| Date: 26 November 2019 | Time 11.45 – 16.00 hrs | Location 1.19 Wakefield |
|------------------------|------------------------|-------------------------|
| | | |

| | Present | Other Attendees | | | |
|--------------|--|--|--|-------------------------|--|
| • Tim Parke | er (Chairman) • Tim Franklin • | Veronica Branton (Company Secretary) | nton • Robin Nuttall and McKinsey | | |
| Nick Read | (CEO) • Alisdair Cameron (CFO) • | Debbie Smith (CEO – Retail) (| Item • Ben Foat (Gen | eral Counsel) (Items 8. | |
| Ken McCa | all (SID) • Zarin Patel • | 10.) Mark Siviter (MD - Mails) (Ite | & 9.)m 10.)◆ Alan Watts (He | erbert Smith Freehills) | |
| Tom Coop | per • | Dan Zinner (Chief Transforma | (Item 8.) | | |
| | | Officer) (Item 7.) | | | |
| Apologies: C | aria Stent | | | | |
| Agenda It | | Action Needed | Lead | Timings | |
| Pertorma | nce and current issues | | | | |
| 1. | Appointment of Non-Executive Director | Approval | Chairman | | |
| 2. | Welcome and Conflicts of Interest | Noting | Chairman | - | |
| 3. | Minutes of Previous Board meetings includ Status Report | ing Approval | Chairman/ Veronica Branton | 11.45 – 11.55 hrs | |
| 4. | Committee updates (verbal): 4.1 ARC 4.2 Remuneration Committee 4.3 Nominations Committee | Noting & Input Note of actions to be circl Ken McCall Tim Parker | ulated | | |
| 5. | CEO Report | Noting & Input | Nick Read | 11.55– 12.25 hrs | |
| 6. | Financial 6.1 Financial Performance Report 6.2 Cash Management and Facility Manager 6.3 Borrowing Limits | Noting & Input nent Noting & Input Approval | Al Cameron | 12.25 – 13.20 hrs | |
| Lunch | 1 | 1 | | 13.20 – 13.30 hrs | |
| Strategy a | nd updates | | | | |
| 7. | Purpose, Strategy, Growth (presentation to follow) | Noting & Input | Nick Read/ Dan Zinner/ Robin Nuttall and McKinsey colleagues | 13.30 – 15.00 hrs | |
| 8. | Group Litigation Update | Noting & Input | Ben Foat/ Alan Watts | 15.00 – 15.25 hrs | |
| 9. | Framework Document and Articles of Association | Approval | Ben Foat | 15.25 – 15.35 hrs | |
| 10. | Royal Mail Update | Noting & Input | Debbie Smith/ Mark Siviter | 15.35 – 15.45 hrs | |
| Approvals | I | | | l | |
| 11. | Telecoms routers | Approval | | 15.45 – 15.50 hrs | |
| | | | | | |

STRICTLY CONFIDENTIAL

| ing and | governance items | | | |
|---------|--|------------------|----------|------------------|
| | | | | |
| 12. | 12.1 Health & Safety Report | Noting | All | 15.50 – 16.00 hr |
| | 12.2 Sealings | | | |
| | 12.3 Future Meeting Dates | | | |
| | 12.4 Forward Agenda | | | |
| 13. | Any Other Business | Noting and Input | Chairman | |
| 14. | Date of next meeting: | Noting | Chairman | |
| | - December date being sought for further PSG | | | |
| | session | | | |
| | - 28 January 2020. | | | |

| Date: 26 November 2019 | Time 11.45 – 16.00 hrs | Location 1.19 Wakefield |
|------------------------|------------------------|-------------------------|
| | | |

| | Present | | Other Attendees | | | |
|---------------|---|--------------|---|--|-------------------------|--|
| • Tim Parker | | Veron | onica Branton • Robin Nuttall and Stuart Shilson | | | |
| | | | npany Secretary) (McKinsey) (Item 8.) bie Smith (CEO – Retail) (Item • Ben Foat (General Counsel) | | | |
| Ken McCal | (SID) | 10.) Mark | Siviter (MD - Mails) (Item 10.) | & 9.) • Alan Watts (He | erbert Smith Freehills) | |
| | | | *************************************** | (Item 7.) | - | |
| Tom Coope | er • | | herry (Interim Group Head of tem 9.) | Helen Davies Q | C (Item 7.) | |
| Apologies: Ca | arla Stent | | | | | |
| Agenda Ite | | | Action Needed | Lead | Timings | |
| Performan | nce and current issues | | | | | |
| 1. | Appointment of Non-Executive Director | | Approval | Chairman | | |
| 2. | Welcome and Conflicts of Interest | | Noting | Chairman | | |
| 3. | Minutes of Previous Board meetings includ Status Report | ling | Approval | Chairman/ Veronica Branton | 11.45 – 11.55 hrs | |
| 4. | Committee updates (verbal): 4.1 ARC 4.2 Remuneration Committee 4.3 Nominations Committee | | Noting & Input Note of actions to be circulated Ken McCall Tim Parker | | | |
| 5. | CEO Report | | Noting & Input | Nick Read | 11.55– 12.25 hrs | |
| 6. | Financial 6.1 Financial Performance Report 6.2 Cash Management and Facility Management 6.3 Borrowing Limits | ment | Noting & Input Noting & Input Approval | Al Cameron | 12.25 – 13.20 hrs | |
| Lunch | | 1 | | | 13.20 – 13.30 hrs | |
| Strategy an | d updates | | | | I | |
| 7. | Group Litigation Update | | Noting & Input | Ben Foat/ Alan Watts/ Helen Davies QC | 13.30 – 14.00 hrs | |
| 8. | Purpose, Strategy, Growth | | Noting & Input | Nick Read/ Robin Nuttall/ Stuart Shilson | 14.00 – 15.25 hrs | |
| 9. | Framework Document and Articles of Association | | Approval | Ben Foat | 15.25 – 15.35 hrs | |
| 10. | Royal Mail Update | | Noting & Input | Debbie Smith/ Mark Siviter | 15.35 – 15.45 hrs | |
| Approvals | | | | 1 | 1 | |
| 11. | Telecoms routers | | Approval | | 15.45 – 15.50 hrs | |

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| loting and | d governance items | | | |
|------------|---|------------------|----------|-------------------|
| 12. | 12.1 Health & Safety Report 12.2 Sealings 12.3 Future Meeting Dates 12.4 Forward Agenda | Noting | All | 15.50 – 16.00 hrs |
| 13. | Any Other Business | Noting and Input | Chairman | |
| 14. | Date of next meeting: - December date being sought for further PSG session - 28 January 2020. | Noting | Chairman | |



POST OFFICE LIMITED BOARD

PAGE 1 OF 1
DECISION PAPER

Non-Executive Director Appointment

Author: Veronica Branton, Company Secretary Meeting date: 26 November 2019

Executive Summary

The Special Shareholder has approved the appointment of Zarin Patel as a Non-Executive Director of Post Office Limited for a three year period¹. The Nominations Committee recommends the appointment to the Board.

The Board is asked to **RATIFY** the appointment of Zarin Patel as a Non-Executive Director for Post Office Limited for a period of three years from 26 November 2019 to the nearest Board meeting three years from that date.

The Board is asked to **APPROVE** the appointment of Zarin Patel as a member of the Audit, Risk and Compliance Committee on the recommendation of the Nominations Committee.

Strictly Confidential

¹ The appointment request letter was sent on 16 October 2019, the approval letter was received on 8 November 2019 (having received email confirmation on 5 November 2019). The appointment is approved by the Special Shareholder from 5 November 2019 because approvals after this date would be caught by the purdah guidelines. Post Office Limited announced Zarin Patel's appointment on 5 November 2019 but to complete our internal governance processes are seeking the Board's ratification of the appointment at its meeting on 26 November 2019.

Tab 3.1 Minutes of the Last Meeting



POST OFFICE LIMITED BOARD MEETING Strictly Confidential and Subject to Legal Privilege – DO NOT FORWARD

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POST OFFICE LIMITED BOARD MEETING

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Tab 3.1 Minutes of the Last Meeting



POST OFFICE LIMITED BOARD MEETING Strictly Confidential and Subject to Legal Privilege – DO NOT FORWARD

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Tab 3.1 Minutes of the Last Meeting



POST OFFICE LIMITED BOARD MEETING Strictly Confidential and Subject to Legal Privilege – DO NOT FORWARD

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6. Agents' Remuneration

Debbie Smith provided an overview of the paper. The development of the retail strategy had originally been discussed by the Board in July 2018 since when the Common Issues Trial Judgment had been issued, the Select Committee hearing on the Post Office network had taken place and calls for increases in agent remuneration had increased. The fragility of the network, the struggle to attract new postmasters and churn all supported the need review agent remuneration. An additional £17m funding into the network had already been announced, largely linked to the increased transaction fees supported by Banking Framework 2. We had already communicated that there would be further announcements on agents' pay in November 2019.

The executive had been discussing options and were moving to the view that we should be spending a further £20m now and retaining £10m for potential further spend which might to link to incentives for postmasters. This was seen as a minimum requirement to stabilise the network in the short term pending a more thorough review. The proposals had been informed by insight from 50 postmasters from different parts of the network. We were attempting to focus the most benefit in the right places.

A number of points were raised, including:

- were the proposals sufficiently targeted at securing our desired outcome of stabilising the network? To what extent was this a network subsidy payment driven by wanting to avoid any postmaster operating below the national minimum wage and to what extent something we were funding to drive growth?
- there was a danger of trying to do too many small things (for example, spending money on store standards) and careful design would be required to achieve the outcomes we wanted. It was noted that we would need to measure the outcome of the investments and look at what was going to provide sustainable value in the longer term
- our starting proposition appeared to be that we were paying postmasters too little but could this
 be evidenced (for example, other franchises like PayPoint had much less generous arrangements
 in place on the provision of equipment and we knew that we were overpaying for some
 transactions)? An 8% increase in the overall bill was significant. It was reported that the adverse
 feedback on remuneration/ value associated with running a Post Office was coming for our
 multiples as well as individual postmasters
- how did the figures map across to the most vulnerable areas? We needed to remember that Post
 Office created significant footfall for multiples like the Coop
- that the retail team was handicapped by a lack of data about branch profitability and the position
 of our multiples. Employment costs were key and there was a step change in costs for agents if
 they had to employ an additional employee

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- that we were not solving the issues systemically and there was nothing to stop ongoing requests for additional funding when we were already failing to operate profitably
- that the proposals were focussed on stabilising the network over the next couple of years. Gaps would emerge as Banking Framework volumes dropped. We needed to consider whether we wanted to restructure the network
- that we still needed a deeper review on remuneration rates
- the paper needed to be clear whether any element of the remuneration increases were dependent on BEIS funding
- an efficiency lens would be helpful because our attractiveness as a franchise was not just about remuneration but also about how we make things simpler for postmasters. It was noted that part of PSG work was looking at the simplification of setting up and running a Post Office and linking everything back to our attractiveness as a franchise
- we were working on the assumption that these measures would allow us to maintain the network
 at its current level but could this be substantiated? It was noted that it was difficult to evidence a
 "tipping point" that led to a postmaster leaving and if we had a better understanding of the
 triggers this is what we would be targeting
- whether this work had been aligned with the work on Starling (workers' rights case). It was
 reported that this had been factored in, including when looking at potential arrangements for
 leave cover
- we were not thinking sufficiently about the future shape of our network when setting postmaster remuneration. We needed to strike a sustainable economic relationship with our postmasters and could not yet identify the "tipping point" for leaving Post Office or for being an attractive franchise proposition
- we were a franchise operation overlaid by a social purpose but we had to be clear that social purpose linked to customers rather than postmasters
- the narrative and communications for the announcement on the additional investment and agents' remuneration would be critical.

Chairman's summary:

The Board was concerned that we could be committing to investments which would not achieve the desired outcome. There was a danger of a continuing demand for additional funds that we could not afford. Agents' remuneration and network stability needed to be analysed further. Post Office needed to be attractive as a franchise and be able to attract the right postmasters but we did not know enough about financial situation of postmasters. We needed to be paying the right fee for the right transactions and understand the different segments of postmasters and the challenges they faced. As a starting point the Board would like to see the workings behind the model.

The Board **APPROVED** an additional £20m investment in agents' remuneration and support for changes which would be introduced from April 2020. The Board **DELEGATED AUTHORITY** to the Group CEO and CFO to finalise the list of initiatives included. The Board **APPROVED** holding a further £10m in the budget for potential additional spend on agents' remuneration and support which might include incentivising desired behaviours. Any additional spend would first need to be approved by the Board. The Board **APPROVED** the announcement of the changes in November 2019.

It was noted that the Group Chief Executive would be briefing the Minister in advance of the public announcement.

7. Payzone Bill Payments Limited

7.1 Strategy and Update

Debbie Smith introduced the paper, explained the drivers for the acquisition and how we were looking at the network. Some income had been received later than expected, revenue from ticketing was under performing and integration costs were higher than estimated. However, while the shape of returns was different we anticipated that the benefits would be realised overall.

A number of points were raised, including:

that a 7% growth in market share through a non-Royal Mail pick up and drop off service (PUDO) seemed low? It was reported that the PUDO market comprised 160m items a year. We had around a 33% market share with RM with click and collect

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- what impact would buying Doddle have on POL systems? It was reported that Doddle would work outside Horizon. It was an application that would sit on the Payzone network and would drive footfall
- that the acquisition had been rational and we were making progress in gaining market share but
 we still had to consider whether this was an area we wanted to invest in when considering our
 other investment options if the quantum was small
- were we committed to signing the contract with British Gas? It was reported that we had not
 made an announcement but the position was already known publically because PayPoint had
 reported its loss of the contract
- how did we think PayPoint's business would develop?
- that POL could not risk reputational damage linked to the operation of the Payzone business.
 Therefore, the business and the risks needed to be managed in the right way with accountability resting with its Managing Director
- would we make additional money from the BG contract? What were the incremental economics? It was reported that the British Gas contract was an enabler and facilitator for future contracts
- we needed to understand the future value we would be creating and understand all the
 opportunities owning the network provided us. It was thought that we might be underplaying
 these opportunities. It was noted that future value depended in part on IT costs because
 development of the service hinged on us moving to the cloud
- the Board was being asked to take decisions without a full understanding of all the moving parts, such as IT costs and it not been clear when we were bidding for the acquisition that we would need to invest more to win additional contracts. It was noted that the risks of not moving to the cloud were significant and the worst case outcome would be to sign up to the BG contract and then only use Horizon integration Hub (HiH) for this. We would need to take a commercial view on future deals and also consider how PayPoint was likely to react to Payzone acquiring additional market share.

It was **AGREED** that a better explanation of how the integration costs had been developed compared to the business case approved by the Board when the acquisition was made would be provided.

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8. Telecoms Strategy

Owen Woodley introduced the paper. A decision was sought from the Board to allow Fujitsu to submit a de-unified bid and accept the risks associated with this approach. We were not bound by full PCR (Public Contract Regulation) requirements but the process needed to be fair and transparent. There was a possibility that we accepted the risk and Fujitsu nevertheless dropped out of the process. If they were to drop out we would face exit and migration costs to a new supplier although the cost savings might be significant. A further paper would be brought to the November Board meeting with an update on initial bids received.

Meredith Sharples noted that there was a reasonable prospect that we would decide to sell the business but that we would have no indication of sale price for some while and would need Fujitsu's ongoing co-operation. We had the option of stopping the RFP at any time but needed to inform Fujitsu what we intended to do by 17 February 2020. Timings would be communicated to the bidders today and as early December 2019 potential bidders would be notified of intention to seek a possible sale. Bidders would be informed that we were seeking to maximise the value of the business on sale. The Board noted that an ongoing involvement for POL in telecoms should only be considered if there was a compelling offer from one of the bidders.

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Tom Cooper asked how robust our RFP process was. It was reported that the Telecoms Team had worked closely with the procurement team on documenting the process.

The Board discussed the option of a possible extension to the current agreement with Fujitsu which would be pursued, partly driven by the uncertainty on the timescales for Government approval to any outcome

The Board **APPROVED** the acceptance of the procurement risk associated with inviting the submission of a disaggregated bid and **DELEGATED AUTHORITY** to the CEO – FST&I and the Telecoms Director to make a counter offer to Fujitsu and invite them to make a disaggregated bid.

9. Next Steps on the Digital Identity Strategy

Owen Woodley introduced the paper. The Board **NOTED** the proposed short term approach and **APPROVED** a short-term extension with Digidentity, with sign-off of the terms delegated to the Group CEO and CFO. The contract expired in November 2019 but there was an option of a one year extension.

10. Group Litigation Update – subject to legal privilege

Ben Foat introduced the paper. The figures under consideration for the mediation would be discussed at the Postmaster Litigation Subcommittee. We would need to make a reasonable offer¹ to show that we were entering the mediation in good faith. Part 36 offers would be made if we were not successful and we would then need to go to a second mediation. The Horizon Issues Trial judgment would be issued shortly and we would receive 24 hours' notice of the embargoed judgment being released. An update on the known evidence logs (KELs) had been sent to the Board last weekend. The Court hearing on leave to appeal was taking place on 12 November 2019 and if we were successful the claimants were more likely to consider settlement. Mr Justice Fancourt had recently ruled on the Sheffield United case and had disagreed with Mr Justice Fraser's view on relational contracts in the Common Issues Trial judgment.

A number of points were raised, including:

- we needed to look at the whole picture including what costs might be associated with the convicted claimants. Delegated authority should be sought for the total mediation figure. Alan Watts reported that it was not necessarily a question of making an offer but looking at the figures based on a 12 month termination figure. We did not think the claimants' solicitors would be in a position to go through claimant by claimant and we were giving serious thought to what information we could share on our analysis of the claimants' cases without releasing all the work we had done. Our limiting factor was what we thought we would pay if we went through a court process, the other sides was their funding position. There was a potential to agree a number with the claimants' solicitors which covered all claimants and they could decide how to share this money.
- how would a mediator assess all of the elements of the case such as expectation damages and stigma damages? It was reported that the mediator would have to look at the gap in the figures between the two sides. The absence of clear figures from the claimants would make it difficult for the mediator. The mediator's role was to help each party see the case through the other's lens
- we needed to reach a view on sums that might be associated with stigma damages and other elements that were more difficult to define
- a review of convicted cases had been discussed at the last Postmaster Litigation Subcommittee
 meeting, had any work taken place? BF reported that we were considering how this work might
 be undertaken and by whom. Any consideration of reviewing how Post Office Limited dealt with

¹ Post-meeting note: POL's Articles of Association require that Shareholder consent is obtained for spend above £50m. However, we have been advised that BEIS/ HMT's view is, that in the case of settlement, approval would be required for any figure. This is for a number of reasons, including that the potential settlement amount being discussed is only for part of the claimant group and so the eventual number could exceed £50m and that the expenditure could be considered to be "novel, contentious or repercussive" circumstances under which Managing Public Money guidance requires prior approval to be sought.



the convicted cases would need to be discussed with Ministers. AW noted that we would have to satisfy ourselves that we had enough information to make those judgement calls and we were unlikely to have enough information to consider that before the mediation. The Horizon Issues Trial judgment would be issued shortly and the criminal claimants' position would need to be considered in light of that. Individual payments could not be made to convicted claimants. TC noted that the primary concern of the convicted claimants was for their conviction to be overturned. It was noted that these claimants had been convicted through the courts and we could only seek to offer help if we had information to suggest that any of these convictions were unsound.

The Board **NOTED** the updates in the paper including the approach being taken to mediation. The Board **AUTHORISED** the Postmaster Litigation Subcommittee to delegate to the General Counsel authority to make settlement offers at mediation on terms to be determined by the Subcommittee.

11. Starling (Workers' rights case) Update

The Board **NOTED** the approach, update and next steps. It was reported that we were satisfied with the 10 lead witnesses and our understanding of the risks associated with each case. Our witnesses would be prepared properly.

The Board **DELEGATED** decisions (including instructions on settlement receipt of making offers) for Starling to the Group Chief Executive Officer, CEO Retail and General Counsel. Significant decisions should be referred back to the Board.

12. Noting and governance items

12.1 Horizon integration Hub

The Board **NOTED** the intention to continue with the development of the Horizon integration Hub in order to deliver the next set of features that ensured delivery of services at scale to the appropriate service levels.

It was noted that approval for the development of RPos had been granted as it was required for the delivery of the British Gas contract. Self Service Kiosk development proposals (SSKs) had not yet been considered because a number of Horizon system issues had first to be determined.

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| REFERENCE | ACTION | ACTION OWNER (GE) | DUE DATE | STATUS | OPEN/CLOSED |
|--------------------------------|---|--------------------------------------|--|---|-------------|
| Board Meeting 24 May 2018 | | | | | |
| 2. Future of Banking Framework | It would be useful to have a refresher on ATMS and the history of POca before coming back to the Board on our developing strategy on these issues. | Debbie Smith/ Martin Kearsley | January 2019 July 2019 Autumn 2019 By end of financial year | The ATM strategy is coming to a conclusion with input from an OJEU procurement process to gather market data and costs. The strategy evolution is being individually briefed to all Board members in the next two weeks, prior to a formal presentation in Q4 at the appropriate Board Meeting. | Open |
| | | | | | |
| 1. Retail Strategy | The ATM Strategy should factor in our whole Cash Strategy. (We needed to analyse an investment in cash machines carefully looking at how far we would move to being a cashless society in the next 3-4 years). | Debbie Smith | July 2019 Autumn 2019 By end of financial year | The ATM strategy is coming to a conclusion with input from an OJEU procurement process to gather market data and costs. The strategy evolution is being individually briefed to all Board members in the next two weeks, prior to a formal presentation in Q4 at the appropriate Board Meeting. | Open |
| | | | | | |
| 3. Banking Framework 2 | To include the impact of a drop in banking transactions in the next Banking Framework report to Board. | Martin Kearsley | For inclusion in next Banking Framework report to Board. Autumn 2019 By end of financial year | The ATM strategy is coming to a conclusion with input from an OJEU procurement process to gather market data and costs. The strategy evolution is being individually briefed to all Board members in the next two weeks, prior to a formal presentation in Q4 at the appropriate Board Meeting. | Open |
| Board Meeting 30 April 2019 | | | | | |
| 4. Succession Planning | To provide a grid showing the key roles in the organisation (and which will link to the future organisation structure), the "top talent", "corporate pillars", who was ready for a bigger role now, who would be ready in 1-3 year time | Mo Kang Lisa Cherry/ Nick Read | July 2019 September 2019 Autumn 2019 January 2020 | To be included on the Board and/ or NomCo agendas for September 2019. Item deferred so that Nick Read has the chance to consider the GE | Open |

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| REFERENCE | ACTION | ACTION OWNER (GE) | DUE DATE | STATUS | OPEN/CLOSED |
|------------------------------------|--|------------------------|-----------------|--------------------------------------|-------------|
| | scale etc. once we had assessed the RAG status | | | structure and align with work on | |
| | and decided what we needed to do to develop these individuals. | | | Purpose, Strategy and Growth. | |
| Strategy sessions 30 & 31 July 201 | | | | | |
| 1. Cash Utility | A consultant would be engaged to review | Executive | March 2020 | The Cash Forecasting Proof of | Open |
| | operational processes/ efficiency to provide an | | | Concept project is now scheduled to | |
| | independent test. Ken McCall would be happy | | | start in early January 2020 and | |
| | to be involved in the process. | | | conclude by the 1st week in March | |
| | | | | 2020. Once we have undertaken this | |
| | | | | project we can then agree what the | |
| | | | | next steps are from a logistics and | |
| | | | | planning perspective. The ultimate | |
| | | | | aim is that once we have a robust | |
| | | | | cash forecasting solution that not | |
| | | | | only tracks and updates branch cash | |
| | | | | usage, but also product cash flows, | |
| | | | | we can determine the best logistics | |
| | | | | solution. The cash forecasting | |
| | | | | solution provides the means to | |
| | | | | create a more dynamic method of | |
| | | | | distribution coupled to accurate and | |
| | | | | robust cash data. | |
| | | | | We continue to have dialogue with | |
| | | | | third parties with regards to shared | |
| | | | | cash logistics infrastructure and | |
| | | | | possible localised outsource where | |
| | | | | we believe this will add benefit. | |
| 2. Follow-up sessions/ | The Board approved the immediate plans for | Insurance (Owen | January 2019 | Items scheduled for future Board | Open |
| implementation of strategy | Insurance, Digital Identity and Telecoms but | Woodley/ Ed Dutton) | | agendas. | |
| | asked for the executive to return with more | | | | |
| | radical longer term proposals for Insurance (and | Digital Identity (Owen | October 2019 | Update paper was provided in | Open |
| | an overview of how we were tackling each of the | Woodley/ Martin | (update paper)/ | October. | |
| | product lines in insurance) and Digital Identity | Edwards) | January 2019 | | |
| | and to bring a paper to Board to cover the | Talaa (Oaa | | | |
| | conclusion of the Telco RFP and update on the | Telco (Owen | October 2019 | Update paper was provided in | Open |
| | auction process. | Woodley/ Meredith | | October. A further paper is | |
| | | Sharples) | | | |
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| REFERENCE | ACTION | ACTION OWNER (GE) | DUE DATE | STATUS | OPEN/CLOSED | |
|--|---|----------------------------|---------------|--|-------------|--|
| | | | | scheduled for Board in January 2020. | | |
| Board meeting 23 September 201 | 9 | 1 | | | | |
| 3. Financial Performance Report | | | | | | |
| c) | Re-circulate the end-to-end cash process | Al Cameron | November 2019 | Paper on Cash and Facility Management included on the November Board agenda. | To close | |
| 8. Royal Mail Negotiations | To set out all the points of issue between us and RM in the contract negotiation, what a good outcome would be for us and for RM and track progress against these. | Mark Siviter | | | To close | |
| Board Meeting 29 October 2019 | | , | | | | |
| 3. CEO Report | To submit the STIP proposals for 2019/20 and provisional LTIP proposals for 2020/2022 to the Shareholder, in advance of the final Five Year Plan being agreed by the Board in March 2020. The recommendations would need to be approved by the Remuneration Committee prior to submission to the Shareholder. | Al Cameron/ Lisa Cherry | | There will be a dry run of the plan at Board in January 2020. | Open | |
| CEO Report | To contact our Minister, Kelly Tolhurst, to request that the approval of the POL Non-Executive appointments were agreed as soon as possible. | Tim Parker | | Done. Alex Chisholm contacted. NED appointments approved by Minister but second NED role will now need to be re-approved once new administration is in place. | To close | |
| CEO Report | To see the process map for how we sought to ensure compliance with the Dangerous Good Act. | Executive | November 2019 | Done. Paper appended to action log. | To close | |
| 4.1 Finance: Financial Performance Report | It was AGREED that we would return to Board with a network dependency strategy. | Executive | November 2019 | A paper on commercial partner contingency is on the ARC agenda for 25 November 2019 (link to Reading Room). Work is continuing on network numbers. | To close | |
| 4.1 Finance: Financial Performance Report | To see and review the plan of exiting the Belfast Data Centre over the next year. This plan would | Executive | November 2019 | Done. Paper appended to action log. | To close | |

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| REFERENCE | ACTION | ACTION OWNER (GE) | DUE DATE | STATUS | OPEN/CLOSED |
|--|---|----------------------------|---------------|--|-------------|
| | be shared as part of the November CEO report to the Board. | | | | |
| 4.2 Finance: Quarterly Delivery and Funding Report | Arrange for Tom Cooper to be taken through the Peregrine figures offline. | Al Cameron | November 2019 | Done. | To close |
| 5. Purpose, Strategy, Growth (PSG) presentation | A landscape overview on postal services (and some analysis on disruptors) in other parts of the world, including their networks, what subsidies they received, how they sought to drive growth etc., would be produced for the November Board discussion. | McKinsey | November 2019 | Done. Included on November Board agenda. | To close |
| 6. Agents' Remuneration | To provide the workings behind the model looking at potential agent initiatives and support. | Amanda Jones, Nick Beal | November 2019 | Following Board authorisation and subsequent business announcement of the additional Agents' Remuneration funding, we are now in the process of implementing the changes from next April. We will monitor and measure the impact of these changes on branch network numbers and product sales (in the relevant areas) and update further within the framework of business reporting. | To close |
| 7.1 Payzone Bills Payments Limited: Strategy and Update | To provide a better explanation of how the integration costs had been developed compared to the business case approved by the Board when the acquisition was made. | Andrew Goddard | | | Open |

PAGE 1 OF 6
BOARD NOTING PAPER

Ensuring the compliance of Dangerous Goods transactions

3.2

Author: Amanda Jones/Mark Siviter Sponsor: Debbie Smith Meeting date: 26th November 2019

Executive Summary

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Tab 3.2 Action Log

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Tab 3.2 Action Log

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Tab 3.2 Action Log

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Dangerous Goods - penalties for non-conformance

There is no contractually agreed target or an agreed target between the CAA, Royal Mail and POL. The ethos followed has been to seek continual improvement by P12 of each year. There is no indication that this will change in the immediate future but rules around the movement of items are tending to become stricter rather than looser.

There is no financial penalty for mystery shop failure but Royal Mail reserve the right to withdraw the authority for individual branches to transact any sales of parcels in the event of non-compliance. This has so far not been implemented as POL have been able to demonstrate that once a branch is identified as not complying there is a process to engage with them and provide refresher training so that Dangerous Goods acceptance improves.

Appendices - Dangerous Goods tools for acceptance

Appendix 1 - Prohibited and Restricted Items Reference

Appendix 2 - Prohibited and Restricted Items

Appendix 3 - Dangerous Goods Transaction Prompts

Appendix 4 - Prohibited and Restricted Items Compliance Workbook

All supporting material will be available in the Reading Room

3.2

Audit, Risk and Compliance Committee Update 25/11/19 Carla Stent/David Parry Key items of discussion

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1. PCI Compliance

- PCI is still out of compliance and likely to be compliant in Q1 2021 (although this is not guaranteed).
- Ingenico delivery is behind schedule.
- Action: Nick to hold CEO talks with Ingenico.
- Action: Shikha to deliver/circulate delivery plan within 2 weeks.

2. Contract Management

- Contract Management is poor with supplier contracts out of governance (impact on GDPR compliance).
- Committee approved a decentralised approach to contract management, where day to day management of contracts is close to the business.
- Contracts to be reviewed by Procurement, Legal and Finance before being signed.
- Action: Al confirmed funding would be given, both financial and cultural.

3. Emerging risk

- Branch level compliance appears to be slipping i.e. poor Telco, Travel and mystery shopping results, Fit and Proper returns not being completed or being incomplete (100 branches).
- Action: ARC to complete a deep dive in this area.

4. Partner Contingency Planning (McColls)

- · Reviewed contingency planning.
- Team to deliver next phase in March 2020 (post Christmas trading).

5. Policies Approved

- Change Management Policy
- Protecting Personal Data Policy
- Risk Policy

6. BEIS observer

- Nigel Boardman (BEIS ARC Chair) attended the meeting.
- Confirmed he felt the ARC was open, transparent, with good discussion on a number of complex areas.

7. Jenny Ellwood

The Committee thanked Jenny Ellwood for all her hard work and wished her well.

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POST OFFICE LIMITED BOARD

DISCUSSION PAPER LEGALLY PRIVILEGED

Group CEO Report

Author: Nick Read

Meeting date: 26 November 2019

Input Sought

The Board is invited to note the report and highlight any issues where a future discussion would be welcome.

As referenced in last month's report, and in light of some of my early observations around driving accountability cross the business I have implemented a new operating rhythm and meeting cadence which focuses on ensuring we have much more emphasis and control around our delivery, costs, accountability and across our product lines. This new model will take effect from w/c 18th November and comprises of the following:

- Weekly CEO Lead Team meeting shorter and focused on the week ahead and horizon scanning
- Weekly Trading & Business performance meeting attendees are key product owners and focus is purely on weekly sales and performance
- Monthly strategic GE meeting key focus is strategic and forward looking items, as well as key business and decisions with time for strategic forward looking discussion
- L40 huddles renamed Leadership Council now scheduled every fortnight, as opposed to every three weeks. Key focus is groupwide issues across the business as well as culture, purpose and ensuring cross functional alignment
- Monthly UK Operation meetings key focus is lowering costs, delivery and improving our productivity across our network
- Monthly Customer Plan key focus is improving our customer proposition and strengthening our brand across the network
- 10@10 a weekly all staff townhall huddle, on Wednesdays at 10am for 10 minutes. Key focus is on company performance and topical issues of the day and an opportunity for me to answer questions from colleagues. Held primarily in Finsbury Dials, but will be held in other locations across the year. Each session will be filmed and highlights from the update will be uploaded onto a dedicated intranet site and cascaded internally.

As part of this new model, a new engagement plan for GE and our Leadership Council is being created, to ensure we rapidly increase and improve our interactions with postmasters and spend more time outside Finsbury Dials, with our regional colleagues and in our branches with customers. I will share more details about our plans at the next Board meeting. As an example, December's GE meeting will be in Chesterfield and all GE colleagues will be 'on the road' in Christmas week meeting Postmasters and customers.

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Financial & Cash Performance

Trading Profit for the month closed £0.9m ahead of budget on an underlying basis, swinging YTD performance £0.4m ahead of budget. Against the 6+6 forecast we are £1.6m ahead, but the full year 6+6 falls around £3m short of target, and so further out performance is required. Areas of focus include; whether we have the right balance between short term Telco pricing and sale price, whether the results in protection insurance will change our view of that business and re-assessing the network to seek to stay above 11,600 branches this year.

Cash. NRF funding has returned to normal levels in Period 7, therefore we have decreased our borrowing from BEIS accordingly by £152m from prior period, closing the period with the government loan facility utilisation at £588m.

Key Business updates

Network & Christmas planning

Network development programme is still on track. Year to date we have delivered 54 DMB exits and almost 150 new network locations helping to maintain our network of around 11,600 branches. We are also on track to deliver 15 of the new parcel shop locations before Christmas with 14 already delivered. Early indications are mixed regarding number of parcels being handled each week. We are now conducting a full review of the initial pilots to inform future plans especially around branding and operational execution.

We have now concluded Project Edgware. 72 branches have been delivered to date with the remaining 2 branches on hold due to lease issues between WHS and their landlord. (Gloucester and Chelmsford). £5.6m annual benefits will be delivered each year over the 10 year contract term. We expect to have around 120 DMBs remaining at the end of March and following GE discussion our plans for 20/21 will be to divest as many as we can. The McKinsey analysis highlights how significantly loss making the estate is and we must accelerate the divestment next year.

We continue to build on our contingency planning across the business as the political landscape remains uncertain. There are various options currently being developed which would enable Post Office to respond quickly to any emergency service issues created in the network as a result of the GLO outcome or the potential collapse of a large retail partner.

Five additional mobile vans are in the process of being equipped and are on track to be ready for use by the 25th November. Additionally, the 'Post Office in a box' solution (a smaller footprint, quicker and cheaper means of local service provision) is also on track to be tested in five pilot locations across the UK by early December, in areas where we are currently experiencing service issues. Following the pilot and refinement, we plan to use this new concept more widely across the network as a contingency.

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Launch of Captial One Credit Cards

We have successfully launched two new credit cards with Capital One, only four months after signing the agreement. Our MVP went live online on 5th November (soft launch), with digital marketing following from the 12th. So far, anecdotal feedback on the customer experience has been positive; we will share the first performance metrics next month. In parallel, we are working on delivering a small branch pilot in Q4, driving a second release of journey enhancements, and building our customer understanding to refine the proposition set and features from the current MVP.

New Identity proposition

We have initiated a trial in 15 branches for a tablet-based solution for Digital Check & Send (DC&S) passport applications which will run until December. Unlike the existing DC&S solution available in 700 branches with AEI booths, this will cover all passport application types, not just adult renewals. Assuming the trial is successful, we will then roll out the solution to c.1,500 branches during the first half of 2020, eventually decommissioning the AEI service to reduce costs. Following the update provided at the October Board, negotiations are underway for a short-term extension of our contract with Digidentity, pending the conclusions of the wider strategy review to determine if digital identity is one of our 'big bets'.

Christmas planning

The Christmas Campaign landed in branches on the 11th of November and is centered on the theme 'It's Post Office Season'. The marketing material comprises of posters (for those branches with poster space available), leaflets, window vinyl and pin-pad advertising.

We are supporting Postmasters and Area Managers with access to a central app for social media content distribution. The app will store compliant, on-brand content that Postmasters can easily post on their social media channels to drive engagement and footfall to their branches. The initiative is in pilot with 500 app licenses and due to launch before the Christmas period.

Banking Framework 2

BF2 is still fully on track to launch on January 1st 2020. Barclays have reversed their decision, and we therefore have full 100% migration from BF1 to BF2. Following their climb-down Barclays will now 'agitate' from the sides – including pressurising Govt (HMT) and regulators (FCA) to put Post Office under tighter regulatory control and try to galvanise other banks to highlight issues/raise 'noise' to underline their concerns about the service (their main complaint being that we are – in their words - 'semi-monopolistic' and now dominant). We are aware of this and are actively planning a 'phase 2' of our successful reversal campaign, to work with HMT and FCA, gain assistance from BEIS and make sure any input from them is balanced and positive. Our next step is to work with FCA and HMT to understand the regulatory umbrella and to develop plans with BEIS, CA and others to ensure continued buy-in.

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ATM's

We currently host just under 2,200 ATMs located across the Post Office network. BoI has notified us that it is withdrawing from the ATM market, and we are working with them towards a contract end date of March 2022 by which time all devices will have been removed. BoI are beginning the process of removing out of licence devices, however some of these we want to retain due to their profitability. This means that if we intend to 'remain' we need to agree a retention package with BoI to avoid the removal of ATMs that we want to keep. At this early stage we believe that the case to 'remain' in the ATM market is strong. Early financial analysis shows that remaining in the market would generate £80m cash flow over an eight year period from 20/21, compared to £14m if we exited the market. To help inform our decision making we are undertaking an OJEU procurement process which is currently underway and on track for completion in April 2020. We will update the board after Christmas and deliver final recommendations in Q4 19/20.

British Gas

As you will be aware we have now signed the contract with British Gas securing an exclusive 5.5yr deal to retain the service in Post Offices, include the addition of the Payzone retail network, and remove the incumbent PayPoint service. The service will go live in Payzone stores from $1^{\rm st}$ December, with the full transition and exclusivity effective on Jan 1st, 2020. The contract will generate 72m additional transactions p/a and serve $\sim 1.8 \rm m$ customers.

Paypoint have responded as expected, encouraging BG customers to move to other energy providers & targeting Payzone agents around contract restrictions. British Gas are considering how to respond as this is a breach of Paypoint's current contract. We are now stepping up our marketing and communications to both agents and customers.

Agents' Remuneration - well received

Following the announcement earlier this month of further increases to Agents' Remuneration, we have been monitoring press coverage and postmaster feedback. Postmaster feedback via Area Managers has been very positive in the vast majority of cases inevitably wanting more detail and to understand the benefits for their individual branches, but very welcoming and recognising this is meaningful and in the right areas. The most prominent press was in the Daily Mail who led with a positive headline about the amount, welcoming the increases and implying that they have helped achieve this. This largely positive coverage, particularly using the 10% increase as a lead, was the pattern in the other press coverage. Other articles have appeared in Daily Mirror, Daily Record, Convenience Store, Talking Retail, The Grocer, Asian Trader, Post & Parcel News, Retail Newsagent, Scottish Grocer and Convenience Retailer. We will be writing to branches next week confirming the detail of the rate changes and will update with further feedback following this.

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Hothouse Programme

The Hot housing programme to develop capability of Area Managers and Postmasters to drive improved performance, has extended to a further 3 regions and will be activated in 700 branches by the end of November. Results from branches in the 1st two phases show a positive uplift in revenue relative to the control group. We are now building a case for an accelerated programme to be on the 'big bets' list. The principle of optimising our existing operation is increasingly looking like the best strategic option. This is a reflection on core capability, our capacity to deliver change and our culture of initiating something new, when results are hard to extract.

Change project spend

In P7 the Investment Committee approved additional spend for 2 large programmes: Branch Hub (Agent Self Service) and RPOS (technology for whole estate deals). We are noting this for the board but not seeking formal approval until we have completed the strategic review (PSG Project) to understand if these programmes are aligned with the long term strategy. For the moment, the programmes have approval to spend until January Board. Spend and deliverables are as follows:

- Branch Hub has spent £9.6m to P7 of their current approved £9.7m spend. The programme forecast £1.9m additionally to the end of January to complete in anticipation of a full adoption plan at the end of Q4.
- RPOS has spent £2.9m to P7. The programme forecasts spending £1.9m to the end of January to obtain 70% product completion built on HIH, a fully configured paystation device and clear Heads of Terms for The Co-Op Group

Risks & Concerns

Royal Mail - Potential Industrial Action

On 13 November the High Court ruled that CWU's postal ballot of Royal Mail employees for industrial action was unlawful, meaning no industrial action can take place until a new ballot is completed. Whilst this means we can safely say that they will not strike officially over the Black Friday, Cyber Monday weekend the CWU have now appealed the judgement. If this fails they will likely re-ballot with the possibility that if this is expedited then they could just feasibly take industrial action in mid to late December. A verbal update will be provided in the Board meeting.

Post Office Industrial Action

A ballot for industrial action at Post Office for Christmas industrial action now looks unlikely. Caution has been urged regarding any new DMB franchising announcements in the General Election campaign period because CWU would likely make political and industrial noise about this, however, with a 5 week lead in time from an announcement of a ballot to a day of action, they would need to manufacture a trade dispute by Nov 19th to call Industrial action on Christmas Eve (their traditional target).

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We continue to await the outcome from our application for permission to appeal to the Court of Appeal in respect of the Common Issues judgment and the Horizon judgment. Contingency plans are in place for when the Horizon judgment is handed down. Work is continuing on preparing our Defence in the Further Issues trial which will be filed on Monday 25 November. The mediation remains in place for 27 and 28 November notwithstanding that the parties may not have received either or one of the judgments by this time. It would be helpful for Post Office to participate in the without prejudice mediation in any event as it will provide an opportunity to gain further insight into the Claimants strategy and expectations. A verbal update will be provided in the Board meeting.

Purpose, Strategy & Growth (PSG)

Progress on our PSG strategy plans is on the agenda for later in this Board meeting.

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POST OFFICE LIMITED BOARD

PAGE 1 OF 3 DISCUSSION PAPER

October 2019 (P7) - Performance Overview

Author: Max Jacobi Sponsor: Alisdair Cameron Meeting date: 26 November 2019

Executive Summary

Context

The purpose of this paper is to summarise our financial performance, with details in the separate slide-deck.

Overview

Trading Profit for the month closed £0.9m ahead of budget on an underlying basis, swinging YTD performance £0.4m ahead of budget. On a reported basis we are £4.6m ahead YTD, before adjustments (mainly accounting change impacts, with details summarised on Page 2 and 3 of the slides).

