



EXECUTIVE COMMITTEE
AGENDA

for the meeting to be held on 13 November 2014 in Room 501

Present: Paula Vennells (Chair), Gavin Lambert, Mark Davies, Lesley Sewell, Kevin Gilliland, Alwen Lyons, Martin George, Chris Aujard, David Ryan, Henk Van Hulle (deputising for Nick Kennett) Fay Healey (deputising for Neil Hayward), Charles Colquhoun (deputising for Chris Day)

In attendance: Martin Edwards

Apologies: Nick Kennett, Neil Hayward, Chris Day to join after 14.30hrs

Start time : 09:15hrs

End: 17.00hrs

Time	Item	ExCo Sponsor/Presenter
09.15	Business Transformation & Plan B Options	Martin Edwards / David Ryan & ExCo Leads
12.00	LUNCH	
12.30	Business Transformation & Plan B Options continued...	Martin Edwards / David Ryan & ExCo Leads
14.30	BREAK	
14.45	Business and Transformational Risk: Summary of risks from the first two items	Chris Aujard
15.45	Board Noting paper <u>Items for Noting</u> • IA Action Status Report Summary • Significant Litigation Report • Health and Safety Report	
17.00	CLOSE	

Strictly Private & Confidential

‘Plan B’: options for adjusting our strategy to respond to risks and challenges

November 2014



Executive summary

- At the June strategy awayday we committed to report back to the Board in the autumn with a view of our 'Plan B' if we failed to gain traction with our proposed strategy for defending our market position in mails.
- This pack incorporates that action point but also takes a wider perspective given that we have now largely completed the work on our overall 'Plan A' for growing mails and financial services income while also radically reducing and variabalsing our cost base.
- There are clearly significant risks in the execution of this plan, including stakeholder resistance to the implementation of cost savings, failure to secure alignment with key partners and competitive pressures which could undermine our growth plans in both mails and financial services.
- This pack assesses four broad levers for adjusting our strategy to respond to these risks while still staying with the broad parameters of our core business model:
 - i. **moving to a less aggressive financial flight path** while still delivering steady progress towards our goal of commercial sustainability by 2020. This adjustment is likely to be necessary in most scenarios given the challenges facing our top line growth;
 - ii. exploring the options for working with alternative partners, in particular in the mails market where **opening our network to other delivery companies will have to be considered as a serious option** if we are unable to secure adequate commercial alignment with RM to support product simplification and network reconfiguration, and/or it becomes clear that they are facing a precipitous decline in market share;
 - iii. **fine-tuning the shape and size of our branch network and the role of digital as a channel** in order to respond to evolving market conditions, and also exploring options to **reconfigure cash intensive products in order to facilitate a more rapid shift to retailer self-funding in the majority of the network** if it becomes clear that our income growth is insufficient to justify maintaining the current approach;
 - iv. **further rebalancing our product portfolio towards the areas of highest growth potential**, which might include acquisitions or partnerships to catalyse growth in certain areas and divestments / withdrawals from other areas in order to release capital and discard distractions. We should also **actively explore alternative products and services that could strengthen our offer to host retailers**, recognising that the long-term success of our business model is predicated on securing and maintaining these relationships against the threat of disintermediation by our suppliers and competitors.
- Unsurprisingly none of these options provide a 'silver bullet' to fully mitigate our risks, and probably the most important conclusion of this work is that, given our income risks are heavily tilted to the downside, **our top focus should be on variabalsing and reducing our cost base as quickly as possible to ensure the business has the flexibility and resilience to respond to a range of market scenarios.**
- The aim at this stage is not to reach firm decisions on which specific Plan B measures should be pursued and when, but rather to agree the broad menu of options we have available and the process for keeping these under review so we are ready to respond quickly as our plans unfold. Considering these options now will also help inform the prioritisation of initiatives within our 'Plan A'.



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We now have a clearly defined business model that articulates our long-term source of competitive advantage

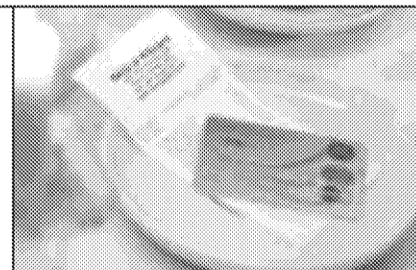
- The work for the June awayday and September FS deep dive has established clarity around **two core customer propositions with a symbiotic, value-enhancing relationship**:

- ✓ our ability to challenge in FS is built on the trust and customer reach which goes with being the UK's number one mails retailer;
- ✓ in turn, our FS product set diversifies our income base and strengthens our offer to host retailers versus the competition.



The most convenient mails & parcels retailer (40% of income by 2020)

The UK's leading challenger in financial services (42% of income by 2020)



- The Business Transformation programme has then defined the operating model (and roadmap) needed to underpin these customer propositions, with the following key attributes:
 - an overall **cost base that is around 15% lower in real terms by 2020 with a greater proportion of it variabilised** – giving us greater financial and operational flexibility to respond to challenging and uncertain market conditions;
 - moving to an almost fully franchised network of 20-30,000 outlets. This reaffirms the fact that, **first and foremost, we are a B2B business** – while direct sales can broaden our income base (especially in FS), it is our relationships with host retailers that are the prime source of our long-term competitive advantage, and also the root of our social value (anchoring a retail presence and access to services in communities across the UK).



But we face a number of significant risks both in executing and sustaining this business model

Transformation not delivered in full

- Cost savings could be delayed or reduced by stakeholder resistance, industrial unrest and capacity constraints (these risks are set out in detail in the Business Transformation pack).

Underperformance on income

- Challenging trading performance in mails this year could be a signal of longer-term structural decline. FS growth targets also ambitious and entail significant risk.

Uncertainty from government

- Uncertainty around availability of funding beyond 2017/18, and also whether government willing to support key change levers such as the network 'cliff'

Misalignment with key partners

- Particular dependencies on RM to support the delivery of product simplification and network extension, which is key to a large component of our EBITDAS improvement

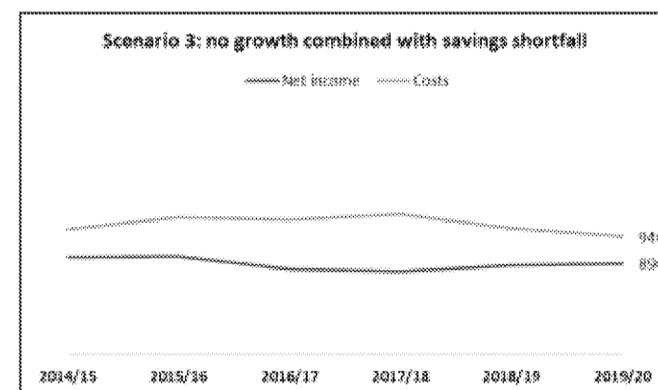
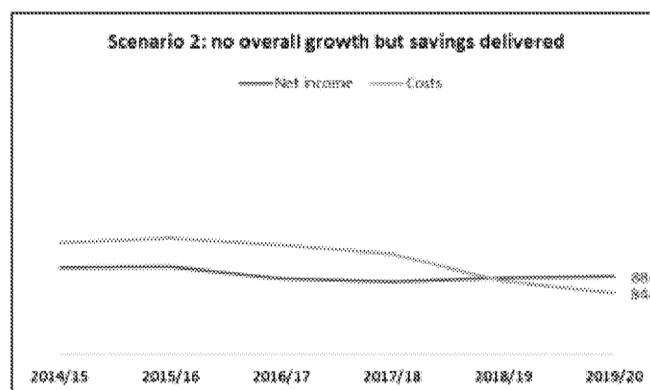
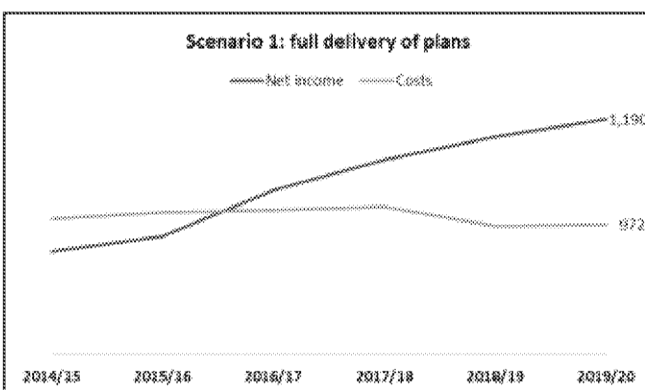
Longer-term risk of disintermediation

- While we are moving up the value chain in certain areas, we will primarily remain a distributor of other companies' products leaving us exposed to the risk of disintermediation

The next few slides assess some of these risks in more detail. **They are unlikely to materialise in isolation, and so we also need to be mindful of the compound impacts.**



These risk factors could lead to a range of very different outcomes for the business and its long-term viability



Scenario 1: full delivery of plans

- Assumes full delivery of our current income growth plans (taking into account the risk adjustments to mails and FS discussed with the Board in June and September, while also maintaining the contingency line which rises to £120m by 2019/20). It also assumes full delivery of the TOM savings (but again including the contingency lines).
- The result is a strong improvement in profitability over the plan period, reaching breakeven in 2016/17 and an EBITDAS margin of around 20% by 2019/20.
- Overall it is not implausible we could deliver this combination of outcomes, but the risks are clearly weighted to the downside – indicatively we would attach a 25-30% probability that we achieve a scenario in line or better than this.

Scenario 2: no growth but savings delivered

- Assumes income stays broadly flat over the plan period, with the following adjustments to our current projections:
 - mails declining at 2% pa rather than growing at 4% pa, representing a sharp decline in our share of the parcels market of at least 15 percentage points;
 - FS growing at 3.6% pa – less than half the planned rate – driven by shortfalls in the growth of personal lines and the failure to launch new products;
 - no income growth from the new propositions in other areas – mobile, energy, assisted digital and IDA.
- We would describe this projection as pessimistic but not implausible – roughly a 25-30% probability.
- Assumes full delivery of the TOM savings, which alongside the FS growth enables breakeven in 2018/19. Adding a contractual service payment from HMG of c£60m pa would deliver a respectable EBITDA margin of 8-10% by 2019/20.
- However, with the scope for radical efficiency savings largely exhausted, unless we could then halt or offset the decline in mails it is likely that we would return to loss-making in the years beyond 2020.

Scenario 3: no growth and savings shortfall

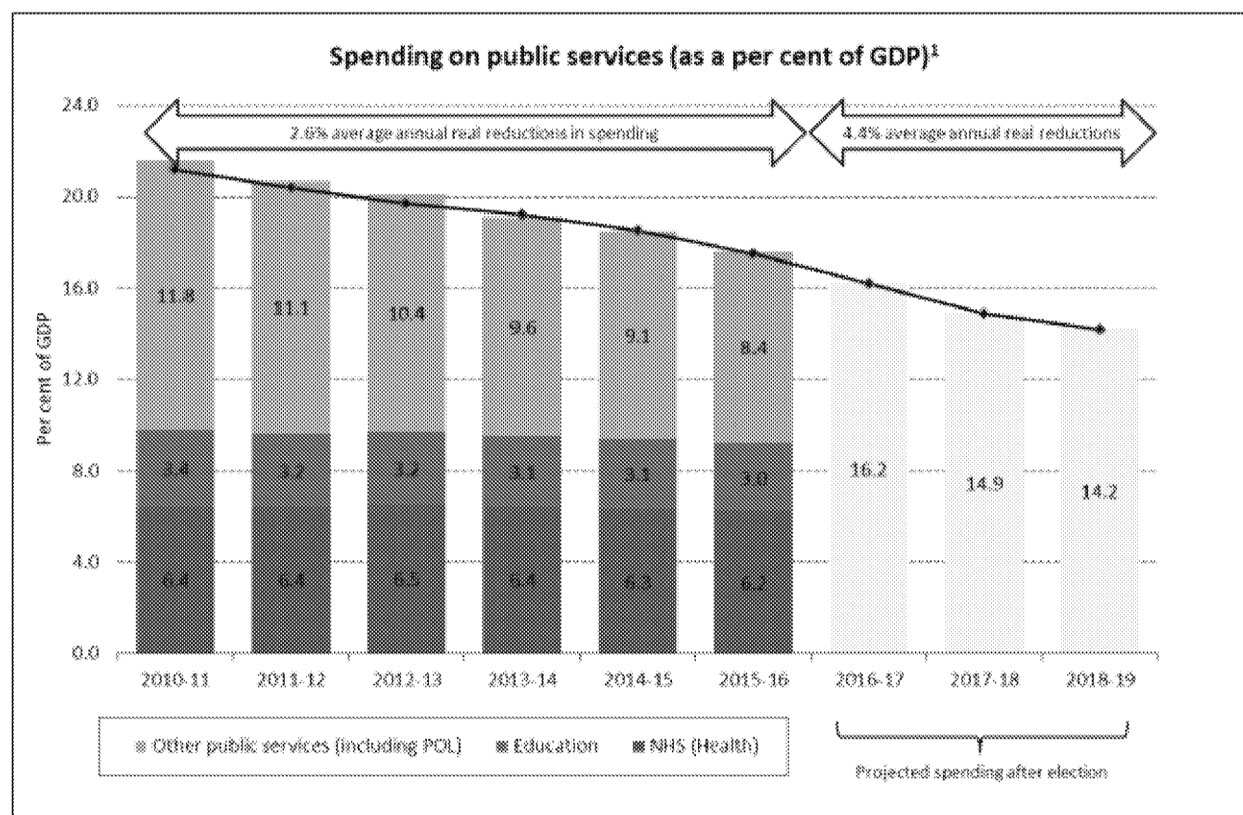
- This scenario takes the same downgraded income projections as in scenario 2, but also assumes that we only deliver two thirds of the gross cost savings identified in the Business Transformation roadmap, for example because of stakeholder resistance or other implementation challenges.
- As a result, the negative EBITDAS margin persists throughout the plan period – we never reach breakeven on this basis, and would only just make an operating profit in 2019/20 with a service payment from HMG of £60m pa (with more subsidy needed to fund any ongoing investment costs).
- Moreover, the losses are likely to grow in the years beyond 2019/20 if we are unable to halt the declines in mails market share.

Furthermore, with political uncertainty and continued austerity expected after the next election, we cannot rely on government funding to cover our shortfalls beyond 2017/18



Key points on the public spending outlook:

- All of the main political parties have signalled a continued tightening of the public finances after the next election.
- With spending on health and education likely to be protected, other departments like BIS face substantial cuts – some estimates suggest by as much as 40-50% cumulatively between 2010/11 and 2018/19 (in real terms).
- And with BIS facing substantial challenges in other areas of its budget such as higher education, science and technology, this is likely to result in strong pressure to reduce spending on the Post Office.
- While our funding is fixed until 2017/18 (and highly unlikely to be reopened), the incoming government will need to hold its next spending review (SR) by Autumn 2015 in order to set departmental budgets for at least 2016/17 – and it may choose to fix budgets up to 2018/19 or 2019/20 based on past experience.
- More generally, with polls suggesting an even closer result than the 2010 election, the political uncertainty remains high. A hung parliament is a strong likelihood, and media reports have suggested that senior civil servants are even considering the prospect of two general elections in swift succession, following the precedent set by Howard Wilson in 1974.
- Added to this uncertainty is the ongoing debate around devolution of powers to Scotland and possibly other regions of the UK, which could potentially impact on the way the Post Office is funded.





We also face the threat of disintermediation, which arguably represents the biggest long-term risk to our business model

- While our business model has some intrinsic strengths (as set out in slide 3), the fact that most of our products are sourced wholesale from single upstream suppliers leaves us exposed to the risk of gradual (and possibly abrupt) disintermediation.
- **This is particularly the case in mails.** Separation from Royal Mail has its advantages, but it has also cemented our status as a retail intermediary. There are no precedents for this split amongst other major national postal services, and so the long-term consequences are uncertain – particularly during a period when new competitors and technologies are disrupting the traditional B2C (and C2C) parcels fulfilment model (see slide 21).
- These risks need to be central to our strategic considerations - there are some clear lessons for us from the Phones 4u experience as set out below.

Case study: five lessons from the Phones 4U experience

In September Phones 4u – a business with 5,500 employees, 720 outlets and £1bn of turnover generating EBITDA of £105m last year – was pushed into administration by the withdrawal of its last two major suppliers, EE and Vodafone, leaving it with no real business. While the collapse was sudden, the market shifts which led to it were gradual but seemingly unforeseen by the management and owner. There are five key insights we can extract from this episode:

1. **Adjust to changing consumer trends** – Phones 4u's business model was built on the fact that in the early days of the mobile market customers needed a trusted intermediary to provide advice on the bewildering choice of tariff structures and handsets from different providers. But customers have become much savvier over time and there is now less demand for this type of role. There are clear parallels in the way the parcels market is developing.
2. **Beware of your suppliers developing their own channels** – linked to this last point, a decade ago the network operators were disinclined to invest in their own sales structures, but with declining margins in the industry over recent years they have become less willing to pay commission to a third party. As a consequence they now have over 2,000 retail outlets of their own and are also investing heavily in their online capabilities.
3. **Protect and invest in your source of added value** – Phones 4U failed to keep investing in its network and capabilities to give it a differentiated proposition in an increasingly crowded market. To survive as an intermediary you need to be clear on your USP - in our case it's a combination of our relationships with host retailers, our ability to source products from a range of areas (mails, FS, government and home services) and our IT interfaces (either existing or under development). These attributes are not easily replicated, and thus provide 'barriers to disintermediation' – but they are certainly not impossible to circumvent.
4. **Financial flexibility is essential to survive in a low margin environment** – Phones 4u's debt burden, equivalent to four times EBITDA, left them with limited wriggle room to renegotiate terms with suppliers. The equivalent burden in our case is our legacy of high fixed costs which if not tackled will limit our ability to cope with margin squeeze by suppliers in the future. There is no long-term role for an expensive intermediary in a highly competitive market.
5. **Income diversification can help offset supplier risks** – Phones 4u was almost entirely dependent on the revenue derived from its suppliers, having sold an insurance subsidiary (Lifestyle Services Group) last year that had offered a degree of income diversification. Our revenue base is more diversified and building greater ownership of the value chain in areas such as insurance will further reduce our dependence on major suppliers.



We have identified four broad levers to adjust our strategy to respond to these various risks and challenges

Description:

Considerations for use:

1 Adjust financial flight path

- Chart a more gradual trajectory for the turnaround, while still delivering profit improvement each year and reaching commercial sustainability by 2020.
- Existing funding agreement would not be reopened, but may need additional financing for last two years of plan

- Appropriate if we believe the endpoint we have defined for the business is viable, but more time needed to execute the transformation in an orderly manner and adjust to new market realities
- Should not be seen as failure– still delivering profit improvements in challenging market environment

2 Work with other partners

- Explore working with other delivery partners and/or upstream retail clients in addition to Royal Mail
- We have less single-partner risk within FS, although Bol is clearly critical to our growth plans in certain products. The options here are explored in the separate Board paper.

