POL00030887

Post Office Board Agenda

Date:	Tuesday 28 May 2019	Time	11.30 – 16.15 hrs	Location	1.19 Wakefield

Present		Other Attendees	
• Tim Parker (Chairman)	• Tim Franklin	• Veronica Branton (Head of Secretariat)	• Henk Van Hulle (item 12.) (Business Innovation Director)
• Alisdair Cameron (Interim CEO)	• Shirine Khoury-Haq	• Debbie Smith (items 8. & 9.) (CEO – Retail)	• Chrysanthy Pispinis (item 11.) (Director PO Money)
• Ken McCall	• Carla Stent	• Owen Woodley (items 8. – 12.) (CEO – FST&I)	• Mark Siviter (item 9.) (MD – Mails & Retail)
• Tom Cooper		• Cathy Mayor (item 8.) (Finance Director – Retail)	• Micheal Passmore (items 5. & 6.) Finance Director
		• Colin Stuart (item 8) (Finance Director – FS&T)	• Alan Watts (item 7.) (Herbert Smith Freehills)
		• Ben Foat (item 7.) (General Counsel)	• Emma Springham (item 8.) (Chief Marketing Officer)
		• Jonathan Lewis (items 5. & 10.) (Head of Strategy and Corporate Development)	

Agenda Item		Action Needed	Lead	Timings
1.	**Welcome and Conflicts of Interest**	Noting	Chairman	11.30 – 11.35
2.	**Appointments** Ratification of Interim Group CEO appointment	Ratification	Chairman	
3.	**Minutes of Previous Board meetings including Status Report** 3.1 PCI Compliance Update 3.2 Postponement of Belfast Exit Plan	Approval Noting Noting	Veronica Branton	
4.	**CEO Report**	Noting & Input	Al Cameron	11.35 – 11.55
5.	**Finance** 5.1 Financial Performance Report 5.2 Change Funding Report 5.3 Costs and Structures 5.4 Plan Update	 Noting & Input Approval to send to Shareholder Noting & Input	 Al Cameron/ Micheal Passmore Al Cameron/ Jonathan Lewis	11.55 – 12.55
6.	**Annual Report and Accounts**	Approval Reading Room Docs	Micheal Passmore	12.55 – 13.15
Lunch				13.15 – 13.30
7.	**Group Litigation Update**	Noting & Input	Alan Watts/ Ben Foat	13.30 – 13.50
8.	**Business Performance Reports** 8.1 Retail Performance Report 8.2 FS&T Performance Report 8.3 Marketing Report	Noting & Input	Debbie Smith/ Cathy Mayor Owen Woodley/ Colin Stuart/ Emma Springham	13.50 – 14.30
9.	**Royal Mail Group Negotiations**	Noting & Input	Debbie Smith/ Mark Siviter	14.30 – 14.45
10.	**Strategic Development**	Noting & Input	Jonathan Lewis/ Owen Woodley/ Tim Franklin	14.45 – 15.15

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POL00030887

Post Office Board Agenda

11.	**Bank of Ireland Deal**	Noting & Input	Owen Woodley / Chrysanthy Pispinis	15.15 – 15.30
12.	**Digital Update**	Noting & Input	Owen Woodley/ Henk Van Hulle	15.30 – 15.45
13.	**Contracts/ approvals** 13.1 Home Re-engineering capital deployment 13.2 DMB franchising and Network Development 13.3 NNL activity over the coming year	Approval		15.45 – 15.50
14.	**Governance Report**	Approval Reading Room Docs	Veronica Branton	15.50 – 16.00
15.	**Items for Noting** 15.1 Sealings 15.2 Health and Safety Report 15.3 Future Meeting Dates 15.4 Forward Agendas	Noting	All	16.00 – 16.15
16.	**Any Other Business**	Noting and Input	Chairman	
17.	**Date of next meeting** 31 July 2019	Noting	Chairman	

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POL00030887

POST OFFICE LIMITED

BOARD

2.1

Appointment of Interim Group CEO

Author: Veronica Branton, Head of Secretariat Meeting date: 28th May 2019

Executive Summary

Following Shareholder approval, the Nominations Committee approved the appointment of Alisdair Cameron as Interim Group Chief Executive Officer (CEO) and the Remuneration Committee approved his remuneration package for recommendation to the Board. Board approval was obtained by correspondence and the Board is asked to ratify its decision to approve the appointment of Alisdair Cameron as Interim CEO and his remuneration package.

3.1

POST OFFICE LIMITED BOARD MEETING
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MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 19 NOVEMBER 2018 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 13.00 PM

Present:	Tim Parker (by phone)	Chairman **(TP)**
	Paula Vennells	Group Chief Executive **(PV)**
	Ken McCall (by phone)	Senior Independent Director **(KM)**
	Tom Cooper (by phone)	Non-Executive Director **(TC)**
	Tim Franklin (by phone)	Non-Executive Director **(TF)**
	Shirine Khoury-Haq (by phone)	Non-Executive Director **(SK)**
	Carla Stent (by phone)	Non-Executive Director **(CS)**
	Alisdair Cameron	Group Chief Financial and Operating Officer **(AC)**
In Attendance:	Jane MacLeod	Company Secretary **(JM)**
	Veronica Branton	Head of Secretariat **(VB)**
	Debbie Smith	Chief Executive - Retail **(DS)**
	Martin Kearsley	Banking Director **(MK)**
	Cathy Mayor	Finance Director **(CM)**
	Andrew Clatworthy	Contractor **(ACL)**

ACTION

1. WELCOME AND CONFLICTS OF INTEREST

A quorum being present, the Chairman opened the meeting.

The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

2. BANKING FRAMEWORK 2

The Chairman introduced the discussion on Banking Framework 2. There was a judgement call to be reached on IRRELEVANT IRRELEVANT ; the Board would then need to monitor the situation IRRELEVANT IRRELEVANT IRRELEVANT Management had made a recommendation and the Board needed to consider IRRELEVANT IRRELEVANT IRRELEVANT Some directors felt that IRRELEVANT IRRELEVANT

MK summarised the slides which had been circulated earlier and noted management's recommendation that IRRELEVANT IRRELEVANT MK noted that this recommendation represented IRRELEVANT IRRELEVANT

A number of points were raised, including:

- that if the banks IRRELEVANT IRRELEVANT . It was unlikely that IRRELEVANT IRRELEVANT
- that it would be helpful to understand what would be involved if the banks IRRELEVANT IRRELEVANT IRRELEVANT It was reported that the number of IRRELEVANT

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POST OFFICE LIMITED BOARD MEETING
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IRRELEVANT Management estimated that IRRELEVANT

- IRRELEVANT

IRRELEVANT Management advised that they had explored the IRRELEVANT

- that we needed to consider how we could offer IRRELEVANT IRRELEVANT
- whether the banks IRRELEVANT

IRRELEVANT

- Management commented that certain bank IRRELEVANT IRRELEVANT and it was discussed whether this was a service that Post Office could offer. IRRELEVANT

IRRELEVANT

- development of IRRELEVANT IRRELEVANT While we were IRRELEVANT IRRELEVANT banks. The scope to IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT approach
- it was noted that there would be pressure IRRELEVANT IRRELEVANT the banking framework IRRELEVANT IRRELEVANT
- that PO wanted IRRELEVANT The banking framework IRRELEVANT
- that we needed to focus more on IRRELEVANT IRRELEVANT
- that we IRRELEVANT IRRELEVANT We needed to focus on IRRELEVANT IRRELEVANT. Our focus was on the IRRELEVANT
- Our central narrative was that we needed to IRRELEVANT IRRELEVANT We wanted to IRRELEVANT IRRELEVANT There were some IRRELEVANT IRRELEVANT
- whether we were IRRELEVANT Meetings were taking place IRRELEVANT We anticipated IRRELEVANT IRRELEVANT Conversations would develop and IRRELEVANT IRRELEVANT we would review IRRELEVANT IRRELEVANT

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POST OFFICE LIMITED BOARD MEETING
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The Board discussed IRRELEVANT
IRRELEVANT

- developing IRRELEVANT
IRRELEVANT
- the majority of directors thought that IRRELEVANT
IRRELEVANT
- IRRELEVANT
IRRELEVANT would be preferable to a IRRELEVANT
- we needed to recognise that IRRELEVANT

Tom Cooper would engage with the team to discuss the IRRELEVANT
IRRELEVANT

The Board **RESOLVED** to **APPROVE** IRRELEVANT
IRRELEVANT
IRRELEVANT The Board **RESOLVED** to **DELEGATE AUTHORITY** to IRRELEVANT
IRRELEVANT and where appropriate,
authorised the IRRELEVANT
IRRELEVANT

The meeting closed at 2.30 pm.

....
Chairman **Date**

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POST OFFICE LIMITED BOARD MEETING
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3.1

MINUTES OF AN ADDITIONAL MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON WEDNESDAY 23 JANUARY 2019 BY TELEPHONE AND AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 18.00 hrs

Present:	Tim Parker	Chairman **(TP)**
	Ken McCall	Senior Independent Director **(KM)**
	Shirine Khoury-Haq	Non-Executive Director **(SK)**
	Carla Stent	Non-Executive Director **(CS)**
	Alisdair Cameron	Group Chief Financial and Operating Officer **(AC)**
In Attendance:	Jane MacLeod	Company Secretary **(JM)**
	Veronica Branton	Head of Secretariat **(VB)**
	Rob Houghton	Group CIO **(RH)**
	Ben Cooke	CIO – Back Office, Technology Transformation **(BC)**
	Michael Clements	Finance **(MC)**
	Ray Panditharatna	DMW **(RP)**
Apologies:	Tim Franklin	Non-Executive Director **(TF)**
	Tom Cooper	Non-Executive Director **(TC)**
	Paula Vennells	Group Chief Executive **(PV)**

ACTION

1. WELCOME AND CONFLICTS OF INTEREST

A quorum being present, the Chairman opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

2. BACK OFFICE TRANSFORMATION

AC introduced the paper which set out the processes, risks and mitigation plans being worked through in order to take the "Go/ No go" decision to migrate PO Limited's financial processes from POLSAP to Transtrack CWC (CWC), enabling the current system, POLSAP, to be switched off. It was planned to take the "Go/No go decision" on 24th January 2019 and for 28th January 2019 to be the first day operating on the new system.

Agents' pay was already being processed on the new system and cash processing was being carried out at the Belfast data centre. It was noted that no changes were being made to branch systems.

DMW had been engaged as an assurance partner and their latest report had been provided as an appendix to the paper. The Back Office Team (BOT) testing approach was deemed appropriate and a suitable plan was in place to address the outstanding points they had identified.

Three issues of concern had been identified in December 2018, since when further work had been undertaken:

- Systems performance: *sufficient progress had been made to enable a "go" decision*
- Reconciliations: *CWC was correctly recording the value of cash in supply chain but there were problems with how that value was being reported through to SAP CFS. Nevertheless, as the differences could be identified automatically and a process had been agreed to explain, resolve and rectify these differences, we were satisfied that the risks could be managed*

POST OFFICE LIMITED BOARD MEETING
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- Cash forecasting[1]: *a decision had been taken to stop working on a fully automated system within CWC and to build an alternative system using Power BI in order not to delay the "Go live" decision. The Power BI system would not be available until late February 2019 so standard planned orders for Sterling, which had already been communicated to branches, would be issued. These manual systems could be operated for an extended period and branches would be able to make changes to orders by telephone and urgent cash deliveries could be sent overnight by Royal Mail Special Delivery. Payments to suppliers could be made manually. It was noted that manual processes would be more costly and we could end up with more cash in branches than needed, although our processes for managing cash had improved. However, the cost of a further month's delay would be circa £1.5m, would take us closer to year end and we would remain on a system which was fragile. On balance, management believed the risk of delay appeared to outweigh the risk of migrating to the new system, subject to the final "Go/ No go" checks being satisfied.*

A number of points were raised, including:

- What were the critical issues outstanding? What were the major risks? Was there a roll back position? It was reported that the relevant PO Business teams were confident that should the "Go live" fail, alternative arrangements could operate reasonably well for two to three weeks. In practice there were manual processes which had been deployed previously. Were this to happen, the customer impact would be limited because, as noted, changes were not being made to branch systems and arrangements were in place for the delivery of additional cash overnight via Royal Mail Special Delivery. Next day foreign currency orders could be impacted. We had a short window within which we could choose to roll back and we could reconcile back to cash at any point
- Did we have a plan for the introduction of Power BI? It was confirmed that we did and were reasonably confident that it could be in place in about four weeks
- What was the difference between go live tomorrow and in two weeks? It was reported that delaying now would require an extension of four weeks because we would have to align with month end. Delay entailed more operational risk with POL SAP and additional costs. We might also have to re-run the training we had already provided because this needed to be reasonably close to the "Go live" date. Proceeding also had the advantage of allowing us to deal with the issues that arose as the new system started to operate and find fixes for them
- If something changed our view on how long it would take to put Power BI in place would we choose to delay? It was reported that a delay in the region of two and a half to three months would not be viable and would represent a "red line" for the "Go/ No go" decision
- Were the support team in place and ready to operate the new system? It was reported that training had been provided for the whole of supply chain, the system had been live for some time in Belfast and a number of improvements had been made. Back office and finance had also received training
- Had any systemic problems been identified? It was confirmed that no systemic problems had been identified but that we were producing end of day cash reports in Belfast and counting the cash at the end of each day but that these reconciliations were not always reporting correctly to SAP CWS. This might be partly due to timing differences but we were seeking to identify the root cause

[1] The process by which the inventory management team set out how much cash should be sent to and recovered from each branch, communicating this information to Supply Chain Operations via CWC and to branches via Horizon.

POL00030887

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

Board Directors were satisfied that appropriate testing work had been undertaken and suitable assurances received. S K-H noted that she was comfortable with the information provided on the manual processes and the approach to User Acceptance Testing (UATs), and had discussed the assurance report with DWM.

The Board **AUTHORISED** the delegation of the "Go/ No go decision" to the CFOO and the Group CIO.

....
Chairman **Date**

POL00030887

MINUTES OF A CALL OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON 18 MARCH 2019 AT 17.15 HRs

Present:

Tim Parker (Chairman)

Ken McCall (Chairman for the meeting)

Tom Cooper

Tim Franklin

Shirine Khoury-Haq

Carla Stent

Alisdair Cameron

Other attendees:

Lord Neuberger, QC (from item 3.)

Jane MacLeod (Group Director Legal, Risk and Governance and Company Secretary)

Veronica Branton (Head of Secretariat)

Apologies:

Paula Vennells

Actions

1. Conflicts of Interest

A conflict of interest was noted in relation to Tim Parker in his role as Chairman of the HM Courts and Tribunal Service.

A conflict of interest was noted in relation to Tom Cooper in his role as UKGI Director, which as an executive part of government, should not be involved in a decision which related to the judiciary.

Article 82 of PO Limited's Articles of Association permitted the Board to authorise a director in relation to any matter the subject of a conflict. The Board determined that Tim Parker and Tom Cooper should be involved in the Board discussions but they would not be party to the decision on whether or not to seek the Judge's recusal.

2. Context

2.1 **Appeal and recusal**

Jane MacLeod explained that the discussion would focus on appeal and recusal issues.

She noted that we had received a written opinion from Lord Neuberger which had been issued on 14 March 2019 and which suggested that Post Office had grounds for appeal and for recusal. She noted that Lord Neuberger would be joining the call so the Board had the opportunity to ask him questions about his opinion on the case.

She noted that Lord Neuberger would not be able to represent Post Office in Court because of his previous role as President of the Supreme Court and therefore it was proposed that Lord Grabiner QC would represent Post Office on any recusal application.

3.1

JM noted that she had met with Lord Grabiner earlier in the day and the Board would also have the opportunity to ask him questions on a subsequent call. Lord Grabiner was a very experienced QC who had appeared in a number of high profile cases. His strong advice was that PO Limited should bring a case for appeal and for recusal; he was confident in the recommendations he was making and was very critical of the Judgment and its legal underpinning.

It was noted that the Shareholder had previously requested that it be consulted on any proposed appeal, although there was sensitivity in relation to a recusal application. It was noted that a recusal application needed to be lodged as soon as possible.

An application to appeal would normally be lodged within 21 days of the Judgment being published but we thought that the Judge might extend this deadline given that the Horizon trail was underway.

2.2 **Horizon Trial**

The Horizon Trial had started on 11 March 2019 and there were a number of comments which suggested that the Judge's views of Post Office (as contained in the Common Issues Judgment) had not changed, including his continued suspicion that Post Office was withholding evidence in relation to Horizon.

3. **Lord Neuberger's overview**

Lord Neuberger joined the call and was introduced to the Board. He set out the main courses of action that PO Limited could consider at this juncture:

1. Accept the Judgment
2. Take an orthodox defensive position and seek to appeal. This was an entirely justifiable approach and a number of the Judge's decisions were open to attack and appealable from a preliminary reading of the Judgment
3. Seek recusal: the most aggressive approach.

The arguments for not accepting the Judgment as it stood included that the Judge had accepted evidence that was not relevant to the case, having previously stated that only relevant evidence should be allowed. He had included commentary on witnesses which were not relevant to the Judgment and were quasi Judgments. He was meant to be resolving a number of issues in relation to the contract, but had not done this, and had taken into account how the contract had been performed which was not a matter on which findings should have been made.

Lod Neuberger noted that Post Office could argue that the Judgment was such that the Judge could not fairly continue with the other hearings (including the Horizon trial) and that justice would not be seen to be done if he did so. The Court of Appeal (CoA) could be expected to give a judge a certain amount of latitude in how they tried a case. However, we had a good prospect of convincing the CoA to require the Judge to stand down although it was not inconceivable that the case would fail. If we did not seek recusal the Judge could continue with the hearings without any challenge being raised in relation to fairness or potential bias and that would make it harder to argue this point subsequently.

Losing the recusal case could alienate the Judge further but equally could make the Judge more careful in his approach. Lord Neuberger thought that not taking the aggressive course carried more risk than taking it from a legal perspective but recognised that this was a difficult decision for an organisation like PO Limited which was publicly owned.

4. Questions

1. Directors then had the opportunity to ask questions of Lord Neuberger, including:

The arguments for recusal and appeal were clear and there was a strong case for the former but we also had to consider the communications and stakeholder arguments. What could the impact of not seeking recusal be on subsequent appeals processes? Was there only one chance to seek recusal? For example, what would happen if in our view the bias of the Judge continued or increased during subsequent trials? Whilst it might seem attractive to go down the legal route as it seemed like the right thing to do, was this a really strong case?

Lord Neuberger:

1. *If we did not apply for recusal could this reduce the chance of the success of a subsequent appeal?* It was reported that appeal concerned matters of law only and was not impacted by recusal which concerned issues such as admission of evidence. These were free standing matters
2. *Would this be our last chance on recusal?* If we did not seek recusal now our chances of obtaining a recusal subsequently would depend entirely on how the Judge acted in the future. Any subsequent application for recusal could not refer to the first Judgment. If we did not act now the argument would be that we had been happy for the Judge to continue hearing the Horizon trial and for the claimants to continue spending money pursuing the case. A decision on recusal needed to be taken this week. The usual process was to go to the Judge to say that you were seeking to recuse him. If he did not agree to recuse himself the application would then be made to the CoA
3. *Prospects of success.* Lord Neuberger reported that he did not yet know Lord Grabiner's view of the case; he thought we had a strong case but was slightly diffident because he had not yet seen all of the evidence from the other side. It was entirely possible that CoA would not accept our case but having looked at the case did not think it possible that the PO would receive a fair trial if heard by the current Judge.

2. *The case had just started for the Horizon Trial. The Judge had commented adversely on the PO Witnesses and some of these were appearing in the second trial. Did these witnesses have a fair chance of being heard in the second case given that the Judge had questioned their credibility*? This was a concern and illustrated the unfairness of the Judgment.

3. *Would a charge of unfairness issue form part of the appeal?* A charge of unfairness was more bound into an application for recusal than appeal because if it were flagged in appeal the CoA would not be clear what action it could take.

Unfairness was not really linked to the interpretation of the law which was flagged in appeal. However the unfairness and legal interpretation arguments were connected because some of the Judge's findings were not relevant to the case and the inclusion of irrelevant findings would form part of the appeal case.

It had been assumed we could run the unfairness argument as part of the appeal or go for recusal at a later stage. Not being able to do so presented a stark choice.

4. *The board had to weigh up risks from a PR perspective. To what extent was recusal an unusual occurrence and how was it usually treated?* It was reported that applications for recusal were not common but not rare either and were generally linked with an appeal. Being recused could be seen as a bit of a "black mark" for a judge but it could be determined that a case needed to go to a re-trial because the judge had got the law wrong.

5. *What would the timings for appeal and recusal be and how quickly did the applications need to be made? Did an application for recusal pause the clock on the trial underway?* An orthodox approach would be to inform the Judge that we were going to appeal partly on prejudicial findings and as such were asking the Judge to recuse himself now. This was a perfectly proper application to make. If we were successful the current trial would be a waste of time. At this point the Judge was likely to ask the claimants for their view as to whether to carry on with the trial. If the parties requested an adjournment and the Judge proceeded with the trial that would not be viewed favourably by the judicial establishment.

6. *How long did the Judge have to decide whether to recuse himself?* There were 3 options: 1) The Judge could recuse himself immediately; 2) The Judge could adjourn the trial and request a different judge to hear the recusal application, or 3) The Judge could continue with the trial. In each case the Judge was likely to seek the claimants' views and would want to understand the grounds for recusal. The Judge was likely to consider the application for recusal overnight or over a few days but could not delay taking a decision for a long period of time. If we sought recusal at the end of week the matter was likely to be resolved by the end of the following week *[post meeting note: the Court will not be sitting in the week beginning 25 March 2019 so a decision could take longer]*.

7. *Could the CoA say that the second and subsequent cases should not be heard by the same judge even if a recusal application had not been lodged?* It would be odd to go the CoA alleging unfairness without seeking recusal. In other circumstances it might be decided not to apply for recusal however as the second trial had already started, these circumstances were different. PO Limited's concerns about publicity surrounding a recusal application were however understandable.

8. *If you were advising the claimants having received a request for appeal and recusal how would you advise them?* Lord Neuberger would advise them to look at their position very carefully. He would want to understand their QC's rationale for including all the evidence he had. The Judge's findings had been made in very strong terms and he would be worried about the chances of the recusal being successful. He would want to understand if there was anything that was not

obvious that could support the approach taken. It was hard to see what findings of fact could apply to the contract at its inception.

Ken McCall thanked Lord Neuberger for joining the call.

5. Follow-up discussion

It was noted that these were not easy decisions to take and one element of those decisions was understanding the costs of taking an appeal and recusal action. It was reported that costs had not yet been provided but a range of £100–200k was likely for recusal. This entailed 1 – 2 weeks' work and some work had already been undertaken.

JM provided an overview of the issues posed for us by the Common Issues Judgment and the process for reaching a decision.

The Board would need to have the chance to talk to Lord Grabiner to ensure that it had received a range of expert advice.

The purpose of the Common Issues Trial was to establish the true nature of the contract. Any additional terms applied through the Judgment could be appealed. It had been ruled that the contract was a relational contract and therefore additional terms could be implied.

Other finding and observations had been based on the evidence from the claimants but not from PO Limited. The Judge's finding that NFSP was not independent was a good example of making a finding based on partial evidence. If we did not challenge those findings of fact they would stay on the record.

Decision making process and conclusion

A decision on recusal should ideally be taken at the Board call on 20 March 2019. An application to the Court would need to be supported by witness statements and evidence and would be heard by our Judge within 24 hours. The timetable was then in the hands of the Judge. If he decided immediately that he would not recuse himself we would need to be prepared to go the CoA.

A number of points were raised:

- we might disagree with how the Judge has reached his conclusions but needed to test whether the heart of his findings were correct, for example, we funded the NFSP which could have affected their independence. It was noted, however, that whatever the merits or otherwise of particular findings where these had been based on partial evidence they could not be regarded as fair
- appeal on the contractual findings had merit from a legal perspective but we must be clear that we were not being defensive. We were committed to making operational changes and improvements
- the Horizon trial ought not to have been a dramatic trial because both expert witnesses had found the system to be reasonably robust. However, if the views of a small number of claimants were extrapolated and

POL00030887

represented as symptomatic of the entire system, then that posed a threat to this view. Finding that system errors might have occurred in certain instances was radically different to finding that the system was not reliable. This trial was focussed on findings of fact rather than interpretations of the law and would be very difficult to appeal

- the ongoing costs to the business of needing to prove that money had been taken had major implications for the operation of the business and the scope for others to seek compensation if these cases were found against us
- we needed a process for checking whether anybody had been treated unfairly even if our case was ultimately successful. We also needed to be sure that we were set up to be fair in the future. It was reported that we were working through all the contractual issues. We were focussed particularly on the transparency of processes. These were two of the most urgent issues to be resolved
- the Board still needed a greater understanding of the "big picture" and financial implications. The Board wanted to be confident that irrespective of legal process, there was an understanding of whether claimants (and others) had not been treated appropriately over the period of time in consideration.
- If was noted that if Post Office lost the case overall that would have significant financial and operational outcomes, however at this point there wasn't a clear understanding of the potential scenarios at the conclusion of the trials. This would help shape the overall view of whether we should seek to appeal and/ or apply for recusal. It was **AGREED** that Jane MacLeod and Al Cameron would set out their best view of the possible scenarios and this would be circulated in advance of the Board call on 20 March 2019. **JM/ AC**

POL00030887

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential and Subject to Legal Privilege

3.1

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON 20 MARCH 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 12.30 PM

Present:	**Other attendees:**
Tim Parker (Chairman) (by telephone)	Jane MacLeod (Group Director Legal, Risk and Governance and Company Secretary)
Ken McCall (Chairman for the meeting)	Mark Davies (Group Director Communications)
Tom Cooper	Veronica Branton (Head of Secretariat)
Shirine Khoury-Haq	Ruth Cowley (Norton Rose Fulbright)
Carla Stent	Glenn Hall (Norton Rose Fulbright)
Alisdair Cameron	

Apologies:

Tim Franklin, Paula Vennells.

1. Conflicts of Interest **Actions**

A conflict of interest was noted in relation to Tim Parker in his role as Chairman of the HM Courts and Tribunal Service.

A conflict of interest was noted in relation to Tom Cooper in his role as UKGI Director, which as an executive part of government, should not be involved in a decision which related to the judiciary.

Article 82 of PO Limited's Articles of Association permitted the Board to authorise a director in relation to any matter the subject of a conflict. The Board determined that Tim Parker and Tom Cooper could be involved in the Board discussions but should not participate in any decision on whether or not to seek the Judge's recusal.

Ken McCall reported that had spoken to Tim Franklin the previous evening and that he and Jane MacLeod had received his views in writing.

It was reported that Paula Vennells could not participate in the call but had been updated on the discussions.

2. Summary of discussion with Lord Grabiner

JM reported that a call had been held with Lord Grabiner QC earlier in the day which a number of Board members had attended. Lord Grabiner had reviewed the Common Issues Judgment and understood how it impacted on the current and prospective trials. He had noted that the Judge had received several warnings about allowing inadmissible materials but had chosen to do so and as such had behaved improperly and was wrong as to the law. It was an unusual case which was unusual procedurally.

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential and Subject to Legal Privilege

The test for recusal on grounds of apparent bias was considered from the perspective of a reasonable observer. We would only need to argue apparent bias, although Lord Grabiner believed that grounds existed to argue actual bias. In his view there was no practical alternative to an application for recusal, and the risk of not making the application was that the Court of Appeal (CoA) would ask why we had not sought for the Judge to recuse himself. Lord Grabiner agreed that there was a risk that the Judge would be emboldened if we lost the recusal application but his position was already clearly indicated by his Judgment and the damage from this had already been inflicted.

The Board requested that Lord Grabiner's views be provided in writing. **JM**

3. Introduction from Norton Rose Fulbright

The Board was advised that Norton Rose Fulbright had been engaged to provide independent advice to the Board on the case as well as to provide assurance on the steps being taken to address the operational and contractual issues raised by the judgment.

Glenn Hall was a corporate lawyer with significant experience in mergers and acquisitions. He had worked for the firm for 20 years but had been special adviser to Greg Clark, Secretary of State BEIS, for the last couple of years, before re-joining Norton Rose Fulbright recently.

Ruth Cowley specialised in commercial litigation and had been at the firm for nearly 20 years.

4. Discussions on appeal, recusal and case management

The paper setting out the background to recusal and other issues which had been circulated on 19 March 2019 was used as the reference point for the discussions on recusal and appeal. Each director's view was sought and a number of issues were highlighted:

- if the trials continued to be heard by a judge who had such strong views on the conduct of Post Office Limited and the reliability of its systems, the risk of an adverse outcome increased, as would the pool of individuals seeking compensation. Existing and new agents' perception of PO Limited would be damaged
- there was a significant potential liability which was hard to quantify because of the terms which the Judge had found could be implied into contract and the unfairness shown by the Judge in accepting inadmissible evidence to which PO Limited had not been able to respond
- irrespective of whether the Judgment was in our favour we wanted to make sure that any individuals who were found to have been treated unfairly had restitution
- the consequences of losing on the reliability of the Horizon System were very serious. The Board needed to see the potential range of penalties at different trial stages to provide a roadmap
- a Judgment from the second trial which undermined the reliability of the Horizon System could destabilise the business as it runs today. Our ability to manage in

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential and Subject to Legal Privilege

branch cash could be adversely impacted if the ruling was that our systems could not be relied upon

- a follow on question to whether the Horizon System was reliable was how we treated discrepancies in the System and if we were treating Postmasters fairly where this happened today. It was noted that the system had changed substantially in last 10 years. It was reported that most discrepancies were due to human error, such as incorrect cash counting or putting a decimal point in the wrong place. There was a team in Chesterfield which helped to identify these errors and liaised with Postmasters and the banks. It was recognised that we could improve our processes and be more transparent. However, if we were getting banking transactions wrong routinely, we would know this because the banks and their customers would be complaining. This was accepted to be the case but it was **AGREED** that the Board should have the facts and figures to be able to verify that position **Executive**
- we now had the opportunity to think more strategically about this case and the final outcomes sought.

5. Information and discussions requested

1. To provide a phased plan (e.g. over 30/60/90 days) covering the operational, financial and reputational issues we would be addressing. It was reported that this work was underway and that a paper covering these issues should be circulated by the end of the week. The executive would need to make proposals on any operational changes, such as the liability clause in NCT contract
2. We needed a clear view on whether the Horizon System worked properly today. We had to be able to defend against others' doubts of the reliability of the System. This meant that we needed to be able to validate the system error rate and what was acceptable in other industries with transaction volumes of similar scale e.g. banks. It was reported that we could provide sensible information about today's system but it was much more challenging to go back in time **Executive**
3. A summary of previous investigations into Horizon and the related issues would be made available. **Executive**
4. TC would like to discuss the figures included in the paper with the executive. To do: **TC/**
5. We needed to demonstrate a cultural shift in how we managed the case in future. It was vital that we avoided any potential to be criticised further for our behaviour. **Executive**
6. We needed to carry out a critical analysis of ourselves. For example, what did we need to do to be the right partner for Postmasters? **Executive**
7. We needed to make sure that the written legal advice aligned with the verbal advice received. **JM**

6. Decisions

Ken McCall asked whether the Board thought that it had received sufficient information to take a decision on recusal and appeal. Directors confirmed that while there was further information they would wish to see, as discussed and requested for subsequent discussion, the information already received was sufficient to allow a decision to be reached on recusal and appeal.

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential and Subject to Legal Privilege

Norton Rose Fulbright's input was also sought, accepting that RC and GH had been given limited time to review the case. RC noted that from a legal perspective, recusal was seeking to stem the flood of taint on future trials. There were no other options to achieve this end and it would be difficult, if not impossible, to seek recusal at a later stage. GH noted that from a broader director perspective there were risks of action and risks of inaction against the background of where we were today. There would be consequences financially, operationally and from a reputational perspective; however, there was a greater upside in making the application for the recusal versus the risks of that application failing. There were risks of incremental damage if we were to lose the application for recusal, but damage had already occurred because of the initial Judgment. The final outcome with a different judge ought to be better from a reputational, financial and operational perspective. This did not underplay the fact that an application for recusal was unusual and could attract attention. It was also difficult to take a decision seeking the judiciary to rule against one of their own. However, the position was unusual because the Judge was hearing a series of trials.

Mark Davies' view was sought from a communications and stakeholder perspective. He stated that we needed to take the right steps to protect the business long term, notwithstanding that this was likely to generate some adverse publicity in the short or medium term.