Against the 6+6 forecast we are £1.6m ahead, but the full year 6+6 falls around £3m short of target, and so further over performance is required.

| | | | | Perio | d 7 | | | |
|-------------------------|--------|--------|----------|---------------------------|----------|----------|-------|---------------------------|
| _ | Actual | Budget | Variance | Underlying Variance to | Forecast | Variance | YoY | Underlying Variance to |
| £m | | | | Budget | | | | Forecast |
| Retail (incl. Payzone) | 55.4 | 54.2 | 1.3 | 1.3 | 54.9 | 0.5 | 4% | 0.5 |
| FS&T (incl. insurance) | 28.1 | 32.9 | (4.8) | (4.7) | 27.6 | 0.5 | -5% | 0.5 |
| identity | 4.1 | 3.1 | 1.0 | 1.0 | 4.2 | (0.1) | -20% | (0.1) |
| Supply Chain/Other | 1.6 | 1.2 | 0.4 | 0.2 | 1.4 | 0.2 | 1.2% | 0.3 |
| Total Revenue | 89.2 | 91.3 | (2.1) | (2.2) | 88.2 | 1.1 | 0% | 1.2 |
| Cost Of Sales | (11.3) | (13.1) | 1.8 | 1.5 | (11.4) | 0.1 | -3% | 0.1 |
| Net Income | 78.0 | 78.3 | (0.3) | (0.7) | 76.8 | 1.2 | 0% | 1.3 |
| Agents Pay | (36.9) | (36.7) | (0.1) | 0.2 | (35.9) | (1.0) | 12% | (0.7) |
| Staff Cost | (14.4) | {14.5} | 0.1 | (0.0) | (14.1) | (0.3) | -16% | 0.1 |
| Non staff Cost | (22.5) | {25.4} | 2.9 | 1.3 | (24.1) | 1.6 | 7% | 0.8 |
| FRES | 2.4 | 2.4 | 0.0 | 0.0 | 2.3 | 0.2 | -22% | 0.2 |
| Other income | 1.3 | 1.1 | 0.1 | 0.1 | 1.3 | (0.0) | -10% | (0.0) |
| Trading Profit | 7.9 | 5.2 | 2.7 | 0.9 | 6.2 | 1.7 | -29% | 1.6 |
| Network Subsidy Payment | 4.8 | 4.8 | 0.0 | 0.0 | 4.8 | 0.0 | -17% | 0.0 |
| EBITDA | 12.7 | 10.0 | 2.7 | 0.9 | 11.0 | 1.7 | -25% | 1.7 |
| Depreciation | (17.8) | (11.3) | (6.4) | (6.4) | (9.8) | (0.8) | 94% | (8.0) |
| interest | (1.8) | (0.8) | (1.0) | (1.0) | (0.9) | (0.9) | 176% | (0.9) |
| Change Spend | {5.2} | (6.8) | 1.6 | 1.6 | (11.1) | 5.9 | -15% | 5.9 |
| Investment Funding | 4.0 | 4.0 | 0.0 | 0.0 | 4.0 | 0.0 | -79% | 0.0 |
| Profit On Asset Sales | 0.2 | 0.0 | 0.2 | 0.2 | 0.0 | 0.2 | -90% | 0.2 |
| Profit Before Tax | (7.9) | (5.0) | (2.9) | (4.7) | (6.8) | (1.1) | -136% | (1.1) |

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| | | | | Year | o date | | | |
|-------------------------|---------|---------|----------|-------------------------------------|----------|----------|-------|---------------------------------------|
| £m | Actual | Budget | Variance | Underlying Variance to Budget | Forecast | Variance | YoY | Underlying Variance to Forecast |
| Retail (incl. Payzone) | 335.5 | 332.3 | 3.2 | 5.2 | 335.0 | 0.5 | 3% | 0.5 |
| FS&T (incl. Insurance) | 186.2 | 205.2 | (19.1) | (16.1) | 185.7 | 0.5 | -2% | 0.5 |
| Identity | 25.2 | 23.4 | 1.8 | 1.8 | 25.3 | (0.1) | -27% | (0.1) |
| Supply Chain/Other | 8.2 | 7.9 | 0.4 | 0.5 | 8.0 | 0.2 | 5% | 0.3 |
| Total Revenue | 555.2 | 568.9 | (13.7) | (10.6) | 554.1 | 1.1 | -1% | 1.2 |
| Cost Of Sales | (72.0) | (80.1) | 8.1 | 5.3 | {72.1} | 0.1 | -3% | 0.1 |
| Net Income | 483.2 | 488.7 | (5.5) | (5.3) | 482.0 | 1.2 | 0% | 1.3 |
| Agents Pay | (224.8) | (224.8) | (0.0) | 4.0 | (223.8) | (1.0) | 8% | (0.7) |
| Staff Cost | (103.8) | (100.9) | (2.9) | (0.6) | (103.5) | (0.3) | -6% | 0.1 |
| Non staff Cost | (152.9) | (165.9) | 14.0 | 3.1 | (154.5) | 1.6 | -9% | 0.8 |
| FRES | 22.6 | 23.9 | (1.4) | (1.4) | 22.4 | 0.2 | -11% | 0.2 |
| Other Income | 8.2 | 7.8 | 0.5 | 0.5 | 8.3 | (0.0) | 0% | (0.0) |
| Trading Profit | 32.5 | 27.9 | 4.6 | 0.4 | 30.8 | 1.7 | 0% | 1.5 |
| Network Subsidy Payment | 29.8 | 29.8 | 0.0 | 0.0 | 29.8 | 0.0 | -17% | 0.0 |
| EBITDA | 62.3 | 57.7 | 4.5 | 0,4 | 60.7 | 1.7 | -9% | 1.7 |
| Depreciation | (85.7) | (75.7) | (10.0) | (10.0) | (77.7) | (8.0) | 84% | (8.0) |
| interest | (7.3) | (5.1) | (2.2) | (2.2) | (6.4) | (0.9) | 50% | (0.9) |
| Change Spend | (39.5) | (39.7) | 0.2 | 0.2 | (45.3) | 5.9 | -33% | 5.9 |
| investment Funding | 25.0 | 25.0 | 0.0 | 0.0 | 25.0 | 0.0 | -77% | 0.0 |
| Profit On Asset Sales | 1.9 | 0.0 | 1.9 | 1.9 | 1.7 | 0.2 | -38% | 0.2 |
| Profit Before Tax | (43.2) | (37.7) | (5,4) | (9.6) | (42.1) | {1.1} | -162% | (1.1) |

Retail performed well against budget and forecast in Period 7, with slight upsides in Lottery from high jackpots in month, and payment services helped by a one-off Santander true up. Q4 remains key for payment services with opportunities such as British Gas crystallising. Overall, weekly customer sessions are ahead of target and have increased 1.9% YoY.

Identity's forecasted over budgeted performance continues, boosted by a £0.5m one off payment from agreeing a better backdated price for Vehicle tax with DVLA.

FS&T is broadly in line with forecast, with slight upsides from the recent MoneyGram incentive and increased FRES margins. Travel money is starting to recover in the lower season, and online margins were also reduced to increase sales.

Telco continues to underperform against budget, with high levels of fibre churn persisting, with this being further discussed in slides 13-15. The overall market mix is weighting more and more towards high speed (75Mb+) connections and away from slower ADSL. This is putting pressure on the oppositely weighted Post Office customer base, and is driving (and will likely continue to drive) further high levels of churn to fibre.

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PO Insurance performed in line with 6+6 forecast, but continues to track below budget. Protection cancellation levels remain an area of focus with Royal London.

Change expenditure continues to be incurred more slowly than budget and forecast, £7m behind latest 6+6 re-forecast. In month Retail spend was particularly down (against budget and forecast) due to slower than anticipated British Gas contract agreement. Change benefits are (£6.3m) behind budget YTD, but on track compared with latest re-forecast, where the impact of the Peregrine deal shift has been taken in to account.

The full year change spend forecast still remains over budget, however, this is likely to be driven down by prioritisation over the coming months, as the aim is to be below budget for the year.

Cash. NRF funding has returned to normal levels in Period 7, therefore we have decreased our borrowing from BEIS accordingly by £152m from prior period, closing the period with the government loan facility utilisation at £588m. Working capital trends are also being reviewed to further understand the impact the changes in withdrawals and deposit profiles is having on our headroom.

We have ongoing communication with UKGI and BEIS regarding the receipt of the final £42m investment funding sum.

Network numbers continued to decline, although at a slower rate, with new locations ramping up after a slow H1, and a spike in temporary closures (further analysis provided in slide 7). Whilst safely above our minimum requirement of 11,500, our current worst case forecast for the year potentially trends slightly below our internal target of 11,600. Further reviews have therefore been agreed to make sure we maintain at least 11,600 through next year.

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Period 7 (October) 19/20 **Financial Performance Review**

26th November 2019

Overall Trading vs Budget



A good month has pushed us back above budget YTD on an underlying basis, but there is still risk from a full year perspective.

| | Period 7 | | | | | | | | | Year to date | | | | | | | | | |
|------------------------|----------|--------|----------|-------|-------------------|--------|---------------|------------------------|---------|--------------|----------|-------|-------|-------------------|--------|---------------|---------|------------------------|--|
| £m | Actual | Budget | Variance | YoY | Accounting Adj | Timing | Budget Adj | Underlying Variance | Actual | Budget | Variance | YoY | GLO | Accounting Adj | Timing | Budget Adj | One off | Underlying Variance | |
| Retail (incl. Payzone) | 55.4 | 54.2 | 1.3 | 4% | | | | 1.3 | 385.5 | 382.3 | 3.2 | 336 | , | | | | | 3.2 | |
| FS&T (incl. insurance) | 28.1 | 32.9 | (4.8) | -5% | 0.1 | | | (4.7) | 196.2 | 205.2 | (19.1) | -2% | | 2.9 | | | | (16.1) | |
| identity | 4.1 | 3.1 | 1.0 | -20% | | | | 1.0 | 25.2 | 23.4 | 1.8 | -27% | | | | | | 1.8 | |
| Supply Chain/Other | 1.6 | 1.2 | 0.4 | 12% | | (0.2) | | 0.2 | 8.2 | 7.9 | 0.4 | 5% | | | 0.1 | | | 0.5 | |
| Total Revenue | 89.2 | 91.3 | (2.1) | 0% | 0.1 | (0.2) | 0.0 | (2.2) | 555.2 | 568.9 | (13.7) | -1% | 0.0 | 2.9 | 0.1 | 0.0 | 0.0 | (10.6) | |
| Cost Of Sales | (11.3) | (13.1) | 1.8 | -3% | (0.3) | | | 1.5 | (72.0) | (80.1) | 8.1 | -3% | , | (2.8) | | | | 5.3 | |
| Net Income | 78.0 | 78.3 | (0.3) | 0% | (0.2) | (0.2) | 0.0 | (0.7) | 483.2 | 488.7 | (5.5) | 0% | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | (5.3) | |
| Agents Pay | (36.9) | (36.7) | (0.1) | 12% | | 8.3 | | 0.2 | (224.8) | (224.8) | (0.0) | 8% | 8.7 | | 8.8 | | | 4.0 | |
| Staff Cost | (14.4) | (14.5) | 0.1 | -16% | | (0.2) | 0.1 | (0.0) | (103.8) | (100.9) | (2.9) | -6% | 0.5 | | 0.7 | 8.8 | 0.4 | (0.6) | |
| Non staff Cost | (22.5) | (25.4) | 2.9 | 7% | (0.6) | (0.9) | (0.1) | 1.3 | (152.9) | (166.9) | 14.0 | -9% | (4.2) | (4.6) | (1.2) | (0.8) | | 3.1 | |
| FRES | 2.4 | 2.4 | 0.8 | -2.2% | | | | 0.0 | 72.6 | 23.9 | (1.4) | -1.1% | , | | | | | (1.4) | |
| Other income | 1.5 | 1.1 | 0.1 | -10% | | | | 0.1 | 9.2 | 7.8 | 0.5 | 0% | 6 | | | | | 0.5 | |
| Trading Profit | 7,9 | 5.2 | 2.7 | -29% | (0.8) | (1.0) | 0.0 | 0.9 | 32.5 | 27.9 | 4.6 | 0% | 0.0 | {4.5} | (0.1) | 0.0 | 0.4 | 0.4 | |

- Strong trading in Retail and one-off backdated vehicle tax price increase in Identity, have partially offset continued underperformance in Telco.
- Whilst there are signs that Travel is recovering, Insurance continues to suffer from very tough market conditions.
- Property rebates and planned marketing savings have improved trading profit as part of a conscious push on costs, as the current H2 forecast delivers a below target trading performance, necessitating tight cost control to improve full year profit.

Overall Trading vs Forecast

October closed ahead of expectations, however, this is against a below target forecast backdrop.



| | | | | Period | | | | | | | ear to dat | | | |
|------------------------|--------|----------|----------|--------|--------|---------------|------------------------|---------|----------|----------|------------|--------|---------------|------------------------|
| £m | Actual | Forecast | Variance | YoY | Timing | Budget Adj | Underlying Variance | Actual | Forecast | Variance | YoY | Timing | Budget Adj | Underlying Variance |
| Retail (incl. Payzone) | 55.4 | 54.9 | 0.5 | 4% | | | 0.5 | 335.5 | 335.0 | 0.5 | 3% | | | 0.5 |
| FS&T (incl. Insurance) | 28.1 | 27.6 | 0.5 | -5% | | | 0.5 | 186.2 | 185.7 | 0.5 | -2% | | | 0.5 |
| Identity | 4.1 | 4.2 | (0.1) | -20% | | | (0.1) | 25.2 | 25.3 | (0.1) | -27% | | | (0.1) |
| Supply Chain/Other | 1.6 | 1.4 | 0.2 | 12% | 0.1 | | 0.3 | 8.2 | 8.0 | 0.2 | 5% | 0.1 | | 0.4 |
| Total Revenue | 89.2 | 88.2 | 1.1 | 0% | 0.1 | 0.0 | 1.2 | 555.2 | 554.1 | 1.1 | -1% | 0.1 | 0.0 | 1.2 |
| Cost Of Sales | (11.3) | (11.4) | 0.1 | -3% | | | 0.1 | (72.0) | (72.1) | 0.1 | -3% | | | 0.1 |
| Net Income | 78.0 | 76.8 | 1.2 | 0% | 0.1 | 0.0 | 1.3 | 483.2 | 482.0 | 1.2 | 0% | 0.1 | 0.0 | 1.3 |
| Agents Pay | (36.9) | (35.9) | (1.0) | 1.2% | 0.3 | | (0.7) | (224.8) | (223.8) | (1.0) | 8% | 0.3 | | (0.7) |
| Staff Cost | (14.4) | (14.1) | (0.3) | -16% | 0.2 | 0.1 | 0.1 | (103.8) | (103.5) | (0.3) | -6% | 0.2 | 0.1 | 0.0 |
| Non staff Cost | (22.5) | (24.1) | 1.6 | 7% | (0.8) | (0.1) | 0.8 | (152.9) | (154.5) | 1.6 | -9% | (0.8) | (0.1) | 0.7 |
| FRES | 2.4 | 2.3 | 0.2 | -22% | | | 0.2 | 22.6 | 22.4 | 0.2 | -11% | | | 0.2 |
| Other Income | 1.3 | 1.3 | (0.0) | -10% | | | (0.0) | 8.2 | 8.3 | (0.0) | 0% | | | (0.0) |
| Trading Profit | 7.9 | 6.2 | 1.7 | -29% | (0.2) | 0.0 | 1.6 | 32.5 | 30.8 | 1.7 | 0% | (0.1) | 0.0 | 1.6 |

- Slight positive trading upside (after Agents Pay), boosted by non-staff costs savings, especially within marketing.
- Whilst this is a positive start to H2, the 6+6 full year forecast fell circa £3m short of Budget, therefore we need to maintain focus on cost savings to ensure we overachieve on this forecast and get back on track.

POL Scorecard



Improved but still mixed trading performance in period, and increased cash headroom levels.

| Post Office Balanced Scorecard - 19/ | 20 | | Period 7 | | | ΥΤD | | 3-month 12-month Rolling Rolling Average Average | | Trend Line | RAG Status | Commentary/ Actions |
|---|----------|------|-----------|-----------|-----------------|-----------|-----------|--|---------|--|---------------|--|
| | Area | Unit | Actual | Target | 6+6 Forecast | Actual | Target | Actual | Actual | | | |
| Commercial | | | | | | | | | | | | |
| Trading Profit | All | £m | 7.9 | 5.2 | 6.2 | 32.5 | 27.9 | 2.8 | 5.1 | \~~^\^ | 0 | |
| Customer Sessions per week | Retail | # | 10.4 | 10.2 | 10.2 | 10.2 | 10.0 | 10.2 | 10.5 | | | |
| YoY Volume Growth in Labels | Retail | % | 1.1% | 0.1% | 0.1% | 0.6% | 0.1% | 0.0% | 3.1% | | • | |
| YoY Volume Growth in Withdrawals | Retail | % | 7.0% | 0.6% | 7.9% | 7.3% | 3.2% | 7.7% | 9.4% | | | |
| YoY Volume Growth in Deposits | Retail | % | 38.0% | 22.1% | 41.3% | 36.8% | 22.1% | 40.0% | 35.6% | | • | |
| Travel Money Market Share - Branch * | FS&T | % | 24 0% | 25 0% | 25.0% | 24.0% | 25.0% | 25.0% | 0.0% | | 0 | Same as below |
| Travel Money – (Branch Sales Volumes) | FS&T | # | 584,543 | 545,045 | 573,029 | 4,320,267 | 4,622,897 | 590,857 | 617,181 | /_ | • | The uncertainty around Brexit and collapse of Thomas cook has had adverse impact on customer confidence |
| Average Number of FS&T and POI Products per Customer | FS&T | # | 1.37 | 1.40 | 1.40 | 1.37 | 1 40 | 1.37 | 1.37 | | ٥ | We are currently reviewing key customer journeys and developing more automated cross-self programmes to meet customer's need at the right time, with a FY expectation to reach the 1.4 target. |
| Fibre Customer Net Adds | FS&T | # | 5,342 | 3,656 | 5,140 | 18,217 | 16,457 | 3,951 | 1,827 | | 0 | |
| Total Passport Market Volume | Identity | % | 415,689 | 369,745 | 447,850 | 3,590,628 | 3,722,094 | 409,021 | 523698 | | | YTD variance v Budget is impacted by the effect of Brexit, application renewals were brought forward in 18/19, having an adverse impact in 19/20 |
| # Verify Accounts | Identity | ži. | 2,438,226 | 2,478,903 | 2,464,008 | 2,438,226 | 2,478,903 | 97,910 | 97,245 | A second of the second of the second of the second | 0 | YTD variance less than 0.1% slightly behind target |
| Total Sales & Renewals Policy Volumes | POI | #k | 95 | 110 | 97 | 858 | 1003 | 107 | 105 | \ | 0 | Travel market down and high-level of competition on all channels. |
| Net Promoter Score | POI | # | 52 | 36 | 52 | 46 | 36 | 52 | 46 | All Property and the second se | 0 | |
| Cash Headroom | All | £m | 362 | 200 | 200 | 362 | 200 | 275 | 328 | /~/~~. | 0 | |
| Net Funding Position | All | £m | (778.0) | (793.6) | (793.6) | (778.0) | (793.6) | (845.4) | (819.2) | 1 | 0 | |
| Net Borrowing | All | £m | (598.0) | (750.0) | (750.0) | (588.0) | (750.0) | (675.3) | (821.6) | _~~^ | | |

POL Scorecard continued

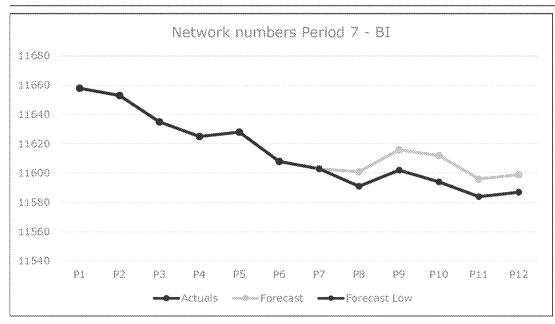
Network numbers continue to be lower than expectations, and representation levels continue to be reviewed.



| Post Office Balanced Scorecard - 19/ | | | Period 7 | | | AID | | 3-month 12-month Rolling Rolling Average Average | | Trend Line | RAG Status | Commentary/ Actions |
|--|--------|------|----------|--------|-----------------|--------|--------|--|--------|--|---------------|--|
| | Area | Unit | Actual | Target | 6+6 Forecast | Actual | Target | Actual | Actual | | | |
| Network and Customer | | | | | | | | | | | | |
| Number of Branches | 000 | # | 11,603 | 11,640 | 11,640 | 11,603 | 11,640 | 11,613 | 11,620 | The sales had been an alternative and the sales and the sales and the sales are the sales and the sales are the sa | 0 | |
| Cost of loss making branches against subsidy | All | £m | 6.1 | 4.2 | 4.2 | 43.0 | 29.2 | 6.1 | 6.1 | | 0 | |
| Postmaster Variable Income Share | Retail | % | 0% | 0% | 0% | 0% | 0% | | | | 0 | |
| Qualtrics Customer Feedback; Ease | Retail | % | 86% | 82% | 82% | 81% | 82% | 83% | 84% | | 0 | New supplier transition lowered the metrics earlier in the year, with scores now starting to improve. |
| Network Branch Churn | coo | # | 44 | 65 | 65 | 325 | 451 | 44 | 42 | | 0 | |
| Operational | | | | | | | | | | | | |
| # of High Impact Traction Control Gaps | Fin | # | 2 | 0 | 0 | 2 | 0 | 2 | 2 | | 0 | Both items relate to CWC cash management system. A manual workaround is in place, with a permanent fix being prioritised. |
| Female Representation in Senior Roles (%) | HR | % | 42.6% | 43.9% | 43.9% | 42.6% | 43.9% | 42.4% | 42.8% | $\Delta \omega \Delta \omega$ | 0 | |
| BAME Representation in Senior Roles (%) | HR | 0% | 10.1% | 12.8% | 12.8% | 10.1% | 12.8% | 10.5% | 10.1% | | 0 | HR are working with the POEM network to analyse the data to identify the lowest representation areas. |
| Absence (%) | HR | % | 3.4% | 3.3% | 3.1% | 3.1% | 3.3% | 3.3% | 3.2% | ~~~ | 0 | |
| Lost Time Injury Frequency Rate | HR | # | 0.000 | 0.200 | 0.200 | 0.149 | 0.200 | 0.122 | 0.187 | ~_^\ | 0 | |

POST OFFICE

Branch NumbersForecasting to continue the decline for FY, but still remain above 11,500.



| | | Start of | Rolling | Var to | |
|-------|--------|-----------|---------|--------|---------|
| Month | Actual | | | | MoM vai |
| | 18 | /19 outti | Jrn 116 | 60 | |
| P1 | 11658 | | | -2 | 11658 |
| P2 | 11653 | 11651 | | -5 | 11653 |
| Р3 | 11635 | 11640 | | -18 | 11635 |
| P4 | 11625 | 11636 | | -10 | 11625 |
| P5 | 11628 | 11606 | | +3 | 11628 |
| P6 | 11608 | 11621 | | -20 | 11608 |
| P7 | 11603 | 11618 | 11608 | -5 | 11603 |
| P8 | | 11601 | 11592 | | |
| Р9 | | 11616 | 11602 | | |
| P10 | | 11612 | 11594 | | |
| P11 | | 11596 | 11585 | | |
| P12 | | 11599 | 11587 | | |

In period 7 there have been 55 branches which were reported trading that did not in period 6 (e.g. NNL and reopening branches and access point activity). These were fully offset by 60 branches which did not report a customer session in period 7. 41 of these were branch closures, 15 branches were converting model, with the remainder driven by outreach / access points not recording trading activity.

The end of year forecast is now below 11,600, as there are a number of closures planned in Q4 which are partly driven by multiple partner resignations (McColl's and CJ Lang). These are predicted to lessen the impact of the returning outreach services and remaining Q4 delivery pipeline.

It is expected that there will be a increase toward period 9 as the mobile vans are re-established and the planned 26 ND branches are opened.

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Branch Numbers

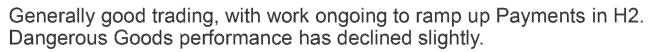


New locations are ramping up after a slow H1, although a spike in temporary closures has offset this recently.

| | | | Branch N | lumbers | | | | |
|--------------------------|--------|--------|----------|---------|--------|--------|--------|-------------|
| | P1 | P2 | P3 | P4 | P5 | P6 | P7 | YTD Average |
| Opening Branch Numbers | 11,660 | 11,658 | 11,653 | 11,635 | 11,625 | 11,628 | 11,608 | 11,638 |
| New Network Locations | 17 | 17 | 8 | 15 | 18 | 26 | 31 | 19 |
| Resignation | (14) | (18) | (21) | (19) | (22) | (21) | (21) | (19) |
| Suspension | (11) | (4) | (6) | (8) | (4) | (4) | (8) | (6) |
| Acesss Point Openings | 8 | 9 | 7 | 9 | 19 | 15 | 7 | 11 |
| Other | (6) | (2) | (3) | (8) | (5) | (12) | (6) | (6) |
| Permanent Moves Subtotal | (6) | 2 | (15) | (11) | 6 | 4 | 3 | (2) |
| Reopening | 26 | 21 | 27 | 21 | 15 | 15 | 17 | 20 |
| Temp Closure | (6) | (10) | (11) | (8) | (6) | (35) | (10) | (12) |
| Conversions | (16) | (18) | (19) | (12) | (12) | (4) | (15) | (14) |
| Temporary Moves Subtotal | 4 | (7) | (3) | 1 | (3) | (24) | (8) | (6) |
| Net Openings/(Closures) | (2) | (5) | (18) | (10) | 3 | (20) | (5) | (8) |
| Closing Branch Numbers | 11,658 | 11,653 | 11,635 | 11,625 | 11,628 | 11,608 | 11,603 | 11,630 |

Whilst the low levels of new locations (and access points) in Q1 has stabilised in recent months, the overall rest of year outlook looks relatively flat.

Retail Scorecard





| Retail Scorecard - FY19/20 | | _ | | Period 7 | | YID | | 3-menth Rolling Average | l 2-month Rolling Average | Trend Line | RAG Status | Commentary/ Actions |
|-----------------------------------|---------|------|--------|----------|-----------------|--------|--------|-------------------------------|---------------------------------|--|---------------|--|
| | Area | Unit | Actual | Target | 6+6 Forecast | Actual | Target | Actual | Actual | | | |
| Financial | | | | | | | | | | | | |
| Retail Gross Income | Retail | £m | 55.4 | 54.2 | 54.9 | 335.4 | 332.3 | 47.0 | 48.9 | | 0 | |
| Retail Trading Profit | Retail | £m | 13.2 | 12.3 | 12.6 | 78.5 | 74.8 | 9.9 | 11.7 | -/-/ | • | |
| Customer Sessions per week | Network | # | 10.4 | 10.2 | 10.2 | 10.2 | 10.0 | 10.2 | 10.5 | | 0 | |
| Mails/Retail/Lottery Gross Income | M/R/L | £m | 36.8 | 36.4 | 36.5 | 219.8 | 218.2 | 31.0 | 32.8 | VVVV | 0 | |
| YoY Volume Growth in Labels | M/R/L | % | 1.1% | 0.1% | 0.1% | 0.6% | 0.1% | 0.0% | 3.1% | | • | |
| Banking Gross Income | C&B | £m | 11.1 | 10.5 | 11.2 | 67.15 | 65.50 | 9.38 | 9.25 | | | |
| YoY Volume Growth in Withdrawals | C&B | % | 7% | 1% | 8% | 7% | 3.2% | 8% | 9% | | 0 | |
| YoY Volume Growth in Deposits | C&B | % | 38% | 22% | 41% | 37% | 22% | 40% | 36% | | | |
| Payments Gross Income | PS | £m | 3.1 | 3.2 | 3.0 | 18.5 | 20.0 | 2.5 | 2.6 | $/ \sim $ | ۰ | Opportunities (British Gas) materialising in Q4 which will offset the current variance |
| DMB Programme Benefits *** | Prog | £k | 637 | 649 | 637 | 3,133 | 3,133 | 515 | | | | Project variance report against 6+6 forecast |
| DMB Programme Costs *** | Prog | £k | 1,561 | 1,133 ¦ | 2,181 | 14,400 | 15,020 | 2,042 | 2,057 | And the same of th | | Project variance report against 6+6 forecast |
| Network and Customer | | | | | | | | | | | | |
| New Network Locations (#) | Prog | # | 33 | 20 | 32 | 139 | 110 | 25 | 27 | | 0 | |
| Qualtrics Customer Feedback: Ease | RD | % | 86% | 82% | 82% | 81% | 82% | 83% | 84% | | 0 | New supplier transition lowered the metrics earlier in the year, with scores now starting to improve. |
| Mystery Shopper - Dangerous Goods | Mails | % | 58% | 100% | 100% | 61% | 100% | 58% | 60% | | ۱ | Horizon transactions are being reviewed and further changes are being explored to improve the overall performance. |
| Operational | | | | | | | | | | | | |
| Mails Segregation | M/R/L | % | 94% | 95% | 95% | 94% | 95% | 94% | 92% | | 0 | |
| BF SLA | C&B | % | G | G | G | G | G I | | | | ۰ | |
| POCA Monthly Account Closures | C&B | #k | 20 | 28 ! | 28 | 132 | 194 | 21 | 17 | / | 0 | |
| ATM Availability | C&B | % | 95 1% | 96 0% | 96.0% | 95 1% | 96 0% | 94 6% | 94.4% | | 0 | ATM availability impacted by the incentive to reduce cash holdings in high risk areas. |
| Cash & Banking Project Progress | C&B | RAG | G | G | G | G | G | | | | 0 | |
| Payment Services Project Progress | PS | RAG | G | G į | G | G | G | | | | 0 | |
| DMB Exits *** | Prog | # | 5 | 5 ! | 5 | 47 | 48 | 5 | 8 | and the same of the land of the same of the | 0 | Project variance report against 6+6 forecast |

^{****} YTD Variance based on 6+6 Forecast

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Retail (inc. Payzone)

Good performance against forecast and strong YoY growth.

| Т |
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| | | | | | Pe | riod 7 | | | | | | | | Ye | ar to d | ate | | |
|------------------|--------|--------|----------|------------|----------|--------|-----|--------|------------|---------------------------------------|---------|---------|----------|------|---------|--------|------------|-------------------------------------|
| £m | Actual | Budget | Variance | Forecast \ | /ariance | YoY | GLO | Timing | Budget Adj | Underlying Variance to Forecast | Actual | Budget | Variance | YoY | GLO | Timing | Budget Adj | Underlying Variance to Budget |
| Mails Trading | 27.6 | 27.5 | 0.1 | 27.9 | (0.3) | 4% | | | | (0.3) | 164.2 | 162.8 | 1.4 | 3% | | | | 1.4 |
| Mailwork | 0.8 | 0.9 | (0.1) | 0.8 | (0.0) | -5% | | | | (0.0) | 5.5 | 6.4 | (0.9) | -25% | | | | (0.9) |
| Mails Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -1447% | | | | 0.0 | 8.1 | 0.1 | (0.0) | 48% | | | | (0.0) |
| RM Annual Fee | 4.4 | 4.4 | (0.0) | 4.4 | (0.0) | -2% | | | | (0.0) | 27.0 | 27.4 | (0.4) | -3% | | | | (0.4) |
| Gift Cards | 0.4 | 0.5 | (0.1) | 0.4 | (0.1) | -7% | | | | (0.1) | 2.4 | 2.7 | (0.2) | 5% | | | | (0.2) |
| Lattery | 3.2 | 2.8 | 0.5 | 2.9 | 0.3 | 8% | | | | 0.3 | 19.1 | 17.5 | 1.6 | 5% | | | | 1.6 |
| POCa | 1.8 | 1.7 | 0.1 | 1.8 | (0.0) | -32% | | | | (0.0) | 13.7 | 13.0 | 0.7 | -24% | | | | 0.7 |
| Payment Services | 2.3 | 2.0 | 0.2 | 2.0 | 0.3 | 5% | | | | 0.3 | 12.9 | 13.0 | (0.2) | -8% | | | | (0.2) |
| Payzone | 0.9 | 1.2 | (0.3) | 1.0 | (0.1) | -1% | | | | (0.1) | 5.8 | 7.0 | (1.2) | 118% | | | | (1.2) |
| ATMs | 2.6 | 2.4 | 0.2 | 2.4 | 0.2 | -4% | | | | 0.2 | 16.0 | 15.4 | 0.6 | -7% | | | | 0.6 |
| Banking Services | 11.1 | 10.5 | 0.6 | 11.2 | (0.1) | 20% | | | | (0.1) | 67.2 | 55.5 | 1.7 | 17% | | | | 1.7 |
| Other Retail | 0.4 | 0.2 | 0.2 | 0.1 | 0.3 | 7.2% | | | | 0.3 | 1.4 | 1.5 | (0.1) | -23% | | | | (0.1) |
| Total Revenue | 55.4 | 54.2 | 1.3 | 54.9 | 0.5 | 4% | 0.0 | 0.0 | 0.0 | 0.5 | 335.5 | 332.3 | 3.2 | 3% | 0.0 | 0.0 | 0.0 | 3.2 |
| Cost Of Sales | {17} | (1.6) | (0.0) | (1.7) | (0.0) | -5% | | | | (0.0) | (11.6) | (11.8) | 0.3 | -9% | | | | 0.3 |
| Net Income | 53.8 | 52.5 | 1.2 | 53.3 | 0.5 | 5% | 0.0 | 0.0 | 0.0 | 0.5 | 323.9 | 320.5 | 3.4 | 3% | 0.0 | 0.0 | 0.0 | 3.4 |
| Agents Pay | (32.3) | (32.2) | (0.1) | (31.6) | (0.7) | 14% | | 0.3 | | (0.4) | (191.9) | (190.9) | (0.9) | 9% | 2.9 | 0.3 | | 2.2 |
| Staff Costs | (6.0) | (5.7) | (0.2) | (6.0) | 0.1 | -26% | | | 0.1 | 0.2 | (40.1) | (38.6) | (1.5) | -19% | 0.1 | | 0.8 | (0.5) |
| Non Staff Costs | (3.6) | (3.4) | (0.3) | (4.3) | 0.7 | n/a | | (0.5) | (0.1) | 0.1 | (21.8) | (29.7) | 1.9 | n/a | | (2.1) | (0.8) | (1.1) |
| Other Income | 1.3 | 1.1 | 0.1 | 1.3 | (0.0) | -10% | | | | (0.0) | 8.2 | 7.8 | 0.5 | 9% | | | | 0.5 |
| Trading Profit | 13.2 | 12.5 | 0.7 | 12.6 | 0.6 | 4% | 0.0 | (0.2) | 0.0 | 0.4 | 78.4 | 75.1 | 3.4 | 5% | 3.0 | (1.8) | 0.0 | 4.5 |

Trading broadly in line with forecast, with slight upsides in Lottery from high jackpots in month, and payment services from a one-off Santander true up.

Mails trading down on forecast, but remains 4% up YoY, predominantly driven by growth in Home Shopping Returns. Year to date increased mails income against budget has led to higher Mails Distribution Agreement VAT accrual. This is the main driver of the non-staff costs overspend.

Agents Pay in period includes £0.2m accrual catch up and £0.3m timing.

FS&T, POI & Identity Scorecard
Signs of improvement in month for Travel, with Telco showing low average revenues OFFICE and high churn to fibre.

| FS&T, POI & Identity Scorecard - 1 | 9/20 | | | Period 7 | | 771 | | 3-month Rolling Average | 12-month Rolling Average | Trend Line | RAG Status | Commentary/ Actions |
|--|--|------|---------|----------|--------------|-----------|-----------|-------------------------------|--------------------------------|--|---------------|---|
| | Area | Unit | Actual | Target | 8+8 Forecast | Actual | Target | Actual | Actual | | | |
| FS&T and Identity and PO Insurance | | | | | | | | | | | | |
| Headcount (FTE) Excluding Skills Group & Contractors | FST, Marketing, Digital, PCI & Identity | # | 212 | 244 | 217 | 212 | 244 | 210 | 200 | Name of the last o | * | |
| Travel Money Market Share - Branch * | PO Money | % | 24% | 25% | 25% | 24% | 25% | 25% | 25% | | 0 | The uncertainty around Brexit and collapse of Thomas cock has had adverse impact on customer confidence |
| Travel Money – (Branch Sales Volumes) | PO Money | # | 584,543 | 545,045 | 573,029 | 4,320,267 | 4,622,897 | 590,857 | 617,181 | | ⊗ | As above Variance is mainly driven by lower POL sales volumes |
| FRESPBT | PO Money | £m | 6.1 | 6.3 | 6.5 | 56.4 | 51.4 | 8.1 | S. 1 | | * | impacted by soft travel market due to Brevit and partly offset by improved margins, strong performance by the Wholesale business unit and cost sawings. (£1.4m) of the shortfall is related to additional POL fixed fee which was not included in the target. |
| Net Interest Margin (BPS) | PO Money | # | 43 | 43 | 43 | 37 | 37 | 42 | 38 | The second of the second secon | * | |
| Branch Sales Volume of Savings Products | PO Money | # | 3,224 | 3,308 | 3,308 | 18,079 | 18,081 | 2,534 | 2,583 | and the second | 0 | 0.01% variance slightly behind target |
| Savings balances | PO Money | €m | 13,701 | 13,698 | 13,698 | 13,701 | 13,698 | 13,805 | 13.814 | 1 minute | | |
| Mortgage (Completions) * | PO Money | #m | 280 | 174 | 174 | 1,381 | 1,142 | 238 | 194 | / | * | |
| MoneyGram (Send & Receive) Total Volumes | PO Money | # | 277,032 | 220,761 | 252,162 | 1,675,549 | 1,418,624 | 229,018 | 239,363 | | • | |
| Western Union (Website Visits) | PO Money | # | 26,563 | 26,563 | 26,569 | 45,395 | 45,395 | 13,922 | 11.349 | ,,,,,,, | ۰ | |
| Customer effort | PO Money | % | 76% | 72% | 72% | 76% | 72% | 74% | 74% | | * | |
| Fibre Customer Net Adds | Telco | # | 5342 | 3658 | 5140 | 18217 | 16457 | 3951 | 1827 | | • | |
| Monthly ARPU | Telco | # | 23.03 | 25.42 | 23.13 | 23.03 | 25.42 | 23.13 | 23.56 | The sale and the sale. | * | Lower ARPU due to lower call volumes and aggressive trading environment driving deeper discounts |
| Telco Adda | Telco | ñ | 14,946 | 13,543 | 14,300 | 78,864 | 78,816 | 12,554 | 11,266 | | | |
| Felco Chum | Telco | # | -11283 | -10948 | -9800 | -61374 | -53521 | -9180 | -8769 | | | Driven by high demand to churn and rapid market movement to Fisre |
| Olcom Complaints (Q1) *** | Telco | # | 8 | 10 | 10 | 8 | 10 | 8 | 8 | · | ۰ | |
| CSAT (customer satisfaction)* | Telco | % | 82% | 78% | 78% | 82% | 78% | 31% | 81% | and the second second | | |

FS&T, POI & Identity Scorecard

Home insurance volumes temporarily hit by move to new business model. Although number of digital sales is slightly behind target, average value is above forecast.



| FS&T, POI & Identity Scorecard - 19 | 1/20 | | | Period 7 | | Υπο | | 3 month Rolling Average | 12-month Rolling Average | Trend Line | RAG Status | Commentary/ Actions |
|---|-----------|------|-----------|-----------|--------------|-----------|-----------|-------------------------------|--------------------------------|--|---------------|---|
| | Area | Unit | Actual | Target | 6+6 Forecast | Actual | Target | Actua | Actual | | | |
| FS&T and identity and PO insurance | | | | | | | | | | | | |
| Total Passport Market Volume | identity | # | 415,689 | 369,745 | 447.850 | 3,590,628 | 3,722,094 | 409.021 | 523,698 | />- | ं | YTD variance v Budget is impacted by the effect of Brexit, application renewals were brought forward in 18/19, having an adverse impact in 19/20 |
| # of International Driver Permits | identity | 并 | 85,364 | 20,000 | 71,000 | 407,740 | 271,760 | 44,586 | 85,701 | | | |
| # Verify Accounts | identity | ä | 2,438,226 | 2,478,903 | 2,464,008 | 2,438,226 | 2,478,903 | 97,910 | 97,245 | | 0 | YTD variance less than 0.1% slightly behind target |
| Verify Market Share | dentity | % | 53% | 50% | 54% | 53% | 50% | 54% | 53% | Annual Property | 0 | |
| PO Insurance Group EBITDA | POI | £m | 1.3 | 2.0 | i 14 i | 9.8 | 12.5 | 1.0 | 1,5 | | 0 | Please refer to detailed POI slide |
| Total Sales & Renewals Policy Volumes | POI | #* | 95 | 110 | © 7 | 858 | 1803 | 107 | 105 | | • | Overall Travel Insurance reflects reduced demand in the market. Shortfall in month due to the temporary cessation of selling Home Insurance via the aggregator channel and the switch over to the new model. |
| Revenue-generating Policies in Force (Car Home, Van & Annual Travel Insurance) | POI | #K | 472 | 511 | 473 | 3374 | 3492 | 477 | 483 | | 0 | Policies in force are similarly behind plan due to the drop in Home PIF caused by not selling via aggregators aince October 1st |
| Net Promoter Score | POI | # | 52 | 36 | 52 | 45 | 35 | 52 | 46 | A STANLEY OF THE STAN | | |
| Group Marketing & Digital | | | | | | | | | | | | |
| Average Number of FS&T and POI Products per Customer | Markeling | ¥ | 1.37 | 1.40 | 1.40 | 1.37 | 1.40 | 1.37 | 1.37 | | 0 | We are currently reviewing key oustomer journeys and developing more automated cross-sell programmes to mee customer's need at the right time, with a FY expectation to reach the 1.4 target. |
| Number of Digital Sales | Digital | # | 321,687 | 323,209 | 328,209 | 2,515,861 | 2,537,676 | 341.674 | 359,409 | \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\ | •3 | There's been a strong performance in digital sales products in P7. Main call outs are Telco and Personal Loans. Overall performance ytd is slightly down by leas than 1% against pla |

^{*} Reported one month in arrears

^{**} Reported Quarterly in arrears

£m PO N Mon Cred Wes Trav





| | | | | Perio | f 7 | | | | | | | Year to di | ite | | |
|---------------------------------|--------|--------|----------|----------|----------|-------|--------|---------------------------------------|--------|--------|----------|------------|--------------------|--------|-------------------------------------|
| £m | Actual | Budget | Variance | Forecast | Variance | YoY | Timing | Underlying Variance to Forecast | Actual | Budget | Variance | YoY | Accounting Adj. | Timing | Underlying Variance to Budget |
| PO Money (Savings, Loans, | | | | | | | | | | | | | | | |
| Montgages) | 2.6 | 3.4 | (0.2) | 2.5 | 0.1 | -39% | | 0.1 | 26.7 | 25.9 | 0.8 | 1% | | | 0.8 |
| Credit Cards | 0.0 | 0.3 | (G.3) | 8.0 | 0.0 | -100% | | 0.0 | 1.0 | 1.5 | (0.4) | 76% | | | (0.4) |
| Western Union | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 | n/a | | 0.0 | 8.3 | 0.4 | (0.2) | n/a | | | (0.2) |
| Travel Money | 3.4 | 3.3 | 0.1 | 3.3 | 0.1 | 23% | | 0.1 | 19.7 | 22.2 | (2.4) | 4% | | | (2.4) |
| MoneyGram | 2.5 | 2.4 | 0.0 | 2.3 | 0.2 | 7% | | 0.2 | 14.7 | 1.5.3 | (0.7) | -4% | | | (0.7) |
| Telephony | 13.7 | 15.3 | (1.6) | 13.8 | (0.1) | -2% | | (0.1) | 95.4 | 91.2 | (5.8) | -4% | 0.7 | | (5.1) |
| Postal Orders | 1.3 | 1.2 | 0.1 | 1.2 | 0.1 | 0% | | 0.1 | 8.3 | 7.8 | 0.5 | 8% | | | 0.5 |
| Total Revenue | 23.6 | 26.0 | (2.4) | 23.1 | 0.5 | -4% | 0.0 | 0.5 | 156.1 | 164,3 | (8.2) | -1% | 0.7 | 0.0 | (7.6) |
| Cost Of Sales | (8.5) | (9.3) | 0.7 | (8.7) | 0.2 | 2% | | 0.2 | (52.1) | (56.0) | 3.9 | 0% | (2.0) | | 2.0 |
| Net Income | 15.0 | 16.7 | (1.7) | 14.4 | 0.6 | -8% | 0.0 | 0.6 | 104.0 | 108.3 | (4.3) | -1% | (1.3) | 0.0 | (5.6) |
| Agents Pay | (3.6) | (3.7) | 0.1 | (3.2) | (0.4) | -1% | | (0.4) | (26.1) | (27.4) | 12 | -2% | | | 1.2 |
| Staff Costs | (0.7) | (0.5) | (0.2) | (0.7) | (0.0) | -2% | 0.1 | 0.1 | (4.5) | (3.7) | (0.8) | 2% | | 0.5 | (0.3) |
| Staff & Agent Related Costs | (0.0) | (0.1) | 0.0 | (0.0) | 0.0 | -83% | | 0.0 | (0.1) | (0.3) | 0.2 | -74% | | | 0.2 |
| Brand & Marketing | 0.0 | 0.0 | 0.0 | 8.0 | 0.0 | -109% | | 0.0 | (0.1) | 0.0 | (0.1) | -48% | | | (0.1) |
| Consultancy & Advisory Services | (0.5) | (0.4) | (0.1) | (0.5) | (0.1) | 530% | 0.3 | 0.2 | (3.2) | (2.3) | (0.9) | 168% | | 0.5 | (0.3) |
| IT Infrastructure & IT Services | 0.1 | 0.0 | 0.1 | (0.0) | 0.1 | 828% | | 0.1 | (0.0) | (0.0) | (0.0) | -155% | | | (0.0) |
| Managed Services | (2.7) | (2.9) | 8.2 | (2.5) | (0.1) | 15% | (0.1) | (0.2) | (18.5) | (18.0) | (0.5) | 22% | 8.0 | 0.7 | 0.1 |
| Postage | (0.4) | (0.3) | (0.1) | (0.3) | (0.0) | 21% | | (0.0) | (2.1) | (1.9) | (0.1) | 11% | | | (0.1) |
| Finance & Losses | (0.2) | (0.2) | 0.1 | (0.2) | 0.0 | 450% | | 0.0 | (1.0) | (1.5) | 0.5 | -47% | | | 0.5 |
| Other Opex | (0.1) | 0.4 | (0.5) | (0.0) | (0.1) | 904% | | (0.1) | (0.4) | 0.9 | (3.4) | 1.3.5% | (0.3) | 0.2 | (1.4) |
| FRES | 2.4 | 2.4 | 0.0 | 2.3 | 0.2 | -22% | | 0.2 | 22.6 | 23.9 | (1.4) | -11% | | | (1.4) |
| Trading Profit | 9.4 | 11.5 | (2.1) | 9.2 | 0.3 | -23% | 0.3 | 0.5 | 70.5 | 78.0 | (7.5) | -11% | (1.6) | 1.9 | (7.1) |

MoneyGram branch incentive ran from September to mid October, resulting in increased volume sales.

Travel Money online margin was reduced to increase sales, driving an increase in our revenue from transactional fees.

POL margins on EUR & USD were increased by 1% in Branch during P7, which resulted in an uplift in FRES profit share of c. ± 0.1 m.

Broadly, staff & non-staff costs are in line with forecast in P7; Agent's Pay is adverse due to an accrual catch up from prior period and volume assumptions on MoneyGram.

YTD non-staff costs vs budget are £0.9m adverse from cost stretch in budget and £0.4m project opex spend that the budget had assumed would be CapEx (including Youth Strategy write off).

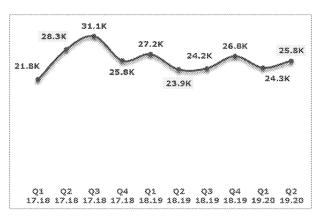
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Telco Churn – Q2 Retention Performance Summary

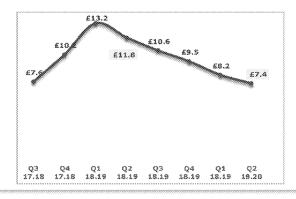
Churn continues to be a challenge, however customer save rates have increased whilst reducing the cost per save.