- Breaking exclusivity with RM would be a significant step– only appropriate if it is clear that we can't achieve adequate commercial alignment and/or their own market share is under severe pressure.

3 Adjust channel mix

- Proposed TOM already envisages a substantial shift in the network mix, but scope to adjust the balance between different operating models depending on market dynamics.
- We could potentially focus more of our investment on the digital/direct business if branches underperform.
- Could also reconsider options to reconfigure cash intensive products more proactively to reduce supply chain costs

- In a low income growth scenario we would most likely roll out fewer new access points and 'Local Lights' to avoid spreading income too thinly. The Mains would become more dependent on host retail to remain viable, and it would also strengthen the case for accelerating Crowns divestment and managing supply chain demand more aggressively.

4 Portfolio management

- Covers a range of measures to either accelerate growth or withdraw from areas which are not closely aligned with core strategy. Could include acquisitions in profitable areas or divestments to release capital and capacity.
- Need to particularly focus on options which could make our offer to host retailers more attractive versus the competition.

- Active portfolio management should be an ongoing part of our strategy under any scenario, but becomes increasingly important if current income growth assumptions do not materialise as planned and we're losing ground to competitors.



How would these levers be applied?

1. Some illustrative scenarios to show the matrix approach

In practice we would take a matrix approach to applying these levers depending on the combination of risks which materialise. While there are an infinite number of permutations, over the next two slides we set out six scenarios to show how the levers might be used.

Scenario:

Explanation of the scenario:

A. 'Transitional pain'

- Turnaround delayed by combination of stakeholder resistance, industrial unrest, delays in securing RM support and capacity constraints, resulting in higher transitional costs and some adverse impact on revenue– but ultimately we succeed in delivering the TOM by 2020, stabilising the business with positive EBITDAS margin despite lower mails market share.

B. 'Structural decline'

- The loss of RM/POL market share in parcels volumes accelerates, leading to flat or declining overall mails income growth. Likely to be combined with competitors beating us to some key estate deals with retail partners. FS growth insufficient to fully offset the impact, but otherwise the restructuring of the cost base is delivered largely to plan.

C. 'RM misaligned'

- We fail to secure the agreement with RM needed to pursue product simplification and network extension at scale, putting at risk around £150m of EBITDAS improvement by 2019/20. Likely to be combined with continued trading shortfalls on mails as competitors pursue network expansion unchecked.

D. 'Government blocks reforms'

- Government refuses to support a combination of the key levers needed to drive the turnaround– e.g. the 'cliff' needed to accelerate network extension, the shift away from traditional branch formats (Crowns and Mains), the alignment of agents' fee with market rates and the reform of supply chain– preventing around £200m of EBITDAS improvement by 2019/20.

E. 'Austerity prevails'

- Existing funding envelope to 2017/18 is left unchanged, but the Government confirms that it plans to proceed with sharp reductions in subsidy in subsequent years (to £50m pa or less).

F. 'The perfect storm'

- A combination of all the key risks materialise– we fail to secure the support needed from RM and other stakeholders in order to move to the new TOM, we suffer sustained structural declines in mails income which isn't offset by FS growth and we lose the battle to secure key host retailers. HMG signals that only minimal subsidy will be available after 2017/18 (c£50m pa or less)



How would these levers be applied?

2. An illustration of the matrix approach to handling these scenarios

Key levers to respond to each scenario highlighted in red bold text in the table below

	1 Adjust financial flight path	2 Work with other partners	3 Adjust channel mix	4 Portfolio management
A. 'Transitional pain'	Primary response – new financial flight path agreed with HMG to deliver end point of commercial sustainability	Not required	Not a short-term imperative – still targeting same network end point	Pressure on funding envelope and capacity might put greater weight on not doing things
B. 'Structural decline'	Would need to agree new flight path while we pursue actions to adjust to new income	If RM market share under sustained attack we might reach point where breaking exclusivity has more benefits than costs	Potentially smaller network overall if volumes spread too thinly. Strengthens case to accelerate Crowns.	Would need to assess case for shifting investment into areas of higher potential, e.g. FS, and explore new products to create 'stickiness' with host retailers
C. 'RM misaligned'	Would need to agree new flight path to cope with adverse impacts of delayed transformation and potentially retributive action by RM	If RM unable to support necessary changes then this may become key lever to drive product simplification and network reconfiguration	If working with other partners protects volumes and facilitates product simplification then should enable us to implement existing network proposals	If loss of mails market share cannot be mitigated by working with other delivery companies would need to explore acceleration of other pillars
D. 'Government blocks reforms'	Primary response – would need to be clear with HMG that (much) higher subsidy required if unable to restructure the business	Not on the agenda in this scenario	No HMG appetite for radical channel shift	Potentially focus more on growing non-mails pillars, in particular highlighting to HMG that govt service income could mitigate subsidy increase
E. 'Austerity prevails'	May need alternative financing arrangements to support investment needs after 2017/18 until adequate free cash flow	Not required	Strengthens our hand to pursue channel shift. If subsidy eliminated then Community branches potentially unsustainable	Not a short-term imperative
F. 'The perfect storm'	Something would have to give in this scenario. If we're unable to reform the business and no increase in subsidy is agreed then HMG would have to accept that we're heading towards forced wind down of the business, with the impacts potentially crystallising around the time of the 2020 election. HMG would have to consider whether it would be better to take an early decision to allow the restructuring of the business within the private sector, which would arguably entail less political pain and deliver greater value for money (Post Office assets sold before too much value is destroyed).			

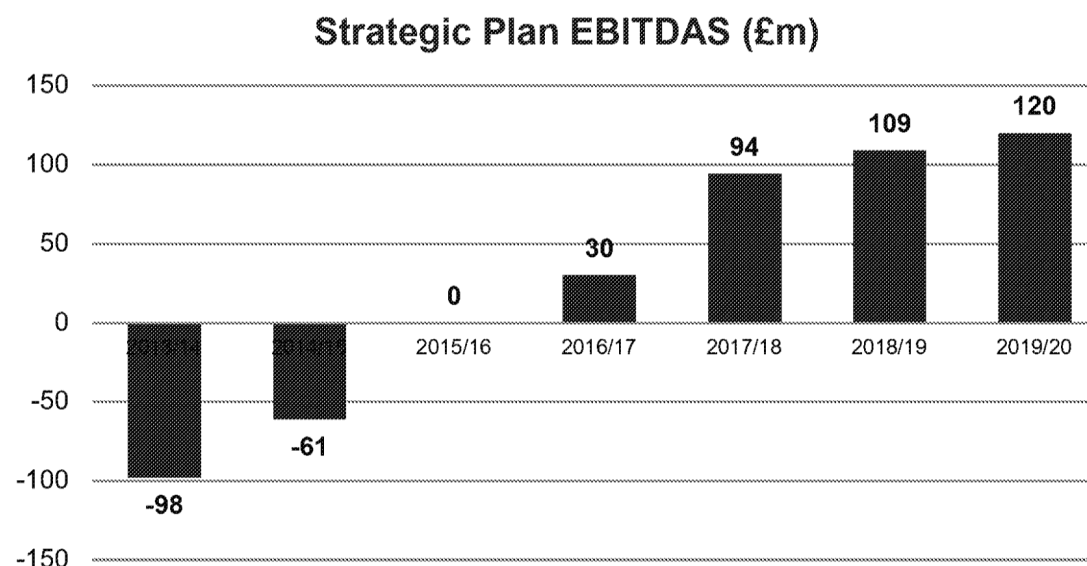


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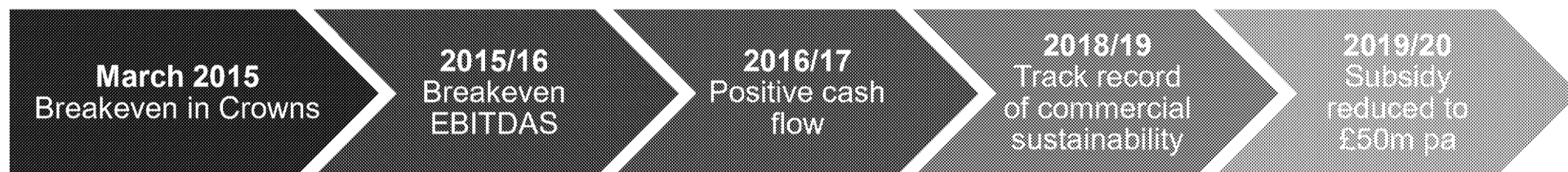
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The financial flight path in the November 2013 Strategic Plan was set with the objective of delivering a commercially sustainable business fit for mutualisation by 2020

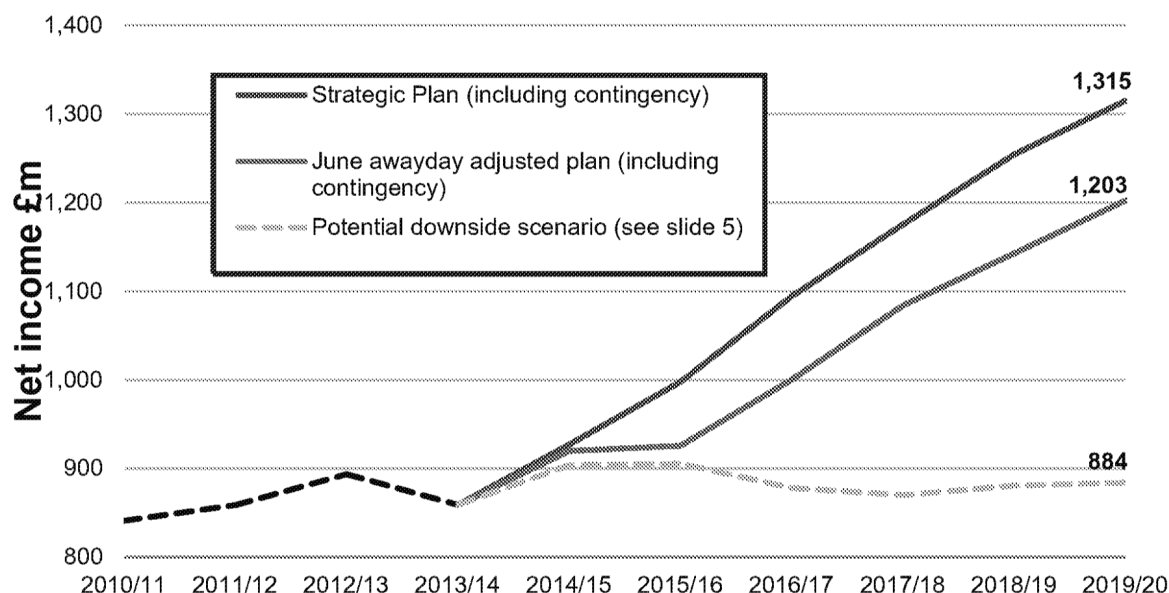


Financial milestones set in Strategic Plan:





But the more challenging market conditions that have emerged over the last 12 months are forcing us to adjust our plans



The case for adjusting our flight path

- In addition to the direct impact on profitability arising from the acceleration in competitive pressures, it also means **we're having to take more radical action than we envisaged in our Strategic Plan just to defend lower income numbers** (e.g. network development and product simplification).
- This inevitably has capacity implications (e.g. management bandwidth, IT constraints and ability to absorb stakeholder noise) – making the delivery of our cost savings and overall turnaround more challenging and expensive.
- An adjustment to our flight path to financial sustainability is therefore likely to be necessary in almost all scenarios.

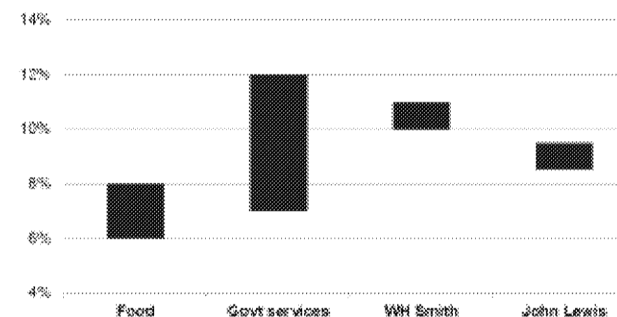


Principles to underpin a recalibrated financial flight path

- The new financial flight path clearly needs to be informed by a bottom-up assessment of the risks and opportunities arising from the latest market data, the Business Transformation proposals and our updated commercial strategies.
- However, the flight path will also be shaped by the risk/reward trade-offs we make in determining the pace at which we pursue the turnaround. We therefore need to take account of the following principles when making these judgements:
 1. **The new flight path should still provide clear line of sight to the end goal of a financially sustainable business within an acceptable time frame.** If we are unable to demonstrate clear progress to this goal within the next 5 financial years that it will be difficult to motivate our stakeholders (the government staff, agents, unions and taxpayers) to support the turnaround - and the market is likely to have left us behind in any case.
 2. **We shouldn't take undue risk in our assumptions around the availability of additional government funding, given:**
 - a) **fiscal constraints** – additions to the existing funding agreement up to 2017/18 are highly unlikely to be affordable/acceptable to HMG. In subsequent years BIS could potentially face overall spending reductions of 10-20% pa in real terms, and so if our subsidy is not also declining at a similar or faster rate then we will represent a pressure on the BIS settlement;
 - b) **State aid constraints** – the European Commission is likely to resist any changes to the existing funding agreement, and will want to see the subsidy continuing to reduce beyond 2017/18.
- The definition of financial independence we set out in our Strategic Plan (see box) remains a useful articulation of the end goal we should be targeting, irrespective of the mutualisation agenda. Reaching that goal will also increase the prospect of us being viewed as 'bankable credit' by external investors / lenders, giving us more flexibility to pursue alternative financing in the absence of investment from government in the future.

Definition of financial independence

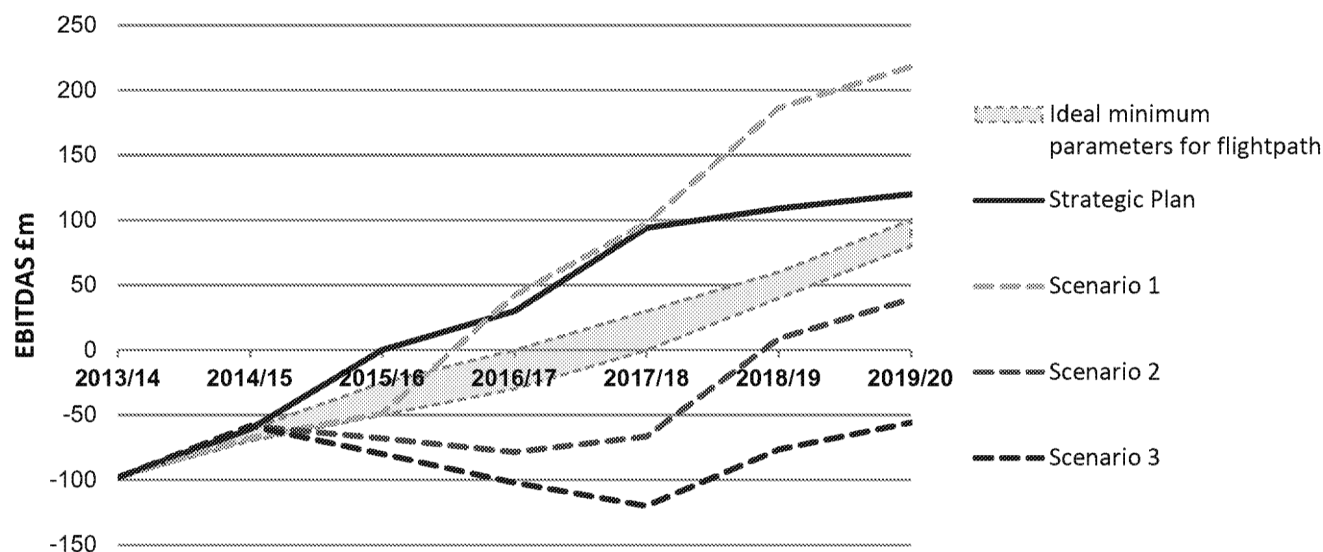
- ✓ A strategy and market position that allows us to compete effectively in our chosen markets – both now and in the future
- ✓ The flexibility to respond quickly through corporate actions to unforeseen changes in these markets
- ✓ An appropriate cost base and business model with the flexibility to withstand revenue volatility
- ✓ A robust track record of profitability at an EBITDA margin in line with peers (typically 8-10% minimum in the retail sector – see chart below¹)
- ✓ EBITDA margin not dependent on uncertain funding from HMG (so subsidy should either be much smaller or moved to long-term contract)
- ✓ Sufficient free cash-flow to allow ongoing investment in the business to maintain commercial competitiveness in a continually evolving marketplace
- ✓ Move to external financing of loan (not HMG) within quantum kept within affordable limits





Using these principles we can distil a set of parameters to test the acceptability of our new financial flight path

Parameter	Scenario 1: full delivery of plans	Scenario 2: no growth but savings delivered	Scenario 3: no growth and savings shortfall
Do we live within existing funding settlement up to 2017/18 (with headroom maintained at £200m)?	✓	✓	✓
Is EBITDAS run rate in March 2018 consistent with declining subsidy in subsequent years (off baseline of £140m)?	✓	May need additional funding to support investment	No - large ongoing subsidy required
When is breakeven EBITDAS achieved?	2016/17	2018/19	Never
When is 8-10% EBITDA margin achieved?	2018/19	Never - unless service payment from HMG included	Never
Is EBITDAS showing clear year on year improvement of at least £20-30m in each year of the plan period?	✓	Not in first 3 years	No





While we don't believe we need to reopen existing funding settlement, we may need to explore alternative options for financing investment after 2017/18 if free cash flow insufficient

Option:	Potential quantum:	Considerations:
1. Ask for additional funding from Government after 2017/18	Could request £70m pa in 2018/19 and 2019/20 on top of £60/50m NSP already forecast while still delivering c10% pa reduction in total subsidy	Dependent on wider pressures on BIS spending settlement and the extent to which the indicative figures given in current Strategic Plan have already been 'hard wired' into BIS Finance/HMT's planning
2. Ask for loan (rather than grant) from Government to support transitional investment needs	Depends on affordability within BIS capital budget – potentially £50-200m	- May be preferable fiscally for government as lending would not directly impact target to balance the current budget. - Would still count as state aid (calculated as the subsidy implicit in the interest rate compared with private sector lending) – but European Commission may view the whole loan amount as subsidy if they believe there is a high chance of it being written off
3. Seek bank/external financing	Currently constrained by BIS to £50m of external borrowing and £50m in finance leases – but could seek to increase those limits	- Financing only likely to be forthcoming if we're seen as 'bankable credit' (see definition of financial independence in earlier slide) or there is an asset/income stream against which the loan can be secured – or if the banks believe there is an implicit guarantee from HMG. - Alternatively we could seek an explicit guarantee from government but this would be viewed as state aid (and vfm for taxpayer is poorer than a direct loan but with the same credit exposure)
4. Seek partner financing (e.g. from Royal Mail or Bol)	Unlikely to be substantial	Nut currently assumed to be a lead option – would require much closer commercial alignment with our key partners
5. Asset disposals	Options covered in 'portfolio management' section later in this pack	



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Overview

- **Situation:** Our current plan for Mails (Plan A) is based around our exclusive relationship with Royal Mail (RMG), contractualised in the Mails Distribution Agreement (MDA).
- **Complication:** However, due to a mis-aligned relationship with RMG, coupled with market disruptions, POL is down vs. last year against all three indicators: Income: - 0.6%; Volume: -5.4%; Revenue: - 7.2% (up to week 30).
- **Resolution:** Our current situation of a mis-aligned but exclusive relationship with RMG is untenable in the medium-term. We are therefore suggesting a two-stage resolution:
 1. **Plan A+:** Our preferred strategy is to get closer to RMG on a Corporate and Strategic levels in order to fix tactical / operational challenges 'up -stream'. This is our priority.
 2. **Plan B:** If we cannot deliver Plan A+, then we would need to move away from our 'exclusive' relationship with RMG. There are a number of complexities with this plan, not the least of which is knowing at what point we should cut our losses and look at other carriers.
- **Implication** of Plan B is significant in terms of the likely reaction from RMG, which would seek to dis-intermediate POL, by opening alternative retail access points. However, overall we estimate that we are in a stronger position than RMG.