The following points were made in considering whether to make a recusal application and seek leave to appeal:

- it was a balanced decision, notwithstanding the legal advice, because we could not be sure of succeeding with the recusal application. However, we could still manage the narrative on what we wanted to do with the business even if we lost the recusal application. The strength of the legal advice and possible upsides of success tipped the balance in favour of recusal and we should pursue leave to appeal
- we had received three legal views each of which supported making an application for recusal and seeking leave to appeal. The Judge's views and the reputational damage caused by these pushed us towards seeking recusal and to appeal
- the Horizon trial could be damaging and pose risk to the business if the trial continued to be heard by the current judge
- the only argument of force against recusal was the near term reputational impact if we lost and the risk of further alienating the Judge; however, the Judge's views were already pronounced and losing the recusal application could either embolden him further or make him more alert to charges of bias
- the case had not garnered significant attention thus far, possibly because it was focussed on technical systems issues
- we needed to take action in the long term best interests of the business. This was not confined to the current group of claimants and their case.

AC thought that a decision on recusal was balanced, notwithstanding the legal advice, because we needed to consider whether a successful application would result in a more balanced hearing of the case, although he noted that it would stem the immediate risk posed by the current judge continuing the hear the Horizon trial.

POL00030887

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential and Subject to Legal Privilege

JM confirmed that from a legal perspective she recommended applying for leave to appeal the Common Issue Judgment and seeking the Judge's recusal.

After careful consideration of all the arguments, each Director present and participating in the decision, supported a **RESOLUTION** of the Board that an application should be sought for the Judge to recuse himself from the case, and, should he not elect to do so, to submit this application to the Court of Appeal. It was further agreed that leave to appeal the Common Issues Judgment should be sought. Ken McCall reported that Tim Franklin shared the view that an application for recusal should be made as well as seeking leave to appeal.

The Board **RESOLVED** that Lord Grabiner should be briefed to prepare the recusal application. **JM**

JM reported that we had sought clarification on the timescales for appeal and it seemed likely that we would have until 16 May 2019 to lodge the application for leave to appeal. A significant amount of work would be entailed in preparing the appeal and a decision would need to be taken on who should carry out the appeal work for us.

We did not have to notify that we would be seeking leave to appeal at the same time as making the recusal application. Court was not sitting next week and it was not clear therefore when the Judge would take the decision as to whether to recuse himself. We thought it likely that he would decline to recuse himself and that the case would go to the CoA. At this point a decision was likely to be taken quickly because the Horizon trial was underway. We would seek for the Horizon trial to be adjourned at the same time as the lodging the recusal application.

The options for appeal were discussed. David Cavender could conduct the appeal for us or we could appoint a new QC. There were advantages and disadvantages associated both with retaining counsel or appointing new counsel. The executive's recommendation was to use David Cavender but to draw on Lord Neuberger's expertise in the background. That was an option acceptable to both counsel. TC suggested that we ask Norton Rose Fulbright to consider the options and discuss these further at the Board Meeting on 25 March 2019.

The need to avoid language that could be perceived as strident or arrogant was raised. It was reported that recusal was largely a written process and was couched in legal language. Lord Grabiner would stand up in Court to make to case to recuse. The arguments would be forceful but would be legally grounded.

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POST OFFICE LIMITED BOARD MEETING
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MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON MONDAY 25 MARCH 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 08.30 AM

Present:	Tim Parker	Chairman **(TP)**
	Alisdair Cameron	Chief Finance Officer **(AC)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Tim Franklin	Non-Executive Director **(TF)**
	Shirine Khoury-Haq	Non-Executive Director **(SK-H)**
	Carla Stent	Non-Executive Director **(CS)**
In Attendance:	Jane MacLeod	Company Secretary **(JM)**
	Veronica Branton	Head of Secretariat **(VB)**
	Julie Thomas	Network Operations Director **(JT)** (item 10.)
	Debbie Smith	Chief Executive - Retail **(DS)** (items 3., 12. & 13)
	Owen Woodley	Chief Executive - FS&T **(OW)** (items 4., 5. & 6.)
	Cathy Mayor	Finance Director, Retail **(CM)** (items 12. & 13.)
	Tom Moran	Network Development Director **(TM)** (items 12. & 13.)
	Martin Kearsley	Banking Director **(MK)** (item 7.)
	Glenn Hall	Norton Rose Fulbright **(GH)** (item 10.)
	Ruth Cowley	Norton Rose Fulbright **(RC)** (item 10.)

Apologies were received from Paula Vennells, Group Chief Executive.

ACTION

1. Welcome and Conflicts of Interest

A quorum being present, the Chairman opened the meeting.

The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

2. Minutes and Matters Arising

2.1 The minutes of the Board meeting held on 29 January 2019 were **APPROVED** and **AUTHORISED** for signature subject to correction of typographical errors.

2.2 Progress with the completion of actions as shown on the action log was **NOTED**.

3. Banking Framework 2

Martin Kearsley provided an update on IRRELEVANT IRRELEVANT The banks IRRELEVANT IRRELEVANT IRRELEVANT however they expected that IRRELEVANT IRRELEVANT complete.

The banks IRRELEVANT IRRELEVANT We had IRRELEVANT but proposed IRRELEVANT the banks IRRELEVANT provided they IRRELEVANT IRRELEVANT This could also give IRRELEVANT IRRELEVANT IRRELEVANT PO Limited's banking services.

[1] Subject to a Framework Fee cap being applied at 30m transactions.

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POST OFFICE LIMITED BOARD MEETING
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The second proposal was to IRRELEVANT IRRELEVANT IRRELEVANT the banks had IRRELEVANT IRRELEVANT

A number of points were raised including:

- IRRELEVANT
- we needed to IRRELEVANT IRRELEVANT MK would set out the impact of IRRELEVANT h his next Board report. It was also noted that questions such as the IRRELEVANT would be addressed in the July Board paper on IRRELEVANT

To do: MK

MK

MK would provide an update note to the Board after IRRELEVANT IRRELEVANT

The Board **RESOLVED** to **APPROVE** e IRRELEVANT

IRRELEVANT

and to **APPROVE** IRRELEVANT

4. IRRELEVANT negotiations

Owen Woodley reported that IRRELEVANT and we would IRRELEVANT We were targeting IRRELEVANT IRRELEVANT

IRRELEVANT

IRRELEVANT rawing to a close with IRRELEVANT and we would revert to the Board Subcommittee once the final position was concluded. Discussions on IRRELEVANT were taking place but we expected IRRELEVANT

IRRELEVANT

An update on the work to IRRELEVANT IRRELEVANT would be provided for the May Board meeting.

A number of points were raised, including:

- in relation to the IRRELEVANT

IRRELEVANT

POL00030887

POST OFFICE LIMITED BOARD MEETING
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- how would IRRELEVANT Post Office IRRELEVANT IRRELEVANT It was reported tha IRRELEVANT IRRELEVANT
- if there were IRRELEVANT IRRELEVANT OW would check IRRELEVANT but noted that OW IRRELEVANT

The Board IRRELEVANT Owen Woodley and the team IRRELEVANT IRRELEVANT

5. PO Insurance

OW noted that PO Insurance was regulated by the FCA and was required to maintain a minimum amount of capital at all times. As a result of planned investments and to maintain target capital, a capital injection of £5m was required from PO Limited.

OW explained that the top line for PO Insurance had grown significantly but trading profits were flat. The travel market was very challenging. The business had a sound and capable operating team but more strategic capability was needed. The potential acquisition of Ancile to bolster PO Insurance's position in the impaired market had not progressed; this had been affected by a number of issues, including TIF being its underwriter, nevertheless there should have been more pace on this and the disruptor propositions.

The steps proposed to build PO Insurance's strategic capability were outlined and discussed. We were speaking with Fenchurch and Ascombe about the PO Insurance strategy[2].

A number of points were raised, including:

- what the updated insurance strategy would look like and when we would be considering this again? It was reported that the themes would be the same but we needed to make sure that we were focussed in the right way. We needed to be able to discuss options at the Board in May 2019 (in-house and external options), look at the business model and the options for acquisition. We were clear that growth on an aggregator model was insufficient. We needed to put ourselves under the same pressure as a private equity investor
- how much capital was there in the insurance business? It was noted that £2.7m was the minimum regulatory requirement but the amount of capital held currently would be confirmed to the Board *(post-meeting note: the capital position prior to the £5m injection (end March 2019) was £2.7m, £1.7m in excess of the FCA target, £0.8m in excess of the PO Insurance target. Post the injection (end April 2019) the capital position would be £6.7m (£5m injection less £1m extra CAPEX), £5.5m in excess of FCA target, £4.4m in excess of the PO Insurance target*).

The Board **APPROVED** the following resolutions:

1. written consent to the allotment by Post Office Management Services Limited (POI) of 5,000,000 ordinary shares of £1.00 each be granted;
2. the subscription of 5,000,000 ordinary shares of £1.00 each in POI, for a total consideration of £5,000,000.00, be approved; and
3. any one Director or the Secretary be authorised to execute on behalf of the company any documentation in connection with the allotment of the shares.

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[2] Shirine Khoury-Haq would talk with Owen Woodley about other consultancies that were deeply embedded in the insurance industry which would be able to comment on PO Insurance's wider strategy.

POL00030887

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

The Board noted that PO Insurance should report back on its application of the change funding via the Investment Committee regularly.

6. Telecommunications

It was reported that the Telecommunications Strategy would be discussed again at the Board Strategy day in July 2019. We were likely to run an open auction for the purchase of the Telecommunications business. Sky had approached us about the potential purchase of the business and Fujitsu and TalkTalk were also interested. Sale would free up cash flow for alternative investments but we had not yet seen potential sale numbers and the business was a key income generator. We would need to invest in the Telecommunications business in the meantime to maintain a viable business.

7. Global Payments Agreement

The Board **RESOLVED** to:

1) **APPROVE** IRRELEVANT
IRRELEVANT
2) to **DELEGATE AUTHORITY** to Al Cameron, CFO, to IRRELEVANT
IRRELEVANT
3) to **APPROVE** the IRRELEVANT
IRRELEVANT

8. Branch Hub

Branch Hub was a self-serve portal allowing branch operators and business owners to access support via their own devices. The portal would provide better and simplified support to agents. The self-serve functionality aimed to reduce circa 600 roles at a cost of £30m per annum; this included 250 back office staff dealing with around 75,000 branch enquiries per month.

A number of points were raised, including:

- whether the benefits set out in the business case reflected the headcount reductions? It was confirmed that the headcount reductions had been reflected. The content of Branch Hub had been prioritised in line with feedback from agents. The Judgment had prompted us to further accelerate this work. The platform itself was not complicated but interfacing into our operating systems was more challenging
- whether we were taking on board the lessons learnt from previous projects, such as having users included in the project team? It was reported that we were. We had involved Post Master system users previously but needed to draw on less experienced Post Masters to test that the system was sufficiently user friendly
- that we needed to look at our charging approach, which needed to represent value for money for agents. It was reported that we needed to build trust amongst agents so they were confident that we would pass on cost savings. We also needed to consider how money for Sub Postmasters would be distributed, as small POs had less scope to make changes. The fee system needed to be transparent and it was suggested that we consider whether there needed to be a core payment element as well as variable payments in some instances. We needed to consider how we aligned our interests and agents and incentivised the right behaviours. Our agents tended to fall into four groups: those who were predominantly providing a social function; those who were not entrepreneurial but had run a PO for a long time; entrepreneurial Post Masters; and, the multiples. This made developing the mentality of running a franchise business very important for us.

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

The Board **RESOLVED** to **APPROVE** up to £4.8m investment and £0.5m maintenance costs during the 2019-20 financial year to the Branch Hub programme. This would be drawn down quarterly subject to financial hurdle rates and performance KPIs being achieved.

9. CEO report

Al Cameron introduced the report and invited questions:

- since the report had been issued an IT error had affected the Horizon system; this had been fixed overnight but we needed to understand the root cause
- Paul Swanton, a former employee, had received a 20 month prison sentence for a fraud involving Postal Orders
- as noted in the report, PO Limited would be moving to a standard arrangement with BUPA for private healthcare arrangements for employees from 1 April 2019. When shutting the previous arrangement with a self-insured trust we had identified a number of tax errors. These were being resolved and we had informed HMRC. Tom Cooper reminded the Board that HM Treasury guidance meant that PO Limited would need to reconsider the provision of private healthcare for employees and that we would not be able to offer private healthcare to new Executive Directors. It may be possible to consolidate an allowance within an individual's salary so they could purchase their own benefits. Ken McCall requested that a strategy be brought to the **Mo Kang** Remuneration Committee on the changes recommended, when these would be introduced and who would be affected
- our response to the Judgment fitted with our existing business drive and narrative on supporting agents more. The tempo of this work would be critical.

A number of points were raised, including:

- what was the mood of the executive? AC noted that the mood was positive. The top 40 leaders' group had met the previous week; they were a strong group of individuals who held the key strategic and people roles within PO Limited and worked well together. The GE were having open conversations as a whole but with clear authority to operate within their sphere of responsibility. The work we were undertaking with McKinsey's assistance was driving us to look ahead at the capabilities and roles needed in the medium term. It was **AGREED** that a discussion on succession planning **Mo Kang** should take place at Board, looking at future structure needs as well as how we would manage if a senior individual we to leave in the short term[3] (*post-meeting note: this item has been scheduled as an item for the additional Board meeting on 30 April 2019)*. It was noted that GE members had broad remits and it was important to have a "plan B" in place for all the senior people. There needed to be strong group of individuals at the tier below GE. It was noted that there were not natural successors in all instances but the span of some roles, such as Rob Houghton's on assuming the COO role[4], was recognised
- TC noted that £3m of costs associated with the Payzone acquisition had not been included in the acquisition costs and analysis and he would be discussing this further with the executive.

10. The discussion on the Group Litigation Order is at Appendix 1.

11. Finance

11.1 Financial Performance Report

The Financial Performance Report was **NOTED**.

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[3] This needed to cover how we would manage in the short term if a GE member left, which individuals could step into roles on an interim basis, how potential successors could be developed to take on GE roles and the shape of their development plans, and the external recruitment options and timeframes.
[4] We were seeking to address this through hiring a head of IT with a view to that person being a potential successor to the COO.

POST OFFICE LIMITED BOARD MEETING
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11.2 **Draft 2019/20 Budget and Strategic Plan**

Al Cameron reported that we were not seeking approval of the 2019/20 Budget and Strategic Plan today because of the re-prioritisation work needed following the publication of the Judgment on the Common Issues Trial. We still planned to make efficiency savings and were not proposing changes to our strategic direction in the medium to long term. BF2 would start driving additional revenue and the work supported by McKinsey would help to identify cost savings and develop the future shape and requirements of the company. In the short term we would be reducing some profit measures to be able to invest more into supporting agents.

It was **AGREED** that a Board meeting/ call would be set up at end of April 2019 to seek the approval of the 19/20 Budget and Strategic Plan and to discuss succession planning.

A number of points were raised, including that:

- the DMB programme needed to continue. The structural changes underway were important to the long term viability of the business and the quid pro quo of needing to continue with structural changes and invest more in supporting agents was that we might overspend on change in the short term. The core business needed to be in as strong a place as possible
- whether the uplift in PO insurance revenues was realistic? It was noted that the review of the focus of the PO Insurance's strategy would not be complete by the end of April 2019. We were not sure that the business could hit the top line and bottom line at the same time and that was one of the drivers for considering an acquisition
- AC would go through the figures and benefits plan with TC. **To do: AC/ TC**

12. **Network reporting**

Tom Moran introduced the report which showed that PO Limited was meeting its targets on branch numbers, access criteria and provision of SGEI (core services such as cash, pensions and bill payments).

The Board **NOTED** the paper and endorsed the proposed approach to strengthen assurance by asking the Board to review the Network and SGEI reports. These reports would be circulated to the Board in June 2019.

13. **Retail Network Plan**

Debbie Smith introduced the paper and explained that there were acceleration, pause and deferral options linked to the re-prioritisation of work prompted by the publication of the Judgment on the Common Issues Trial. Work was already planned to strengthen our engagement with agents and the support we provided to them; re-prioritisation would serve to accelerate those work streams. The Retail Network plan had a customer and an agent focus.

A number of points were raised, including:

- the Board's steer was to veer more towards spending more than slowing down
- how sustainable was the profitability anticipated through the realisation of the plan? It was reported that BF2 fees generated a significant proportion of the additional revenue. Other factors included the benefits flowing from the DMB programme and initiatives such as Parcelshop
- what was the strategy for the Mails app? It was reported that Mails remained part of a wider digitisation strategy and that an app was still being developed; the Retail Team was working with the Digital Team to build the right technical solution
- that our starting point needed to be our ambition; for example, a peripatetic team could manage SSKs if that was needed to achieve our strategy. It was reported that we had not altered our automation strategy but had done further work on what would and would not work. We had thought there would be benefit in having SSKs

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

where there was not currently a PO. However, that proposition was unworkable currently because 1 in 3 transactions required an intervention

- that when considering agents' pay we wanted to make sure that vulnerable Post Masters who offered a service of social benefit were protected but that we were not diverting additional money to Post Masters who already operated a successful business model. It was noted that some of the multiples, like Co-op, who were generally good retailers, were not making much profit from running POs. We needed to make sure that we had an accurate understanding of the workload associated with particular transactions and paid appropriately but should not subsidise poor retailers
- what was our vision for the Payzone Bills Payment business? It was reported that the number and breadth of locations gave us a strategic advantage. We were currently focused on winning major contracts. We would like to set up Parcelshop with Royal Mail and Parcelshop services could be offered from Payzone outlets as well as POs. The revenue generated in the short term would be limited but it would establish us as a provider of this service for the longer term
- that the plan to introduce area managers was encouraging. It was reported that we had always actively managed larger branches and all branches had a contact they could call for help, however this had been "management by exception". We needed to develop the capability of area managers and Egremont were helping us with this and tying it back into an integrated plan. It was also felt important to devolve responsibility within agreed parameters. Agents needed the ability to make changes where something was not right and PO Locals needed to have less bureaucracy. We were trying to align our interests with those of agents
- were we doing more work with the multiples? It was reported that agents' remuneration would be moving into Amanda Jones' remit and we were seeking to create a Head of Multiples role.

14. Items for Noting

14.1 **Sealings**

The Board **RESOLVED** that the affixing of the Common Seal of the Company to the documents set out against items numbered 1744 to 1759 inclusive in the seal register was confirmed.

14.2 **Health & Safety Report**

The Health & Safety Report was **NOTED.**

14.3 **Future Meeting Dates**

The future meeting dates were **NOTED.**

14.1 **Forward Agenda**

The forward agenda was **NOTED.**

The meeting closed at 12.30 pm.

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Chairman **Date**

POST OFFICE LIMITED BOARD MEETING
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10. Group Litigation Order

Glenn Hall and Ruth Cowley from Norton Rose Fulbright were welcomed to the meeting.
Jane MacLeod provided an update on the litigation:

- the recusal application would be heard on 3 April 2019.
  The Horizon trial had been adjourned pending that hearing. The expert evidence had not yet been heard as the Judge had chosen to hear witness evidence first. A full day had been allowed for hearing the recusal application. The possible outcomes were: the Judge could a) choose to recuse himself b) ask another judge to hear the application (there was a process for choosing that judge) c) if the Judge refused to recuse himself, an appeal could be made to the Court of Appeal (CoA). The Judge could also choose to reserve his judgment and supply a written judgment. These variables meant that the choreography of events would be uncertain. Lord Justice Fraser was aware that Lord Grabiner was acting on our behalf for the recusal
- time had been allocated on 16 May 2019 and that would be the point at which we would seek leave to appeal the Common Issues Judgment. Significant work was entailed in seeking leave to appeal because documents had to be ready to file at the time the request was made. At this stage we considered it unlikely that an expedited appeal would be granted
- we would need to decide who would should represent us at appeal; there were three options a) David Cavender QC, the Counsel who represented us first instance b) We could appoint new counsel but this carried the risk of the individual not being fully conversant with the case c) we could retain David Cavender QC but have Lord Neuberger as an adviser in the background[1] to provide an additional layer of rigour. JM and the legal team recommended the third option and David Cavender QC and Lord Neuberger were supportive of this arrangement. It was noted that Lord Neuberger had stepped down 18 months ago as President of the Supreme Court and his judgments were frequently cited on the issues under consideration.

A number of points were raised, including:

- if the recusal application were rejected by the Judge what was the timeframe for going to the CoA? It was noted that we would have to ask the Judge's permission to appeal to the CoA. If he refused leave to appeal, there was a process to appeal that decision
- when considering who should represent us for the appeal, should we be focussing on the best performer in court? Ruth Cowley noted that we needed to consider the issues we would raise on appeal on points of law and procedural unfairness[2] as well as the optics. The PO legal team had confidence in David Cavender's ability which was an important consideration
- was there a danger of too many individuals being involved? Should our decision on who represented us on appeal depend on whether or not the Judge was recused? It was noted that a new bench of judges would sit on the CoA. We could carry out the appeal work as proposed but reconsider who appeared for us in the CoA if we did not win the application for recusal. It was **AGREED** that a final decision of who appeared for us at the CoA could be deferred and Glenn Hall and Ruth Cowley would help advise us on this decision and on our legal strategy **GH/ RC**
- concern remained about the extrapolation of six cases to the whole of PO Limited and how unrepresentative these were of the system as a whole. We had focussed on the implied terms of the contract in the Common Issues trial. In the Horizon trial we were not claiming that the system was flawless but that it worked well for the most part
- if a different judge heard the Horizon trial would the trial continue from the point of adjournment or start afresh? Were our tactics and strategy right and were we calling on the right witnesses to be able to demonstrate that the Horizon system worked well today and

[1] This would not be known publically because of Lord Neuberger's former role as President of the Supreme Court.
[2] It was noted that David Cavender QC had flagged the danger of inadmissible evidence being allowed and how that could be used.

POST OFFICE LIMITED BOARD MEETING
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that there was no evidence to prove that errors within the Horizon system historically could have caused losses in branches? It was noted the System was distinct from the software and we thought it highly likely that the current Judge would give a negative view on our processes.

- the tone of our case was discussed. It was noted that there had been some instances where our witnesses had been wrong-footed[3] and as a result had sounded defensive. Tone would be even more important for us on appeal and we needed to be careful that the points on which we chose to appeal could be robustly defended and were focussed on achieving our desired outcome
- Glenn Hall noted that we would need to focus on the legal and operational consequences of the Judgment on the contract; which of these elements we could manage operationally and which could be changed swiftly to accord with the Judgment; which elements of the Judgment posed significant problems for the operation of the business, including financial damage; and, where we would choose to make changes irrespective of the Judgment and prospective appeal. He noted that the work streams set up made sense and we appeared to be asking the right questions and following the right processes
- we needed to give further thought to whether we would consider settlement. We needed to acknowledge where there had been failings and be willing to compensate where that was the case but understand the danger of claims being received from individuals who should not be compensated. We needed to consider the outcomes we were seeking and this should influence what we chose to appeal
- The Common Issues Trial and the Judgment emphasised that the historic operating practice had been that when money had gone missing in a PO, there was an assumption that the Postmaster was automatically liable. How we applied that view and the processes followed to find out where the money had gone and recoup it were a focus of criticism, including whether people had been wrongfully accused of taking money
- late evidence that had been submitted by the claimants' IT expert. Even though the claimants' expert had found that the Horizon system was relatively robust, they had also posited the view that that there must always be bugs in the system and that those bugs must have caused losses. A core issue was whether the system and how we administered it caused unfairness to Post Masters
- if the Judge found the Horizon system to be unreliable what steps would we need to take? It was noted that it was difficult to know in advance of knowing the grounds on which this was found. However, in such an instance we would consider whether we would appeal and we would need to draw on the expert witnesses' evidence to reassure agents about the reliability of the system
- there had been relatively little coverage of the Judgment or our decision to apply for the Judge to be recused. No questions had been asked in Parliament. The CWU appeared to be pausing and considering their strategic approach.

Contingency planning and the work streams in operation were discussed. We were looking at how we could make our processes much more transparent.

The analysis of Horizon transactions was discussed. There had been 787m transactions over the last 12 months, of which we had needed to correct 123k. 103k of the errors had been caused by agent error, such as mis-counting cash or mis-keying data entries. We knew that customers and branches would be vocal if there were errors, as would our banking partners and this was a fundamental part of why we were saying that the Horizon system was robust. While the system was fit for purpose, individuals using that system needed to know how to operate the system.

A number of points were raised, including:

- that we needed to understand the system error rate and how this compared with comparable systems **Executive**

[3] For example, new documents being presented to them in court.

POST OFFICE LIMITED BOARD MEETING
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- that in some cases it was not cost effective to fix system errors but there were workarounds in place instead
- evidence had been given on investigations that had been undertaken in relation to four of the claimants but what evidence did we have in relation to the wider pool of claimants? It was reported that we did not have evidence in relation to the whole pool but did have this in relation to 140 claimants; mediation had failed in these cases because we had been able to show that most of the losses we due to human error
- what were the timescales for the work to agree and deliver a new process for managing cash reconciliation differences? It was reported that we needed legal advice on this issue. It was a priority work stream which we aimed to progress over the next fortnight. It was possible that Fujitsu could design out some system errors, that some processes could be automated and that our communication systems could be more transparent and helpful. Currently, we did not have enough people with the confidence and knowledge to visit branches and discuss the situation with agents where things had gone wrong. However, the branch insight tool was helpful and with the new field team structure every branch would be visited in Q1 2019/20 and the area manager would go through branch data with agents. We also needed to improve our written communications
- one difficulty was that the Judge had said that the process needed to be reasonable but we did not know what constituted reasonable in the Judge's mind. We would need to compare our proposed approach with processes other franchises had in place
- work to support and settle agents was pivotal
- we would continue to fund the NSP but did not intend to invest significantly more in Brand currently.

The Chairman thanked the executive for the work being done to respond to the Judgment.

POL00030887

POST OFFICE LIMITED BOARD MEETING

3.1

MINUTES OF AN ADDITIONAL MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 30 APRIL 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 2.30 PM

Present:	Tim Parker	Chairman **(TP)**
	Alisdair Cameron	Interim Chief Executive **(AC)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Tim Franklin	Non-Executive Director **(TF)**
	Shirine Khoury-Haq	Non-Executive Director **(SK-H)**
	Carla Stent	Non-Executive Director **(CS)**
In Attendance:	Veronica Branton	Head of Secretariat **(VB)**
	Jonathan Lewis	Head of Strategy and Corporate Development (item 3.) **(JL)**
	Mo Kang	Group HR Director (item 4.) **(MK)**
Apology:	Paula Vennells	

1. Welcome and Conflicts of Interest **ACTION**

The Directors declared that, in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association, they had no interest in the matters to be considered at the meeting.

2. CEO Report **ACTION**

Al Cameron introduced the report and highlighted a number of issues since its circulation:

- ten or so emails had been received over the weekend asking us to "cease and desist" on the mail work arrangements and stating that we could not make changes to contractual arrangements following publication of the Judgment on the Common Issues Trial. The emails were similarly worded and we were considering our response
- the Bank of England and the UK finance industry, including PO Limited, had started discussions on the creation of a cash utility
- Ross McEwan, outgoing CEO of RBS, was keen on developing a stronger partnership with PO Limited and we would wait to see if this approach was maintained under his successor
- the evidence for the Select Committee Inquiry on the Post Office Network being held on 21 May 2019 would be submitted shortly.

A number of points were raised:

- Tim Franklin thanked Directors for agreeing to speak to Deloitte about the PO Insurance strategy options. It was hoped that the strategy would be brought to the May Board but would be deferred if not sufficiently well developed
- Banking Framework 2. Whether we thought the banks which had yet to sign up to Banking Framework 2 were finalising their governance arrangements or if there was anything to indicate they were considering not participating? It was reported that there was nothing to indicate the latter
- it was noted that the only substantive item remaining as part of the Back Office Transformation programme was moving the historical backlog of transactions onto SAPCWS
- PCI compliance was no longer a sticking point for Barclays in signing up to Banking Framework 2 but they were keen to understand our security arrangements better. However, PCI compliance remained a red/ amber risk for Post Office Limited. The arrangements for bill payment transactions had been dealt with but we were developing a plan on the banking side to take these transactions out of Horizon and therefore out of PCI compliance. However, we were maintaining an alternative plan as a back up

POST OFFICE LIMITED BOARD MEETING

- (subject to legal privilege) what was the current position with the recusal application? PO Limited had gone to the CoA to seek to apply for the Judge's recusal. David Cavender QC's view was that we should co-join the two appeals but on balance the Postmaster Litigation Subcommittee had decided not to do so and to go first to the Judge on 16 May 2019 to seek leave to appeal on the Judgment on the Common Issues trial. AC thought we might not succeed with the recusal application[1] but the strong view from a legal perspective was that we ought to be successful in appealing at least some elements of the Judgment
- if we lost the argument that the contract was not relational how would we respond to this as a business given the different segments of Postmasters who were agents for PO Limited? It was reported that Herbert Smith Freehill's views on this point we being developed and that work was also being undertake on the case associated with the Starling project.

3. 2019/20 Annual Strategic Plan and Budget **ACTION**

Jonathan Lewis was welcomed to the meeting and Al Cameron introduced the paper. The main changes since the draft budget was discussed in March were:
- £3m of additional stretch
- £9m upside for the lease accounting change
- £12m of additional costs to support the accelerated agent agenda.

The change plan had been scrutinised and in particular what needed to be done to accelerate work on agent engagement and support. In practice, this was mainly a question of deferring some planned work, and in particular moving from the Belfast Data centres to the cloud (Azure) in 2019/20.

We were finalising what the work on agent engagement and support during 2019/20 would mean for agents in practice. This should include fewer errors in the system, for example, by providing more prompts for Postmasters to check pieces of data before making a submission. We would also be developing the agent pay proposition, making it as simple and attractive as possible but in doing so distinguishing clearly between the incentives that could be offered to business people acting as agents rather than those which might be offered to employees. The implications for future costs associated with any changes proposed would also be factored in. We needed to make changes which reflected points raised in the Judgment on the Common Issues trial[2] but also wanted to promote alignment between our service via Postmasters and our digital channel in a way which was beneficial for PMs. We now had better data on branch activities which would inform our visits to branch and allow us to reach out if we thought there might be a problem.

A number of points were raised:
- what were the risks attached to deferring the move from the Belfast Data Centres to the cloud by a further year?
- what would happen if the system failed, what were the consequences of this and how likely was the failure over the next year? If the system failed would we revert to our business continuity plans? It was reported that we had been using the current arrangements for about 20 years. On balance we thought we could postpone the move to the cloud for a year with a saving of around £11m in this year's budget; however, we needed to progress with our plans to ensure the longer-term resilience of the system. There were risks associated with migrating from one system to another but the decision

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[1] Recusal applications were rare and their success generally connected to a strong piece of factual evidence.

[2] For example, work on agents' training requirements.

POST OFFICE LIMITED BOARD MEETING

to postpone was predominantly to enable the acceleration of the agent engagement and support work streams. It was **AGREED** that a note would be produced for the May Board meeting to explain the risks and disaster recovery plan processes. **AC to discuss with RH**

- the re-procurement for the Computacenter contract was not as high on our priority list as a number of other items and it was proposed to postpone this
- whether it was only an automated cash deposit system that would bring a fundamental change in the volume of errors in the system? It was reported that we could not afford the £200-300m investment that introducing such a system would incur but that a number of the banks were interested in investing in automated deposit taking systems through POs, though they remained unhappy about the increase in fees introduced with Banking Framework 2 which could influence the speed of progress
- that we needed to select options which were beneficial to both the Postmasters and to us and which incentivised Postmasters. PO Limited needed to be commercially sustainable in the long term and that approach also served the long term interests of Postmasters. It was noted that a caveat to this approach was in relation to smaller POs which might not be able to benefit from some mutually beneficial arrangements but where we needed to make sure the fees they received were reasonable and supported their operation. AC reported that work had been initiated on whether in a small number of instances we should be offering Postmasters employee status. If we took this option further our criteria for offering Postmasters the option of employee status would need to be clear
- whether we were investing sufficiently in the change management capability to be able to deliver so many projects and to do so to a high standard with proper financial controls? AC reported that the Group Executive thought that we needed to provide more guidance and control to ensure change management discipline but that extensive work had taken place on how to do this, how to structure it and who should lead the different portfolios to which each of the change projects would be allocated
- what was the long term sustainability of the convenience store model? Would there be a movement towards large click and collect centres? A piece of longer term thinking might be needed on threats and opportunities and how this affected our partners. We also needed to make sure we were not doing things now that could make our position worse in the future
- Tom Cooper reported that UKGI was still working through the budget and needed to know more about the changes flowing through from the Group Litigation Order. This year represented a transition period but there was nevertheless a need to focus on non-staff costs coming down. Other Non-Executive Directors supported the view that this was a transition year in which we needed to prioritise and develop a clear vision of our future strategy and structure, how we wanted to deliver this and why
- that the position on the STIP for 2019/20 should be discussed further once the budget for 2019/20 had been finalised.