Churn Trends up to Q2:



Cost of Saving Customer Trend:



Overview:

- Churn is 6% adverse to budget and 8% higher YOY.
- Call demand still remains challenging and is 17% higher YOY.
- Customer save rate increased to 82% up 6% YOY.
- Increased Fibre attachment rates from 8% to 18% supporting our approach to future proof the base see slides 14 and 15.

Cost of Saving Customer:

- Average Cost Per Save continues to decline, however these gains are offset by increased YOY demand to churn or re negotiate their contract.
- We are expecting to see further cost per save reductions in Q3.

Telco Churn - Market Moves to Fibre

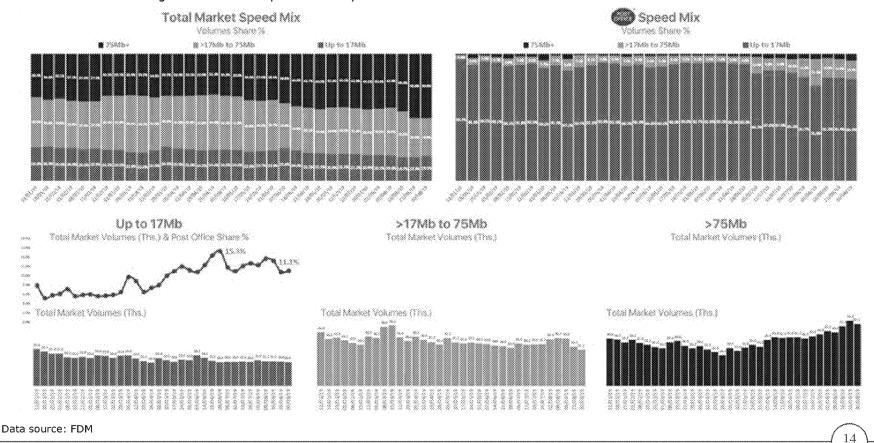
Post Office mix is lagging behind wider market, which is putting pressure on future fibre strategy.



ADSL market has shrunk by 20% YOY and lower fibre prices and higher speeds have encouraged more customers to switch.

What this means for the Post Office is, that we are unable to currently compete seriously in this space due to poor commercials (which is being addressed in the RFP).

The Post Office's change to faster fibre products may need to accelerate to ensure that we are not left behind.



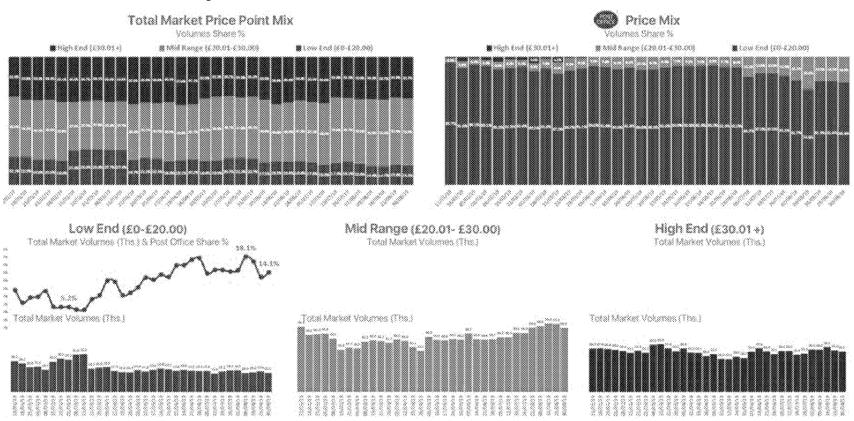
49 of 229

Telco Churn

POL's future growth opportunity is in £20 to £30 market.



Low end market size is declining in line with the decline in ADSL demand.



Data source: FDM

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POIPerformance broadly in line with 6+6 Forecast.

| | | | Pe | riod 7 | | | | | Y | ear to da | ite | |
|---------------------------------|--------|--------|----------|----------|----------|-------|--------|--------|----------|-----------|----------|-------------------------------------|
| £m | Actual | Budget | Variance | Forecast | Variance | YoY | Actual | Budget | Variance | YoY | Acct Adj | Underlying Variance to Budget |
| Total Travel | 1.5 | 1.7 | (0.1) | 1.6 | (0.1) | 9% | 14.4 | 15.4 | (2.0) | 12% | | (2.0) |
| Home Insurance | 8.0 | 1.4 | (0.6) | 0.8 | 0.0 | -7% | 4.9 | 6.6 | (1.8) | -1% | 0.7 | (1.1) |
| Car insurance | 0.5 | 0.8 | (0.2) | 0.5 | 0.1 | -15% | 4.1 | 5.0 | (1.8) | -15% | 1.3 | (0.5) |
| Van Insurance | 0.2 | 0.2 | (0.1) | 0.1 | 0.0 | 1% | 1.1 | 1.4 | (0.4) | -6% | 0.3 | (0.1) |
| Total General | 1.5 | 2.4 | (0.8) | 1.4 | 0.2 | -9% | 10.1 | 14.1 | (4.0) | -8% | 2.3 | (1.7) |
| Life - Over 50s | 1.0 | 1.7 | (0.6) | 1.1 | (0.1) | 3% | 4.0 | 6.4 | (2.5) | -13% | | (2.5) |
| Life - SLI | 0.3 | 0.9 | (0.6) | 0.3 | (0.0) | 1% | 1.3 | 3.2 | (1.9) | -3% | | (1.9) |
| Total Protection | 1.3 | 2.6 | (1.3) | 1.5 | (0.1) | 3% | 5.3 | 9.6 | (4.4) | -11% | 0.0 | (4.4) |
| Gadget insurance | 0.0 | 0.1 | (0.1) | 0.0 | (0.0) | n/a | 0.0 | 0.3 | (0.3) | n/a | | (0.3) |
| Other insurance | 0.0 | 0.0 | 0.0 | 0.0 | (0.0) | -27% | 0.3 | 0.4 | (0.0) | -17% | | (0.0) |
| Total Revenue | 4.5 | 6.8 | (2.3) | 4.5 | 0.0 | 0% | 30.1 | 40.8 | (10.7) | 0% | 2.3 | (8.4) |
| Cost Of Sales | (0.8) | (1.9) | 1.2 | (0.7) | (0.0) | 43% | (5.8) | (9.8) | 4.0 | 16% | (8.0) | 3.2 |
| Net income | 3.7 | 4.9 | (1.1) | 3.8 | (0.0) | 6% | 24.3 | 31.0 | (6.7) | -3% | 1.4 | (5.2) |
| Staff Costs | (0.4) | (0.5) | 0.1. | (0.5) | 0.1 | -36% | (3.4) | (3.5) | 0.1 | -13% | | 0.1 |
| Staff & Agent Related Costs | (0.0) | (0.0) | 0.0 | (0.0) | 0.0 | 16% | (0.2) | (0.3) | 0.1 | 82% | | 0.1 |
| Brand & Marketing | (1.2) | (1.1) | (0.1) | (1.1) | (0.1) | 37% | (4.8) | (5.8) | 1.0 | 34% | (0.1) | 0.9 |
| Consultancy & Advisory Services | 0.0 | (0.1) | 0.1 | (0.0) | 0.1 | -145% | (0.7) | (0.5) | (0.2) | 15% | | (0.2) |
| IT Infrastructure & IT Services | (0.2) | (0.2) | 0.0 | (0.3) | 0.1 | 77% | (1.0) | (1.4) | 0.4 | -11% | | 0.4 |
| Finance & Losses | (0.0) | (0.1) | 0.0 | (0.0) | 0.0 | -18% | (0.3) | (0.4) | 0.1 | -12% | | 0.1 |
| Other Operating Costs | (0.6) | (0.9) | 0.3 | (0.4) | (0.2) | 12% | (4.1) | (6.5) | 2.3 | 3% | (1.5) | 0.9 |
| Trading Profit | 1.3 | 2.0 | (0.7) | 1.4 | (0.1) | -27% | 9.8 | 12.6 | (2.8) | -15% | (0.1) | (2.9) |

Travel Insurance income was slightly behind forecast in P7 due to market conditions e.g. competitors bidding aggressively on our web search terms.

General Insurance income was ahead of forecast due to strong renewal performance on both Motor and Home.

Protection income was slightly behind forecast in P7 due to prior month correction for an add-on and higher provisioning rates.

Other Operating Costs were £0.1m higher than forecast due to a number of minor variances.

Identity Forecasted over budget performance continues.

| £m | | | Per | iod 7 | | | | Year | to date | |
|-----------------------------|---------|--------|----------|----------|----------|-------|--------|--------|----------|------|
| £131 | Actual | Budget | Variance | Forecast | Variance | YoY | Actual | Budget | Variance | YoY |
| Home Office | 1.4 | 1.4 | 0.0 | 1.5 | (0.1) | -42% | 10.5 | 10.6 | (0.1) | -37% |
| DFT/DLA | 1.6 | 0.7 | 0.9 | 1.7 | (0.0) | 163% | 6.9 | 5.4 | 1.5 | 64% |
| Identity Services | 0.7 | 0.7 | 0.1 | 0.7 | 0.0 | 25% | 4.2 | 3.9 | 0.3 | 27% |
| Verify | 0.3 | 0.3 | 0.0 | 0.4 | (0.0) | -77% | 3.3 | 3.2 | 0.2 | -67% |
| Enivronment Agency | 0.0 | 0.0 | (0.0) | 0.0 | (0.0) | 8% | 0.3 | 0.3 | (0.0) | -56% |
| Total Revenue | 4.1 | 3.1 | 1.0 | 4.2 | (0.1) | -20% | 25.2 | 23.4 | 1.8 | -27% |
| Cost Of Sales | (0.3) | (0.3) | (0.0) | (0.3) | 0.0 | -57% | (2.5) | (2.4) | (0.1) | -36% |
| Net Income | 3.8 | 2.8 | 1.0 | 3.9 | (0.1) | -14% | 22.7 | 21.0 | 1.8 | -26% |
| Agents Pay | (1.0) | (0.9) | (0.1) | (1.1) | 0.1 | 32% | (6.8) | (6.5) | (0.3) | 3% |
| Staff Costs | (0.2) | (0.2) | 0.0 | (0.2) | 0.0 | -52% | (1.1) | (1.5) | 0.4 | -20% |
| Managed Services - Penaltie | : (0.0) | (0.0) | 0.0 | (0.1) | 0.0 | -58% | (0.4) | (0.3) | (0.0) | -1% |
| Postage | (0.3) | (0.1) | (0.2) | (0.3) | (0.0) | 15% | (1.6) | (1.4) | (0.2) | -23% |
| Other | (0.1) | (0.4) | 0.3 | (0.1) | 0.0 | -217% | (2.6) | (2.8) | 0.2 | 376% |
| Trading Profit | 2.2 | 1.2 | 1.1 | 2.2 | (0.0) | -27% | 10.2 | 8.4 | 1.8 | -49% |

Home Office is slightly below forecast with residency permit volumes driving the downside due to the end of student surge.

DVLA year to date over performance against Budget is driven predominantly by International Driving Permit volumes upside (+£0.75m) due to Brexit, a one off payment from agreeing a better backdated price for Vehicle tax (+£0.5m) with DVLA and an increase in 10 year renewal volumes due to increased awareness and the renewal cycle (+£0.2m).

Identity Services year to date upside against Budget is driven by security authorisation and Post Office Document Checking Service.

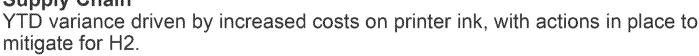
Operations & IT Scorecard

The period saw a spike in attacks against a low trend. Audit related losses started to decrease.



| Operations & IT Scorecard - 19/20 | | | | | | | | | | Trend Line | | Commentary/ Actions |
|---|--------------------------|----------|--------|---|-----------------|---------|--------|---------|--------|--|-----|--|
| | Area | Unit | Actual | Target | 6+6 Forecast | Actual | Target | Actions | Artest | | | |
| | | | | | | | | | | | | |
| Lost Time Pylory Frequency Rate (LTRPA) | Supply Chain | * | 0.60 | 0.42 | 0.42 | 0.54 | 0.42 | 0.90 | 0.40 | 8 | | There were 2 employee related injury related accidents in Suggey Chai in P7 (Cct), and 0 limit time accidents. |
| hio of Attacks | Supply Chain | | 3 | 1.26 | 1.28 | 6.00 | 8.75 | 1,00 | 0.70 | | | There were three stacks the proof two at Chester, one at Birminghai we are currently working with the socially learn to review and use the introduction tooks. |
| Number of Auxil failures | Sumply Chain | | .0 | ė | d | ō | d | 1.5 | 0 | | 0 | The second of th |
| CNT (QeR) | Supply Chain | % | 90% | w. | 99% | 98% | 99% | 98% | 90% | ······································ | 0 | |
| Cash Pro Backtog (Err) | Supply Chain | £m | 24 | * | * | 24 | 38 | 30 | 32 | | | |
| Stock - Lines Picked per Hour | Supply Chain | * | 40 | 36 | 38 | 38 | 36 | 40 | 33 | | | |
| Network Cash Holdings | Supply Chain | £k | 478 | 520 | 520 | 478 | 520 | 485 | 365 | | 100 | |
| Robbery and Burglary Lossies | Operations | | (158) | (128) | (128) | (729) | (878) | (109) | (141) | | ۰ | ATM & CVIT losses are generally tracking below target, there was one ATM incident in Pickening in P7 as a result of a gas attack. A few Robbers & Burglary incidents occurred at the start of the year. |
| Robbery Losses | Operators | Sk. | (82) | (38) | 82 | (386) | (384) | (88) | (50) | | ۰ | Consincedent with a force of CFS NAPM was threatened with a bream, an amost true team made 1,089 Fogging kits and W Camerias new deployed as past of Rottony & Violence Programme (98% complete, at 27/9/18) |
| Durglary Looses | Operations | £k | 131 | (10) | (10) | (94) | (70) | ø | (18) | MV | ۱ | A incidents in Scotland with losses totalling £12.0k, police are available 430 branch alarm upgrades completed as part of ongoing programme (807% complete). |
| ATM Losses | Operations | £k | (80) | (48) | (48) | (156) | (980) | (27) | (04) | and the same of th | 0 | |
| CVI Losses | Operations | £k | (26) | 4100 | 199 | 1821 | (100) | | (8) | | | Average loss considerably lower this period, with and 2 large losses |
| Branch Losses identified at Audit ((m) | Operations | £k | | 100000000000000000000000000000000000000 | | (4,687) | (4.38) | | | | | generator than CSSL C2 ten of cash has been intuined as audit activity. The LP casework fears have employmented a process this period to reassess this fears cannot be sold date, which will have readered to reassess this fears have been to the sold date, which will have |
| Total number of linears at Audit | Operations | * | 18 | 5% | 53 | 488 | 371 | 70 | 43 | | | See Branch lesses identified at auxili |
| Total Net loss Average value of gross loss | Operations Operations | £k £k | (244) | | (11) | (0,447) | 0.402) | :077 | (461) | Samuel Same James Same Same | | See Branch losses aboutded at auxili |
| | : Commonwe | | | | | | 3,114 | | | Annual January | | |
| Branch Assaultin | | * | | 15 | 14 | 40 | 100 | | - 3 | The second secon | | |
| # of Sout & South Incidents | l a | * | 4 | 8 | 4 | 60 | 96 | 4 | 8 | J | | |
| Number of taked SLA's | Ħ | * | 2 | 14 | ्र | 11 | 21 | 3 | 2 | Sum Zermanni Summi Zeri | | gang najan galangan gang ngang manahin a laggan na na kalagasa nala wasa |
| Unique Closed Incident Volumes | п | * | 5,395 | 10,000 | 10,000 | 39,966 | 70,000 | 5,453 | 8,131 | Same and the same of the same and the same a | 0 | Following the migration to Service row, this saw a reduction in the municipal of calls |
| % Successful Changes | 6 | ** | 96.7% | 95.0% | 95.0% | 96.7% | 95.0% | 97,1% | 98.6% | Section of the sectio | 100 | educionis de Godone - |
| % Envergency Changes | l n | * | 5.5% | 5.0% | 5.0% | 5.6% | 5 0% | 5.60% | 5.5% | Marine Marine Committee Co | | |

Supply Chain





| Supply Chain | Actual | Budget | Variance | Forecast | criot 7 Variance | YoY | Timing | Underlying Variance to Forecast | Actual | Budget | Y e Variance | o io fate Yoy | Timing | Underlying Variance to Budget |
|----------------------------------|--------|--------|----------|----------|---------------------|------|--------|---------------------------------------|--------|--------|------------------------|------------------|--------|-------------------------------------|
| Total Revenue | 1.0 | 0.8 | 0.2 | 1.1 | (0.1) | -9% | 0.1 | 0.0 | 5.6 | 5.7 | (0.1) | -3% | 0.1 | 0.0 |
| Net income | 1.0 | 0.8 | 0.2 | 1.1 | (0.1) | -9% | 0.1 | 0.0 | 5.6 | 5.7 | (0.1) | -3% | 0.1 | 0.0 |
| Staff Costs | (2.6) | (2.4) | (0.2) | (2.5) | (0.1) | -4% | 0.1 | (0.0) | (17.5) | (17.4) | (0.2) | 1% | 0.1 | (0.0) |
| Staff & Agent Related Costs | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) | 11% | | (0.0) | (0.3) | (0.3) | (0.0) | -20% | | (0.0) |
| Property & Facilities Management | (0.1) | (0.1) | (0.0) | (0.1) | (0.0) | 382% | | (0.0) | (0.9) | (0.5) | (0.4) | 138% | 0.4 | 0.0 |
| Postage | (0.4) | (0.4) | 0.0 | (0.4) | (0.0) | n/a | | (0.0) | (2.5) | (2.7) | 0.3 | n/a | | 0.3 |
| Stationery | (0.7) | (0.4) | (0.2) | (0.6) | (0.1) | n/a | | (0.1) | (3.9) | (2.7) | (1.1) | n/a | | (1.1) |
| Finance & Losses | (0.4) | (0.0) | (0.3) | (0.3) | (0.0) | 643% | | (0.0) | (0.6) | (0.2) | (0.4) | 189% | 0.2 | (0.2) |
| Vehicles | (0.3) | (0.2) | (0.0) | (0.2) | (0.0) | -11% | | (0.0) | (1.7) | (1.5) | (0.1) | 9% | | (0.1) |
| Other | (0.0) | (0.1) | 0.1 | (0.1) | 0.1 | 5% | | 0.1 | (0.5) | (0.5) | 0.1 | 8% | | 0.1 |
| Trading Profit | (3.4) | (3.0) | (0.4) | (3.2) | (0.2) | 13% | 0.2 | (0.0) | (22.2) | (20.2) | (2.0) | 10% | 0.9 | (1.1) |

Trading Performance:

- Overall Supply Chain is broadly on track against updated forecast, with small timing impacts as outlined below.
- Stationery in line with adjusted 6+6 forecast phasing, with savings plans taking effect in Q4 we look to reduce branch consumables and reduce ink waste.
- P7 includes additional Overtime costs to reduce unprocessed cash down from £38m to zero. This was achieved faster than expected with costs forecast in P7 & 8.
- Higher costs related to Christmas stock distribution, reflected in higher income masking the impact on the new as yet unsigned HVM contract.

Timing:

- Income timing of HVMs contract signing. To be dealt with independently from wider Mails contract discussion to ensure its signed by P8.
- £0.4m of Consultancy spend in relation to the 'future of cash review' by Reinvigoration reviewing to move costs to appropriate project.
- £0.2m of increased stock holding for Brexit Contingency. Expectation that this will be back to normal by year end, with a risk depending on actual leaving date.

19

POST OFFICE

Network Operations & Finance

In line with forecast with further upside if losses trend continues.

| Network Ops | | _ | | | Period | | _ | Unde | | | _ | | GB 6 | | _ | Underlying |
|----------------------------------|--------|--------|----------|----------|----------|------|--------|----------------|-------|--------|------------|----------|------|-----|--------|-----------------------|
| | Actual | Budget | Variance | Forecast | Variance | YOY | Timing | Variar Fore | | Actual | Budget | Variance | YoY | GLO | Timing | Variance to Budget |
| Staff Costs | (8.0) | (0.8) | 0.0 | (8.8) | (0.0) | -12% | | | (0.0) | (6.4) | (6.5) | 0.1 | 7% | | | 0.1 |
| Staff & Agent Related Costs | (0.1) | (0.1) | 0.1 | (0.1) | 0.1 | -24% | (0.1) | | 0.0 | (0.7) | (1.0) | 0.3 | 45% | | (0.1) | 0.2 |
| Property & Facilities Management | (1.3) | (2.2) | 0.9 | (1.5) | 0.2 | -56% | (0.2) | | 0.0 | (15.1) | $\{14.1\}$ | 1.0 | -35% | | (0.2) | 0.7 |
| Brand & Marketing | (0.0) | (0.0) | 0.0 | (0.0) | 0.0 | -53% | | | 0.0 | (0.1) | (0.2) | 0.1 | -21% | | | 0.1 |
| Postage | (0.0) | 0.0 | (0.0) | 0.0 | (0.0) | n/a | | | (0.0) | (0.2) | 0.0 | (0.2) | n/a | | | (0.2) |
| Finance & Losses | (0.6) | (0.6) | (0.0) | (0.8) | 0.3 | 539% | | | 0.3 | (3.4) | (4.2) | 0.7 | 0% | 0.6 | į | 1.4 |
| Other | (0.2) | (0.3) | 0.0 | (0.4) | 0.1 | -33% | 0.1 | | 0.2 | (1.9) | (2.5) | 0.5 | -24% | | 0.1 | 0.6 |
| Total Operating Expenses | (3.1) | (4.1) | 1.0 | (3.6) | 0.6 | -30% | (0.2) | | 0.3 | (25.9) | (28.3) | 2.4 | -21% | 0.6 | (0.2) | 2.8 |

A number of rate rebates this month and no increase in agent debt provisions due to fewer terminations suggests that Network Operations could exceed budget and forecast if this trend continues.

| | | | | | Period 7 | | | | | | | | Year to | date | | |
|--|--------|--------|----------|----------|----------|-------|--------|--------------------------|-------|----------|--------|----------|---------|------|--------|-------------------------------------|
| Finance | Actual | Budget | Variance | Forecast | Variance | YoY | Timing | Under Varian Forec | ce to | Actual I | 3udget | Variance | YoY | GLO | Timing | Underlying Variance to Budget |
| Staff Costs | (0.8) | (0.7) | (0.1) | (0.8) | 0.0 | 177% | | | 0.0 | (4.9) | (4.9) | (0.0) | 27% | 0.5 | | 0.5 |
| Consultancy & Advisory Services | 0.1 | (0.1) | 0.2 | 0.1 | (0.0) | -249% | | | (0.0) | (0.9) | (0.9) | (0.0) | -7% | 0.1 | | 0.0 |
| Finance & Losses | (0.0) | (0.2) | 0.1 | (0.1) | 0.1 | -95% | | | 0.1 | (0.9) | (1.1) | 0.1 | -27% | | | 0.1 |
| Staff & Agent Related Costs | (0.0) | (0.0) | 0.0 | (0.1) | 0.0 | -78% | | | 0.0 | 0.0 | (0.3) | 0.3 | -102% | | | 0.3 |
| Property & Facilities Management | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | n/a | | | 0.0 | (0.0) | (0.0) | 0.0 | -98% | | | 0.0 |
| Other | (0.0) | (0.1) | 0.0 | (0.2) | 0.2 | -105% | (0.2) | | 0.0 | 0.0 | (0.5) | 0.5 | -104% | | (0.1 |) 0.4 |
| Total Operating Expenses | (8.0) | (1.1) | 0.3 | (1.1) | 0.3 | 237% | (0.2) | | 0.1 | (6.7) | (7.7) | 0.9 | 0% | 0.6 | (0.1 |) 1.4 |
| Shared challenges included in Finance bu | ¢ 0.0 | 0.3 | (0.3) | 0.0 | 0.0 | n/a | | | 0.0 | 0.0 | 1.9 | (1.9) | n/a | | | (1.9) |
| Total included shared challenges | (0.8) | (0.8) | 0.1 | (1.1) | 0.3 | 237% | (0.2) | | 0.1 | (6.7) | (5.8) | (0.9) | 0% | 0.6 | (0.1 |) (0.5) |

The YTD budget includes ungrounded challenges which are being achieved across Network Ops and Finance. There is no ungrounded challenge included in the 6+6 forecast.

CIO In line with forecast, with YTD upside against budget expected to be eroded by H2 tasking.



| | | | | | Period 7 | | | | | | G | er to date | | |
|---------------------------------|--------|--------|----------|----------|----------|-------|--------|---------------------------------------|--------|--------|----------|------------|--------|-------------------------------------|
| <u>GO</u> | Actual | Budget | Variance | Forecast | Variance | YoY | Timing | Underlying Variance to Forecast | Actual | Budget | Variance | YoY | Timing | Underlying Variance to Budget |
| Staff Costs | (0.9) | (0.8) | (0.1) | (0.9) | 0.0 | 97% | | 0.0 | (5.8) | (5.3) | (0.6) | 60% | 0.0 | (0.6) |
| Staff & Agent Related Costs | 0.0 | (0.0) | 0.0 | (0.0) | 0.0 | -102% | | 0.0 | (0.2) | (0.3) | 0.1 | -30% | (0.1) | 0.0 |
| Consultancy & Advisory Services | 0.0 | (0.1) | 0.1 | (0.1) | 0.1 | -737% | | 0.1 | (0.4) | (0.5) | 0.2 | -51% | (0.2) | 0.0 |
| IT Infrastructure & IT Services | (5.6) | (6.3) | 0.7 | (5.9) | 0.3 | 1% | | 0.3 | (42.4) | (44.5) | 2.3 | -12% | (1.7) | 0.6 |
| Managed Services | (0.1) | (0.1) | (0.0) | (0.1) | (0.0) | -61% | | (0.0) | (0.8) | (0.6) | (0.2) | -64% | 0.2 | 0.0 |
| Other | (0.1) | 0.5 | (0.5) | 0.5 | (0.5) | -107% | | (0.5) | (1.5) | (0.1) | (1.4) | -290% | 1.4 | 0.0 |
| Total Operating Expenses | (6.6) | (6.9) | 0.3 | (6.6) | (0.0) | 18% | 0.0 | (0.0) | (51.1) | (51.5) | 0.4 | -6% | (0.4) | 0.0 |

Overall, in line with budget YTD, with staff costs adverse due to Arrow data excellence contractors in addition to under recovery of security and architects resources.

Non-staff costs are favourable to budget resulting from lower licences costs due to re-negotiated contracts for SAP and Success Factors, with full year flow through in 6+6 re-forecast. This is partially offset by adverse variance on the ATOS contract, due to the timeline of termination in the budget different to actual termination date.

HR, LCG, Communications Broadly in line with forecast for P7.

| | Period 7 | | | | | | | | | |
|-----------------------------|----------|--------|----------|----------|-------------------------|-------|--|--|--|--|
| <u>HR</u> | Actual | Budget | Variance | Forecast | Variance to Forecast | YoY | | | | |
| Staff Costs | (0.6) | (0.6) | (0.0) | (0.6) | (0.0) | -7% | | | | |
| Staff & Agent Related Costs | (0.2) | (0.2) | 0.1 | (0.2) | 0.0 | -72% | | | | |
| Finance & Losses | (0.2) | (0.2) | 0.0 | (0.2) | (0.0) | -167% | | | | |
| Other | (0.2) | (0.1) | (0.0) | (0.3) | 0.1 | 67% | | | | |
| Total Operating Expenses | {1.1} | (1.1) | 0.1 | (1.2) | 0.1 | -5% | | | | |

| īce | Actual | Budget | Variance | <u>airt</u> Forecast | Variance to Forecast | Yoy |
|---------------------------------|--------|--------|----------|-------------------------|-------------------------|-------|
| Staff Costs | (0.4) | (0.4) | (0.0) | (0.4) | (0.0) | -18% |
| Staff & Agent Related Costs | (0.0) | (0.0) | 0.0 | (0.0) | (0.0) | 83% |
| Consultancy & Advisory Services | (0.1) | (0.0) | (0.1) | (0.1) | (0.0) | -376% |
| Legal Costs | (0.1) | (0.1) | (0.0) | (0.1) | (0.1) | -23% |
| Other | (0.0) | (0.1) | 0.0 | (0.1) | 0.0 | -202% |
| Total Operating Expenses | (0.7) | (0.6) | {0.0} | (0.6) | (0.1) | 9% |

| | Period 7 | | | | | | | | | |
|-----------------------------|----------|--------|----------|----------|-------------------------|-------|--|--|--|--|
| Comms | Actual | Budget | Variance | Forecast | Variance to Forecast | YoY | | | | |
| Staff Costs | (0.2) | (0.2) | 0.0 | (0.2) | 0.0 | -37% | | | | |
| Staff & Agent Related Costs | (0.0) | (0.0) | 0.0 | 0.0 | (0.0) | -97% | | | | |
| Brand & Marketing | (0.0) | (0.1) | 0.1 | (0.0) | 0.0 | -100% | | | | |
| Other | (0.0) | (0.0) | 0.0 | (0.0) | (0.0) | -283% | | | | |
| Total Operating Expenses | (0.2) | (0.3) | 0.1 | (0.2) | 0.0 | 26% | | | | |

| Actual | Budget | Variance to Budget | YoY |
|--------|--------|-----------------------|------|
| (4.2) | (4.3) | 0.1 | -4% |
| (1.1) | (1.3) | 0.2 | -45% |
| (1.4) | (1.4) | (0.0) | 5% |
| (0.7) | (0.8) | 0.1 | 15% |
| (7.4) | (7.8) | 0.3 | -11% |

| | Ye. | to date | |
|--------|--------|-----------------------|-----|
| Actual | Budget | Variance to Budget | YoY |
| (3.1) | (2.6) | (0.5) | -1% |
| (0.1) | (0.3) | 0.2 | 49% |
| (0.4) | (0.6) | 0.2 | 62% |
| (0.8) | (0.7) | (0.0) | 5% |
| (0.4) | (0.4) | 0.0 | 40% |
| (4.8) | (4.6) | (0.2) | 7% |

| Actual | Budget | Variance to Budget | YoY |
|--------|--------|-----------------------|------|
| (1.4) | (1.4) | 0.0 | 15% |
| (0.0) | (0.0) | 0.0 | -62% |
| (0.3) | (0.7) | 0.3 | -79% |
| (0.1) | (0.1) | 0.0 | -39% |
| (1.8) | (2.2) | 0.4 | -37% |

HR

YTD Favourable staff variance driven by vacancies. Non-staff variances driven by timing, with an underlying favourable variance in Healthcare costs.

LCG

YTD Staff variance predominantly driven by unbudgeted one off costs. Non-staff variance driven by timing of Project Starling costs, with a £0.1m underlying favourable variance due to costs being removed.

Comms

YTD Non-staff variance will partly reverse due to activity being pushed back. £0.2m underlying favourable variance due to activity removed following cost challenge.

Group Digital, Group Marketing, Group Change and Central Upside from agreed reduction in marketing levels to assist with wider cost challenge.



| | Period 7 | | | | | | | | | | |
|---------------------------------|----------|--------|----------|----------|----------|------|--|--|--|--|--|
| Group Digital | Actual | Budget | Variance | Forecast | Variance | YoY | | | | | |
| Staff Costs | (0.2) | (0.2) | (0.0) | (0.2) | (0.0) | 70% | | | | | |
| Staff & Agent Related Costs | (0.0) | (0.0) | (0.0) | 8.0 | (0.0) | 16% | | | | | |
| IT Infrastructure & IT Services | (0.1) | (0.1) | 0.0 | (0.2) | 0.1 | -41% | | | | | |
| Other | (0.1) | (0.0) | (0.0) | (0.0) | (0.0) | -57% | | | | | |
| Total Operating Expenses | (0.4) | (0.3) | (0.1) | (0.5) | 0.1 | -5% | | | | | |

| Year to date | | | | | | | | |
|--------------|--------|----------|------|--|--|--|--|--|
| Actual | Budget | Variance | YoY | Accounting Underlying Variance to Adj. Budget | | | | |
| (1.5) | (1.3) | (0.2) | 65% | (0.2) | | | | |
| (0.1) | (0.1) | (0.0) | 342% | (0.0) | | | | |
| (1.2) | (1.6) | 0.4 | 188% | 0.4 | | | | |
| (0.6) | (0.4) | (0.2) | 40% | (0.2) | | | | |
| (3.4) | (3.4) | (0.0) | 93% | (0.0) | | | | |

| | Period 7 | | | | | | | | | | |
|-----------------------------|----------|--------|----------|----------|----------|------|--|--|--|--|--|
| Group Marketing | Actual | Budget | Variance | Forecast | Variance | YoY | | | | | |
| Staff Costs | (0.3) | (0.4) | 0.1 | (0.4) | 0.1 | 78% | | | | | |
| Brand & Marketing | (1.5) | (2.2) | 8.6 | (2.1) | 0.5 | 162% | | | | | |
| Staff & Agent Related Costs | (0.0) | (0.0) | 0.0 | 0.0 | (0.0) | -14% | | | | | |
| Other | (0.0) | (0.0) | 9.0 | 0.0 | (0.0) | -98% | | | | | |
| Total Operating Expenses | (2.0) | (2.7) | 0.7 | (2.5) | 0.5 | 138% | | | | | |

| | | | Yea | r to date | |
|--------|--------|----------|------|--------------------|----------------------------------|
| Actual | Budget | Variance | YoY | Accounting Adj. | Underlying Variance to Budget |
| (2.3) | (2.8) | 0.5 | 117% | | 8.5 |
| (6.0) | (9.4) | 3.4 | 40% | (2.8) | 0.6 |
| (0.0) | (0.2) | 0.2 | -55% | | 0.2 |
| (0.1) | (0.0) | (0.1) | 417% | | (0.1) |
| (8.4) | (12.4) | 3.9 | 54% | (2.8) | 1.1 |

| | Period 7 | | | | | | | | | | |
|-----------------------------|----------|--------|----------|----------|----------|-------|--|--|--|--|--|
| Group Change | Actual | Budget | Variance | Forecast | Variance | YoY | | | | | |
| Staff Costs | 0.3 | (0.0) | 0.3 | 0.0 | 0.3 | -216% | | | | | |
| Staff & Agent Related Costs | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) | 53% | | | | | |
| Other | (0.0) | 9.0 | (0.1) | 0.3 | (0.3) | 6060% | | | | | |
| Total Operating Expenses | 0.2 | (0.0) | 0.3 | 0.3 | (0.1) | -182% | | | | | |

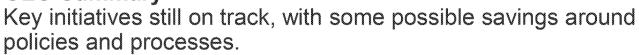
| Actual | Budget | Variance | YoY | Timing | Underlying Variance to Budget |
|--------|--------|----------|--------|--------|----------------------------------|
| 0.1 | (0.2) | 0.4 | ~1.29% | | 0.4 |
| (0.2) | (0.1) | (0.1) | 58% | | (0.1) |
| (0.2) | 0.1 | (0.3) | 588% | | (0.3) |
| 0.0 | 0.0 | 0.0 | -61% | | 0.0 |

| | Period 7 | | | | | | | | | | | |
|----------------------------|----------|--------|----------|----------|----------|-------|--|--|--|--|--|--|
| Central | Actual | Budget | Variance | Forecast | Variance | YaY | | | | | | |
| Staff Costs | (0.5) | (1.3) | 8.7 | (0.2) | (0.3) | -38% | | | | | | |
| Finance & Losses | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 | 35% | | | | | | |
| Growth Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -100% | | | | | | |
| Brand & Marketing | (0.3) | (0.3) | (0.0) | (0.3) | (0.0) | -374% | | | | | | |
| Other | (0.1) | 0.0 | (0.1) | (0.0) | (0.1) | n/a | | | | | | |
| Total | (0.7) | (1.5) | 0.8 | (0.5) | (0.2) | n/a | | | | | | |
| GLO - held centrally | 0.0 | (1.3) | 1.3 | 0.0 | 0.0 | n/a | | | | | | |
| Blueprint - held centrally | 0.0 | 0.3 | (0.3) | 8.3 | (0.3) | n/a | | | | | | |
| Total Operating Expenses | (0.7) | (2.6) | 1.8 | (0.3) | (0.5) | -40% | | | | | | |

| | | | Year | to date |
|--------|--------|----------|--------|---|
| Actual | Budget | Variance | YoY | Underlying Variance to Timing Sudget |
| (7.5) | (8.3) | 0.8 | -19% | 0.8 |
| 1.3 | 1.2 | 0.0 | 30% | 0.0 |
| 8.0 | 0.0 | 0.8 | ~1.00% | 0.0 |
| (0.5) | (0.5) | 0.0 | -44% | 0.0 |
| (0.1) | 0.0 | (0.1) | n/a | (0.1) |
| (6.9) | (7.7) | 0.7 | n/a | 0.7 |
| 0.0 | (5.2) | 5.2 | n/a | 5.7 |
| 0.0 | 0.8 | (8.0) | n/a | (0.8) |
| (6.9) | (12.1) | 5.2 | -57% | 5.2 |

Group marketing are currently re-prioritising their rest of year spend in light of 6+6 forecast to budget gap.

GLO Summary





| £m | | | | |
|--|-------|-------------------|---|--------------------------------------|
| Initiative | 19/20 | P7 YTD Actuals | 19/20 Full Year Committed/Forecasted | 19/20 Still Open/Not Committed |
| Орех | | | | |
| Agents Remuneration – increased rates for Banking and Fixed pay | 3.5 | 2.8 | 3.5 | - |
| Agents Remuneration for suspended Postmasters | 1.5 | 0.6 | 1.2 | 0.3 |
| Agents Remuneration – deep dive | 0.5 | 0.3 | 0.5 | - |
| Legal work regarding policies and processes | 2.0 | 0.2 | 0.3 | 1.7 |
| GLO Communications | 0.5 | - | 0.1 | 0.4 |
| Simpler business – training and engagement | 1.2 | 0.3 | 1.2 | - |
| Impact on Change plan reprioritisation | 0.5 | - | 0.5 | - |
| BAU impact of process changes (placeholder) | 2.3 | 1.0 | 2.0 | 0.3 |
| Opex total | 12.0 | 5.2 | 9,3 | 2.7 |
| Change | | - | - | |
| Horizon changes (quick wins) | 2.2 | 0.2 | 2.2 | 0.0 |
| Branch hub initiatives | 1.5 | 1.5 | 1.5 | - |
| Simpler Business — HotHousing to accelerate field structure benefits | 3.0 | 2.3 | 2.9 | 0.1 |
| Design of new processes (including loss prevention) | 1.8 | 0.9 | 1.8 | 0.0 |
| POL workforce changes (Restructures etc.) | 1.0 | | - | 1.0 |
| Change total | 9.5 | 4.9 | 8.4 | 1.1 |
| Total | 21.5 | 10.1 | 17.6 | 3.9 |

Change Spend

Continued change underspend through conscious project decisions and delayed agreement on detailed business cases.



| | | | P7 Spend | | | | | YTD Spen | d | | FY | 1920 |
|--|--------|--------|-----------------|--------------|----------------|--------|--------|-----------------|--------------|----------------|-----------------|-----------------------|
| | Actual | Budget | 6+6 Forecast | Vs Budget | Vs Forecast | Actual | Budget | 6+6 Forecast | Vs Budget | Vs Forecast | Spend Budget | Spend 6+6 Forecast |
| Retail | 4.2 | 5.5 | 8.1 | (1.3) | (3.9) | 33.2 | 40.8 | 37.1 | (7.6) | (3.9) | 69.3 | 78.5 |
| Financial Services & Telecoms | 1.5 | 1.0 | 2.7 | 0.4 | (1.2) | 8.8 | 12.4 | 10.0 | (3.6) | (1.2) | 18.4 | 21.1 |
| Post Office Insurance | 1.4 | 0.9 | 1.5 | 0.6 | (0.1) | 9.0 | 10.2 | 9.1 | (1.2) | (0.1) | 12.2 | 12.1 |
| Identity | 0.3 | 0.3 | 0.1 | 0.0 | 0.1 | 1.1 | 1.7 | 1.0 | (0.5) | 0.1 | 3.4 | 2.0 |
| IT & Digital | 1.3 | 3.3 | 1.9 | (2.0) | (0.5) | 10.3 | 20.8 | 10.8 | (10.5) | (0.5) | 29.0 | 23.8 |
| Finance & Ops | 1.4 | 2.5 | 2.7 | (1.1) | (1.3) | 12.5 | 15.0 | 13.8 | (2.6) | (1.3) | 27.4 | 28.2 |
| Human Resources | 0.4 | 0.9 | 0.9 | (0.5) | (0.5) | 3.4 | 5.4 | 3.9 | (2.0) | (0.5) | 9.9 | 11.8 |
| Legal Compliance & Governance | 1.5 | 1.2 | 1.8 | 0.3 | (0.4) | 9.7 | 8.4 | 10.1 | 1.3 | (0.4) | 14.0 | 18.3 |
| Central | (0.0) | 0.1 | 0.3 | (0.1) | (0.4) | 0.6 | 0.7 | 1.0 | (0.1) | (0.4) | 1.0 | 1.7 |
| Grand Total FY 2019/20 Before Sale Of Assets | 12.0 | 15.6 | 20.0 | (3.7) | (8.1) | 88.7 | 115.4 | 96.8 | (26.7) | (8,1) | 184.5 | 197.4 |
| Sale Of Assets | (0.2) | - | (1.0) | (0.2) | 0.8 | (2.9) | (5.0) | (3.8) | 2.1 | 0.8 | (10.3) | (10.5) |
| Total Change FY 2019/20 | 11.8 | 15.6 | 19.0 | (3.8) | (7.2) | 85.7 | 110.4 | 93.0 | (24.7) | (7.2) | 174.2 | 186.9 |
| o/w | | | | | | | | | | | | |
| Capex | 6.6 | 10.3 | 7.9 | (3.7) | (1.4) | 46.3 | 70.8 | 47.6 | (24.5) | (1.4) | 100.5 | 91.7 |
| Exceptional | 5.2 | 5.3 | 11.1 | (0.1) | (5.9) | 39.5 | 39.7 | 45.3 | (0.2) | (5.9) | 73.7 | 95.2 |

- Retail spend has been delayed (against budget and forecast) due to slower than anticipated agreement of British Gas contract, delaying the corresponding recognition of commencement fees. This is expected to be caught up next month.
- CIO has consciously slowed down some works (e.g. Belfast Exit and PCI) in year, with a corresponding impact on spend.
- The FY forecast continues to be reviewed internally each month with a view to bringing spend below budget from a full year perspective.

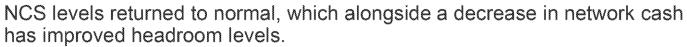
Change Benefits



Broadly on forecast, with FY Peregrine impact versus budget being slightly offset by Spans & Layers acceleration.

| | | | P7 Benefi | is. | | | V | | FY 1920 | | | |
|--|--------|--------|-----------------|--------------|----------------|--------|--------|-----------------|--------------|----------------|--------------------|--------------------------|
| | Actual | Budget | 6+6 Forecast | Vs Budget | Vs Forecast | Actual | Budget | 6+6 Forecast | Vs Budget | Vs Forecast | Benefits Budget | Benefits 6+6 Forecast |
| Retail | 2.4 | 2.7 | 2.6 | (0.2) | (0.2) | 13.3 | 15.5 | 13.5 | (2.2) | (0.2) | 28.5 | 27.2 |
| Financial Services & Telecoms | 0.9 | 1.8 | 0.7 | (0.9) | 0.3 | 8.4 | 12.4 | 8.2 | (3.9) | 0.3 | 20.6 | 12.6 |
| Post Office Insurance | 0.5 | 0.8 | 0.5 | (0.3) | - | 2.5 | 2.8 | 2.5 | (0.3) | - | 6.9 | 6.9 |
| Identity | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 1.5 | 1.3 | 1.5 | 0.1 | 0.0 | 3.4 | 2.5 |
| IT & Digital | 0.9 | 1.0 | 0.8 | (0.1) | 0.0 | 5.8 | 6.3 | 5.7 | (0.5) | 0.0 | 11.2 | 10.1 |
| Finance & Ops | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 | 0.4 | 0.3 | 0.4 | 0.1 | 0.0 | 1.1 | 1.5 |
| Human Resources | 0.8 | 0.3 | 0.8 | 0.4 | 0.0 | 2.6 | 2.3 | 2.6 | 0.4 | 0.0 | 4.0 | 7.7 |
| Legal Compliance & Governance | - | (0.0) | (0.0) | 0.0 | 0.0 | - | (0.0) | (0.0) | 0.0 | 0.0 | (0.1) | (0.1) |
| Central | - | - | - | - | - | - | - | - | - | - | - | - |
| Grand Total FY 2019/20 Before Sale Of Assets | 6.0 | 7.0 | 5.8 | (1.0) | 0.1 | 34.6 | 40.9 | 34.4 | (6.3) | 0.1 | 75.6 | 68.5 |
| Sale Of Assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Change FY 2019/20 | 6.0 | 7.0 | 5.8 | (1.0) | 0.1 | 34.6 | 40.9 | 34.4 | (6.3) | 0.1 | 75.6 | 68.5 |

Balance Sheet & Headroom





| Balance | Sneet |
|---------|-------|
| | |

| £m | Period 7 | Period 6 | y P6 | P7 FY18 | y P7 | P12 FY18 | V P12 |
|----------------------------|----------|----------|-------|---------|------|----------|-------|
| Fixed Assets | 550 | 547 | 3 | 524 | 26 | 535 | 15 |
| Debtors | 355 | 385 | (30) | 354 | 1 | 350 | 5 |
| Cash | 542 | 697 | (155) | 573 | (31) | 572 | (30) |
| Creditors | (613) | (626) | 13 | (561) | (52) | (558) | (55) |
| Pension Surplus | 1 | 1 | 0 | 3 | (2) | 1 | 0 |
| Provisions | (47) | (54) | 8 | (50) | 13 | (92) | 46 |
| Other | 1 | 1 | (0) | 11 | (9) | 2 | (1) |
| Loan | (588) | (740) | 152 | (570) | (18) | (565) | {23} |
| Net Assets / (Liabilities) | 202 | 211 | (9) | 274 | (73) | 244 | (43) |

| Forecast | v Forecast |
|----------|------------|
| 550 | 0 |
| 334 | 21 |
| 555 | (13) |
| (579) | (34) |
| 1 | 0 |
| (37) | (9) |
| 10 | (9) |
| (527) | 39 |
| 205 | (4) |

Net Funding Position

| £m | Period 7 | Period 6 | y P8 | P7 FY18 | v P7 | P12 FY18 | v P12 |
|----------------------|----------|----------|------|---------|------|----------|-------|
| Government Loan | (588) | (740) | 152 | (570) | (18) | (565) | (23) |
| Demonetisation - NCS | (191) | (105) | (86) | (165) | (27) | (227) | 36 |
| Cash at Bank - POL | 2 | O | 1 | 1 | 0 | 4 | (3) |
| Net Funding Position | (778) | (845) | 67 | (734) | (44) | (787) | 9 |

| Fore | casi | v Forecast |
|------|-------|------------|
| | (627) | 39 |
| | (200) | 9 |
| | 1 | 0 |
| | (826) | 48 |

The £48 million lower Net Funding Position was primarily driven by: (1) a higher than forecast decrease in Network Cash Inventory (Gross); and, (2) a higher than forecast increase in Client Creditors.