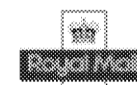


Situation:

Our current plan for Mails is based around our exclusive relationship with Royal Mail, contractualised in the Mails Distribution Agreement.

Overview of the MDA:

- The MDA provided exclusivity to both parties. Post Office would be Royal Mail's exclusive retail partner, and conversely Post Office would not sell any other carriers' product (e.g. Hermes, DHL).
- The MDA also sought to grow income / revenue for both parties by delivering joint plans in key markets (e.g. Collections & Returns and Small Business). The MDA also aims to deliver an ever improving service for RMG in operational conformance (segregation, complaints handling, dangerous goods and mails integrity).



Pros of MDA

- Post Office is the exclusive physical retail channel for RMG.
- POL receives a fixed payment (£73m in 2013/14).
- RMG is the only single carrier that has the capacity to deal with our volume.
- Exclusive logistics provider for Post Office.
- Access point for £1.6bn revenue (POL throughput) and over £1bn of account, PPI and online postage that is accepted in post offices.
- POL provides operational and sales expertise.

Cons of MDA

- Royal Mail pricing model is inhibiting our desire to grow in the collections and returns market.
- RMG is focused on growing profit, POL is focused on growing volume.
- RMG consider POL to be an expensive channel. In 2013/14 on revenues of £1.6bn, POL retained £328m (21%) in commission from RMG, of which £235m (72%) is paid to agents.*



Complication:

However, we are misaligned with RMG at Corporate and Strategic levels, which result in disagreements on a day-to-day basis

We need to resolve issues with RMG at a number of levels:

Corporate structure

Is the current 'contractual partnership' the optimal type of alliance? Should we consider JV or profit/revenue share alliances?

Strategic alignment

Do POL and RMG have an aligned Vision of the Post Office? Is our remuneration aligned? Who owns the customer / retailer?

Tactical alignment

Should POL integrate with Metapack? Who should deliver online mails?

As a result mis-alignment at 'upstream' Corporate and Strategic levels we experience day-to-day misalignments with Royal Mail. For example:

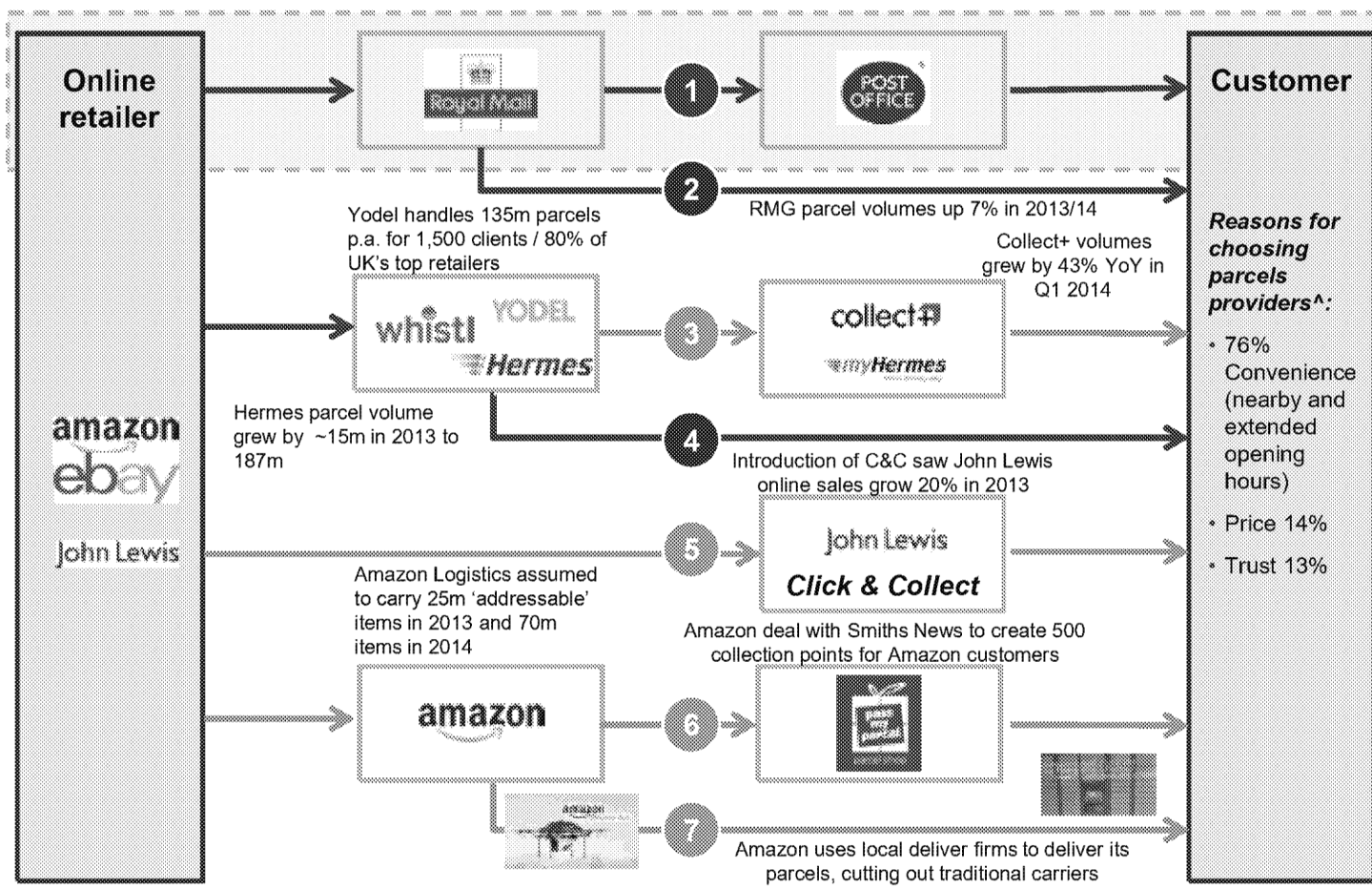
1. **Bentley:** Misalignment over remuneration on the basis of volume, revenue or profit led to 'Bentley' which resulted in a loss of ~£20m income to POL
2. **Retailer relationships:** RMG have not pushed Collections and Returns and have not enabled POL to discuss our collections and returns products direct with retailers.
3. **Online mails:** There was confusion around who should develop the online mails proposition.



Complication: Adding further complexity, the parcels, collections and returns markets are being continually disrupted

Example: The fulfilment and collections market landscape

Retailer: Logistics and access points: Customer:



- POL role in the market
- Traditional logistics market
- Disruptor to traditional market dynamics

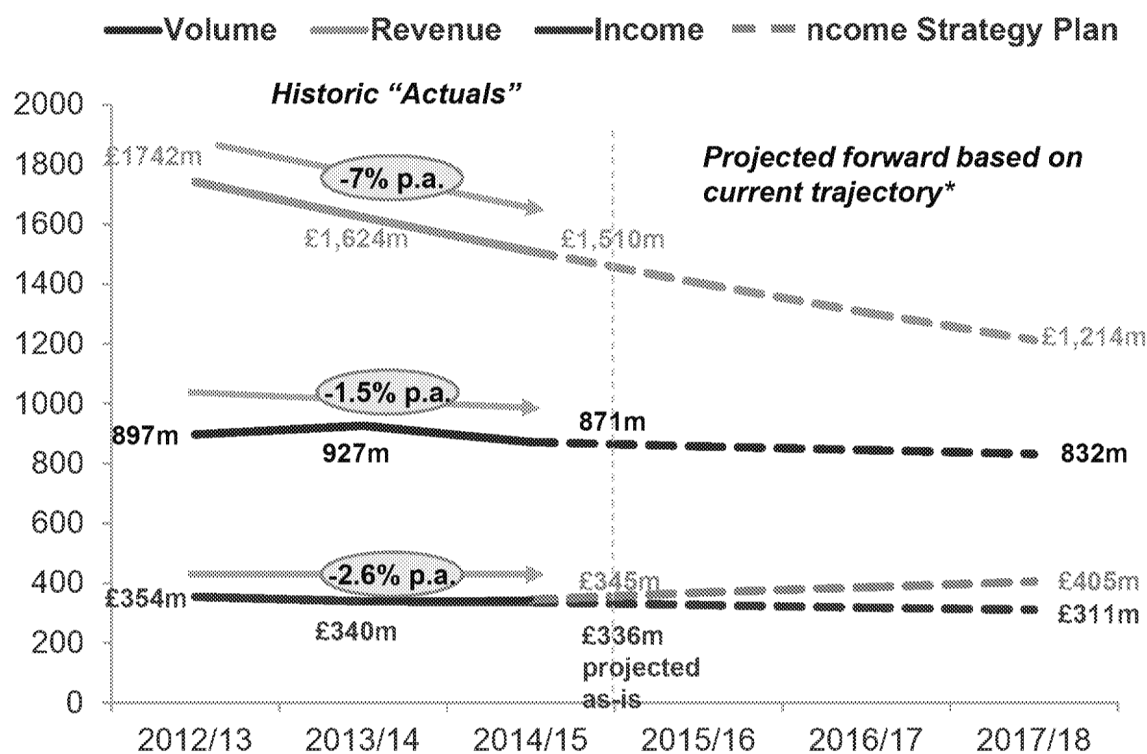
- 1 Under the current MDA Post Office is only involved in one of a growing number of journeys.
- 2 RMG delivers direct to home/business. Initiatives such as "Deliver to neighbour" are boosting this.
- 3 3rd party collection points such as Collect+.
- 4 Logistics providers deliver direct to home/business.
- 5 Collection from retailers' own stores (Click and Collect).
- 6 Online retailer creates own collection point with retail partner (e.g. Amazon & Smiths News)
- 7 Retailers deliver direct to home / lockerbox (e.g. Amazon)



Complication:

As a result of this misalignment with RMG, coupled with market disruption, our Mails performance is down on last year and we are becoming increasingly marginalised

Mails Income, Volume and Revenue historic and projected forward on current trajectory:



- **POL:** Up to week 30 in 2014/15 we are down vs. last year against all three indicators: Income: - 0.6%; Volume: - 5.4%; Revenue: - 7.2%
- **Royal Mail:** Parcel volumes were flat, mainly as a result of the impact of size-based pricing. Growth in account parcel volumes. Overall RMG's market share in parcels is up 2% on last year to 38% by revenue (50% by volume). Parcels revenue up 7% on last year to £3.2bn^.
- **The Market:** The market is growing by between 2% - 4% per annum**.
- **Competitors:** Collect+ has grown transactions by 76% in 2014 to 13.6m and revenue by 92% to £34m. If Collect+ continues to grow at these rates for the next three years, it will have profitable revenue of £240m and handle 74m items per annum.

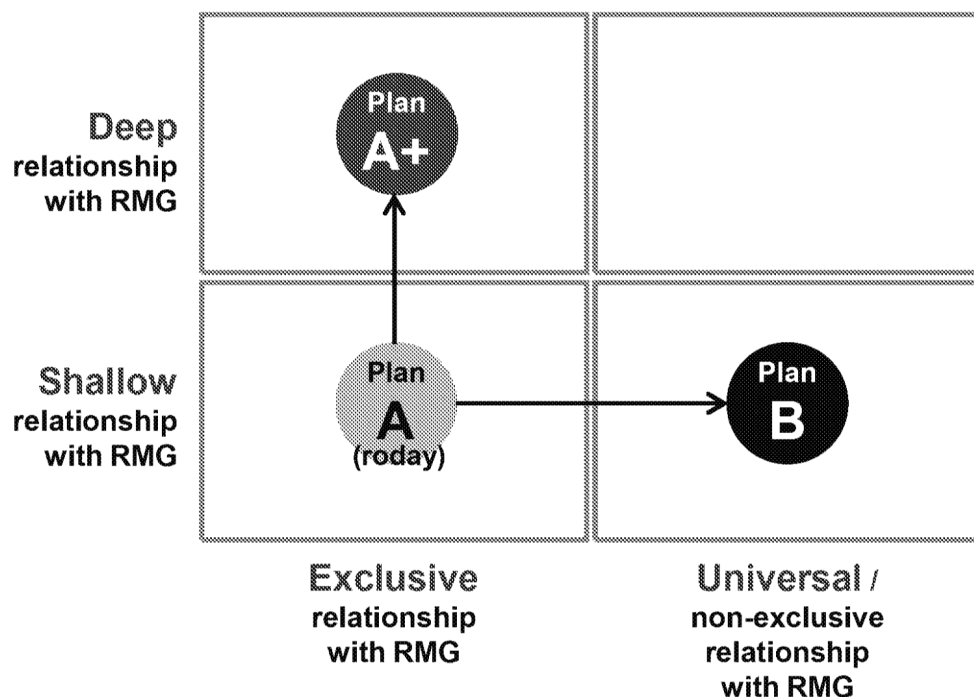
To avoid becoming marginalised, we must either fix our relationship with RMG or move to Plan B



Resolution:

Our preferred strategy is closer alignment with RMG, this is called Plan A+

Strategic options for Post Office:



Plan A

- Our current situation: We have a 'shallow' and mis-aligned relationship with RMG, and are unable to form relationships with other carriers.
- The worst of both worlds.

Plan A+

- We align our relationship with RMG on Corporate and Strategic levels in order to fix tactical / operational challenges 'up-stream'.
- This is our preferred approach and the strategy we should be pursuing initially.
- As part of this RMG may ease exclusivity in some areas (such as collections) in order to create value in our broader mails proposition.

Plan B

- We would only pursue this strategy once it is clear that Plan A+ has failed.
- If we cannot deliver Plan A+, then we would need to move away from our 'exclusive' relationship with RMG.



Resolution: Plan A+

At a corporate level, there are a number of options we could pursue to deepen the relationship with RMG.

Increasing depth of relationship: →

Type of alliance	Channel (Today's as-is)	Licencing	Virtual JV	JV	M&A
How this would work for POL/RMG	<i>This description best fits our current relationship.</i> We are a channel to market for RMG's products. We have limited control over product or pricing	We dictate to RMG the products that we want to sell and RMG manufactures these products. This gives us greater price & product control.	Full alignment of both parties on objectives and strategy. Revenue and /or profit is shared. There is a high level of trust.	As per the Virtual JV, but shares would be issued for the new company that would be owned by RMG, POL and potentially another (such as Camelot).	POL and RMG merge. This would reflect the relationship of virtually every other postal organisation in the world.
Example		 Associated British Foods plc			

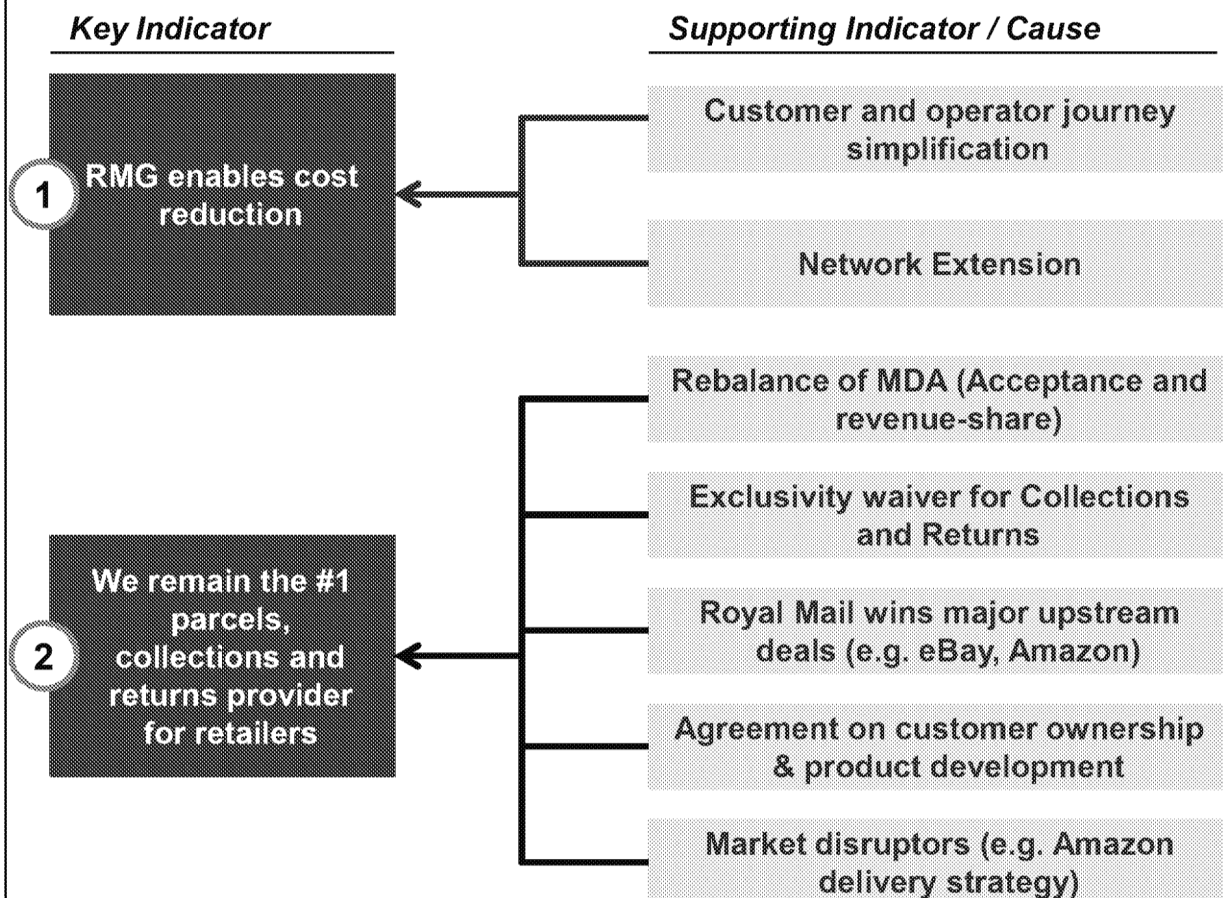
We will be exploring these options with RMG as part of the MDA renegotiations



Resolution: Triggers

However, if we cannot deliver Plan A+, then there are a number of indicators that would mean we would have to seriously consider pursuing Plan B

There are two key outcomes that we need from our Mails strategy:



1 **RMG enables cost reduction** as part of the Business Transformation programme. ~£100m of cost savings need to come from extension and simplification in Mails. If RMG are unwilling / unable to work with us to achieve these, we will have to consider Plan B.

