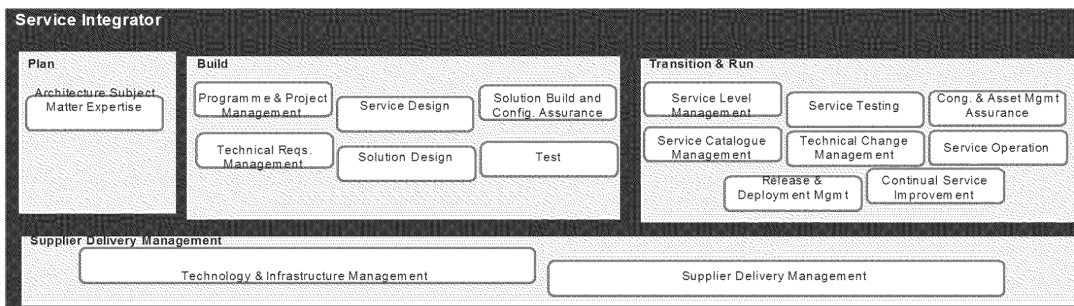
1. Should the Service Integrator be in-house or outsourced?

As part of answering the question, two important factors have been considered:

(a) desired role of the Service Integrator

Service Integration is a relatively new market offering that is gaining popularity. As a result, its precise definition is also taking shape and hence the term can mean different things to different people.

In the case of POL, Service Integration is about having the tools and human capability required within an IT department to manage multiple outsource providers. The skill sets required are as follows (*taken from POL Sourcing Plan*):



(b) availability of required capability within the timeframe

Lesley and Neil have explained that there is currently a lack of capability in-house to fulfil the required Service Integration role (as set out above).

POL's proposed approach is to buy-in (outsource) the Service Integration function. In the long term, IT&C's strategy is to bring the Service Integration capability back in-house within POL. They believe there is insufficient time to build this capability in-house within the timeframe available to deliver the IT&C Transformation programme plan and business case. Therefore, they have identified the need to outsource the Service Integration function in the interim, procuring this in a single procurement along with Service Desk and staff augmentation.

Berkeley supports POL's assessment and proposed approach to outsource the SI function in the interim, with a view to bringing it back in-house in the future. We understand the extended role that POL expects the Service Integrator to perform and the lack of capability in-house to fulfil this role in the interim. We support the need to buy-in these skills in the interim. There are many ways POL could go to market to buy these skills. Procuring an SI service and staff augmentation together is as good a way as any.

We have discussed **two specific risks** that need to be mitigated:

- **Transferring current POL capability to the Service Integrator and expecting an uplift in capability:** under the proposed SI procurement approach, there is a view that 35 internal staff currently involved in similar 'service integration' activities will TUPE to the Service Integrator and the service will then be provided back to POL for £2-3m pa. The expected SI run cost broadly equates to the salary cost of the 35 TUPE individuals and the procurement encourages the supplier to retain these people. Hence, there is a risk that the same people will be doing the work as now, albeit via an outsourced Service Integrator with the benefit of their leadership, methodology and tools. POL should assure themselves that this procurement is going to deliver a capability upgrade and not simply move the same capability from within POL to the supplier.
- **Maintaining multiple supplier / procurement mechanisms to augment internal capability:** there is a risk that the SI is unable to consistently provide the quantity and quality of people required. We recommend POL ensure they maintain multiple supplier/procurement mechanisms through which to augment their internal capability and avoid being locked down to just the SI. These multiple mechanisms should also offer a range of seniority / capability at a range of price points so POL can bring heavier hitting resource to bear on the more challenging problems / pieces of work. This is already part of POL's plan.

We suggest that, in responding to the POL Board, the proposed scope of the SI function is set out for them along with a summary assessment of current capability against it.

2. Other observations – the 'tower' structure

The one area that prompted much discussion with Lesley and Neil was the architecture of the service towers and whether there should be a single Applications tower as currently planned (see Appendix 1), or multiple Application towers (see Appendix 2). There is no "right answer" in terms of how to arrange the towers.

Single Applications tower (as currently planned). A single Application tower has been proposed for reasons including:

- Single procurement of a single prime supplier, resulting in less OJEU effort;
- One prime vendor responsible for all applications and their integration;

- One supplier to hold to account when things go wrong.

Migration from current incumbent suppliers to this single Applications tower will be phased over time in line with contract terms and the business transformation agenda.