Balance Sheet Headroom

| £m | Period 7 | Period 6 | y P6 | P7 FY18 | v P7 | P12 FY18 | V P12 |
|------------------------------------|----------|----------|------|---------|------|----------|-------|
| Government Loan - Available Amount | 950 | 950 | - | 950 | - | 950 | |
| Government Loan - Drawn Amount | (588) | (740) | 152 | (570) | (18) | (565) | (23) |
| Headroom | 362 | 210 | 152 | 380 | (18) | 385 | (23) |
| Target Minimum Headroom | 280 | 200 | - | 200 | - | 200 | |
| Headroom Above/(Below) Target | 162 | 10 | 152 | 180 | (18) | 185 | {23} |

| v Forecast | Forecast |
|------------|----------|
| - | 950 |
| 39 | (627) |
| 39 | 323 |
| - | 200 |
| 39 | 123 |

Security Headroom

| £m | Period 7 | Period 6 | v P6 | P7 FY18 | y P7 | P12FY18 | v P12 |
|--|----------|----------|-------|---------|------|---------|-------|
| Network Cash | 522 | 673 | (150) | 554 | (32) | 549 | (27) |
| Cash at Bank - POL | 1 | 0 | 1 | 1 | 0 | 4 | (3) |
| Client Debtors | 134 | 160 | (27) | 146 | (12) | 141 | (7) |
| Trade & Other Debtors - Business Debtors | 198 | 202 | (3) | 205 | (7) | 189 | 9 |
| Total Security | 855 | 1,035 | (180) | 906 | (51) | 884 | (29) |
| Government Loan | (588) | (740) | 152 | (570) | (18) | (565) | (23) |
| Santander | (87) | (83) | (4) | (95) | 8 | (95) | 8 |
| Total Obligations | (675) | (823) | 148 | (665) | (10) | (660) | (15) |
| Headroom | 181 | 213 | (32) | 241 | (61) | 224 | (43) |

| Forecast | v Forecast |
|----------|------------|
| 534 | (12) |
| 1 | 0 |
| 129 | 5 |
| 203 | (5) |
| 867 | (12) |
| (627) | 39 |
| (90) | 4 |
| {717} | 43 |
| 150 | 31 |

At the end of P7 we had targeted to utilise the NRF in line with the usage in the forecast. Actual NRF usage was £191 million compared to a forecast of £200 million. This means that the material part of the variance is reflected in the variance on the drawdown on the Government Loan and that the explanation of variances for the Net Funding Position also explain the variance on the loan.

The favourable variance on the Net Funding Position therefore also translates into a favourable variance on the Balance Sheet Headroom position.

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Cash Holdings

| Network Cash Inventory - Position Report - 7 | Prior Year | Year End | | Reporting Period | | Variances | |
|--|----------------------|---|----------------------|----------------------|---------------------|-------------------|-----------------------|
| ¢ m | Period 7 FY-18/19 | Period 12 FY-18/19 | Period 6 FY-19/20 | Period 7 FY-19/20 | us Pricu Year | us Year End | us Prior Period |
| Network Cash Inventory (before Demonet.) | | | | | | | |
| Branch | | | | | | | |
| € Cash Holdings | 471.4 | 477.5 | 476.7 | 467.3 | (4.1) | (10.2) | (9.4) |
| FX Cash Holdings | 69.7 | 35.2 | 77.0 | 63.0 | (6.7) | 27.8 | (14.0) |
| | 541.1 | 512.7 | 553.7 | 530.3 | (10.8) | 17.6 | (23.4) |
| Cash Centres | | | | | | | |
| Awaiting Processing | | | | | | | |
| Inward Rems - CVIT* | 23.5 | 50.7 | 64.2 | 47.0 | 23.5 | (3.7) | (17.2) |
| Inward Rems - Awailing Processing | 26.4 | 41.5 | 41.8 | 6.0 | (20.4) | (35.5) | (35.8) |
| inward Rems | 49.9 | 92.2 | 108.0 | 53.0 | 3.1 | (39.2) | (53.0) |
| Outward Rems in Transit ** | 40.8 | 37.8 | 28.7 | 31.7 | (9.1) | (8.1) | 5.0 |
| Machine Room - Awaiting Processing | | | | | | | |
| - London | 2.9 | 1.4 | - | 1.0 | (1.9) | (0.4) | 7.0 |
| - Birmingham | 0.4 | - | - | 0.3 | (0.1) | 0.3 | 0.3 |
| - Glasgow | 1.5 | - | | - | (1.5) | - | - |
| - FRES (London) | - | - | - | - | - | - | - |
| Old £1 Coins | 0.4 | 9.1 | 0.1 | 0.1 | (0.3) | - | - |
| Other - Cash Centre | | - | - | - | <u>-</u> | - | - |
| Total - Awaiting Processing (Cash Centres) | 95.9 | 131.5 | 132.6 | 89.2 | (6.7) | (42.3) | (43.6) |
| Total - Buffer (Cash Centres) | 52.3 | 94.6 | 58.2 | 58.2 | 5.9 | (36.4) | - |
| Cheques, Debit Cards, etc. | 12.7 | 21.8 | 13.9 | 13.1 | 0.4 | (8.7) | (0.8) |
| ATM Holdings - Cvit filled | 15.4 | 9.1 | 10.9 | 10.4 | (5.0) | 1.3 | (0.5) |
| Other | 1.4 | (23.1) | 8.4 | 11.9 | 10.5 | 35.0 | 3.5 |
| Network Cash (before Demonet.) | 718.8 | 746.6 | 777.9 | 713.1 | (5.7) | (33.5) | (64.8) |
| Cash in BoE Bond | 755.9 | 845.0 | 570.9 | 732.2 | (23.7) | (112.8) | 161.3 |
| Total Cash Holdings | 1,474.7 | 1,591.6 | 1,348.8 | 1,445.3 | (29.4) | (146.3) | 96.5 |
| Funded By: | | *************************************** | | | | | |
| - Cash Available to Treasury | 1.4 | 3.5 | 0.7 | 1.1 | (0.3) | (2.5) | 0.4 |
| - Government Loan | (570.0) | (565.0) | (740.0) | (588.0) | (18.0) | (23.0) | 152.0 |
| - NRF Usage | (184.5) | (228.6) | (105.4) | (191.1) | (26.5) | 35.5 | (85.7) |
| Net Funding Position | (733.2) | (788.0) | (844.7) | (778.0) | (44.8) | 10.0 | 56.7 |
| - WC Funding Network Cash Inventory | 14.4 | 41.4 | 66.8 | 64.9 | 50.5 | 23.5 | (1.9) |
| | (718.8) | (746.6) | (777.9) | (713.1) | 5.7 | 33.5 | 64.8 |

Network Cash Inventory (Gross) was £713 million at P7. The improvement versus forecast reflects a lower level of inward rems in Cash Centres.

The level of Network Cash Inventory continues to track in line with both Budget and Forecast (the gross inventory level has been within £10 million of our Budget since P4). Over the next two period ends we expect to see increases in our Network Cash Inventory (Gross) as we move into the holiday season and winter fuel payment period. Holdings are expected to increase to £746 million at the end of P8 and then to reach a peak of £819 million at the end of P9. These increases will increase our funding requirement and hence reduce facility headroom but we anticipate remaining within the £750 million limit on loan drawings set by the Board.

Bonds holdings have also increased by £113 million since P6 and we continue to monitor the position carefully.

Working capital trends are also being reviewed to further understand the impact the changes in withdrawals and deposit profiles is having on our headroom.

POST OFFICE
THE BOARD OF DIRECTORS

PAGE 1 OF 7 DISCUSSION PAPER

Cash and Facility Management

Author: Mark Dixon Sponsor: Al Cameron Meeting date: 26 November 2019

Executive Summary

Context

Post Office is funded by Government. We have been receiving investment funding to pay for investment costs, network subsidy to keep unprofitable branches open and we can borrow from BEIS and the Bank Of England to fund both our working capital and branch cash holdings. Over recent years, as set out in the table below, there have been a number of cashflow trends:

- 1. Trading profit has increased, offset by lower network subsidy.
- 2. We have deliberately invested more than our investment funding, especially in 2014-15 and 2015-16. Subsequently we have balanced this with cash efficiencies and have reduced net borrowings in this 3YP period after a peak in 2017-18.
- 3. Working capital requirements have increased in each year.

| £m | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|
| EBITDAS | (93) | (57) | (17) | 13 | 35 | 60 | 74 |
| Network Subsidy | 200 | 160 | 130 | 80 | 70 | 60 | 50 |
| Total earned | 107 | 103 | 113 | 93 | 105 | 120 | 124 |
| Investment funding | 215 | 170 | 150 | 140 | 70 | 168 | 42 |
| Investment spend | (203) | (237) | (259) | (188) | (116) | (121) | (113) |
| Capex spend | (102) | (147) | (180) | (117) | (135) | (177) | (78) |
| Net investment spend | (90) | (214) | (289) | (165) | (181) | (130) | (149) |
| Network cash mvt | 192 | (127) | 42 | 53 | 32 | 106 | 53 |
| Working capital mvts / other | (9) | (66) | (88) | (55) | (24) | (23) | (12) |
| Net cash (borrowed)/returned | 200 | (304) | (222) | (74) | (68) | 73 | 16 |
| Borrowing from BEIS | - | (310) | (465) | (561) | (623) | (565) | (573) |
| Borrowing from BoE | (173) | (300) | (313) | (246) | (238) | (227) | (200) |
| Bank overdraft | (50) | - | - | - | | - | ~ |
| Cash at bank – POL | 30 | 113 | 59 | 14 | - | 4 | 1 |
| Total borrowed at year-end | (193) | (497) | (719) | (793) | (861) | (788) | (772) |

6.2

Going forward, investment funding will cease and network subsidy is not agreed. We will be constrained in the amount we can invest. Managing our cash resources will therefore become increasingly important.

Questions addressed in this report

- 1. How does cash and borrowing work?
- 2. What progress have we made?
- 3. What further efficiencies can be delivered?
- 4. Looking forward, what are the constraints and what can be done about them?

Conclusions

We supply the cash for branches as well as our own working capital.

Our borrowing capacity has three primary limits: a hard limit on what we can borrow from BEIS, a security headroom limit which ensures that branch cash and client debtors exceed borrowing from BEIS and a limit on BoE borrowing based on cash withdrawals.

This security headroom is important to Government as it means that our borrowing is accounted for on their balance sheet as working capital not debt.

Previously, we increased borrowing significantly over a two-three year period by investing more in the business than we were receiving in funding. In the current three-year period to 2021 we are not seeking to borrow to invest and we have managed down borrowing through efficiencies in supply chain.

Further efficiencies can be gained and these would enable us to fund a material GLO settlement. This view is subject to completing funding agreements with Government after March 2021 on the back of an agreed 5YP.

Looking forward, we should be able to manage ourselves so that trading profit and network subsidy can be largely converted to investment spend. However, while we can maintain a healthy facility headroom, security headroom will continue to fall, potentially sharply and we will be operating on fine margins of headroom.

This needs to form part of the funding debate with Government for the period after March 2021. Our focus is to

- Seek to credibly incentivise the business on cash earned rather than profit
- · Deliver further cash efficiencies
- Significantly improve our understanding and ability to forecast working capital
- Significantly improve cash flow forecasting and strengthen the team. We are working
 with Accenture on a proof of concept for cash forecasting. This will require some
 investment funding.
- Consider the need to sell assets to increase capacity

Input Sought

The Board is asked to note the progress made and comment on the next steps.

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The Report

How does cash and borrowing work?

- We issue c. £870m of cash a month to customers and recover a further £1,062m.
 The trend is for falling withdrawals as declines in POCA and cash usage exceed increases in our share of banking withdrawals. Deposits values are rising through a higher banking share.
- 2. At 31 March 2019, a reasonably typical example day, we controlled £1,621m of cash, of which £845m was held in our bonded warehouses and was owned and funded by the Bank of England. We pay to insure this cash.
- 3. The remaining £776m was being used in our business: £524m held in branches, including £52m of foreign currency, and £222m in cash centres, in branch safes waiting to be picked up and in transit. The remainder, £33m, is other non-cash methods of customer payment, mainly cheques, in the process of clearing.
- 4. We funded this from two sources: we borrowed from BEIS through our Revolving Credit Facility (the "RCF", £565m), and we borrowed "off-balance sheet" from the Bank of England by moving cash onto their balance sheet overnight (the "NRF", £227m). The surplus funding was used to support our working capital and cash at bank of £16m.
- 5. Our own working capital is relatively stable and relatively small, as you would expect with £1b of commissions, monthly payrolls for agents and staff and supplier costs.
- 6. The working capital flows in the underlying business are much larger and more volatile. We set our borrowing under the RCF 2 days in advance and can access an emergency facility of £50m for issues which arise in that 2 days. The RCF is capped in three ways: the limit we can borrow is formally £950m. However, the Board requires us to operate with a £200m buffer, reducing the limit to £750m. Secondly, to protect its security, BEIS requires us not to borrow more than the sum of Network cash, other cash and cash equivalents and client debtors less the Santander creditor. Thirdly Santander requires the sum of our liability to them and to BEIS to be less than cash, near cash and some additional assets.
- 7. At different points in the cycle, either the facility headroom or the security headroom can be a greater constraint. In earlier years, we were holding at lot of cash in branches and borrowing to fund investments. This increased the amount of cash held and the borrowing, reducing headroom against both limits. As we have reduced cash usage, we have widened the facility headroom which is just the difference between our borrowing and £750m but not security headroom, where reduced cash and borrowing net off.
- 8. The Bank of England Note Recirculation Facility (NRF) is a product of our membership of the Note Circulation Scheme. We can place up to £350m overnight on the Bank's balance sheet rather than borrowing it as part of the RCF. We average c. £210m because of an annual cap on usage relating to the amount of old

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notes we process and issue. The £210m is down from £250m two years ago as withdrawals reduce.

What progress have we made?

9. The development in cash can be summarised by year-end numbers as follows:

| Cash and Funding, £m | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|------------------------------|---------|---------------------------------------|---------|----------|
| | | | | Forecast |
| Cash in use | | | | |
| | | | | |
| Sterling in branches | 543 | 543 | 472 | 470 |
| FX in branches | 48 | 60 | 52 | 48 |
| Total Cash in branches | 591 | 603 | 524 | 518 |
| Total Cash outside branches | 303 | 275 | 222 | 107 |
| Direct debits and cards | 19 | 20 | 33 | 19 |
| Total Cash in Use | 913 | 881 | 776 | 723 |
| | | | | |
| Funded by: | | | | |
| Cash at Bank | 14 | _ | 4 | _ |
| RCF from BEIS | (561) | (623) | (565) | (573) |
| NRF from BoE | (246) | (238) | (227) | (200) |
| | | | | |
| Funded by working capital | (120) | (20) | 12 | 49 |
| | | | | |
| Total funding of cash in use | 913 | 881 | 776 | 723 |
| Limit d English Handanan | | | | |
| Limit 1 Facility Headroom | 1 050 | 050 | 050 | 050 |
| RCF Facility Limit | 950 | | | |
| Less: Board buffer | (200) | · · · · · · · · · · · · · · · · · · · | <u></u> | <u> </u> |
| Revised facility Limit | 750 | | | |
| RCF from BEIS | (561) | | | |
| RCF Headroom | 189 | 127 | 185 | 177 |
| | | | | |

| p | ä | Q | 0 | 5 |
|---|---|---|---|---|
| | | | | |

| Limit 2 Security Headroom | | | | |
|---------------------------|-------|-------|------------|-------|
| Total cash in use | 913 | 881 | 776 | 723 |
| Less: NRF from BoE | (246) | (238) | (227) | (200) |
| Other assets (2) | 338 | 321 | 335 | 330 |
| Less: Santander Liability | (111) | (100) | (95) | (88) |
| Security Limit | 893 | 864 | <i>789</i> | 765 |
| Borrowing from RCF | (561) | (623) | (565) | (573) |
| Security Headroom | 333 | 241 | 224 | 192 |
| | | | | |

- (i) Based on current levels
- (ii) Other Cash at bank POL, client debtors and business debtors
 - 10.Comparing Total Cash in Use at the end of 2016-17 to the current position our initiatives have resulted in c£200m of cash being taken out of the network through efficiency which has protected facility headroom. However, security headroom has fallen consistently.

What further efficiencies can be made

- 11. We believe that there are a number of further efficiencies possible totalling £80-100m
 - We have now received BoE permission to vary vault opening hours, enabling
 us to remove inward and outward REMs at the cash centres by staying open
 until 23.30 to process inward REMs and opening at 4am to process outward
 REMs, removing both from our midnight balance sheet. This should be worth
 around £30+m.
 - We can be tougher on branches not returning excess cash and we believe this could be worth up to £40m.
 - We are working to take more risk on "buffer stock" (i.e. the working stock required (mainly coin because of lead times) to ensure that we can meet the demands of the Network). Any reduction in this stock increases the risk that a delay in obtaining stocks (due to stress in the industry or transport issues) will result in branch orders not being fulfilled. The impact is expected to be less significant than the first two actions above.
 - We also need to understand working capital movements better so we can refine our forecasts.
- 12. This will enable us to create an additional £80m+ of facility headroom which we will retain for the GLO.

13. However, this does not create additional capacity in security headroom. Indeed, it worsens security headroom because cash in branches is reduced while borrowing is maintained after the forecast GLO spend.

Looking forward what are the constraints and what can be done about them?

- 14. We have done a first piece of untested modelling. The assumptions were:
 - We make £100m of cash efficiencies in 2019-20
 - We spend £100m of cash on the GLO in 2020-21
 - We make operating profit of £90m in 2020-21 rising to £120m for the next few years
 - Cash withdrawals drop sharply as we exit POCA March 2021 and withdraw from ATMs on the same timetable. The latter is not agreed, is in fact unlikely but tests our ability to manage.
 - We receive £30m of network subsidy every year after 2021.
- 15.As the table below shows, with the fall in withdrawals, access to the NRF falls sharply. However, the overall impact on reducing withdrawals so materially is not in itself disastrous.
- 16. The Bank of England has agreed to consider allowing us to borrow consistently until they have re-considered the basis of NCS funding: our argument is that basis NRF capacity solely on withdrawals is archaic. RBS will support such a change we would have to let both earn interest and it is within the rules of the scheme but not the spirit.
- 17.Even without sustained NRF funding, we can manage within the facility headroom limit and the Board could release some of the £200m buffer.
- 18. The issue is that security headroom will be severely reduced to a minimal buffer of c. £30m and increased NRF capacity doesn't help that. That would inevitably mean that at certain points we would exceed the security headroom. It is not clear what the implications would be.
- 19.To avoid this, part of the funding conversation may be to re-negotiate the exact calculation of security headroom to exclude the Santander liability, for example. This would be easier if Santander agreed to waive their security in exchange for higher borrowing costs but to date they have not been keen.
- 20.Alternatively, we could seek to extend creditor terms with other banks, perhaps paying every 2-3 days rather than next day.

6.2

6.2

21.Otherwise, security headroom severely limits our room to invest in future and this must form part of the conversation with Government and could force us into asset sales.

| All in £m | FY18 | FY 19 | FY20 | FY21 | FY22 | FY23 |
|--|---------|---------|---------|---------|--------------|--------|
| | 31/3/19 | 29/3/20 | 28/3/21 | 27/3/22 | 26/3/23 | 313/24 |
| Trading profit (excl. NSP) | 47 | 76 | 90 | 120 | 120 | 120 |
| Network Subsidy Payment | 60 | 50 | 50 | 30 | 30 | 30 |
| Investment funding | 168 | 42 | - | - | - | - |
| Other * | (14) | (8) | (8) | (8) | (8) | (8) |
| Tax | 8 | 8 | 3 | 6 | 3 | 3 |
| Interest | (8) | (8) | (7) | (6) | (6) | (5) |
| Sub-total - Net cash from trading | 261 | 160 | 129 | 143 | 139 | 140 |
| Branch cash efficiency | - | 40 | - | - | - | _ |
| Cash centre efficiency | | | | | | |
| - no inward rems in cash centres | - | 35 | - | - | - | - |
| - no outward rems in cash centres | - | 25 | - | - | - | - |
| ATM decline | | | | | | |
| - impact on network cash | - | - | 102 | - | - | - |
| - impact on trade and other receivables | - | - | 63 | - | - | - |
| POCa ceases | | | | | | |
| - impact on network cash | - | - | - | - | - | - |
| - impact on trade and other receivables | - | - | 54 | - | - | - |
| Working capital impact on cash position | 59 | 78 | (19) | (17) | (11) | (11) |
| Sub-total - Change in cash management and fundir | 59 | 178 | 200 | (17) | (11) | (11) |
| GLO cash payment | - | - | (100) | - | - | - |
| Cash earned for investment | 320 | 338 | 229 | 126 | 128 | 129 |
| Headroom: (before annual investment) | | | | | | |
| Security headroom | 239 | 202 | 212 | 156 | 158 | 159 |
| Facility headroom *** | 135 | 287 | 360 | 304 | 306 | 306 |
| Available for investment | 135 | 202 | 212 | 126 | 1 2 8 | 129 |
| Assumed investment | | | 182 | 126 | 128 | 129 |
| Headroom: (reflecting assumed investment) | | | | | | |
| Security headroom | 239 | 202 | 30 | 30 | 30 | 30 |
| Facility headroom ** | 135 | 274 | 178 | 178 | 178 | 178 |
| For info: | | | | | | |
| | | | (120) | (120) | (120) | (120) |
| Impact of ATM decline on NRF **** | | | | | | |

POST OFFICE BOARD PAGE 1 OF 2 DECISION PAPER

Borrowing Limits

Author: Mark Dixon Sponsor: Alisdair Cameron Meeting date: 26 November 2019

Executive Summary

Context

POL manages its liquidity and funding risks by ensuring it has access to sufficient committed funding and then monitoring its funding usage against an agreed headroom buffer.

The Board has agreed a £200 million headroom buffer on drawings on the Government Loan.

POL proposes to temporarily reduce this buffer over the holiday period.

Questions addressed in the report

Proposed Changes to the Headroom Buffer

1. What changes are we proposing to the headroom buffer and why?

Conclusion

We wish to temporarily reduce the agreed headroom buffer from £200 million to £100 million for the period from 27 November 2019 to 2 February 2020 in order to provide funding flexibility over the holiday period through to the end of Period 10 when network cash inventory is higher.

Input Sought

The Board is asked to approve a derogation to draw the Government Loan up to £850 million (i.e. to reduce the headroom buffer from £200 million to £100 million), subject to approval by the CFOO, for the period from 27 November 2019 to 2 February 2020.

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6.3

6.3

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The Report

What changes are we proposing to the headroom buffer and why?

- 1. In 2016, 2017 and 2018 the Board agreed temporary increases to the Headroom limit from £750 million to £850 million for Periods 9 and 10, subject to approval by the CFOO. In 2016/17 overnight drawdowns were above £750 million on 2 days, 5 January 2017 (£771 million) and 6 January 2017 (£775 million). All other drawings were within the £750 million limit. In 2017/18 and 2018/19 drawings were kept within the £750 million limit.
- 2. As anticipated, in the 2019/20 financial year, the peak deterioration in headroom is in Period 9 as we invest in higher network cash holdings over the holiday period.
- 3. At the end of Period 7 drawings on the Government Loan were £588 million and usage of the NRF was £191 million. This compared to Budget figures of £588 million and £200 million respectively. Our overall headroom was therefore slightly better than expectations at the time of the Budget.
- 4. As in previous years we expect headroom to reduce in Period 9 due to higher network cash balances held in anticipation of higher outflows due to winter fuel payments and higher cash withdrawals from ATMs and across counters prior to the holiday period. In the 6+6 Forecast we expect network cash at the end of Period 9 (£819 million) to be more than £100 million higher than at the end of Period 7 (£713 million). Network cash then reduces significantly by the end of Period 10.
- 5. Given our position at the end of Period 7 and our projected cash usage over subsequent periods through to Period 9, we do not expect to need to draw beyond the £750 million Board approved limit on the Government Loan in Period 9. This position will improve after Period 9 and we expect to also be within the £750 million limit at the end of the financial year.
- 6. However, this position is dependent upon the timing of capital and investment spend and the receipt of grants from Government and, in order to be prudent around this critical period, we are therefore requesting a temporary derogation for Period 9 and Period 10 (through to 2 February 2020).
- 7. We are requesting a derogation to draw the Government Loan up to £850 million (i.e. to reduce the headroom buffer from £200 million to £100 million), subject to approval by the CFOO, for the period from 27 November 2019 to 2 February 2020.

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POST OFFICE BOARD
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PAGE 1 of 6

Group Litigation Update

Author: Ben Foat/Rodric Williams Sponsor: Ben Foat Meeting date: 26 November 2019

Executive Summary

Context

Post Office is awaiting decisions from the courts on the Horizon Issues trial (which is now imminent), and on Post Office's application for permission to appeal the March 2019 Common Issues judgment (which should be received on Friday 22 November 2019).

As reported to the Board on 8 November 2019, the "KEL Disclosure Issue" identified in October 2019 has been resolved with the Court and the Claimants, and should not impact delivery of the Horizon judgment.

On 25 October 2019 we received the Claimants' individual Particulars of Claim ("IPOCs") for the third, Further Issues trial scheduled for March 2020. Post Office's Defences replying to the IPOCs must be filed by 25 November 2019.

Mediation to explore settlement with the Claimant group remains scheduled for 27-28 November 2019. On 29 October 2019 the Post Office Board authorised the Group Litigation Subcommittee to delegate to the General Counsel authority to make settlement offers at mediation, on terms determined by the Subcommittee.

Questions addressed in this report

- 1. What is the update on the Group Litigation (Horizon judgment; Common Issues trial; Further Issues trial; future trials)?
- 2. What settlement authority has been provided for the mediation on 27-28 November 2019?
- 3. What are the next steps in the Group Litigation?

Conclusion

- 1. The Horizon judgment is now imminent. We expect to receive on 22 November 2019 the Court of Appeal's decision on whether to grant Post Office permission to appeal the Common Issues judgment. Post Office must file its Defences for the March 2020 "Further Issues" trial by 25 November 2019. The parties aim to exchange criteria for selecting "Test Claimants" for future trials on 12 December 2019.
- 2. Post Office's General Counsel has been authorised to make settlement offers up to £65m, with shareholder approval required for any settlement above £50m.
- 3. The next key steps in the litigation are: attending to the courts' decisions on the Horizon trial and Post Office's application for permission to appeal the Common

Issues judgment once received; filing Post Office's Defences for the Further Issues trial by 25 November 2019; and attending mediation on 27-28 November 2019.

Input Sought

The Subcommittee is asked to NOTE the updates in this paper and the next steps to be taken in the litigation.

Input Received

This paper has been prepared with the assistance of external legal counsel.

The Board is reminded to exercise caution when communicating about potential levels of settlement. Communications about settlement should therefore only be held orally, but if that is not possible, advice should be sought from Post Office's lawyers.

Litigation Update

Horizon Judgment

We have still not received the draft Judgment on the Horizon Issues trial, which is now imminent. On 6 November 2019 the Managing Judge emailed the parties advising that "intended dates for distribution of the draft will be circulated in due course". The Board will be updated on the judgment's content and outcomes once it has been received.

The Claimants may seek to postpone the mediation scheduled for 27-28 November 2019 if they do not feel they have sufficient time to consider the judgment ahead of the mediation. However they have not yet asked for this.

KEL Disclosure Issue

As separately reported on 8 November 2019, we have resolved with the Claimants and the Court the issue which came to light in October 2019 concerning disclosure of the Horizon "Known Error Logs" (KELs) for the Horizon trial:

- the Claimants have informed us and the Court that they do not want to take any further steps on this issue; and
- the audit we commissioned on the completeness of Fujitsu's KEL disclosure did not identify any further KELs which need to be disclosed or require Post Office to change the submissions we made about Horizon during the trial. 1

The KEL issue should not therefore have any direct impact on the Horizon trial or delay delivery of the judgment.

Common Issues Appeal

The oral hearing of Post Office's application for permission to appeal the Common Issues judgment handed down in March 2019 took place on Tuesday 12 November 2019. We should receive on Friday 22 November 2019 the Court of Appeal's decision on whether permission to appeal has been granted or refused. The Board will be updated on the outcomes from the application once we have received that decision.

³ The written report on the audit is due to be delivered during the week commencing 18 November 2019.

Third / Further Issues Trial

On 25 October 2019 we received from the Claimants individual particulars of claim (IPOCs) for four test cases (Abdulla, Bates, Stubbs and Stockdale, each a "Lead Claimant" in the November 2018 Common Issues trial). The IPOCs set out the types of loss each Claimant is claiming for the purposes of the March 2020 Further Issues trial, which trial will determine whether those losses are recoverable in principle and, if so, how they should be quantified.

The Claimants are seeking recovery of a very wide range of loss and damage, but have not put any values on these claims in the IPOCs. The legal principles behind many of the claims are not contentious, although the way which the Claimants seek to apply them can be. The two claims we see as being most contentious are:

- <u>post-termination losses</u>, which on the Claimants' best case could be worth c. £148m if payable up to the date of their retirement; and
- <u>litigation funding costs</u>, which on Herbert Smith Freehills' analysis could be worth c. £72m (as at May 2020, assuming a 4x multiplier is applied to their incurred legal costs).

Post Office must file its Defences to the IPOCs by 25 November 2019. Helen Davies QC and Tony Robinson QC have been retained to lead this work. The Board Subcommittee noted the approach being taken to the Defences at its 13 November 2019 meeting.

Future Trials

The parties have agreed to exchange on 12 December 2019 proposed criteria for selecting "Test Claimants", whose cases could be used as representative of the wider Claimant group in a future trial on breach (i.e. whether Post Office acted wrongly), causation (i.e. did that breach cause the Claimant's harm), and limitation (i.e. is a Claimant's claim time-barred).

No other dates have been set for selecting Test Claimants, or for completing the procedural steps required for trials on breach, causation and limitation. The parties will be asking the Court to schedule a Case Management Conference in January 2020 for this purpose.

Costs

As presented to the Board on 30 April 2019, £8m was initially included in the 19/20 Budget for the cost of the litigation. Since then, and as included in the October 2019 Quarterly Delivery Board Paper, this allocation in the 19/20 Budget has been increased to £15m and as at P7, £7.7m has been spent. By the end of November 2019, we will know whether we have permission to appeal the Common Issues judgment, the Horizon judgment will have been received, and the first mediation meeting will have taken place. A revised spend forecast will be provided at the January 2020 Board.

Mediation - Settlement Authority

Mediation with the Claimant group will take place at Herbert Smith Freehills' London offices on 27 and 28 November 2019, with Charles Flint QC and Stephen Ruttle QC acting as mediators (whose profiles are available in the Reading Room). The key Post

Office representatives at mediation will be General Counsel Ben Foat and Alan Watts from Herbert Smith Freehills, with Post Office CEO Nick Read attending to make introductory commercial remarks. We do not as yet know the make-up of the Claimants' mediation team.

On 13 November 2019 the Board Subcommittee considered advice from solicitors Herbert Smith Freehills LLP that settlement at a level between £40m and £65m would be a good result for Post Office, and authorised the General Counsel to make settlement offers at mediation within that range, subject to shareholder approval for any offers above £50m as set out below.

As Shareholder approval is required for any settlement above £50m, the Shareholder is currently working through its approvals process, which it aims to complete prior to the mediation. The Subcommittee has asked the Shareholder to put in place a mechanism through which Post Office can seek its approval on an expedited basis should that facilitate obtaining a settlement at an acceptable level during the mediation.

Next Steps

An overview of the main court and settlement-related activity in the Group Litigation through to October 2020 is set out in the "Group Litigation Timetable" at **Appendix 1**.

Between now and December 2019 we will:

- attend to the Horizon judgment and Court of Appeal's decision on our application for permission to appeal the Common Issues Judgment once received;
- file Defences for the Further Issues trial by 25 November 2019;
- attend mediation on 27-28 November 2019; and
- draw up proposed criteria for selecting Test Claimants for later trials.

A timeline of the key milestones to January 2020 is set out at Appendix 2.

Operational responses to the Common Issues judgment and Contingency Planning for the Horizon judgment are being reported separately.

Appendices

1. Group Litigation Timetable

| | Oct 2019 | Nov 2019 | Dec 2019 | Jan 2020 | Feb 2020 | March 2020 | April 2020 | May 2020 | June 2020 | July 2020 | Aug 2020 | Sept 2020 | Oct 2020 |
|-------------------------|--|--|---|--------------------------------------|----------------------------|---|--|--|--------------|--------------|--------------------------|----------------|-------------|
| Common Issues Appeal | | Oral permission: Hearing (12 Nov) Decision (22 Nov) | File additional documents with Court as required for appeal if permission is granted. | | | | Likely window for Court to hear appeal if permissio is granted. Note: Court vacation August & September so unlike appeal will be heard in these months. | | | | er so unlikely | | |
| Horizon Issues Trial | | Likely window Issues Juc | | | on costs of ssues trial | | | | | | | | |
| Further Issues Trial | Costs Budgeting (2-23 Oct) Particulars of Claim (25 Oct) | Defences (25 Nov) | Stateme nt of Assumed Facts (2 Dec) CMC (4 Dec) Replies (9 Dec) | Pre-trial Review (23 Jan) | | Further Issues That (2-20 Mar) | | Likely window far Further Issues Judgment | | | n costs of sues Trial | | |
| Trial 4 | | | Propose d date to agree test case selection criteria (12 Dec) | | | | | | | | Likely wind | ow for Trial 4 | |
| Settlement | Without Prejudice Lawyers meeting (10 Oct) | Mediation (27-28 Nov) | | Window for possible second mediation | | | | | | | | | |

2. Group Litigation Timetable

| <u>No.</u> | Date | <u>Milestone</u> | | | | | |
|------------|---|--|--|--|--|--|--|
| 1. | Imminent | Horizon: court to deliver draft judgment to the parties | | | | | |
| 2. | 22 November 2019 | Common Issues: Court of Appeal to give reasons for granting or refusing permission to appeal Common Iss judgment | | | | | |
| 3. | 25 November 2019 | Further Issues Trial: Deadline for Post Office to serve individual Defences | | | | | |
| 4. | 26 November 2019 | Post Office Board Meeting | | | | | |
| 5. | 27 – 28 November 2019 | Mediation: UKGI/BEIS authority to be obtained if required. | | | | | |
| 6. | 2 December 2019 Further Issues: Parties to set out assumed facts and issues to be decided at Further Issues Trial | | | | | | |
| 7. | 4 December 2019 | Case Management: Case Management Conference to resolve any disputes about issues to be dealt with at FIT | | | | | |
| 8. | 9 December 2019 | Further Issues Trial: Deadline for Claimants to serve Replies to Post Office's Defences | | | | | |
| 9. | 10 December 2019 | Post Office Board Subcommittee Meeting | | | | | |
| 10. | 12 December 2019 | Further Issues: Proposed date for parties to serve and file their proposed Selection Criteria for Test Claimants | | | | | |
| 11. | 22 January 2020 | Post Office Board Subcommittee Meeting | | | | | |
| 12. | 23 January 2020 | Further Issues Trial: Pre-trial Review | | | | | |
| 13. | 28 January 2020 | Post Office Board Meeting | | | | | |



Purpose, Strategy and Growth

Board presentation 26 November 2019

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Executive summary – Where we make money

- The PSG team has worked closely with Post Office Finance team to depict a picture of product and channel profitability based on existing Post Office data
- As per last Board meeting, we are presenting product profitability using "Contribution", a new profitability view developed by the PO Finance team, which splits total overheads between "True" overheads (e.g., finance, HR and legal) and Allocated Indirects (e.g., CIO and DMB costs, which are otherwise part of total overheads)
- Channel profitability is presented on trading profit terms
- The analysis drives several insights:
 - As of FY 2018-19, Post Office top revenue driver is Mails (35% of £1bn), while Financial Services is top contribution driver (46%, £65m) with best contribution margin (45%)
 - Over the next two years, product contribution mix changes significantly: almost 50% of contribution is expected to be driven by Cash & Banking (£84m), while only 25% (vs. 45%) is driven by Financial Services. Mail contribution remains stable (~10% of total)
 - From a channel perspective, online / non-branch channels drove ~£77m trading profit vs. a loss of ~£16m from physical channels (e.g. Mains, Locals, traditional and DMB), for a total POL trading profit of £60m in FY 2018-19

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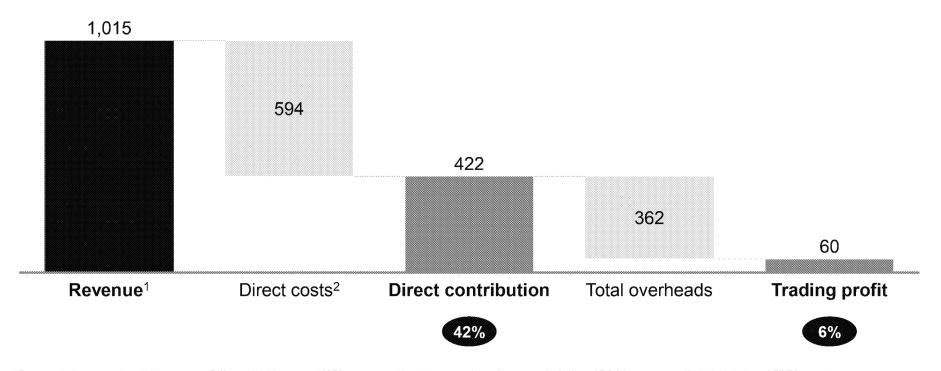
Executive summary – Where we make money: Product profitability

- As a reminder, in FY2018-19, Post Office generated ~£1bn of revenues and £60m trading profits, a 6% margin
- In FY2018-19 the top 4 drivers of revenues were Mail (35% of total revenues), Cash & Banking (17%),
 Telecoms (15%) and Financial Services (14%)
- Over the next 2 years, baseline forecasted revenue is expected to grow 3% CAGR with Mails remaining flat,
 Cash & Banking growing at 24% CAGR and Financial Services shrinking at -10% CAGR
- An analysis of the Direct Contribution shows every product category made a positive direct contribution in FY2018-19; FS the highest direct contribution margin at 71%
- Overall, Direct Contribution is expected to remain stable over next 2 years (+1% CAGR) in PO Finance baseline forecast at £434m as Cash & Banking growth is offset by shrinking Financial Services and Identity
- The POL Finance team worked to refine the profitability view by splitting Total Overheads between Allocated Indirect Costs and "True" Overheads, providing a view on Contribution (14% of revenues)
- Allocated Indirect Costs include CIO, DMB, Network Ops, Agent Fixed Remuneration and Marketing. These
 can be allocated to product categories using standard assumptions
- Compared to "Direct Contribution", the "Contribution" proportion of Mails is significantly smaller (16% vs. 36%), FS is almost double (46% vs. 24%) and Payments is loss-making
- Contribution is expected to grow ~11% CAGR by FY2020-21 in PO baseline forecast, at which point Cash & Banking expected to drive almost half of Contribution while Mails and FS shrink, and Identity increases its loss



REMINDER: In FY2018-19, Post Office generated ~£1bn of revenues and £60m trading profits, a 6% margin

FY 2018-19, £M % of revenue



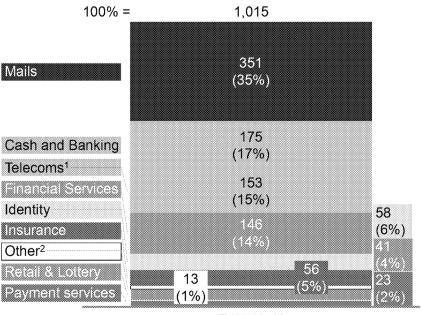
¹ Revenue before network subsidy payment. Differential with reported £972m revenue driven by accounting adjustments: inclusion of POCA as revenue (£14m), inclusion of FRES travel money (£33m), exclusion of Payzone (-£4m)



² Agent variable costs, processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain Source: POL Finance

In FY2018-19 the top 4 drivers of revenues were Mail (35%), Cash & Banking (17%), Telecoms (15%) and Financial Services (14%)

£M



FY2018-19 Revenues

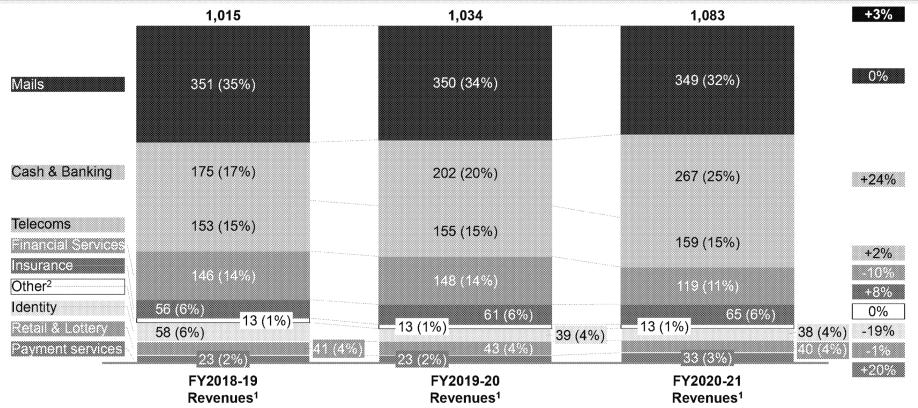


¹ Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model

² Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income Source: POL Finance

Over the next 2 years, baseline forecasted revenue is expected to grow 3% CAGR with Mails remaining flat, Cash & Banking +24% CAGR and Financial Services -10% CAGR

£M, baseline forecast CAGR (FY2018-19 to 20-21)

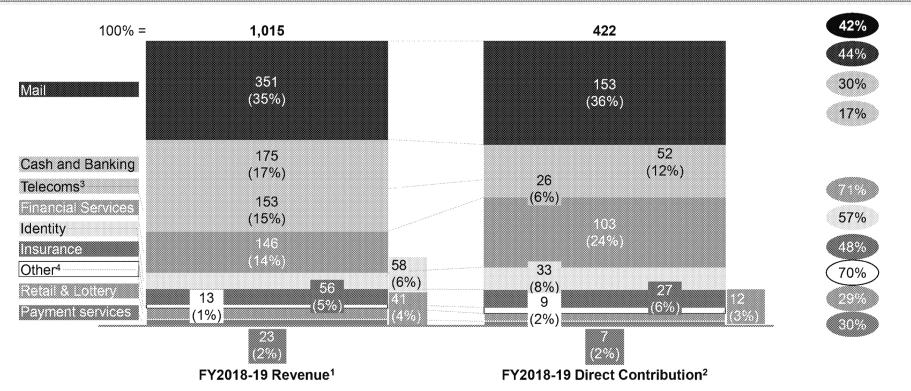


¹ Revenue before network subsidy payment. Differential with reported £972m revenue driven by accounting adjustments; inclusion of POCA as revenue (£14m), inclusion of FRES travel money (£33m), exclusion of Payzone (£4m). 2 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income Source: POL Finance



POL Board - 26 November 2019-26/11/19

Direct Contribution margin (% of rev)

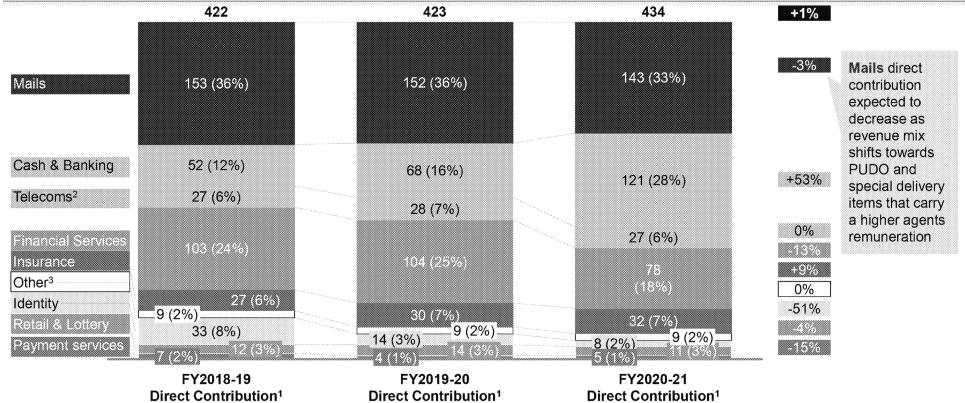


¹ Revenue before network subsidy payment. Differential with reported £972m revenue driven by accounting adjustments: inclusion of POCA as revenue (£14m), inclusion of FRES travel money (£33m), exclusion of Payzone (£4m), 2 Direct contribution calculated as revenue minus direct costs per major project group. 3 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model. 4 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income. Source: POL Finance