2 **POL remains the # 1 parcels service for retailers.** This is critical in maintaining our share and income from mails. Moreover it has wider implications for other product areas, such as bill payments, which rely on post offices being located in the best retailers and being the default 'service provider' of choice in that location.

- For point 2 our reaction will depend on the cause. If our # 1 position was under threat due to market disruptions (e.g. Amazon's delivery strategy) then moving away from RMG may be counter-productive.



Resolution: Plan B:

The guiding theme behind Plan B is universality, as opposed to Plan A which is based on exclusivity to RMG.

Overview of Plan B:

Overview	In Plan B we would move away from total exclusivity with Royal Mail, but still seek to maintain a strong relationship with Royal Mail, who would continue to carry volume for us.
Sending mails	- There are two options for sending items: Post Office white-labels its own range of simple, easy-to-understand inland, express and international products. We would control pricing, product and own the customer. We would use a number suppliers, including Royal Mail. Post Office aggregates a range of other carriers products (e.g. DHL Next Day, RMG Special Delivery)
Collections and Returns	- Post Office network is opened-up to all logistics providers, allowing universal access to collections and returns at post office. - The benefit of this is less financial and is more in terms of providing the market-leading mails-based service proposition to retailers (e.g. The Co-operative). At present the main 3rd party collection points are tied to a logistics provider (e.g. Collect+ to Yodel, myHermes to Hermes). By opening our network up to all logistics providers we would become the one-stop-shop solution for retailers.
Fixed fee	This is rebranded as payment for Post Office accepting ~£1bn of Royal Mail Account, PPI and online postage volume through our network.



Resolution: Plan B

There are a number of steps we could take that would help POL and may not break the MDA

Increasing risk of breaking the MDA: —————>

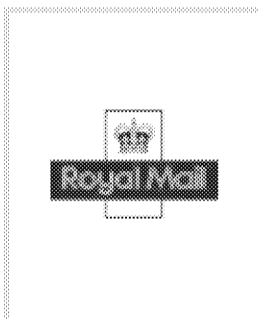
Example actions that Post Office could take	Step 1: Within MDA Stick to our current activities: Alignment with RMG; network extension; customer journey simplification; SME initiatives; sales effectiveness.	Step 2: Grey area - Post Office develops its own online mails product. - POL develops relationship for collections and returns direct with retailers.	Step 3: Outside MDA but not an MDA-breaker - Post Office allows other logistics providers access for collections & returns only. - Hub and Spoke for small business collections.	Step 4: MDA breaker - Post Office offers other logistic providers sending products (e.g. DHL Next Day) - This could either be branded as a range of Post Office products or we could act as an aggregator keeping their brands.
Trigger for initiating this action	<i>We are already doing this.</i>	- We are doing some of these actions (e.g. Metapack) on an ad-hoc basis. - If RMG continues to drag its feet around collections & returns.	If this would give us a market leading proposition to retailers that would act as the primary enabler of delivering Locals, Locals Lites and Minis.	- If our market share continues to decline (7% volume p/a) - If RMG blocks / does not enable Simplification or Extension.



Implications of pursuing Plan B: If we were to implement Plan B, then Royal Mail would react

PARTY:

POTENTIAL REACTION:



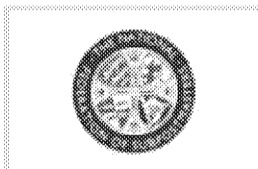
- Royal Mail would seek to dis-intermediate us by opening alternative retail outlets with convenience stores, supermarkets and petrol forecourts. They would also poach our valuable SME customers.
- It might instigate legal action against us, which could include challenging our state aid funding. Access to the USO is currently part of our SGEI. It might also lobby Government to make us reverse our decision.
- Whilst in Plan B we would still put volume through RMG, RMG would seek to fully variabilise the agreement, removing the fixed fee element.



- The CWU has members in both RMG and POL (our Crown colleagues). The CWU has done a deal with RMG to safeguard their workers, which relies on protecting volumes. Plan B would reduce volume through RMG and may result in alternative carriers 'cherry-picking' the most profitable routes.
- As such, the CWU might be unhappy with a Plan B scenario and might seek to disrupt it.



- Given the publicity around the recent privatisation of RMG and the historic links between the two organisation, BIS / ShEx may put pressure on us not to pursue Plan B.

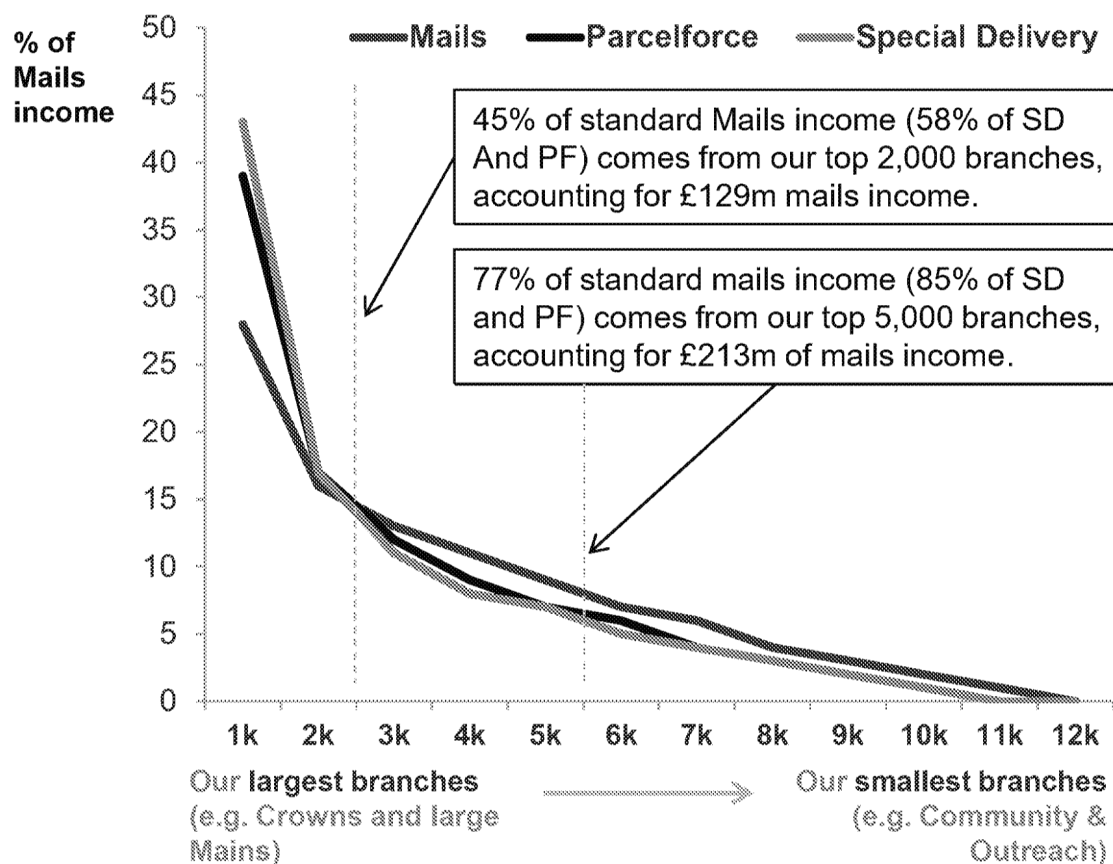


- The NFSP are likely to be supportive of any plan which provides their members with additional income from Mails (mails accounts for ~40% of agent pay). However, they would be suspicious of any plan that 'cannibalised' agents pay through increased access points.



Implication of pursuing Plan B: However, RMG's capability to react is limited due to capacity constraints

Distribution of Mails income across our network*



RMG would struggle to replace POL:

- If we were to break the MDA then RMG would seek alternative retail partners (such as supermarkets).
- However, the volume of transactions that RMG could hope to get through these new points would be modest.
- The bulk of our Mails business is done through our larger, 'dedicated' branches (Crowns and Mains).
- **If RMG were to try to establish a new retail network, they would struggle to keep the volume that currently goes through post offices, due to retailer capacity constraints.**

Implication of pursuing Plan B:

In a Plan B scenario, we estimate that our volume and revenue would decline, but due to increases in price and commission overall our income would increase

INDICATIVE –
STRATEGY TEAM
STILL WORKING
THROUGH THE
FINANCIALS

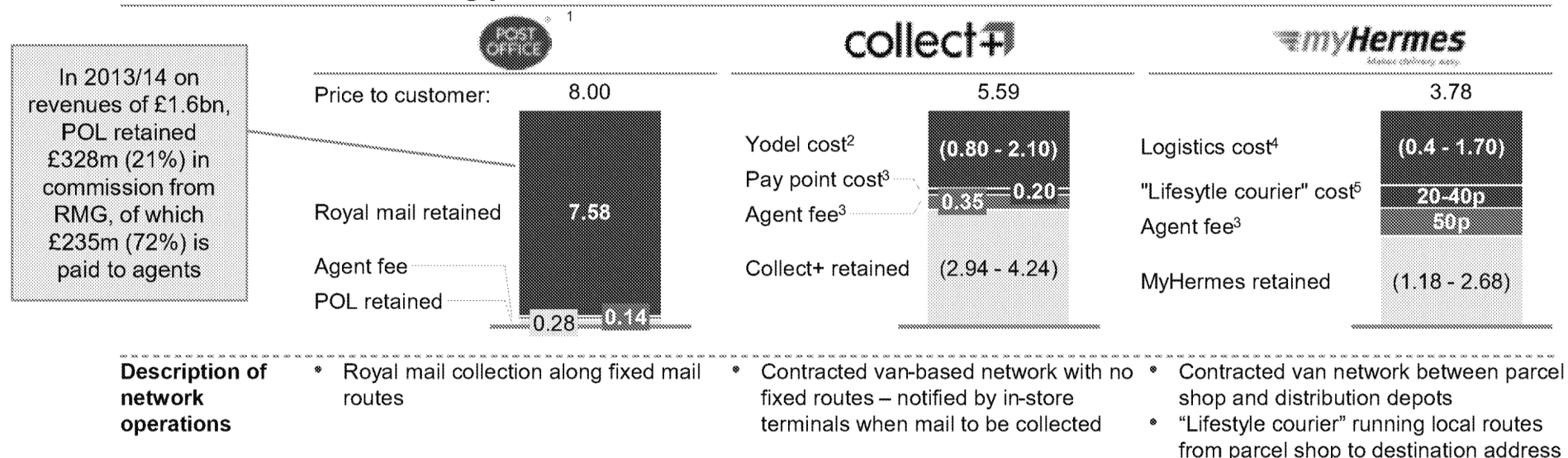
	PRICE PER ITEM	X	VOLUME	=	REVENUE	X	% COMMISSION FROM RMG	=	INCOME
Definition	The average blended price to customers per item. E.g. SD £6.95		The volume of items through the POL channel		Total revenue through POL		The 'commission' that RMG pay POL. E.g. 66p for a Label		Income to POL, from which we must then pay our agents
PLAN A^ (2013/14 actuals)	£1.75 per item		927m items		£1,624m		20.9%		£340m
PLAN B:*	£1.80 per item		797m items		£1,445m		24.2%		£360m
	↑ 3%		↓ 14%		↓ 11%		↑ 16%		↑ 6%
	Overall price increases, as we add more premium and value-add services such as same day.		Volume would decline as RMG tries to shift volume to other channels, which cannot be off-set by new volume new carriers		As a result revenue overall declines		We secure more generous deals from the new carriers (<i>highly uncertain</i>).		As a result overall income increases by 6% on today.



Implication of pursuing Plan B:

Our initial analysis suggests that we could secure more of the value chain if we used an alternative logistics provider

The value chain for 1-2kg parcels:



- POL only retains 21% of the total revenue. The vast majority goes to RMG.
- Yet the Collect+ and myHermes commercial models are far less generous to the carrier. For example, Yodel, the carrier for Collect+, only receives ~£2.10 for a delivery.
- In other words, **Royal Mail takes 79% of the value, whereas Yodel only gets ~38%.**

1 Assumes local model; 2 £2.10: cost of collection per package in 2012, 80p: calculated from 25 parcels per visit (14m parcels/year, 5,500 access po ints, 2 trips/access point/week) and £20 per visit (£5 fuel, £10 van cost); 3 advised by Adam Smith; 4 Assume Yodel cost subtracting "lifestyle courier" cost; 5 20p: incremental MyHermes cost for delivery to door instead of parcel shop, 40p: cost for times local paper delivery



Next steps

Three next steps:

1. Agreement that our current best course is to deliver Plan A+. Ensure that the MDA renegotiation addresses the strategic and Corporate issues as well as the tactical.
2. Develop detailed 'triggers' with associated metrics that would indicate that we may need to start seriously considering Plan B.
3. Continue to develop Plan B in terms of cost vs. benefit, operations, legal risk, etc.



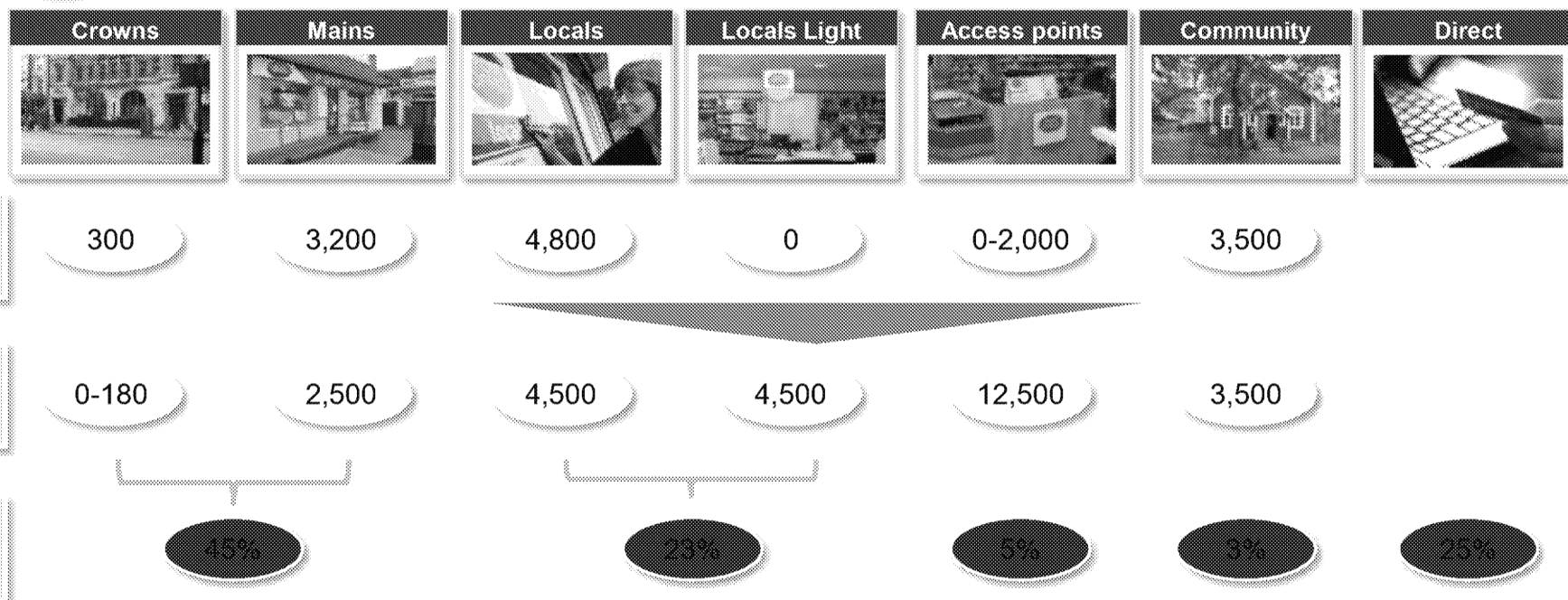
Contents

- 1 Overview of the key risks and levers
- 2 i. Adjusting the financial flight path
- 3 ii. Working with other partners
- 4 **iii. Adjusting the channels mix**
- 5 iv. Portfolio management
- 6 Approach to keeping these options under review



We are already planning a substantial shift towards lower cost, variabilised branch operating models and direct channels

X # branches / access points



- The proposed TOM extends the principle that the network should be run primarily on a franchised basis and increasingly as a complement to host retail (rather than as an outlet in its own right).
- This approach variabilises costs and provides a greater degree of resilience to adverse market conditions.
- We therefore wouldn't necessarily look to make substantial further changes to our channels mix in the event of income underperformance, particular given that we have identified our widespread geographic presence as a key source of competitive advantage in both mails and FS. However, there are some incremental adjustments we would consider as the following slides set out.

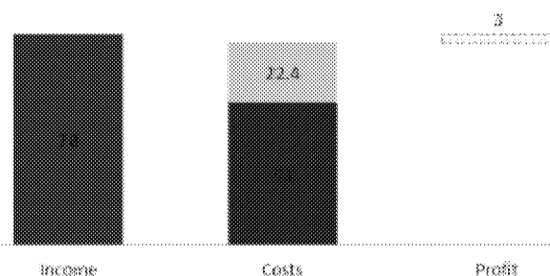


The new branch models can remain profitable under a range of different income scenarios, provided we achieve our cost targets

Indicative P&Ls for a small (two counter position) Mains branch, £ thousands

Curent financials

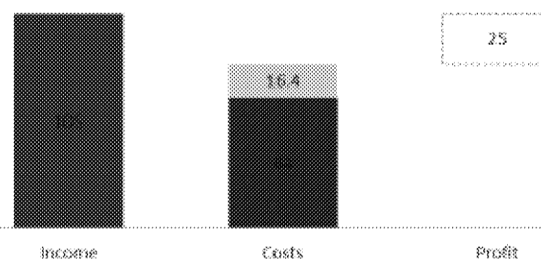
■ Income ■ Agent's pay ■ Central costs □ Profit



This first chart shows the slim profitability of an average small Mains branch at present.