The Chairman summarised the position. The budget needed to be agreed after which the incentivisation measures could be agreed. There were moving and moveable elements and we needed to strike the right balance between getting things done and continuing to improve results. There was a continuing challenge of getting costs down, comprising two main components 1) network cost base, especially DMBs 2) central staff overhead costs and IT costs, including extricating ourselves from high cost contracts. The Board want to see "the art of the possible" around the cost base and wanted to understand the strategy for the insurance business. The costs associated with POCA, the reduction in the Verify fees and other services in this bracket should not be underestimated. Employing people who were able to take the right decisions was the most important element and we wanted to incentivise people to do well. We needed to set realistic budgets where the basis for the actions planned were the right ones. The Chief Executive – FS&T was tackling the insurance challenges and looking at the best future

POST OFFICE LIMITED BOARD MEETING

approach for the Telco business; the Chief Executive - Retail was taking the right steps to strengthen the network; and, the COO was progressing work but with more still to be done on IT issues. It was also important to have the right team at a level below GE to deliver projects.

AC noted that there had been a good track record of taking cost out over the last few years. If we could get costs down, benefit from the increased fees from Banking Framework 2 and support through the network subsidy we should have the funds necessary to support our change projects. In the longer term we would need revenue to replace banking income and to develop a lean business model over the next couple of years.

The Board **APPROVED** the proposed budget with a trading profit target for 2019/20 of £77m. This was subject to confirmation with UKGI, as we shared the detailed plans for the recommended changes and agreement at Remuneration Committee on the final STIP targets.

4. Succession Planning **ACTION**

Mo Kang was welcomed to the meeting and introduced the paper. Feedback and comment was sought on the issues PO Limited faced with succession planning, noting that there was likely to be some changes in the Group Executive over the next couple of years. This was set in the context of the revised structure that the McKinsey work envisaged, resulting in a much leaner business. We also needed to develop a number of skills and capabilities including around digital while taking costs out supported by leaner support functions. Productive conversations had been taking place. We needed to take the right decisions for the sustainability of the business but also needed to look at retention issues and at the bench strength of the tier below GE, noting that we had a range of strong individuals, including some high potential individuals. Recruiting a deputy for the COO in the IT area was a priority.

We had recently started looking at the process for talent management. There were around 40 people in key positions who would be leading us through the period of change and had narrowed this group down to between 7 to 10 of the top talent and were looking at their development. We needed stronger client, product and proposition resource across the business.

A number of points were raised and the overview of succession planning discussed:

- that giving high talent individuals testing projects to manage was one option to stretch people. It was reported that we would be putting this approach into practice
- that it would be helpful to involve members of the L40 group in presentations to Board, particularly those identified as the top talent, so that the Non-Executive Directors got to know them
- whether there were good leaders within the wider group of 40 who could fulfil other roles within the business to help us build our resilience? It was confirmed that we had people who could step into broader leadership roles
- that we were in danger of losing a number of senior women from the business
- the extensive span of the role of the Chief Executive – FS & T currently was discussed. It was noted that the span of this role and the scope to expand it further hinged on the strength of his direct reports and how much they were able to do.

The Chairman summarised the position. A business of PO Limited's size needed around 20 individuals of a very high standard and there were a number of very good people around the table. We needed to give this top team Board exposure. We needed to consider how we would deploy the senior team leaders who emerged over the next 6-9 months. There was concern about how we would be able to replace the COO or the Chief Executive – FS&T currently were either Rob Houghton or Owen Woodley to leave. The Board was also concerned about how we would be able to replace the functional expertise represented by

POL00030887

POST OFFICE LIMITED BOARD MEETING

Mark Siviter in his role as Director of Mails and needed to understand the profile and seniority of the individual needed for this role.

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 scale etc. was requested. Mo Kang confirmed that this could be provided but that we still needed to assess the RAG status and what we needed to do to develop these individuals. **MK**

5. Date of next meeting
28 May 2019: 11.30 – 16.30 hrs

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Chairman **Date**

POL00030887

Post Office Limited Board Actions as at 20.05.2019

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	A paper of the overall position on cash, including ATMs, is now proposed for the July 2019 Board meeting.	**Open**
Board Strategy Sessions 26 & 27 June 2018					
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	A paper on the overall position on cash, including ATMs, is now proposed for the July 2019 Board meeting.	**Open**
Board Meeting 25 September 2018					
4. FS&T Performance Report	The learnings and next stage of the development of Customer Hub, including the mails proposition, to be brought back to the Board.	Owen Woodley / Veronica Branton	~~March 2019~~ May 2019	A digital update paper is included on the May Board agenda.	**To close**
Board Meeting 29 January 2019					
5.1 Financial Performance Report	Provide an interim update on Digital Identity.	Martin Edwards/ Veronica Branton	May 2019	A digital update paper is included on the May Board agenda.	**To close**
6.1 Retail Report	Report back on Payzone BP branch performance and how we were driving this after the first 6 months of trading.	Debbie Smith/ Veronica Branton	May 2019	Item deferred until July Board meeting but update included in Retail Performance report included in the May Board agenda.	**Open**
Board Meeting 25 March 2019					
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.		**Open**
4. Bank of Ireland (BoI) and Credit Card negotiations	To check whether PO would be able to intervene if there were any problems with JaJa's operation during the migration period steps we could take	Owen Woodley	April 2019	A paper was circulated to the Board Sub-group on 15th April 2019 which set out the interventions PO Limited would be able to make.	**To close**

POL00030887

Post Office Limited Board Actions as at 20.05.2019

REFERENCE	ACTION	ACTION OWNER (GE)	DUE DATE	STATUS	OPEN/CLOSED
	but noted that BoI would be responsible for managing the back book.				
9. CEO report					
9.a	To provide a strategy for the Remuneration Committee on the changes recommended to private healthcare insurance, when these would be introduced and who would be affected.	Mo Kang	May 2019	A paper is included on the Remuneration Committee agenda for 28th May 2019.	**To close**
9.b	To prepare a paper on succession planning for discussion at Board, looking at future structure needs as well as how we would manage if a senior individual were to leave in the short term.	Mo Kang	May 2019	A paper was discussed at the additional Board meeting on 30 April 2019.	**To close**
Board Meeting 30 April 2019					
2. CEO report	To provide a note on the PCI Compliance risks.	Al Cameron/ Rob Houghton	May 2019	A paper is included on the May Board agenda.	**To close**
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 scale etc. once we had assessed the RAG status and decided what we needed to do to develop these individuals.	Mo Kang	July 2019	To be developed for Board and/ or NomCo discussion.	**Open**

POST OFFICE
AUDIT AND RISK COMMITTEE

3.3

PCI Compliance Status Update.

Author: Liz Robson
Sponsor: Rob Houghton
Date: 17th May 2019

Executive Summary

Context

Further to the update on the PCI Programme that was issued to ARC on the 25th April 2019, this paper provides a progress update, specifically on the alternative approach to process banking and retail transactions, the progress of the Point-to-Point Encryption (P2PE) deployment across the pin-pad estate and the overall plan timeline to achieve full PCI compliance.

Questions this paper addresses

1. What is the progress of the alternative technical design to simplify the processing of banking and retail transactions from the pin-pad?
2. What's the status and outcome of the data audit?
3. How will we change our operating model to ensure process/procedures are in place to maintain PCI compliance?
4. What is the overall timeline for achieving full PCI compliance, including progress of the Point-to-Point Encryption (P2PE) deployment?

Conclusion

1. The alternative design is progressed enough with Ingenico, Fujitsu and Vocalink to know that it is technically feasible and we can proceed to detailed design and implementation. The advantage of this approach, whilst delaying us, saves considerable effort, both unknown and known, in making the POL environment PCI compliant with Fujitsu and avoids costs in the future data centre cloud migration.
2. The data audit is 85 % complete, with the outstanding actions to be completed by the end of May. The findings have so far identified low or no instances of PCI-related data. The low number of occurrences found have been in the Office 365 area, held within emails or documents. Remediation actions have been to delete this data and educate users to prevent future occurrences.
3. Our operating model will be updated to include the necessary processes and procedures to monitor and manage ongoing adherence to PCI regulation. These will identify and impact assess any future changes in PCI scope, and maintain periodic scanning of our systems estate to assure no further instances of PCI-related data being held.
4. We need to do more work on the detailed design planning with Ingenico, on the alternative design, to get a better estimate of the dates. Current plan shows 2Q/2020 to 4Q/2020 with more work being done to narrow this down.

POL00030887

3.3

Context

1. We have three transaction types that are within scope of PCI compliance:
    1. Retail transactions: for payment transactions via credit card
    2. Banking transactions: for cash withdrawals, balance enquiries, pin changes and deposits
    3. Bill payments and non-chip and pin transactions (for example, scanning barcodes to pay utility bills – the barcode can often include PAN number for use in transaction execution)

2. Our solutions to ensure PCI compliance are:

2.1 Point-to-Point Encryption (P2PE) at the point of entry into our estate: the pin-pad devices in branch. The rollout of P2PE across the estate is underway with the agreed plan for shipment, firmware upgrade and in-branch device swap-out agreed and progressing with delivery partners, Ingenico and Computacenter/Buybox.

2.2 A joint solution with Ingenico, Vocalink (Santander) and Fujitsu that will see all transactions (banking and retail) be directed from the pin-pad through to an Ingenico Cloud solution (Axis) for onward transmission to the Banks via the Vocalink/Santander networks for banking, and to Global Payments for retail transactions. Our Quality Security Assessor (QSA) has indicated that the new solution is an improved route to pursue than the previously proposed approach.

2.3 Client engagement (e.g All4One) to see changes to their cards to include PCI compliant account/customer numbers; a proposal to manage prepay card transactions as per banking transactions; a review of all card data ingested by swiping the card at branch, to identify any further product amendments that may be required to ensure PCI compliance.

3. The delivery of these solutions will enable POL to achieve the Reports of Compliance required as Merchant and Banking Services provider.

4. The Data Audit of our systems estate has progressed with our key vendor partners – Fujitsu, Accenture, Computacenter and Atos. The work is now 85% complete overall. Fujitsu and ATOS have completed their work and the outstanding activity remains with Computacenter and Accenture, which will be completed by the end of May. The results of the systems scans so far have revealed low or no instances of PCI-related data. Where any instances have been identified, e.g. in MS365 emails/documents, steps have been taken to remove the data and educate users to prevent future occurrences.

5. The PCI Programme includes a work-stream of activity focused on the Target Operating Model, to ensure we have the processes and procedures in place to monitor and manage our ongoing adherence to PCI regulation. This will include the remit to notify any changes to PCI scope as a result of any future version change and to assess the impact to systems and processes in order to maintain compliance. Ongoing periodic scanning of our systems estate to identify instances of PCI-related data will also be included in the future processes.

POL00030887

6. The overall timeline to achieve full PCI Compliance – that is, receiving Reports of Compliance for both Merchant and Banking services - is forecast between Q2-Q4 2020, based on all the estate being primed for activity by the end of 2019. Whilst the deployment of P2PE is understood and underway, we have still to finalise the development and deployment timeline of the new solution with Ingenico and Vocalink – this is an entirely new development for Ingenico and we are working with their senior team to influence their prioritisation and allocation of key resources to the development of this solution.

Current status

1. Alternative Banking Services Solution:

1.1 Since the update at the end of April, the team have worked closely with Ingenico, Vocalink and Fujitsu to successfully complete a feasibility review and high level design on a solution that removes the requirement for POL systems to process PCI data.

1.2 Once deployed, this solution will ensure that from the point of pin-pad entry in the branch environment, both banking and retail transactions will be processed through the Ingenico Cloud service, for onward transmission to either Vocalink/Santander networks for banking, or Global Payments for retail transactions.

1.3 The transaction information will still be registered in POL back-end systems for reconciliation purposes, but as this data is not under PCI regulation, this alternative approach effectively removes POL back-end systems from PCI scope. This reduces the PCI compliance footprint across our overall systems estate now and in the future.

1.4 The team are now at the detailed design stage and we are engaging with the senior team at Ingenico to influence their prioritisation of this work – specifically, as early inclusion in their product development timetable as possible, and the allocation of key development resources to achieve a timely delivery of the solution.

2. Point-to-Point Encryption Deployment

2.1 Work to deploy Point-to-Point Encryption (P2PE) to our pin-pad estate continues with partners, Computacenter/Buybox and Ingenico. The deployment timetable will see the upgrade to pin-pad firmware and device swap-out in branch run from September 2019 to March 2020. Timelines are based on lead-time for Ingenico to order hardware to support the rollout, the pin-pads being shipped back to Ingenico for the PCI compliant software to be installed and the devices redeployed back to all our branches.

2.2 Having been informed that the PCI accreditation of the version of the Pin-Pad device we have in our estate expires in the next 12 months, we have taken steps to agree with our acquirer, Global Payments, to extend the accreditation of this version of the device, such that once it is accreditation tested, it will be covered to 2023. The accreditation cover comes with the proviso that no further software changes are made to the Pin-Pad device beyond P2PE – there are no plans currently in place for any further software updates. This approach has now been ratified by Global Payments with Visa and Mastercard.

3.3

2.3 In the meantime, the Branch Device Strategy review and paper will advise on the future Pin-Pad device for our branch estate, along with other devices, such as Paystations. An update is expected by the end of May to advise on this.

3 **PCI Card Data Scan**

3.1 Fujitsu – complete. Results indicate a small known number of reported instances of card data. With Fujitsu. Likely little remediation needed outside of AP-ADC which we are pursuing separately

3.2 Accenture – Common Digital Platform (website) scan complete and all remediation activities have been successfully completed. Scanning of back office environment due to conclude by the end of May.

3.3 Computacenter – to be completed by the end of May. The majority of databases have been scanned, with the few remaining to be completed shortly. The results so far show there is no card data held in the databases. The scan of unstructured data files has identified 339 instances of card data – emails and documents within Office 365 – remediation has been to delete the data and educate users not to hold PAN data.

3.4 Atos AP-ADC scripts – complete. 65 instances of the 1300 scripts scanned. The team will now analyse the results and confirm if processes (systems/people) need to be adjusted to ensure PCI-related data is handled in a compliant way.

3.5 The team continue to engage with both our Quality Security Assessor (QSA) Nettitude and our Acquirer, Global Payments to ensure our remediation activities will result in required Reports of Compliance.

3.4

POST OFFICE – Board
Noting Paper

Belfast Exit Update

Author: Rob Wilkins Sponsor: Rob Houghton Meeting date: 28th May 2019

Executive Summary

Context

The project is to move the Horizon system, currently hosted in Fujitsu managed Belfast Data Centres, onto Microsoft's cloud platform, Azure. This move will contribute to a 30 - 40% reduction in the overall Fujitsu operating costs and move towards consumption-based charging. It also provides greater resilience, avoids the cost of a hardware/Operating System Refresh, and provides hardware evergreening.

The business case was updated in March 2019 and approval was given to proceed with the completion of the cloud build and commence the first application move group migration. With the recent prioritisation activity, we have evaluated the options of continuing as planned or deferring for 12 months in order that other priorities could be delivered. The strategic intent is still valid.

Questions addressed in this report

1. What decision was made and why?
2. What is the impact to the Belfast Exit Business Case?
3. What Operational Risks does this present?
4. What options did we consider?

Conclusion

1. The Belfast Exit programme will be placed on hold for 12months in order to support the focus on other priorities such as Horizon changes, Branch Hub and Ops Transformation. A reduced scope of work will continue to allow POL to develop a cloud platform to land ePos Integration and Branch Hub. In parallel, allowing POL to develop an operating model for running cloud hosted services. This will de-risk the Horizon move.
2. This decision is not expected to impact the original business cost range of £36-42m despite the need for incremental licensing and service reduction cost. It does impact the benefits realisation timing with the savings shifting out a year.
3. The risk of a catastrophic risk of loss of both data centres remains as it has done since inception; the risk of loss of one data centre can now be tested for DR.
4. An option to continue the project at a slower rate extending the timeline was rejected due to the technical risk this introduced.

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The Report

What decision was made and why?

1. There are limited opportunities to make changes to Horizon, if we were to proceed and prioritise Belfast Exit then there would be a very high probability of impact to plans and delays to ParcelShop/ Branch Hub/ Ops transformation due to the volume of changes.
2. Similarly, if we were to proceed with Belfast exit and prioritise other activity, there will be a significant impact to Belfast exit plan. This would result in a significant operational risk as a result of the Horizon running in dual operation (half in Belfast; half in cloud). The migration of Horizon to the cloud has to be completed in as short a timeframe as possible to best mitigate this risk.
3. Our prioritisation focuses on significant Horizon changes, Branch Hub and Ops Transformation – these will require SME time from Fujitsu and their resources are limited. Ruthless prioritisation is required.
4. Given the significant change to technology and operating model inherent in any cloud migration, there is a risk of service disruption during the migration of Horizon. There is little tolerance for Horizon outages.
5. It frees up capital to invest in other things – but this is a lower priority.

What is the impact to Belfast Exit Business Case?

Benefit Type	Benefit Statement March 2019 Business Case	Revised Position May 2019
Financial	The benefits are cost avoidance in period of £28.4m of capex costs. £16.4m minimum contracted infrastructure refresh costs plus, £4m Oracle upgrade, and £8m internal resource and other 3rd party costs. Note that the previous data centre refresh in 2016/2017 cost £32m.	Some infrastructure refresh may now be required to protect service due to End of Service Life risk. We are evaluating both the risk and the impact on Capex and Opex. The deferral of opex savings in FY 20/21 is £4.0m and reduced savings in FY 21/22 of £1.8m, a total of £5.8m. We will also need to negotiate extended support contracts on some components which were due to be replaced. This is being evaluated but based on similar scenarios in the past we have estimated an impact of £0.3 -0.5m FY 19/20 and £0.5 – 0.8m FY 20/21.
	The total estimated cost for the programme should be considered	There are incremental costs plus a likely need for additional transitional

3.4

	as a range £36m - 42m. Cost estimates are inclusive of Fujitsu Networking, Equipment, Resourcing, POL Resourcing, Verizon Networking and Resourcing costs.	licences for Oracle. The total cost of this is estimated at £2-3m in 2020/21. Based on savings already identified we believe the cost of the programme would still be within this range.
	Additional run costs benefits are being explored in line with Cloudreach recommendations and there is potential for further infrastructure consolidation, and standardisation of multiple infrastructure services e.g. POL systems hosted outside of Belfast and/or not supported within Fujitsu-serviced Azure Cloud.	We will do a lot of pre-work for cloud enablement – this will ensure that all the environment is ready and tested using branch hub and HIH prior to moving Horizon. With hindsight – this is a lower risk implementation plan as it gives POL an opportunity to land the future cloud operate model with a smaller presence that we can learn lessons and grow from. That will put us in a better position to leverage wider cloud benefits when the Horizon functionality migrates.
Intangible	Infrastructure supports PCI compliance;	An alternate approach is now being implemented which would enable PCI compliance without major change to the Belfast infrastructure
	Enablement of digital transformation;	We will continue to develop and build the infrastructure required by the digital transformation projects
	A fully resilient, secure infrastructure with evergreen commodity technology in the hardware components.	POL will continue to run a major risk of single or catastrophic risk of dual data centre failures.
	Variable charging in development and testing	This will be valid for the new digital applications (such as Agent's Portal) but not for Horizon until 2021.

What operational risks does this present?

6. We have an existing operational risk that loss of both data centres in Belfast is catastrophic to the business as we could not recover Horizon service. This material risk has existed since Horizon was implemented and is considered extremely remote likelihood due to the distance between data centres and the fact that they are on separate infrastructure (power, fuel) and not on any geological/ natural fault lines (i.e. earthquakes, tsunami events). The area has some political unrest but this is not felt to increase the risk unduly.
7. The c£30m Horizon Data Centre refresh carried out in 2016-2018 significantly de-risked failure of infrastructure components in data centre – the hardware was moved onto modern frames and the infrastructure completely upgraded.

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8. Our sensitive systems did prevent a full test of the loss of one data centre and recovery to the other. Given the move of POLSAP; planning and a risk assessment of this move is now underway with a view to it being carried out in May 2019.
9. A delay to the migration also brings some further items into an "out of support" category and may necessitate an upgrade that wouldn't normally be carried out. A detailed risk assessment and cost impact of each of these will be performed as it may be prudent to avoid the cost and accept a slightly higher operational cost (or not).

What other options did we consider?

10. Continue but at a slower rate was also considered however this was quickly discounted given the significantly increased risk of running Horizon across 2 different platforms for an extended period. As stated previously, the migration of Horizon needs executing.

POST OFFICE LIMITED
THE BOARD OF DIRECTORS

DISCUSSION PAPER
LEGALLY PRIVILEGED

CEO Report

Author: Al Cameron

Meeting date: 28 May 2019

4

The wider political, legal and regulatory environment

On the litigation, our request for leave to appeal on the recusal has been refused and we will not be taking the recusal argument further. The permission to appeal on the common issues judgement will be heard by Justice Fraser on 23rd and we are likely to be appealing directly to the Court of Appeal if unsuccessful. In addition, the costs of the common issues trial and the recusal application will be heard where we will seek to have the trial costs reserved and resolve the recusal costs on best terms.

The Chairman, Tom and I met with our Minister last week for a wide-ranging conversation and she has subsequently met with our franchising team to understand how and why we work as we do. A number of points are worth highlighting:

- A number of MPs have said to the Minister that the repeated criticisms from Judges demonstrate that we are arrogant and in her view it is damaging our brand
- The minister feels under-communicated with and I set up a meeting with UKGI and the BEIS policy team to see how we can manage this better. Clearly, we share a formidable amount of information and are not in a position to brief personally
- Otherwise, she seemed reassured by the financial opportunities and our feedback to date from the DMB conversations is that she remains supportive
- I did push her on POCA, HMRC fees and the future of Identity. While she is instinctively supportive, there was absolutely no commitment.

The lead-up to the Select Committee was dominated by the NFSP's press release and especially the "tipping point" comment. We see this as evidence of a mixture of intent and naivete on behalf of NFSP: they were keen to demonstrate their independence and gave their first ever media agency a free hand. They got headlines beyond what they wanted, as demonstrated by a relatively weak performance at the Select committee itself. We will continue to encourage Calum to increase the numbers of Postmasters he represents, to encourage more active membership and to professionalise his operation.

Our objective for the Select Committee was to land our key messages and avoid additional or embarrassing publicity. We appear to have succeeded for now. The Committee is meeting the Minister in late June, will issue a report and the Government will then have three months to reply. It is quite possible that the nature of the Government and the identity of the Minister may change in this timescale.

The Daily Mail has started a campaign to support Postmasters. The Minister has written to MPs today in a way that is supportive of us and our shared agenda. We are drafting a letter, which we may send to the Minister to set out where Government could help more, for her to consider before her appearance at the select Committee. Points could include: extend the network subsidy beyond 2021; plan an effective response on POCA; develop a tender for Verify that could enable us to take on the commercial opportunity; agree that we should be more of a Government channel; and stop discussion of dividends outside an overall review of ownership.

On POCA, I wrote to Amber Rudd at DWP setting out our concerns around the experience for customers and the outcome for Postmasters. Our meeting was cancelled and no alternative date set but we are expecting a reply from which we can plan next steps.

We are planning, as per a separate paper on the agenda, for a bad outcome from the Horizon trial and over the next few days we will be working through the right alignment and timing on a number of fronts: do we make a further move now on Postmasters' pay, reversing simplification cuts; should we seek to accelerate the promised Postmaster pay review; do we want to seek to reassure Postmasters about the functioning of Horizon; and when do we share changes in processes? Overall, do we need to do more to settle Postmasters before the Judgement or after?

On the Postmaster pay review, it is important that we do not get lost in an endless spreadsheet exercise creating winners and losers across the network: the winners will simply believe they should always have had more and the losers will hate us forever. Rather, as we finalise the work plan, we should focus on key questions including:

- How do we secure the smaller end of the Network in a world of uncertain subsidy and falling Government revenue? This work has started with Tracy Marshall and Debbie Smith.
- How do we align interests with Postmasters so they see digital channels as part of a shared benefit and not a competitor? Owen has started work on the largest issue, FX pricing.
- What is the right share of banking income and overall income?
- How do we reward for stability without embedding overpayment in some segments?
- How do we incentivise appropriate selling in the network so the opportunity to earn drives stronger income and how do we help less entrepreneurial Postmasters be better salesmen?

As discussed, we are also being taken to an employment tribunal by 123 Postmasters, supported by the CWU. We have been in very informal conversations about whether there was a negotiable opportunity to create a market reward employee role for working in Post Offices.

The CWU's offer is to negotiate this in exchange for becoming the recognised Trade Union representing Postmasters. This is, of course, unacceptable: only Postmasters can decide who represents them; the NFSP has 8,000 members and CWU a few hundred; representation is for employees not self-employed business people; and the CWU needs to shift its positions materially if it wants to represent Postmasters' interests. I am writing to Andy Furey to make these points.

In terms of the legal risk, we have secured further advice from a QC who normally represents claimants in employment cases. Both QCs not only expect us to win (not as comforting a statement as it used to be) but consider that any compromise at the small end will significantly undermine our case.

Both do also acknowledge that an emotional verdict could happen and we are giving this much increased focus because if we lost completely, then the Network would not function: the cost would be huge but also most Postmasters would simply refuse. We are also discussing the issues with the group in BEIS consulting on future legislation.

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We have some time and the CWU is divided on its strategy. Clearly, if the pay strategy can make agents more comfortable and if there is an employee role which is not more attractive, the focus may be less in practice. We are now working through these things.

The public questioning and challenge over recent weeks has been aimed at the Government and Royal Mail as much as at ourselves. WH Smiths were also targeted at the Select Committee. Ensuring Royal Mail doesn't undermine Post Offices is part of the negotiation debate, covered in a separate paper. I believe that our overall position is strong and we should hold our positions in the negotiations.

In summary, the GLO is making the wider environment considerably harder across multiple fronts. We are working on our tone and the ground on which we fight but it may be too little and too late to make a perceptible difference. If we are able to settle, it may muddy the waters but is unlikely to bring an end to all of the issues. In the meantime our focus must be on retaining and settling agents to reduce the political noise and deliver commercial sustainability.

Commercial Performance

2018-19 financial results have not changed significantly to date and these are covered in the annual results papers and in the commercial updates from the Retail and Financial services businesses. A short P1 paper is included which shows that we started the year broadly in line with budget, £1.2m adverse as reported, £0.3m favourable when budget timings are corrected.

Delivery

Network.

Network location numbers grew 91 to 11,638 at year-end. Under the new rules agreed with BEIS this would be 11,660 and the end April results showed little net change.

Overall, we are not seeing real change in Postmaster behaviour but as noted above and stated publicly, we are not in any way complacent.

Banking Framework 2.

We continue to IRRELEVANT IRRELEVANT IRRELEVANT We have received IRRELEVANT IRRELEVANT

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The negotiation and finalisation of the full new contract IRRELEVANT significant focus on IRRELEVANT Given the complexity, this process IRRELEVANT but we are aiming to conclude in the next few weeks. The new IRRELEVANT IRRELEVANT

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paper is on the agenda.

Back Office Transformation.

Operational processes are now largely bedded in and service performance is good. Progress is being made on the reconciliation issues which are being managed manually. We are in an active exchange with the MD of Transtrack seeking a clear understanding on how they plan to work with us in order to address a number of issues.

4

Security and Resilience.

Separate papers are being presented here and to the ARC on the timetable for the exit from Belfast and on PCI.

We have detected through the audit processes a JML issue on access to Horizon within Operations for a community of users. No compromises have been found but the controls require strengthening and this is being acted upon.

With POLSAP now removed from our estate we are planning a Disaster Recovery process for Horizon. This is being planned for the August bank holiday and we will share the plans and mitigations at July Board

Team

I met Afua Kyei again last week and she has been offered another role, which is probably less compelling but is permanent now. She has promised to decide this week and we have re-started the interim search.

We have started collective consultation with the Unions on two restructures:

- Loss Prevention – 9 FTE taken out but 10 new professional roles put in to increase capability
- Supply Chain – 30 FTE reduction

Decisions for today

The main decisions are:

- Approving the Annual report and Accounts subject to the completion of our work and the review at ARC on the next day
- Endorse the direction of travel with Royal Mail
- Approve spend on a number of projects costing more than £5m
- Approve the change spend report, subject to finalisation with UKGI.

Strategy

A separate paper on progress with strategic projects is included on the agenda.

April 2019 (P1) – Financial Performance

Author: Micheal Passmore
Sponsor: Alisdair Cameron
Meeting date: 28 May 2019

Executive Summary

Context

The purpose of this paper is to outline our financial performance in P1.

How did we do in P1?

	Period 01			
	Actual	Budget	Variance	YoY
Retail	52.6	51.5	1.1	2%
FS&T (incl. insurance)	28.9	29.0	(0.1)	-4%
Identity	4.9	4.8	0.1	-13%
Supply Chain/Other	1.2	1.2	0.0	-3%
Total Revenue	**87.6**	**86.5**	**1.1**	**-1%**
Cost Of Sales	(11.8)	(12.5)	0.7	8%
Net Income	**75.8**	**74.1**	**1.7**	**-2%**
Agents Pay	(32.3)	(30.3)	(2.0)	-1%
Staff Cost	(16.5)	(15.0)	(1.5)	-1%
Non staff Cost	(23.2)	(23.4)	0.2	-11%
FRES	2.0	1.7	0.3	-39%
Other Income	1.4	1.4	0.0	9%
Payzone	0.2	0.1	0.1	-35%
Trading Profit	**7.4**	**8.5**	**(1.2)**	**7%**
Network Subsidy Payment	4.8	4.8	0.0	-17%
EBITDA	**12.2**	**13.4**	**(1.2)**	**-4%**
Depreciation	(10.2)	(9.3)	(0.9)	72%
Interest	(1.0)	(0.5)	(0.5)	25%
Change Spend	(3.2)	(3.3)	0.1	-54%
Investment Funding	4.0	4.0	(0.0)	-65%
Profit On Asset Sales	0.0	0.0	0.0	-100%
Profit Before Tax	**1.8**	**4.3**	**(2.5)**	**-126%**

P1 trading resulted in a profit of £7.4m, £1.2m adverse to budget. However, there were timing issues in the budget for P1 totalling £1.5m, particularly in Agents Pay. Underlying trading was therefore £0.3m favourable to budget.

P1 revenue was £87.6m, £1.1m favourable to budget in the month, due to strong trading in mails and banking services. The continued slow migration to the new UKVI supplier alongside strong international driving permit volumes, also provided an upside in Identity revenue.

MoneyGram underperformed by £0.2m due to lower volumes. Telco net income was in line with budget as favourable rental income was offset by lower call revenue.

Cost of sales was favourable due to product mix and lower aggregator costs in PO Insurance.

Agents pay is £2.0m adverse to budget of which £1.2m relates to budget phasing. The underlying adverse variance of £0.8m flowed from the higher revenue in mails and banking services.

Staff costs are £1.5m adverse, £0.9m timing (driven by £0.3m of rephased DMB franchising savings and £0.5m of project costs to be transferred in P2), and £0.6m overspend in two areas, with actions to address this being put in place, including closing out vacant roles covered by contract staff and options to accelerate program staff savings.

Network numbers decreased by 2 in the month to 11,658 (P12 18/19: 11,660), but remain 158 above the minimum commitment and 58 above our target of 11,600.

Period 1 Change spend (Capex and Exceptional) was £13.3m, representing a £1.7m underspend to budget predominantly due to lower costs than expected in creating the version of Horizon that works on retailer tills (Solar). P1 benefits are consistent with budget.

There has been a recent focus on year end reporting requirements, and as such a more detailed performance deck will be presented in P2, included updated scorecard metrics.

Conclusion

We had a strong trading month in Retail (Mails & Banking services) and continued upside in Identity (UKVI & IDPs) with increased revenues of £1.1m. Budgetary timing issues of £1.5m, especially in Agents pay, have caused an overall underperformance in trading profit. However, underlying we are £0.3m better than budget, although there is a concern on the staff overspend which has to be corrected.