Overall, Direct Contribution expected to remain stable over next 2 years (+1% CAGR) at £434m as Cash & Banking growth is offset by shrinking Financial Services and Identity

£M, baseline forecast CAGR (FY2018-19 to 20-21)



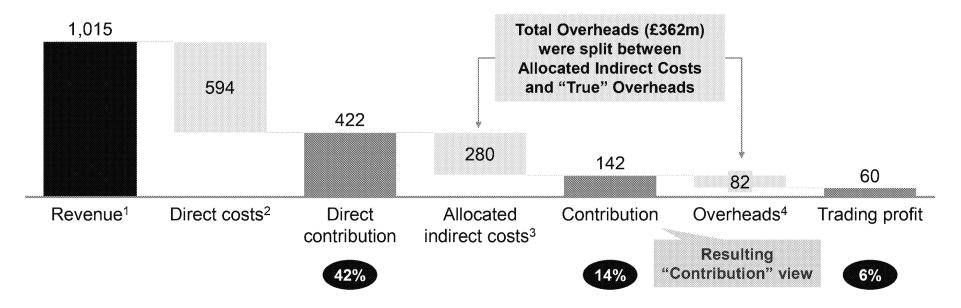
¹ Direct contribution calculated as revenue minus direct costs per major project group. Excludes Pazyone. 2 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model 3 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income. 3 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income. Source: POL Finance



POL Board - 26 November 2019-26/11/19

The POL Finance team worked to refine the profitability view by splitting Total Overheads between Allocated Indirect Costs and "True" Overheads, providing a view on Contribution (14% of revenues)

FY 2018-19, £M % of revenue



¹ Revenue before network subsidy payment. Differential with reported £972m revenue driven by accounting adjustments: inclusion of POCA as revenue (£14m), inclusion of FRES travel money (£33m), exclusion of Payzone (-£4m)



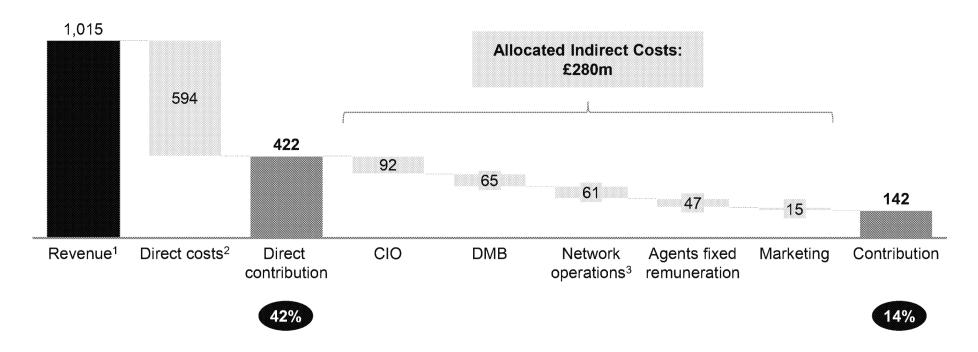
² Agent variable costs, processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain

³ Agent fixed costs (£47m), DMB costs, Marketing, network operations, CIO

⁴ Staff costs, finance and operations, legal, risk & governance, HR & people & engagement, communications & central Source: POL Finance

Allocated Indirect Costs include CIO, DMB, Network Ops, Agent Fixed Remuneration and Marketing. These can be allocated to product categories using standard assumptions

FY 2018-19, £M % of revenue



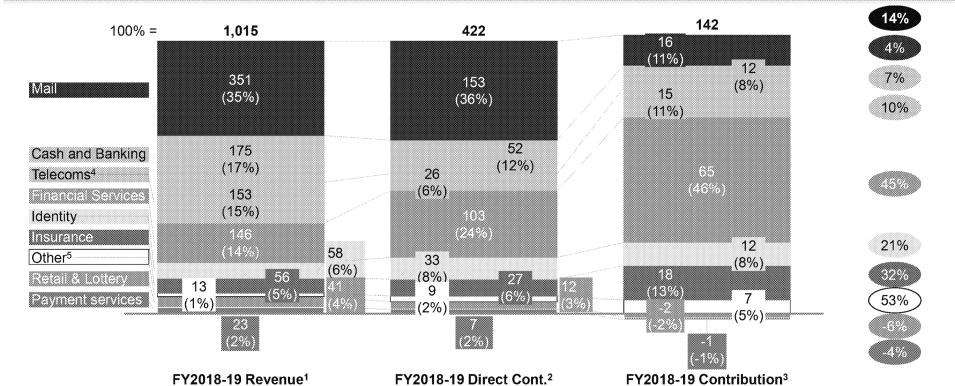
¹ Revenue before network subsidy payment. Differential with reported £972m revenue driven by accounting adjustments: inclusion of POCA as revenue (£14m), inclusion of FRES travel money (£33m), exclusion of Payzone (-£4m)



² Agent variable costs, processing costs, distribution and postage, postage costs, IT infrastructure & services, finance & losses, marketing; direct overheads and supply chain

³ Figures based on 18/19, and so excludes transfer of Retail Operations under Retail in 19/20 Source: POL Finance

EM Contribution margin (% of rev)

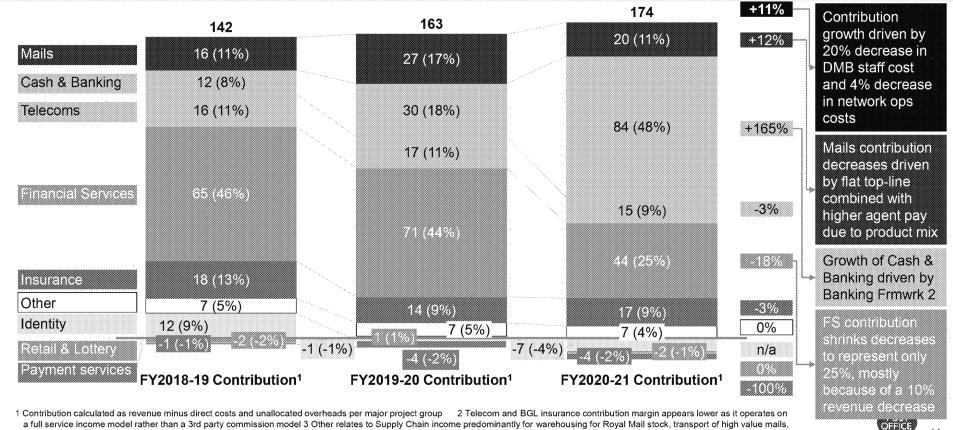


1 Revenue before network subsidy payment. Differential with reported £972m revenue driven by accounting adjustments: inclusion of POCA as revenue (£14m), inclusion of FRES travel money (£33m), exclusion of Payzone (£4m). 2 Direct contribution calculated as revenue minus direct costs per major project group. 3 Contribution calculated as revenue minus direct costs per major project group. 4 Telecom and BGL insurance contribution margin appears lower as it operates on a full service income model rather than a 3rd party commission model 5 Other relates to Supply Chain income predominantly for warehousing for Royal Mail stock, transport of high value mails, and the release of Bank of Ireland deferred income. Source: POL Finance



Contribution to grow ~11% CAGR by FY2020-21, at which point Cash & Banking expected to drive almost half of Contribution while Mails and FS shrink, Identity increases loss

£M, baseline forecast CAGR (FY2018-19 to 20-21)



and the release of Bank of Ireland deferred income Source: POL Finance

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Executive summary – Where we make money: Channel profitability

- Channel split shows most product revenues driven at least partly by branches (vs. non-branch, i.e. online and call centres), except for Telco and FS
- 7,400 of POL's ~11,600 PO branches are Mains and Locals
- Online / non-branch channels (£77m) as well as Mains (£45m) and Locals (£17m) are the engines of Post Office profits in FY2018-19
- Within the branch network, Mains and Locals are the engines of profits accounting for £62m of profits in FY2018-19; DMBs and Traditional branches respectively drive £43m and £19m of losses
- 50% of revenues driven by just 14% of branches (~1,600 branches)
- Last quartile of branches (ranked by profitability) drive losses almost as great as profits from first 2 quartiles
- 63% of the top quartile branches (ranked by profitability) are Mains; 59% of bottom quartile of branches are Traditional branches



Purpose, Strategy

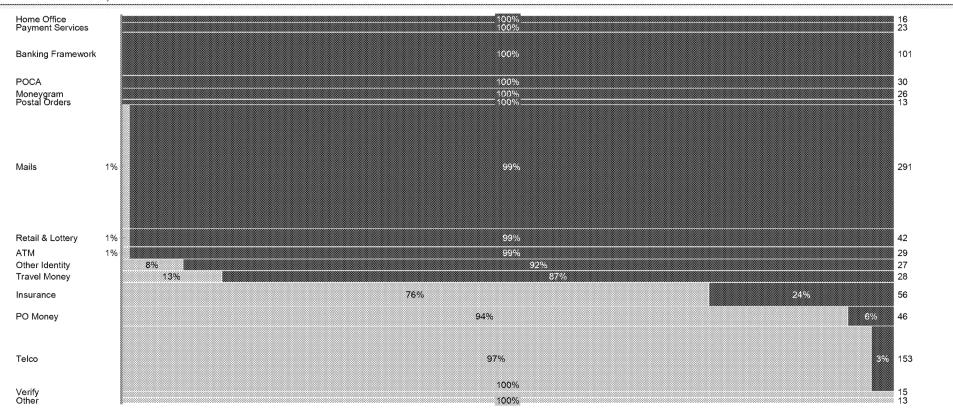
Board - 26 November 2019-26/11/19

Online/Non-branch

Branch

Channel split shows most product revenues driven at least partly by branches, except for Telco and PO Money

£M revenue¹, FY 2018-19



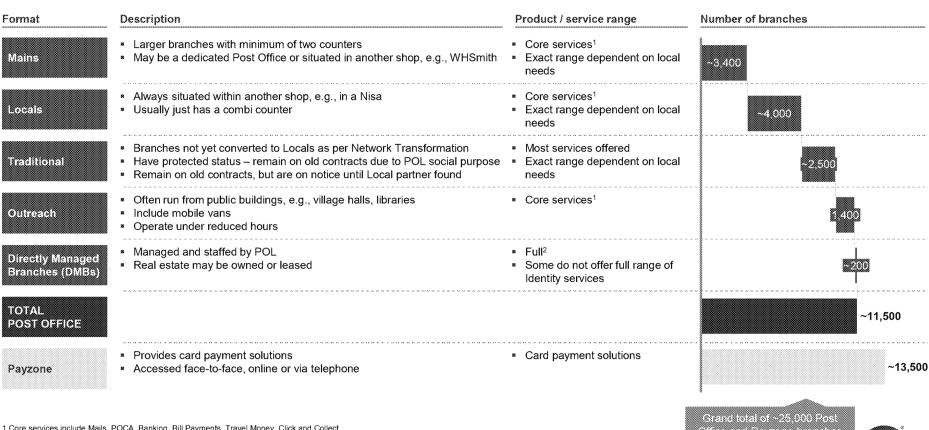
¹ Revenue before network subsidy payment. Differential with reported £972m revenue driven by exclusion of Payzone (£4m) and Royal Mail fixed fee (£59m) SOURCE: POL, product split based on Credence database



PRELIMINARY

7,400 of POL's ~11,600 PO branches are Mains and Locals

As of end of FY2018-19



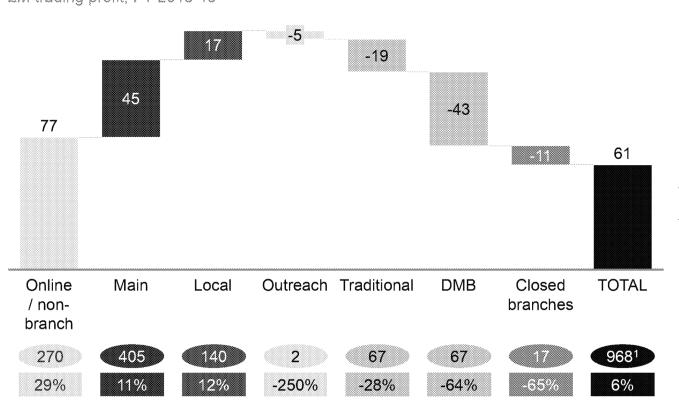
¹ Core services include Mails, POCA, Banking, Bill Payments, Travel Money, Click and Collect





² Full services include Mails, POCA, Banking, Bill Payments, Travel Money On Demand, Post Office Money, Broadband and Phone, Identity services SOURCE: POL





- DMB, followed by traditional branches, (which include community branches) are the main loss drivers
- Mains and Locals
 branches are the engine
 of profit in the branch
 network
- Outreach loss is relatively (-8% of trading profits)
- Closed branches drive ~£11m (14%) of total network losses



Online / non-branch channels drive ~£77m trading profit vs. ~-£16m loss from branches

¹ Revenue before network subsidy payment. Differential with reported £972m revenue driven by exclusion of Payzone (£4m) SOURCE: NSP model, POL Finance

Detailed view of branch profitability shows DMB and Traditional accounting for the vast majority of all losses generated by the branch network

FY2018-19

| | Profit-making | | Loss-making | | Total | | |
|--------------------|------------------------------------|---------------------------------------|--|----------------------------------|------------------------------------|----------------------------------|--|
| Channel | # of branches As of end of FY18/19 | Trading Profit, £m FY18/19 | # of branches As of end of FY18/19 | Trading Profit, £m FY18/19 | # of branches As of end of FY18/19 | Trading Profit, £m FY18/19 | |
| Locals | 2,976 | 22 | 1,004 | (5) | 3,980 | 17 | |
| Mains | 2,690 | 51 | 705 | (6) | 3,395 | 45 | |
| Outreach | | ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; ; | ~1,600¹ | (5) | ~1,600 ¹ | (5) | |
| Traditional | ~330 | 3 | 2,153 | (22) | 2,426 | (19) | |
| DMB | - | - - | 193 | (43) | 193 | (43) | |
| TOTAL ² | ~6,000 | 77 | ~5,600 | (82) | ~11,600 | (5) | |

Key takeaways

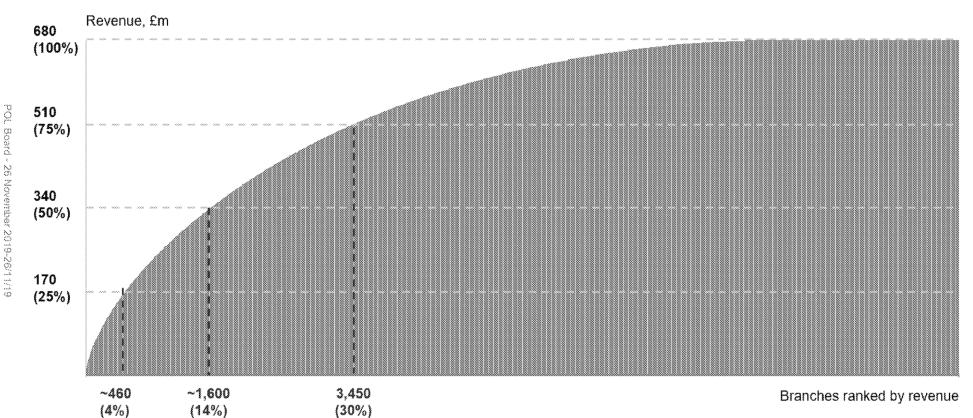
- Online channel is the primary driver of POL profit
- Excluding DMB, POL physical network will have a positive profitability profile
- On average, lossmaking main and local branches are close to breakeven
- +85% of traditional branches are lossmaking driving £22m of negative profit



^{1 ~1,600} outreach branches are served by 500 units. These 500 units will be used in the analysis over the next pages; 2 Excludes profitability associated to closed branches SOURCE: NSP model, POL Finance

PRELIMINARY

FY 2018-19



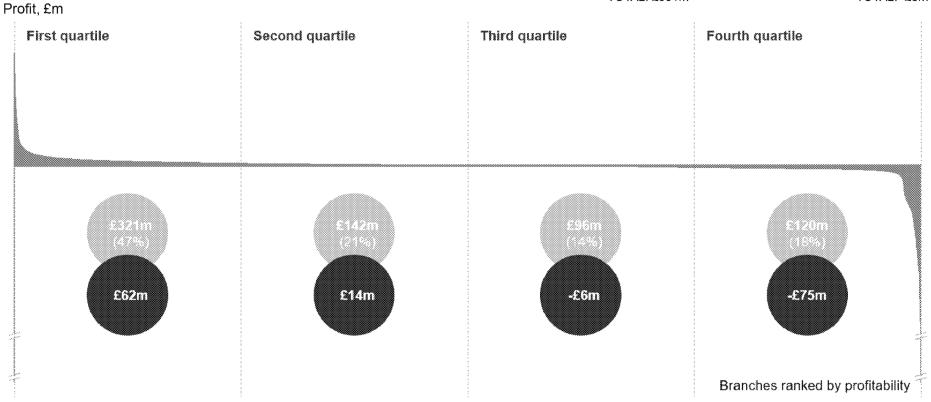
Analysis only includes open branches as of FY2018/19 SOURCE: NSP model, POL Finance



Last quartile of branches (ranked by profitability) drive losses almost as great as profits from first 2 quartiles FY 2018-19

Revenue (% of total revenues) TOTAL: £681m



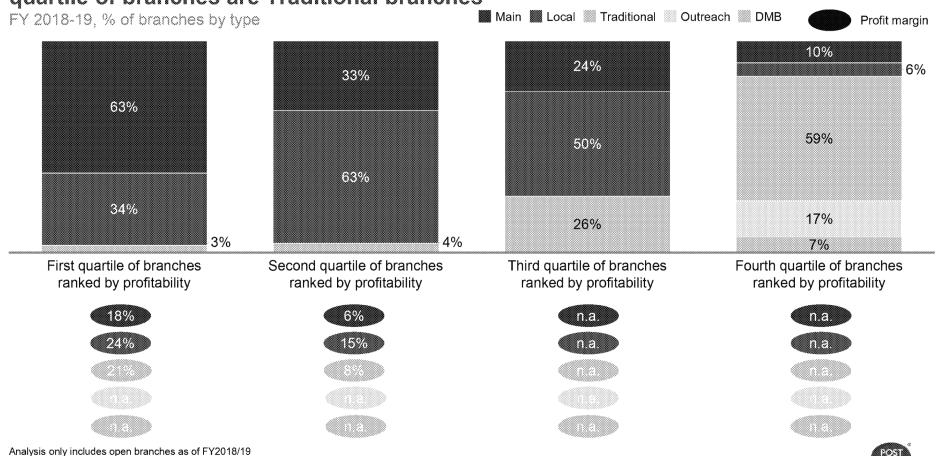


Analysis only includes open branches as of FY2018/19 SOURCE: NSP model, POL Finance



SOURCE: NSP model, POL Finance

63% of the top quartile branches (ranked by profitability) are Mains, 59% of bottom quartile of branches are Traditional branches



POL Board - 26 November 2019-26/11/19

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Summary of OHI findings and their potential uses

Diagnostic headlines

- Impressive level of engagement with the survey
- Bottom quartile organisational health indicating significant opportunity for improvement
- Accountability, work environment and motivation relative strengths (though still third quartile): relatively more effective in creating a sense of community and belonging; practices around openness, trust, engaging leadership and ownership amongst most emphasised
- Purpose and direction not clearly understood, reinforcing need for current work on Purpose, Strategy & Growth
- Lack of consistent measurement and management of business and risk, or acting to address problems
- Lack of institutional skills and talent, external orientation and innovation/learning
- Overall, senior managers' views most critical (especially innovation and learning)
- Current values centre around community, being of service, care and respect, but also hierarchy and bureaucracy; whereas desired values include competitiveness, accountability, efficiency and being well organised
- Main purpose themes at Post Office are about being a trusted brand, with access for all, serving customer's mails, parcel and cash needs

Uses of the OHI findings

- Syndicate the results internally to increase understanding of the challenges (both generally and for particular parts of the organisation)
- Start to create a narrative about the required change building on the quantitative and qualitative detail of the survey results
- Use the detailed information about where practices need to change to inform concrete improvement initiatives
- Once Purpose, Strategy & Growth are clearer, use OHI results to inform what is needed to enable the new strategy
- Track progress and course correct where/if needed



Organisational health is related to - but different from - organisational performance

Performance

Health

Focus of the OHI survey

What an enterprise does to improve how it develops compelling products and services, channels them efficiently through its network and sells them into the market to drive financial and operational results

How an organisation aligns itself, executes with excellence, and renews itself to sustainably achieve performance aspirations



Organisations that focus on Org Health outperform their peers at every level



Across Industries

Healthy
companies across
industries outperform
their unhealthy peers in
the stock market¹ by

3X



Across Companies

Companies that focus on health show an

18%

increase in EBITA between surveys



Within Companies

Health explains up to

50%

of performance variation across units



¹ Represents 9 year average Total Return to Shareholders (TRS) for healthy companies vs. unhealthy companies across survey database 2 Based on re-survey data, companies with "Moderate", "Strong", and "Very Strong" recipe alignment

The OHI survey digs deep to understand what's happening under the surface and provide a detailed picture of organisational health

Employee Engagement survey

Evaluates individual employee happiness / attitudes (e.g. how employees feel)

- Helps identify employee "hot buttons".
 (e.g., satisfaction, happiness, morale, engagement, work environment)
- Allows customisation and comparison based on unique questions / lines of inquiry
- Focuses on manager level reporting vs. enterprise-wide focus areas

Organisational Health Index (OHI)

- Evaluates an organisation's long-term capacity to perform
- Identifies strengths and opportunities across a robust set of management practices proven to drive health
- Enables benchmarking across industries, regions and a global database
- Focuses on enterprise-wide, functional and business unit insights to inform actions to improve health

In practice, employee engagement and the OHI are complementary, however a healthy organisation is not just about happy employees, but also aligning the workforce and behaviors with the organisation goals



The Organisational Health Index (OHI) offers proven insights and expert support to build an enduring organization that can sustain performance

Conducted an exhaustive academic review

Interviewed key leaders across our client base

Developed the Organisational Health Index (OHI) Survey



800



100 client executives



20 minute survey



200 fact-based insights



30 functional leaders



3-5
precise
recommendations







~1,900

of Fice

With 1+ billion data points, the OHI offers an unparalleled depth and breadth of knowledge, across geographies and industries

Global reach and relevance,

% of OHI surveys



Robust industry benchmarks

- Global Energy & Materials
- Banking
- TMT (High Tech-Media-Telecom)
- Consumer/Retail
- Advanced Industries
- Healthcare Systems and Services
- Pharmaceuticals and Medical Products
- Public Sector
- Insurance
- Travel, Transport & Logistics
- Asset Management & Institutional Investors
- Infrastructure
- Professional, Scientific, and Technical Services
- Social Sector
- Multi-Sector Conglomerate



¹ Represents the percentage of companies that surveyed globally

OHI statistics at Post Office



2448

Employees invited to participate in the survey (excludes DMB)



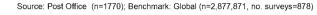
73%

Employees provided responses to the survey



>2000

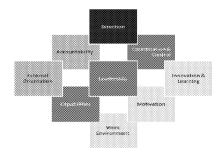
Individual comments, recommendations and opinions as provided by employees at all levels





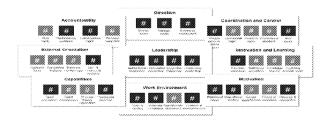
Two major measurements in the OHI

9 Health Outcomes



- Interprets if what is happening on the ground is working, and how well
- Agreement scale
- Example: "This Post Office colleague is highly motivated"

37 Management Practices

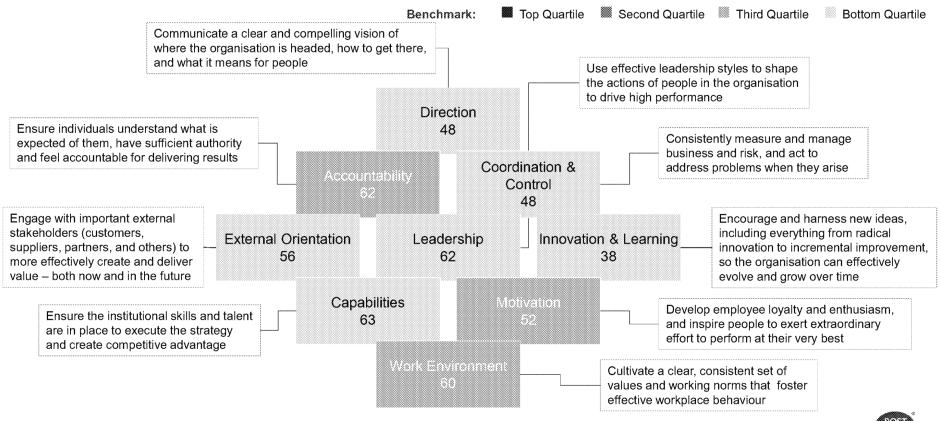


- Identifies colleagues' perceptions of what's happening on the ground
- Frequency scale, from "almost always" to "almost never"
- Example: "Managers in Post Office provide praise, thanks, or other forms of recognition to high performers"



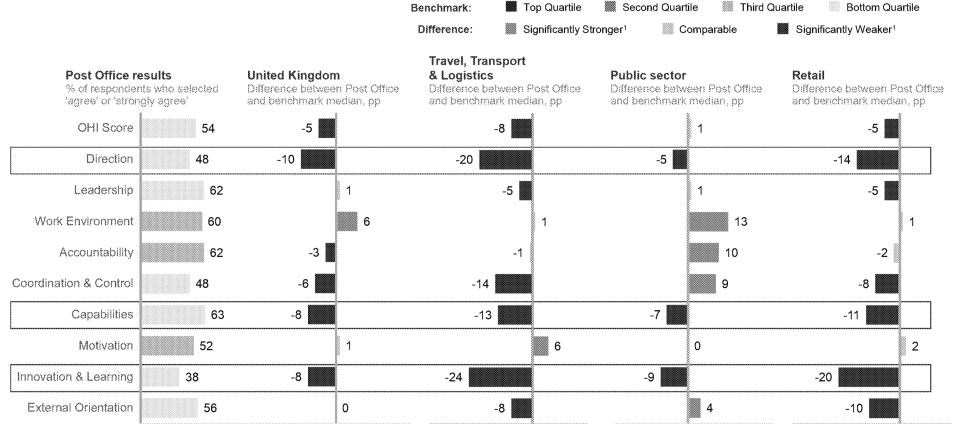
Employees' sense of community and belonging provide a foundation to build on once direction becomes clearer

% of respondents who selected 'agree' or 'strongly agree'



Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

Direction, Capabilities and Innovation & Learning are lagging most vs. UK benchmark



¹ The significance level is at p = .05. Statistical significance is calculated based on outcome distribution, size of population and size of point difference.

Source: Post Office UK (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878); United Kingdom (n=50,623, no. surveys=26); Public Sector (n=96,288, no. surveys=37); Travel, Transport & Logistics (n=136,237, no. surveys=36); Retail (n=155,238, no. surveys=39)



Survey scores across 9 health outcomes and 37 management practices

% of respondents who selected 'often' or 'almost always' Benchmark: Top Quartile Second Quartile Third Quartile Bottom Quartile Power practice – practice that needs to be prioritised if in bottom quartile Direction Accountability **Coordination & Control** 40 37 43 48 35 55 56 Shared Strategic Employee Clarity Involvement Vision Role Clarity Performance Consequence Personal People perf. Operational Financial Professional Risk Contracts Management Ownership review Management Mngmnt. Standards Management Leadership **Innovation & Learning External Orientation** 33 31 33 28 51 47 64 Gvt & Authoritative Consultative Supportive Challenging Top-down Bottom-up Knowledge Capturing Competitive **Business** Customer Community Leadership Leadership Leadership Innovation Innovation Sharing External Ideas Partnerships Focus Insights Relations Capabilities Motivation Work Environment 26 24 40 42 66 Talent Talent Process based Outsourced Meaningful Inspirational Career Financial Rewards & Acquisition Development Capabilities Expertise Values Leaders Oppor-Incentives Recognition tunities Performance Operationally Creative & Trusting Transparency Disciplined Entrepreneurial

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)

Accountability outcome questions¹

Employees clearly understand what is expected of them

Employees are held accountable for the results they are expected to deliver

Employees within Post Office have sufficient authority to make decisions

Accountability practice questions1

Post Office's organisational structure helps create clear accountability

Jobs in Post Office are designed to have clear objectives and accountabilities for results

Employees have written performance goals that clearly define what they are expected to deliver

Post Office sets performance goals for individuals that are challenging

Post Office provides attractive incentives to high performing employees

Post Office has created clear links between performance and consequences

Line managers create a sense of belonging to Post Office

Line managers encourage employees to take a personal stake in their jobs

1 Percent of employees Source: Post Office (n=1770)

PERSONAL OWNERSHIP

Disagree Neutral Agree

7.

4.5

Gap between Post Office scores and next best quartiles is key in understanding scores

Percentage points

| Direction | Shared Vision | 40 | |
|-------------------|----------------------------|----|------------|
| 48 | Strategic Clarity | 37 | |
| 70 | Employer involvement | | |
| | Authoritetice Leadership | | |
| Leadership | Consultative Leadership | 47 | 411 |
| 62 | Supporting Englership | | |
| | Challenging Leadership | | |
| | Open and Trusting | | - American |
| | Performance Transparency | 34 | |
| 60 | Operationally Disciplined | | |
| | Creative & Entropresential | | |
| | Role Clarity | 48 | |
| Accordate billing | Performance Contracts | | |
| 82 | Consequence Management | 35 | |
| | Personal Correspond | | |
| | Gent Assustion | | 3 10 |
| Capabilities | Talent Development | | - 8-12 |
| 63 | Process Based Capabilities | 40 | |
| | Otheograph Expertse | | 5.9 |

| Point in | crease required to achieve next quartile | | |
|----------------|--|----------------|--|
| Benchmark: | Top Quartile Second Quartile | Third Quartile | Bottom Quartile |
| Coordination & | People Performance Review | | |
| Control 48 | Operational Management | 55 | 5.9 |
| | Financial Management | 52 | 12-16 |
| | Professional Standards | | 6-10 |
| | Risk Management | 56 | - 37 |
| Motivetica | Meaningful Values | 42 | 6.10 |
| 52 | Inspirational Leaders | | 2.5 |
| | Career Opportunities | 26 | |
| | Financial incentives | | 6-10 |
| | Rewards & Recognition | 24 | 65 10 |
| Innovation & | Top-down Innovation | 33 | - 115 |
| Learning | Bottom-up Innovation | 31 | 9-13 |
| 38 | Knowledge Sharing | 33 | |
| | Capturing External Ideas | 28 | - Commander of the Comm |
| External | Customer Focus | 47 | |
| Orientation | Competitive Insights | 51 | 13-17 |
| 56 | Business Partnerships | 64 | 4.5 |
| | Government & Commonty Relations | | |
| | | | |

Source: Post Office (n=1770); Benchmark: Global (n=2,877,871, no. surveys=878)



Next steps on OHI

- Continue sharing survey results with relevant Post Office groups
- Start shaping the interventions to improve organisational health by identifying which management practices can be improved via workshops with L40 (session on 10 December), GE, etc.
- As the strategy work continues to be refined, ensure focus on improving the management practices that are most relevant to delivering that strategy



ab 8 Purpose, Strategy, Grow

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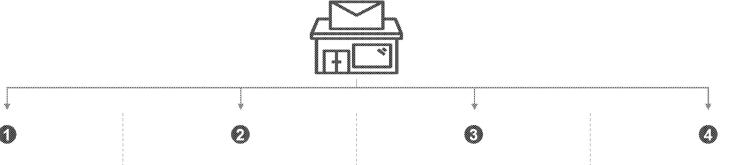


Executive summary – postal market overview

- Postal players have been under increasing pressure. Several trends contribute to this:
 - Structural and irreversible decline of the mail business
 - Customers demanding higher convenience and service in the core products offered by postal players, while often not being willing to pay higher prices (especially B2C e-commerce parcel senders)
 - Disruptors are winning the postal players' natural new growth segments (e.g. parcels and financial services), in particular Amazon
 - Regulatory pressure to maintain retail network coverage and USO requirements continue impacting postal players' economics; although most European players still enjoy some form of subsidy



Postal players have been under increasing pressure which impacts branch networks



Volume decline



Declining volumes in both cash and letters due to e-substitution

Growth products with different customer expectations



Parcel volumes and postal financial service sales are increasing but customers require more service, higher convenience

Accelerating competiton



New growth segments are very competitive and competitors are often disruptors. Postal players suffer from legacy costs and innovation gap Performance pressure



Increased pressure from shareholders to improve economics, but high (USO) requirements



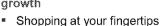
The world of post is changing fast in the face of megatrends that generate both threats and opportunities

Digitisation of letters



- World going paperless
- Advertising going digital

E-commerce and parcels growth



Disruptive innovators



The gig economy



- Much lower labour cost structure
- Different motivations from 'lifestyle couriers'

Disruption in financial services



- Cashless, online and mobile banking
- Trust deficit
- Withdrawal from the high street

Megatrends impacting global postal markets

Digital government



 Online management of national and municipal services, benefits, and taxes

The mobile economy



- 'Uberfication' of services
- Changing customer interaction models

The polymorphous world



 Emerging social and economic divides driving political disruption (Brexit, Trump)

The privatisation wave



- European posts under private ownership
- Peak in government sales

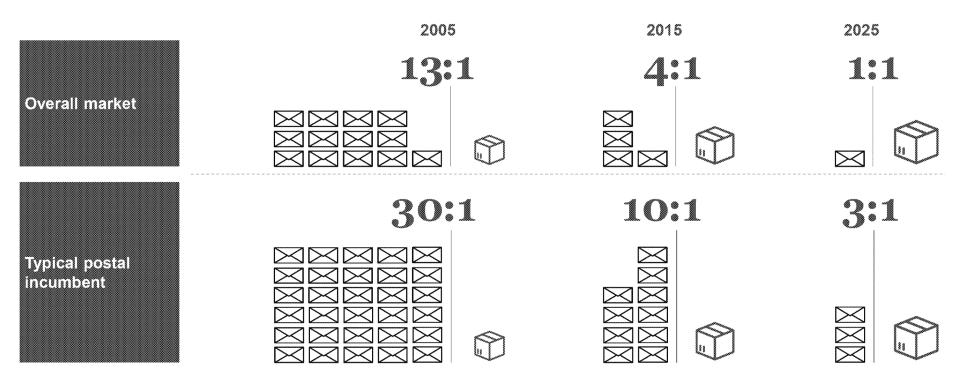
Convenience retail



- Growth in convenience and discounter retail
- Big box retailers entering the market



Mail and parcel are set to reach volume parity by 2025

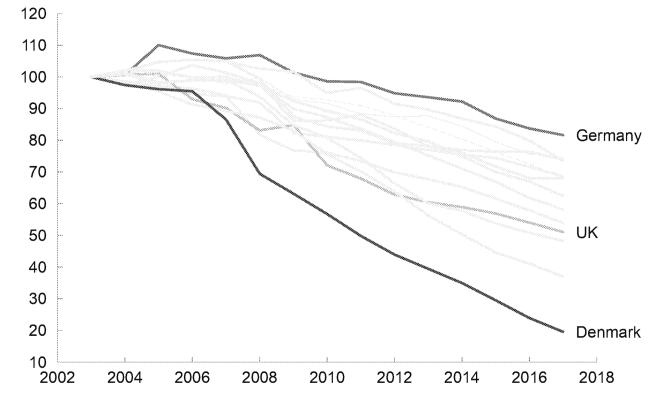




The decline of the mail business is structural and irreversible

ESTIMATES





1 Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Netherlands, Norway, Spain, Sweden, Switzerland, UK, US SOURCE: Operators' website and annual report; Regulators; UPU; Press

A few observations and additional facts ...

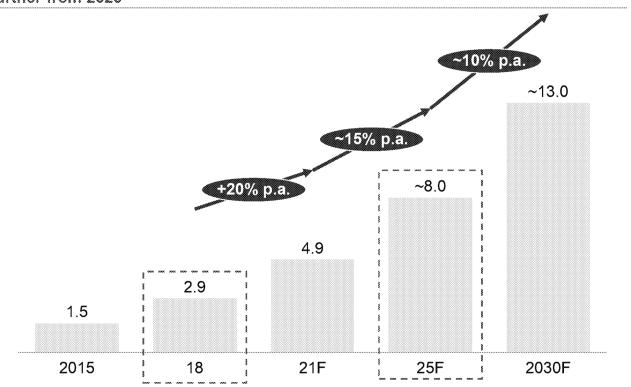
- Drop in mail volumes in key
 European postal markets –
 speed of decline driven by local habits and regulation
- 80% drop in mail volume in Denmark since 2003 – eGovernment initiatives since 2007 accelerated decline
- <20% drop in mail volume in Germany – least affected market in the analyzed set
- Most of key postal markets increased stamp prices since 2010, only Switzerland kept prices stable



E-commerce is currently a ~ USD 3 tr market, quadrupling to ~ USD 8 tr by 2025

E-commerce market worldwide USD trillions

Based on observation of historic growth of most mature e-commerce markets (e.g., UK, US), our assumption is that growth rate will decline from 2020 onwards and further from 2025



A few additional facts ...

20X increase in global e-commerce since 2000

5x growth differential between online and brick and mortar retail expected in 2016-21

30% share of total retail to happen online by 2030

70-80% of all e-commerce purchases delivered via networks

36bn e-commerce (B2C) parcels handled globally p.a.

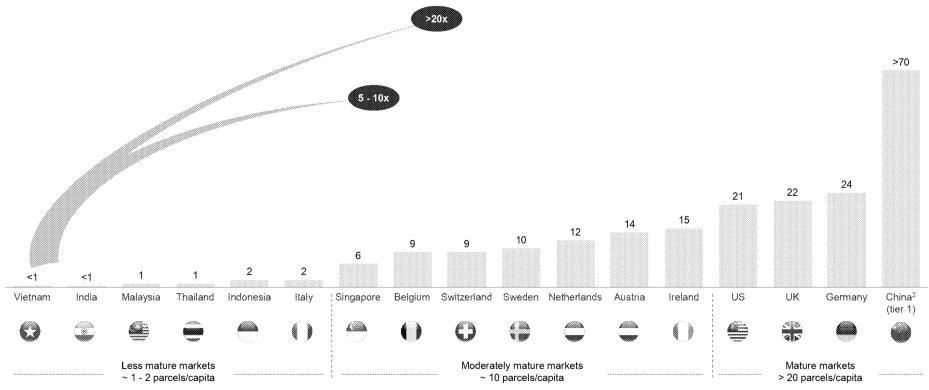
New geographies, consumer segments, product verticals, channels and occasions as drivers

OFFICE

SOURCE: eMarketer 2016

Differences in e-commerce parcel penetration highlight growth opportunities

E-commerce relevant parcel¹ penetration in parcels per capita, per year



^{1 &}quot;E-commerce-relevant" is defined as domestic B2C parcels, with speed typical for e-commerce shipments in the given country2 Shanghai and Beijing, assuming 70% B2C share SOURCE: Research, various reports



4 universal truths

Competitive market

40%

of parcel market share for typical incumbent

Australia with dominating incumbent share in B2C¹ parcel delivery (75%²), particularly outside major population areas

Competition is aggressive and increasing, e.g., etailers such as Amazon are already insourcing logistics

Customer expectations

70%

prefer price over speed

44% of customers have no willingness to pay extra for same-day parcel delivery, 40% only <1 EUR³

Currently 90% of parcel deliveries are same-day or next-day deliveries

Legacy costs

~30%

higher unit costs vs. competitors in urban areas

Labor represents 80% of parcel production costs
In urban areas labor cost disadvantage of up to 30% - without benefit of network effects

Innovation gap

10x

less IT jobs

No postal incumbent listed in Forbes top 100 list of digital companies 2018

Postal incumbents are often stuck with rigid corporate cultures that are slow moving and risk averse



^{1. 30%} market share in B2B; 2 Based on percent of total volumes in 2015; 3 Consumer survey across US, China and Germany (n= 4,700), conducted 2016 Source: IPC; APA/Branchenradar

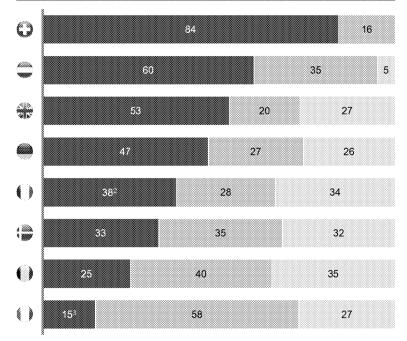
Domestic volumes dominated by local players - various competitor types attacking with sharp value propositions

Postal Incumbent 2 main competitors Other

Tough competition - postal incumbents are #1 in most parcel markets, but face strong rivalry ...

Domestic parcel & express market shares,

Selective markets1, Percent



... with 3 types of competitors attacking with sharp value propositions

| Competitor type | Strengths | Exam | ples | |
|--|---|------|------------|--------------|
| | Transferrable expertise from B2B operations (e.g., time-window delivery) | US | UPS | Ø |
| B2B-focused parcel specialists and express integrators | Network synergies due to B2B baseload and factor cost advantages | EU | DPD | Ø dpd |
| | Stronger brands in some markets | CN | SF Express | (9) er er |
| | High agility and innovative power ('digital first', '10X better' mindset) | US | Postmates | |
| B2C delivery startups | Ability to cherry-pick and tailor offering to coverage areas or verticals | EU | Ocado | Mocado: |
| | Ability to 'buy market growth' on the back of growth financing | CN | Ele.me | ølg.nyc |
| | High agility and innovative power ('digital first', greenfield) | US | Amazon | amazon |
| Forward-integrating e-tailers | Superior consumer insight and access ('what's inside the box') | EU | Amazon | amazon |
| iane is not in ton 3 | Ability to cross-subsidize with other revenue streams (e.g., commissions) | CN | Alibaba | 202 |

1 Revenue-based for BE, DK, FR; 2 Includes Coliposte, Chronopost, Exapaq; 3 Poste Italiane is not in top 3 Two main competitors include: DPD and DHL in SW; UPS and DHL in BE; GLS and local player in DK; FedEx and UPS in FR; Hermes and DPD in DE and UK; DHL and GLS in NL; Top 3 in IT: Bartolini, FedEx and UPS



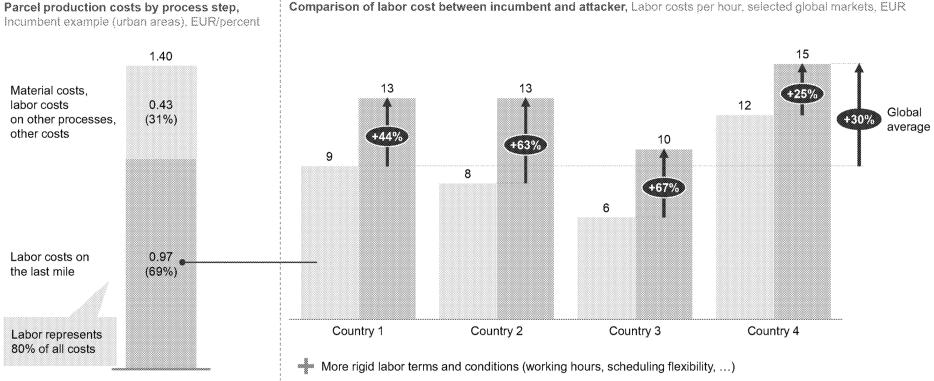
SOURCE: IPC

Legacy costs – parcel production costs are a function of labor costs on the last mile where incumbents have a major handicap vs. low-cost attackers Low-cost attacker Incumbent

Legacy costs - parcel production costs are a function of labor costs on the last mile ...