Full delivery of savings and income growth

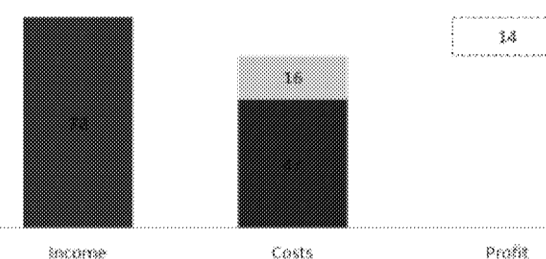
■ Income ■ Agent's pay ■ Central costs □ Profit



If we achieve our targeted cost savings and income growth plans then this would deliver a substantial uplift in branch profitability.

No income growth but savings delivered

■ Income ■ Agent's pay ■ Central costs □ Profit



However, even if we achieve no income growth but still succeed in reducing central costs and realigning agent's pay it would still deliver a significant uplift in average branch profitability.

This reinforces the point that our target operating model has the resilience to cope with significant adverse market conditions provided we focus on delivering on the cost factors within our control.



We have three broad levers for adjusting our channels strategy to respond to downside scenarios

1. Stop or slow down roll out of new channels capacity

- *No upfront costs; low to medium opportunity cost in terms of lost income growth; low stakeholder risk*

Potential options:

- a) Roll-out fewer new access points, and at a slower pace – see *slide 37*
- b) Roll-out fewer new specialist FS staff if not meeting productivity thresholds – see *slide 38*

2. Divest of existing higher cost / lower profitability channels

- *Potentially high upfront costs; medium to high cost savings; high stakeholder risk*

Potential options:

- a) Accelerate divestment of Crowns – but constrained by high exit costs as set out in BTr slides
- b) Review the number of Mains branches – but there are practical considerations as set out in *slide 39*
- c) Replace Community branches with lower cost models – see *slide 41*

3. Expand / invest in lower cost / higher profitability channels

- *Medium to high upfront costs; uncertain income growth opportunities; low to medium stakeholder risk*

Potential options:

- a) Invest in growth of digital channels (and products) – see *slide 42*



1. Stop or slow down roll out of new channels capacity

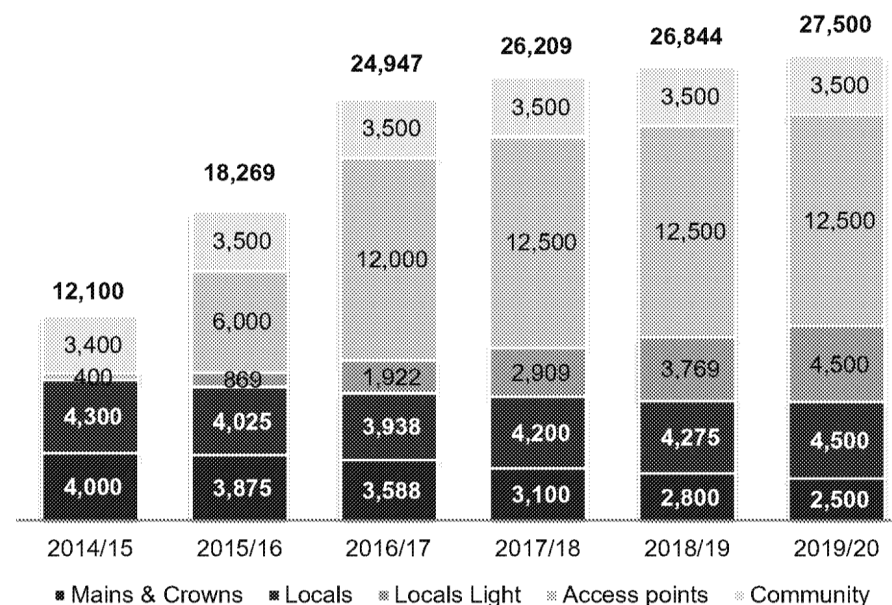
We will take a flexible approach to implementing our network extension plans, adjusting to evolving market conditions

Principles for roll-out of new outlets:

- The business case for network extension has been tested against a range of different scenarios, providing reassurance that the new operating models can still be profitable even if transaction volumes are half our base case assumptions.
- However, if income growth fails to materialise we would need to review our plans - indicative modelling suggests we would aim for c5k fewer access points c3k fewer Locals/Local Lights in order to reduce costs and avoid spreading volumes too thinly.
- We will therefore build formal checkpoints into the programme, taking into account: of the following considerations:
 - updated volume projections;
 - what our competitors are doing with regard to their networks and the impact this is having on market shares;
 - the level of appetite for new outlets from host retailers; and
 - the impact of new outlets on the profitability (for both agents and the Post Office) of existing branches.
- These checkpoints will occur: a) ahead of each financial year; b) when we are reaching key decision points on volumes in our IT procurements; and c) when we are faced with other significant decision points such as a potential large estate deal.
- The network economics team is currently building more detailed modelling tools to support this assessment process.

Number of Post Office outlets:

Phased implementation, with checkpoints along the way





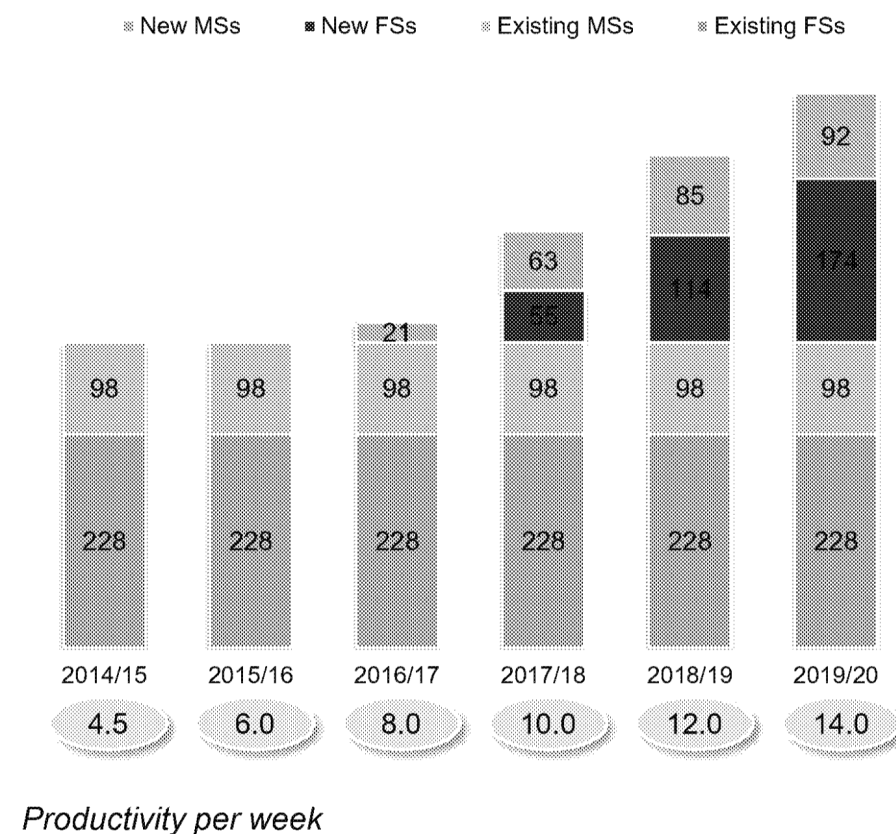
1. Stop or slow down roll out of new channels capacity

New F2F sales capability for financial services will only be rolled out once specified productivity thresholds are being achieved

Principles for roll out of new F2F capacity for FS:

- Further hiring of Financial Specialists and Mortgage Specialists will only be commenced if existing staff are demonstrating improvements in productivity rates, with at least 75% meeting the thresholds for break-even:
 - Financial Specialists: 9-10 sales per week
 - Mortgage Specialists: 3.5 sales per week
- The September FS strategy paper set out the measures which will be taken to drive these improvements, including tighter performance management, better sales training and investment in systems for capturing customer data and generating leads.
- This gated approach ensures we are not layering in additional running costs if the conditions for revenue growth are not in place. In that scenario we would need to consider whether the investment would be better directed elsewhere, for example in supporting online sales.
- Eagle obligations restrict our flexibility to *reduce* existing sales capability – we are committed to deploying at least 200 FSs. If we're facing an income scenario where even that number appears unviable we would need to consider a wider review of the arrangements with Bol, potentially as part of contract review in 2017.

Plan for Financial/Mortgage Specialists roll out:





2. Divest of existing higher cost / lower profitability channels

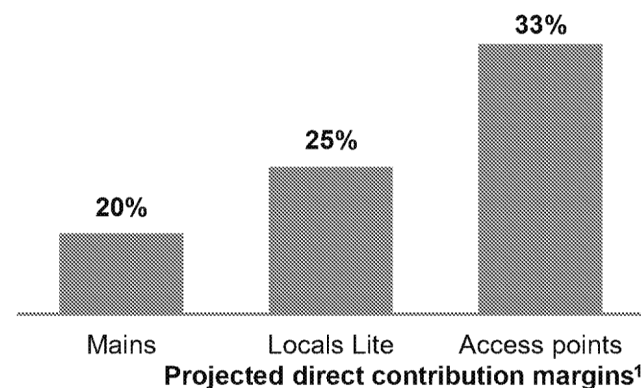
While in principle it might be attractive to extend the shift away from Mains/Crowns in a low growth scenario, there are practical barriers

The role of Mains in the network:

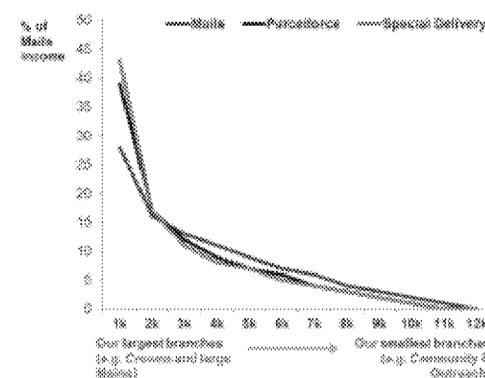
- The new access points and Locals Lite are expected to deliver higher margins than Mains, and so in principle we should maximise the volumes going through them. The TOM already envisages fewer Mains.
- In theory this argument is strengthened in an adverse income scenario where Mains may be less attractive for both POL and agents. However, there are practical reasons why a lower number may not be appropriate:
 - Around half of all mails volumes currently flow through the 2,000 largest branches, and we are likely to lose a substantial proportion of this if we attempt to divest of these branches too quickly. We need to allow time for consumer behaviours to adjust to the new models.
 - Linked to this, we should consider carefully whether we actually have a more enduring competitive advantage in the higher value end of the mails market which is particularly suited to Mains.
 - Furthermore, as set out in slide 37 in a low income growth scenario we are likely to introduce fewer new access points which our modelling suggests would mean we need an additional c500 Mains (because of reduced cannibalisation of volumes).
 - We can't easily force existing Mains agents to give up their business, especially not without incurring significant additional expenditure on compensation which is unlikely to deliver an attractive RoI. And without such compensation the inevitable stakeholder opposition is likely to be even more vociferous.
 - We have committed to Bank of Ireland to retain at least 2,000 Mains branches (and also have smaller commitments to government clients e.g. for the provision of AEI services).

Mains economics and volumes:

Mains are less profitable than the new operating models...



... but they remain the mainstay of the network in terms of volumes





In a low income growth scenario we should therefore focus primarily on accelerating efforts to improve the viability of Mains

Potential measures to strengthen the viability of the Mains:

1. Deliver on our cost savings initiatives to ensure Mains remain profitable for POL even with no income growth (see slide 35). This applies to both central costs and the proposed realignment of agents pay, although it should be noted that the latter will represent a 'double whammy' for agents on top of volumes falling below expectations.
2. Invest in further sales capability training (such as the 'guiding coalition') and other sales initiatives, provided we can demonstrate such measures at least cover their costs.
3. Support struggling Mains agents (most likely independents) sell their business to another retailer (either onsite or offsite) who can run the business more effectively as a complement to a retail offering (typically the multiples). This may require some additional investment in field-based support to scope out the local opportunities, and so we would need to be clear on the business case.
4. Alternatively expand the work of the Retail Support Team to help existing agents grow the retail side of their business so they are less dependent on the income from Post Office products. If funding is a barrier to this expansion we could potentially explore alternative commercial mechanisms to help expand the capacity of the team, e.g. cost sharing with the agent or third party suppliers.
5. We could also explore whether some Mains would be better run as a specialist branch, for example FS or SME-focussed branches. The former is being considered as part of the wider work which the FS team is undertaking to develop the model for an agency-based sales structure as an alternative to Crowns.



2. Divest of existing higher cost / lower profitability channels

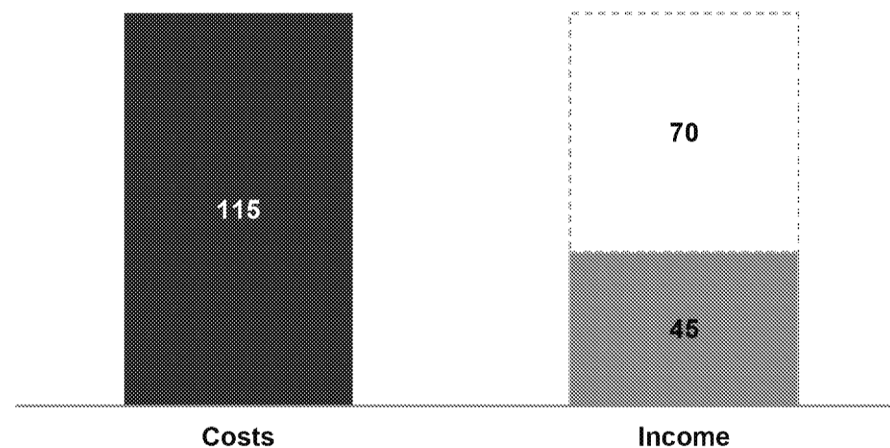
The business case for retaining the community branches rests on their social purpose and whether HMG is willing to continue funding this

Options in the absence of HMG funding:

- The Community branches create a net drag on our EBITDAS of around £70m by 2019/20. If HMG signal that they are unwilling to maintain this level of support beyond the current funding period then we would need to seek a relaxation of the policy commitments on our network size and geographical reach (unless we are able to cover the costs from our own profits).
- Our general strategy in such a scenario would be to shift as many of these branches onto one of our lighter operating models which can be run more profitably. To facilitate this switch we would need to reduce the level of fixed pay (or remove altogether in an aggressively commercial scenario) to create an incentive for the agents to convert or leave.
- We estimate that up to half of the Community branches have a sufficiently strong retail business for a Locals type model to be a viable solution. The remaining branches could potentially be run on an outreach basis, increasing the number to c1,750 compared with 1,100 today, at an annual net cost of c£25-30m.
- Alternatively if we are unable to support these losses to maintain service provision then these branches could be allowed to close. We would also need to factor in potential additional compensation payments of £40-60m.

Community branches P&L:

The community branches are projected to run at a net annual loss of £70m by 2019/20 (assuming we hold the number of branches at 3,500). This is the amount that we have provisionally ring-fenced in the target operating model as the basis for a potential contractualised payment from HMG for our social purpose.





3. *Expand / invest in lower cost / higher profitability channels*

Digital & direct are important both for our core strategy in mails and FS and as a potential diversifier to generate other income streams

- Our strategy has defined our branch network as the key source of our competitive in both mails and FS, but with digital playing a key role in supporting efficient and convenient customer journeys (and with a more prominent role for certain products such as insurance and investments).
- It would entail a fundamental reassessment of our market proposition to suggest that digital could become the *primary* sales channel – in mails it is our branch network which gives us our 'right to play', and in FS while we could potentially make savings in F2F capability we would need to invest considerably more in marketing and online solutions to compete with the likes of First Direct and overcome low customer awareness. It would also fundamentally change our target customer base.
- However, amplifying the role of digital (and other direct channels such as contact centres) to support our core propositions and provide diversification into new income streams is an important part of our Plan B 'toolkit'. Some broad options are set out below.

Expand and invest in digital / direct products

- Shift incremental investment towards existing products which can primarily be sold online or via call centres, such as insurance and home services (e.g. boosting sales through investment in marketing, better platforms and data analytics)
- Develop new digital-based products, such as an IDA based authentication service for private sector service providers (once government market established), digital vaults and digital mailboxes

Monetise data

- Create data products through information that we have/could get, e.g. demographics across store network.
- Could be sold (anonymous data) to retailers, media companies etc. Potential loyalty scheme with income from retailers, product manufacturers.

Media sell

- Sell advertising and placements on Post Office media.
- This could be local or national website, in branch, in apps, emails etc.
- We could have individual pages for each branch, enabling greater flexibility and further advertising opportunities.



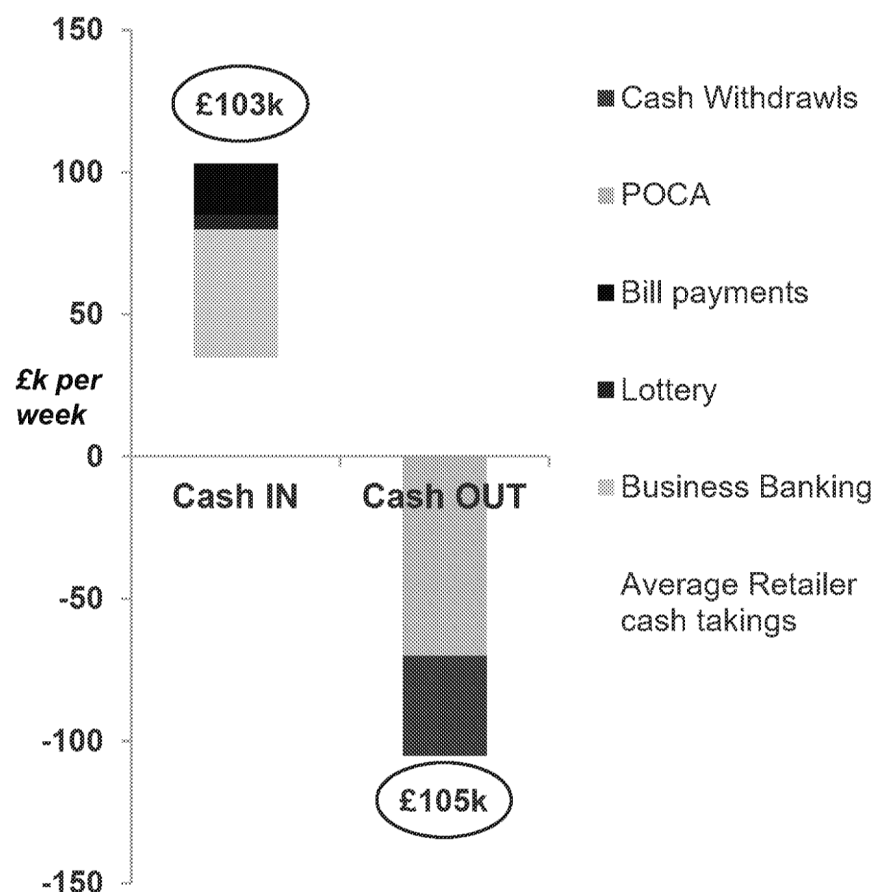
A low income growth scenario would strengthen the case for revisiting our strategy around the use and supply of cash across the network

- Aside from incremental improvements, the current Plan A (in the form of Business Transformation) does not seek to fundamentally alter our supply chain operation or the £90m gross cost base associated with it (the net cost is ~£50m p/a*), on the grounds that we had not yet identified an alternative model which would deliver a clear net economic advantage once the income risks for banking services, travel money, savings and other areas are taken into account.
- However, we did agree that we would come back to this question and review the alternative options for delivering further savings. The case for doing so would be strengthened if we are facing an adverse income scenario where the gross fixed costs of supply chain could be equivalent to around 10% of our income.
- A small number of products dictate supply chain strategy, either by putting cash into the branches (e.g. business banking, bill payments) or taking money out of our branches (e.g. POCA, cash withdrawals, ATM). On top of this, retailers also have a cash inflow from selling retail side products. It costs them money to hold and bank this cash.
- If you can control cash so that there is a regular inflow of cash from business banking and retailer cash that broadly balances off the known outflows, then in theory most of our branches can be retailer funded, significantly reducing the demand for cash-distribution across the network.
- In other words, the cash that the branch brings in from Post Office activities, such as business banking, and from the retail-side of the business, would provide it with enough cash to meet its cash-out requirements, such as POCA.
- This reduction in demand would enable us to either significantly reduce the cost of supply chain, and/or utilise the freed-up capacity in our supply chain to deliver greater income. Moreover, agents would no longer have to pay charges to bank their own cash, as they would become cash neutral.
- This hypothesis is explained in more detail over the following slides, although it should be noted that at this stage it is just a hypothesis which needs further testing to validate whether it could work in practice while still delivering a clear net improvement to EBITDAS.