Quarterly Delivery Report and Funding Request

Author: Max Jacobi Sponsor: Alisdair Cameron Date: 28 May 2019

Executive Summary

5.2

Context

As part of our funding agreement, the Board should approve a quarterly report on recent and projected change spend, agreeing a request for investment funding from BEIS where appropriate.

Questions this paper addresses

1. What happened in Q4?
2. What happened in FY 18/19?
3. What Q1 spend are we proposing?
4. What is our expectation of full year spend and benefits?
5. Can we afford the proposed spending?
6. What investment funding are we requesting from BEIS?

Summary

In summary, 2018 change spend closed as follows:

£m	Q1 Cumulative	Q2 Cumulative	Q3 Cumulative	Q4 Cumulative
Change Plan Spend	£ 65.0	£ 140.7	£ 201.1	£ 255.0
Change 9+3 Reforecast	£ 42.7	£ 122.5	£ 174.7	£ 264.5
Change Spend Final	£ 42.7	£ 122.5	£ 174.7	£ 271.9
UKGI Funded Plan Spend	£ 35.0	£ 90.0	£ 140.0	£ 168.0
UKGI Funding 9+3 Reforecast	£ 35.0	£ 85.0	£ 142.1	£ 168.0
UKGI Funding Received	£ 35.0	£ 85.0	£ 142.1	£ 168.0
Benefits Plan	£ 8.2	£ 15.7	£ 26.2	£ 40.2
Benefits 9+3 Reforecast	£ 7.9	£ 16.9	£ 23.9	£ 36.0
Benefits Final	£ 7.9	£ 16.9	£ 23.9	£ 37.2

In Q4, we spent £97m, £7m more than forecast, driven by acceleration of Network Expansion (£3m), Blueprint related project costs and Severance provisions (£3m). This overall spend level for the year was also in line with the budget paper, which noted a range of £235-275m. We delivered £37m of in-year benefits, £1m above forecast.

We are proposing to spend £174m in 19/20. At a high level, 2019 change plan stands as follows:

£m	Q1 Cumulative	Q2 Cumulative	Q3 Cumulative	Q4 Cumulative
Change Plan Spend	£ 42.5	£ 94.8	£ 132.8	£ 174.2
UKGI Funded Plan Spend	£ 35.0	£ 42.0	£ 42.0	£ 42.0
Benefits Plan	£ 15.6	£ 34.0	£ 53.9	£ 75.6

In our Three Year Plan, we originally included a cash spend level on change of £445m. Including alongside this the non-cash change spend element (£21m), GLO spend (£14m) and the brought forward spend from 2017/18 (£26m), the equivalent total change spend is £506m for the three year period to March 2021. The current forecast change spend over the 3 year period (Apr-18 to Mar-21) stands at £542m, with further prioritisation of the final 20/21 funding year still to be agreed, to align back to our original position. The current forecast also includes increased levels of GLO and GLO remediation funding.

For 19/20 we are currently forecasting full year spend of £174m, compared to £165m in the Three Year Plan. On benefits, we are forecasting delivery of £76m by the end of the year, an incremental £39m year on year.

In addition, our current forecasts suggest we will release additional amounts from net profit. None of this has been made available for change spend, with some £47m set aside as contingency for the GLO (as noted in previous funding report).

We are requesting a payment of £35m for Q1 against qualifying spend of £39m. Up to the end of March 2019 we have received £168m, and this drawdown would leave £7m of our £210m funding from BEIS, as agreed under our 3 Year Plan Funding Agreement.

To that end, we confirm that the funds requested will be spent on transformation, in accordance with the priority areas set out in the Three Year strategic, Plan that underpins the Funding Agreement. For the avoidance of doubt none of the funds will be spent on anything that is not related to transforming and improving our business as envisaged in the Three Year Plan. We also confirm that the expenditure is controlled by the Executive Investment Committee, and is regularly reported to the Board and UKGI as part of this request. The controls over change spend and the reporting of change in our Annual Report and Accounts are within the remit of the Board's Audit, Risk and Compliance Committee.

Input Sought

The Board is asked to note the contents of the paper, including the approach of FY19/20 Budget for Change Spend, approve the request of £35m funding for Q1, giving delegated authority to Al Cameron to finalise the precise details and supporting documents with UKGI.

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5.2

The Report

1. What happened in Q4?

In Q4, we spent £97.2m against a £89.7m forecast, an overspend of £7.4m, as follows:

	Project Spend			Project Benefits		
Strategic Priority	Q4 FY18 Actual	Q4 FY18 9+3 Forecast	Variance	Q4 FY18 Actual	Q4 FY18 9+3 Forecast	Variance
Simplify the retailer proposition	52.1	46.7	5.4	3.5	3.1	0.4
Modernise our products and services	10.0	10.7	(0.7)	4.7	4.8	(0.1)
Build innovative, flexible and secure IT	9.3	9.5	(0.2)	2.9	1.6	1.3
Digitise and optimise the business	8.0	5.3	2.7	0.9	0.9	0.0
Modernise our skills, polices and processes	5.5	5.6	(0.1)	0.1	0.1	0.0
Non-UKGI Funded	12.2	11.9	0.3	1.1	1.5	(0.4)
Total Change Spend	**97.2**	**89.7**	**7.4**	**13.2**	**12.1**	**1.2**

A list by major projects showing detailed variances for spend and benefits is attached as Appendix 1.

2. What happened in FY 18/19?

2.1. Summary View

In Year, we spent £271.9m against £264.5m forecast, an overspend of £7.4m as follows:

	Project Spend			Project Benefits		
Strategic Priority	FY18 Actual	FY18 9+3 Forecast	Variance	FY18 Actual	FY18 9+3 Forecast	Variance
Simplify the retailer proposition	101.5	96.2	5.4	11.2	10.8	0.4
Modernise our products and services	38.2	39.0	(0.7)	15.9	15.9	(0.1)
Build innovative, flexible and secure IT	46.7	46.9	(0.2)	5.4	4.1	1.3
Digitise and optimise the business	18.9	16.2	2.7	3.5	3.5	0.0
Modernise our skills, polices and processes	17.9	18.0	(0.1)	0.1	0.1	0.0
Non-UKGI Funded	48.6	48.3	0.3	1.1	1.5	(0.4)
Total Change Spend	**271.9**	**264.5**	**7.4**	**37.2**	**36.0**	**1.2**

A list by major projects showing detailed variances for spend and benefits is attached as Appendix 2.

2.2. Key variances within this overspend:

2.2.1. Simplify the retailer proposition: £5.4m

- **Further franchising DMBs:** £0.9m
  - **DMB Strategy:** (£3.0m) Settlement and strip out costs have been impacted by slippage in branch exit dates (mainly recognition of settlement costs for the 10x FTC branches).
  - **Onerous Contract & Vacant lease Provision:** £3.5m charge to Vacant Lease provision in line with accounting policies.
- **Network Expansion:** £2.9m - Further provision required due to interest in 20 Hard to Place branches from multiples (CoOp & McColls)

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2.2.2. Modernise our Products and Services: (£0.7m)

- **Identity Services:** (£0.6m)
  - Digital Identity: (£0.3m) delay in project due to finalisation of supplier development contract impacting on the sprint activities which are pushed now in to FY 19/20.
  - Design Authority and Digital Certified Copy spend related to the completion of the second phase of the projects has been deprioritised.
- **PO Insurance Investments:** (£0.6m)
  - Variance is mainly driven from Pricing project where delays in signing the contract with Earnix (pricing platform) occurred as part of IC request to slow down the project pending reprioritization. Implementation pushed back to FY19/20 with carry forward spend of £0.5m.
- **Falcon Peregrine:** £0.7m due to timing of negotiations that took place earlier than anticipated during the forecasting period.

5.2

2.2.3. Build Innovative, Flexible and Secure IT: (£0.2m)

- **Project Everest - Cloud Enablement:** (£1.5m)
  - Underspend on Fujitsu project costs from license purchase and development costs reviews, driven by delays in agreement on next incremental delivery scopes.
- **IT Service Transformation Programme (Nelson):** £0.9m
  - Close out of current phase accelerated, with costs paid/accrued in line with completion - phasing shift, with 18/19 forecast reduced accordingly.

2.2.4. Digitise and Optimise the Business: £2.7m

- **HR programmes:** £2.7m
  - £1.3m Acceleration of HR Operating Model restructure and associated severance provision.
  - £1.5m Acceleration of Blueprint design work and associated accrued costs.

2.2.5. Non-UKGI Projects: £0.3m

- **Group Litigation:** £1.4m - Higher levels of legal spend than originally forecasted.

2.3. Benefits

Benefits Delivered higher than forecast mainly due to:

- **Further franchising DMBs:** £0.4m – driven by an increase of vacant lease provision for long term leaseholds on DMB's.
- **EUC Branch Deployment:** £1.0m –Submission error in 9+3 forecast around sign convention used in new forecasting tool.
- **Project Everest – Cloud Enablement**: £0.4m – contractual remedying of prior shortfall in benefits during project's completion.

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3. What Q1 spend are we proposing?

Change Spend for Q1 is expected to be £42.5m, delivering Q1 benefits of £15.6m and will mainly consist of deliveries of the strategic projects which are already in execution phase.

	Project Spend	Project Benefits
Strategic Priority	Q1 FY19	Q1 FY19
Simplify the retailer proposition	12.3	5.0
Modernise our products and services	12.2	6.3
Build innovative, flexible and secure IT	7.2	2.0
Digitise and optimise the business	4.9	0.9
Modernise our skills, polices and processes	2.2	0.5
Non-UKGI Funded	3.7	1.0
Total Change Spend	**42.5**	**15.6**

Under our funding agreement we can claim up to £42m of investment funding for the 19/20 annual period. Within the proposed £42.5m Q1 forecast spend, £38.8m will qualify for investment spending funding from UKGI, with a proposal to request £35m of funding in this cycle.

Key Q1 works include:
- DMB Strategy: £7.0m
- Solar: £4.3m
- PCI Payments Hub: £2.4m
- Back Office Transformation: £2.2m
- Group Litigation: £2.1m

4. What is our expectation of full year spend and benefits?

We are expecting change spend of about £174.2m for the next year, with cumulative annual benefits of about £75.6m, and incremental benefits of £38.5m.

Strategic Priority	FY19 Spend	FY19 Benefits	FY19 In Year Benefits
Simplify the retailer proposition	50.3	24.3	13.2
Modernise our products and services	41.0	31.0	15.1
Build innovative, flexible and secure IT	26.4	9.2	3.8
Digitise and optimise the business	31.7	4.7	1.2
Modernise our skills, polices and processes	3.6	2.0	1.9
Non-UKGI Funded	21.3	4.3	3.2
Total Change Spend	**174.2**	**75.6**	**38.5**

A list by major projects showing in-year spend and benefits across 19/20 period is attached as Appendix 4.

5. Can we afford the proposed spending?

In our Three Year Plan we planned for a cash spend of £445m. Including non-cash spend (£21m), GLO spend (£14m) included elsewhere and the brought forward spend from 2017/18 (£26m), the equivalent total change spend is £506m for the period to March 2021. We are assuming change spend over the three years of £506m plus an additional £20m for the Payzone acquisition including future earn-out payments, and will be working to prioritise 20/21 spend to align to this.

£445m was predicated on the assumption that we would spend all of our incoming cash (net profit plus investment funding) but would not borrow significantly to fund change. If we re-calculate this today we would, in our current forecasts, also expect an additional £44m of trading profit and lower interest costs. If we land the Banking Framework in anything approaching its current form, profit will increase further. This can reassure us that we are not spending recklessly. We are not, at this stage, proposing to release any of this additional profit for change spend. Rather, we are retaining it as contingency against the GLO.

We are planning 2019/20 change spend of £174.3m, with 2020/21 currently forecast at £95m. We are comfortable with that spend pattern as it is in the business's interests to change the business as quickly as we sensibly can, and we may have more flexibility later. As previously set out, we have set up processes to manage budgets throughout the year and to ensure that we spend within our target, and we will continuously monitor spend, forecasts and budget to ensure that we do not overspend.

To ensure that this Plan is deliverable we will continue to monitor and optimise the capacity and capabilities of our teams and suppliers. Having also introduced Critical Success Factors that Platinum and Gold initiatives are evaluated, against to increase the likelihood of successful delivery, we will continue to report against these on a monthly basis.

For 2020/21, we have generated a draft Change Plan with an allocation of £95m investment target. We will be revaluating this throughout 19/20 before finalising a 20/21 Change Plan in March 2020. Over the three-year period, we expect our total investments to cumulatively contribute £225m to our trading profit, though these will be validated via each new initiative's business case.

6. What investment funding are we requesting from BEIS?

Under our funding agreement we can claim up to £210m of investment funding. We have already received £168m up to the end of March 2019, and we are requesting the remaining £35m for this coming quarter, leaving £7m further funding potentially available.

POL00030887

5.2

7. Appendices

7.1. Appendix 1 – Q4 Project Spend & Benefits versus Forecast

	Q4 Spend Actual	Q4 Spend 9+3 Forecast	Variance	Q4 Benefits Actual	Q4 Benerfits 9+3 Forecast	Variance
Simplify the retailer proposition	**52.1**	**46.7**	**5.4**	**3.5**	**3.1**	**0.4**
Further franchising DMBs	27.6	26.7	0.9	1.9	1.5	0.4
Multi-year Crown Project	1.8	2.2	(0.4)	1.0	1.0	0.0
Network Expansion	15.6	12.7	2.9	0.6	0.6	-
Solar Full (HNGT)	3.2	3.0	0.2	-	-	-
Self Service Kiosk (SSK)	0.4	0.5	(0.1)	-	-	-
Agents / Postmasters Portal	1.9	2.2	(0.3)	-	-	-
Other Smaller Projects Simplify	1.6	(0.6)	2.2	-	-	-
Modernise our products and services	**10.0**	**10.7**	**(0.7)**	**4.7**	**4.8**	**(0.1)**
Mails Projects	1.2	0.8	0.4	-	-	-
Identity Services Investments	1.0	1.6	(0.6)	-	-	-
PO Insurance Investments	3.6	4.2	(0.6)	1.8	1.8	0.0
Vehicles	0.3	0.3	0.1	-	-	-
Project Galaxy	(0.1)	0.2	(0.3)	3.1	3.1	(0.0)
Telco Investments	1.2	1.3	(0.0)	-	-	-
Falcon - Travel Hub	0.4	0.8	(0.4)	(0.1)	(0.0)	(0.1)
Falcon - Peregrine	1.6	0.9	0.7	-	-	-
Digital Developments	0.5	0.9	(0.3)	-	-	-
Eagle	0.5	0.4	0.1	-	-	-
Youth Strategy	-	0.2	(0.2)	-	-	-
Other Smaller Projects Modernise	(0.3)	(0.9)	0.6	-	-	-
Build innovative, flexible and secure IT	**9.3**	**9.5**	**(0.2)**	**2.9**	**1.6**	**1.3**
Project Everest - Cloud Enablement	4.7	6.2	(1.5)	1.3	0.9	0.4
Risk and Resilience	1.5	1.6	(0.0)	-	-	-
PCI/Payments Hub	0.3	0.5	(0.3)	-	-	-
EUC Branch Deployment	(0.5)	-	(0.5)	0.5	(0.5)	1.0
End-of-Life Replacements	0.6	0.5	0.1	-	-	-
Branch Printer Replacement	0.0	0.1	(0.0)	0.2	0.2	(0.1)
IT Service Transformation Programme (Nelson)	1.5	0.6	0.9	0.3	0.3	-
CDP re-procurement	0.2	0.1	0.1	0.2	0.2	-
Project Trafalgar	0.4	0.8	(0.4)	-	-	-
Integration, Microservices & API Layer	-	0.0	(0.0)	-	-	-
Computacenter Run Services Transition	-	0.1	(0.1)	-	-	-
IT Security Strategy	-	0.1	(0.1)	-	-	-
Network Evolution and Enhancement	-	0.0	(0.0)	-	-	-
Other Smaller Projects Build	0.6	(1.0)	1.6	0.5	0.5	-
Digitise and optimise the business	**8.0**	**5.3**	**2.7**	**0.9**	**0.9**	**0.0**
Supply Chain and Back Office Improvement	0.1	1.7	(1.6)	-	-	-
Property	1.9	2.4	(0.5)	-	-	-
BI Strategy (Arrow)	0.5	0.7	(0.2)	-	-	-
HR Programmes	5.1	0.6	4.6	0.9	0.9	0.0
LRG Programmes	0.4	0.4	(0.0)	-	-	-
Other Smaller Projects Digitise	0.0	(0.5)	0.5	-	-	-
Modernise our skills, polices and processes	**5.5**	**5.6**	**(0.1)**	**0.1**	**0.1**	**0.0**
Back Office Systems Transformation	5.5	5.6	(0.1)	0.1	0.1	0.0
Non-UKGI Funded	**12.2**	**11.9**	**0.3**	**1.1**	**1.5**	**(0.4)**
NT Expansion CF	7.2	7.2	-	-	-	-
Central	(1.8)	-	(1.8)	-	-	-
Group Litigation	4.6	3.2	1.4	-	-	-
GDPR	0.5	0.5	0.0	-	-	-
Project Panther (integration costs only)	0.8	1.2	(0.4)	1.1	1.5	(0.4)
Other Smaller Projects Regulatory	0.9	(0.1)	1.1	-	-	-
Total Change Spend	**97.2**	**89.7**	**7.4**	**13.2**	**12.1**	**1.2**

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7.2. APPENDIX 2 – FY18/19 Year-End Position

	FY 1819 Spend Actual	FY1819 Spend 9+3 Forecast	Variance	FY1819 Benefits Actual	FY1819 Benerfits 9+3 Forecast	Variance
Simplify the retailer proposition	**101.5**	**96.2**	**5.4**	**11.2**	**10.8**	**0.4**
Further franchising DMBs	43.9	43.0	0.9	5.1	4.7	0.4
Multi-year Crown Project	8.2	8.7	(0.4)	4.2	4.2	0.0
Network Expansion	29.4	26.5	2.9	1.9	1.9	-
Solar Full (HNGT)	10.4	10.2	0.2	-	-	-
Self Service Kiosk (SSK)	1.6	1.6	(0.1)	-	-	-
Agents / Postmasters Portal	4.1	4.4	(0.3)	-	-	-
Other Smaller Projects Simplify	3.9	1.7	2.2	-	-	-
Modernise our products and services	**38.2**	**39.0**	**(0.7)**	**15.9**	**15.9**	**(0.1)**
Mails Projects	2.8	2.4	0.4	-	-	-
Identity Services Investments	2.7	3.4	(0.6)	-	-	-
PO Insurance Investments	11.0	11.7	(0.6)	2.6	2.6	0.0
Vehicles	0.9	0.9	0.1	-	-	-
Project Galaxy	2.0	2.3	(0.3)	13.5	13.5	(0.0)
Telco Investments	4.6	4.6	(0.0)	-	-	-
Falcon - Travel Hub	5.9	6.3	(0.4)	(0.3)	(0.2)	(0.1)
Falcon - Peregrine	3.1	2.4	0.7	-	-	-
Digital Developments	1.4	1.7	(0.3)	-	-	-
Eagle	1.9	1.9	0.1	-	-	-
Youth Strategy	-	0.2	(0.2)	-	-	-
Other Smaller Projects Modernise	1.8	1.2	0.6	-	-	-
Build innovative, flexible and secure IT	**46.7**	**46.9**	**(0.2)**	**5.4**	**4.1**	**1.3**
Project Everest - Cloud Enablement	13.5	15.0	(1.5)	2.5	2.2	0.4
Risk and Resilience	6.1	6.1	(0.0)	-	-	-
PCI/Payments Hub	0.3	0.5	(0.3)	-	-	-
EUC Branch Deployment	7.6	8.1	(0.5)	0.7	(0.3)	1.0
End-of-Life Replacements	3.7	3.6	0.1	-	-	-
Branch Printer Replacement	6.8	6.8	(0.0)	0.7	0.7	(0.1)
IT Service Transformation Programme (Nelson)	3.8	2.9	0.9	0.6	0.6	-
CDP re-procurement	2.1	2.0	0.1	0.4	0.4	-
Project Trafalgar	2.1	2.5	(0.4)	-	-	-
Integration, Microservices & API Layer	-	0.0	(0.0)	-	-	-
Computacenter Run Services Transition	-	0.1	(0.1)	-	-	-
IT Security Strategy	-	0.1	(0.1)	-	-	-
Network Evolution and Enhancement	-	0.0	(0.0)	-	-	-
Other Smaller Projects Build	0.8	(0.8)	1.6	0.5	0.5	-
Digitise and optimise the business	**18.9**	**16.2**	**2.7**	**3.5**	**3.5**	**0.0**
Supply Chain and Back Office Improvement	2.3	2.1	0.2	-	-	-
Property	6.7	7.2	(0.5)	-	-	-
BI Strategy (Arrow)	1.7	1.9	(0.2)	-	-	-
HR Programmes	4.7	2.0	2.7	3.5	3.5	0.0
LRG Programmes	1.0	1.0	(0.0)	-	-	-
Other Smaller Projects Digitise	2.5	2.0	0.5	-	-	-
Modernise our skills, polices and processes	**17.9**	**18.0**	**(0.1)**	**0.1**	**0.1**	**0.0**
Back Office Systems Transformation	17.9	18.0	(0.1)	0.1	0.1	0.0
Non-UKGI Funded	**48.6**	**48.3**	**0.3**	**1.1**	**1.5**	**(0.4)**
NT Expansion CF	26.2	26.2	-	-	-	-
Central	(0.4)	1.3	(1.8)	-	-	-
Group Litigation	13.7	12.3	1.4	-	-	-
GDPR	3.7	3.7	0.0	-	-	-
Project Panther (integration costs only)	3.4	3.8	(0.4)	1.1	1.5	(0.4)
Other Smaller Projects Regulatory	2.0	0.9	1.1	-	-	-
Total Change Spend	**271.9**	**264.5**	**7.4**	**37.2**	**36.0**	**1.2**

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7.3. Appendix 3 – Q1 19/20 Funding Request

	Q1 Spend	Q1 Benefits
Simplify the retailer proposition	**12.3**	**5.0**
Further franchising DMBs	3.0	2.5
Multi-year Crown Project	-	1.6
Network Expansion	2.6	0.9
Solar Full (HNGT)	4.3	-
Self Service Kiosk (SSK)	0.1	-
Agents / Postmasters Portal	1.3	(0.0)
Automation Strategy	0.4	-
Other Smaller Projects Simplify	0.6	(0.0)
Modernise our products and services	**12.2**	**6.3**
Mails Projects	0.2	-
Identity Services Investments	0.6	0.6
PO Insurance Investments	4.2	0.8
Vehicles	0.6	-
Project Galaxy	(0.1)	3.4
Telco Investments	2.2	-
Falcon - Travel Hub	-	0.1
Falcon - Peregrine	2.4	1.3
Digital Developments	1.0	0.1
Eagle	0.5	-
Youth Strategy	0.3	-
Other Smaller Projects Modernise	0.3	-
Build innovative, flexible and secure IT	**7.2**	**2.0**
Project Everest - Cloud Enablement	1.5	0.7
Risk and Resilience	1.0	-
PCI/Payments Hub	2.4	-
EUC Branch Deployment	0.2	0.2
End-of-Life Replacements	0.2	-
Branch Printer Replacement	0.0	0.3
IT Service Transformation Programme (Nelson)	0.8	0.3
CDP re-procurement	0.1	0.2
Project Trafalgar	0.4	-
Integration, Microservices & API Layer	0.1	-
IT Security Strategy	0.2	-
Network Evolution and Enhancement	0.1	-
Other Smaller Projects Build	0.1	0.3
Digitise and optimise the business	**4.9**	**0.9**
Supply Chain and Back Office Improvement	0.3	(0.0)
Property	1.5	-
BI Strategy (Arrow)	0.5	-
HR Programmes	1.8	1.0
LRG Programmes	0.3	-
Other Smaller Projects Digitise	0.5	-
Modernise our skills, polices and processes	**2.2**	**0.5**
Back Office Systems Transformation	2.2	0.5
Non-UKGI Funded	**3.7**	**1.0**
Group Litigation	2.1	-
GDPR	0.1	-
Project Panther (integration costs only)	0.7	1.0
Other Smaller Projects Regulatory	0.8	-
Total Change Spend	**42.5**	**15.6**
Of which qualifying for UKGI funding	**38.8**	**14.6**

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7.4. Appendix 4 – FY19/20 Full year expectation on Spend and Benefits

	Project Spend					Project Benefits				
	Q1 FY19	Q1 FY19	Q1 FY19	Q1 FY19	FY19	Q1 FY19	Q1 FY19	Q1 FY19	Q1 FY19	FY19
Simplify the retailer proposition	**12.3**	**16.6**	**7.4**	**13.9**	**50.3**	**5.0**	**5.8**	**6.6**	**6.9**	**24.3**
Further franchising DMBs	3.0	7.2	2.7	7.2	20.0	2.5	3.0	3.3	3.4	12.2
Multi-year Crown Project	-	-	-	-	-	1.6	1.6	1.6	1.6	6.3
Network Expansion	2.6	2.9	2.1	4.0	11.6	0.9	1.0	1.1	1.2	4.2
Solar Full (HNGT)	4.3	3.8	-	-	8.1	-	-	-	-	-
Self Service Kiosk (SSK)	0.1	0.1	-	-	0.2	-	0.1	0.1	0.0	0.2
Agents / Postmasters Portal	1.3	1.3	1.3	1.3	5.0	(0.0)	0.0	0.1	0.2	0.3
Automation Strategy	0.4	0.3	0.3	0.3	1.4	-	-	-	-	-
Other Smaller Projects Simplify	0.6	1.1	1.1	1.1	4.0	(0.0)	0.3	0.5	0.5	1.2
Modernise our products and services	**12.2**	**12.5**	**8.3**	**8.0**	**41.0**	**6.3**	**7.5**	**7.9**	**9.4**	**31.0**
Mails Projects	0.2	0.8	1.8	1.5	4.3	-	-	-	-	-
Identity Services Investments	0.6	0.9	0.7	1.2	3.4	0.6	0.6	0.5	1.7	3.4
PO Insurance Investments	4.2	5.1	1.7	1.2	12.2	0.8	1.2	2.4	2.6	6.9
Cash & Banking Services	-	-	-	-	-	-	-	-	-	-
Vehicles	0.6	0.6	0.6	0.6	2.4	-	-	-	-	-
Project Galaxy	(0.1)	(0.1)	0.3	0.8	1.0	3.4	3.4	3.4	3.4	13.5
Telco Investments	2.2	2.4	1.2	1.4	7.3	-	0.2	0.2	0.2	0.7
Falcon - Travel Hub	-	-	-	-	-	0.1	0.0	0.0	(0.0)	0.1
Falcon - Peregrine	2.4	0.7	0.2	0.2	3.5	1.3	1.8	1.3	1.5	5.9
Digital Developments	1.0	1.0	0.6	0.4	3.1	0.1	0.2	0.2	0.2	0.7
Eagle	0.5	0.5	0.5	0.5	1.8	-	0.1	0.1	0.0	0.2
Youth Strategy	0.3	0.4	0.6	-	1.3	-	-	(0.2)	(0.3)	(0.5)
Other Smaller Projects Modernise	0.3	0.2	0.1	0.1	0.7	-	0.0	0.0	0.0	0.1
Build innovative, flexible and secure IT	**7.2**	**7.7**	**6.6**	**4.8**	**26.4**	**2.0**	**2.3**	**2.5**	**2.5**	**9.2**
Project Everest - Cloud Enablement	1.5	1.4	1.4	1.3	5.6	0.7	0.6	0.6	0.6	2.5
Risk and Resilience	1.0	1.0	1.0	1.0	3.9	-	-	-	-	-
PCI/Payments Hub	2.4	3.4	2.3	0.5	8.5	-	-	-	-	-
EUC Branch Deployment	0.2	-	-	-	0.2	0.2	0.5	0.5	0.5	1.7
End-of-Life Replacements	0.2	0.0	-	-	0.2	-	-	-	-	-
Branch Printer Replacement	0.0	-	-	-	0.0	0.3	0.3	0.3	0.3	1.2
IT Service Transformation Programme (Nelson)	0.8	0.4	-	-	1.2	0.3	0.3	0.3	0.3	1.0
CDP re-procurement	0.1	-	-	-	0.1	0.2	0.2	0.2	0.2	0.9
Project Trafalgar	0.4	0.2	0.2	0.2	1.0	-	-	-	-	-
Integration, Microservices & API Layer	0.1	0.2	0.2	0.2	0.8	-	-	-	-	-
Computacenter Run Services Transition	-	0.5	0.8	0.8	2.1	-	-	-	-	-
IT Security Strategy	0.2	0.2	0.2	0.2	0.9	-	-	-	-	-
EUC / Computacenter	-	0.2	0.2	0.2	0.7	-	-	-	-	-
Network Evolution and Enhancement	0.1	0.3	0.3	0.3	1.0	-	-	0.2	0.2	0.4
Other Smaller Projects Build	0.1	-	-	-	0.1	0.3	0.4	0.4	0.4	1.5
Digitise and optimise the business	**4.9**	**9.2**	**8.7**	**8.9**	**31.7**	**0.9**	**1.2**	**1.3**	**1.3**	**4.7**
Supply Chain and Back Office Improvement	0.3	4.4	4.3	4.2	13.3	(0.0)	0.2	0.3	0.3	0.8
Property	1.5	1.0	0.9	1.2	4.7	-	-	-	-	-
BI Strategy (Arrow)	0.5	0.3	0.2	-	1.0	-	-	-	-	-
HR Programmes	1.8	2.7	2.7	2.7	9.9	1.0	1.0	1.0	1.0	4.0
LRG Programmes	0.3	0.5	0.5	0.5	1.8	-	-	-	-	-
Other Smaller Projects Digitise	0.5	0.2	0.1	0.3	1.1	-	-	-	-	-
Modernise our skills, polices and processes	**2.2**	**0.9**	**0.5**	**-**	**3.6**	**0.5**	**0.5**	**0.5**	**0.5**	**2.0**
Back Office Systems Transformation	2.2	0.9	0.5	-	3.6	0.5	0.5	0.5	0.5	2.0
Non-UKGI Funded	**3.7**	**5.3**	**6.5**	**5.8**	**21.3**	**1.0**	**1.1**	**1.1**	**1.1**	**4.3**
Group Litigation	2.1	2.6	2.6	2.6	10.0	-	-	-	-	-
GDPR	0.1	-	-	-	0.1	-	-	-	-	-
Project Panther (integration costs only)	0.7	1.9	3.4	3.1	9.1	1.0	1.1	1.2	1.2	4.4
Other Smaller Projects Regulatory	0.8	0.7	0.4	0.1	2.1	-	-	(0.0)	(0.0)	(0.1)
Total Change Spend	**42.5**	**52.3**	**38.0**	**41.4**	**174.2**	**15.6**	**18.4**	**19.9**	**21.7**	**75.6**
Of which qualifying for UKGI funding	**38.8**	**47.0**	**31.5**	**35.6**	**152.9**	**14.6**	**17.3**	**18.8**	**20.6**	**71.3**

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7.5. Appendix 5 - Key Delivering projects

Simplify the Retailer Proposition

Network Programmes

In the following year we plan to franchise 77 DMB's of which 33 will be finishing our Oct 2018 deal with WHSmiths (Edgware) and 44 further franchises are planned around the second half of the year. By the end of Q1 we will have tested the interim operator approach that will enable us to review our exit plans and decide whether to 'scale up' exits in year.

As part of Network Maintenance we also plan to create 220 NNLs, convert 30 Mains to Locals and deploy 140 Outreaches to support our target of 11,500 branches.

Solar Full (HNGT)

Solar is a critical part of developing our Retail and IT Strategies. It is a pre-requisite for delivering the new 'PO Express' format, as well as building a new, device-agnostic transaction system that can be delivered through a range of devices. It will also help us convert Mains branches to Locals through retailer point-of-sale (RPOS) integration.

Agents/Postmasters Portal (Branch Hub)

Branch hub is a self-serve portal that branch operators can use to access support. During the following year the project team will build further functionalities into the portal, on a prioritised basis, to improve operator journeys and back office operations generating cost savings from back office efficiencies.