... where incumbents have a major handicap vs. low-cost attackers

Comparison of labor cost between incumbent and attacker, Labor costs per hour, selected global markets, EUR



¹ Case example for delivery of 1 parcel in Berlin through a parcel network with 125,000 parcels per day SOURCE: Press



Innovation gap – postal incumbents find it harder to innovate than their 'digital first' attackers

Postal incumbents appear on Forbes' Top 100 Digital companies list

FedEx as first Postal/Parcel company on most admired companies list

IT Jobs open worldwide for Deutsche Post DHL¹

60% Of FTEs their firm Of FTEs are longer than 10 years with

> Capital expenditure as a share of total revenue in 2017 by Postal companies

Amazon, Alibaba and JD.com all listed within Top 50

Amazon ranking

Jobs offered by Amazon within the category of Operations, IT & Support-Engineering¹

> Year median tenure at Amazon and Google

Capital expenditure on average by Amazon, Alibaba, JD.com

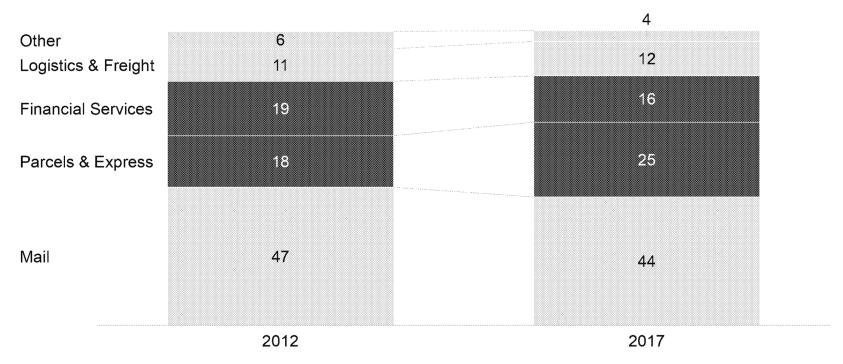
1 May 2019 SOURCE: Forbes, IPC, Fortune



E-commerce and financial services are important drivers of growth in postal business

Industry revenue share 1

Percentage



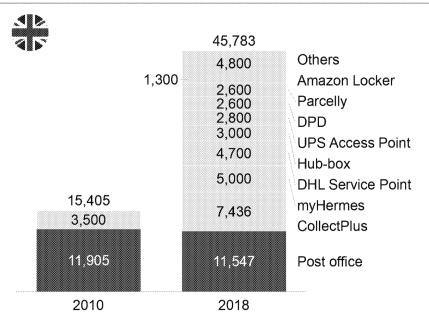
¹ Includes IPC members (postal operators from Europe, North America and the Asia-Pacific region). Collectively, their operations deliver 80% of global mail volumes SOURCE: IPC



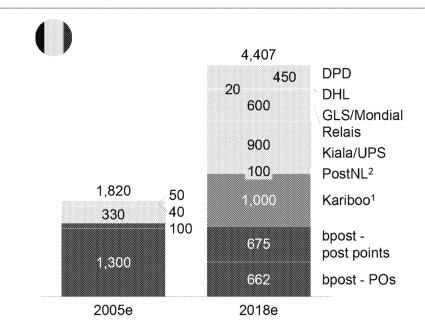
E-commerce shoppers' need for convenient receiving drives explosive growth of parcel retail networks

Post and parcel retail network expansion

of offices



~7 new branches opened every day in the UK between 2010 and 2017



bpost increased its network relying on postal points and non-exclusive parcel shops



¹ Kariboo points serve as non-exclusive parcelshops (for bpost and some for competitor PostNL too); 2 PostNL relies on Kariboo and additional own points SOURCE: UPU; Company Web sites; Press search

E-commerce supergiants are entering the battle for B2C logistics

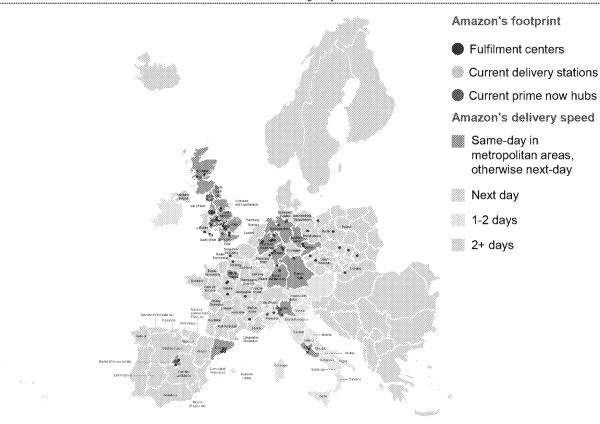
| | | | Starting to insource | Insourcing at scale | Offering to other parties |
|---|------------------------|---|----------------------|---|---------------------------|
| | | Size of the global e- commerce revenue pool ¹ | Supergiant act | ivity | |
| | Value pool | USD billions | Amazon | Alibaba, Cainiao | JD.com |
| Enabling (web) services | Web services | ~ 55 | | | |
| | Payment/fraud | ~ 30 | | | |
| Outbound B2C logistics (incl. cross- border) | E-fulfillment | ~ 90 | | | |
| | Linehaul domestic | ~ 15 | | | |
| | Linehaul international | ~ 10 | | | |
| | Last mile | ~ 115 | | | |
| | Returns | ~ 40 | | | |
| | | ~ 270 | mile | ady offering last services at scale tailers | |

¹ Total costs of e-commerce merchants, both in- and outsourced SOURCE: Industry experts



Example Amazon: broad fulfilment network as basis for fast delivery across regions

Amazon's fulfilment network and delivery speeds



¹ Best available delivery speed for Amazon Prime customers, delivery speeds for some products and areas may vary Source: Web search

Implications



Amazon has a broad network of fulfillment center across Europe to enable both scale and speed



Amazon already has a consistent same-day offering in metropolitan areas in main countries



Amazon also leverages its broad fulfillment network to offer fast cross-border deliveries (e.g., Belgium, Portugal, Poland)



ab 8 Purpose, Strategy, Growth

Amazon's value proposition is built on operational excellence, scale-induced quality improvements and an integrated offering

What amazon offers...



Operational Excellence

- Best-in-class fulfillment, fast delivery and customer-friendly returns fulfillment
- Branding that drives endconsumer trust in fast and reliable service



Scale and Consolidation

- Superior service levels currently unavailable to eCommerce merchants
- Scale effects for eCommerce merchants



Integration

- Integrated domestic and international carrier management
- End-to-End tracking across entire value chain







 Distributed Order Management system with integrated optimization algorithm for cost and speed in FC network



- Integrated fulfillment center network to allow fast shipping and easy localization
- Late cutoffs, rigorous cutoff manage-ment and service promise transparency



- Direct Injections into foreign networks to limit quality losses
- IT-Integration with and optimized use of international deferred carrier network



 Priority processes to ensure fastest delivery in deferred network (i.e. at affordable cost)



 Integrated white-label returns portal for direct connection between returns, inventory and payment



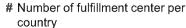
Logistics partners can enable a consistent next day service promise across Europe for retailers – matching Amazon on fulfilment center density not a requirement

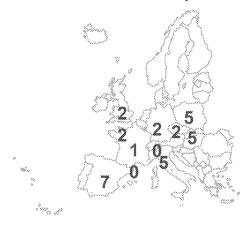
Amazon's current fulfilment center footprint in Europe



Theoretical requirements for consistent next-day-shipping in Europe



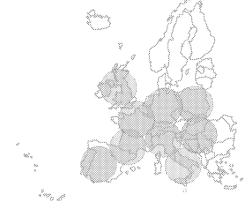




72 FF center







~9 FF center

~87% of Amazon's 72 fulfillment center in Europe are only required due to the immense scale of the business and are strategically located to service high density areas

1 For ground shipping Source: MWPVL.com



ab 8 Purpose, Strategy, Growth

Governments are increasingly digitising their services, reducing the need for both mail and a physical footprint

Public Sector examples





Strong digital agendas in social insurance and tax:

- Social insurance agency: eliminating paper forms and manual handling processes
- Tax: authorisation of annual tax declaration through text message response to pre-filled tax form





Top down digitisation agenda spearheaded by the central digitisation agency:

• Digitising 80% of all government communication: non-digital communications to citizens are banned except in rare exception cases

Service New South Wales developed a unified, single point of contact for residents and businesses for more than 800 transactions, including:





Driver licenses

- Birth certificates
- Seniors1 Cards
- Fair Trading licenses







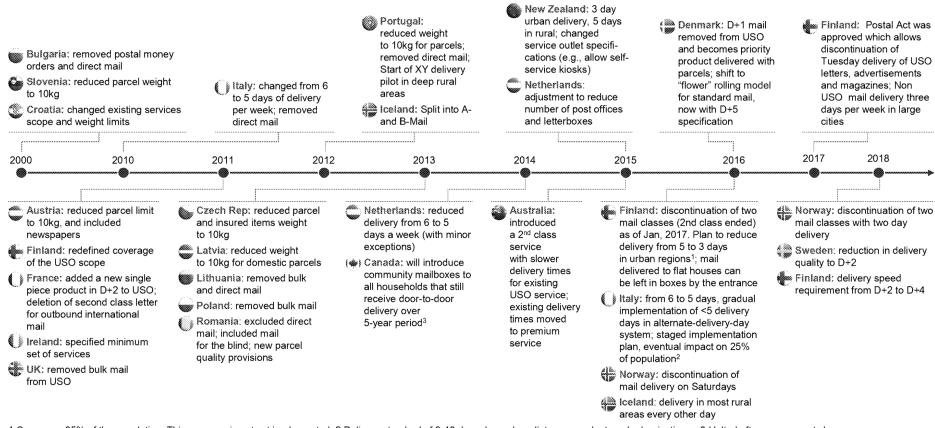
Core services now predominantly online:

- Tax return submission
- Passport renewal
- Car tax renewal, including abolition of physical tax disc
- Renewal of driving licenses
- Booking driving tests (over 98% booked online)
- · Parking fines payment





As volumes decline, operators obtain more important USO scope modification. EXAMPLE



1 Coverage: 85% of the population. This measure is not yet implemented, 2 Delivery standard of 2-13 days depend on distance, product, and urbanization , 3 Halted after government change and review

Source: Press, academic literature search, operators' reporting



Though, regulatory pressures on network coverage have been increasing in some markets

VS

Portugal

Anacom reviewing minimum required coverage on each municipality, likely to result in increased (branch-like) coverage in 33 locations for CTT





33

Netherlands



The State allowed several USO modifications, including halving number of post offices and letter boxes



1,000 offices

1,000 down from 2,000



8,700 postboxes

9,300 down from 18,000



Regulatory debate will stay key lever on the long-run

Themes to address in regulatory management

Peer examples



Optimization within the current requirement



Stable network size, but boost outsourcing of operation

Regulatory negotiation stays key for postal services entrusted with USO, branch requirement



Renegotiation of constraint to decrease service cost



Network size adaption



Negotiation of the financing or alternative delivery of the public service



Tax exemption for territorial presence and joint post-townhall operation of branches



SOURCE: Regulators, Opretators' reporting, Press

Regulatory requirement on network size and proximity is a key lever

| | Minimum branch number | Distance criteria | | |
|----|--|--|--|--|
| | 12,000 fixed location facilities At least 1 permanent facility in any municipality with more than 2,000 residents | Customers in any municipality with more than 4,000 residents or in adjoining built-up areas shall in general be able to reach a permanent facility within no more than 2,000 m. Additionally, in every district 1 permanent facility shall be located per 80 km². All other locations must be served by mobile postal service units | | |
| | At least 1 facility in each municipality ¹ | Service points shall be placed so that users have access to a service point within a reasonable distance | | |
| | × | At least 95% of the national population should have access to a complete assortment of postal services within a 5 km reach from where they live. The distribution of service points, with a complete assortment outside residential areas of more than 5,000 inhabitants, shall provide access to at least 85% of the non-urban population within a 5 km radius | | |
| | × | Under the regulatory conditions, Royal Mail must ensure facilities are provided such that the premises of not less than 95% of users or potential users are within 5 km of an access point capable of receiving the largest relevant postal packets and registered mail, and that the premises of not less than 95% of users in each postcode area are within 10 km of such access points | | |
| 0 | × | At least 90% of the population must be able to reach this network within 20 minutes on foot or by public transport (30 minutes if a doorstep collection service exists). In addition, at least one post office in every For financial services included in the USO, at least 90% of the population must have access to the services within 30 minutes by foot or by public transport on average | | |
| () | Postal Law requires one facility by municipality The Sixth Management Contract provides that bpost must maintain a retail network SGEI of at least 1,300 postal service points, including post offices and third-party-run postal shops. | × | | |
| | × | Services must be accessible to everyone and be provided at a reasonable distance from one's home or workplace. The density of the access points must take into account the needs of users | | |
| | × | At least 99% of the national population and at least 95% of the population in each department must be less than 10 km from a post office branch. All municipalities with over 10,000 inhabitants must have at least 1 post office branch per 20,000 inhabitants. Additional post office network requirements (following the requirements of La Poste's public service mission of regional planning) do not permit more than 10% of a department's population to be further than 5 km or more than 20 minutes by car under normal driving conditions for the area concerned from the closest La Poste point of contact. The 2010 postal act requires that the postal network consists of at least 17,000 contact points | | |
| | The Postal Market Act prescribes a minimum of 1,650 postal service points. | Density criteria newly introduced. Austrian Post must ensure that all municipalities with over 10,000 inhabitants as well as 90% of the people living in the urban areas of all provincial capitals must have access to a postal service point within a radius of two kilometers. In all other regions, the prescribed maximum distance to a postal service point is ten kilometers | | |

¹ Service points shall be placed so that users of a universal service have access to a service point within a reasonable distance of their permanent residence. It is also possible to operate a service point that is not at a fixed location

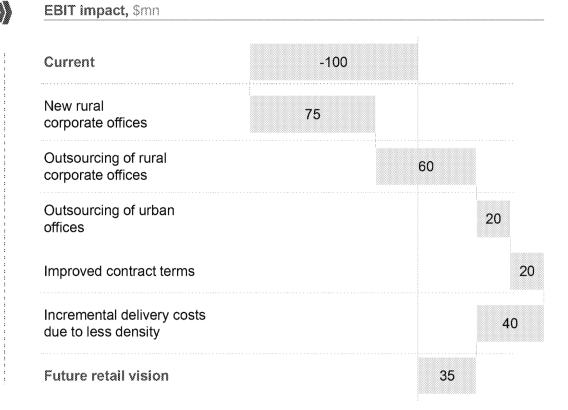


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In light of sector trends, postal players have been optimizing their retail network – example of North American postal player

Key actions

- Review of product portfolio
- * Simplifications of retail products and processes
- Full clean sheet redesign of branch formats, pricing and third-party contracts
 - Urban office conversion/closure (~400)
 - Rural office conversion to co-located (~900)
- Optimized retail footprint exploiting new-gained flexibility in USO regulation





Throughout Europe postal companies receive (in)direct subsidies for sustaining the USO



¹ Excluding compensation for providing banking services, 2 Based on exchange rate of 1,13 EUR per GBP; network subsidy payment to Post Office Limited

Source: Annual reports postal companies, national supervisors



³ Based on exchange rate of 0,10 EUR per NOK

Contents

Where We Make Money

Organisational Health Survey Results

Learnings from other post

- Review of postal context
- Learnings

Big Bets

Overall process update



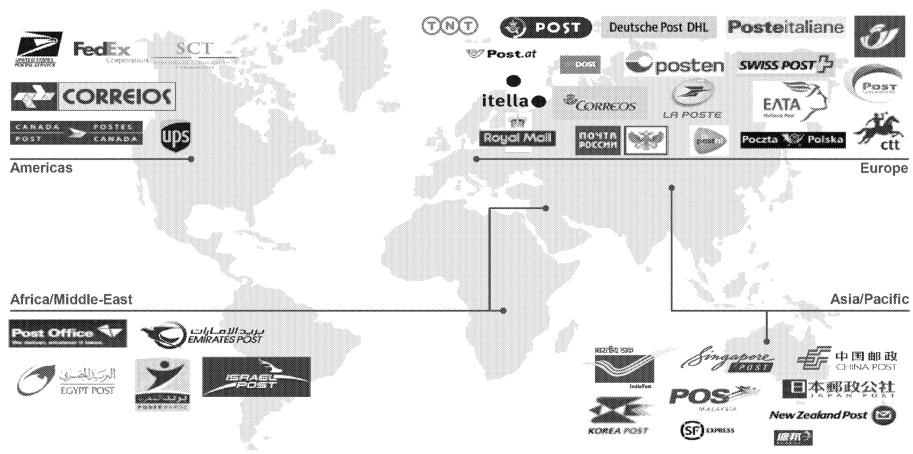
Executive summary – learnings from postal players

There are **three pillars** of learnings from other post players:

- 1. Winning in competitive growth areas requires **adapting the retail network structure** to better serve consumers (e.g., DHL's dense parcelshop network provides convenience to its e-commerce receivers)
 - Multi-tiered networks allow for improved economics without compromising on sales and convenience
- Growing the top-line through non-core, third-party products usually fails to create sizeable revenue streams. Most sizable growth areas are parcels and financial services. Sales performance programmes as well as targeted incentives can be effective growth levers
- 3. Remaining competitive with a lean cost base requires consolidating footprint and different approaches to ownership (e.g., franchise, dealers)
 - Automation in selected areas, both in customer-facing activities and in in-store operations, is a key lever to improve customer experience in a cost-effective manner, culminating in the "unmanned branch" (Singapore, Finland)
 - Strong partnerships with retailers (e.g. in Canada) have been successful, based on standardised master franchise arrangements and clear understanding of economic benefits of having a post office (e.g. 15% sales uplift for retail)

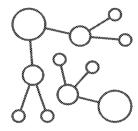


We have reviewed over 40 posts globally to identify learnings for postal retail networks



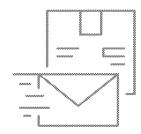


Three main groups of questions to be addressed



Retail network strategy

- How can stores help win in growth segments such as e-commerce and FS?
- What is the right branch segmentation to ensure appropriate and efficient service?



Product & sales

- What further products should be commercialized and how?
- How sales in branches can become more efficient?



Operations & economics

- What ownership model work to control costs while delivering excellence?
- What is the ideal store coverage and operational model?



DHL is building a dense parcelshop network to provide convenience to its e-commerce receivers





- Offers proximity access to parcel sending for individual customers
- At target state, DHL aims to have 20,000 parcelshops (today ~11,000 parcelshops, 13,000 retail outlets and 3,700 parcel lockers)
- Low and variable cost operations
- Basic product offering parcel receipt, send and returns, domestic stamps
- Only needs basic equipment (a handheld scanner, label printer) and inventory is minimal



SOURCE: DP DHL; Press

ab 8 Purpose, Strategy, Grow

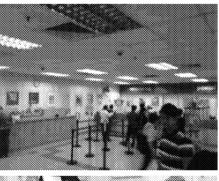
SingPost redesigned branches to reflect e-commerce ambition

×90×

Change Alley Post Office

From...

Post Office as key customer touchpoint does not reflect SingPost's vision and transformation





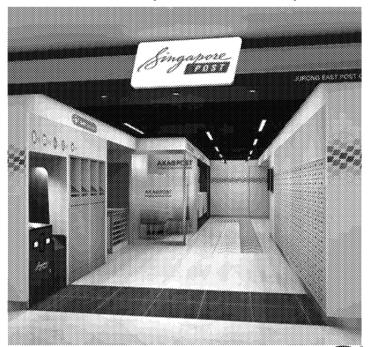




To...

Ocean Financial Center

New branch with 60% less overall space, but 24/7 self service zone occupies 48% of total space

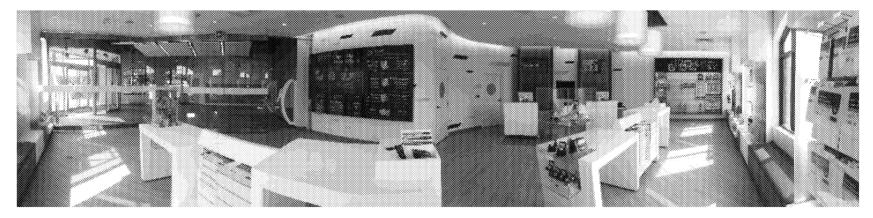






1 Canada Post tests a concept store to meet online shoppers' needs





- Drive-thru parcel pickup
- All-in-one self-serve shipping station
- A fitting room where customers can try on the outfit they bought online and if needed, return it immediately
- Self-serve vending kiosk
- Extended hours: self-serve 24/7, opening 9-9 on weekdays, 9-5 weekends

OFFICE

SOURCE: Canada Post

Poste Italiane has established a leading FS business through BancoPosta

BancoPosta

BancoPosta starting position

- Large incumbent utility with 8m customer, 150k employees and €0.5tn in assets
- BancoPosta can offer a full suite of products without a banking license
 - BancoPosta cannot lend to the public directly, but can be an intermediary
- BancoPosta is, however, required to maintain ring fenced capital





Key sevelopine is

- Since 2001, BancoPosta has innovated and grown its product range in a steady and managed way
 - They moved from current accounts and payments, to prepaid cards, and on to mobile payments
 - Other products include lending, mutual funds, insurance
- BancoPosta has managed this growth through numerous partnerships
- Banking clients receive several advantages
 - Priority postal branch services; Discounts on postal and other products; Easier online money transfers

Outcome

- In 10 years, BancoPosta more than doubled the market share in terms of number current accounts
- Moving to expand wealth management and increase distribution of loans, mortgages and P&C insurance
 - Strongly positive market reception to renewed 5-year strategic vision: double digit share price increase
- The postal networks allows for nearly 3x the number of branches versus the next largest bank



SOURCE: Poste Italiane

149 of 229

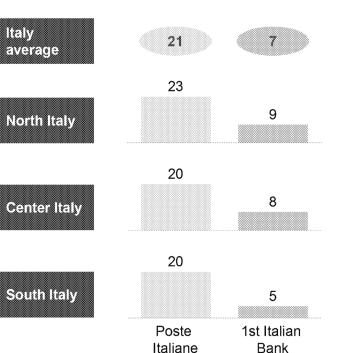
Poste Italiane created a competitive advantage in financial services with its large branch network

Coverage of Italian population, Branches / 100k inhabitant

)

Italy's leading customer distribution network







Mail & parcel

 Unrivalled physical distribution network



Payments, mobile & digital

- Italian payments champion
- Advanced customer data capabilities
- Leading financial web and app platforms



Financial & insurance

 Market leading product distribution network

Poste has nearly 50% of population as a customer, 18% share in savings accounts, 8% in consumer loans and outperforms peers on ROE (~23%)



1 Poste italiane : The FS play

2017

| | Main business units | Mail and parcel | Financial services | Payments, mobile and digital | Posteitaliane Insurance |
|--------------------------|--------------------------|---|---|---|---|
| | Revenues, € Bn | ~3.6 | ~5.4 | +0.6 | 24.4 |
| Key financials | EBIT , € Bn | -0.5 | +0.6 | +0.2 | +0.8 |
| | TFA¹ | | 506 | | |
| Commercial figures | | ~110m parcels/year ~30% B2C market store | ~34m customers ~13k post offices 15m daily visits | ~25% e-commerce payments ~25m cards issued ~104bn1 payments transactions 3m Telco customers | ~22% market share on life GWP |
| 1 Total financial coasts | | | | | |

1 Total financial assets



1 La Poste is expanding financial product portfolio and adjusts the branch environment





- La Poste Bank and BPE collaborate to offer private banking services targeting the postal bank's 600,000 affluent clients
- Early 2019, BPE has 75 offices, BPE-spaces in 45 post offices complement its own branches deploying private banking spaces in some of its post offices



LA POSTE

SOURCE: La Poste; Press

Portugal's CTT has moved up the FS value chain from distribution to creating and broadening the product offering



Where CTT started

- In 2015, Banco CTT was created as legal entity with banking license provided by Bank of Portugal
- Prior to this, CTT offered very limited financial services
- CTT had a very strong existing mass market postal customer base
- The initial approach was for a low risk balance sheet strategy

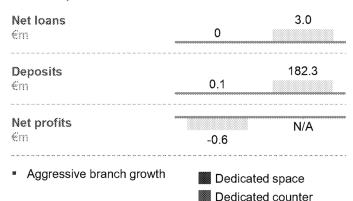


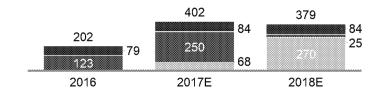
Dedicated counter space

- Key developments
- The bank focuses on the mass market, offering simple, transactional products
 - Principles of fairness, transparency, low cost
- Lending began as an intermediary, in partnership with Cetelem
 - It is gradually increasing its exposure to credit risk and broadening the product range
- The initial 51 branches have expanded to ~200, built off CTT's postal network
 - Branches have either multifunction counters (with postal), dedicated counters, or dedicated space
- Digital focused



Strong customer growth, and move to breakeven (2015 v 3Q16):







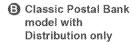
Multifunctional counters

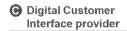
Within FS we see different strategies for posts

Traditional approach

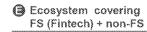














- Offer branch services for existing banks
- Expand into KYC/ ID verification for credit checks etc
- Expand current offering (e.g., credit cards, loans)
- Negotiate best possible distributor terms
- Act as aggregator of all financial relationships (PSD2 play)
- Offer 3rd party and own products
- Build a fair ethical bank based on brand trust
- Fair and transparent themed
- Become key gateway that spans FS and related sectors
- Partner with Fintech
- Build ecosystem



 Fee-based partnership with banks JV with traditional banking to act as intermediary Multiple models possible depending on product choice – opportunity to take origination revenues either directly as a bank or in JVs









Banco**Posta**













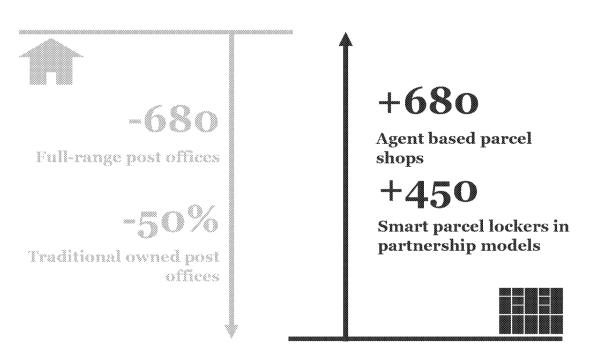






Retail networks have to be adapted to maximize customer convenience

European post and parcel player example



Key considerations

- Maximizing convenience through longer opening hours and additional (community) services
- Improving accessibility for pickup and returns through more access points
- Creating lock-in effect with ecommerce customers through parcel lockers
- Providing attractive agent incentives in a post-mail environment



Successful postal peers transformed their branches in multi- tiered networks to allow sales, convenience and lower cost

- Sales focus
 - Large offices with a wide range of services

Primary goal is to provide the highest quality service and ensure a positive brand perception

- Service focus
 - Mid-sized offices with an optimal set of services

Primary goal is to provide fast, efficient and high-quality of large volumes of transactions

- **(1)** Local Access
 - Small offices with a narrow range of core services

Primary goal is meet the accessibility criteria/social needs or provide a response to the competition

O Direct Channels

A set of alternative channels provides more options to the customer and increases the quality of customer service – mainly websites, mobile applications, call centers



Por example, La Poste has 3 outlet formats, to which DPD adds parcel shop and locker network



Own operated office

- ~8,700 outlets
- 1-2, 3-5, 7-8 counters, banking dedicated office or counter in medium and large offices
- Private customers, SME and corporate
- Service offers
 - Full range postal
 - Full range financial services
 - Full range of mobile and digital services
 - Third party services

3rd-party municipality outlet

- ~6,500 outlets
- 1-2, 3-5 counter, banking dedicated counter in medium ones
- Municipality branches are operated partnership with a town hall or group of municipalities
- Private customers1
- Service offers
 - Large scale of post, parcel services
 - Most commonly used FS

3rd-party retail outlet

- ~2,000 outlets
- 1(-2) counter at retailer
- Framework agreements with a few large retailers (Franprix, Total, Carrefour) but also individual retail contracts
- Private customers1
- Service offers
- Most commonly used post, parcel and basic financial service

DPD Pickup (parcel shop)

- ~7,800 in France (31,200 in Europe)
- 1 counter
- Equipment: handheld scanner, label printer, scale
- Private customers, SME
- Service offers
 - Parcel sending, return and receiving (direct order to shop or failed home delivery)
 - Product exchange, sending and receipt of equipment for repair (e.g., set-top box)
 - Parcel shop to parcel shop sending France and international within DPD European network



DPD Pickup Station (parcel locker)

- ~350 (250 in stations, 150 in post offices)
- Private customers
- Service offers
 - Parcel receipt on choice of customer to order in locker



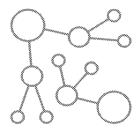




1 Or SMEs behaving like private customers SOURCE: La Poste; Press

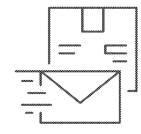


Three main groups of questions to be addressed



Retail network strategy

- How can stores help win in growth segments such as e-commerce and FS?
- What is the right branch segmentation to ensure appropriate and efficient service?



Product & sales

- What further products should be commercialized and how?
- How sales in branches can become more efficient?



Operations & economics

- What ownership model work to control costs while delivering excellence?
- What is the ideal store coverage and operational model?

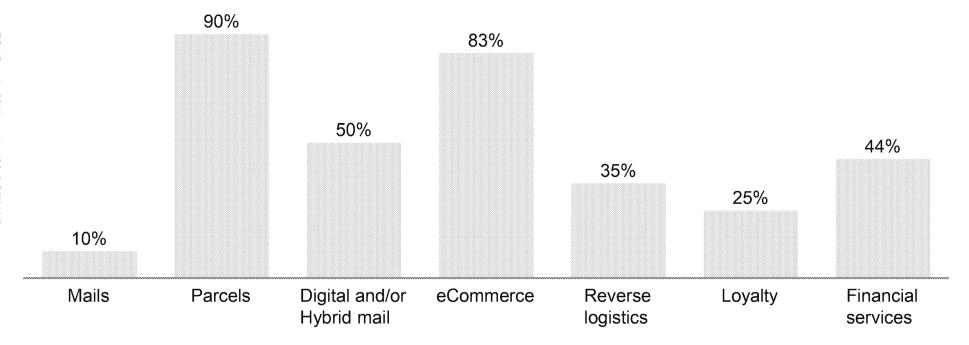


SOURCE: Press; Operators; Interviews

3 Postal players have attempted to sell various non-core, third-party products in offices

| Description | Example operator |
|--|---------------------------------------|
| Mobile phones, prepaid cards and subscriptions | Various operators |
| Fixed line and internet subscriptions | UK Post Office |
| Stationery | Commonly offered |
| Personal computers and other electronic items | Swiss Post in the past, Austrian Post |
| Various items (e.g. consumer electronics) via mail order | Poste Italiane |
| Books/CDs/DVDs | Commonly offered |
| Gift vouchers | UK |
| Public transport tickets/subscription | Czech Post |
| Event tickets | China Post for Expo |
| Flight ticket booking & payment (Jetstar airlines) | SingPost |
| Cinema ticket booking & payment | SingPost |
| Toys and games | Australia Post |
| ID photo service | Australia Post |
| Copy and fax services | Austrian Post |
| Drop off and pickup point for computer repair services | SingPost |
| Travel services, e.g., rental car, airline and hotel booking | UK Post Office |

What are the services you see being the most important to success over the next 5 years?



NOTE: Multiple answers were allowed SOURCE: Escher



3 EU peers offer varied level of government services and often decoupled NOT EXHAUSTIVE from branch network

Italia Service provided outside post office

| ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ ~ | enden, is admitted on the adden, or or, the the standard ode on ou. Adden, to be | * | Rand Service provided outside post office | | |
|---------------------------------------|--|--|--|--|--|
| Country | Payment services | ID verification, authentic- cation, enrolment | E-government services | Official document applications and renewals ¹ | Other government services |
| Citizen Bureau Areas ² | Reimbursement requests concerning health expenses Utility payments Toll road payments | Notarial or judiciary certificates Real estate, civil or commercial certificates requests | ∗ n/a | Driving license renewal Residence permit renewal Registering foreign workers' contracts Registering intellectual property | Scheduling appointments at the hospital or healthcare center |
| Posteitaliane | Vehicle tax Social welfare payments State pension payments Payment services for unbanked citizens Electronic payment for customs duties Electronic payment services for INAIL (insurance for workplace accidents | * PosteID application | With PostelD, users can enter into SPID, a single login system for access to all online services of the Italian public administrations (e.g. INPS, social security institution, and INAIL) | Passport services Health card application Application for cards of welfare benefits 5700 offices operate citizen help desk, which allows multiple services, e.g. land registry, residence permit personal certificates applications | Integrated notification services manages selected government official communications towards citizens (e.g. traffic fines) End to end management of PosteVita fund, a national health insurance system for companies and public administrations |
| SWISS POST 5 | Adminpay - secure online payment for e-government | Video ID checks SursselD (likely 2020) | Vivates - secure eHealth data exchange E-voling platform | * n/a | Postal voling Secure delivery and digital access to court documents |
| S bpost | Cash transactions for unbanked citizens | * n/a | E2E license plate manegement | Fishing permit | Medical document distribution Traffic fine management Treasury's financial transactions |

1 Typically, not all services offered in all States/Counties/Regions and all Pos, 2 In 300 POs SOURCE: Operators' websites and reporting; Press



Pensions' home distribution

- "Lessons learned" from other postal services companies yield several insights for POL direction
- Every post has made attempts to grow outside the core in "adjacent" markets. The vast majority of these efforts has failed to create either sizeable revenue streams (more than £20m per annum) or profits. E.g., mailroom management, ID validation, secure email, digital letterbox, document archiving, warehousing, postie add on services (meter reading) etc
- 2 The successes have been primarily from legacy assets, in particular growth of financial services and mobile (e.g., Poste Italiane), as well as parcel markets
- 3 Other posts have, in general, failed to incubate new businesses organically. There have been some successes in making acquisitions, especially in two areas:
 - Rollup of other express or parcel operators (DHL Express in Europe, UPS and Fedex globally)
 - Acquisition of businesses which have subsequently been run at arm's length in order to preserve different culture and people processes e.g. Deutsche Post acquisition of digital marketing boutiques Nugg and Admail

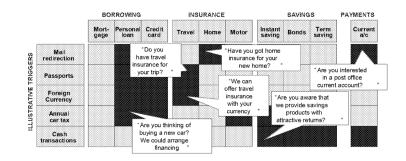
OFFICE

Sales scripts, tools can boost in-branch sales

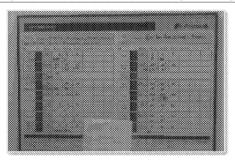
Best practices from retail and banking environment

- Standard and well-known to staff scripts for basic products is use
- A heatmap of potential cross and up-sell situation identified and staffed trained on transitions if recognizing any of the triggers
- Staff is coached on translating products knowledge to a language understandable by any customer
- Adequate training and coaching e.g., via role plays providing experience on how to deal with different customers
- Regular monitoring, feedback and performance dialogues are provided to staff

Counter clerk trigger-selling chart example



Simple visual and IT tools help track process and progress



Visual sales performance management board



Branch manager's CRM tool



Branch-specific incentive practices can lift sales

RETAIL BANKING EXAMPLE

Best practices at retail banks

- Pay out incentives frequently and more often to create right frontline motivation
- Create gradual incentives to drive growth don't create strong step function
- Ensure employees clearly understand how their incentives tie to overall goals of the institution
- Prioritize strategic objectives (e.g., tiered guotas)
- Drive collaboration amongst sales teams (e.g., group bonus)
- Use leverage in financial incentives to drive appropriate employee behavior
- Provide attractive non-cash incentives to conveys importance and special appreciation
- Build loyalty to the company through unique and culturespecific awards

Examples at postal operators



Incentivizes to postal clerks by providing possibility to become financial advisor in case of stellar performance



Recruits and manages postal banking staff as in banks: employees specialize in products, they are in charge of a client portfolio, there is separation of staff for retail and corporate banking staff, incentivized for sales

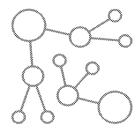


Luxembourgish Post provides incentive-pay for both financial services and telecommunication sales staff

EU postal incumbent Team incentive for most successful office in sales of third-party product

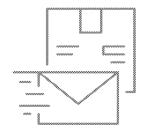


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Operations & economics

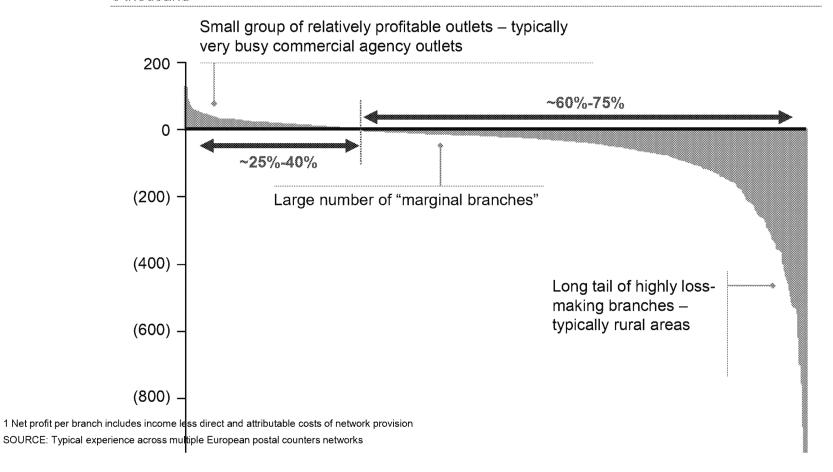
- What ownership model work to control costs while delivering excellence?
- What is the ideal store coverage and operational model?



5 Typically only 1/3 of own-operated branches are profitable...

Profit (loss) per branch¹

€ thousand





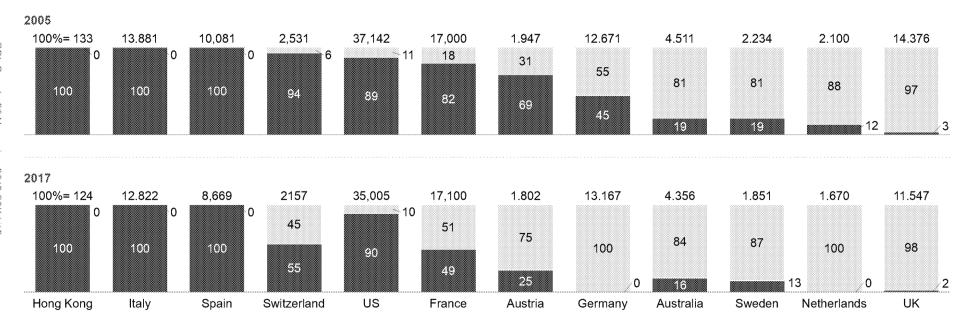
sb 8 Purpose, Strategy, Gro

6 ... which leads to a strong trend of outsourcing offices

Outsourced Own

Postal retail network size and ownership

Percent





¹ PostNL owns offices, but provide services only to corporate clients and were excluded for benchmark purposes SOURCE: Company websites and annual reports; Regulator reports; Press

Achieving best strategy typically requires relocating many postal branches and innovative approach to partnerships

Where different partners could support the network













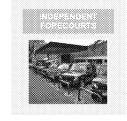














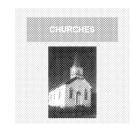














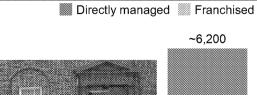




5 Example - Canada Post has transitioned from a fully Direct to more of a Master Franchise model over time

Overview of Canada Post

- Canada Post operates 6,200 branches
- 98% of Canadians live within 15km of a Canada Post branch
- Canada Post delivers mails and parcels to around ~16M addresses per year
- Canada Post generates ~\$8.2B annual revenue

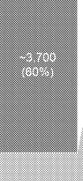




Directly-managed branch

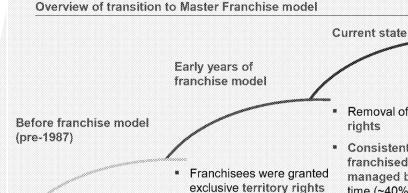


Franchised branch (store-in-store format)



~2,500 (40%)

Total number of branches



Canada Post opened a

franchised store for

store it closed

Post offices were

every directly managed

standalone branches,

rather than store-in-stores

- Canada Post managed 100% stores directly
- Canada Post sought franchise model to:
 - Improve customer access
 - Reduce costs
 - Leverage the retail know-how of the private sector

- Removal of territory rights
- Consistent split of franchised and directly managed branches over time (~40% franchised, 60% directly managed)
- The organisation has moved from owned stores to a 'store-in-store' format, particularly in urban areas



5 Example - Canada Post's Master Franchise model enables a lean organisation structure with standardised, fixed-period contract terms

Overview of Canada Post franchising model

- Sub-franchisee owns and operates a Post Office within an existing retail store, e.g., a drugstore
- No exclusive territory rights
- Blended margin of ~20% for Master Franchisees and additional economic benefits driven by increased customer footfall generated by Post Office products (~15% sales uplift)
- Contract term of 5 years with option for a further 5-year renewal
- Minimum of 76 opening hours per week and 7 days per week
- No management of store operations, performance management of stores conducted on a quarterly basis
- Explicit preference for household brand names as partners, as quality is perceived to be better

Relationship with Shoppers Drug Mart

Overview

 Shoppers Drug Mart, a franchised organisation itself, owns ~50% of Canada Post franchised branches



- Canada Post agrees a framework with Shoppers Drug Mart but actual contract is signed on a store-by-store basis – very specific formal contract with standard terms and pricing
- The Master Franchisee is responsible for paying most of the setup cost, i.e., standard fit-out, staging and equipment
- The relationship between Canada Post and Shoppers Drug Mart is renewed every 5 years

Insights for POL



- Although Master Franchise models create a leaner agent servicing structure, larger contract management teams are required to ensure consistency among franchisees
- Fixed period contracts allow the franchised organisation to update arrangement terms if desired, making it easier to change franchise strategy







Example partnerships









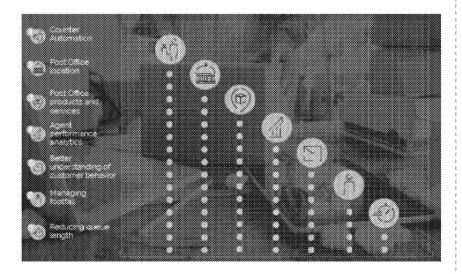


SOURCE: Canada Post

5 Increasing automation plays an important role in transforming network economics and driving future customer satisfaction

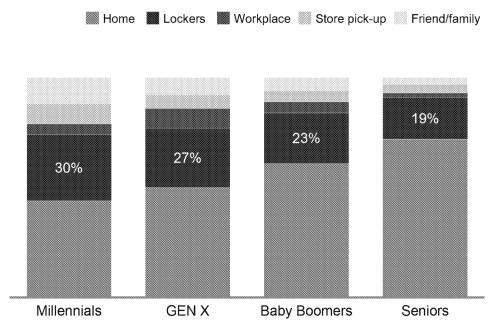
Counter automation mentioned as #1 factor in branch productivity

Escher postal survey responses¹



Younger generations use significantly more automated delivery method

Doddle survey



¹ Survey conducted between July and September 2018. Online survey of Postal leaders worldwide, with 76 total responses from 32 countries SOURCE: Escher – Future of the post, 2019 report, Doddle - UK presentation on World Mail and Express Europe conference, June 2019



5 Example - Singapore Post introduced self-service postal machines as early as 1997 and also built up the world's densest parcel locker network

Self-service Automated Machines (SAM) were introduced in 1997 by SingPost

In 2010, two thirds of the counter network is composed of SAMs. In 2016, only 3 post offices were not equiped with a SAM They allow easy access to services without queuing and also outside of office opening hours and often 24/7

Wide range of products and services include: bill payments, government services, top ups and gaming etc. SAM specially started to be popular in the early 2000s with introduction 24/7 machines



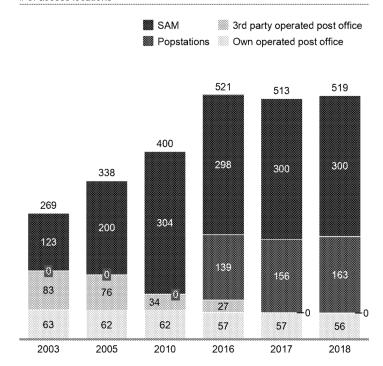
SingPost introduced Popstations (automated parcel terminals) in 2013 for convenient parcel receipt and return

Both services are especially appreciated by younger generation due to convenience Network is composed of 139 machines today, with expansion plan of doubling the network on mid-term

In 2015, 29 Pos have been renovated all allowing digital access, 24/7 letter, bill payment and parcel services Machines allow parcel sending, receiving and returning and customers can also rent a box for peer to peer e-commerce sending



SingPost retail Network # of access locations

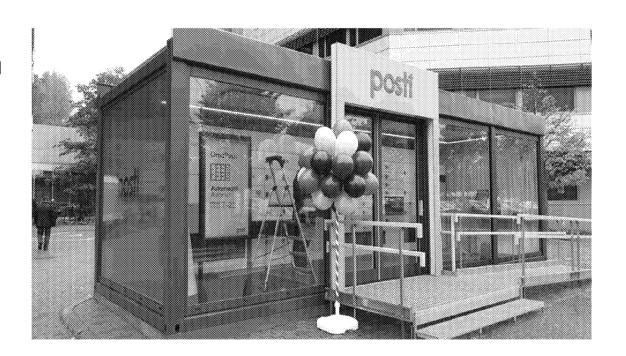


Source: Singapore Post; Press



5 Example – Posti starts roll-out of unmanned post offices

- Posti has completed its second unmanned postal kiosk, located outside Posti's headquarters in Helsinki.
- The kiosk features parcel lockers for collection of parcels and lodging ecommerce returns. Customers can also send domestic and international parcels.
- Customers can contact Posti customer service personnel via a video link for help and advice.