Currently we supply our branches with cash, even though the average local branch is actually cash neutral

Cash dynamics for an average Local Branch:

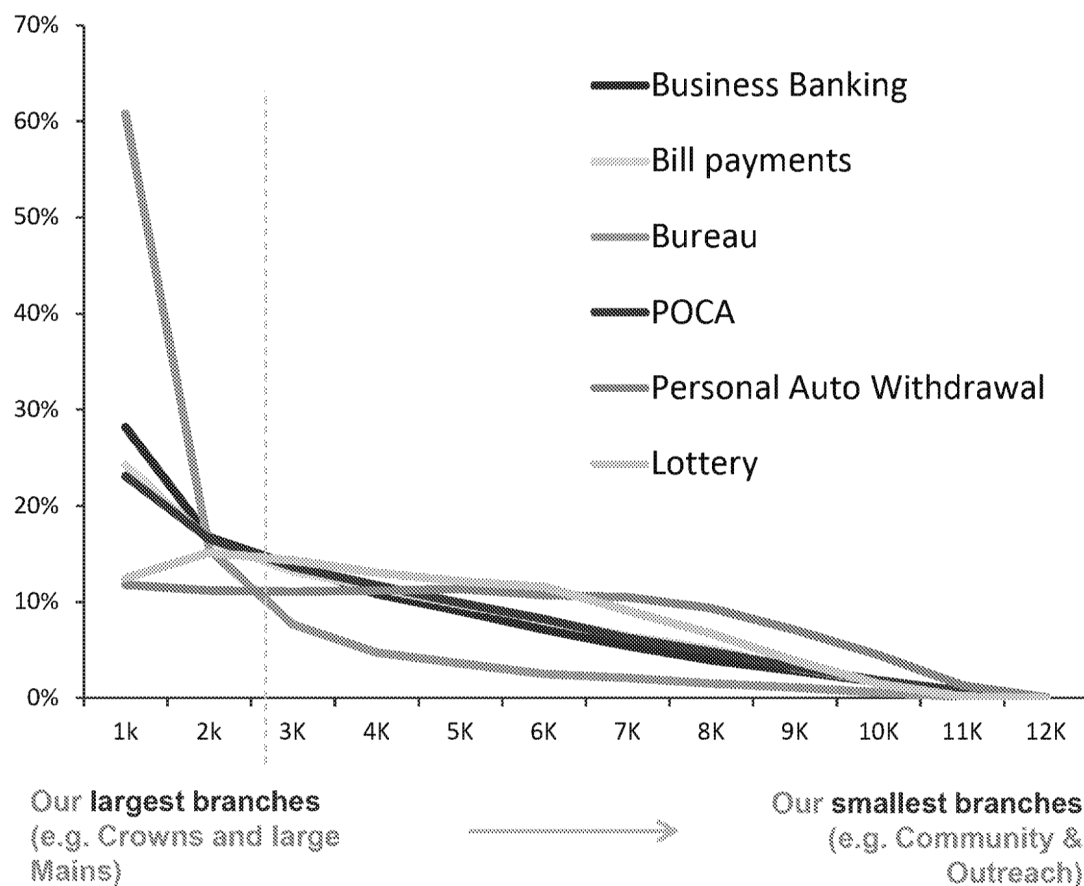


- The Supply Chain business provides secure delivery and collection of cash and high value stock to Post Office branches.
- Supply Chain delivers to around 11,118 branches every week. 75% of which receive one 'multi-product, (notes/coins/foreign exchange/secure stock) service a week. (The other 382 are served by Royal Mail Special delivery).
- Cash-out from Cash Withdrawals and POCA are relatively easy to predict and spread fairly well across the week.
- The average local branch is cash neutral when retailer takings are considered
- The difficulty is business banking where cash inflows are erratic and difficult to predict. Additionally, the business banking levels at individual branch level is rarely of the same magnitude as the cash required to balance it off.



Cash products, such as business banking, tend to be more evenly spread across our network

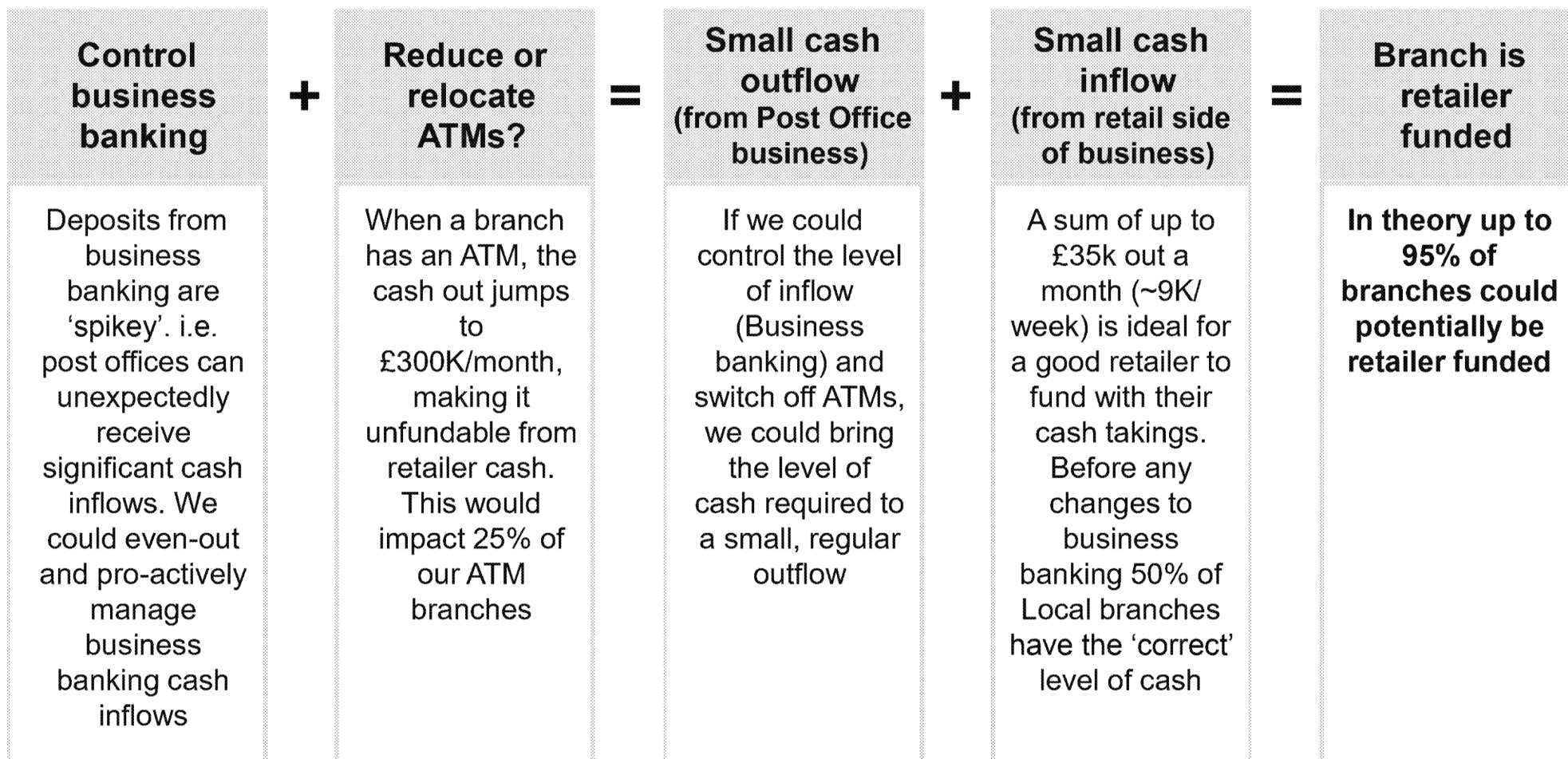
Distribution of income across our network for key cash products*



- 45% of business banking income and 40% of POCA income comes from our largest 2k branches.
- Whilst this might sound like a lot, 58% of Special Delivery and 78% of Bureau come from our largest 2k branches.
- This means that smaller Mains, Locals and Community branches clearly play an important access role for depositing and withdrawing cash and more broadly in solving this challenge.



We have a theoretical opportunity to significantly reduce our supply chain costs if we ‘smart manage’ business banking





In order for this happen we would need to believe a number of key things

1

Control business banking that allow us control cash inflows into branch

- We would need to develop a Post Office-branded business banking product that is universal and easy for customers from other banks to use. An IT solution would be needed to support this, showing where and when businesses can deposit their cash. We will use price to adjust demand and will target SMEs, rather than corporate chains.
- This allows us to maintain more of the value-chain, at present we receive 10p per £100, whilst Santander keeps ~40p per £100 from SME's.

2

Transform the existing cash business

- The fundamental principle is that the servicing our branches with cash in the way that we do is not the best use of resources.
- We would therefore need to believe that by removing the need for cash delivery to some Mains and Community branches and all Locals we could either significantly reduce the costs of supply chain and / or win profitable third party business with the spare capacity in supply chain.

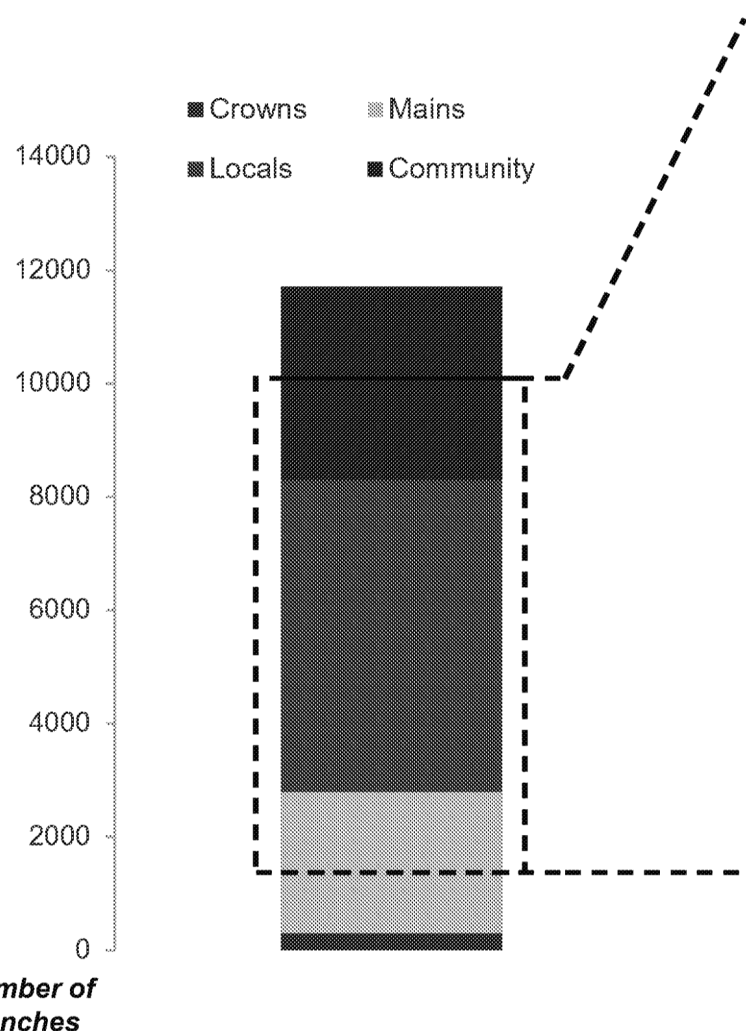
3

Community branches

- Nearly 50% of community branches will either have a retail business that allows them to become self funding, or will be outreach branches funded through the core business.
- For the remainder, we would need to believe that a hub and spoke model will solve the problem for larger branches (accessing cash from their nearest Main).
- Smaller branches will be able to be funded through Special Delivery cash deliveries.



In this scenario, potentially two thirds or more of our branches would no longer require Post Office to deliver cash



Branches that could be moved to retailer-funded

- Not all of our branches would be able to become 'retailer-funded'.
- We believe that all Locals, ~50% of Mains* and ~50% of Community branches would be able to become 'retailer-funded'.
- The main determining factor is the amount of 'retail' income (i.e. confectionary, food) relative to Post Office income.
- There are some Mains and Community branches that do generate significant retail side cash inflow. It is these branches that we would move to retailer funded.



Assessment of the risks and opportunities of this type of model

Positives of moving to retailer-funded cash in many branches

- At present we lose ~ £40m from our supply chain operation, moving many branches to retailer-funded will significantly* reduce this.
- For those agents that manage to balance off their cash flows, they will no longer have to pay banking charges (up to 50p per £100, which amounts to a 0.5% tax on income)
- If we develop our own business banking product, we can capture more of the value chain that we do today whilst still providing a vital SME service
- We need to address the supply chain at some point- the decline of POCA and business banking will mean that the supply chain loss will continue to increase.
- Reduced exposure to the significant income and reputational risks associated with the industrial relations situation in supply chain.

Negatives of moving to retailer-funded cash in many branches

- Risk due to possible downside if Santander withdraw business and/or it undermines our partner banking proposition (which is a potential growth opportunity).
- Lost income from Locals ATMs (25% of all ATM income). However, when we go offsite, half of these are likely to be lost anyway as the new agent often does not take the ATM.
- Potential constraints from legal and regulatory requirement for the certainty of supply of cash for current accounts, partner banking, MoneyGram and Postal Orders and savings withdrawals (up to £2k per customer per day).
- Cost of delivering secure stock and bureau to these branches. The value and quantity means that this is likely to be most cost effectively done via SD.
- Potential security concerns for hub and spoke and SD distribution models – further work needed to assess risks and mitigations.
- Overall we are likely to see a drop in income £7m, an increase of costs of £3-5m, some of which would be picked up by FRES, and a reduction in the number of deliveries and sites to service by half.
- Further work needed to assess residual supply chain costs (either in-house or outsourced) and upfront restructuring costs.



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- 1 Overview of the key risks and levers
- 2 i. Adjusting the financial flight path
- 3 ii. Working with other partners
- 4 iii. Adjusting the channels mix
- 5 iv. Portfolio management**
- 6 Approach to keeping these options under review



The importance of strategic portfolio management

- While we now have a clear view of our two core pillars, **portfolio management needs to be an ongoing process throughout the implementation of our strategy**, taking a rigorous approach to deciding which specific business lines to prioritise and protect versus where to reduce or eliminate investment as our market environment evolves.
- This would be true even if our 'Plan A' stays broadly on track, but becomes **even more important in the event of downside risks materialising**, which might require us to shift the balance of our investments to more profitable areas.
- There is also an important read-across to the Business Transformation road-map, in two ways:
 - the c£1.6bn costs of delivering the overall transformation impose **significant scarcity on our resources**, and we will therefore inevitably have to deprioritise some areas and potentially pursue targeted divestments to release capital to support the funding envelope;
 - in developing our three year operating plan for the business, **we should take a provisional view now whether there are any additional areas of new or accelerated opportunity** not included in the current roadmap which we want to make allowance for within our funding envelope – with the proviso that this would require us to stop other activities (unless the new investments generate adequate cash flow in time to compensate).
- The next slide sets out a high level framework for guiding our portfolio choices.



A framework for guiding our portfolio choices

- The following questions provide the basis for a matrix assessment of our portfolio choices – i.e. a business line doesn't need to meet all of these criteria to be included within our portfolio, but it does need to score strongly overall.

1. Is it profitable?

- What are the margins and growth potential in the market in question, and have we identified a genuine source of competitive advantage?
- Have the costs been fully allocated, taking into account all of the incremental requirements on the target operating model?
- Is the level of profitability acceptable? While in theory any profit is welcome (and from a shareholder perspective lowers the net cost of our social provision), we also need to keep in mind whether the activity is accretive or dilutive to our overall targeted EBITDA margin of 8 -10%.

2. Is it aligned with our strategic priorities?

- Is the proposition synergistic with our core priorities in mails and financial services, or a distraction? We may be more tolerant of product lines that are less profitable if they add strategic value to our overall offer, but we can't retain/pursue activities where there are questions over both strategic fit and profitability.

3. Does it strengthen our offer to host retailers?

- This is a specific but particularly important dimension of the strategic fit question, given that maintaining our relationship with host retailers is key to our long-term position in the mails market. We should actively explore new areas which could help drive footfall into retailers or add value to them in other ways, to lower the risks of disintermediation.

5. Does it contribute to our social purpose in other ways?

- This is central to our reason to exist and so a valid question to ask for our portfolio – although until we have improved our EBITDAs our discretionary options are limited – but options here could strengthen the case for social purpose funding from HMG.