Modernise our Products and Services

IRRELEVANT

IRRELEVANT key delivering projects for the next year are the following:

IRRELEVANT Focus is very much on the proposition to i IRRELEVANT

IRRELEVANT

IRRELEVANT The Programme to transform IRRELEVANT commenced in IRRELEVANT IRRELEVANT and will continue IRRELEVANT

IRRELEVANT

IRRELEVANT Following business case approval IRRELEVANT the Programme have completed the IRRELEVANT and will commence IRRELEVANT Delivery will be IRRELEVANT and will include IRRELEVANT

IRRELEVANT

IRRELEVANT

IRRELEVANT focus for the next year is around IRRELEVANT a project that will define and deliver IRRELEVANT y and the development of a IRRELEVANT

IRRELEVANT

IRRELEVANT

IRRELEVANT focused around the following projects:

IRRELEVANT a project that will IRRELEVANT

IRRELEVANT

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IRRELEVANT a project that will IRRELEVANT
IRRELEVANT

IRRELEVANT included in this category are as follows:
IRRELEVANT a programme to leverage market leading solutions to IRRELEVANT
IRRELEVANT
IRRELEVANT - a project to ad IRRELEVANT
IRRELEVANT

IRRELEVANT
New project IRRELEVANT
project is to develop new products IRRELEVANT

IRRELEVANT
The Project is mainly IRRELEVANT
IRRELEVANT

IRRELEVANT
IRRELEVANT in this category is project V IRRELEVANT a project to focus on the IRRELEVANT
IRRELEVANT

IRRELEVANT
Contractual agreement IRRELEVANT

IRRELEVANT

IRRELEVANT

Build Innovative, flexible and secure IT

Project Everest - Cloud Enablement

The project will be focused on the build of cloud solution to replace systems currently based in Fujitsu datacentres.

Risk & Resilience

The projects relates to maintenance of IT budget to deal with small pieces of work (predominantly reactive) that are required to maintain service levels and make minor efficiency improvements where possible.

Payments Card Industry (PCI)/Payments Hub

Post Office is subject to Payment Card Industry (PCI) regulations and this project is driving increased levels of security and encryption in our systems to remain compliant with these.

Project Trafalgar (Change excellence)

Continuation of project to further standardise and improve the delivery of change works throughout the Post Office.

Integration, Microservices & API Layer

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New Project that is focused on works to allow rapid, agile and seamless integration between Post Office and third parties' services and functionality through building of Post Office API's (Application Programming Interfaces) and the ability to leverage other parties API's.

Computacenter & Atos Services Transition
Projects to deal with review, negotiation and transition of our key suppliers (Computacenter & Atos) services, in house with associated cost savings.

Network Evolution and Enhancement

New Project with scope to deep dive on IT network infrastructure and commission small, medium and large scale changes to the infrastructure to make it more efficient. Verizon cost reductions from changes implemented.

Digitise and Optimise the Business

Supply Chain and Back Office Improvement

Swindon Strategy - review and transition to the best long term model for our Swindon Centre and the services we run out of it

Process and Contact Centre Transformation - a series of works to transition and reshape the Process and Contact Centre teams to better align them with the business and increase cost efficiency.

Property

Capital spend for maintenance and improvements of wider property portfolio.

BI Strategy (Arrow)

The Data project, covering strategy, governance and delivery, has been passed pending the IT team agreeing the future of Credence.

LRG Programmes

Legal Entity Optimization - Project to ensure that the organisation has the right legal structure to deliver its North Star strategy, ensuring regulatory governance is only applied to the regulated activities and to support the wider strategic plans of the business.

HR Programmes

HR target Operating Model – Project focuses on finding the suitable operating model for the HR function.

Modernise our skills, culture, HR policies and processes

Back Office Systems Transformation

Project for the replacement of core Back Office Systems including the decommissioning of POLSAP. Project has now been delivered, however due to delays in the project's go live date cost related to closing activities slipped into the following financial year.

Non UKGI Funded

Project Panther (integration costs)

Project spend is mainly focused on the integration of the Payzone acquisition and also funding on additional technology, signage and transport earn out cost. The project is expected to generate net revenue which is made up by current Payzone revenue, new contracts & a number of new initiatives (smart ticketing, cross network sales). (Payzone £16m acquisition has been completed in FY1819 with some elements still to be delivered in the following two years requiring additional £1.4m in FY1920 and £2.0mil in FY2021

5.3

Future Cost Opportunity

Author: Jonathan Lewis Sponsor: Alisdair Cameron / Mo Kang Meeting Date: 28 May 2019

Executive Summary

Context

Over recent years, we have brought the business to profitability, reducing costs by some £150m per annum, paying less to Postmasters, employees and suppliers. In particular, there has been a focus on reducing fixed costs.

As clearly stated in the strategic narrative shared with the Board in March, while the business is profitable and income is starting to rise, we must continue to reduce fixed costs over the next 4 years. Legacy income will continue to decline, customer needs continue to change, government investment is uncertain and Postmasters will need to earn more.

McKinseys were hired last year to help us with structure, capability and change. We discussed structure in April and the high level alignment of work in a simpler, flatter structure is set out in the appendices. The purpose of this paper is to share the direction of travel on costs.

Questions addressed in this report

1. What are the key elements of our cost base?
2. What opportunities do we have to decrease our cost base, and by how much can we reduce it?
3. What are we doing now to address our cost base?

Conclusions

As set out in the table below, excluding Postmaster pay our cost base last year was some £593m, including direct costs of sale.

Over 5 years, we believe that there is a total cost opportunity across the business of £100-150m, of which £80-100m can be achieved over the next three years, mostly in 2020-21 and 2021-22. This is in line with recent McKinsey work that identified an opportunity of £80-120m savings.

Within costs of sale, we have already started a competitive tender for the outsourced services within Telco, where our analysis suggests £10-20m of benefits can be gained. However, we also have hidden costs of sale, which sit within client P&Ls. We are pushing FRES with work already underway to move from two forex cash centres to one and we believe further synergies are possible. We have signalled the need to seize the wider opportunity with BoI and also want to explore possibilites within the RMG negotiations. £20-30m of cost savings should be achievable.

For staff costs (£193m) we should reduce FTEs from 4,397 at end March to something around 1,700. Of this 2,100 relates to completing the DMB programme, 700 from functional and efficiency savings, net of c. 80 new roles in digital and data analytics

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where we operate below par. This could equate to a net saving of £40m after accounting for £40m of additional agents pay. The precise timing of the DMB programme may change.

Some £40m of the total cost savings are envisaged in IT. However, this number is either in existing budgets or relates to the opportunity to operate without Horizon. This idea is in the earliest stages of gestation and could not be realised until 2023, after the expiry of the current contract.

McKinseys also signalled a £15m a year saving from relocating the London office to a northern city. While we agree that we should reduce our central London office to c. 50-75 FTE, it is not clear that we can fully win on capability in smaller markets and the plan, which assumes 350 FTE will be made redundant and replaced through recruitment in one year seems unrealistic. Mo is leading work to come up with a workable approach which will crystallise some savings.

Neither we nor McKinseys identified significant opportunities in year but we are prioritising an updated review of spans and layers, some changes in Supply Chain central and cash centre costs and a quick review of risk and compliance. £2m of in year benefit is expected.

The next steps are to agree a year by year, activity by activity plan, with investment costs as part of the Future Financial Shape work coming back to the July Board. Our expectation is that we will be realising some headcount reductions in Q4 to get the full year benefits in 2020-21.

Input required

The Board is asked to agree the direction of travel, requesting a plan and costings in July.

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5.3

The Report

What are the key elements of our cost base?

1. Our cost base is split as follows:

2018-19	**£m**
Costs of Sale	130
Staff costs (4,397 FTE at year-end)	193
Non-staff costs	270
Addressable costs for this paper	**593**
Postmaster Pay	365
Total costs	**958**

2. Putting Agents Pay to one side, almost £590m remains addressable

What opportunities do we have to decrease our cost base, and by how much can we reduce it?

Cost of Sales

3. The major contributor to Cost of Sales is the relationship with Fujitsu in Telecoms.
4. The Fujitsu contract is due to expire in 2020, and we recently initiated an RFP process to test what cost savings could be achieved by retendering and insourcing more of the management of the service. Previous work, however suggests a £10-20m opportunity exists.
5. We are also investigating synergies between POL and FRES, such as (a) reducing the number of FX cash centres from 2 to 1, and (b) leveraging our field teams instead of the FRES sales team to visit branches.
6. Across these levers and others withing Cost of Sales, we believe there to be an overall opportunity of around £20-30m.

IT

7. Our current plans yield savings in IT of around £15m. Additional benefits will be possible once we are able to move away from Fujitsu (in 2022) and replace the Horizon system. This could release an additional £20-25m per year. However, the changes required to deliver such a change would be substantial. Plans to do so will be created nearer the time, allowing the savings to be further validated.
8. In total, therefore, we believe around £30-40m may be possible.

DMBs

9. Completing the DMB programme is expected to save approximately £40-45m, being comprised of labour, property and other cost savings of £86m versus increased Agent Pay of £40-45m. In total around 2,100 FTEs will leave the business (2,000 FTEs in DMBs with the remainder in enabling functions).

5.3

Other

10. Across the remainder of the business, we believe that cost savings of approximately £50m are possible. This has been validated by McKinsey who undertook a piece of work to 'size the prize'. Overall, their analysis identified FTE savings of 400-700, and cost savings of £80-120m, or £45-65m (excluding IT).
11. McKinsey also identified an opportunity to upskill in digital and analytics (60-100 FTEs).
12. The following table shows FTE changes from the analysis:
    a. Scope – those non-DMB FTEs released as part of our DMB programme (-2,130 FTEs)
    b. Efficiency – changes to processes and systems identified by McKinsey (-568 FTEs)
    c. Capability – digital and analytics upskilling identified by McKinsey (+80 FTEs)

	FTEs Baseline	FTEs scope Changes	FTEs post-scope	FTEs Efficiency	FTEs post-efficiency	FTEs Capabiliy	FTEs post-capability
DMBs	1,986	-1,986	0	0	0	0	0
Supply chain ops	838	0	838	-234	604	0	604
Franchising	581	11	592	-153	439	0	439
IT	63	0	63	0	63	0	63
Change	166	-95	71	-11	60	0	60
Product and Partnership	140	0	140	-37	103	0	103
Marketing	54	0	54	-4	50	0	50
Digital & Analytics	44	0	44	0	44	80	124
HR	123	-51	72	-38	35	0	35
Finance	113	-3	110	-53	56	0	56
LRG	75	0	75	-25	50	0	50
Comms	39	-7	33	-11	22	0	22
Procurement	15	0	15	0	15	0	15
Strategy	24	0	24	-3	21	0	21
Additional	22	0	22	0	22	0	22
Sub total exc DMB	**2,296**	**-145**	**2,152**	**-568**	**1,583**	**80**	**1,663**
Total	**4,282**	**-2,130**	**2,152**	**-568**	**1,583**	**80**	**1,663**

13. In terms of net movement, the majority of the FTEs to be released through efficiency are based in our Supply Chain and franchising operations areas, but all areas are affected substantially.
14. Supply Chain savings are released through further route optimisation (including dynamic route optimisation), improved forecasting, better demand management and, in time, the creation of a Cash JV.
15. Franchise operations savings are achieved through digitisation of resource-intensive processes (e.g., agent onboarding), standardisation of store design etc.
16. Other savings are achieved through a range of levers including:
    a. Optimising spans and layers
    b. Demand reduction through process redesign
    c. Utilising automation and digitisation where appropriate
    d. Zero-based right-sizing of functions
17. Detailed bottom-up planning is needed to validate these savings and identify the key enablers required.
18. Within this cost saving opportunity, £16m is achievable by relocating the head office from Finsbury Dials to a substantially lower labour/property cost area (Manchester was used as the benchmark). Given the substantial upheaval of moving c. 400 jobs, we are currently investigating hybrid options and transition plans with CBRE. The hybrid option would result in a small (50-100 FTE) head office with other functions relocated to lower cost areas. A substantial portion of the saving (c. £8m) should therefore still be achievable.

Summary

In summary, therefore, we believe that we will be able to reduce our overall cost base by around £100-150m over a 5 year timeframe, with the net release of around 2,600 FTEs, (4,300 to 1,700). Of this, we believe around £80-100m is achievable within a 3 year timeframe.

		Cost reductions vs 18/19 In 3 year timeframe	In 5 year timeframe		FTEs*
Cost of sales		25	25		~0
IT		15	35		~0
DMB Programme		30	40		2,130
Relocation		2	8		~0
Other efficiency (ex-DMB and Relocation)		30	40		568
Total		**102**	**148**		**2,698**
Digital and Analytics development		-8	-8		-80
Grand Total		**94**	**140**		**2,618**
* Versus December 2018 baseline of 4,282 FTEs					

19. Implementation costs, in terms of redundancies and systems-related costs are likely to be substantial and are being worked up, alongside phasing the savings. We will bring back the results of this work back to the Board in July.

What are we doing now to reduce our cost base?

How we will mobilise

20. Given the overlap with the Change programme, we have integrated the Blueprint activities within our overall Change architecture ensuring that the programmes will be properly governed in accordance with Post Office frameworks and that there are no conflicts between 'Change' and 'Blueprint'. In fact, there will be no separate 'Project Blueprint' going forward and it will simply be another, albeit important and longer-lived, element of the Change plan.
21. With the activity being integrated with the Change plan, it will have the benefit of strong governance, monitoring and oversight alongside the other Change plan initiatives.
22. The immediate focus will be on developing the bottom-up analysis of the process, policy and systems changes that will be required to unlock the savings.

Where we will focus for 19/20

23. Given the substantial amount of change already going on in the business, we need to focus on areas that:
    a. will provide the most impact,
    b. can be captured within the current organisation structure,
    c. won't risk the remainder of the change agenda, and
    d. won't negatively impact relationships with agents.
24. We will therefore start with:
    a. Supply Chain – a relatively separate activity where the improvement levers shouldn't impact agent relationships
    b. Product management – an area where McKinsey has identified we have Product managers spread across the business, and potentially too many of them

5.3

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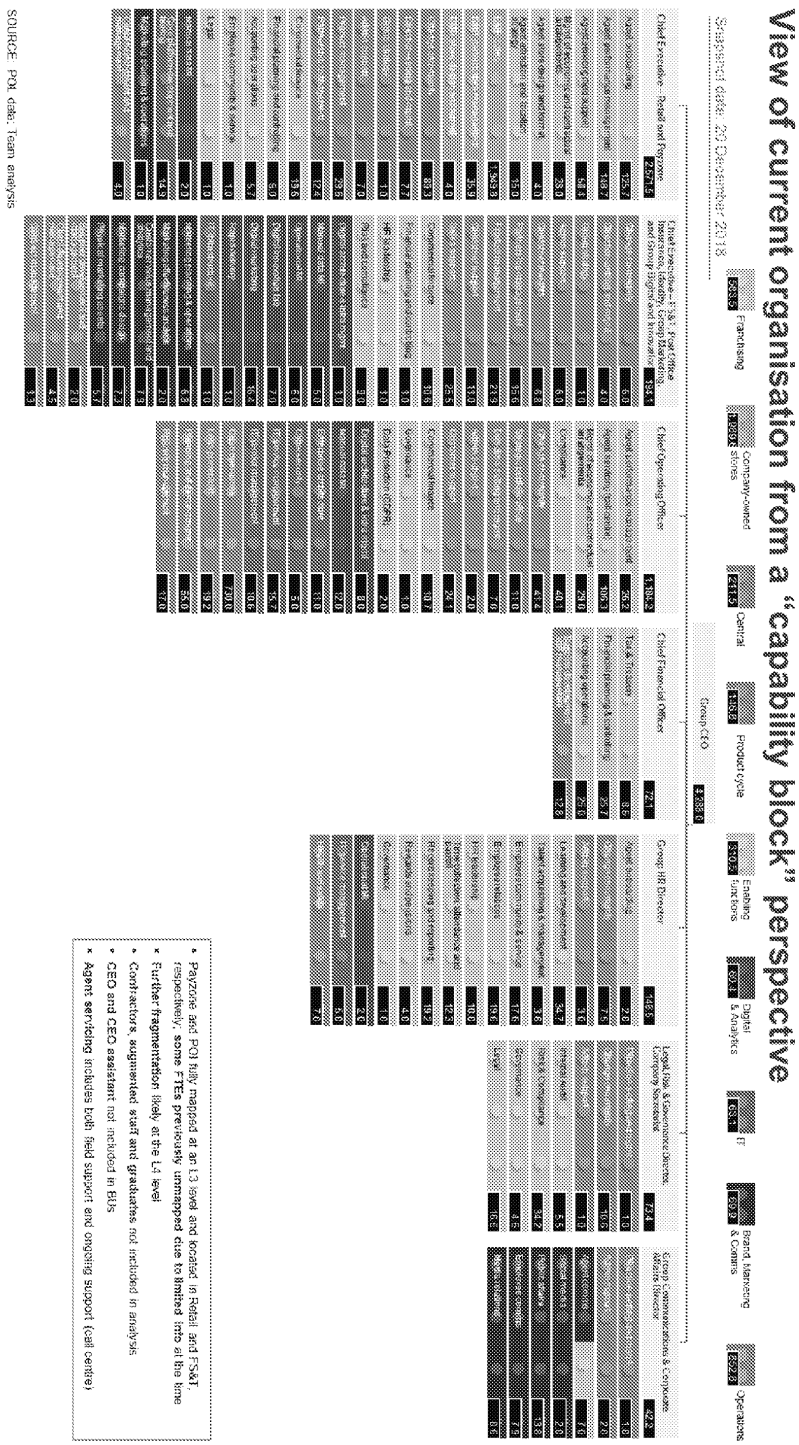
   c. Spans and Layers within the enabling functions – where we can begin to capture benefits without undertaking fundamental process reengineering at this stage

25. Completing the bottom up analysis for these areas will take the majority of May and June. Consultation can then begin (once we're satisfied that the savings are available for capture), taking approximately 100 days. Therefore, we will target capturing the benefits from the end of September, providing six months of the run-rate benefit within 19/20, accepting that this is an aggressive timetable.
26. The McKinsey work suggests that there is approximately £4m of in-year benefit to come from these areas over and above the existing Change programme. Given the bottom-up planning is not yet complete, and the uncertainty around timing, we have included £2m of this against the ungrounded cost challenge.

Next steps

27. We are standing teams up to review Spans and Layers, Supply Chain operations and Product Management to target cost savings within 19/20 and will report back in July.
28. We are also working through the longer term view of the opportunity with the GE and FLT, and again will report back in July.
29. Later in the year, we will start the work on the bottom-up planning of the 20/21 opportunity to ensure we are ready to capture the savings as early in the year as possible.

Appendix 1 – POL existing structure



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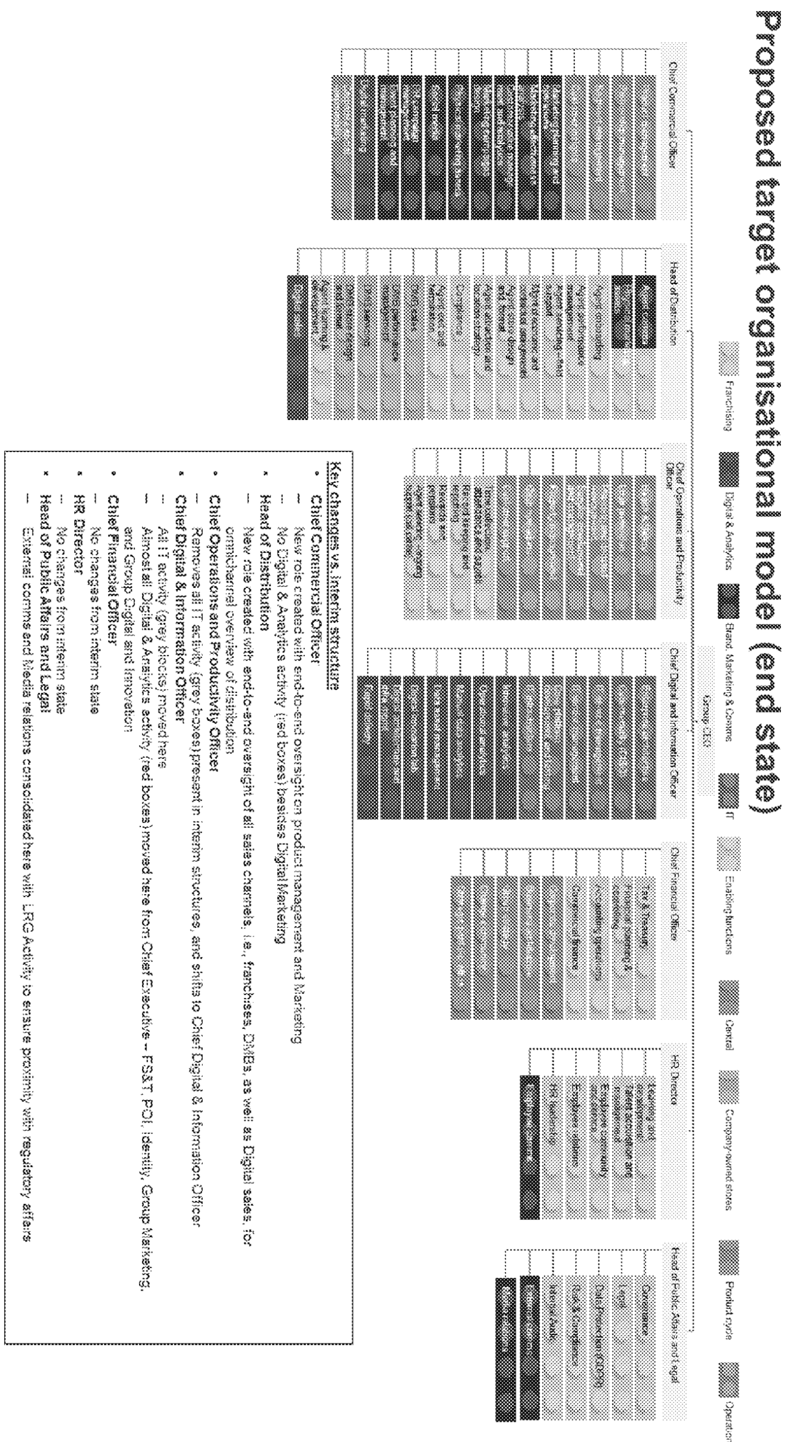
Appendix 2 – Potential new structure



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5.4

19/20 Budget update

Author: Jonathan Lewis Sponsor: Al Cameron Meeting Date: 29 May 2019

Executive Summary

Context

In the 19/20 budget discussed with the Board at the end of April, £12m of additional BAU opex was allocated to improving agent relationships and £10m of change spend. This spend will help to reduce churn, improve our efficiency and better align incentives between POL and our agents. This investment in improving our relationship with agents will also address some of the GLO findings to date, though is not a direct response to those findings.

Furthermore, £12m of ungrounded challenge remained (£9m existing prior to the Board meeting and an additional £3m added).

Questions addressed in this report

1. How do we plan to spend the additional £22m allocated within the budget to improve Agent relationships?
2. What progress has been made on grounding the ungrounded challenge?

Conclusions

We have developed a plan for where we intend to spend £12m of BAU opex and £10m of Change spend to improve Agent relationships:

- Just under half of the BAU opex spend will go into Agent remuneration of one form or another, with the remainder allocated towards communications and engagement, internal process work and the lost benefits from reprioritising the Change plan.
- Additional change spend is focused on making it easier for Postmasters to do their job through Branch hub and Horizon screen changes, and accelerating the benefits of the recent field structure change.

We believe it is worth pushing forward with these changes as soon as possible, given there could be a finding from the Horizon trial as soon as July 2019.

We have made good progress in grounding over £10m of the ungrounded challenge. However, given some adverse movements, we still have another £4m to go.

The Report

How do we plan to spend the additional £22m allocated within the budget to improve Agent relationships?

1. Having strong relationships with Agents is key to our long term success as a business. We rely on them to deliver excellent customer service selling our products, and we need existing and new Agents to maintain network reach for us to fulfil our statutory and strategic social purpose.
2. While around 500 Agents have engaged in the GLO process, we also believe that there is growing unrest with many of our partners who have seen significant remuneration decreases predominantly through reductions we have imposed and declining government services. This along with increasing costs from NMW/NLW and rents/rates is making an increasing number of our Post Offices vulnerable.
3. The Horizon trial is due to conclude in July and a judgement could be delivered rapidly after that. Our intention is to launch a series of measures as soon as possible to ensure that whatever is said in the judgement, our network and the public understand that we wish to maintain a fair and profitable relationship with our agents.

BAU opex to improve Agent relationships

4. The following table summarises how we intend to deploy the additional £22m of funding

Initiative	19/20 £m
Opex	
Agents Remuneration – reverse Mails simplification	3.5
Agents Remuneration for suspended Postmasters	1.5
Agents Remuneration – deep dive	0.5
Legal work regarding policies and processes	2.0
Communications	0.5
Simpler business – training and engagement	1.2
Impact on Change plan reprioritisation	0.5
BAU impact of process changes (placeholder)	2.3
Opex total	***12.0***
Change	
Horizon changes (quick wins)	2.5
Branch hub initiatives	1.5
Simpler Business – HotHousing to accelerate field structure benefits	3.0
Design of new processes (including loss prevention)	2.0
POL workforce changes (Restructures etc.)	1.0
Change total	***10.0***

5. Just under half of the BAU opex spend will go into Agent remuneration of one form or another, with the remainder allocated towards communications and engagement, internal process work and the lost benefits from reprioritising the Change plan.
6. Additional change spend is focused on making it easier for Postmasters to do their job through Branch hub and Horizon screen changes, and accelerating the benefits of the recent field structure change.
7. With the exception of the Agent remuneration items, the numbers are current estimates and subject to change.

Summary of each initiative - Opex

8. *Agents Remuneration – reversing Mails simplification - £3.5m*
   As part of Mails simplification and the reduction in Postmaster workload, the Postmasters also suffered a loss in revenue. While we have defended this in public, we no longer believe that this was the right thing to do – while the work did decrease, it is hard, if not impossible, for some Postmasters to realise staff cost savings from the reduced work. We therefore intend to reverse it as soon as we can. We are working through the operational changes required to make this happen, as well as how best to communicate it so that we are resilient to claims for retrospective compensation and claims for other remuneration changes for which Postmasters believe they should be compensated. £3.5m covers 9 months of this change. We believe it is worth announcing this before the next trial results are announced, which means it would be committed before the findings are available from the strategic review of Agent remuneration.
9. *Agents Remuneration – payments to suspended Postmasters - £1.5m*
   Generally, we have not paid Post Masters while they are suspended. The GLO findings, however, questioned the fairness of this. Currently we have 17 Postmasters suspended on full pay. If the cumulative run rate (c5 suspensions per month) continues, this will equate to an additional £1.5m per year. We believe it is fair and reasonable to offset some remuneration costs against the cost of paying a temp and processes are being streamlined to reduce the average period of time Postmasters are suspended for (currently 12 weeks), to limit this exposure.
10. *Agents Remuneration – deep dive - £0.5m*
    We will allocate an additional £0.5m to the work into Agent remuneration given the strategic nature of this work.
11. *Legal work regarding policies and processes - £2.0m*
    We are not currently intending to make wholesale changes to our contracts. We are going to invest, however, on legal advice on our interpretation of contracts in the areas of termination and loss recovery in light of the Common Issues trial – e.g., what does 'fair and reasonable' mean in the way that we manage differences?
12. *Communications - £0.5m*
    This spend is to cover communicating changes to Agent Remuneration, any changes to processes and policies resulting from the legal work, and changes to Horizon and Branch Hub within the Change spend.
13. *Simpler business – training and engagement - £1.2m*
    This will fund additional trainers to meet the demands of new onboarding, on-site and refresher training, and also to fund additional local and regional engagement meetings with our Postmasters.
14. *Impact on change plan reprioritisation - £0.5m*
    In light of the GLO findings and the need to ensure we had sufficient financial capacity and change capacity to improve agent relationships, some elements of the change plan were reprioritised, the net impact of which is £0.5m
15. *BAU Impact of process changes (placeholder) - £2.3m*
    We have not yet worked through the BAU opex impacts of the process changes (as the process changes themselves are unknown). We have therefore allocated the remainder of the £12m as a placeholder to cover the costs of such process changes.

Summary of each initiative - Change

16. *Horizon Changes - £2.5m*
    We have identified a number of areas where the design of the Horizon interface could be improved to reduce errors. Examples include interventions to ensure transactions that have failed on Horizon are not actioned in branch, standardising menu screens to ensure that the right service is selected (e.g., Deposit vs Withdrawal) and introducing a requirement to rekey

5.4

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entries (so mitigating the "double zero" issue). This will be good for customers, good for Agents, and good for us in that there will be less errors for us to fix. We will need Fujitsu to implement these changes.

17. *Branch Hub acceleration - £1.5m*
Accelerating Branch Hub and its adoption will make for a better experience for customers, an easier business for our Agents to run, and fewer errors for us to fix and less support required.
18. *Simpler Business – Hot-housing to accelerate benefits of new field team - £3.0m*
We will accelerate the current work being done to build the capability of the field teams to better support agents in running their business and enable local solutions and quick wins to be delivered, improving the performance of Agents (and therefore the amount of remuneration they earn).
19. *Design of new processes - £2.0m*
We have allocated £2m to cover process redesign this year to enact the results of the legal review into the Agent contract and other processes to improve the relationship with Agents. Included within this is the additional project resource to redefine processes and implement the necessary changes.
20. *POL workforce changes - £1.0m*
To implement the new processes, workforce changes may be required for which we have allocated £1m.

What progress has been made on grounding the ungrounded cost challenge?

21. On top of the original £9m ungrounded cost challenge, to meet our budget, we will also need to ground an additional:
    a. £3m challenge from April budget discussion
    b. £1.8m from the delay in capturing Computacenter savings, that will now be captured in 20/21
    c. £1.0m from deciding to maintain the roll-out of Fibre in Telecoms, where the original budget assumed that this would stop in July.

	£m	Comments
Ungrounded cost stretch from April	11.9	Includes additional £3m agreed as part of 19/20 Budget discussion in April
Lost change benefits	1.8	Delay to capturing Computacenter savings
Fibre	1.0	Additional cost to run Fibre roll-out for full year
Total	**14.7**	
Of which:		
Blueprint benefits	-2.0	See separate paper
Other groundings	-8.3	Primarily in CIO and FS&T
Remainder to ground	**4.4**	

22. We have grounded over £10m of this, with the majority being grounded in:
    a. CIO against 3rd party vendors
    b. FS&T through call centre efficiencies
    c. Blueprint benefits assumed as set out in the May Board paper entitled "Future Cost Opportunity".

POST OFFICE
BOARD

PAGE 1 OF 3
ADVISORY PAPER

Annual Report and Accounts 2018/19

Author: Tom Lee   Sponsors: Micheal Passmore, Al Cameron   Date: 28 May 2019

Executive Summary

Context

The draft 2018/19 Annual Report and Accounts (ARA) is presented to the Board, along with supporting papers, for review.

The papers comprise 1) the ARA, 2) a briefing book setting out the details of the financial results and accounting judgements, and 3) the Audit Committee Paper from PwC outlining the work performed and findings to date.

6

Questions addressed in this report

The following questions are addressed in this report:
1. In summary, what were POL's financial results for the year ended 31 March 2019?
2. What is the status of the audit work on the ARA?
3. What matters are we drawing to the Board's attention in their review?

Conclusions

Post Office reported a trading profit (EBITDAS) of £61 million (2018: £35 million), an improvement of £26 million, comprising a small increase in commercial turnover and cost reductions. Net assets increased to £256 million (2018: £206m).

PwC is working to complete its audit procedures and will provide an update on their identified significant risk areas and areas of audit focus in their Audit Committee Paper to the ARC on 29 May. Subject to the completion of their audit work, PwC has not identified any significant issues to date which would impact on the signing of the ARA. Refer to the Audit Committee Paper prepared by PwC for details of findings to date.

The following items have been set out in this report:
- Accounting for the acquisition of Payzone Bill Payments Limited;
- Note Circulation Scheme; and
- Group Litigation Order.

Input Sought

The Board is requested to review and comment on the draft ARA for the year ended 31 March 2019 and, subject to the completion of PwC's work, approve and delegate the ARA for signing.

The Report

In summary, what were POL's financial results for the year ended March 2019?

1. Post Office made an underlying operating profit of £13 million (2018: £47 million) and reported a trading profit (EBITDAS) of £61 million (2018: £35 million). This represents a trading profit improvement of £26 million on the prior year. Trading revenue increased year on year by £16 million to £972 million principally as a result of growth in Identity and Insurance business areas, with continued growth also noted within Banking Services. This was partly offset by the anticipated decline in our Post Office Card Account income stream. The focus on controlling and reducing the cost base generated a reduction in direct costs of £2 million to £958 million (2018: £960 million).