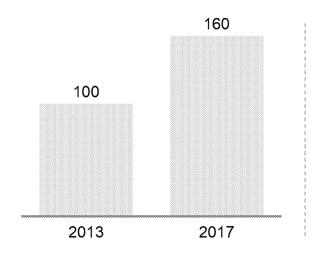




Parcel lockers gain in popularity and some operators make aggressive bet towards this delivery mode

Overall trend towards expansion of locker networks continues ...

of terminals of IPC members, indexed



... with pronounced strategy towards lockers at a few operators Examples

~3700 terminals across Germany

- Lockers introduced as early as 2001
- Multiple generations of technology tested
- Over 10% of population are registered regular users
- Plans to roll out 7,000 by 2021

>OS†Î ~1,600 terminals in 2018

- 40% of the Finns are covered by a seven day parcel distribution via lockers
- Target of 1500 terminals by end 2019, most dense EU network at target state



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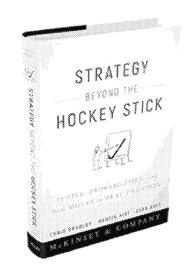
- Approach to building a portfolio of Big Bets
- Latest list of Big Bets considered and discarded

Overall process update



REMINDER: Big Bets will help shape the future of the Post Office

- Research found that a significant and flexible reallocation of resources to support "big bets" is one of the most important drivers of revenue growth and profitability improvement
- "Big bets" are initiatives that require significant resources and investment (£10m+ of total CAPEX and exceptional spend over the entire duration of the project) and will materially impact the strategy and/or operating model of the Post Office
- We developed a methodology by which we propose to assess and choose a portfolio of "big bets" using 3 dimensions: financial returns, ease of value capture and fit with the purpose of the Post Office
- Since the previous Board meeting, we have:
 - Further developed our long list of potential Big Bets
 - Assessed the Big Bets against the 3 said dimensions
 - Started ruling out some Big Bets on the basis of poor financials or low feasibility





We are currently in the 3rd and final stage of our approach to building a Big Bet portfolio

Ideation Evaluation 2 3 Selection Finish w/c/ 4 Nov Finish w/c 25 Nov Generate Big Bet ideas Build fact base to level needed to Continue to pressure test / refine decide on Big Bets: big-bets, maturing financial Structure into estimates and feasibility assessment Financial estimates (benefits, categories investment, terminal value when Cut weakest individual projects by insightful) financial / feasibility rankings Refine Big Bet definitions Feasibility assessment Select a portfolio from the **Activities** individual Big Bets based on: Fit with PO Purpose Assign primary source affordability, timing, risk profile, of content for evaluation Cut Big Bets weak on financials. interdependencies, PO capacity and feasibility or fit with purpose capability for change Make decisions aggressively on Step-back and test: can we make weak big-bets to focus on better these bolder, more ambitious? candidates Agreed long list of Big List of excluded Big Bets Sequence of Big Bets that will **Bets** shape the Post Office for next 5 Outputs List of shortlisted Big Bets with years summary 1-pager



③ Big Bet selection is first done at a project level, then at a portfolio level



(3B) Portfolio-level assessment

Evaluate Big Bets under 3 dimensions:

High-level financials

- Investment required and contribution
- Level of granularity: as much as relevant for selection
- Informed by external market view when relevant

Feasibility

- How likely is POL to succeed in implementing and capturing the value
- Informed by external market view when relevant

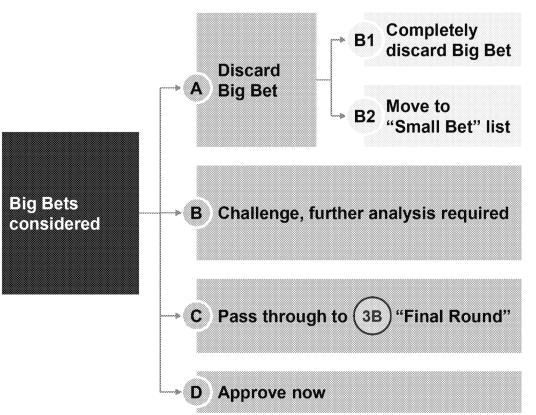
Fit with POL's purpose

Will it increase convenience, access for all, ability to help our end customers with everyday tasks, etc.?

- Bring all remaining potential Big Bets in a single list
- Refine high-level financial as relevant
- Construct Big Bet portfolio options taking into account:
 - Affordability of investment cash flows required
 - Timing and Risk profile of overall portfolio:
 - Does the portfolio offer a healthy balance between higher-certainty and higherrisk/potential payoff Big Bets, and between shorter- and longer-term payoffs?
 - What is the potential correlation between risk profiles of the higher-risk Big Bets?
 - PO capabilities and capacity for change
 - Potential interdependencies between projects

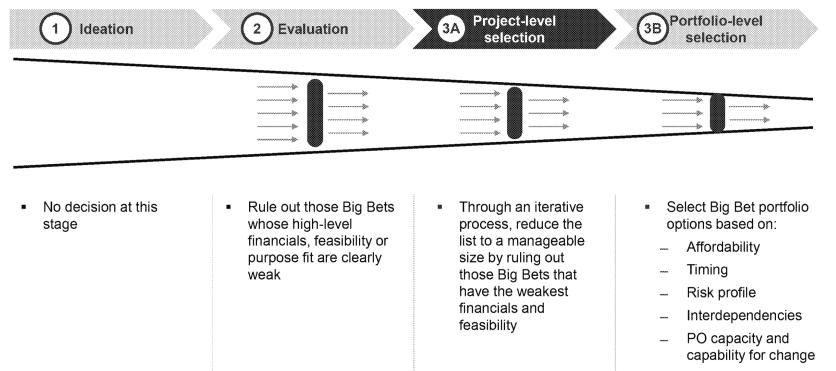


Big Bet are submitted to a "decision tree" that underlines a rigorous selection process



- Preliminary Big Bet case is weak
- Any further effort on it should be stopped
- Big Bet case is strong, but total investment
 £10m, therefore moved to "Small Bet" list to be owned by relevant function lead
- Preliminary case is not sufficiently developed at this stage to make a decision
- Clear next steps and owners to be identified and Big Bet to be discussed again
- Preliminary case for Big Bet is strong
- Case to be further developed in next couple of weeks in preparation for "Final Round"
- Big Bet is a "must do" that can be approved without any further discussion

The result is an iterative process that gets us progressively closer to the recommended Big Bet portfolio



of

Decision-

activities

making

~25

~15-20

~10-15



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4 Big Bet categories

Examples of Potential Big Bets

Optimise the product portfolio and grow revenues from the existing product categories

Transform the network and its operations to ensure its sustainability

Build technology and digital capabilities to support the business

Right-size the central functions

- Sell Telco business
- Digitise parcel journey
- Replace Bol ATMs with POL ATMs
- Redefine the network
- Improve customer experience through branch automation
- Modernise Horizon
- Build digital and analytics capabilities to support other Big Bets
- Right-size the central functions



| | Big bets | | Example of initiatives | | |
|-----------------------------------|-------------------|--|---|--|--|
| | Mails and | Digitise the parcel journey | Implement an online parcels business connected to the branch journeys | | |
| | Derceis | Extend the PUDO network | Increase the PUDO points through Payzone and Parcelshop | | |
| | Bill Pay | Expand the Bill Pay network | Expand the bill payment network through contract wins and whole estate convenience retailers deals | | |
| | Talico | Telco: divest or keep | Divest Telco, or keep Telco & reduce cost base through RFP and potential supplier change | | |
| | | Replace BOI ATMs with POL ATMs | Invest in infrastructure to replace current Bol ATMs by POL ATMs | | |
| Optimise | Banking | Grow banking framework business | Invest in marketing campaign to increase awareness Take a partnership lead approach to develop new services for banks | | |
| the product | (2)(2)(1)(1) | Grow Identity business | Invest to develop Identify service and seek partnership with a bank | | |
| portfolio and grow revenues | FS | Build an FX transactional proposition | Expand current FX offering to capitalise on market growth within travel Credit/Debit card market | | |
| from the existing product | | FS | Develop an online investment service | Develop a white label investment service | |
| categories | | Develop an SME proposition in FS or more broadly | Build an FS SME proposition offering (lending, working cap & invoice finance, international payments, insurance) Develop SME online platform | | |
| | Cross- product | Develop Large Corporates' proposition | Monetise customer relationships by introducing large corporates | | |
| | caleg | Marketing / Branding investment | Invest in developing a Post Office campaign to reinvigorate its brand | | |
| | Adjacencies | Enter the subscription drug fulfilment market | Develop a "click-and-collect" service for non-liquid renewal subscriptions Offer "community pharmacy" service | | |
| | Business model | Move to a platform business model | Move the business towards a consistent white label platform business with maximum outsourcing long term Post of Fice 107 | | |

Big Bets: Transform the network and its operations to ensure its sustainability

| | Big bets | Example of initiatives |
|---|--|--|
| | Redefine the network based on customer needs | Continue DMB closure program at accelerated pace Continue Mains to Locals program Continue New Network Locations program |
| | In-branch cash automation | Invest in cash automation through TCRs and automated deposit machines |
| | In-branch mails automation | Invest in automating in-branch mails customer journey through deploying SSKs |
| Transform the network and its operations to ensure its sustainability | Improve agents' experience | Modernise agent support (e.g., Branch Hub) Digitise agent journeys (e.g., training) Optimise the channel mix and ROI for the agent package taking into account pay, alarms & security, building spend, cash, field teams Change Horizon and processes to simplify customer journeys in branches, reducing errors & queues |
| | Improve supply chain efficiency | Optimise supply chain efficiency, ownership and systems Outsource cash supply chain Apply advanced analytics to optimise supply chain logistics |
| | Develop agents' capabilities | "Super-size" hot housingBuild sales competencies of postmasters |



Big Bets: Build technology and digital capabilities to support the business

| | Big bets | Example of initiatives |
|--|---|---|
| | Modernise Horizon | Invest to move the Horizon technology onto modern architecture and without any supplier lock-in Review the business needs that drive complexity into what the future Horizon must do |
| Build technology and digital capabilities to | Enable management information across POL | ■ Build a MI strategy that enables data-led decision making |
| support the business | Build customer data and loyalty approach | ■ Build a customer loyalty program underpinned by data & analytics capabilities |
| | Platform capability building | Build a POL own platform that allows owning customer data across POL online businesses |



Big Bets: Right-size the central functions

| | Big bets | Example of initiatives |
|-------------------------------------|---|---|
| Right-size the central functions | Right-size the central functions | Zero-base lowest run cost for staff costs and non-staff costs that will support the business Leverage tools such as digitisation, automation and spans & layers to transform and right size the central functions for: SLP-grade managers Supply chain (not DMBs) |
| | Undertake review of Ts&Cs challenges such as MTSF | Undertake review of employees Ts&Cs to close the gap with market average metrics |



| 3ig bets | Example | of | initiatives |
|----------|---------|----|-------------|
|----------|---------|----|-------------|

| Insurance: divest or grow faster | We should not divest insurance because it is an important profit contributor (13% of total PO contribution in FY2018-19) Equally, there is currently no case to invest materially in Insurance given the Post Office has recently done this Therefore the recommendation is to carry on growing Insurance as BAU |
|---|--|
| Build a retail banking customer hub | The feasibility of such an initiative is very low for the Post Office: the cost would be high, new capabilities would be required, and the benefits are highly uncertain |
| Build a B2B cash handling business | The feasibility of such an initiative is very low: This has been tried by multiple posts in the past and none of them have succeeded. This is due in part by typically bespoke customer needs that are difficult to satisfy at scale |
| Enter the energy market | High brand risk (e.g., wholesale price increase) with limited benefit upside An option to enter this market by playing the role of an aggregator (e.g., Uswitch) is also unattractive given a very high competitive space |
| Stand up last mile delivery proposition | Post Office would not have strong delivery economics, especially when compared with dedicated delivery players, e.g. the Royal Mail |



POL Board - 26 November 2019-26/11/19

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Workstreams

Strategy and

Growth



Technology



 Launch the Organisational Health

Index (OHI) survey

PHASE I: Baseline and Theme

Provide a fact base to assess POL's

Start assessing the "strategic balance

Brainstorm alternative Purposes

Identify emerging themes that would

Design a Customer Insight survey

inform the future strategic "Big Bets"

4 weeks (30 Sep to 25 Oct)

markets and customers

sheet" of POL

 Provide targeted expert support to the Zero-Based review of the organisation

Identify major problems posing a threat to continuity of the business ("lights out" risk)

29 October 2019

PSG: Overall Project Plan

Phase II: Strategy Development

7 weeks (28 Oct to 13 Dec)

- Articulate Post Office purpose
- Define the future strategy and start answering the strategic questions listed earlier, e.g.:
 - "Big bets"
 - Markets should we play in
 - Attractive growth opportunities
 - Strategy financials / economics
- Launch the Customer Insight survey
- · Playback the results of the OHI survey
- Identify the leadership steps to shape the actions informing the strategy
- Continue ZBB acceleration
- Baseline technology
- Identify implications for the business strategy
- 26 November 2019
- 19 December

Phase III: Syndication and Iteration

5 weeks (6 Jan to 7 Feb)

- Syndicate and refine the strategic choices, and finalise the answer to the strategic questions
- Articulate the 2-3 "Big Bets", including resources needed to support them
- Prioritise initiatives to embed Purpose and Strategy
- Integrate with 5 year plan
- Drive OHI survey results into target behaviours and interventions
- Prioritise technology initiatives to deliver strategy
- 28 January 2020



Overall PSG plan: several workstreams come together to feed into Big Bets over next 4 weeks

| | Output | November | December | January |
|----------------------------|--|---|---|--|
| Purpose | A refreshed statement of our purpose that states what POL stands for and | Gather inputs from wide group of stakeholders | Test early purpose statements | Finalise purpose statement |
| Customers & Postmasters | Resonates with our customers and our Postmasters | Understand what customers and postmasters think through engagement and surveys | Feed results into iterations of the Big Bets | Engage postmasters with findings (may be later) |
| Big Bets | Captures the coherent set of services we will invest money and effort into | Create long-list with estimated financials and feasibility; shortlist best | Iterate portfolio of Big Bets with learnings from Purpose, Customer and Financials | Select portfolio and engage stakeholders to confirm |
| Financials & Markets | Aligns us to where POL can be profitable within our investment envelope | Estimate product and channel profitability; analyse markets for difficult Big Bet decisions | Improve financial forecasts and feasibility assessments where required for shortlisted Big Bets | Build PO financial forecasts |
| Org capabilities | Fits our capabilities and motivates our people | Baseline the organisation to understand changes needed to deliver Big Bets | Review ways to strengthen effectiveness of Product and Partnership | Identify leadership actions to shape the culture needed to support Big Bets |
| Technology | Is supported by a funded set of technology changes | Diagnose issues with technology and identify what it takes to move forwards | ITLT works on addressing issues and designs project to identify Horizon way forwards | ITLT starts project to under- stand Horizon and identify a costed way forwards Q1 2020 |
| Integration | Brings together all the above in board papers + unified plans | Feed Purpose, Customers & Postmasters and Financial & Markets inputs into Big Bets | Ensure coherence of Big Bet iterations with Purpose and Customers & Postmasters view | Feed Big Bet choices into financial forecast |

We are engaging postmasters through "curry nights", 1-on-1s and an online survey

Curry Nights and 1-on-1s Engaged over 80 postmasters at "curry nights", including:

- * Diverse blend of branch formats/ locations (rural, suburban, urban)
- Varying tenures ranging from <1 year to 33+ years
- * The youngest postmaster in the UK at 22 years old
- Postmaster for the only Post Office run by a town council
- * Third generation postmaster, handed down in the family since 1932

Next steps

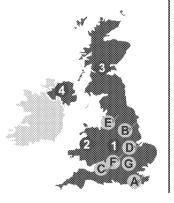
Current

010-

gress

- ▼ Final "curry night" with ~15 London area postmasters
- 10+ 1-on-1 conversations with high performing postmasters scheduled for w/c 25 Nov

| | | Location | Date |
|---------------------|---|-------------------|------------------------|
| | A | Eastbourne | Mon 4 th ✓ |
| | В | Burton-on-Trent | Tue 12 th ✓ |
| Curry | C | Weston-super-Mare | Thu 14 th ✓ |
| nights | D | Cambridge | Mon 18 th ≪ |
| | E | Manchester | Tue 19 th ✓ |
| | F | Guildford | Thu 21 st √ |
| | G | London | Tue 26 th |
| One- on- ones | 0 | England | |
| | 0 | Wales | 10+ post- |
| | 0 | Scotland | masters; w/c 25th |
| | 0 | Northern Ireland | |



| 1089 | April 1 | , | |
|------|---------------------|--|--|
| | | Survey | |
| - | Current progress | Sent to ~6,000¹ postmasters at 18:00 on Friday 15 Nov 6% response rate by end of first week of survey being live Reminder email sent Friday 22 Nov | |
| | Next steps | Area Managers will follow-up to encourage people to complete survey during routine branch visits Close survey Friday 29 Nov and analyse results | |
| | | Early results | |

| | Early results | |
|---------|---|-----|
| <u></u> | Serving our communities | 215 |
| 4 | A trusted brand | 213 |
| | Part of the social fabric in our communities | 203 |
| | Care for our customers | 135 |
| | Consistent, friendly service | 129 |
| Mic | ddle 25 ranked themes | |
| | Value for money | 81 |
| | Enabling lives and businesses to move forward | 82 |
| | Convenient online presence | 122 |
| , | Helping businesses grow | 125 |
| ď | Moving the UK forward | 159 |





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Framework Document & Articles of Association Update

Author: Mark Underwood Sponsor: Ben Foat Meeting date: 26 November 2019

Context

At the July Board, the CEO or CFO and General Counsel (GC) were given authority to finalise the Articles of Association (AoA) and Framework Document (FD), subject to any further material changes. In September 2019, the Board subsequently approved the outstanding Group Reserved Matters in the draft AoA and for the FD to include a commitment for POL to comply with the relevant guidance of the Public Sector Pay and Terms (PSP&T) as set out in a note from UKGI, which had been discussed at the Remuneration Committee (RemCo) ahead of Board. In practical terms and once the FD is adopted, this means POL will not offer private medical insurance (PMI) to new joiners although, as was flagged at RemCo, the FD provides an open ended mechanism for UKGI to apply further public sector guidance and seek a far wider application of the PSP&T.

Subject to confirmation from UKGI (and the subsequent HMG approval process), we now believe the AoA to be final and in agreed form.

In respect of the FD, UKGI has since informed POL that it also wants the FD to include:

- The requirement to comply with the principles and provisions of the Financial Reporting Council's UK Corporate Governance Code ('The Code') and, to the extent that POL does not intend to observe the Code, that the Shareholder Representative be notified in advance. In large, and to the extent they are applicable to POL as a limited company, POL already adheres to the standards set out within the Code and subsequent to being discussed at GE on 28 September, we are comfortable with the inclusion as proposed by UKGI.
- Two additional appendices that set out i) a detailed description of the Shareholder Representative's role which, as currently drafted, could be considered to extend into executive territory and embeds the role further in the company's constitution and governance; and ii) POL will "observe" the PSP&T.

Questions addressed in this Report

- 1. Does the proposed description of the Shareholder Representative's role reflect typical shareholder rights within a government context and what are the recommended amendments to the proposed draft?
- 2. How should POL's commitment to comply with the relevant guidance of the PSP&T be reflected in the FD?

Conclusion

Subject to the proposed amendments being accepted, the activities included within the
description of the Shareholder Representative's role are not dissimilar to what one would
expect to see for other wholly owned subsidiaries with sole shareholders (particularly within
a government context). It is recommended that POL make some changes to the drafting

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proposed by UKGI to ensure these rights do not extend into executive management. **Annex 1** sets out the proposed amended wording.

2. The inclusion of an additional standalone appendix in the FD, specifically for the PSP&T, seems unnecessary given all other pieces of Corporate Guidance applicable to Public Corporations are listed within Appendix 2 of the FD. Although the UKGI RemCo paper makes it clear that the PSP&T applies to POL in its entirety and that this was accepted at the September POL Board - in practical terms the UKGI RemCo paper describes the current 'enforcement' or approach of this guidance to be limited to POL not offering private medical insurance to future employees. The risk of enforcement of further requirements in respect of any public sector guidance (and a far wider application of the PSP&T than the pragmatic limited impact set out in the UKGI RemCo paper) was discussed at the September RemCo.

The options are:

- (a) Accepting the additional appendix (and its wording) proposed by UKGI (see annex3 of this paper); or
- (b) Refusing the additional appendix (and its wording), reverting back to the UKGI with a request for the PSP&T to be re-inserted in Appendix 2 of the FD, along with a footnote which limits the application or practical effect of the PSP&T to private medical insurance (see annex 4 of this paper);

Input Sought

Input Received

The Board is asked to:

Linklaters LLP

- Approve the description of the Shareholder Representative's role and, its inclusion within the FD.
- Consider and decide how PSP&T should be reflected in the FD, namely:
 - Accepting the additional appendix (and its wording) proposed by UKGI (see annex 3 of this paper); or
 - Refusing the additional appendix (and its wording), reverting back to the UKGI with a request for the PSP&T to be re-inserted in Appendix 2 of the FD, along with a footnote which narrows the recognition of the current practical effect of the PSP&T to in relation to the private medical insurance (see annex 4 of this paper).

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UKGI's Proposed Inclusion of a Description of the Shareholder Representative's Role within the Framework Document

- 1. The FD, as currently proposed by UKGI, now includes a detailed description of what they believe to be the role of the Shareholder Representative. Once the wording is agreed, its inclusion will formalise the role and responsibilities of the Shareholder Representative and bring clarity but also a degree of permanence to the scope of the role.
- 2. Broadly speaking, the activities included within the description of the Shareholder Representative's role are not dissimilar to what one would expect to see for other wholly owned subsidiaries with sole shareholders (particularly within a government context). However, POL will need make some changes to the drafting proposed by UKGI to ensure these rights do not extend into executive management. A mark-up is included in **Annex 1** of this paper.
- 3. If the Board is comfortable that the description of the Shareholder Representative's role reflects the intended ongoing relationship with the Shareholder Representative, it can be included as an annex to the FD subject to confirmation from UKGI.

UKGI's Proposed Inclusion of an Additional Standalone Appendix Setting out the Application of the Public Sector Pay & Terms to POL

- While the FD is not legally binding, given that it will be a public document, it will be difficult
 for UKGI and POL to step away from its terms which govern the relationship between the
 parties.
- 2. The current draft of the FD requires POL to have regard to the government wide corporate guidance applicable to public corporations listed in an appendix to the FD and any future relevant guidance as specified by Government to the extent that such guidance is applicable to POL as a Public Non-Financial Corporation. This is a very broad obligation on POL and the Board has been previously briefed on the risk that the Government will expect certain current and future guidance to apply to POL despite the fact that legally POL may not be required to apply this guidance.
- 3. This risk has been highlighted by the PSP&T which covers pay setting arrangements for public sector employees, including departments, non-ministerial departments and agencies, as well as for public sector workers in non-departmental public bodies and other arm's length bodies. The guidance provides a framework within which all departments will set pay, and for departmental pay strategies and pay reporting, unless there is an existing multi-year or other agreement in place. The guidance, which was updated on 22 July 2019, is expressed to be a "reminder of the cross-cutting public sector pay and terms rules that are in place, and the government's expectations on public sector employers".

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- 4. Whether POL is subject to PSP&T has been a live question since at least October 2018. It was suggested three key documents could apply to POL:
 - a. **The Senior Pay Guidance** Requires Chief Secretary to the Treasury approval for any packages of £150k or above or bonuses of more than £17,500.
 - b. **Civil Service Pay Guidance** Confers a power to make pay awards within the range of 1% to 1.5% (but not more).
 - c. Pay and Terms Guidance Contains a reminder of the Senior Pay Controls, a restriction against using contractors, a marker that the Government intends to cap exit payments at £95k, limits use of confidentiality clauses, restricts use of salary sacrifice schemes, requires prudent staff travel expenses, employment contracts of high earners to contain an expectation that salaries will be published, restricts certain benefits including private medical insurance.
- 5. POL took advice from Martin Chamberlain QC on 7 December 2018. Counsel's view was: the Senior Pay Guidance applied to POL but only to roles subject to ministerial approval, i.e. the Chief Executive, Chairman and Directors; the Civil Service Pay Guidance did not apply; and he did not believe the PSP&T currently applied to POL. UKGI was provided with this opinion and POL's view and POL invited the Government to indicate whether it agreed. POL is still waiting on a response from HMT who have advised that they are taking legal advice on the issue.
- 6. On 4 Sept 2019, UKGI, wrote to POL to confirm that the Senior Pay Guidance only applied to ministerial appointments (ie Board directors) but not otherwise (ie no other employees), and that the Civil Service Pay guidance did not apply to POL. They were of the opinion that the PSP&T did apply to POL but explained, informally, what UKGI felt the pragmatic approach would be, i.e. POL should not offer PMI to new joiners. Separately, pay in lieu of pension or car allowances should not be offered to the CEO and CFO.
- 3. The September POL Board agreed to the FD including a commitment for POL to comply with the relevant guidance of the PSP&T and that in practical terms, this meant POL would not offer private medical insurance to new joiners (but that the cash equivalent could be built into base salaries and employees could still participate in the private healthcare scheme offered through the company at a charge). This commitment and what it means in 'practical terms' for POL was set out in a UKGI Paper which was discussed at the RemCo ahead of the September Board.
- 4. During a call with UKGI it was initially suggested by UKGI that the UKGI RemCo paper could be appended to the FD in its entirety, but it was subsequently agreed that a footnote describing how, in practical terms, the PSP&T would apply to POL would suffice.
- 7. On 6 November 2019, UKGI shared with POL a revised version of the FD, highlighting that they had removed the reference to the PSP&T in Appendix 2 of the FD (which is where all of the other various pieces of Corporate Guidance applicable to Public Corporations are listed) and had inserted an additional Appendix, solely, to set out how POL will observe the PSP&T

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going forward. This proposed appendix and the UKGI RemCo paper are included in **Annex** 2 and 3 of this paper respectively.

- 8. Although the UKGI RemCo paper makes it clear that the PSP&T applies to POL in its entirety and that this was accepted in practical terms the UKGI RemCo paper describes the current 'enforcement' of this guidance to be limited to POL not offering private medical insurance to future employees. The risk to accepting that POL was subject to the PSP&T, as was socialised at RemCo, was that a far wider application of the PSP&T could be sought in the future, including in relation to £95k cap on exit payments.
- 9. The Board is asked to confirm its position in respect of the application of PSP&T.

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Annex 1 – UKGI's Proposed Appendix 4 to the Framework Document Description of the Role of the Shareholder Representative

The role of the Shareholder Representative, as performed by UKGI, -consists of the activities set out below. -In relation to these activities, the Shareholder Representative will provide advice to the relevant ministers and Principal Accounting Officer, in consultation with BEIS officials.

Establish and mMaintain appropriate and effective corporate governance foundations which govern the department-asset relationship

 work with BEIS and POL to establish and maintain appropriate corporate governance documents and systems which will govern the relationship between BEIS and POL, through up to date and fit for purpose governance documents, including Framework Documents, Articles of Association where relevant, board Terms of Reference, chair letter.

Review and provide oversight of Promote effective objectives, business planning and performance against business plan

- monitor and assess-and challenge from an owner's perspective the POL's Group Plans, the clarity of the objectives, the quality of the Group Plans and the financial, and where relevant commercial, strength underpinning it, and its effectiveness as a tool for POL.
- monitor and <u>assessehallenge POL's and its Board as to the performance</u> against its Group Plans or equivalent document, in terms of how POL is performing as an organisation (as opposed to monitoring the success of the policy delivery itself).
- 4. if there is a <u>UKGI</u> Shareholder NED on the POL Board, <u>assesschallenge</u> POL's Business Cases, and other HMG approvals outside POL's executive delegations, through that NED position on POL's Board *only* (this will be limited to the degree of <u>assessmentchallenge</u> that any non-executive board member can provide). Provide advice to BEIS and ministers on HMG approvals outside POL's executive delegations, working closely with BEIS Finance.

Oversee the promotion of Promote strong corporate capability

- through the UKGI shareholder team, as well as the UKGI Shareholder NED on POL's Board, promote the strength of POL's governance systems which support organisational performance, by <u>assessing</u>providing high-level challenge to POL (and its-Board) on:
 - a. governance framework compliance defined as POL's view on its compliance with its governance framework (as set out in its Framework Document, delegated authorities, and any other specified governance documents); and
 - b. the adequacy and strength of POL's reporting to the department on these issues.

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<u>Review and provide oversight of Promote effective leadership (high quality boards and senior management)</u>

- 6. promote the effectiveness of POL's leadership, specifically through:
 - a. promoting high quality and diverse boards, shallenging the assessing POL Board's capability and effectiveness, and monitoring POL's succession planning;
 - b. promoting the implementation of effective board composition, recruitment, remuneration and appointment processes;
 - c. <u>providing a UKGlacting-as-the Shareholder NED on POL Board in accordance</u> with paragraph 8 below; **and**
 - d. giving a view on POL's Board level executive capability in relation to its responsibilities, and remuneration.

Promote effective relationships between BEIS and POL

- 7. support effective relationships between BEIS and POL, including through:
 - a. (UKGI) building effective relationships through the UKGI Shareholder NED with POL Board and senior management;
 - b. promoting effective interfaces and communications between the department and POL, including through regular shareholder meetings; and
 - c. maintaining promoting an effective regular meeting "rhythm" <u>between with</u> the POL chair, Board and executive to ensure appropriate flow of information (management information) between POL, UKGI and BEIS, including effective reporting to BEIS.

Supporting and supplementing the activities above by providing a <u>UKGI</u> Shareholder NED on POL's board

- 8. act as government shareholder representative on the POL Board, through:
- 9.8. provideing an appropriate board member to carry out the non-executive director role effectively, drawing on the support and analysis from the UKGI shareholder team. The UKGI Shareholder NED to be:
 - a. being a member of POL's Remuneration Committee, Audit and Risk Committee, and Nominations Committee:
 - b. acting as an interlocutor between the department and the POL Board; and
 - d. provideing a view to the department on the strength of the POL Board.

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Annex 2 - UKGI's RemCo Paper

Public sector pay and terms: application to POL

HM Treasury looks to control and influence pay across the entire public sector to safeguard public money and ensure that senior pay is proportionate and justifiable. The degree of control varies across organisations but in general the trend has been for HMT to increase oversight and reduce the degree of freedom that public sector entities are given to set their own policies.

Senior appointments

The Articles of Association require the Shareholder to approve the remuneration, terms and conditions of ministerial appointments. This covers the CEO, CFO, Chair and Non-Executive Directors. All aspects of pay and terms and conditions are subject to approval including contractual terms, salary and salary increases, benefits, pension arrangements, performance related pay (STIP and LTIP) and termination payments need to be approved.

CST is expected to continue to reject remuneration for ministerial appointments that include PMI (see below), cash allowances and pay in lieu of pension.

Other staff

Historically, POL has had pay freedom in relation to other staff. HM Treasury has now made it clear that they expect <u>all</u> public sector bodies to comply with Public Sector Pay guidance. This guidance is attached (**see Annex 5**). It is distinct from the Civil Service Pay guidance, which applies to a more limited set of public sector bodies, and not the Post Office.

It is worth reading the guidance in full. Some of the key points are:

- Private medical insurance (PMI) should <u>not</u> be offered to employees at any level of the organisation. HMT understand that it is problematic to unwind this for current employees, and that a pragmatic solution is not to offer PMI for new joiners.
- The 95k cap on exit payments does <u>not</u> currently apply to POL. HMT's public position is that they wish to extend this rule to the entire public sector in future. Any change would require further consultation and legislation and we can engage with you as and when this is brought forward.
- The government expects every part of the public sector to demonstrate that it is using public money efficiently and responsibly and to ensure that pay and terms are always proportionate, justifiable and deliver value for money for taxpayers
- The application of these rules should be reflected in ALBs' Framework Documents

It continues to be the case that the Civil Service Pay guidance (which caps pay growth for the whole organisation) does not apply to POL.

On a practical level, the consequences are as follows:

- That POL should not offer PMI for new joiners.
- The Framework document will need to include a commitment from POL to comply with the relevant guidance on public sector pay and terms.

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Annex 3 - UKGI's Proposed Additional Appendix 5 to the Framework Document

APPENDIX 54 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT POL's observance of the Public Sector Pay and Terms

As agreed between POL and UKGI in October 2019, POL will observe the Public Sector Pay and Terms (the "Terms") going forward. Most notably, POL and UKGI have agreed:

- As per paragraph 1.8 of the Terms, public sector employers should not offer private medical insurance. Correspondingly, POL will not offer Private medical insurance (PMI) to new joiners;
- The 95k cap on exit payments set out in paragraph 1.3 of the Terms does not currently apply to POL, although this may be revisited by HMT in the future; and
- It continues to be the case that the Civil Service Pay guidance (which caps pay growth for the whole organisation) does not apply to POL.

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Annex 4 – POL's Proposed Footnote to Appendix 2 of the FD APPENDIX 2 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

Government-wide Corporate Guidance Applicable to Public Corporations

POL shall have regard to the principles set out in relevant sections of the following guidance documents:

Corporate Governance

- Corporate Governance Code for Central Government Departments (April 2017) https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017
- Guidance note that supports the Corporate Governance Code (April 2017)
 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609668/PU2076_corporate_governance_guidance.pdf
- Code of Conduct for Board Members of Public Bodies (June 2019) https://www.gov.uk/government/publications/Board-members-of-public-bodies-code-of-conduct
- Management of Risk: Principles and Concepts (July 2019) https://www.gov.uk/government/publications/orange-book

Financial Management

- Managing Public Money (MPM) (March 2018)
 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_da_ta/file/742189/Managing_Public_Money_MPM_with_annexes_2018.pdf
- HM Treasury and NAO Guidance on Tackling Fraud (2013) https://www.nao.org.uk/wp-content/uploads/2013/02/Tackling External Fraud.pdf
- HM Treasury Consolidated Budget Guidance (particularly Chapter 11) (March 2019) https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2019-to-2020

Senior Appointments and Remuneration

- Governance Code on Public Appointments (December 2016)
 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/578498/governance_code_on_public_appointments_16_12_2016.pdf
- HM Treasury Guidance for approval of Senior Pay (January 2018) https://www.gov.uk/government/publications/senior-civil-service-pay-and-reward
- Public Sector Pay and Terms: Guidance Note (July 2019) (as noted in the footnote below)¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_da_ta/file/819562/190702_Public_sector_pay_and_terms.pdf

Other

Whistleblowing Guidance and Code of Practice (March 2015)
 https://www.gov.uk/government/publications/whistleblowing-guidance-and-code-of-practice-for-employers

In practical terms, POL shall have regard to the principles in the Public Sector Pay and Terms:

Guidance Note which relate to private medical insurance. Namely, the restriction on offering private medical insurance to new employees (although this will not restrict POL from including a cash equivalent into base salaries to allow POL's employees to participate in the private medical insurance scheme offered through POL at a charge).

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Annex 5 - Public Sector Pay & Terms Guidance Note

Public sector pay and terms: guidance note

Details

This guidance note is a reminder of the cross-cutting public sector pay and terms rules that are in place, and the government's expectations on public sector employers.

There may be additional rules and processes in place for determining other elements of public sector remuneration, such as the setting of average pay increases through the Pay Review Bodies process or Civil Service Pay Guidance. Where appropriate and required, public sector organisations should continue to operate within these rules.

1. Guidance

1.1 Senior pay controls

The approval of the Chief Secretary to the Treasury (CST) is required for civil service appointments and appointments to public sector bodies which are subject to Ministerial approval where the pay and remuneration package is £150,000 or above. CST sign-off is also required for bonus arrangements worth more than £17,500. Any breach of the control process may result in a deduction from the departmental budget or an increase in spending controls. Further details can be found in the senior pay guidance.

More generally, public sector employers should always ensure that senior pay is proportionate and justifiable and that terms and conditions are in line with other staff. Contracts for senior staff should include the expectation that salaries will be published. For local government, where decisions are for locally-elected members, ministers have said that proposals to appoint staff on salaries of £100,000 or more should be subject to a vote of full council.

1.2 Off-payroll rules

The government is committed to tackling all forms of tax avoidance and have taken forward a wide range of measures to close down tax loopholes. It is essential that public sector employers are able to assure themselves that their staff are meeting their tax obligations. Arrangements set up explicitly to avoid tax would normally breach the principles set out in Managing Public Money. ii

Public sector organisations should not engage in, or connive at, tax evasion, tax avoidance or tax planning. If a public sector organisation were to obtain financial advantage by moderating the tax paid by a contractor, supplier or other counterparty, it would usually mean that the Exchequer as a whole would be worse off – thus conflicting with the accounting officer's duties.

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Since 2017, public sector employers have been required by IR35 legislation to deduct income tax and National Insurance Contributions, where an individual would have been an employee if they were providing their services directly and where the employer is the fee-payer to the individual. In addition to this, departments must abide by HM Treasury's off-payroll rules which are clear that the most senior staff should be on the payroll, unless there are exceptional temporary circumstances.

1.3 Exit payments

The government has legislated to cap public sector exit payments at £95,000 and to ensure that high earning public sector workers who take a new job in the same part of the public sector within twelve months of leaving will have to repay some of their exit payment. Secondary legislation is required to bring these policies into force and the government is currently considering options for implementation.

1.4 Confidentiality clauses

Confidentiality clauses should only be used in exceptional circumstances and not as a matter of course. These clauses should not be used to stop, stifle or control individuals from raising concerns or to cover up cases of individual or organisational failure. As set out in annex 4.13 of Managing Public Money "any proposal to keep a special payment confidential must be justified especially carefully since confidentiality could appear to mask underhand dealing. Also, financial reporting requirements and Freedom of Information legislation should be complied with".

Guidance has been published for the Civil Service and Arm Length Bodies (ALBs)^{iv} and for local government.^v The government expects other parts of the public sector to follow a similar approach where specific requirements have not been set out.

1.5 Salary sacrifice

Salary sacrifice arrangements mean employees and employers paying less income tax and National Insurance on remuneration.

Public sector employers should consider their use of these schemes carefully, particularly when considering any new schemes. New schemes are likely to be considered novel or contentious and, for those bodies covered by Managing Public Money, Treasury approval will generally be required before they are established.

1.6 Travel

Public sector employees should make sure that public money and other resources are used properly and efficiently and that expenditure is reasonable and defensible. This principle forms part of the Civil Service Code, if and all employees across the public sector should take a similar approach. Public sector employers should ensure that all travel is necessary and staff use the most efficient and economic means of travel in the circumstances.

Travel by business or first class is only permitted if there is a strong business need to do so. Government departments are required to be transparent about spend in this area, for example by publishing details of senior officials' business expenses, hospitality and meetings with

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external organisations. The wider public sector should take a similar approach to enable taxpayers to see how public money is being spent.

1.7 Transparency

Openness and transparency have an important role to play in strengthening public accountability and supporting public service improvement. As part of the government's transparency agenda, there are a range of requirements on public sector employers to publish information to enable the public to hold them to account on senior salaries and expenses.

For example, the Cabinet Office publishes an annual central 'high earners' list vii of individuals in departments, agencies and Non-Departmental Public Bodies earning a full-time total pay rate of £150,000 and above. Contracts for senior staff should include the expectation that salaries will be published.

Public sector employers are also required to assure themselves that they are acting in compliance with the General Data Protection Regulation (GDPR).

1.8 Other benefits

When considering offering other types of pay and terms which are not covered above, public sector employers should take into account paragraph 2.3.4 of Managing Public Money, which makes clear that Treasury delegation 'cannot extend to transactions which set precedents, are novel, contentious or could cause repercussions elsewhere in the public sector', alongside any guidance specific to their workforce.

In particular, the government is clear that public sector employers should not offer private medical insurance.

1.9 Complying with this guidance

As set out throughout the guidance, the government expects every part of the public sector to demonstrate that it is using public money efficiently and responsibly and to ensure that pay and terms are always proportionate, justifiable and deliver value for money for taxpayers.

This guidance reflects rules which have been issued by the Treasury and form part of the delegation framework for government departments and their arm's length bodies. In central government departments and their ALBs, primary responsibility for ensuring that these rules are followed falls to the Principal Accounting Officers, who should also make arrangements to satisfy themselves that their ALBs have systems adequate to meet the standards.

The application of these rules should be reflected in ALBs' Framework Documents, and any proposal for public spending outside the agreed approach would be considered a breach of the regularity requirements of Managing Public Money.

While local authorities, including fire and rescue authorities, are not covered by Managing Public Money, the government is clear that they should operate to the same standards as the rest of the public sector in relation to decisions on senior pay and reward.

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Each authority must publish an annual pay policy statement setting out its approach to a range of matters on pay and reward, particularly for senior staff, including matters cove this guidance. Pay policy statements must be approved by full council and published or It is the responsibility of local elected members to put in place local arrangements on sepay and reward that are fair, accountable and deliver best value for tax payers.

This guidance will be updated to reflect any changes in government policy.

9

Guidance for the approval of senior pay

¹¹ Managing Public Money

[&]quot;Review of the tax arrangements of public sector appointees

iv Civil Service settlement agreements special severance payments and confidentiality clauses

^v Use of severance agreements and off payroll arrangements

vi Civil Service code

vii Senior officials high earners salaries

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Royal Mail (RM) MDA Negotiations

Author: Mark Siviter Sponsor: Debbie Smith Meeting Date: 26 November 2019

Executive Summary

Context

Since our update to the board in September we have completed a further, more intensive round of negotiations with RM which have been both productive and held in the spirit of collaboration with the aim of getting to a deal by 18th January 2020. We now have a more detailed picture of the shape of an available deal.

Questions addressed in this report

- 1. What has changed since the September board update?
- 2. What have we achieved in the latest round of negotiations?
- 3. What are the remaining sticking points?
- 4. What are our recommended next steps?

Conclusion

- 1. On Tuesday 12th November RM failed to have a record £50m fine from Ofcom for abuse of dominance overturned, and on Wednesday 13th November Royal Mail won its legal challenge to prevent a postal strike after the High Court backed its application for an injunction. On Thursday 21st November RM Half Year results will be published and we forecast a positive top line story, but bottom line continued headwinds that may add to investor and share price pressure.
- 2. We have agreed term, renegotiation events and exit, no restrictions in the new deal, online subject to the details, and have closed the gap on the money to within 2% like-for-like, taking the c£54m proposed discount from RM off the table.
- 3. The primary sticking points relate to the detail behind the money and closing the 2% gap, Post Office ability to sell RM products online on the basis of a level playing field, and the approach to change management as RM are seeking to limit our ability to refuse change requests.
- 4. We will continue with negotiations with a view to locking down an available deal for the board to consider as soon as possible, and if required agreeing a short term extension of up to 3 months to allow the deal to be done avoiding triggering the 2 year exit phase of the current MDA.

Input Sought

The Board to note progress we have made with the negotiations and the proposed timelines.

Input Received

Finance and Network Development, Internal Legal and Linklater's

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The Report

1. What has changed since the September board update?

On Tuesday 12th November RM failed to have a record £50m fine from Ofcom overturned. The fine, announced in August 2018 related to its actions in 2014 when Whistl, then known as TNT was trying to become its first competitor in wholesale mail delivery.

Ofcom's investigation followed a complaint by Whistl that RM had abused its dominant market position.

RM challenged the fine, but on the 12th November 2019 the Competition Appeal Tribunal dismissed its application sighting that RM had pursued a deliberate strategy of pricing discrimination against Whistl, which was its only major competitor for delivering business mail.

In addition to the fine, press coverage suggests Whistl are now looking at options to decide whether to seek damages.

Royal Mail won its legal challenge to prevent a postal strike after the High Court backed its application for an injunction on Wednesday 13th November. The grounds for an appeal are difficult to see, and whilst not impossible it is now increasingly unlikely that industrial action will take place before Christmas. We do not see this topic impacting our negotiations at this time.

Royal Mail half year results were announced on 21st November. Group revenue was up 5.1% and UKPIL revenue up 1.8%, however, adjusted Group operating profit was down 13.2% to £165m, primarily due to a decline in UKPIL profitability. UKPIL Parcel revenue was up 5.6%, and volumes up 5%, with Tracked (incl Returns) up 20%. However, addressed letter volumes were down 5%, and down 8% if you exclude European parliamentary election mailings. This is outside their forecast range of 5-7% decline. RMG Share Price initially sunk 17% on the previous day's trading, losing over £400m in their market capitalisation. It has since recovered some of those losses, but it is still down 13% post-H1 Results announcement. These results are likely to place increased price pressure on our negotiations with RM.

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2. What have we achieved in the latest round of negotiations?

Our previously stated minimum requirements for a deal, set out in the May and September Board paper were;

- 1. A long term deal with relaxed restrictions in Click and Collect and returns
- 2. The right to sell RM products online on PO website
- 3. Any new agreement to contain a level of fixed fee
- 4. The overall shape of the money to be no less than the current baseline

We have now agreed terms on a range of largely non contentious topics set out in the table below, with some minor trades of order of magnitude of less than £1m impact p.a.

| Topic | Available shape of a possible deal – AGREED TOPICS |
|--|---|
| Term | Agreed new 10yr deal from 2022 without restrictions. 5 year review but no break clause, and minimum 2 year notice of termination but no break before end of term. If no exit triggered at end of term contract automatically rolls over a further 5 years |
| Right to sell RM products online on PO website | Principle agreed, but working through the detail, and specifically a parity topic on product and proposition to ensure a level playing with RM for the online channel |
| Fixed fees | Agreed in principle moving to a Network Access Fee, based on number of branches, on assumption of no further annual efficiency discounts and no reduction in access fee unless material reduction in size of Post Office network |
| Shape of money | Agreed no change on money like-for-like principle and RM c£54m discount withdrawn and latest RM offer within 2% like-for-like of today's price |
| Variable fees | Agreed in principle the move to commission for sales as good for our agents, giving them a share of RM price increases, but still working through the detail |
| Miss-selling | Agreed PO to take on some limited liability for miss-selling capped at £1m p.a. and traded for lower targets on segregation, creating opportunity to reduce our exposure on segregation service credits |
| Change Management | Work in progress, nothing agreed, RM seeking to restrict our ability to refuse change requests and accept all products including via non RM channels |

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| Agents' pay | Work in progress, RM seeking increased | |
|-------------|--|--|
| | alignment/transparency | |

3. What are the remaining sticking points?

The primary sticking points relate to the detail behind the money, Post Office ability to sell RM products online on the basis of a level playing field, and the approach to change management

a. The money

The detailed structure behind the proposed move to commission fees for sales and per item for acceptance is still in discussion, as RM's proposal presents challenging edge cases for the Network which would have to be resolved.

We have taken the circa £54m discount RM sought in their opening position off the table, and are within 2% like-for-like, however through the detailed negotiations we are looking to close that gap.

Royal Mail wanted to move to a totally variable fee linked to transactions, taking away the fixed fee element we have today. We have now agreed in principle to support a move from a Fixed Fee to a Network Access Fee tied to Network size which provides some variability, but only if a) annual efficiencies that exist today in the Fixed Fee are removed in the new agreement, and b) that there is no exposure to any discount in the Access Fee unless our Network reduces to below circa 9,000 branches.

b. Online

In principle we can sell RM products online, but there are ongoing discussions as to parity on product and proposition. For example if RM moves to offering an integrated online tracking solution for customers then Post Office must have access to that proposition. This is to avoid us being tied to an inferior online proposition to RM which would disadvantage us, and similarly any product RM chooses to sell online that is available to our customers, we must be able to also sell online, not just the products we sell today in branch.

c. Change Management

Today the MDA has reasonableness clauses relating to Post Office accepting new products or changes in its network, allowing sufficient control to protect our network. Royal Mail is looking to limit Post Office ability to refuse any change requests, particularly where their driver for a change is driven by regulatory requirements on them. RM's opening position was for us to provide any new products or customer service improvements they require with no ability to refuse.