4. Is it affordable (in both financial and capacity terms)?

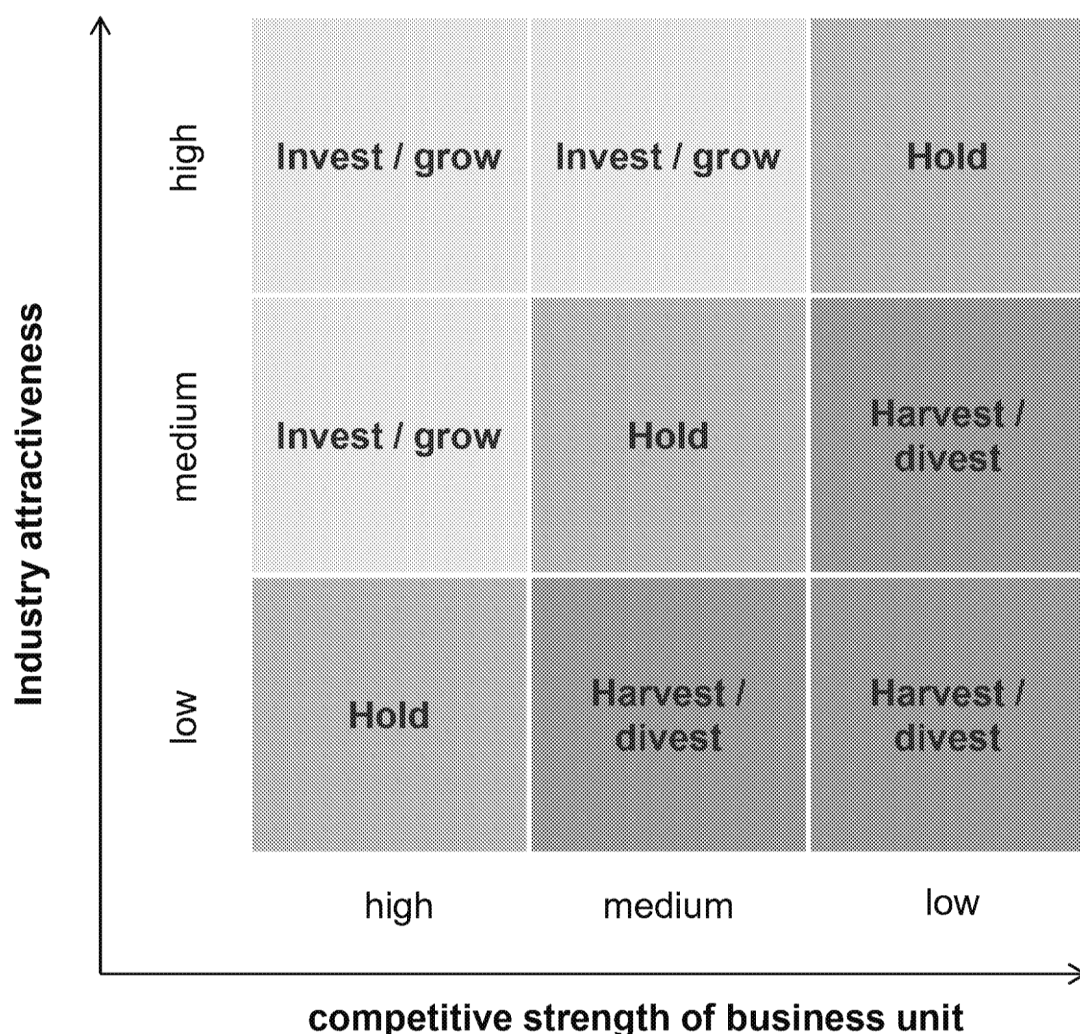
- Can we accommodate the activity given our limited funding envelope and bandwidth? What's the opportunity cost?

6. Is it consistent with our defined risk appetite?

- These criteria apply equally to areas of new activity as well as considering the cost for retaining existing business lines – we need to be rigorous in continually assessing whether to hold onto particular products and services given our resource constraints.



The following slide uses GE/McKinsey 9 box matrix to provide an initial screening of the expected profitability of products and business units within our portfolio



Explanation of the 9 box matrix:

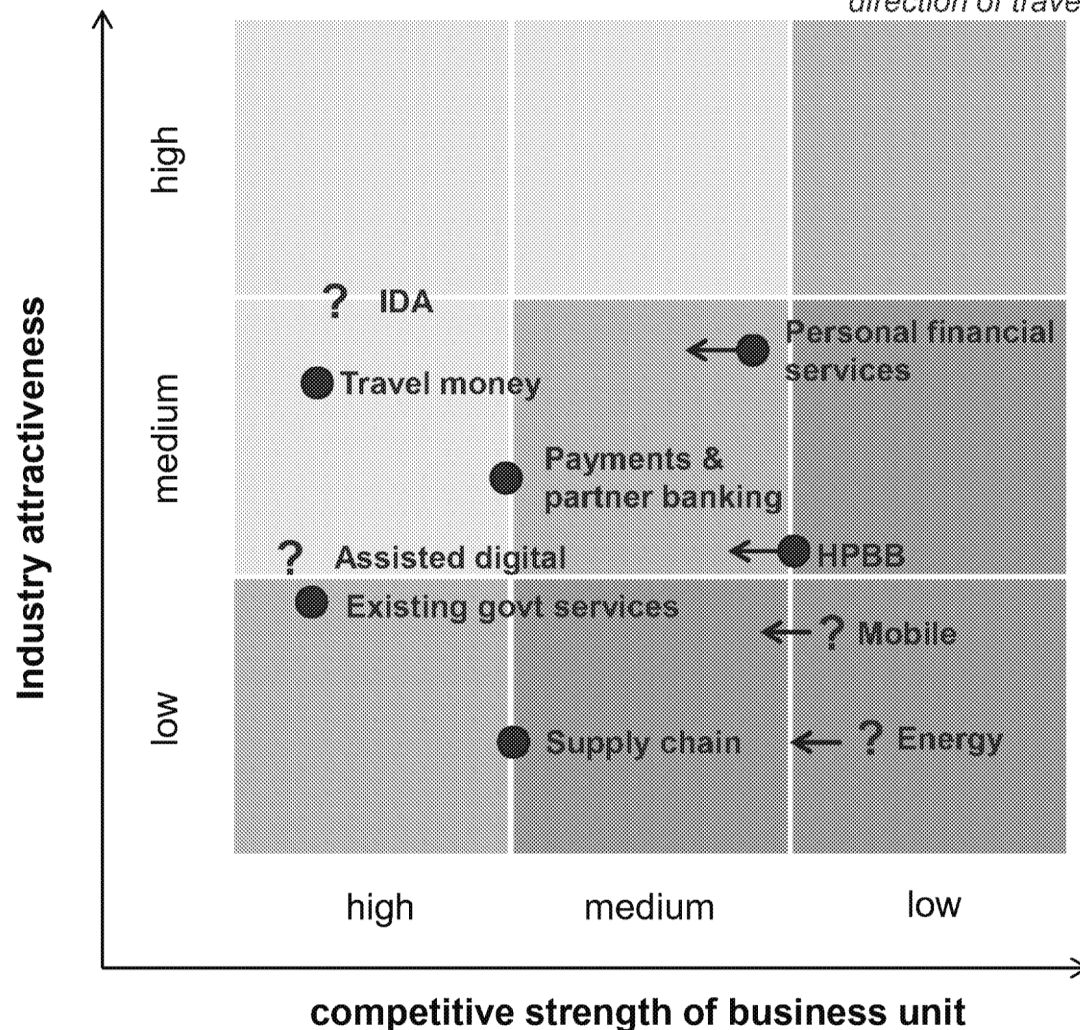
- Vertical axis assesses the **industry attractiveness** of the product / business line in question, taking into account factors such as:
 - Market growth rate
 - Market size
 - Industry profitability
 - Industry rivalry
- Horizontal axis assess the **relative strength of the business unit** within its industry, taking into account:
 - Market share (and growth in market share)
 - Brand equity
 - Profit margins relative to competitors
 - Any issues with sourcing or distributing the product
- Resource allocation recommendations can then be made to grow, hold or harvest the business unit based on its position in the matrix as follows:
 - **Grow** strong business units in attractive industries, average business units in attractive industries, and strong business units in average industries;
 - **Hold** average business in average industries, strong businesses in weak industries, and weak businesses in attractive industries;
 - **Harvest / divest** weak business units in unattractive industries, average business units in unattractive industries, and weak business units in average industries.



A high level assessment of products in our non-mails portfolio

(Mails products are being assessed as part of a separate strategic marketing plan)

Key: ● = existing product ? = new proposition ← indicates potential direction of travel



Notes on the assessment:

- **HPBB** – competitive market - we hold c2% share. Technology moving fast – growing demand for fibre and TV which we don't offer. However, margin accretive with our brand equity offering scope for volume growth (alongside BT-led price increases) – but dependent on investment in product and marketing.
- **Mobile** – highly competitive market, with projections for <1% market share. Business case largely predicated on HPBB bundling.
- **Energy** – market dominated by Big 6, although precedents for retailer white labelling (M&S and Sainsbury's). But low margin industry – would expect <c6% EBITDA so dilutive overall.
- **Travel Money** – POL leading player with 26% market share. 63.6% DPC. But mature market with increasing competition from other retailers, so scope for growth modest and may require investment.
- **Personal financial services** – covers range of different lines each with their own market dynamics. General story is one of intense competition (both incumbents and other challengers), but with scope for us to grow by leveraging our brand equity and network. Distribution model delivers high margins (85.9% DPC).
- **Payments and partner banking** – important to our offer to host retailers, need to defend against mails competitors. Scope to grow partner banking as utility service?
- **Existing government services** – declining volumes, low margins - but important for agent offer.
- **IDA** – market remains to be proven but could be significant with us being the dominant player. Strategic plan assumed £38m pa income by 2019/20. Also potential catalyst for digital business.
- **Assisted digital** – as above, market unproven – opportunity is less significant (strategic plan assumed £6m by 2019/20).



Some emerging conclusions and questions on portfolio options to consider, either as part 'Plan A' or 'Plan B'

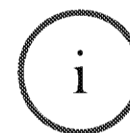
1. As noted in the FS strategy, we could seek to acquire Bol's share in FRES which would allow us to capture the entirety of the dividend, delivering an immediate £150m pa increase to our top line and £40m pa improvement to EBITDA, with potential for further gains from making use of tax losses and unlocking other corporate foreign exchange potential. Would continue to run as independent subsidiary. However, acquisition cost estimated at c£360m – given constraints on funding envelope would need to consider external finance. Doubles our exposure to downside market risks *Decision point: could be destabilising to current Bol negotiations, so we should revisit once resolved.*
2. There are a number of potential choices on HPBB:
 - there is clear potential to grow income (at an estimated rate of c8% pa), providing useful diversification – however, unless we can lower the cost of acquisition and/or other direct product costs this growth may not be attractive at an EBITDA level;
 - alternatively we could look to dispose of the book given that telephony is not closely aligned with our core strategic priorities. Indicatively we might expect to release c£40m from this;
 - an alternative to disposal would be to seek a franchise/license arrangement (similar to the Virgin approach), which could potentially release a similar amount of upfront value plus the potential for ongoing brand royalties of c£5-10m pa benefiting EBITDA.

Decision point: we should review these options in more detail before the start of the new financial year when we need to make a decision on mobile, the business case for which is closely linked to HPBB.
3. Are there other areas where we could take this licensing approach to develop new income streams, leveraging the value of our brand equity and customer reach?
4. While we envisaged an entry into the energy market at the time of our strategic plan, at present the level of profitability and potential brand risks do not look attractive – unless we can find an alternative commercial mechanism such as licensing which delivers a clearer EBITDA benefit.
5. As banks continue to rationalise branches, we are increasingly becoming the only branch access point for customers – potential to exploit this as a utility play for the whole sector, delivering incremental income and strengthening our proposition to host retailers.
6. Further work is needed to refine and strengthen our future strategy in the payments market (both over the counter and through new channels such as mobile), looking at industry trends and sources of innovation. Important for our retailer proposition – see subsequent slides.
7. IDA continues to offer the potential for providing a significant source of incremental income at attractive margins, plus further cross-sell potential into other digital lines. However, there remains significant uncertainty about if and when this market will materialise. *Decision point: HMG expected to start tendering for new framework contract in December – need to reconfirm our intention to stay in this market.*
8. We need to conduct further work to update the basis for our future service/subsidy payments from HMG, taking into account developments in our SGEI product set. Are there new services we want to offer which would help to secure this funding stream on a contractual basis, eg. assisted digital, rural broadband?
9. Taking into account our cash constraints, what is our attitude to putting aside small amounts of risk capital for other new income ideas, for example investing in start-ups who would like to access our distribution channels and brand equity?



Strengthening our proposition to host retailers is critical to our long-term success

- There is still a clear role for dedicated post office branches (i.e. Crown, Mains). However, as mails becomes commoditised, increasing numbers of consumers and SMEs don't want to have to go out of their way to send, collect and returns items.
- They want sending, collecting and returns parcels to conveniently fit into their lives (shopping for dinner, getting petrol, etc).
- It is only by securing the best locations that we can be the most convenient. And it is only by being convenient that we will win in mails and maintain the brand equity which supports our FS ambitions.
- Retailers are also looking for services that will entice shoppers into their stores – footfall is critical in the convenience sector.
- However, at the same time our competitors are also fighting to secure the best host retail sites – and in the future our suppliers (particularly RM) may also seek to build a direct relationship with host retailers.
- **If we get our proposition right, we have the brand and the products to become retailers' # 1 service provider and combat the risk of disintermediation.**



vs.



A lesson from history:

- PayPoint and PayZone were both fighting to win in the bill payments market.
- At their peak PayZone had 40,000 outlets, twice as many as PayPoint.
- However, PayPoint won the fight because whilst it only had half the number of outlets, its outlets were in better retailers.



Retailers want to offer their customers a range of services, of which Mails is only one component

<i>Importance of service to retailers*</i>						
	Lottery	Merchant Acquirer	Payments (bill pay, eTop-up, money transfer)	Mails	Travel (smart ticketing)	Cash (ATM, cash back)

- We lack a proposition for the two services that are most important to retailers (Lottery and merchant acquirer). And we are declining in the payments market, whilst PayPoint is growing. In the rapidly changing smart travel ticketing market we have no immediate plans.
- If we want to become the # 1 service provider to leading retailers then we will need to provide a broader proposition. This could be developed in-house, or through partnership (commercial, technological, ePoS, etc) with another provider, such as Camelot.



At present Camelot and PayPoint / Collect+ are more desirable service providers to retailers than Post Office

			 
# of sites	11,800	36,700	27,000
Network growth on LY	+3%	+28%	+9%
Income per branch p/a	~£13,000* (Locals)	£8,746	£2,430
Brand equity	HIGH	HIGH	MEDIUM
Proposition to retailers	• Significant commissions can be earned. • Far more training and space required than the other two.	• Retailers receive 5p per transaction and a regular and significant footfall. • The training and physical space required is minimal.	• Regular footfall and easy to transact. • However, banking charges eat into the commission agents receive.
Overall value to a retailer^			



There are a number of actions we can take to ensure that Post Office is the first choice for retailers

ACTION:

OVERVIEW:

1

Broaden proposition, potentially via partnership

- We should look to partner with other organisations that add significant value to our proposition to retailers and 'fill-in our gaps', such as Lottery and merchant acquirer.
- An ideal candidate would be Camelot.. We have had in-depth conversations with them in the past and there is a good product, network and brand fit. However, there may be competition barriers.

2

Operational Excellence

- The expectations of retailers are increasing in this area. Retailers expect simple and quick transactions, limited 'end-of-day' processing and easy cash reconciliation.
- Collect+ / PayPoint lead the way in this field: For example: Mails simplification, ePoS integrations, etc.

3

Move from a tactical provider to a strategic partner

- At present Post Office is viewed by most retailers as an important, but tactical partner. We are not invited to help shape future strategies in partnership with retailers.
- The biggest step we could take in this direction would be developing 'full estate' deals. Where we provide some form of post office in every location that a retailer has.

4

Explore options to move up the retailer value chain

- Currently we offer retailers Post Office services. On a non-commercial basis we also offer some independent agents advice on how to strengthen their retail offering.
- We could move further up the value chain with retailers: moving from just providing advice; to a buying club for essential services such as broadband, energy and insurance, potentially all the way up to a Post Office-branded symbol group operation. This could potentially be pursued in partnership with the NFSP as part of their ambitions to move to a trade association.