2. On the Post Office Group balance sheet, net assets have increased from £203 million to £256 million. Notable changes driving this increase include an increase in tangible and intangible assets of £55 million, a decrease of £112 million in cash and a decrease in the government loan of £58 million.

What is the status of the audit work on the ARA?

3. PwC is working on the completion of its audit procedures. PwC will provide an update on each of their identified significant risk areas and areas of audit focus in their Audit Committee Paper at the ARC meeting on 29 May. Subject to the completion of their audit work, PwC has not identified any significant issues to date.

4. At this stage no significant findings or management letter points have been brought to management's attention. Findings and adjustments raised to date include:

   - £6m balance sheet reclassification, to move Camelot scratchcard balances from inventory to prepayments;
   - control recommendation around the leavers process in relation to global user access, however alternative procedures are being performed to provide appropriate assurance. Appropriate corrective measures will be performed internally once findings confirmed.

5. As part of the year end process, internal Post Office reviews have been undertaken to review post year end invoices, purchase orders and bank reconciliations and no adjustments are proposed as a result. This work is continuing to be updated, and PwC will also need to continue its post year-end review prior to signature.

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6. The migration from POLSAP to CFS was completed and reviewed internally prior to year-end. PwC are currently completing their procedures over the accuracy and completeness of the migration process. The results of this will be concluded and reported prior to signing the ARA.

What matters are we drawing to the Boards attention?

Payzone Acquisition

7. On 24 October 2018 Post Office Limited acquired Payzone Bill Payments Limited for total consideration of £19 million, which comprises £16m fixed fee and £3m contingent fee (of which £1m has been settled to date). The acquisition has been accounted for under IFRS 3 Business Combinations and has resulted in additions to intangible assets of £7 million and Goodwill of £8 million. From the date of acquisition to 31 March 2019, the Payzone business has contributed £4 million of revenue and £1 million to trading profit.

Note Circulation Scheme

8. In the 2018/19 Annual Report and Accounts we have included an explanation of the Note Circulation Scheme (NCS), in line with 2017/18, to provide greater transparency to users. A reference is included in the Finance and Business Review and note 22 includes a description of the scheme.

9. At the year-end £227 million (2018: £238m) was funded via the NCS. As in previous years we do not disclose anything on the Balance Sheet but have taken a decision to include narrative on the scheme in the notes to the accounts to allow the users of the accounts to better understand our funding. In 2017/18 we agreed the narrative included with the Bank of England and do not propose to amend it in the 2018/19 ARA. We have asked PwC to confirm that they agree with the off balance sheet treatment and associated disclosure.

Group Litigation Order

10. The High Court claim is expected to remain ongoing beyond the signing date of the ARA. The current disclosure in the ARA remains unchanged from 2017/18, being the disclosure of the litigation as an unvalued contingent liability with no provision made. We do not anticipate a material change to this disclosure, however the position will be revisited prior to ARA signing to reflect the latest status of the claim with any subsequent events reflected as required.

11. We have separated out the costs incurred in 2018/19 of £14m as an exceptional item, which corresponds with the 2017/18 treatment. This classification has been selected because the expenditure is not in the ordinary course of business and anticipated total costs are material. Further spend is expected in 2019/20 but the value cannot yet be estimated and no provision has been recognised.

12. PwC have and will continue to be consulted on the disclosures.

Strategic Report

The Strategic Report for the Post Office comprises the Chairman's Foreword, Chief Executive's Statement and Financial and Business Review.

Chairman's Foreword

6

The Post Office has had another strong year~~,~~. ~~We grew~~Our ~~-~~turnover ~~grew~~ by 2%, to £972 million, and we have delivered a trading profit of ~~posting a~~ £61 million, a 74% increase on last year~~ trading profit, a 74% increase on last year~~. A particularly encouraging performance was recorded in a number of areas including Banking, Mails, Telecoms and Travel, showing our resilience in what has been another challenging year on the high street.

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This year we have built on the major business restructures undertaken in previous years, consolidating and reshaping central and back office functions to better serve our increasingly dynamic organisation.

We are creating stronger foundations to provide better services to our customers and support to those who run our branches. At the same time, we have been challenged by Government to be a self-sustaining company free of public subsidy. To achieve all this, we are going to have to work harder than ever before. We must match the pace of change in the industry, embrace new technology, adapt to market trends and meet customer expectations more decisively still.

Our recent results demonstrate that the ways in which we are transforming the business to remain relevant, easily accessible and the first choice for customers are working. We are on the right track. The success of our Banking Framework arrangements with the UK's banks has seen us become the biggest high street provider of cash and point of access for everyday banking services in the country. We are now the last cash provider in thousands of communities, reflecting our social purpose in action, supporting the consumers and small businesses which fuel local economies. There is more growth to come and we are working hard to expand this offer, to simplify the processes underpinning it and provide a better share of that success to our postmasters.

This year's acquisition of Payzone Bill Payments Limited ("Payzone") underscores our determination to extend our reach and accessibility for corporate and retail customers alike. The integration of Payzone's bill payments business with our own more than doubles the number of outlets at which these services can be conveniently transacted, to 25,000. This provides us with a much stronger platform through which to innovate and win new contracts from a wide range of corporate clients.

Improving the support we provide our postmasters and agents, and making it easier for them to run their Post Offices profitably, remains a priority. We have been reviewing our ways of working to ensure that effort and complexity are kept to a minimum, while looking to extend their product offering and rebalancing transaction fees. Our ambition is to attract and retain high quality business people to deliver for all our customers with energy and care. The ongoing Group Litigation involving Post Office is an important reminder that this aspect of our work is open ended, and that we must always strive to do even better.

As ever, it's our people, whether working in branches across the country, in our supply chain or in our support centres, who are making these changes happen and I would like to thank them for their continued support and their dedication to making this business successful.

I would also like to express my appreciation to our Shareholder, the Secretary of State at the Department for Business, Energy and Industrial Strategy ("BEIS"), as well as his Ministers and officials in UK Government Investments and BEIS for their collaboration and support across the year. My

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colleagues on the Post Office Board and the Executive Team have, once again, demonstrated real drive and energy in addressing the many challenges involved in modernising the Post Office for future generations.

Finally, I would like to extend particular thanks to Paula Vennells for her service over the past seven years as Chief Executive, leading and transforming this unique business towards an even brighter future. During Paula's leadership, Post Office has grown from a company that was losing £120 million a year, with a branch network in desperate need of modernising, to a strong, customer- focused, innovative and profitable business. She is leaving the business in good shape and I wish her every success for the future. I look forward to working with Al Cameron, Interim Chief Executive, and the Executive Team to build on Paula's success in the coming year.

Tim Parker
Chairman
XX XXXX 2019

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Chief Executive Statement

The Post Office matters more today than ever before. Providing essential services to millions of consumers and small businesses, day-in, day-out, it fulfils a unique function in the UK. We are, therefore, relentlessly focused on what needs to be done to evolve Post Office so it is relevant for future generations, financially robust to weather new challenges, and always faithful to our central purpose: being there for every customer in every community.

With a trading profit of £61 million this year, ~~achieved against a broadly flat~~supported by a small increase in turnover ~~revenue profile~~, we are on track to achieve our £100 million trading profit target by 2020/21. As Government looks, quite rightly, to reduce its financial support for the business in favour of other spending priorities, it is essential that we build robust financial foundations.

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Our trading profit target reflects our shared ambition to become entirely subsidy free after 2020/21, and create sufficient value to build a thriving, UK-wide, business for the long term. This will not be easy. We have to keep developing ahead of the market, and generate enough profit to reinvest in products, technology, our branches, and our people. We take confidence from the fact that our recent results demonstrate that if we stay focused on the right things we can succeed.

This year saw us complete our Network Transformation Programme, by far the biggest change we have ever made, and one of the biggest in UK retail. Investing in and modernising over 7,700 branches has resulted in significant increases in opening hours and levels of customer satisfaction. Over the period, we also opened over 440 new Post Offices in new locations, part of our strategy to increase convenience and choice for customers who want easier access to our services on their doorstep. With 11,638 branches as at the year-end (2018: 11,547), our network is at its most stable for more than a decade, and is growing.

Franchising, combining a post office alongside a separate retail offering, enables us to share the property, staffing, and other costs of running any business. This model, which has been operated successfully across the vast majority of the network for decades, continues to be extended to some our Directly Managed Branches ("DMBs"). These represent less than 2% of our network, but are disproportionately expensive to operate as stand-alone post offices. The decision to franchise is driven by a determination to keep these essential services available on high streets across the country in the face of the very significant cost challenges facing all retailers. Research shows that customer satisfaction levels return to, or even exceed, their pre-franchise levels soon after the change is made.

Improvements to our physical network of brick-and-mortar outlets has been matched by significant IT investment across the business. In financial year 2018/19, we substantially completed the transformation of our back office systems. These handle £60 billion in financial transactions each year for corporate clients and customers. As well as driving further efficiency, the changes give us better commercial insights to enable us to improve products and services. At the front line, we also renewed equipment in all our branches, and continue to look for opportunities for technology to expedite and simplify processes for our postmasters and customers.

We are consolidating and strengthening our position in some of our traditional markets, such as bill payments. Following clearance by the Competition and Markets Authority in October 2018, the successful acquisition of Payzone's bill payments business gives us a combined network of 25,000 locations at which customers can conveniently pay for essential services, significantly enhancing opportunities for future revenue growth in this competitive market.

We have retained our position as number one in letters and parcels, with significant growth in home shopping returns offsetting the continued decline in stamps. Online shopping has continued to drive strong growth in Collections and Return volumes and we are working closely with Royal Mail to innovate and improve our customer offering. This year we launched the new 'Labels to Go' service for

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online shoppers to print a returns label at their local Post Office, by simply using a QR code on their mobile phone or tablet.

Our travel proposition also continues to grow as we leverage our market leading position in Travel Money, using technology to enhance our offer. More than 300,000 customers are already using our new Travel App. This enables customers to manage their Travel Money Card accounts 24/7 from anywhere in the world, as well as providing easy access to travel insurance. Over 700 branches are now offering Passport Digital Check and Send, enabling branches to process applications online, dramatically improving the customer experience, while boosting security. To round off what has become a one stop shop for our customers' travel needs, we made International Driving Permits available in 2,500 branches across the country, selling 350,000 permits over two months, with plans for further expansion in the year ahead.

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Over 900,000 new customers registered for our GOV.UK Verify service, which provides a secure, and re-usable, means of definitive identity assurance to enable customers to access a range of online Government services. The opportunity now is to build on this success and expand the benefits of digital identity to a much broader range of users and organisations. We believe the Post Office is ideally placed to help grow this wider market, and we are seeking to rekindle Government's impressive early interest and positive action in the development of this new and transformative technology.

Concerns over bank branch closures across the country have grown louder across the year, and underscore just how important the continued availability of access to basic banking services through the Post Office is to communities. Since its inception in January 2017, we have significantly grown the volume of transactions we undertake on behalf of all the UK's major banks, and doubled revenue. We have been busy working on a significant further expansion over the next three year phase, rebalancing the fees we receive to better reflect the value of the service. We want all those involved to share in the success of the service, especially those working at the counter, and we recently announced that we are near tripling the fees our postmasters receive for cash deposits as a result.

We recognise that our postmasters are key to the success of our business. These are the people operating our branches alongside their retail businesses, serving our customers, day-in, day-out. While the model works well in thousands of branches across the country, we know that in common with other retailers, there are challenging head winds to face into. That is why have been working hard to make it easier for them to operate their post offices more profitably, with less effort, and better support from us. From the process of on-boarding, through improved training and field engagement, to simplified products and sales processes, we are continually improving the support we provide postmasters. Irrespective of the legal merits, the Group Litigation we are engaged in brings a sharper focus to this work. While our culture and practices have changed hugely over the 20 years spanned by the case, it is right that we must continue to do better.

I would like to thank the Post Office Board, led by Tim Parker, for its direction and support throughout the year, as well as our Shareholder and colleagues at BEIS. I must also thank all my colleagues in our main customer support centres for rising to the challenge, once more, as we build a stronger business. My final thanks are reserved for my predecessor, Paula Vennells, who over the past 7 years has led us, as CEO, to be a profitable, confident, business without losing sight of our values. The Group Executive is continuing, with passion and enthusiasm, to evolve an organisation like no other in the service of current and future generations.

Alisdair Cameron
Interim Chief Executive
XX XXXX 2019

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Financial and Business Review

Summary results

We delivered our third consecutive year of profit as we continue on the path to commercial sustainability.

Operating profit was £13 million (2018: £47 million). This is after increased depreciation and amortisation charges of £94 million (2018: £55 million), and exceptional items of £14 million (2018: £3 million).

Trading profit increased by £26 million to £61 million (2018: £35 million). Our turnover grew by £16 million during 2018/19 to £972 million (2018: £956 million). Growth was driven by our Identity (9%) and Insurance (15%) business areas, with continued growth also noted within Banking Services (15%). This was partly offset by the anticipated decline in our card account income stream (down 25%).

As planned, the Network Subsidy Payment ("NSP") from Government decreased by £10 million to £60 million (2018: £70 million). NSP is to cover the costs of loss making branches which deliver our social purpose. It is our responsibility to demonstrate that the NSP received is equal to or less than the total loss these social purpose branches create. If the loss is less than the NSP, we are obliged to pay the difference back to Government. This reduction in the NSP was partly offset by cost reductions of £2 million and, when combined with the growth in revenue streams outlined above, resulted in an adjusted EBITDA increase of £16 million to £121 million (2018: £105 million).

Profit and Loss Summary – Trading

	2019 £m	2018 £m	Variance £m	Variance %
Turnover	**972**	956	16	2
Costs	**(958)**	(960)	2	1
Other income	**14**	5	9	180
Share of profit from joint venture	**33**	34	(1)	(3)
Trading profit	**61**	35	26	74
Add: Network Subsidy Payment	**60**	70	(10)	(14)
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	**121**	105	16	15
Depreciation and amortisation	**(94)**	(55)	(39)	(71)
Exceptional items	**(14)**	(3)	(11)	(367)
Operating profit before investments	**13**	47	(34)	(72)

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Significant accounting judgements

Going concern

The Group (being the Group of companies headed by Post Office Limited) has net assets of £256 million at 31 March 2019 (2018: £203 million) and headroom on the loan from BEIS of £385 million (2018: £327 million). This is £185 million above the target minimum headroom of £200 million, hence we are not at risk of breaching this limit. We have also been profitable at a trading profit level with current year profit of £61 million (2018: £35 million) and shown a profit after tax of £52 million (2018: £17 million).

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; NSP of £50 million for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million as required for up to March 2020.

After careful consideration of the plans for the coming years, we continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Key Financial Performance Indicators

	2019 £m	2018 £m	Variance £m
Turnover	**972**	956	16
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA) (note [XX])	**121**	105	16
Operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment (trading profit) (note [XX])	**61**	35	26
Profit for the financial year	**52**	17	35

Profit and Loss

As disclosed in note [XX] to the financial statements on page [XX], we have split the results of the Group between trading and investments. Together these combine to give the results of the Group. This presentation clearly separates the underlying trading of the business from the change activity being undertaken to ensure the future sustainability of the Post Office. In the following sections, we consider each of the columns of our consolidated income statement which combine to give an operating profit of £52 million (2018: £15 million). Once finance income/costs, taxation credit/charge have been factored in, the profit for the financial year is £52 million (2018: £17 million). See the consolidated income statement on page [XX] for full details.

	2019 £m	2018 £m	Variance £m
Operating profit			
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	**121**	105	16
Depreciation and amortisation	**(94)**	(55)	(39)
Exceptional items	**(14)**	(3)	(11)
Operating profit before investments	**13**	47	(34)
Investments	**39**	(32)	71
Operating profit	**52**	15	37

Turnover

The Post Office business is organised into three strategic business units, Retail, Financial Services & Telecoms (including Insurance) and Identity. Turnover from our subsidiary Post Office Management Services Limited is included within the Insurance line below. Turnover from our subsidiary Payzone Bill Payments Limited ("Payzone") is included within the Payment Services line below. The divisions and their performance are detailed on the next pages:

		2019	2018	Variance	Variance
		£m	£m	£m	%
Retail					
	Mails	**350**	334	16	5
	Retail & Lottery	**42**	45	(3)	(7)
	Payment Services	**27**	27	-	-
	Cash & Banking Services	**161**	158	3	2
Financial Services & Telecoms					
	Financial Services	**113**	127	(14)	(11)
	Telecoms	**153**	147	6	4
Insurance		**55**	48	7	15
Identity		**58**	54	4	7
Other*		**13**	16	(3)	(19)
Turnover		**972**	956	16	2

* Relates to Supply Chain income (£10 million) predominantly for warehousing of Royal Mail stock, transport of high value mails and release of Bank of Ireland deferred income (£3 million).

The grouping of products has altered in 2018/19 as a result of changes to internal reporting, with Post Office Card Account ("POCA") turnover moving from Government Services to Cash & Banking Services. Remaining Government Services turnover has been moved into the Identity business unit. Banking Services and ATMs revenue have also moved into Cash & Banking Services. Commission income relating to Government Services has been reclassified from revenue to other income because it did not fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The impact of these changes on the reported 2017/18 performance of the divisions is detailed below:

		2018	POCA	Commission income	Identity	Banking Services	ATMs	2018 reclassified
		£m	£m	£m	£m	£m	£m	£m
Retail								
	Mails	334	-	-	-	-	-	334
	Retail & Lottery	45	-	-	-	-	-	45
	Government Services	99	(40)	(5)	(54)	-	-	-
	Payment Services	57	-	-	-	-	(30)	27
	Cash & Banking Services	-	40	-	-	88	30	158
Financial Services & Telecoms								
	Financial Services	215	-	-	-	(88)	-	127
	Telecoms	147	-	-	-	-	-	147
Identity		-	-	-	54	-	-	54
Insurance		48	-	-	-	-	-	48
Other		16	-	-	-	-	-	16
Turnover		**961**	**-**	**(5)**	**-**	**-**	**-**	**956**

Retail

The Retail business encompasses our position as the United Kingdom's number one mails provider, as well as providing Cash & Banking and Payment services.

Mails

Mails includes the sale of parcels and other mails products provided by Royal Mail and Parcelforce. Underlying trading turnover is up £17 million (6%) year on year. Growth in parcels (7%) and home shopping returns (35%) is partially offset by the continuing decline in stamps. In addition, there were planned reductions in the fixed fee element of the contract with the Royal Mail Group plc of £2 million.

Cash & Banking Services

This comprises the following services:

	2019 £m	2018 £m	Variance £m	Variance %
POCA	**30**	40	(10)	(25)
Banking Services	**102**	88	14	15
ATMs	**29**	30	(1)	(3)
Cash & Banking Services	**161**	158	3	2

POCA revenue has decreased by £10 million in line with expectations. ATMs revenue has remained stable despite market decline. Banking services has significant year on year growth of £14 million to £102 million as more high street banks are closing their branches, in addition to the switch made to automated deposit transactions in October 2018.

Payment Services

Payment Services includes bill payment transactions. Revenue has remained flat at £27 million (2018: £27 million). The acquisition of Payzone contributed £4 million to turnover, offset by reduced volumes in the reseller market of £4 million.

Financial Services & Telecoms

Financial Services

Our Financial Services products include mortgages, credit cards, savings and travel money, in addition to postal orders. Turnover decreased by £14 million to £113 million (2018: £127 million).

The majority of the decrease is due to Bank of Ireland products, down £12 million to £45 million (2018: £57 million). This is due to not having a minimum savings commission value in 2018/19. The competitive, customer and regulatory environments remain tough; the continued low rate environment and Bank of England funding scheme are putting pressure on Mortgage margins and Savings rates. Mortgages are also challenged due to Bank of Ireland pricing, but the expansion into the Broker channel is compensating this.

Turnover from Postal Orders declined by £2 million as this legacy product continues to decline in the marketplace. The impact of Brexit, weak sterling and tighter AML regulations continue to impact MoneyGram and to a lesser extent travel money, which has remained stable year on year.

Telecoms

Telecoms includes Post Office HomePhone, Broadband and Fibre services.

Telecoms turnover of £153 million increased by £6 million (2018: £147 million) as customer numbers have increased.

Insurance

Post Office Insurance provides Travel, Life and General insurance policy cover. Insurance turnover has grown by £7 million to £55 million (2018: £48 million). The increase was driven mainly by growth in our Over 50s Life insurance and Travel insurance businesses.

Identity

Identity provides Home Office, DVLA and Verify services. Identity turnover has grown by £4 million to £58 million (2018: £54 million) due to the launch of Universal Credit in Verify. A new pricing arrangement with the Government Digital Service in November 2018 significantly reduced average margin for the Verify service.

Costs

Total costs decreased by £2 million to £958 million (2018: £960 million).

People costs of £193 million increased by £4 million (2018: £189 million) due to pay increases.

Average headcount reduced from 5,066 in 2017/18 to 4,703 in 2018/19 reflecting efficiency savings across the DMBs and the effect of the Network and DMB transformation programmes. Closing headcount for the year was 4,397 (2018: 5,020).

Other operating costs decreased by £7 million to £765 million (2018: £771 million) of which £3 million relates to landlord compensation payments, with other controlled cost savings noted, especially in IT.

Depreciation and amortisation charges increased to £94 million (2018: £55 million); a number of significant assets under construction came into use during the year and are now being depreciated.

Exceptional costs

On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

The Court has ordered two trials to be heard in 2018/19 to determine a subset of the preliminary issues in dispute between the parties. The Court has not yet ordered a process for determining any issues of liability or quantum. To date, the Claimants have not asserted the aggregate value of their claims in any of the Particulars of Claim filed in the litigation.

While the Directors recognise that an adverse outcome could be material, they are currently unable to determine whether the outcome of these proceedings would have a material adverse impact on the consolidated position of the Group, and are unlikely to be able to do so until the Court has made further determinations and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million).

Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of First Rate Exchange Services Holdings Limited. The principal activity of the business is the supply of foreign exchange in the UK to the Post Office and others. The share of operating profit from the joint venture was £33 million (2018: £34 million).

Capital and investment costs

Investment costs included in the consolidated income statement are shown below:

	2019 £m	2018 £m
Investment funding	**168**	70
Restructuring:		
Business transformation	**(14)**	(16)
Network programmes	**(64)**	(63)
IT transformation	**(13)**	(6)
Severance	**(38)**	(17)
Total restructuring costs	**(129)**	(102)
Unwinding of discount on provisions	**(1)**	(2)
Total investment income/(charge)	**38**	(34)

Restructuring costs include the costs of delivery for major change programmes. In addition, we have incurred £154 million (2018: £151 million) of capital spend, primarily on IT transformation projects, as disclosed in notes [X] and [X].

These are offset by Government funding, recognised to match the associated costs. ~~Government funding~~Government funding for 2018/19 of £168 million (2018: £70 million) was received in quarterly instalments and was fully recognised in the year.

BEIS has approved funding of up to £210 million which is available for the period from April 2018 to March 2020. The maximum available in 2018/19 was £168 million and this was received in full.

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Cash flow and net debt

Cash and cash equivalents amounted to £54~~43~~60 million (2018: £655 million) at the year-end. There was a net cash outflow during the year of £95~~112~~ million (2018: £25 million).

Net debt (excluding cash in the Post Office network) decreased by £66 million year on year as shown in the table below.

		2019 £m		2018 £m
BEIS loan at the start of the year		**(623)**		(561)
Investment funding	**168**		70	
Restructuring costs	**(119)**		(116)	
Other cash inflows from operating activities	**51~~34~~**		66	
Net cash inflow from operating activities		**100~~83~~**		20
Dividends received from joint ventures	**33**		34	
Acquisition of businesses	**(17)**		(6)	
Proceeds from the sale of property, plant and equipment	**4**		5	
Purchase of tangible and intangible non-current assets	**(149)**		(135)	
Net cash outflow from investing activities		**(129)**		(102)
Net cash outflow from financing activities		**(8)**		(5)
Decrease in cash and cash equivalents		**95~~112~~**		25
BEIS loan at the end of the year		**(565)**		(623)
Cash (excluding cash in the Post Office Network)		**24**		12
Total net debt carried forward at the end of the year		**(541)**		(611)

Post Office Limited seeks to minimise the amount drawn down on the loan from BEIS in order to reduce its interest cost. The facility is limited to a maximum of £950 million, the unused facility at the end of the year was £385 million (2018: £327 million). The maximum drawn down under the facility during the year was £744 million on 13 April 2018. The facility is available at two days' notice and has an end date of 31 March 2021.

Post Office Limited's borrowing facility from the Government limits the purposes for which the facility can be used and, together with borrowing limits contained in the Articles of Association, imposes constraints on the availability of external borrowing.

The Bank of England Note Circulation Scheme

The continued participation in the Note Circulation Scheme ("NCS") assures that Post Office Limited has an adequate supply of notes to meet customer demand across its network and provides a mechanism for enabling Post Office Limited to hold Bank of England owned notes. At the end of the year £227 million (2018: £238 million) of Bank of England owned notes were held. See note 22 on page [XX] for further details on the NCS.

Post Office also has an arrangement in Scotland with a commercial banking partner whereby surplus Scottish notes are sold to the partner overnight for repurchase the next day. At the end of the year a total of £3 million (2018: £17 million) was outstanding under this arrangement.

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Pensions

Post Office Limited is the principal employer of the Post Office Section of the Royal Mail Pension Plan ("RMPP"), which is independent of the Royal Mail section of the RMPP. Royal Mail Group Limited is the principal employer of the Royal Mail Senior Executives Pension Plan ("RMSEPP") and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans. The Post Office operates a defined contribution scheme – the Post Office Pension Plan.

Both defined benefit plans are closed to new members and closed to future accrual.

In 2016/17, a Memorandum of Understanding was executed by Post Office with the Trustee of RMPP. This removed the unconditional right to refund from the RMPP. As a result of these events the surplus relating to this Plan was derecognised.

In 2017/18, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Under the purchase agreements, the Trustees of the pension plan bought an asset that provides income which matches closely the benefit payments from the pension plan, achieving a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation and longevity.

The accounting surplus reduced by the difference between the insurance premium and the value of the insured liabilities, creating a 'loss' on buy-in. There was also an ancillary premium as part of the buy-in agreement which transferred to the insurer the risk of incorrect data being used to price the premium. These items were recognised in Other Comprehensive Income in 2017/18. As Post Office had no right to a future surplus in the scheme, there was an equal and opposite adjustment to the asset ceiling through Other Comprehensive Income. As a result, there was no effect on the net assets position of the Group.

The immaterial deficit payments into RMSEPP were agreed with the pension trustees during the year and payments were made in accordance with the agreements. The net cash payments made are detailed below:

	2019	2018
	£m	£m
Regular pension contributions	**(20)**	(20)
Funding of the pension deficit – RMSEPP	**-**	(1)
Payments relating to redundancy	**(1)**	(5)
Net cash payments	**(21)**	(26)

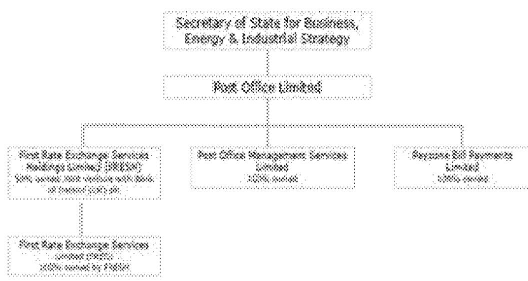
The income statement charge to trading for the year was £13 million (2018: £17 million) in relation to the defined contribution scheme. There was no charge (2018: £nil) in relation to the defined benefit scheme.

Alisdair Cameron
Interim Chief Executive
XX XXX 2019

Governance

Corporate Governance

Legal Ownership and Structure



Post Office Limited ("the Company") is wholly owned by the Department for Business, Energy and Industrial Strategy ("BEIS"). BEIS holds a special share in the Company the rights of which are enshrined within the Post Office Limited Articles of Association (http://corporate.postoffice.co.uk/our-leadership).

BEIS has no day to day involvement in the operations of the Company or in the management of its branch network and staff. Through UK Government Investments ("UKGI"), BEIS monitors the Company's performance, in particular its compliance with minimum network access criteria and provision of specified services. BEIS has the right to appoint Non-Executive Directors to the Board and typically appoints a UKGI employee for this purpose. Tom Cooper currently holds this position.

Corporate Governance Overview 2018/19

The Company maintains standards of corporate governance appropriate for our ownership structure, commitment to social purpose and strategy to achieve commercial sustainability. We review our corporate governance arrangements to ensure they remain appropriate for our developing business needs and relevant legal and regulatory advances.

Board of Directors

The Board is responsible for setting the business' strategic aims, putting in place the leadership to deliver them, maintaining appropriate oversight of the management of the business, reporting to the Shareholder and determining the Company's vision, values and organisational culture.

During 2018/19 the Board comprised an independent Non-Executive Chairman, the Group Chief Executive, the Chief Finance and Operating Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director and four of whom are independent). Non-Executive Directors are not employees of Post Office Limited but provide services under the terms of an individual letter of appointment, signed at the commencement of their directorship.

Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the Directors is to promote the success of the Company for the benefit of its Government shareholder and the wider stakeholder community.

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Tim Parker, Independent Chairman, Chairman of the Nominations Committee and member of the Remuneration Committee

Joined the Board 1 October 2015

Alisdair Cameron, Chief Finance and Operating Officer throughout the 2018/19 financial year and Interim Chief Executive from 5 April 2019.

Joined the Board 28 January 2015

Ken McCall, Senior Independent Director, Chairman of the Remuneration Committee and member of the Audit, Risk and Compliance and Nominations Committees

Joined the Board 21 January 2016

Tim Franklin, Non-Executive Director and member of the Audit, Risk and Compliance Committee

Joined the Board 19 September 2012

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Shirine Khoury-Haq, Non-Executive Director and member of the Nominations and Remuneration Committee

Joined the Board 24 May 2018

Carla Stent, Non-Executive Director and Chairman of the Audit, Risk and Compliance Committee

Joined the Board 21 January 2016

Tom Cooper, Non-Executive Director, and member of the Audit, Risk and Compliance and Remuneration Committees

Joined the Board 27 March 2018

Paula Vennells, Group Chief Executive, throughout the 2018/19 financial year[1]

Joined the Board 18 October 2010

Company Secretary:

Veronica Branton

Appointed as Company Secretary XX XXX 2019

Jane Macleod

Served as Company Secretary from her appointment on 30 August 2017 until 31 May 2019

[1] Paula Vennells resigned as Group Chief Executive on 30 April 2019.

Non-Executive Directors are usually appointed for an initial term of three years with the scope to renew for a second term, subject to Board approval and the approval of BEIS. Ken McCall and Carla Stent were reappointed for a second term of three years on 29 January 2019 as Senior Independent Director and Non-Executive Director, respectively. As the Board representative of UKGI, Tom Cooper's appointment period is determined by the Secretary of State for BEIS.

Biographies of all current members of the Board can be found on the Post Office Limited website: corporate.postoffice.co.uk/our-leadership.

Board

Role and responsibilities

The Board is accountable to the Secretary of State for BEIS, as the sole shareholder, for the performance of the Company and is required to seek consent for certain matters, as included in the Articles of Association. The Shareholder is briefed regularly on the performance of the business and the progress to deliver the strategy.

The Board is also responsible for oversight of legal and regulatory compliance, delivery of the strategy, providing constructive challenge to the Group Executive and communicating with the Shareholder. The Board has a schedule of matters reserved for its decision and has approved Terms of Reference for its committees, which are available on the Post Office website.

The Board annually reviews the strategy, approves the annual budget and business plan required to deliver the strategic objectives for that year; the last approval was in [May 2019]. The Board regularly reviews reports on performance against that plan and receives periodic business reports from senior management. Directors are briefed on matters to be discussed at Board and Committee meetings by papers distributed in advance of meetings, as well as management presentations.

In setting the risk appetite for Post Office Limited the Board has established a framework to manage and mitigate risk. The Board takes guidance from its Audit, Risk and Compliance Committee, and has oversight of risk management. This Committee receives reports from the executive Risk and Compliance Committee, from the internal and external audit teams and from operational management. Further detailed information on the management of risk within Post Office Limited, together with identification of principal risks, their impacts and mitigation can be found in the management of risk section on pages [XX] to [XX].

Key focus and achievements in 2018/19

During the year to 31 March 2019, the Board continued to oversee the Post Office Limited's strategic plan to achieve commercial sustainability and profitability.

This included project approvals, monitoring of developments in IT strategy, and services in the digital space. These developments are designed to enhance customer experience and offer services that meet customer needs in a digital age while continuing to serve our social purpose.