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4. What are our recommended next steps?

We will continue with negotiations with a view to locking down an available deal for the board to consider as soon as possible.

However to secure the best outcome for Post Office we may need time beyond the $18^{\rm th}$ January 2020 to get to an acceptable deal. In this event we would be seeking support from the board to postpone the operation of the MDA exit provisions (which remove restrictions and trigger the exit period) for up to 3 months.

In order to achieve this RM and Post Office would need to agree to an amendment to the MDA.

For clarity even with a 3 month postponement of the exit provisions we will not allow that timing to frustrate the opportunity of taking as long as is necessary to get the best possible deal for Post Office.

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Appendix 1. Risks and Mitigations

| RISKS | MITIGATIONS |
|--|---|
| Reaching a deal within the renegotiation window set out in the MDA - The exit provisions of the MDA will enter into force in 2 months from now (19th January 2020), unless RM and PO agree otherwise by amending the MDA, or entering into an agreement replacing the MDA before then. | Not reaching a deal by 18 th January 2020 looks increasingly possible, and to mitigate any risk Post Office proposes if required extending the current MDA for up to 3 months to the middle of April to support getting the deal done and avoiding triggering the 2 year exit phase and the removal of restrictions. |
| In the event the exit provisions enter into force the contract still has two years to run without restrictions | However Post Office only proposes doing this where we believe there is sufficient evidence and confidence that an acceptable deal is available, as the 18 th of January date has helped provide some leverage and a burning platform for the parties to get the deal done. |
| Unintended consequences of signing up to a long term deal – A number of potential risks exist over the longer term, examples including structural decline in letters, changes to postal regulation, increased competition, uncertainty over future funding of Post Office, Brexit, and a change of Government. | All these risks have been considered and some mitigations are already in place, however for certain risks outside of our control it is difficult at this time to be clear about the potential implications e.g. Brexit or to be able to offer mitigations for those risks. |
| 5.13.1g 2 5. 30 13 | However in support of any proposed deal that we take to the Board for ratification we will provide a detailed supporting paper that will set out in detail all the risks and available mitigations associated with signing up to a long term deal together with clear explanation as to why we are still recommending a long term deal. |

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Appendix 2. Scope and negotiation topics

| Scope | Topics |
|--------------------------------------|--|
| Term and termination | |
| Term | Duration |
| | Start date |
| | Structure |
| Review points | Renegotiation events (triggers) |
| | Specific renegotiation events (e.g. PO funding |
| | and regulatory review) |
| Implementation period | Transition to new/extended deal |
| | Pre- / post-2022 |
| Business continuity (IA | 3 rd party carriers |
| contingency) | Costs |
| | Compensation |
| | Contract review triggers |
| | Consequential damages |
| Ways of working | Account models |
| | Strategic framework for change |
| | Commercial framework for change |
| | Joint Ventures |
| Business development | Low value account, customer lifecycle |
| | Growth targets |
| | End-to-end efficiencies |
| | Products and pricing |
| | RM Customer Service Points (CSPs) |
| | Customer lifecycle referral fees. |
| | Joint discussions |
| Restrictions | |
| Post Office restrictions | Returns |
| | Click and Collect |
| | New RM product (Retail and pre-account only) |
| Working with 3 rd parties | Non-solicit |
| | Notification |
| | Access terms to 3 rd parties |
| RMG restrictions | 3rd party physical retail sales / accept network |
| | Retail sales or accept network |
| | Automated acceptance networks |
| | Collar |
| | RM sales team / poaching |
| Online | |
| Sell online | Platform / IT |
| | Product provider |
| | Agents v Reseller |
| | Product range |
| | Customer relationship and data |
| | Customer pricing |

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| | Migration Safety Net | |
|------------------------------|---|--|
| | Collar | |
| | Track and Trace consolidation | |
| Online pricing | Fees structure | |
| | Fees level | |
| Commercials | | |
| Variable fees | Local collect rates | |
| | Local collect social rates | |
| | P739 rates | |
| | Return fees | |
| | Accept fees | |
| | Rebalancing | |
| | New product fees | |
| | Non-USO products | |
| | Completed transactions | |
| | Sales commission | |
| Fixed fee | Level | |
| | Annual reductions | |
| Inflation | Variable fees | |
| | Fixed fee | |
| Annual count | Metered pouches | |
| | Annual count process | |
| Branch access fee | Level of fee | |
| | Trigger for payment | |
| Network fee | Level of fee | |
| | Trigger for payment | |
| Agents' terms | Service requirements | |
| | Agent pay | |
| | Transparency and alignment | |
| Other commercials | Existing branch relocation billing | |
| | DMB incentive structure | |
| | Dangerous Goods compliance investment | |
| | Volume-based pricing (letters) | |
| | Parcelforce fees | |
| Labels2Go | Returns | |
| | Online postage / OLP | |
| PPI | Rates | |
| Tracked 24 / 48 (eBay) | Rate for accepting 3rd party reseller OLP | |
| Network development | | |
| Investment | Number of branches (sites) | |
| | Additional branches | |
| | Sunday opening hours | |
| | Access to Sunday opening hours | |
| | Funding | |
| Network investment reporting | Reporting | |
| Service provision | | |
| Segregation | Service credits | |
| | 2300 0.00.00 | |

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| | Service credits cap |
|------------------------------|------------------------------------|
| | Requirements |
| | Scope |
| | Targets: level and period |
| Customer complaints | Responsibility |
| Mails integrity | Safe storage |
| Stamps | Top-up stamps sales |
| | Stamps model |
| | Agent vs Reseller (ownership) |
| | VAT de-coupling clause |
| Interoperability | Manned counters |
| | Dedicated RMG counters |
| | Marketing activity levels |
| | Rectification of incorrect bagging |
| | MAU's (drop boxes) for RM |
| | Collection charges |
| | Consumables |
| Revenue protection / leakage | Revenue protection |
| | Incorrect products |
| | Stamps and labels |
| | Stock |
| | Horizon transactions report |
| | Audit rights |
| | Audit costs |
| | Legal recourse |
| | Legal recourse – agents |
| | False claim liability |
| RM collections | Scope |
| | Cost |

POST OFFICE BOARD

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Approval of Capex for Telecoms **Customer Routers**

Author: Colin Stuart, Finance Director FS&T

Meeting date: 26th November 2019

Executive Summary

Context

As part of its Dual ADSL and Dual Fibre customer packages, Post Office provides new customers with broadband routers and replaces damaged or obsolete ones. Post Office retains ownership of those routers and requires customers to return them when their contract ends.

For accounting purposes, the routers are capitalised and treated as fixed assets. This treatment was put in place in 2013 when the Dual ADSL product was introduced and extended to Fibre routers when Dual Fibre was introduced in January 2017. The continued treatment of the routers as fixed assets has been confirmed by the Group Financial Accounting team.

The Telecoms Budget for 2019/20 was approved by the Board in April 2019 as part of its approval of the wider Post Office Budget. The Telecoms element of the budget was for gross income of £158.5m and direct profit contribution of £28.4m. The associated expenditure on customer routers of £4.83m was included in the capital expenditure budget presented to the Board in May 2019 as part of the £7.3m "Telco investments" line. The main drivers of this expenditure on customer routers were gross new Dual ADSL customers of 112,127 and Dual Fibre customers of 6,857.

To the end of P7 we have spent £2.84m on customer routers, which is £0.22m higher than budget due to more new Dual Fibre customers being added than budgeted. New Dual Fibre customers are expected to be added at the current rate for the rest of the year and, as a result, we expect to spend a further £2.72m on routers, making a total of £5.56m for the year. This is £0.74m (15%) higher than the budget because more effective customer acquisition activity is expected to deliver 21,085 new Dual Fibre customers in the year versus the budget of 6,857.

Following internal audit recommendations made in the first half of 2019/20, the SPO Governance Team tightened the controls and processes around the approval and monitoring of funding for all change projects and all Capex and Exceptional Spend. As a result of those changes and given that the expenditure exceeds £5m, specific Board approval is required for the expenditure on customer routers.

Approval Sought

We seek specific approval from the Board for the forecast capex spend of £5.56m on customer routers, which is £0.74m (15%) in excess of the budget amount which the Board approved in April and May 2019.



POST OFFICE BOARD

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Performance Review - Health & Safety

Author: Martin Hopcroft Sponsor: Lisa Cherry Meeting date: 26 November 2019

Executive Summary

Context

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

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

Questions addressed in this report

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

Conclusion

Following last year's increase in violent robberies and ATM rip-outs, we have invested £2.5m in additional fogging and IP camera installations and £0.7m in gas suppression kit for ATMs. Alarm upgrades are due to be completed by March 2020. The business has seen a decline in the number of robberies over the last 6 months to Period 7 (50) compared to the previous six months (93). We have also seen a fall in ATM rip outs and a fall in losses as the suppression kit has proved effective. There have been 18 ATM incidents during the 6 months to Period 7 (October) compared to 42 in the previous 6 months. We have two concerns: one immediate and one forecast. There have been 35 incidents so far this year where knives have been carried compared to 23 incidents last year. We are working urgently through our response, which may require more fogging equipment, and additional guidance provided to Postmasters. We are also meeting industry experts to benchmark good practice and mitigation and to review our training and guidance. In addition, following trends on the continent we are forecasting a shift from gas attacks on ATMs to dynamite. Destroying cash is the best remedy and we are close to testing a solution with a supplier.

Safety Performance. (see 5yr perf chart on page 1 of report).

Overall total accidents are down at 43 year to date, compared to 51 in 2018/19 (DMBs are lower at 16 (25), Support teams are higher at 9 (3), and Supply Chain are down at 18 (23)). Whilst the volume of <u>lost time accidents</u> remain relatively low, 6 in 19/20 v

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Health & Safety Report Nov 2019



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7 in 18/19, a serious accident involving an employee who slipped in a hotel bath (61 days), two physical injuries in Supply Chain due to assaults (15 days) and a broken wrist following a bracelet catching on a van door (20 days), have led to an increase in total lost days (121 v 110). Action has been taken to remind colleagues to take care and we have refreshed lone worker training in H&S Essentials. Lost days due to trauma following an attack have reduced to 28 days YTD from 141 at the same point last year.

The **Supply Chain Safety Plan** is progressing well with safety champions sharing best practice and improvement opportunities at their safety forums. Local risk assessments, safe systems of work and training continue to be reviewed and strengthened. The BSIA and Mitie have visited Midway and shared best their approach to 'hearts and minds' campaigns and H&S tools and will work with us in November to develop a campaign which they will share with their wider membership. We met with the Occupational Health MSK expert to commence an ergonomic review of handling coin and manual handling activity to identify initiatives to reduce risks facing the ageing workforce.

Property Statutory Compliance (risk assessments / inspections) The overall position is still being reported as minimal risk, with completed inspections at 96.24%, this percentage has consistently stayed above 95% since the last quarterly report. The latest CBRE engineer fabric surveys still suggest a satisfactory (low risk) outcome with the principal areas still being water ingress through slipped roof tiles, failed flat roofs and rotten windows. Severe weather in September caused a number of roof leaks, internal flooding, and plaster and/or ceiling tile failures. We have communicated to Postmasters, reminding them to check their signage and fascia ahead of the more extreme winter weather. The latest external Fire Risk Assessments demonstrated significant improvement in compliance and discussions are continuing with fire experts Metro Safety to improve our local risk assessment. The latest external fabric surveys (low risk) still suggest a satisfactory outcome.

Line Managers of support teams are currently completing local risk assessments ie. workstation, driving and lone worker, to ensure their teams are working compliantly and any known risks and concerns are mitigated through adjustments and / or provision of appropriate equipment. The annual H&S module content has been reviewed for Supply Chain with face to face training introduced for higher risk activities including manual handling of coin, cages and correct use of equipment.

We have been able to analyse Supply Chain commercial driver telemetry data and driving behaviour and drive improvement through 121 discussions and coaching. We are developing a road risk 'roadmap' for Company Car drivers, checking licences twice a year and introducing driver safety packs. Road traffic collisions are slightly down from 59 in 19/20 from 64 (18/19) with blameworthy at 36 (35), 10 of which have been incurred by Mobile Post Office fleet drivers. Together with audit results, this has given cause for concern. The fleet team are working with Network colleagues to improve.

Input Sought

The Board are requested to note the current safety performance.

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Report

| Year/KPI | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 |
|--|-------|-------|-------|-------|--------|
| | | | | | P7 YTD |
| All accidents | 198 | 129 | 112 | 81 | 43 |
| All accidents / 1000 employees | 29.3 | 21.0 | 22.0 | 16.9 | 11.03 |
| Absence accidents | 38 | 16 | 21 | 15 | 6 |
| Absence Accs / 1000 employees | 5.62 | 2.61 | 4.13 | 3.14 | 1.54 |
| LTIFR (lost time accidents/100,000hrs) | 0.367 | 0.168 | 0.271 | 0.184 | 0.149 |
| Days lost due to accidents | 792 | 259 | 480 | 245 | 121 |
| Days lost / 1000 employees | 117 | 36 | 94 | 51 | 31 |
| LTR (Days lost/100,000 hrs) | | | | 3.01 | 3.02 |
| RIDDORS | 14 | 9 | 14 | 7 | 1 |

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

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

Post Office Network robberies currently show a 20% increase YOY (12 month rolling, 143 v 119), however, there has been a reducing trend over the most recent 6 months (50) compared to the previous 6 months (93). Injuries have been minor and have slightly reduced from last year YTD (7 vs 9), with approx. 1 injury per 7 incidents.

We continue to see positive results in the 'High Risk' robbery programme where we are installing fogging and IP cameras. Anti-robbery fogging (where activated) and gas suppression continue to be 100% successful and evidence so far confirms where activated, criminals will generally flee. Alongside this project, we are at the early stages of developing a number of cash storage solutions to secure banking deposits simply, quickly and safely potentially from Nov 19.

ATM gas attacks continue to show signs of slowing partly due to successful gas suppression activations and lower cash holdings. A number of arrests / convictions have been made in recent months. Industry and Police are working together to target ATM crime as this if usually undertaken by Criminal Gangs who are involved in other criminality (drugs) which ultimately affects the nation's security. **Significant trends on the continent include using solid explosives, a trend likely to increase in the**

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UK which makes our roll-out of cash destruction (ink & glue) critical. If this type of crime targets POL in the future our proposed cash destruction solution can be upgraded to ensure criminals will not be successful in obtaining useable cash.

CViT robberies have reduced from last year, 35% down YOY (13 v 20) over the rolling 12 month period, and 33% down YTD (8 v 12). However, there were 3 incidents during period 7. We have rolled out 116 body cameras, 65 CCTV vehicle streaming and 20 tracked I-boxes and our provider is currently developing a glue and ink method of cash destruction. We are planning to pilot 50 of these across the Chester and Birmingham areas. A risk assessment is currently being undertaken for the 'case across counter' procedure and an approach is being developed by Security, Health & Safety and Supply Chain to strengthen the secure delivery / collection method at high and medium risk branches, whilst allowing some flexibility for low risk and rural branches.

We continue to engage with the industry, and recent membership of Safercash will provide greater access to both CViT and ATM crime data. Grapevine continue to scan media and social media and we are working closely with the BSIA and other carriers to review trend data and risk. We review our cross pavement risk assessment annually and are working with our providers to source and pilot a suitable stab proof vest in order to respond swiftly should the risk profile change in any particular area.

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

What are our Health & Safety priorities for 2019/20

- 1. To progress the Safety Plan for Supply Chain, development of Safety Champions and a Safety Forum to develop a 'hearts and minds' culture and share best practice.
- 2. Complete an ergonomic review of lifting and handling in Supply Chain and implement a range of intervention to mitigate risk to the ageing workforce.
- 3. To continue the development of our Managers to ensure compliance with safety calendar activities, completion of training and local risk assessments.
- 4. To develop branch risk profiling and progress the recommendations from the Robbery and Violence review and Road Risk Action Plan.
- 5. Digitalise H&S tools including Accident reporting (ERICA) and the Safety Calendar.
- 6. Update training content and support the deployment of Harassment by Customers policy, implementing procedures to reduce risk and likelihood and impact of violence.
- 7. To review lone working guidelines for Support Centres, guidance to alleviate driver fatigue and compliance to the mobile phone whist driving policy.
- 8. Undertake an independent audit of the Property Compliance Framework with support from HSL/HSE, building on our previous H&S audit.
- 9. To expand the 'mental health first aid' network to provide support to all colleagues.
- 10. Reintroduce mobile health checks for DMB and Supply Chain colleagues during Q4 and offer flu vaccinations to all colleagues across the business during Q3.

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POST OFFICE LIMITED BOARD

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Post Office Limited Sealings

IRRELEVANT

12.2

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POST OFFICE LIMITED

Date Register of Sealings 14.11.2019

Company Number 21554540

| Seal Number | Date of | Date of | | Persons Attesting | Destination of |
|-----------------------------------|------------|------------|---|--|----------------|
| / File Ref. | Sealing | Authority | Description of Document | To Document | Document |
| 1842 / Tenancy Agreement | 22/10/2019 | 21/10/2019 | Tenancy Agreement relating to 18 Church Street, Llangefni, LL77 7DY between Post Office Limited (Landlord) and ZCO Limited (Tenant). | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1843 / Settlement Agreement | 22/10/2019 | 21/10/2019 | Dilapidation's Settlement Agreement relating to the Reference Room being part of the ground floor and first two floors situated at Central Library, High Street, Walthamstow, London E17 between the Mayor and Burgesses of the London Borough of Waltham Forest (Landlord) and Post Office Ltd (Tenant). Executed under signature by the Company Secretary | Veronica Branton, Company Secretary | Karima Karger |
| 1844 / Settlement Agreement | 23/10/2019 | 02/10/2019 | Settlement Agreement - £28, 653.02 in settlement of the dilapidations claim between Norwich Limited (Landlord) and the Post Office Limited (Tenant) in relation to the Ground and First Floors and Rear Yard of 212-216 Kentish Town Road and 407 Wolsey Mews, London, NW5 in the London Borough of Camden. Execution under signature. | Veronica Branton, Company Secretary | Karima Karger |
| 1845 / Tenancy Agreement | 29/10/2019 | 28/10/2019 | Tenancy Agreement relating to 50 High Street, Holywell, CH8 7AA between the Post Office Limited (Landlord) and ZCO Limited (Tenant). Property title nos. CYM269296 and CYM282337. | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1846 / Tenancy Agreement | 29/10/2019 | 28/10/2019 | Tenancy Agreement relating to 1 Market Place, Thetford, IP24 2AA between Post Office Limited (Landlord) and ZCO Limited (Tenant). Title No. NK428541. | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1847 | 30/10/2019 | 30/10/2019 | Deed of novation between Post Office Limited, Computacenter (UK) Limited & IE Limited. eCAF 258, Contract no. 104.10 x 3 | David Parry, Senior Assistant Company Secretary | IT |
| 1848 / Deed of Surrender | 04/11/2019 | 01/11/2019 | Deed of Surrender of Lease at Bognor Regis CO, High Street, Bognor Regis, PO21 1RG between the Post Office Limited (Tenant) and the Royal Mail Group Limited (Landlord). Property title no. WSX357120. | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1849 / Deed of Surrender | 04/11/2019 | 01/11/2019 | Deed of Surrender of Lease at Kingswood CO Hanham Road, Bristol, BS15 8PN between Post Office Limited (Tenant) and the Royal Mail Group Limited (Landlord). Property reference no. GR288274. | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1850 / Deed of Surrender | 04/11/2019 | 01/11/2019 | Deed of Surrender of Lease at Bishops Stortford CO, 102 South Street, Bishops Stortford, CM23 3AA between the Post Office Limited (Tenant) and the Royal Mail Group Limited (the Landlord). | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1851 / Agreement for Lease | 12/11/2019 | 11/11/2019 | Agreement for Lease relating to Unit 1, Babington Court, Gower Street, Derby, DE1 1SD between Post Office Limited (Landlord), ZCO Limited (Tenant) and Potent Solutions Limited (Guarantor). Property Title Reference Number: DY477495 | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1852 / Underlease of whole | 12/11/2019 | 11/11/2019 | Underlease of whole relating to Unit 1, Babington Court, Gower Street, Derby DE1 1SD between Post Office Limited (Landlord), ZCO Limited (Tenant) and Potent Solutions Limited (Guarantor). Property title number: DY477495. | David Parry, Senior Assistant Company Secretary | Karima Karger |
| 1853 / Sale of Leasehold | 12/11/2019 | 08/11/2019 | Agreement for the Sale of Leasehold Land with vacant possession known as the Post Office, Vinson Close, High Street, Orpington, BR6 0PJ between Post Office Limited (Seller) and Walker Westlake Ltd (Buyer). Property title no. SGL738799. | David Parry, Senior Assistant Company Secretary | Karima Karger |

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POST OFFICE LIMITED BOARD

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Post Office Limited Board Meetings

Author: Rubia Khanom Meeting date: 26 November 2019

Executive Summary

Context

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

The Report

2019

| Rates | | | Time | Meeting |
|---|-------------|------|---------------|---|
| Date being sought for PSG session | December | 2019 | | Board |
| Tuesday | 10 December | 2019 | 11:00 - 12:00 | Postmaster Litigation Subcommittee (GLO) |

2020

| Distric | | | Time | Meeting |
|-----------|-------------|------|---------------|---|
| Wednesday | 22 January | 2020 | 16.00 - 17.00 | Postmaster Litigation Subcommittee (GLO) |
| Tuesday | 28 January | 2020 | 09.30 - 12.00 | ARC |
| Tuesday | 28 January | 2020 | 12.30 - 17.30 | Board |
| Tuesday | 11 February | 2020 | 10.00 - 11.00 | Nominations Committee |
| Tuesday | 11 February | 2020 | 11.00 - 12.00 | Remuneration Committee |
| Tuesday | 18 February | 2020 | 10.00 - 11.00 | Postmaster Litigation Subcommittee (GLO) |
| Tuesday | 17 March | 2020 | 11.00 - 12.00 | Postmaster Litigation Subcommittee (GLO) |
| Tuesday | 24 March | 2020 | 09.00 - 11.30 | ARC |
| Tuesday | 24 March | 2020 | 11.45 - 16.30 | Board |
| Tuesday | 19 May | 2020 | 09.30 - 12.00 | ARC |
| Tuesday | 26 May | 2020 | 11.00 - 16.00 | Board |
| Tuesday | 26 May | 2020 | 16.00 - 16.30 | Nominations Committee |
| Tuesday | 26 May | 2020 | 16.30 - 17.30 | Remuneration Committee |

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| Monday | 27 July | 2020 | 14.30 - 17.00 | ARC |
|-----------|--------------|------|---------------|-----------------------------|
| Tuesday | 28 July | 2020 | 09.00 - 14.00 | Board |
| Tuesday | 28 July | 2020 | 14.30 - 19.00 | Board Strategy Away Day - 1 |
| Wednesday | 29 July | 2020 | 09.00 - 18.00 | Board Strategy Away Day - 2 |
| Tuesday | 22 September | 2020 | 09.00 - 11.30 | ARC |
| Tuesday | 22 September | 2020 | 11.30 - 12.00 | Nominations Committee |
| Tuesday | 22 September | 2020 | 12.00 - 13.00 | Remuneration Committee |
| Tuesday | 22 September | 2020 | 13.30 - 18.30 | Board |
| Tuesday | 27 October | 2020 | 09.30 - 14.00 | Board |
| Tuesday | 24 November | 2020 | 09.00 - 11.30 | ARC |
| Tuesday | 24 November | 2020 | 11.30 - 12.00 | Nominations Committee |
| Tuesday | 24 November | 2020 | 12.00 - 13.00 | Remuneration Committee |
| Tuesday | 24 November | 2020 | 13.30 - 17.30 | Board |
| | | | | |

2021

| 10.00 | | | Firms | Meeting |
|---------|------------|------|---------------|------------------------|
| Tuesday | 26 January | 2021 | 09.00 - 11.30 | ARC |
| Tuesday | 26 January | 2021 | 11.45 - 16.30 | Board |
| Tuesday | 9 February | 2021 | 10.00 - 11.00 | Nominations Committee |
| Tuesday | 9 February | 2021 | 11.00 - 12.00 | Remuneration Committee |
| Tuesday | 30 March | 2021 | 09.00 - 11.30 | ARC |
| Tuesday | 30 March | 2021 | 11.45 - 16.30 | Board |

Post Office Board Agenda

| Date: 28 January 2020 | Time | [12.30 - 17.30 hrs] | Location | 1.19 Wakefield |
|-----------------------|------|---------------------|----------|----------------|
| • | | | | |

| Pri | esent | | Other Attendees | | |
|---|--|---|--------------------------------------|-----|---|
| Tim Parker (Chairman) | Carla Stent | | Veronica Branton | • | Robin Nuttall and McKinsey |
| | | | (Company Secretary) | | colleagues (Item x.) |
| Nick Read (CEO) | Alisdair Cameron (CFO) | • | Debbie Smith (CEO – Retail) (Item x) | • | Ben Foat (General Counsel) (Item x) |
| Ken McCall (SID) | Zarin Patel | • | Mark Siviter (MD - Mails) (Item x.) | • | Alan Watts (Herbert Smith Freehills) (Item x) |
| Tom Cooper | | | Dan Zinner (Chief Transformation | | Owen Woodley (CEO – FST&I) (Item |
| | | | Officer) (Item x.) | | x) |
| | | | Cathy Mayor | • | Kathryn Sherratt |
| | | | Meredith Sharples | | Ed Dutton |
| | | • | Lisa Cherry | | |
| | | | | | |
| Agenda Item | | | Action Needed | Lea | d Timings |
| Performance and curi | ent issues | | | | |

| Agenda II | em | Action Needed | Timings | |
|-----------|--|---|---|---------|
| Performa | nce and current issues | | | |
| 1. | Welcome and Conflicts of Interest | Noting | Chairman | |
| 2. | Minutes of Previous Board meetings including Status Report | Approval | Chairman/ Veronica Branton | 1 |
| 3. | Committee updates (verbal): 3.1 ARC 3.2 Remuneration Committee 3.3 Nominations Committee | Noting & Input Carla Stent Ken McCall Tim Parker | | 10 mins |
| 4. | CEO Report | Noting & Input | Nick Read | 30 mins |
| 5. | Financial 5.1 Financial Performance Report 5.2 Draft Five Year Plan | Noting & Input Noting & Input | Al Cameron | 60 mins |
| 6. | Quarterly Performance Reports: FST&I and Retail | Noting & Input | Owen Woodley/ Kathryn Sherratt Debbie Smith/ Cathy Mayor | 30 mins |
| .unch | | | | |
| trategy a | nd updates | | | • |
| 7. | Purpose, Strategy, Growth | Noting & Input | Nick Read/ Dan Zinner/ Robin | 60 mins |

| Lunch | unch | | | | | |
|----------------------|---------------------------|---|--|---------|--|--|
| Strategy and updates | | | | | | |
| 7. | Purpose, Strategy, Growth | Noting & Input | Nick Read/ Dan Zinner/ Robin Nuttall and McKinsey colleagues | 60 mins | | |
| 8. | Telecoms Strategy | Decision | Owen Woodley/ Meredith Sharples | 45 mins | | |
| 9. | Insurance Strategy | Placeholder following July Strategy sessions | Owen Woodley/ Ed Dutton | | | |
| 10. | Digital Identity Strategy | Placeholder following July Strategy sessions | Owen Woodley] | | | |

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Post Office Board Agenda

| 11. | Group Litigation Update | Noting & Input | Ben Foat/ Alan Watts | 15 mins |
|------------|---|--|-------------------------------|---------|
| 12. | Royal Mail Update | Placeholder depending on stage of negotiations | Debbie Smith/ Mark Siviter | |
| 13. | Succession Planning | Placeholder – originally due to come back to Board in July/ September 2019 but deferred with new CEO joining, work on PSG etc. | Nick Read/ Lisa Cherry | |
| Approvals | | | | |
| | | | | |
| 14. | | | | 5 mins |
| | governance items | | | 5 mins |
| | | Noting | All | 5 mins |
| Noting and | 15.1 Health & Safety Report 15.2 Sealings 15.3 Future Meeting Dates | Noting Noting and Input | All | |



12.4

Board decision log 2019/20 financial year

| Financial Year | Meeting Date | Topic | Resolution |
|----------------|--------------|-------------------------|--|
| 2019/20 | 30/04/2019 | Annual Strategic Plan & | The Board APPROVED the proposed budget with a trading profit for 2019/20 of £77m. This was subject to |
| | | Budget | confirmation with UKGI, as we shared the detailed plans for the recommended changes and agreement at |
| | | | Remuneration Committee on the final STIP targets. |
| 2019/20 | 28/05/2019 | Minutes of Previous | The Board APPROVED for signature the minutes of the Board meetings held on 19 November 2018, 23 January |
| | | Board meetings | 2019, 18 March 2019, 20 March 2019, 25 March 2019 and 30 April 2019. |
| 2019/20 | 28/05/2019 | Appointment of | The Board RATIFIED the appointment of Alisdair Cameron as Interim Group Chief Executive Officer with effect |
| | | Interim Group Chief | from 5 April 2019. |
| | | Executive, Post Office | |
| | | Limited | |
| 2019/20 | 28/05/2019 | Change Funding Report | The Board: |
| | | | NOTED the contents of the paper, including the FY19/20 Budget for Change Spend |
| | | | APPROVED the request for £35m funding for Q1 to be submitted to UKGI; and, |
| | | | DELEGATED authority to Al Cameron to finalise the report and supporting documents with UKGI. |
| 2019/20 | 28/05/2019 | Annual Report and | The Board APPROVED the Annual Report and Accounts 2018/19 and DELEGATED SIGNING AUTHORITY to the |
| | | Accounts | Chairman and Interim CEO, subject to the completion of PwC's work and review by the ARC at its meeting on 29 |
| | | | May 2019. |
| 2019/20 | 28/05/2019 | Group Litigation Order | The Board RESOLVED to authorise the payment of the legal costs associated with the claimants' costs for the |
| | | | Common Issues Trial and the recusal application. |
| 2019/20 | 28/05/2019 | Bank of Ireland Deal | The Board: |
| | | | NOTED the updates on the Bol negotiations and the new credit card partnership |
| | | | APPROVED the total spend related to the Bol negotiations of £5.4m, which included the sunk costs detailed in the |
| | | | paper |
| | | | DELEGATED AUTHORITY to the Board sub-group for the approval of the signing of the amended FSJVA and FRES |
| | | | contracts on the basis presented once finalised. |
| 2019/20 | 28/05/2019 | Contract approval | 13.1 Home Re-engineering capital deployment: The Board APPROVED the deployment of capital to complete the |
| | | | PO Insurance build of the home insurance reengineering programme. The total costs of the project were £14.4m |
| | | | (Discovery-£0.9m, Investment-£12m, BGL Exit costs-£1.5m). 13.2 DMB franchising and Network Development: |
| | | | The Board APPROVED funding of £27.7m in 2019/20 to deliver the DMB programme of 69 targeted exits. 13.3 |
| | | | New Network Location (NNL) activity over the coming year. The Board APPROVED a total investment is £7.56m |
| 2010/20 | 20/05/2010 | | for 2019/20 to support the delivery of 220 new branches |
| 2019/20 | 28/05/2019 | Governance report | The Board: |
| | | | APPROVED the following DELEGATED AUTHORITIES for financial spend: Chief Executive Officer (up to £5 million); |
| | | | Chief Finance Officer (up to £4 million); Group Executive Members (up to £2 million); and, Group Executive |
| | | | Members to have authority to sub-delegate up to the limit of their delegated authority. |
| | | | APPROVED the list of authorised signatories as set out in appendix 2 of the paper |
| | | | APPROVED the affixing of the Company Seal as set out in paragraph 4.5 of the paper |

| Financial Year | Meeting Date | Topic | Resolution |
|----------------|----------------|------------------------|---|
| | | | NOTED the Nominations and Remuneration Committees' evaluation of performance against their terms of |
| | | | reference. The ARC would be reviewing its evaluation at its meeting on 29 May 2019 |
| | | | NOTED the information held on the register of interests |
| | | | APPROVED the Conflicts of Interest Policy. |
| 2019/20 | 28/05/2019 | Sealings | The Board APPROVED the affixing of the Common Seal of the Company to the documents set out against items |
| | | | number 1760 to 1781 inclusive in the seal register. |
| 2019/20 | 25/06/2019 | Sub-group: approval to | As a Director of Post Office Limited, in accordance with the authority delegated by the Board on 29 January 2019 |
| | | enter contract for | and based on the information provided to the Directors therein, I APPROVE Post Office Limited entering a |
| | | CapitalOne to provide | contract with Capital One for the provision of credit a card service for its front book customers |
| | | credit cards to Post | |
| | | Office front book | |
| | | customers | |
| 2019/20 | 17/07/2019 | Appointment of Group | As a director of Post Office Limited, I APPROVE the appointment of Nick Read as Chief Executive Officer of Post |
| | (circulated by | Chief Executive, Post | Office Limited. |
| | email) | Office Limited | |
| 2019/20 | 30/07/2019 | Minutes of previous | The Board APPROVED the minutes of the Board meeting held on 28 May 2019. |
| | (Board | board meetings. | |
| 2010/20 | meeting) | | |
| 2019/20 | 30/07/2019 | Annual Report and | The Board: |
| | (Board | Accounts 2018/19 | APPROVED the statements on the group litigation and workers' rights cases (Starling) for inclusion in the ARA 2018/19 |
| | meeting) | (ARA 2018/19) | APPROVED and DELEGATED to the Chairman and Interim CEO the signing of the Annual Report and Accounts for |
| | | | the year ended 31 March 2019. |
| 2019/20 | 30/07/2019 | Group Litigation Order | Legally privileged. The Board ENDORSED the approach set out in the paper in relation to the mediation and |
| 2013/20 | (Board | Group Litigation Order | operational activities to address the requirements flowing from the Common Issues Trial Judgment, prepare for |
| | meeting) | | the Horizon Issues Trial Judgment and achieve the delivery of better support to agents. |
| | meeting/ | | The Board AGREED that a paper should be included on the September Board agenda setting out proposals for a |
| | | | starting figure for mediation and an upper limit. The legal team would then be delegated authority to settle the |
| | | | matter in accordance with the Board's instructions. |
| 2019/20 | 30/07/2019 | Starling (Workers' | Legally privileged. The Board ENDORSED the approach to the case set out in the paper which was to continue to |
| - | (Board | rights case) | defend the claim on the basis of POL's current legal rights; avoid aggressive litigation tactics; consider whether |
| | meeting) | | resolution without recourse to employment tribunal was possible, including whether there was a group of agents |
| | | | within the network for whom "worker" or "employee" status should be considered; and, decline CWU's request |
| | | | for full recognition and bargaining rights. |
| | | | The Board AGREED that updates should be provided to the Board rather than setting up a Board Subcommittee at |
| | | | this stage. We also needed to make sure that UKGI/ BEIS were fully briefed on the case and how we proposed to |
| | | | manage it. |

| Financial Year | Meeting Date | Topic | Resolution |
|----------------|--------------|-------------------------|--|
| 2019/20 | 30/07/2019 | Legal Entity | The Board AGREED: |
| | (Board | Optimisation | • that a paper should be prepared for the September Board meeting setting out the reasons for the changed |
| | meeting) | | approach on corporate restructuring and the ramifications of moving from the current position to the new |
| | | | position |
| | | | • to DELEGATE AUTHORITY to the CEO or CFO and General Counsel to agree the final versions of the draft Articles |
| | | | of Association and Framework Agreement, subject to there being no further material change. |
| 2019/20 | 30/07/2019 | Bank of Ireland Deal | The Board: |
| | (Board | | CONSIDERED and AGREED the final construct of our refreshed relationship with Bol |
| | meeting) | | DELEGATED AUTHORITY to the Interim CEO and Chief Executive FST&I to proceed to signature on the basis |
| | | | presented once the contractual legal drafting is concluded. |
| | | | APPROVED the total spend of £5.6m related to these negotiations. |
| 2019/20 | 30/07/2019 | Parent Company | The Board APPROVED the delegation of authority to the CEO and the General Counsel to finalise and approve the |
| | (Board | Guarantee: Payzone | terms of the parent guarantee in relation to the British Gas contract as set out in the paper. Should any material |
| | meeting) | Bills Payments Limited | variances to this be proposed we would revert to the Board for approval. |
| 2019/20 | 30/07/2019 | Sealings | The Board APPROVED the affixing of the Common Seal of the Company to the documents set out against items |
| | (Board | | numbered 1782 to 1801 inclusive in the seal register. |
| | meeting) | | |
| 2019/20 | 30/07/2019; | Insurance Strategy | The Board SUPPORTED the short term recommendations for the PO Insurance Strategy but requested a radical |
| | 31/07/2019 | | look at how we could unlock the true potential of the brand in the insurance market. |
| | (Strategy | | |
| | Sessions) | | |
| 2019/20 | 30/07/2019; | Delivering the Identity | The Board SUPPORTED the proposals for immediate execution, including extending the Verify contract with |
| | 31/07/2019 | Growth Plans | Government beyond March 2020 on current loss-making terms in order to build volume. We then needed to |
| | (Strategy | | establish what this market was going to be worth, if the costs associated with getting to scale were merited and if |
| | Sessions) | | we needed to own the platform to obtain real value. Market share and end-to-end integration would be critical. |
| 2019/20 | 30/07/2019; | Travel Money Strategic | Board APPROVED the immediate execution recommendations but needed to understand what would drive the |
| | 31/07/2019 | Options | longer term profitability of the travel money business, including whether we were equipped to build market |
| | (Strategy | | share. |
| | Sessions) | | |
| 2019/20 | 23/09/2019 | Term of Office | The Board APPROVED the extension to Tim Franklin's term of office as a Non-Executive Director for a period of |
| | (Board | Extension | up to three months from 23 September 2019. |
| | meeting) | | |
| 2019/20 | 23/09/2019 | Minutes of Previous | The Board APPROVED the minutes of the Board meeting held on 30 July 2019 and the notes of the strategy |
| | (Board | Board meetings | sessions held on 30 and 31 July 2019. |
| | meeting) | | |
| 2019/20 | 23/09/2019 | Network: Services of | The Board APPROVED the 2019 Network Report and NOTED confirmation of compliance with the Entrustment |
| | (Board | General Economic | Letter and Funding Agreement with respect of Services of General Economic Interest (SGEI) provision as at March |
| | meeting) | | 2019. |

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| Financial Year | Meeting Date | Topic | Resolution |
|----------------|--------------------|------------------------|--|
| | | Interest Compliance | |
| | | and Network Report | |
| 2019/20 | 23/09/2019 | Royal Mail | The Board APPROVED that the executive continue negotiations with Royal Mail (RM) within the following |
| | (Board | Negotiations | parameters (as set out in the paper to Board in May): |
| | meeting) | | - a long term deal with relaxed restrictions in Click and Collect and returns |
| | | | - the right to sell RM products online on PO website before 2022 |
| | | | - any new agreement to contain a level of fixed fee |
| | | | - the overall shape of the money to be no less than the current baseline. |
| 2019/20 | 23/09/2019 | Group Litigation Order | Legally privileged. The Board APPROVED the approach to settlement outlined in the paper. |
| | (Board | (including mediation | |
| | meeting) | issues) | |
| 2019/20 | 23/09/2019 | Legal Entity | The Board AGREED: |
| | (Board meeting) | Optimisation (LEO) | that the POL should accept the approach proposed by UKGI on the application of the PSP&TG to POL which would be referenced in the Framework Document |
| | | | • that POL should have regard to the Government wide corporate guidance applicable to public corporations |
| | | | listed in an appendix to the FD and any future relevant guidance as specified by Government to the extent that |
| | | | such guidance is applicable to POL as a Public Non-Financial Corporation |
| | | | • that the introduction of a group reserved matters should be accepted in the Articles of Association as described |
| | | | in the paper and discussed with UKGI. |
| 2019/20 | 23/09/2019 | Approvals: Modern | The Board APPROVED the 2018/2019 Modern Slavery Act Statement and ENDORSED the proposed actions for the |
| | (Board | Slavery Statement | business to take forward in the 2019/2020 financial year. |
| | meeting) | 2018/19 | |
| 2019/20 | 23/09/2019 | Approvals: Partial | The Board: |
| | (Board | Pensions Buy-out | • SUPPORTED the Trustee decision to buyout the main policy liabilities of the pension scheme with Rothesay Life |
| | meeting) | | Plc. (reiterating the support given in 2017). Whilst not required under the Articles of Association, the Board was |
| | | | content that we obtain government feedback on the proposed partial buy-out |
| | | | • SUPPORTED the exploration of how, when and if full buyout (of the margin policy liabilities) could be achieved |
| | | | at a later date |
| | | | • NOTED Trustee proposals for the latest triennial valuation of the Plan and DELEGATED AUTHORITY to Al |
| | | | Cameron, CFO, to approve on behalf of Post Office Limited. |
| 019/20 | 23/09/2019 | Approvals: Business | The Board APPROVED the new Business Travel contract with Capita at a value of £10 m (non-committed spend) |
| | (Board | Travel Contract | until 28/02/2021 including a termination period of 12 additional months. |
| | meeting) | | |
| 2019/20 | 23/09/2019 | Sealings | The Board RESOLVED that the affixing of the Common Seal of the Company to the documents set out against |
| | (Board | | items numbered 1802 to 1826 inclusive in the seal register was hereby confirmed. |
| | meeting) | | |
| 2019/20 | 03/10/2019 | Board Call - GLO | Legally privileged. The Board AGREED the proposed next steps. ACTIONS: |
| | | | • To review Insurance position. |

| Financial Year | Meeting Date | Topic | Resolution |
|----------------|--------------|--|---|
| | | | • A POL CEO to FJ CEO conversation to take place and followed by a reservation of rights letter. (Legal to provide |
| | | | both script and letter.) |
| | | | To consider management controls in place with FJ. |
| | | | • To audit FJ's disclosures. |
| | | | • The Board and UKGI to be continually updated and to be advised of ETA for the KELs. |
| | | | To consider broader outsourcing arrangements at a later date. |
| 2019/20 | 29/10/2019 | Minutes of Previous | The Board APPROVED the minutes of the Board meetings held on 23 September 2019 and 3 October 2019. |
| | | Board meetings | |
| | | including Status Report | |
| 2019/20 | 29/10/2019 | Finance: Quarterly | The Board NOTED the contents of the paper, including the approach of FY19/20 Budget for Change Spend, and |
| | | Delivery and Funding | DELEGATED AUTHORITY to Al Cameron to finalise the precise details and supporting documents with UKGI. |
| | | Report | |
| 2019/20 | 29/10/2019 | Agents' Remuneration | The Board APPROVED an additional £20m investment in agents' remuneration and support for changes which would be |
| | | | introduced from April 2020. The Board DELEGATED AUTHORITY to the Group CEO and CFO to finalise the list of initiatives |
| | | | included. The Board APPROVED holding a further £10m in the budget for potential additional spend on agents' |
| | | | remuneration and support which might include incentivising desired behaviours. Any additional spend would first need to |
| | / / | | be approved by the Board. The Board APPROVED the announcement of the changes in November 2019. |
| 2019/20 | 29/10/2019 | British Gas Contract | The Board APPROVED the request for £5.6m Project Authority to facilitate Payzone's delivery of the British Gas contract. |
| 2019/20 | 29/10/2019 | Panther (Payzone) | The Board APPROVED the request for £8.96m Project Authority for the 2019/20 post-acquisition funding within the |
| | | Change Request | Panther business case required for separating (from prior owners), stabilising, securing and integrating Payzone with Post |
| 2040/20 | 20/40/2040 | T. 1 | Office. |
| 2019/20 | 29/10/2019 | Telcoms Strategy | The Board APPROVED the acceptance of the procurement risk associated with inviting the submission of a disaggregated |
| | | | bid and DELEGATED AUTHORITY to the CEO – FST&I and the Telecoms Director to make a counter offer to Fujitsu and |
| 2012/22 | 20/40/2040 | AL | invite them to make a disaggregated bid. |
| 2019/20 | 29/10/2019 | Next Steps on the | The Board NOTED the proposed short term approach and APPROVED a short-term extension with Digidentity, with sign- |
| | | Digital Identity | off of the terms delegated to the Group CEO and CFO. The contract expired in November 2019 but there was an option of |
| 2019/20 | 20/10/2010 | Strategy | a one year extension. |
| 2019/20 | 29/10/2019 | Group Litigation | The Board NOTED the updates in the paper including the approach being taken to mediation. The Board AUTHORISED the Postmaster Litigation Subcommittee to delegate to the General Counsel authority to make settlement offers at mediation |
| | | Update – subject to legal privilege | on terms to be determined by the Subcommittee. |
| 2019/20 | 29/10/2019 | Starling (Workers' | The Board NOTED the approach, update and next steps. It was reported that we were satisfied with the 10 lead witnesses |
| 2019/20 | 29/10/2019 | rights case) Update | and our understanding of the risks associated with each case. Our witnesses would be prepared properly. |
| | | rights case, opuate | The Board DELEGATED decisions (including instructions on settlement receipt of making offers) for Starling to the Group |
| | | | Chief Executive Officer, CEO Retail and General Counsel. Significant decisions should be referred back to the Board. |
| 2019/20 | 29/10/2019 | Sealings | The Board APPROVED the affixing of the Common Seal of the Company to the documents set out against items number |
| 2015/20 | 23, 10, 2013 | Jeanings | 1827 to 1841 inclusive in the seal register. |
| | | L | 2027 to 2012 mediante in the South Egister. |