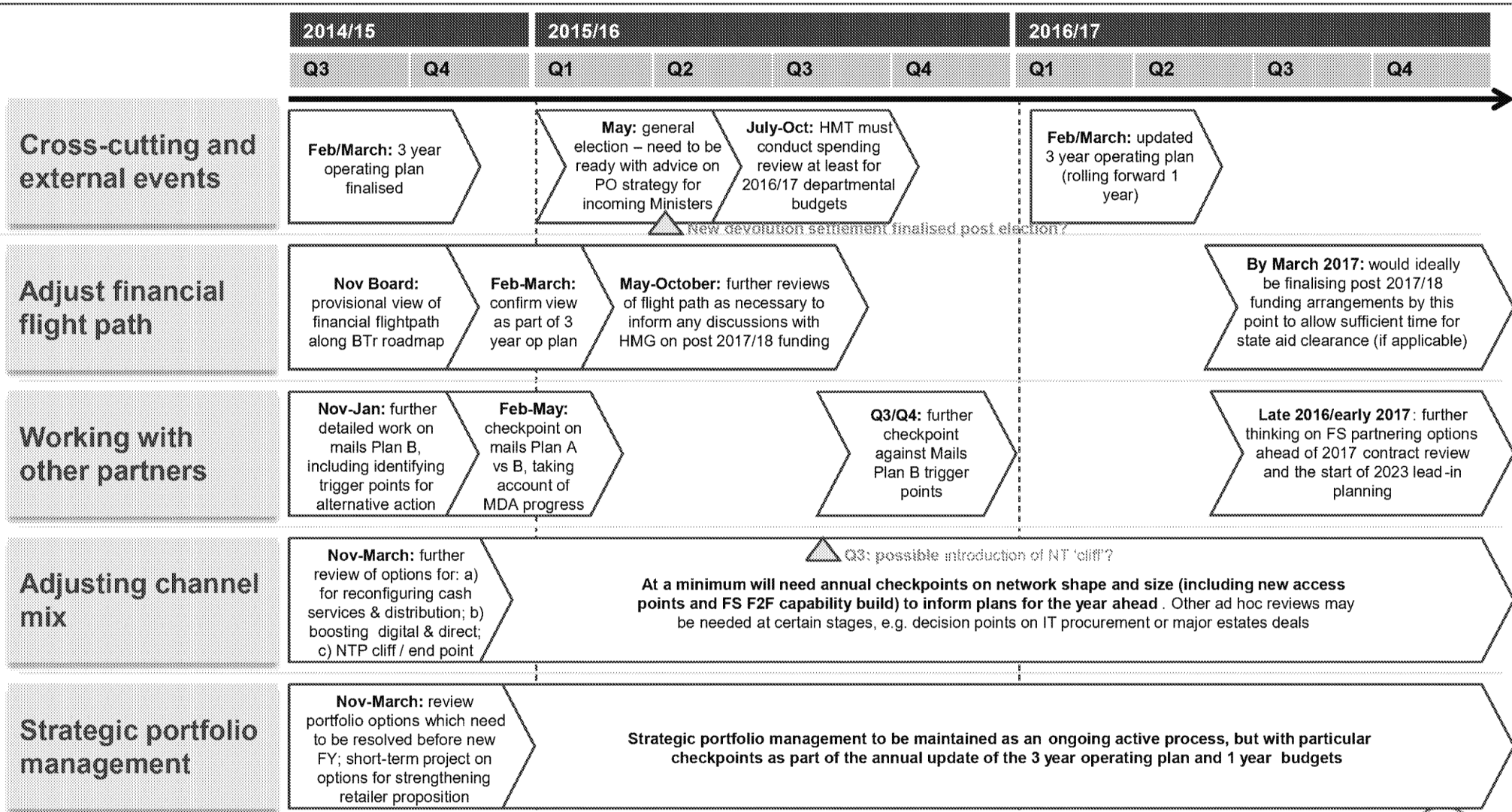


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Next steps and key check points: some aspects of Plan B thinking will need to be accelerated in the short term to inform Plan A



Status as at October 31st 2014

Total actions outstanding bfwd as at 31st August 2014
Implemented by Mgt - Sept- October 2014
Actions added (audits and advisory)
Superceeded/amended

Total	Red	Amber	Green
37	9	17	11
(8)	(1)	(1)	(6)
25	3	13	9
3		1	2

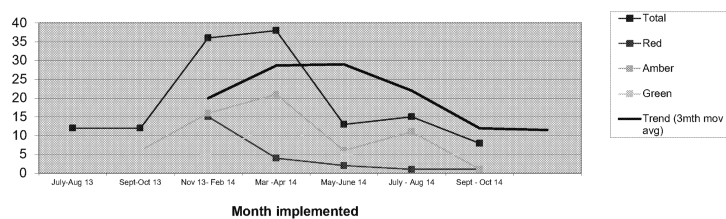
Carried Forward as at October 31st

57	11	30	16
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Analysis of Carried forward

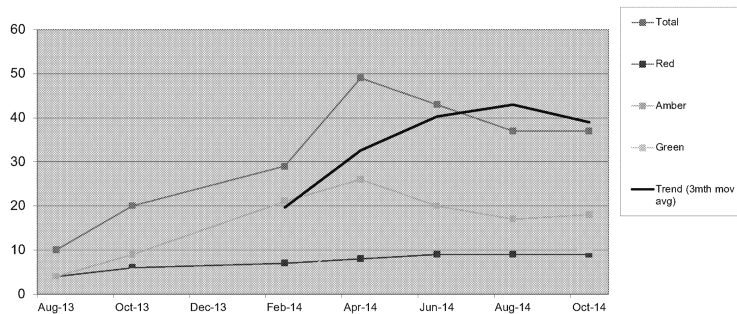
Overdue - yet to start
Overdue - Work in progress
Not yet due

0				
37	9	18	10	
20	2	12	6	new
57	11	30	16	

Trends**Reported Implementations - total per reporting period**

Reported Implementations	Total	Red	Amber	Green
July-Aug 13	12		6	6
Sept-Oct 13	12		6	6
Nov 13- Feb 14	36	15	16	5
Mar-Apr 14	38	4	21	13
May-June 14	13	2	6	5
July-Aug 14	15	1	11	3
Sept-Oct 14	8	1	1	6
Cumulative	134	23	67	44

Implementation down in period, mainly because of newer items that are not yet due and known revised target dates for IT actions.

Audit Actions - Overdues - Trending by month

Overdue as at	Total	Red	Amber	Green
31-Aug-13	10	4	4	2
31-Oct-13	20	6	9	5
20-Feb-14	29	7	21	1
30-Apr-14	49	8	26	15
30-Jun-14	43	9	20	14
31-Aug-14	37	9	17	11
31-Oct-14	37	9	18	10

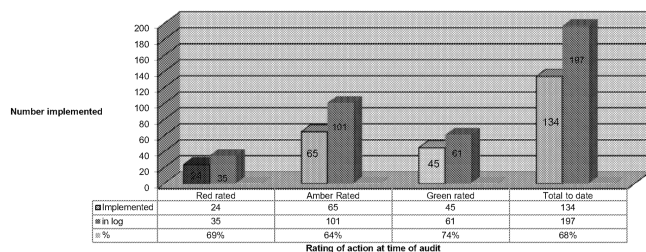
IMPORTANT NOTE - IT ACTIONS HAVE BEEN REBASED WITH NEW TARGET DATES LATE 2014 and into 2015 to reflect changes in expected implementations of towers

The IA recommendations log still retains the ORIGINAL target date so that the business is fully aware it is still aware of the risks identified in the audit and these are still in place.

Rebasing of dates for some IT actions due to later than planned tower implementations. Some items however in Identity and Access Management and software licensing are just overdue with delays in management action or changes in ownership.

The IT Governance and Controls manager position vacated in July 2014 has not been filled. Responsibilities passed to a senior member of the CIO team.

Implementations in period are within Benefits Realisation, Business Continuity and minor issues in HR

Implementations since July 2013**Implementations achieved (from June 2013)**

	Implemented	Total in log	%
Red rated	24	35	69%
Amber Rated	65	101	64%
Green rated	45	61	74%
Total to date	134	197	68%

IA logs the total actions agreed with the business and tracks implementations since the final transition from Royal Mail IA in June 2013

The total implementation rate was above 70% during the summer, however there is a slight dip below ongoing target level due to the lower implementation rates in September and the addition of audit actions from recent audits. A number of these however (20) are not yet due. So implementation rate should recover above target line after the new year.

Strictly Confidential

November 2014

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

PART (A) – CIVIL LITIGATION

FILE NAME	CASE HOLDER	BUSINESS UNIT & CONTACT	DESCRIPTION	STATUS	XSP
Horizon claims (aka "Project Sparrow")	POL/RW	Belinda Crowe / Angela van den Bogerd	POL has received various claims from subpostmasters (SPMs) alleging defects in the Horizon system and POL's internal processes. These allegations were initially made in 5 claims brought through solicitors Shoosmiths. Similar allegations have been made by the "Justice for Subpostmasters Alliance" (JFSA) and advanced through SPMs' MPs. Following discussions with James Arbuthnot MP and JFSA, independent investigator Second Sight Support Services Ltd (Second Sight) was appointed in July 2012 to carry out a review into these allegations. On 08.07.13, Second Sight published a Report finding shortcomings in POL's internal training and support to SPMs on the Horizon system, but no systemic problems with Horizon itself. Following the Second Sight Report, on 27.08.13 POL launched a Mediation Scheme (Scheme) aimed at resolving individual complaints made about Horizon.	This matter will be the subject of a separate update to ExCo. The Scheme received 150 applications, which are being progressed under the direction of a Working Group comprising retired Court of Appeal Judge Sir Anthony Hooper (as Chair), POL, Second Sight, and JFSA. 127 cases are still being progressed through the Scheme or are being scheduled for mediation. Mediations have been held for the first 4 applications. A further 8 mediations are currently being scheduled. The POL project team continue to handle the applications in line with the Board's direction to take a firmer position, informed by its legal position and tighter control over timescales and costs. To date, no claim has been made against POL in the civil courts, and no appeal has been made against any conviction in the criminal courts, following Second Sight's Report.	Bond Dickinson

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PART (B) – CRIMINAL LITIGATION

PROSECUTION CASES

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

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

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

EXPERT REPORT

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

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

Meetings to progress the report are taking place between the experts, POL and Fujitsu in September and October 2014.

PROSECUTION POLICY

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

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

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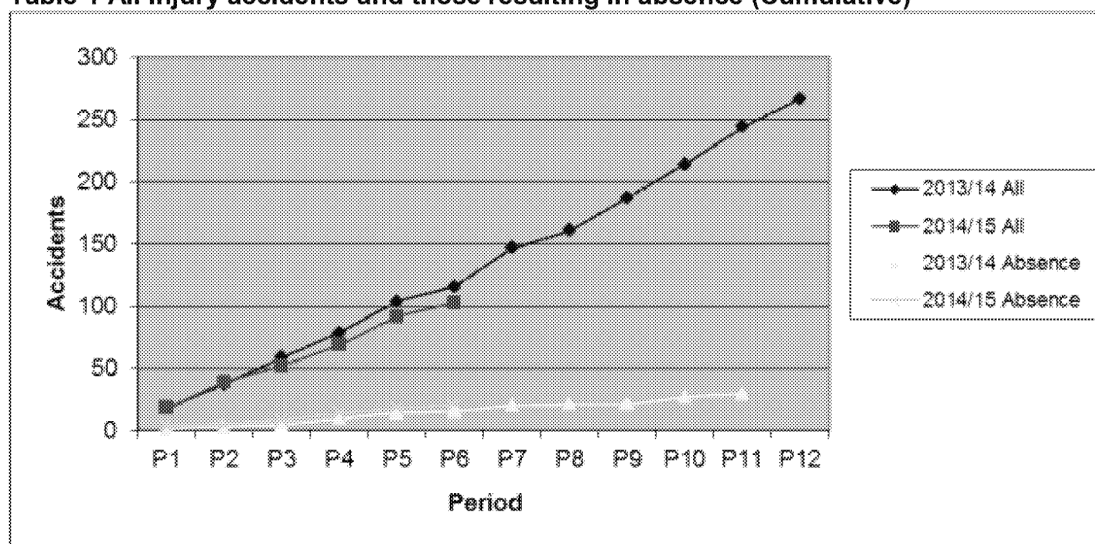
POST OFFICE LTD EXECUTIVE COMMITTEE**Health & Safety Report****1. Purpose**

The purpose of this paper is to:

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

2. Current Situation

- 2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are higher frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.
- 2.2 Performance during the first six months of 2014/15 indicates that despite the slight adverse performance in absence accidents and days lost there is no current cause for concern that further reductions by year end are achievable and in line with the 5% year on year reduction target. The reduction of all injury accident incidents is currently ahead of target.

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

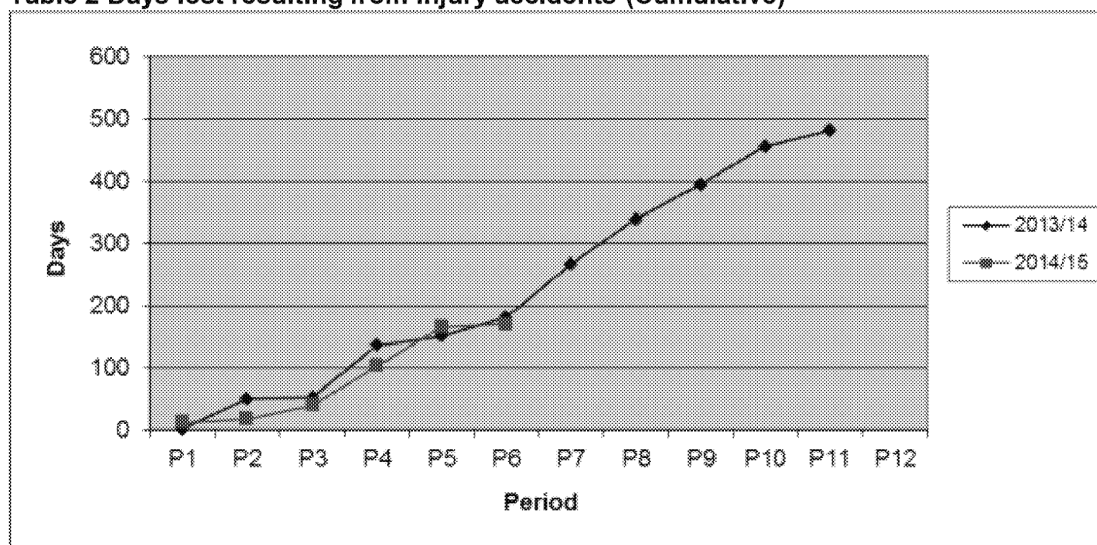
- 2.3 Personal injury compensation claims have fallen significantly in line with the reduction in accidents that result in sick absence. Claims involving members of the public have also reduced. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower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

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Employers Liability and Public Liability claims since October 2012 – extract from insurers report.

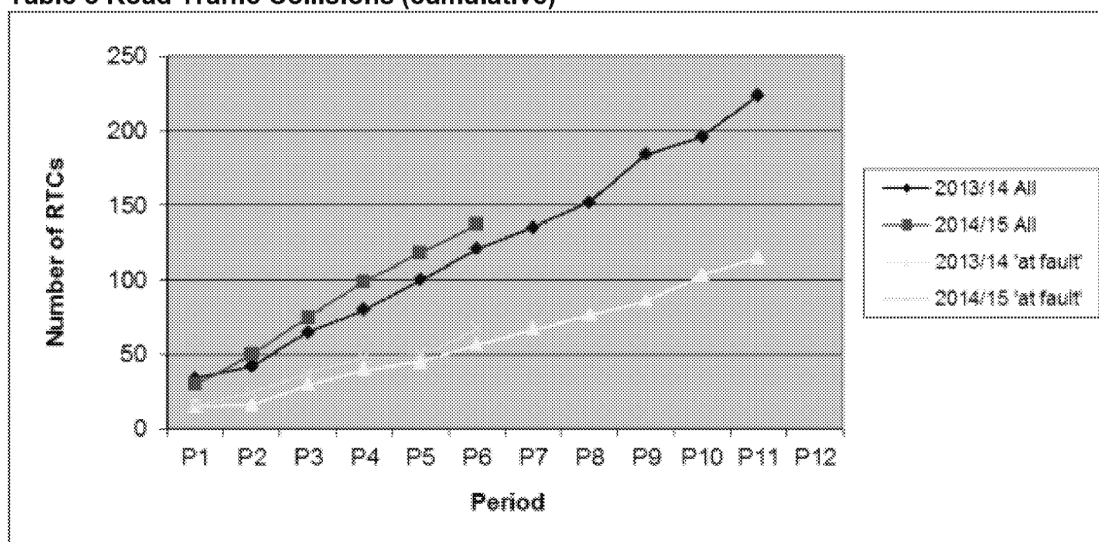
UW Year	Policy Class	Claim Count	Total Paid	Recoveries	Open Reserves	Gross Incurred	Net Incurred
2012	Employers' Liability	7	£8,200	£0	£37,946	£46,146	£46,146
	General Liability	17	£33,961	£0	£106,577	£140,539	£140,539
	Total	24	£42,161	£0	£144,524	£186,685	£186,685
2013	Employers' Liability	2	£360	£0	£20,034	£20,394	£20,394
	General Liability	10	£10,352	£0	£32,900	£43,252	£43,252
	Total	12	£10,712	£0	£52,934	£63,646	£63,646
Total	Total	36	£52,873	£0	£197,458	£250,331	£250,331

- 2.4 The number of days lost due to accidents is marginally adverse against target however it is anticipated that the year on year reduction target of 5% will be achieved. (Table 2 below refers)

Table 2 Days lost resulting from injury accidents (Cumulative)

- 2.5 The total number of road traffic collisions (RTCs) for the first 6 months is up 16 on last year. While this is of concern it is believed that there continues to be a more robust approach to the reporting of incidents, irrespective of severity, and what appears to be an increase in minor damage incidents e.g. broken mirrors and minor scrapes. The number of incidents where the Post Office driver is 'at fault' is showing an increase of 10 compared to last year. (Table 3 refers) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents are currently a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are extremely infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss. Currently the majority of incidents involve low speed – less than 25mph.

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Table 3 Road Traffic Collisions (cumulative)

- 2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down three on last year from 20 to 17 for the past 6 months. Physical injuries during robberies, of which there have been 5, 1 more than last year for the same period, remain relatively minor in severity. The level of use of firearms is down 2 on last year with 3 of the 17 robberies enabled by the presence and/or threat of use of fire arms and on no occasions were the firearms discharged. Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.7 Robberies and attempted robberies on the Post Office network, for the past 6 months, are up 1 on last year to 44 of which 59% were successful. Injuries sustained during robberies are down from 9 to 5. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected although Wandsworth Crown Branch suffered a robbery on 1st October 2014. Supporting activities have been introduced to continue to mitigate the robbery risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

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

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- Programme of driving and road risk communications to raise awareness of current and emerging risks

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

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

3.3 Health and Wellbeing

Healthcare interventions:

- Second programme of visits to Crown branches, Supply Chain units and Admin offices to offer health checks using equipment that provides a wide range of indicators on physical wellbeing. The anonymised data is used to develop future health and wellbeing campaigns and target interventions.
- The programme of visits is supported by an online 'Wellbeing Zone' health check tool as a 'self- help' option
- Ongoing campaign of communications to promote a range of different wellbeing issues
- Wellbeing events to promote general health, exercise and dietary initiatives

3.4 Safety

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

3.5 Asbestos Management

Transfer of the ownership of asbestos management following separation has led to a programme of actions to ensure that up-to-date surveys are available, defined responsibilities post-split are clear and that an asbestos management 'action plan' is in place to ensure that these issues can be managed effectively and in line with legislation. Legal Services have been engaged to advise on responsibilities, particularly in relation to the agency network, and to ensure arrangements for on-going management of asbestos are robust and risks mitigated.

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3.6 Network Transformation (NT) - Safety

Discussions continue with legal services in respect of responsibilities in relation to appropriate health and safety support for the agency network. Considerable time and effort has been put into defining, obtaining legal sign-off for and incrementally implementing procedures to support and improve the Health and Safety processes in relation to network transformation and associated works.

4. Residual Risks

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

5. Recommendation

The ExCo is asked to:

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

Neil Hayward
November 2014

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Appendix 1

Significant Incidents (Period 6)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
GRO	£2,870	Tue 02/9/2014 14:15. Male entered the shop and sprayed something into the eyes of staff, working cash was taken, no previous incidents.	Temporary eye irritation	
GRO	£12,891	Fri 05/9/2014 15:20. Three males entered the Branch armed with knives they jumped over the counter and made their way into the fortress they emptied the tills and fled with working cash.	None	
GRO	£4,792	Fri 12/09/2014 10:30. A male wearing a balaclava and dark glasses armed with a handgun entered the PO and threatened the staff demanding cash. The assailant was hitting the screen with the butt of the gun which the PM thought was gunfire.	None	
Supply Chain				
Location	Loss	Circumstances	Physical Injuries	Any further details
GRO	£26,000	Thu 18/09/2014 15:15. Crew member was taking 3rd I Box when three assailants attacked him, hitting him on the back of his helmet with a hammer. A second assailant was possibly armed with a gun and they fled on foot down a side street.	None	
GRO	£21,000	Thu 25/9/2014 10:15. A male in light grey track suit with hood up and wearing a balaclava, knocked into the crew member as he was walking from the van to the PO shouting give me the box; the offender then snatched the box and ran off down an adjacent alleyway.	None	