The Company acquired Payzone Bill Payments Limited on 24 October 2018. The business has over 25 years' experience in the bill payments industry and offers payment terminals for bills, tickets, lottery and mobile top up in convenience stores, enabling these businesses to generate revenue and increase footfall.

The Board approved the appointment of new external auditors, following the resignation of Ernst & Young LLP. PricewaterhouseCoopers LLP were appointed as the Company's external auditors on 31 July 2018 following a tender process.

The Board also focused on a revised banking framework to provide banking services in Post Office branches on behalf of UK banks and approved investment for the Branch Hub (a self-service portal for branch operators and business owners to access support).

The Board continued to monitor the progress of the ongoing Group Litigation Order.

Conflicts of Interest and Independence

The Board may, in the furtherance of its duties, seek independent professional advice at the expense of Post Office Limited. During the period, no Director sought independent professional advice.

In accordance with the Companies Act 2006, the Articles of Association give the Directors power to authorise conflicts of interest.

During the period, none of the Directors had a material interest in any contract of significance with Post Office Limited or any of its subsidiaries. At all times during the periods of their appointments in 2018/19, the independent Directors met the criteria for independence set by the Board.

Post Office Limited has arranged appropriate insurance cover in respect of legal action against Directors of Post Office Limited and its subsidiaries.

Tim Parker, Ken McCall, Tim Franklin, Shirine Khoury-Haq and Carla Stent are considered Independent Non-Executive Directors. Tom Cooper is not an independent Non-Executive Director as he is a shareholder representative. Paula Vennells and Alisdair Cameron held executive roles throughout the financial year, and as such were not independent directors.

Board Meetings

During 2018/19 the Board met 8 times (including additional meetings held either in person or by telephone). A record of Directors' attendance (attended/eligible to attend)[2] at the Board and its Committees is set out in the table below:

Director	Board	Board (additional)	Audit, Risk and Compliance Committee	Nominations Committee	Remuneration Committee
Chairman					
Tim Parker	8/8	TBC	-	4/4	6/6
Executive Directors					
Paula Vennells	7/8	TBC	-	-	-
Alisdair Cameron	8/8	TBC	-	-	-
Non-Executive Directors					
Ken McCall	8/8	TBC	4/5	4/4	6/6
Tom Cooper	8/8	TBC	5/5	-	5/6
Tim Franklin	8/8	TBC	4/5	-	-
Shirine Khoury-Haq	8/8	TBC	-	3/4	5/6
Carla Stent	8/8	TBC	5/5	-	-

[2] Directors who are not members of a committee may attend meetings from time to time, at the invitation of the Chair.

Committees

To assist in the execution of its corporate governance responsibilities, the Board has established three committees which deal with specific topics requiring independent oversight. The Audit, Risk and Compliance, Nominations, and Remuneration Committees are each chaired by an independent Non-Executive Director.

The Board retains overall oversight but delegates responsibilities and authorities to its committees to operate within the Terms of Reference approved by the Board. The Terms of Reference for all committees are reviewed annually to assess that each Committee discharged its duties effectively in accordance with the Terms of Reference. The reviews conducted in March 2019 raised no issues.

Terms of Reference for the committees are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

Nominations Committee

Role and Membership

The duties and responsibilities of the Nominations Committee are included in the Terms of Reference, which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Tim Parker, Chairman, and the other members during the year were Shirine Khoury-Haq, Non-Executive Director and Ken McCall, Senior Independent Director.

Work of the Committee in 2018/19

During the year the Committee considered the skills and experience required by the Board for a new Group Chief Executive and a new Non-Executive Director and worked with Russell Reynolds (search consultants) on the proposed appointments. The Committee approved re-appointments to subsidiary boards and the appointment of a new Chair of Post Office Management Services Limited.

The Nominations Committee monitored the independence and internal process for the evaluation of the Board and Board sub-committees and considered developments in corporate governance and how these should apply to the Company.

Remuneration Committee

Role and Membership

The duties and responsibilities of the Remuneration Committee are included in the Terms of Reference which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Ken McCall, and the other members during the year were Tom Cooper, Shirine Khoury-Haq and Tim Parker.

In accordance with the Terms of Reference, the Group Chief Executive may attend meetings, at the invitation of the Committee Chairman, to discuss matters relating to the remuneration of the Chief Finance and Operating Officer and members of the Group Executive. However, the Committee recognises the need to manage any potential conflicts of interest and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

Work of the Committee in 2018/19

During the year the Committee reviewed and made recommendations to the Shareholder for the 2017/18 bonus payments against incentive plans for Executive Directors, annual pay increases for Executive Directors and targets and measures for 2018/19. The Committee approved senior salary pay changes, in line with increases provided to all employees, and pay at appointment where these were within its remit and delegated authority.

The Committee received updates and advice from the HR and Finance teams and from PricewaterhouseCoopers LLP, its external adviser, on gender pay, market trends and benchmarking information and corporate governance.

Audit, Risk and Compliance Committee

Role and Membership

The duties and responsibilities of the Audit, Risk and Compliance Committee are included in the Terms of Reference which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Carla Stent, Non-Executive Director, and the other members during the year were Ken McCall, Senior Independent Director, Tom Cooper, Non-Executive Director and Tim Franklin, Non-Executive Director.

The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience and that this constitutes an appropriate mix of business and financial experience and expertise.

The Directors of Risk & Compliance and Head of Internal Audit attended all of the meetings of the Committee and also met the Committee Chairman, independently and regularly, throughout the year. The external auditor was invited to, and attended, all meetings of the Committee except on 31 July 2018, where the Committee recommended to the Board the appointment of new external auditors PricewaterhouseCoopers LLP.

Further detailed information on the management of risk within Post Office Limited, together with identification of principal risks, their impacts and mitigation, can be found in the Management of Risk section on pages [XX] to [XX].

Work of the Committee in 2018/19

During the year, the Committee reviewed the Annual Report and Financial Statements for 2017/18, including consideration of the principal and strategic risks, and recommended Board approval.

The Committee approved the annual audit plans for the internal and external auditors.

The Committee reviewed the risk management framework for the Company, including its appetite for risk, self-assessment of the control framework and areas of specific risk highlighted by the Executive Risk and Compliance Committee. It reviewed and approved relevant policies, such as financial crime and protecting personal data, as part of an annual review cycle.

Board and Committee Effectiveness Evaluations

The Board recognises that an effective Board is vital to the success of the Company and the business. Ken McCall, Senior Independent Director, led an internal Board effectiveness evaluation in December 2018 which included a formal evaluation of the performance of the Board, its Committees and the Chairman.

The Board evaluation was conducted by internal questionnaire and, following a review of the results, recommendations were presented to the Board. The feedback and scores were positive but areas for additional focus were identified, including closer engagement with and understanding of stakeholders' perspectives, particularly postmasters and employees; the competitor landscape and franchising models; and periodic scheduling of meetings without the executives.

As part of the Board review process, each Board Committee undertook a review of its effectiveness. The feedback and scores were positive. Each Committee considered the feedback from the evaluation and agreed actions. The Audit, Risk & Compliance Committee decided to increase the number and

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length of meetings held annually to reflect the range and scope of legal and regulatory compliance and risk management issues across a span of business lines. It also agreed to hold separate meetings with the Head of Internal Audit periodically. The Nominations Committee added a succession planning review to its forward agenda and the Remuneration Committee commissioned a report on the group remuneration framework and the approvals process.

Management of Risk

Our Approach to Risk

The commercially competitive and highly regulated environment, together with operational complexity, exposes the Post Office to a number of risks. We define risk as anything that can adversely affect our ability to meet the Post Office's objectives, maintain its reputation and comply with regulatory standards. We seek to understand and harness risk in the pursuit of our objectives and aim to operate within an acceptable level of risk taking. The Post Office has articulated its risk appetite in relation to the most material risks with a view to managing better the key strategic risks and assessing the risks in relation to new opportunities.

Risk Management Governance

The Board is accountable for risk management and internal controls in the Post Office, reviewing their effectiveness and determining the nature and extent of principal risks. The Board has delegated responsibilities to the Audit, Risk and Compliance Committee ("ARC"), which provides assurance to the Board through review of reports from management, risk, internal audit external advisers and external audit. Responsibility for day to day operations rests with the Group Executive. The Risk and Compliance Committee ("RCC") reviews the effectiveness of the risk management framework and management of principal risks. The outputs are reported to the ARC as necessary.

Our Risk Management Framework

In order to deliver its objectives, the Post Office is required to identify, assess and manage a wide range of risks. These are managed through an overarching framework in order to apply consistency and transparency of risk management across the organisation. The framework identifies roles and responsibilities of key parties in the risk management process, the policies for how risks are managed, the tools and processes used and the reporting outputs that are generated.

The approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk. The Group Executive has identified and manages the principal risks in the organisation, focusing on the aims of the strategic plan. These risks, with their response plans, are reviewed by the Central Risk team and at the RCC and the ARC to assure the robustness of risk assessment and management. There is an ongoing process of identifying, evaluating and managing the principal risks faced by Post Office.

During the year we have further improved our oversight over the level of risks being taken across Post Office and effectiveness of our mitigating actions, including close monitoring of emerging risk themes and incidents. Plans are also in place to fully refresh risk appetite to better inform decision making. This is a component within our wider enhancement plan to continue maturing our Risk Management framework.

Our Control Framework

We have an internal control framework in place for both our financial reporting and IT processes, which fall under our self-assessment regime. In addition, we have implemented a suite of Post Office policies which define the minimum control standards we expect to be performed within the applicable business areas. Our risk management efforts are also underpinned by our Executives' Declaration.

What has changed since last year?

Our principal risks evolve overtime, as we progress with the North Star strategy and business plan, new risks emerge and our mitigation activities adapt. Health and Safety has become a new principal risk this year, reflecting the high importance we place on the safety. Litigation is also new, due to the change in posture. The level of risk has increased for Economic and Political environment, in response to the ongoing political and economic uncertainty. Dependency on strategic relationships remains a principal risk and is in an improving position. We have invested considerably in Technology, Business Interruption and Cyber and this principle risk is improving. Both our Retail Proposition and Regulatory Environment risks are stable. Our Retail Proposition remains fundamental to enabling us to continue to successfully deliver our social purpose and the regulatory environment continues to evolve and introducing new ways of doing business.

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Our Principal Risks and Mitigations

These are our principal risks, detailed with their potential consequences if they were to crystallise and how the Post Office manages them. Any of these risks could have a material impact on our results, condition and prospects. However, these risks should not be regarded as a complete and comprehensive statement of all potential risks; some risks are not yet known and some that are not considered material could later turn out to be material. Our principal risks are regularly re-evaluated and discussed at both a Board and GE level.

Principal Risk / Movement		Potential Consequences	Key Mitigations
STRATEGIC RISKS			
Dependency on Strategic Relationships Post Office has a number of strategic relationships which are key to delivering its growth and strategic ambitions. The number of such relationships is increasing. We work with our partners to align our direction and interests to enable us to meet evolving customer and market requirements and any misalignment.	⬇	Not achieving our strategic ambitions, losing revenue and market share.	• We have established close working relationships with our strategic partners underpinned by formal governance and reporting mechanisms. These ensure commercial objectives are aligned and relationship deliver to expectation. • Regular interaction with strategic partners to improve joint operating efficiency, product offering and service to drive growth and profitability for all parties. This includes regular engagement at Chief Executive Officer / Managing Director level. • We review the relationships with our strategic partners on a regular basis, to ensure long term alignment, with our customer and business outcomes.
Retail Proposition Post Office are committed to maintaining a Retail network of at least 11,500 branches. Critical to this objective is offering an attractive proposition for our retail partners and to continue to operate Post Offices in communities who need us. We continue to review and develop our proposition to enable us to continue to successfully deliver our social purpose, which addresses the impact of: • increased high street costs; • ongoing move to online; and • a decline in traditional income streams.	⬌	Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.	• We are continuing to open branch locations where there is a customer need, adding 328 'new network locations' in 2018/19. We are also continuing to improve our support to existing postmasters and have strengthened our field support team this year. • New technology will help our postmasters manage costs and our business remain relevant to customers and we are investing in the next generation of automation for our branches as well as further developing the software that will allow retailers to sell Post Office products on their own tills. • We are developing 15 pilot locations for Post Office Parcel Shop and are continuing to develop automated locals, with the first proof of concept branch.

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Principal Risk / Movement		Potential Consequences	Key Mitigations
STRATEGIC RISKS			
Economic and Political Environment Current uncertainties in the external political, economic and social environment could have a detrimental impact our strategy and operating model significantly: Brexit itself represents a potential series of risks which would be most pronounced in the event of a no-deal departure from the EU (see below), but has also taken a very serious toll on all aspect of Government and politics more broadly. There remains a possibility that the current impasse will increase the pressure for a General Election, with the attendant risk that Government and our Shareholder's priorities will change in favour of a Labour agenda, with significant implications for the business. Examples include the implementation of Labour's proposals for the renationalisation of RMG, and the creations of a Post Bank.	↑ ↑	Spending patterns of our customers during economic uncertainty and potential downturn of the economy e.g. decline in the sale of banking products, particularly mortgages. Disruption to operations (customs labels in branch, accessibility issues for supply chain) Financial resilience of our postmasters and suppliers. Retention of skilled labour and recruitment. New income streams failing to grow.	• We regularly perform horizon scanning to identify external events and assess their potential impact on our business. • Our strategy considers customer requirements, market trends and competitor behaviour. • We continue to invest in the development of our digital capability. • In terms of Brexit arrangements, PO have communications, training and contingency processes in place to deploy in the event of a 'no deal'.
OPERATIONAL AND FINANCIAL RISKS			
Health and Safety Due to Post Office's wide reach through the size and operation of its Network including fleet, it is essential we invest in our safety procedures and controls. A health and safety incident or failure could result in serious injury, ill health or loss of life.	NEW ~~NEW~~	Exposure to significant costs for reimbursement for damages and remediation, operational disruption, prosecution and reputational damage.	• We have regular Health & Safety training provided to all colleagues and managers including Directly Managed Branches and Supply Chain Managers. • We regularly review, update and monitoring of Local Risk Assessments and safe systems of work. • We have developed a Road Risk Policy. • We regularly review our Health & Safety policy and Property Statutory Compliance policies. • Our Health & Safety Management System has been independently audited and assessed as strong and mature. Initiatives recommended to further strengthen our safety culture have been implemented. • An independent Risk Assessment of high risk building fabric has been undertaken and remediation actions completed.

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Principal Risk / Movement		Potential Consequences	Key Mitigations
			• We undertake a dynamic risk assessment, work closely with industry experts and bodies and have invested heavily in security related interventions to reduce the risk of attack and assault across the Network and Supply Chain.
TECHNOLOGY AND INFORMATION SECURITY RISKS			
Technology, Business Interruption and Cyber ~~As the digitalisation of our business continues to grow,~~ Post Office is dependent on the continued effectiveness, availability, integrity and security of its information systems and associated infrastructure. Post Office, in common with other businesses, is continuing to track the threat "universe" and is aware of increasing risk from cyber-attackers (particularly nation states) seeking to undermine businesses, government and utilities.		Direct impact on our network availability and reliability resulting in adverse customer service and financial performance and/or reputation. A cyber-attack could threaten the confidentiality, integrity and availability of our systems.	• We are continuing to mitigate this risk by migrating some of our aging legacy systems to new infrastructure and this will continue through 2019/20. • We regularly evaluate the adequacy of our IT infrastructure and related controls. • We regularly meet with our key third parties to ensure they fulfil their obligations covering the security, resilience and availability of our IT systems and infrastructure. • We have introduced a Security Improvement Plan enabling our third party suppliers to use their security experience to identify a gap or improvement to a security process or tool that Post Office has not identified, improving our partnership and utilise their experiences to improve our overall security posture. • We have policies in place for cyber, disaster recovery, information security and acceptable use. • We monitor and provide assurance against the minimum controls defined in these policies. • A Security Operations Centre has built enabling our IT Security Team to assess and manage vulnerabilities, identify and mitigate the risk of cyber-attacks. • We continue to further invest and further mature our cyber defences including: ➢ increasing capability within our security operations; and ➢ cultural awareness around data protection.

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Principal Risk / Movement		Potential Consequences	Key Mitigations
LEGAL & REGULATORY RISKS			
Group Litigation Post Office Limited is the defendant in *Bates & Others v. Post Office Limited*, Claim Nos. HQ16X01238, HQ17X02637 & HQ17X04248 in the High Court of Justice, Queen's Bench Division ("The Post Office Group Litigation").	**NEW**	Legal findings and court orders which have an adverse impact on financial performance and/or reputation.	• Post Office has instructed specialist legal advisors to advise on and conduct its defence of the litigation, subject to senior management oversight.
Regulatory Environment Post Office operates under an extensive and evolving regulatory environment, including areas such as financial services, transactional services, postal services, telecoms, procurement, competition law, and data security. This environment continues to evolve, particularly in the financial services (e.g. HMRC's requirements around Anti Money Laundering controls, location fees as well as Fit and Proper) and telecoms space, which increases the risk of non-compliance, costs and could impact our financial performance.		Fines, penalties, litigation and a resulting adverse impact on financial performance and/or reputation.	• We have open dialogue with key regulators to understand and clarify expectations. • We regulatory perform horizon scanning to anticipate future requirements and planning with each business area to undertake appropriate solutions. • On-going training is provided to staff and retail partners on legal and regulatory matters. • Regulatory obligations are supported by policies which define minimum controls that must be operated to mitigate risks. • Internal and external programmes are in place to provide assurance on regulatory compliance.

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~~[The wording in italics in the table above (Technology and Information Security Risks) is with Rob Houghton to approve. The section is also subject to change by Mark Davies and team who will review for style and language.]~~

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Directors' Report

The Directors present the Group Annual Report and Financial Statements and Company Financial Statements for the year ended 31 March 2019.

Expected future developments

Expected future developments are detailed in the Chief Executive's statement on page [X].

Results and dividends

The profit after taxation for the year was £52 million (2018: £17 million). The Directors do not recommend the payment of a dividend (2018: £nil).

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Political contributions

No political contributions were made in the year (2018: £nil).

Research and development

We submitted our first research and development claim during 2018/19 in respect of 2017/18 and 2016/17. The claim relates to IT transformation projects.

Directors and their interests

The following served as Directors during the year:

T C Parker	P A Vennells *(resigned 30 April 2019)*
A C J Cameron	T K G Cooper
T A Franklin	S Khoury-Haq
K S McCall	C R Stent
V A Holmes *(resigned 27 March 2018)*	R J Callard *(resigned 27 March 2018)*

No Director has a beneficial interest in the share capital of Post Office Limited. The emoluments of Directors are set out in note [5] to the financial statements on pages [XX] to [XX].

People

People are critical to our success, whether in branch or in our offices. To attract and retain the right people we:

- Conduct regular employee surveys and use the feedback to make improvements.
- Provide information regularly on company performance, policies and organisational developments through our intranet, briefing sessions and company-wide emails.
- Have a network of engagement champions representing the voices of colleagues from each part of the business.
- Are committed to providing a safe working environment that promotes the health, safety and wellbeing of employees. A range of services is provided to help all employees stay mentally and physically healthy.
- Operate our Learning Academy to provide high quality learning for all employees and postmasters, aiming to ensure that everyone is supported into reaching their full potential.

- Invest in developing the best talent to support our business, including graduate recruitment and active participation in the apprenticeship programme, available for new and existing colleagues.
- Promote diversity and inclusion and celebrate the diversity of the workforce and communities we serve. We have a number of active employee network groups such as: Women in Leadership, to support and nurture female talent; Prism, which supports and celebrates our LGBT+ community; BAME (supporting Black, Asian and Minority Ethnic colleagues) and Return to Work (supporting colleagues returning to work after maternity, other parental leave and long term absences).
- Proactively communicate that we are a Disability Confident Leader and actively try to attract talented people to Post Office from diverse backgrounds. We do this through our corporate careers page, recruitment agencies and other attraction channels such as Vercida who are the world's leading diversity and inclusion employer brand platform.
- Ask all applicants to inform us of any reasonable adjustments we can make to ensure they are not disadvantaged due to a particular disability during the selection process.
- Require all Hiring Managers to complete Effective Interviewing and Unconscious Bias Training to ensure a consistent, fair and unbiased selection process takes place.
- Do not tolerate any form of bullying, harassment, victimisation or discrimination whether written, verbal, visual or physical. We are committed to taking the necessary action to ensure that they do not occur, or where they do occur that they are dealt with quickly and eliminated, by following a consistent, fair and robust Bullying and Harassment Policy and Procedure. All managers are required to complete Dignity at Work training to ensure they understand their responsibilities and that they demonstrate the correct behaviours and treat everyone with dignity and respect at all time.

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Disabled employees

As noted above, the Post Office Limited has been recognised as a Disability Confident Leader. We have a Disability Confidence networking group called 'Be You'. This group provides support and advice and helps the business to do the best it can for employees with disabilities. We also make necessary adjustments for colleagues who are disabled or become disabled during the course of their employment to allow them to carry out their role and fulfil their potential, including any specific training needs.

Gender pay gap

Gender pay is not the same as equal pay. Equal pay is about ensuring men and women are paid the same for work of equal value, as set out in the Equality Act 2010. At Post Office we support equal pay through a robust job evaluation process that is free from gender bias.

The gender pay gap relates to the difference between the gross hourly pay of all men and the gross hourly pay of all women across the organisation. The difference between gender pay and equal pay is important to understand as you can have a gender pay gap without having equal pay issues. At Post Office we recognise that more needs to be done to reduce the gender pay gap and we are committed to doing so.

We continue to make progress. Our gender pay gap is 0.5% lower than last year, and smaller than the UK average. We are closer to our goal of filling 50% of senior manager roles with women which was 39% in our last report and is currently 43%. The number of women holding mid-level managerial roles has risen by a third in the last year. We provide tailored coaching and mentoring for female colleagues and run recruitment programmes to encourage more women to pursue careers in IT and Finance. Our commitment has been recognised by The Times as we made their list of Top 50 Employers for Women for the third time.

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Both our mean and median hourly gap has reduced. Our median gender pay gap is 7.9%, (as compared with the national figure of 18.4%) and our mean gender pay gap is 17%. The main reason for the gap is the lower proportion of women in senior roles relative to men. Another reason is part-time working – 45% of female colleagues work part-time, compared with only 12% male colleagues. This especially impacts the bonus pay gap.

However, we are not complacent. There is still work to do to ensure women at Post Office realise their potential. We are taking actions to reduce the gender pay gap further, such as continuing to offer tailored mentoring to female colleagues and making sure we have 50/50 gender balanced shortlists for senior level vacancies and for our next graduate intake. Above all else, we continue to listen to our colleagues and understand what they need to help them to flourish. We will use these conversations, alongside the data contained in our full gender pay report, to improve again next year. Because it is the right thing to do – for the future of Post Office and our people. For our full gender pay report please see: http://corporate.postoffice.co.uk.

Post balance sheet events

In accordance with the funding agreement with Government, Post Office Limited received a Network Subsidy Payment of £17.5 million on 2 April 2019. The Network Subsidy Payment is received on a quarterly basis and a total of £50 million will be received from Government in 2019/20.

Going concern

After analysis of the financial resources available and cash flow projections for Post Office Limited, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis. Further details are provided in accordance with the fundamental accounting concept in note 1 to the financial statements on page [XX].

Financial instrument risk

The exposure of the Group to market risk, credit risk and liquidity risk has been disclosed in note 16 to the financial statements on pages [XX] to [XX].

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware, that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

PricewaterhouseCoopers LLP were appointed as the Company's external auditors on 31 July 2018 following a tender process.

By Order of the Board

Veronica Branton

Company Secretary, Post Office Limited (Company Number 2154540) Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
XX XXXX 2019

Strategic Report

The Strategic Report for the Post Office comprises the Chairman's Foreword, Chief Executive's Statement and Financial and Business Review.

Chairman's Foreword

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The Post Office has had another strong year~~,~~. ~~We grew~~Our ~~-~~revenue~~,~~ grew by 2%, to £972 million, and we have delivered a trading profit of ~~posting a~~ £61 million, a 74% increase on last year ~~trading profit, a 74% increase on last year~~. A particularly encouraging performance was recorded in a number of areas including Banking, Mails, Insurance and~~,~~ Telecoms ~~and Travel~~, showing our resilience in what has been another challenging year on the high street.

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This year we have built on the major business restructures undertaken in previous years, consolidating and reshaping central and back office functions to better serve our increasingly dynamic organisation. Improving the support we provide our postmasters and agents, and making it easier for them to run their Post Offices profitably, remains a priority.

We are creating stronger foundations to provide better services to our customers and support to those who run our branches. At the same time, we have been set a challenge~~d~~ by Government to become a self-sustaining company free of public subsidy. To achieve all this, we are going to have to work harder than ever before. We must match the pace of change in the industry, embrace new technology, adapt to market trends and meet customer expectations more decisively still.

Our recent results demonstrate that the ways in which we are transforming the business to remain relevant, easily accessible and the first choice for customers are working. We are on the right track. The success of our Banking Framework arrangements with the UK's banks has seen us become the biggest high street provider of cash and point of access for everyday banking services in the country. We are now the last cash provider in thousands of communities, reflecting our social purpose in action, supporting the consumers and small businesses which fuel local economies. There is more growth to come and we are working hard to expand this offer, to simplify the processes underpinning it and provide a better share of that success to our postmasters.

Elsewhere we performed well against strong competition and emerging market trends. Our Insurance business continued its strong growth in the competitive travel market. Telecoms grew its customer base whilst significantly shifting it towards broadband. In savings, we broadly maintained total balances, but a continuing trend away from more profitable branch-based sales towards less profitable online sales impacted our income.

This year's acquisition of Payzone Bill Payments Limited ("Payzone") underscores our determination to extend our reach and accessibility for corporate and retail customers alike. The integration of Payzone's bill payments business with our own more than doubles the number of outlets at which these services can be conveniently transacted, to 25,000. This provides us with a much stronger platform through which to innovate and win new contracts from a wide range of corporate clients.

~~Improving the support we provide our postmasters and agents, and making it easier for them to run their Post Offices profitably, remains a priority.~~ To support postmasters, ~~W~~we have been reviewing our ways of working to ensure that effort and complexity are kept to a minimum, while looking to extend their product offering and rebalancing transaction fees. Our ambition is to attract and retain high quality business people to deliver for all our customers with energy and care. The ongoing Group Litigation involving Post Office is an important reminder that this aspect of our work is open ended, and that we must always strive to do even better.

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As ever, it's our people, whether working in branches across the country, in our supply chain or in our support centres, who are making these changes happen and I would like to thank them for their continued support and their dedication to making this business successful.

I would also like to express my appreciation to our Shareholder, the Secretary of State at the Department for Business, Energy and Industrial Strategy ("BEIS"), as well as his Ministers and officials in UK Government Investments and BEIS for their collaboration and support across the year. My colleagues on the Post Office Board and the Executive Team have, once again, demonstrated real drive and energy in addressing the many challenges involved in modernising the Post Office for future generations.

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Finally, I would like to extend particular thanks to Paula Vennells for her service over the past seven years as Chief Executive, leading and transforming this unique business towards an even brighter future. During Paula's leadership, Post Office has grown from a company that was losing £120 million a year, with a branch network in desperate need of modernising, to a strong, customer--focused, innovative and profitable business. She is leaving the business in good shape and I wish her every success for the future. I look forward to working with Al Cameron, Interim Chief Executive, and the Executive Team to build on Paula's success in the coming year.

Tim Parker
Chairman
XX XXXX 2019

Chief Executive Statement

The Post Office matters more today than ever before. Providing essential services to millions of consumers and small businesses, day-in, day-out, it fulfils a unique function in the UK. We are, therefore, relentlessly focused on what needs to be done to evolve Post Office so it is relevant for future generations, financially robust to weather new challenges, and always faithful to our central purpose: being there for every customer in every community.

With a trading profit of £61 million this year, ~~achieved against a broadly flat~~supported by a small increase in revenue ~~revenue profile~~, we are on track to achieve our £100 million trading profit target by 2020/21. As Government looks, quite rightly, to reduce its financial support for the business in favour of other spending priorities, it is essential that we build robust financial foundations.

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Our trading profit target reflects our shared ambition to become entirely subsidy free after 2020/21, and create sufficient value to build a thriving, UK-wide, business for the long term. This will not be easy. We have to keep developing ahead of the market, and generate enough profit to reinvest in products, technology, our branches, and our people. We take confidence from the fact that our recent results demonstrate that if we stay focused on the right things we can succeed.

This year saw us complete our Network Transformation Programme, by far the biggest change we have ever made, and one of the biggest in UK retail. Investing in and modernising over 7,700 branches has resulted in significant increases in opening hours and levels of customer satisfaction. Over the period, we also opened over 440 new Post Offices in new locations, part of our strategy to increase convenience and choice for customers who want easier access to our services on their doorstep. With 11,638 branches as at the year-end (2018: 11,547), our network is at its most stable for more than a decade and, ~~and~~ is growing. A detailed breakdown will be available in this year's Network Report.~~.~~

Franchising, combining a ~~p~~Post O~~o~~ffice alongside a separate retail offering, enables us to share the property, staffing, and other costs of running any business. This model, which has been operated successfully across the vast majority of the network for decades, continues to be extended to some of our Directly Managed Branches ("DMBs"). These represent less than 2% of our network, but are disproportionately expensive to operate as stand-alone P~~p~~ost O~~o~~ffices. The decision to franchise is driven by a determination to keep these essential services available on high streets across the country in the face of the very significant cost challenges facing all retailers. Research shows that customer satisfaction levels return to, or even exceed, their pre-franchise levels soon after the change is made.

Improvements to our physical network of brick-and-mortar outlets has been matched by significant IT investment across the business, powered by substantial investment funding from Government. In financial year 2018/19, we largely~~substantially~~ completed the transformation of our back office systems. These handle £60 billion in financial transactions each year for corporate clients and customers. As well as driving further efficiency, the changes give us better commercial insights to enable us to improve products and services. At the front line, we also renewed equipment in all our branches, and continue to look for opportunities for technology to expedite and simplify processes for our postmasters and customers.

We are consolidating and strengthening our position in some of our traditional markets, such as bill payments. Following clearance by the Competition and Markets Authority in October 2018, the successful acquisition of Payzone's bill payments business gives us a combined network of 25,000 locations at which customers can conveniently pay for essential services, significantly enhancing opportunities for future revenue growth in this competitive market.

We have retained our position as number one in letters and parcels, with significant growth in home shopping returns offsetting the continued decline in stamps. Online shopping has continued to drive strong growth in Collections and Return volumes and we are working closely with Royal Mail to innovate and improve our customer offering. This year we launched the new 'Labels to Go' service for

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online shoppers to print a returns label at their local Post Office, by simply using a QR code on their mobile phone or tablet.

Our travel proposition also continues to grow as we leverage our market leading position in Travel Money, using technology to enhance our offer. More than 300,000 customers are already using our new Travel App. This enables customers to manage their Travel Money Card accounts 24/7 from anywhere in the world, as well as providing easy access to travel insurance. Over 700 branches are now offering Passport Digital Check and Send, enabling branches to process applications online, dramatically improving the customer experience, while boosting security. To round off what has become a one stop shop for our customers' travel needs, we made International Driving Permits available in 2,500 branches across the country, selling 350,000 permits over two months, with plans for further expansion in the year ahead.

Over 900,000 new customers registered for our GOV.UK Verify service, which provides a secure, and re-usable, means of definitive identity assurance to enable customers to access a range of online Government services. The opportunity now is to build on this success and expand the benefits of digital identity to a much broader range of users and organisations. We believe the Post Office is ideally placed to help grow this wider market, and we are seeking to rekindle Government's impressive early interest and positive action in the development of this new and transformative technology.

Concerns over bank branch closures across the country have grown louder across the year, and underscore just how important the continued availability of access to basic banking services through the Post Office is to communities. Since its inception in January 2017, we have significantly grown the volume of transactions we undertake on behalf of all the UK's major banks, and doubled revenue. We have been busy working on a significant further expansion over the next three year phase, rebalancing the fees we receive to better reflect the value of the service. While the banking framework is already resonating strongly with customers, we continue to undertake awareness raising activity with our banking partners to secure maximum benefit from its operation. We want all those involved to share in the success of the service, especially those working at the counter, and we recently announced that we are near tripling the fees our postmasters receive for cash deposits as a result.