Multiple Application towers (possible alternative). Creating multiple Application towers would enable some different benefits:

- Increased supplier competition on price, especially for the run costs of applications created post initial contract award;
- Increased supplier competition on quality and sophistication of the solutions procured; POL would be in a better position to buy business outcomes and solutions to complex problems rather than just application requirements;
- The dominance of a single monopolistic supplier is reduced.

By way of an example and to highlight some of the implications of the different tower structure options, Appendix 3 sets out an illustration of how POL could move from their current state ERP systems to the target state under each of the two different tower configurations.

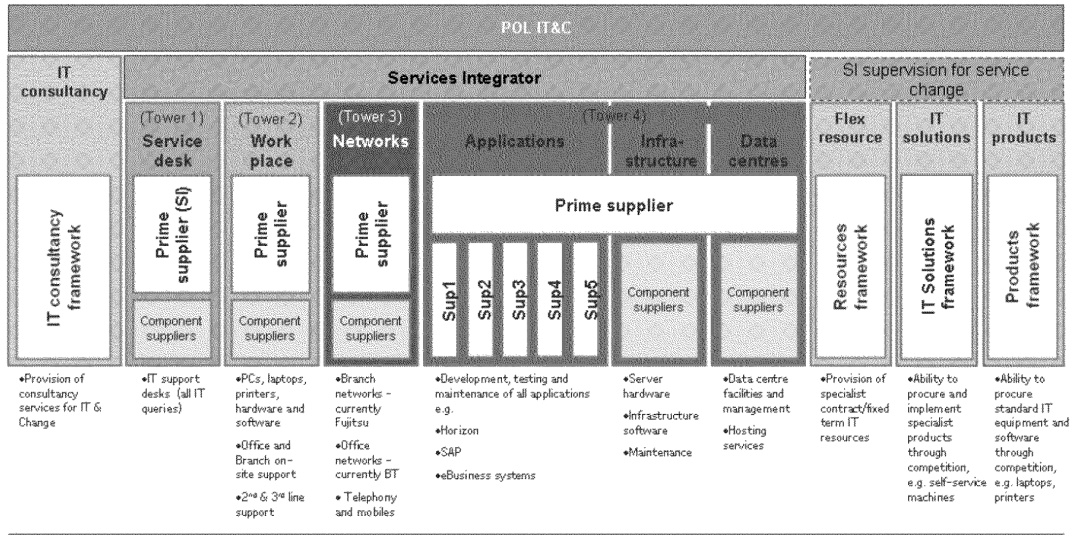
Consolidation of non-Application towers. If a multiple Application towers model was to be followed, it may make sense to consolidate some of the existing non-application towers, e.g.

- Split the Networks tower into WAN and LAN and then consolidate into other towers:
 - Include WAN in the Horizon (POS) tower to preserve end to end SLAs with remedy that can be enforced;
 - Include LAN into the Workplace tower so that all office on premise work sits with the same supplier;
- Service Desk and Service Integration could be combined (and effectively are now in POL's proposed future IT supply chain model);
- Workplace and Service Desk could be combined, increasing first time fix on office based user calls.

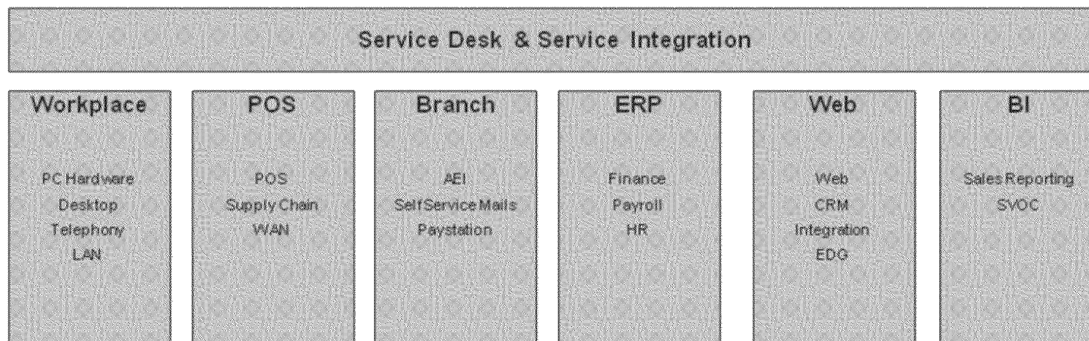
Because there is no "right answer", we don't believe a recommendation to change the tower structure is appropriate. However, we hope the discussion has been 'food for thought' and provides a basis for IT&C to review and challenge their current approach to the tower structure, particularly as they engage in competitive dialogue with potential suppliers during the procurement process. Taking some time to review and challenge the current approach to the tower structure should not prevent POL from progressing with their current plans of seeking POL Board approval for the business case and starting to engage the marketplace.

2nd March 2012

Appendix 1 – POL’s proposed future IT supply chain model (‘tower’ structure)



Appendix 2 – illustrative alternative ‘tower’ structure used to prompt discussion



Appendix 3 – illustrative example of how POL could move from their current state ERP systems to the target state under each of the two different tower configurations

	“Single Applications Tower” scenario	“Multi Application Towers” scenario
Current State	<p>Let’s assume for this example that current legacy ERP is effectively split in 3:</p> <ul style="list-style-type: none"> - Product and branch reporting (supplied to POL by CSC?); - HR (supplied to RMG by CSC and shared with Group); - Finance (supplied to RMG by CSC and shared with Group but separate instance to HR). <p>As part of transformation, a new POL ERP is envisaged. Planning and managing the migration of these 3 systems to a new platform will be complex, especially given RMG separation and incumbent supplier contracts nearing term.</p>	
Pre-Procurement	<p>POL devise a migration approach including sequence of migration given RMG separation and incumbent supplier contract expiry with the support of the Service Integrator. POL document functional, non-functional and migration requirements and tender new SAP platform to IT solutions framework.</p>	<p>POL document the current state, the challenges/constraints and the desired outcomes with the support of the Service Integrator. POL invite multiple suppliers to propose a costed plan to cover creation of the platform, migration from legacy systems (including the legacy vendor work under sub contract) and the running of the platform until its natural end of life. This is considerably less onerous for POL than thinking through the solution options internally.</p>
Pricing during procurement	<p>Suppliers are encouraged to follow the POL migration approach and price on that basis (only one migration approach is considered by the suppliers). The build and migration of the new ERP is competed and the price reflects the competition. But around half the TCO is run cost and this is sole sourced through the single Applications Tower vendor.</p>	<p>Suppliers consider multiple ways of working through the constraints and challenges of migration in order to achieve the business outcome specified by POL. Each supplier selects what they believe to be the best approach based on criteria indicated by POL. The full lifecycle cost of the platform is subject to competitive pressure.</p>
Supplier selection	<p>The best application provision proposal wins. Costs are a factor but only the build cost is known.</p>	<p>The best all round proposal wins in terms of quality of application, migration approach and total lifecycle cost.</p>
Delivery	<p>There is a risk that the POL proscribed migration approach is flawed (internal capability is weak). If flaws are encountered, the supplier demands a CR to accommodate extra work.</p>	<p>The supplier owns the migration approach being followed and is accountable for making it work.</p>
Live running	<p>POL need to novate the new</p>	<p>Each major Applications tower has its</p>

	<p>application into the Tower provider. Once done there is a single provider for live support and maintenance of all applications. Run costs priced under monopoly conditions. Enhancements costs are managed through reviewed rate cards, benchmarking and the like.</p>	<p>own provider. Run for the lifetime of the system has been procured up front in the initial contract award. Run costs have been priced under competitive conditions. Enhancements costs are managed through reviewed rate cards, benchmarking and the like.</p>
<p>Contract term</p>	<p>When the single tower provider reaches contract term, POL are forced to re-tender all support and maintenance for all applications at the same time. Different applications are at different stages of their life. Some are new. Some are overdue tech refresh. The vendor holds stranded assets (kit, licenses) that have a monetary value that is now hard to extract. POL IT&C workload has a 2 year boom, 6 year "low" cycle to POL forcing use of external resource for client side work during the peak years resulting in reduced internal capability.</p>	<p>Each tower reached contract term in its own time. The contract term of each tower has been set by the vendor in the original proposal to minimise the value of stranded assets. Where tower contracts are extended with the same provider, likely there is a tech refresh or equivalent project that help re-launch and re-invigorate the supplier relationship. In most cases the tower is re-competed in the market and replaced. POL IT&C have a steady stream of Applications Tower re-tendering and re-specifying work over the long run. This enables POL to build a stronger internal team of consistent size over time.</p>