We recognise that our postmasters are key to the success of our business. These are the people operating our branches alongside their retail businesses, serving our customers, day-in, day-out. While the model works well in thousands of branches across the country, we know that in common with other retailers, there are challenging head winds to face into. That is why have been working hard to make it easier for them to operate their P~~p~~ost O~~o~~ffices more profitably, with less effort, and better support from us. From the process of on-boarding, through improved training and field engagement, to simplified products and sales processes, we are continually improving the support we provide postmasters. Irrespective of the legal merits, the Group Litigation we are engaged in brings a sharper focus to this work. While our culture and practices have changed hugely over the 20 years spanned by the case, it is right that we must continue to do better.

I would like to thank the Post Office Board, led by Tim Parker, for its direction and support throughout the year, as well as our Shareholder and colleagues at BEIS. I must also thank all my colleagues in our main customer support centres for rising to the challenge, once more, as we build a stronger business. My final thanks are reserved for my predecessor~~,~~ Paula Vennells, who over the past 7 years has led us, as CEO, to be a profitable, confident, business without losing sight of our values. The Group Executive is continuing, with passion and enthusiasm, to evolve an organisation like no other in the service of current and future generations.

Alisdair Cameron
Interim Chief Executive
XX XXXX 2019

Financial and Business Review

Summary results

We delivered our third consecutive year of profit as we continue on the path to commercial sustainability.

Operating profit was £13 million (2018: £47 million). This is after increased depreciation and amortisation charges of £94 million (2018: £55 million), and exceptional items of £14 million (2018: £3 million).

Trading profit increased by £26 million to £61 million (2018: £35 million). Our revenue~~turnover~~ grew by £16 million during 2018/19 to £972 million (2018: £956 million). Growth was driven by our Identity (~~9~~7%) and Insurance (15%) business areas, with continued growth also noted within Banking Services (15%). This was partly offset by the anticipated decline in our card account income stream (down 25%).

As planned, the Network Subsidy Payment ("NSP") from Government decreased by £10 million to £60 million (2018: £70 million). NSP is to cover the costs of loss making branches which deliver our social purpose. It is our responsibility to demonstrate that the NSP received is equal to or less than the total loss these social purpose branches create. If the loss is less than the NSP, we are obliged to pay the difference back to Government. This reduction in the NSP h~~was partly~~ been offset by cost reductions of £2 million and~~,~~ revenue ~~when combined with the~~ growth of £16 million. ~~in revenue streams outlined above~~As a result, adjusted ~~resulted in an adjusted~~ EBITDA increased by~~of~~ £16 million to £121 million (2018: £105 million).

Profit and Loss Summary – Trading

	2019	2018	Variance	Variance
	£m	£m	£m	%
Revenue~~Turnover~~	**972**	956	16	2
Costs	**(958)**	(960)	2	~~1~~-
Other income	**14**	5	9	180
Share of profit from joint venture	**33**	34	(1)	(3)
Trading profit	**61**	35	26	74
Add: Network Subsidy Payment	**60**	70	(10)	(14)
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	**121**	105	16	15
Depreciation and amortisation	**(94)**	(55)	(39)	(71)
Exceptional items	**(14)**	(3)	(11)	(367)
Operating profit before investments	**13**	47	(34)	(72)

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Significant accounting judgements

Going concern

The Group (being the Group of companies headed by Post Office Limited) has net assets of £256 million at 31 March 2019 (2018: £203 million) and headroom on the loan from BEIS of £385 million (2018: £327 million). This is £185 million above the target minimum headroom of £200 million, hence we are not at risk of breaching this limit. We have also been profitable at a trading profit level with current year profit of £61 million (2018: £35 million) and shown a profit after tax of £52 million (2018: £17 million).

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; NSP of £50 million for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million available for the period from April 2018 to March 2020.~~as required for up to March 2020~~ Investment funding of £168 million was received in 2018/19.

After careful consideration of the plans for the coming years, we continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Key Financial Performance Indicators

	2019	2018	Variance
	£m	£m	£m
~~Turnover~~Revenue	**972**	956	16
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA) (note [XX])	**121**	105	16
Operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment (trading profit) (note [XX])	**61**	35	26
Profit for the financial year	**52**	17	35

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Profit and Loss

As disclosed in note [XX] to the financial statements on page [XX], we have split the results of the Group between trading and investments. Together these combine to give the results of the Group. This presentation clearly separates the underlying trading of the business from the change activity being undertaken to ensure the future sustainability of the Post Office. In the following sections, we consider each of the columns of our consolidated income statement which combine to give an operating profit of £52 million (2018: £15 million). Once finance income/costs, taxation credit/charge have been factored in, the profit for the financial year is £52 million (2018: £17 million). See the consolidated income statement on page [XX] for full details.

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	2019 £m	2018 £m	Variance £m
Operating profit			
Operating profit before depreciation, amortisation, exceptional items and investments (adjusted EBITDA)	**121**	105	16
Depreciation and amortisation	**(94)**	(55)	(39)
Exceptional items	**(14)**	(3)	(11)
Operating profit before investments	**13**	47	(34)
Investments	**39**	(32)	71
Operating profit	**52**	15	37

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~~Turnover~~Revenue

The Post Office business is organised into three strategic business units, Retail, Financial Services & Telecoms (including Insurance) and Identity. Revenue~~Turnover~~ from our subsidiary Post Office Management Services Limited is included within the Insurance line below. Revenue~~Turnover~~ from our subsidiary Payzone Bill Payments Limited ("Payzone") is included within the Payment Services line below. The divisions and their performance are detailed on the next pages:

		2019	2018	Variance	Variance
		£m	£m	£m	%
Retail					
	Mails	**350**	334	16	5
	Retail & Lottery	**42**	45	(3)	(7)
	Payment Services	**27**	27	-	-
	Cash & Banking Services	**161**	158	3	2
Financial Services & Telecoms					
	Financial Services	**113**	127	(14)	(11)
	Telecoms	**153**	147	6	4
Insurance		**55**	48	7	15
Identity		**58**	54	4	7
~~**Identity**~~		~~**58**~~	~~54~~	~~4~~	~~7~~
Other*		**13**	16	(3)	(19)
~~Turnover~~Revenue		**972**	956	16	2

* Relates to Supply Chain income (£10 million) predominantly for warehousing of Royal Mail stock, transport of high value mails and release of Bank of Ireland deferred income (£3 million).

The grouping of products has altered in 2018/19 as a result of changes to internal reporting, with Post Office Card Account ("POCA") revenue ~~turnover~~ moving from Government Services to Cash & Banking Services. Remaining Government Services revenue~~turnover~~ has been moved into the Identity business unit. Banking Services and ATMs revenue have also moved into Cash & Banking Services. Commission income relating to Government Services has been reclassified from revenue to other income because it did not fall within the scope of IFRS 15 *Revenue from Contracts with Customers*. The impact of these changes on the reported 2017/18 performance of the divisions is detailed below:

		2018	POCA	Commission income	Identity	Banking Services	ATMs	2018 reclassified
		£m	£m	£m	£m	£m	£m	£m
Retail								
	Mails	334	-	-	-	-	-	334
	Retail & Lottery	45	-	-	-	-	-	45
	Government Services	99	(40)	(5)	(54)	-	-	-
	Payment Services	57	-	-	-	-	(30)	27
	Cash & Banking Services	-	40	-	-	88	30	158
Financial Services & Telecoms								
	Financial Services	215	-	-	-	(88)	-	127
	Telecoms	147	-	-	-	-	-	147
Insurance		48	-	-	-	-	-	48
Identity		-	-	-	54	-	-	54
~~**Insurance**~~		~~48~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~48~~
Other		16	-	-	-	-	-	16

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~~Turnover~~Revenue	**961**	**-**	**(5)**	**-**	**-**	**-**	**956**

Retail

The Retail business encompasses our position as the United Kingdom's number one mails provider, as well as providing Cash & Banking and Payment services.

Mails

Mails includes the sale of parcels and other mails products provided by Royal Mail and Parcelforce. Underlying trading ~~turnover~~ revenue is up £16~~7~~ million (~~6~~5%) year on year. Growth in parcels (7%) and home shopping returns (35%) is partially offset by the continuing decline in stamps. In addition, there were planned reductions in the fixed fee element of the contract with the Royal Mail Group plc of £2 million.

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Retail & Lottery

Retail & Lottery revenue has decreased by £3 million to £42 million (2018: £45 million). The reduction reflects the changing shape of our branch network; although, a higher number of lottery rollovers did in part offset the trend toward online sales.

Payment Services

Payment Services includes bill payment transactions. Revenue has remained flat at £27 million (2018: £27 million). The acquisition of Payzone contributed £4 million to revenue, offset by reduced volumes in the reseller market of £4 million.

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Cash & Banking Services

This comprises the following services:

	2019	2018	Variance	Variance
	£m	£m	£m	%
POCA	**30**	40	(10)	(25)
Banking Services	**102**	88	14	15
ATMs	**29**	30	(1)	(3)
Cash & Banking Services	**161**	158	3	2

POCA revenue has decreased by £10 million in line with expectations. ATMs revenue has remained stable despite market decline. Banking services has significant year on year growth of £14 million to £102 million as more high street banks are closing their branches, in addition to the switch made to automated deposit transactions in October 2018.

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~~Payment Services~~

~~Payment Services includes bill payment transactions. Revenue has remained flat at £27 million (2018: £27 million). The acquisition of Payzone contributed £4 million to turnover, offset by reduced volumes in the reseller market of £4 million.~~

Financial Services & Telecoms

Financial Services

Our Financial Services products include mortgages, credit cards, savings and travel money, in addition to postal orders. ~~Turnover~~ Revenue decreased by £14 million to £113 million (2018: £127 million).

The majority of the decrease is due to Bank of Ireland products, down £12 million to £45 million (2018: £57 million). This is due to not having a minimum savings commission value in 2018/19. The competitive, customer and regulatory environments remain tough; the continued low rate environment and Bank of England funding scheme are putting pressure on Mortgage margins and ~~s~~Savings rates. Mortgages are also challenged ~~due to Bank of Ireland~~by pricing constraints, but the expansion into the Broker channel is compensating for this.

~~Turnover~~ Revenue from Postal Orders declined by £2 million as this legacy product continues to decline in the marketplace. The impact of Brexit, weak sterling and tighter AML regulations continue to impact MoneyGram and to a lesser extent travel money, which has remained stable year on year.

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Telecoms

Telecoms includes Post Office HomePhone, Broadband and Fibre services.

Telecoms ~~turnover~~ revenue of £153 million increased by £6 million (2018: £147 million) as customer numbers have increased.

Insurance

Post Office Insurance provides Travel, Life and General insurance policy cover. Insurance ~~turnover~~ revenue has grown by £7 million to £55 million (2018: £48 million). The increase was driven mainly by growth in our Over 50s Life insurance and Travel insurance businesses.

Identity

Identity provides Home Office, DVLA and Verify services. Identity ~~turnover~~ revenue has grown by £4 million to £58 million (2018: £54 million) due to the launch of Universal Credit in Verify. A new pricing arrangement with the Government Digital Service in November 2018 significantly reduced average margin for the Verify service, and will do in the future.

Costs

Total costs decreased by £2 million to £958 million (2018: £960 million).

People costs of £193 million increased by £4 million (2018: £189 million) due to pay increases.

Average headcount reduced from 5,066 in 2017/18 to 4,703 in 2018/19 reflecting reflecting the evolving shape of our operations ~~efficiency savings across the DMBs~~ and the effect of the Network and DMB transformation programmes. Closing headcount for the year was 4,397 (2018: 5,020).

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Other operating costs decreased by £~~7~~6 million to £765 million (2018: £771 million) of which £3 million relates to landlord compensation payments, with other controlled cost savings noted, especially in IT.

Depreciation and amortisation

Depreciation and amortisation charges increased to £94 million (2018: £55 million); a number of significant assets under construction came into use during the year and are now being depreciated.

Exceptional costs [to be updated]

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On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the

Court managed Group Litigation Order.

The Court has ordered two trials to be heard in 2018/19 to determine a subset of the preliminary issues in dispute between the parties. The Court has not yet ordered a process for determining any issues of liability or quantum. To date, the Claimants have not asserted the aggregate value of their claims in any of the Particulars of Claim filed in the litigation.

While the Directors recognise that an adverse outcome could be material, they are currently unable to determine whether the outcome of these proceedings would have a material adverse impact on the consolidated position of the Group, and are unlikely to be able to do so until the Court has made further determinations and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million).

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Joint venture

Post Office Limited has a joint venture with the Bank of Ireland with each holding 50% of First Rate Exchange Services Holdings Limited. The principal activity of the business is the supply of foreign exchange in the UK to the Post Office and others. The share of operating profit from the joint venture was £33 million (2018: £34 million).

Capital and investment costs

Investment costs included in the consolidated income statement are shown below:

	2019 £m	2018 £m
Investment funding	**168**	70
Restructuring:		
Business transformation	**(14)**	(16)
Network programmes	**(64)**	(63)
IT transformation	**(13)**	(6)
Severance	**(38)**	(17)
Total restructuring costs	**(129)**	(102)
Unwinding of discount on provisions	**(1)**	(2)
Total investment income/(charge)	**38**	(34)

Restructuring costs include the costs of delivery for major change programmes. In addition, we have incurred £1594 million (2018: £151 million) of capital spend, primarily on IT transformation projects, as disclosed in notes [X] and [X]. Combined with restructuring costs of £129 million (2018: £102 million), the total invested in the year was £288 million (2018: £253 million).

These are offset by Government funding, recognised to match the associated costs. ~~Government funding~~Government funding for 2018/19 of £168 million (2018: £70 million) was received in quarterly instalments and was fully recognised in the year.

BEIS has approved funding of up to £210 million which is available for the period from April 2018 to March 2020. The maximum available in 2018/19 was £168 million and this was received in full.

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Cash flow and net debt

Cash and cash equivalents amounted to £5~~43~~60 million (2018: £655 million) at the year-end. There was a net cash outflow during the year of £95~~112~~ million (2018: £25 million).

Net debt (excluding cash in the Post Office network) decreased by £~~66~~69 million year on year as shown in the table below.

		2019 £m		2018 £m
BEIS loan at the start of the year		**(623)**		(561)
Investment funding	**168**		70	
Restructuring costs	**(119)**		(116)	
Other cash inflows from operating activities	51~~34~~		66	
Net cash inflow from operating activities		100~~83~~		20
Dividends received from joint ventures	**33**		34	
Acquisition of businesses	**(17)**		(6)	
Proceeds from the sale of property, plant and equipment	**4**		5	
Purchase of tangible and intangible non-current assets	**(149)**		(135)	
Net cash outflow from investing activities		**(129)**		(102)
Net cash outflow from financing activities		**(8)**		(5)
Decrease in cash and cash equivalents		95~~112~~		25
BEIS loan at the end of the year		**(565)**		(623)
Cash (excluding cash in the Post Office Network)		**2~~4~~3**		12
Total net debt carried forward at the end of the year		**(542~~1~~)**		(611)

Post Office Limited seeks to minimise the amount drawn down on the loan from BEIS in order to reduce its interest cost. The facility is limited to a maximum of £950 million, the unused facility at the end of the year was £385 million (2018: £327 million). The maximum drawn down under the facility during the year was £744 million on 13 April 2018. The facility is available at two days' notice and has an end date of 31 March 2021.

Post Office Limited's borrowing facility from the Government limits the purposes for which the facility can be used and, together with borrowing limits contained in the Articles of Association, imposes constraints on the availability of external borrowing.

The Bank of England Note Circulation Scheme

The continued participation in the Note Circulation Scheme ("NCS") assures that Post Office Limited has an adequate supply of notes to meet customer demand across its network and provides a mechanism for enabling Post Office Limited to hold Bank of England owned notes. At the end of the year £227 million (2018: £238 million) of Bank of England owned notes were held. See note 22 on page [XX] for further details on the NCS.

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Post Office also has an arrangement in Scotland with a commercial banking partner whereby surplus Scottish notes are sold to the partner overnight for repurchase the next day. At the end of the year a total of £3 million (2018: £17 million) was outstanding under this arrangement.

Pensions

Post Office Limited is the principal employer of the Post Office Section of the Royal Mail Pension Plan ("RMPP"), which is independent of the Royal Mail section of the RMPP. Royal Mail Group Limited is the principal employer of the Royal Mail Senior Executives Pension Plan ("RMSEPP") and Post Office Limited is a participating employer within RMSEPP. RMPP and RMSEPP are both defined benefit plans. The Post Office operates a defined contribution scheme – the Post Office Pension Plan.

Both defined benefit plans are closed to new members and closed to future accrual.

In 2016/17, a Memorandum of Understanding was executed by Post Office with the Trustee of RMPP. This removed the unconditional right to refund from the RMPP. As a result of these events the surplus relating to this Plan was derecognised.

In 2017/18, the Trustees of the pension scheme entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected by the purchase of two bulk annuities. Under the purchase agreements, the Trustees of the pension plan bought an asset that provides income which matches closely the benefit payments from the pension plan, achieving a material risk reduction as changes in income mirror changes in benefits due to, for example, inflation and longevity.

The accounting surplus reduced by the difference between the insurance premium and the value of the insured liabilities, creating a 'loss' on buy-in. There was also an ancillary premium as part of the buy-in agreement which transferred to the insurer the risk of incorrect data being used to price the premium. These items were recognised in Other Comprehensive Income in 2017/18. As Post Office had no right to a future surplus in the scheme, there was an equal and opposite adjustment to the asset ceiling through Other Comprehensive Income. As a result, there was no effect on the net assets position of the Group.

The immaterial deficit payments into RMSEPP were agreed with the pension trustees during the year and payments were made in accordance with the agreements. The net cash payments made are detailed below:

	2019	2018
	£m	£m
Regular pension contributions	**(20)**	(20)

Funding of the pension deficit – RMSEPP	-	(1)
Payments relating to redundancy	**(1)**	(5)
Net cash payments	**(21)**	(26)

The income statement charge to trading for the year was £13 million (2018: £17 million) in relation to the defined contribution scheme. There was no charge (2018: £nil) in relation to the defined benefit scheme.

Alisdair Cameron
Interim Chief Executive
XX XXX 2019

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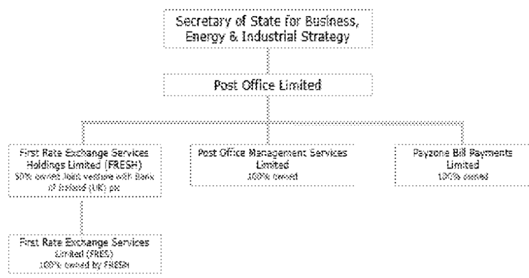
Governance

Corporate Governance

Legal Ownership and Structure



Post Office Limited ("the Company") is wholly owned by the ~~Department~~ Secretary of State for Business, Energy and Industrial Strategy ("BEIS"). BEIS holds a special share in the Company the rights of which are enshrined within the Post Office Limited Articles of Association (http://corporate.postoffice.co.uk/our-leadership).

BEIS has no day to day involvement in the operations of the Company or in the management of its branch network and staff. Through UK Government Investments ("UKGI"), BEIS monitors the Company's performance, in particular its compliance with minimum network access criteria and provision of specified services. BEIS has the right to appoint Non-Executive Directors to the Board and typically appoints a UKGI employee for this purpose. Tom Cooper currently holds this position.

Corporate Governance Overview 2018/19

The Company maintains standards of corporate governance appropriate for our ownership structure, commitment to social purpose and strategy to achieve commercial sustainability. We review our corporate governance arrangements to ensure they remain appropriate for our developing business needs and relevant legal and regulatory advances.

Board of Directors

The Board is responsible for setting the business' strategic aims, putting in place the leadership to deliver them, maintaining appropriate oversight of the management of the business, reporting to the Shareholder and determining the Company's vision, values and organisational culture.

During 2018/19 the Board comprised an independent Non-Executive Chairman, the Group Chief Executive, the Chief Finance and Operating Officer and five Non-Executive Directors (one of whom is designated the Senior Independent Director and four of whom are independent). Non-Executive Directors are not employees of Post Office Limited but provide services under the terms of an individual letter of appointment, signed at the commencement of their directorship.

Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the Directors is to promote the success of the Company for the benefit of its Government shareholder and the wider stakeholder community.

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Tim Parker, Independent Chairman, Chairman of the Nominations Committee and member of the Remuneration Committee

Joined the Board 1 October 2015

Alisdair Cameron, Chief Finance and Operating Officer throughout the 2018/19 financial year and Interim Chief Executive from 5 April 2019.[1]

Joined the Board 28 January 2015

Ken McCall, Senior Independent Director, Chair~~man~~ of the Remuneration Committee and member of the Audit, Risk and Compliance and Nominations Committees

Joined the Board 21 January 2016

Tim Franklin, Non-Executive Director and member of the Audit, Risk and Compliance Committee

Joined the Board 19 September 2012

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Shirine Khoury-Haq, Non-Executive Director and member of the Nominations and Remuneration Committee

Joined the Board 24 May 2018

Carla Stent, Non-Executive Director and Chair~~man~~ of the Audit, Risk and Compliance Committee

Joined the Board 21 January 2016

Tom Cooper, Non-Executive Director, and member of the Audit, Risk and Compliance and Remuneration Committees

Joined the Board 27 March 2018

Paula Vennells, Group Chief Executive, throughout the 2018/19 financial year[2]

Joined the Board 18 October 2010

Company Secretary:

Veronica Branton

Appointed as Company Secretary XX XXX 2019

Jane Macleod

Served as Company Secretary from her appointment on 30 August 2017 until 31 May 2019

[1] Alisdair Cameron was appointed interim Chief Executive on 5 April 2019 and a handover period commenced until Paula Vennells' resignation on 30 April 2019.
[2] Paula Vennells resigned as Group Chief Executive on 30 April 2019.

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Non-Executive Directors are usually appointed for an initial term of three years with the scope to renew for a second term, subject to Board approval and the approval of BEIS. Ken McCall and Carla Stent were reappointed for a second term of three years on 29 January 2019 as Senior Independent Director and Non-Executive Director, respectively. As the Board representative of UKGI, Tom Cooper's appointment period is determined by the Secretary of State for BEIS.

Biographies of all current members of the Board can be found on the Post Office Limited website: corporate.postoffice.co.uk/our-leadership.

Board

Role and responsibilities

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The Board is accountable to the Secretary of State for BEIS, as the sole shareholder, for the performance of the Company and is required to seek consent for certain matters, as included in the Articles of Association. The Shareholder is briefed regularly on the performance of the business and the progress to deliver the strategy.

The Board is also responsible for oversight of legal and regulatory compliance, delivery of the strategy, providing constructive challenge to the Group Executive and communicating with the Shareholder. The Board has a schedule of matters reserved for its decision and has approved Terms of Reference for its committees, which are available on the Post Office website.

The Board annually reviews the strategy, approves the annual budget and business plan required to deliver the strategic objectives for that year; the last approval was in [May 2019]. The Board regularly reviews reports on performance against that plan and receives periodic business reports from senior management. Directors are briefed on matters to be discussed at Board and Committee meetings by papers distributed in advance of meetings, as well as management presentations.

In setting the risk appetite for Post Office Limited the Board has established a framework to manage and mitigate risk. The Board takes guidance from its Audit, Risk and Compliance Committee, and has oversight of risk management. This Committee receives reports from the executive Risk and Compliance Committee, from the internal and external audit teams and from operational management. Further detailed information on the management of risk within Post Office Limited, together with identification of principal risks, their impacts and mitigation can be found in the management of risk section on pages [XX] to [XX].

Key focus and achievements in 2018/19

During the year to 31 March 2019, the Board continued to oversee the Post Office Limited's strategic plan to achieve commercial sustainability and profitability.

This included project approvals, monitoring of developments in IT strategy, and services in the digital space. These developments are designed to enhance customer experience and offer services that meet customer needs in a digital age while continuing to serve our social purpose.

The Company acquired Payzone Bill Payments Limited on 24 October 2018. The business has over 25 years' experience in the bill payments industry and offers payment terminals for bills, tickets, lottery and mobile top up in convenience stores, enabling these businesses to generate revenue and increase footfall.

The Board approved the appointment of new external auditors, following the resignation of Ernst & Young LLP at the end of their term of engagement. PricewaterhouseCoopers LLP were appointed as the Company's external auditors on 31 July 2018 following a tender process.

The Board also focused on a revised banking framework to provide banking services in Post Office branches on behalf of UK banks and approved investment for the Branch Hub (a self-service portal

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for branch operators and business owners to access support).

The Board receive regular health and safety reports and reviewed the Conflicts of Interest Policy. The Board also reviewed and approved the Company's 2017/18 Modern Slavery Act Statement.

The Board continued to monitor the progress of the ongoing Group Litigation Order.

Conflicts of Interest and Independence

The Board may, in the furtherance of its duties, seek independent professional advice at the expense of Post Office Limited. During the period, no Director sought independent professional advice.

In accordance with the Companies Act 2006, the Articles of Association give the Directors power to authorise conflicts of interest.

During the period, none of the Directors had a material interest in any contract of significance with Post Office Limited or any of its subsidiaries. At all times during the periods of their appointments in 2018/19, the independent Directors met the criteria for independence set by the Board.

Post Office Limited has arranged appropriate insurance cover in respect of legal action against Directors of Post Office Limited and its subsidiaries.

Tim Parker, Ken McCall, Tim Franklin, Shirine Khoury-Haq and Carla Stent are considered Independent Non-Executive Directors. Tom Cooper is not an independent Non-Executive Director as he is a shareholder representative. Paula Vennells and Alisdair Cameron held executive roles throughout the financial year, and as such were not independent directors.

Board Meetings

During 2018/19 the Board met 12~~8~~ times (including additional meetings held either in person or by telephone). A record of Directors' attendance (attended/eligible to attend)[3] at the Board and its Committees is set out in the table below:

Director	Board	Board (additional)	Audit, Risk and Compliance Committee	Nominations Committee	Remuneration Committee
Chairman					
Tim Parker	8/8	4/4~~TBC~~	-	4/4	6/6
Executive Directors					
Paula Vennells	7/8	1/4~~TBC~~	-	-	-
Alisdair Cameron	8/8	4/4~~TBC~~	-	-	-
Non-Executive Directors					
Ken McCall	8/8	4/4~~TBC~~	4/5	4/4	6/6
Tom Cooper	8/8	3/4~~TBC~~	5/5	-	5/6
Tim Franklin	8/8	2/4~~TBC~~	4/5	-	-
Shirine Khoury-Haq	8/8	4/4~~TBC~~	-	3/4	5/6
Carla Stent	8/8	4/4~~TBC~~	5/5	-	-

[3] Directors who are not members of a committee may attend meetings from time to time, at the invitation of the Chair.

Committees

To assist in the execution of its corporate governance responsibilities, the Board has established three committees which deal with specific topics requiring independent oversight. The Audit, Risk and Compliance, Nominations, and Remuneration Committees are each chaired by an independent Non-Executive Director.

The Board retains overall oversight but delegates responsibilities and authorities to its committees to operate within the Terms of Reference approved by the Board. The Terms of Reference for all committees are reviewed annually to assess that each Committee discharged its duties effectively in accordance with the Terms of Reference. The reviews conducted in March 2019 raised no issues.

Terms of Reference for the committees are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

Nominations Committee

Role and Membership

The duties and responsibilities of the Nominations Committee are included in the Terms of Reference, which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Tim Parker, Chairman, and the other members during the year were Shirine Khoury-Haq, Non-Executive Director and Ken McCall, Senior Independent Director.

Work of the Committee in 2018/19

During the year the Committee considered the skills and experience required by the Board for a new Group Chief Executive and a new Non-Executive Director and worked with Russell Reynolds (search consultants) on the proposed appointments. The Committee approved re-appointments to subsidiary boards and the appointment of a new Chair of Post Office Management Services Limited.

The Nominations Committee monitored the independence and internal process for the evaluation of the Board and Board sub-committees and considered developments in corporate governance and how these should apply to the Company.

The Committee considered the reporting requirements under the Companies (Miscellaneous Reporting) Regulations 2018 and a section will be introduced to the 2019/20 Annual Report to show how the requirements of Section 172 of the Companies Act 2006 were fulfilled, including having regard for the views of the shareholder, employees, customers and suppliers when making decisions.

Remuneration Committee

Role and Membership

The duties and responsibilities of the Remuneration Committee are included in the Terms of Reference which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Ken McCall, and the other members during the year were Tom Cooper, Shirine Khoury-Haq and Tim Parker.

In accordance with the Terms of Reference, the Group Chief Executive may attend meetings, at the invitation of the Committee ~~Chairman~~, to discuss matters relating to the remuneration of the Chief Finance and Operating Officer and members of the Group Executive. However, the Committee recognises the need to manage any potential conflicts of interest and upholds the principle that no individual may be involved in discussions concerning their own remuneration.

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Work of the Committee in 2018/19

During the year the Committee reviewed and made recommendations to the Shareholder for the 2017/18 bonus payments against incentive plans for Executive Directors, annual pay increases for Executive Directors and targets and measures for 2018/19. The Committee approved senior salary pay changes, in line with increases provided to all employees, and pay at appointment where these were within its remit and delegated authority.

The Committee received updates and advice from the HR and Finance teams and from PricewaterhouseCoopers LLP, its external adviser, on gender pay, market trends and benchmarking information and corporate governance.

Audit, Risk and Compliance Committee

Role and Membership

The duties and responsibilities of the Audit, Risk and Compliance Committee are included in the Terms of Reference which are available on the Post Office Limited website: www.corporate.postoffice.co.uk/our-leadership.

The Committee is chaired by Carla Stent, Non-Executive Director, and the other members during the year were Ken McCall, Senior Independent Director, Tom Cooper, Non-Executive Director and Tim Franklin, Non-Executive Director.

The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience and that this constitutes an appropriate mix of business and financial experience and expertise.

The Directors of Risk & Compliance and Head of Internal Audit attended all of the meetings of the Committee and also met the Committee Chair~~man~~, independently and regularly, throughout the year. The external auditor was invited to, and attended, all meetings of the Committee except on 31 July 2018, where the Committee recommended to the Board the appointment of new external auditors PricewaterhouseCoopers LLP.

Further detailed information on the management of risk within Post Office Limited, together with identification of principal risks, their impacts and mitigation, can be found in the Management of Risk section on pages [XX] to [XX].

Work of the Committee in 2018/19

During the year, the Committee reviewed the Annual Report and Financial Statements for 2017/18, including consideration of the principal and strategic risks, and recommended Board approval.

The Committee approved the annual audit plans for the internal and external auditors. The Committee received and challenged, where appropriate, internal audit reports.

The Committee reviewed the risk management framework for the Company, including its appetite for risk, self-assessment of the control framework and areas of specific risk highlighted by the Executive Risk and Compliance Committee. It reviewed and approved relevant policies, such as financial crime and protecting personal data, as part of an annual review cycle.

Board and Committee Effectiveness Evaluations

The Board recognises that an effective Board is vital to the success of the Company and the business. Ken McCall, Senior Independent Director, led an internal Board effectiveness evaluation in December 2018 which included a formal evaluation of the performance of the Board, its Committees and the Chair~~man~~.

The Board evaluation was conducted by internal questionnaire and, following a review of the results, recommendations were presented to the Board. The feedback and scores were positive but areas for

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additional focus were identified, including closer engagement with and understanding of stakeholders' perspectives, particularly postmasters and employees; the competitor landscape and franchising models; and periodic scheduling of meetings without the executives.

As part of the Board review process, each Board Committee undertook a review of its effectiveness. The feedback and scores were positive. Each Committee considered the feedback from the evaluation and agreed actions. The Audit, Risk & Compliance Committee decided to increase the number and length of meetings held annually to reflect the range and scope of legal and regulatory compliance and risk management issues across a span of business lines. It also agreed that Non-Executive Members of the Committee would ~~to~~ hold separate meetings with the Head of Internal Audit periodically. The Nominations Committee added a succession planning review to its forward agenda and the Remuneration Committee commissioned a report on the group remuneration framework and the approvals process.

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Management of Risk

Our Approach to Risk

The commercially competitive and highly regulated environment, together with operational complexity, exposes the Post Office to a number of risks. We define risk as anything that can adversely affect our ability to meet the Post Office's objectives, maintain its reputation and comply with regulatory standards. We seek to understand and harness risk in the pursuit of our objectives and aim to operate within an acceptable level of risk taking. The Post Office has articulated its risk appetite in relation to the most material risks with a view to managing better the key strategic risks and assessing the risks in relation to new opportunities.

Risk Management Governance

The Board is accountable for risk management and internal controls in the Post Office, reviewing their effectiveness and determining the nature and extent of principal risks. The Board has delegated responsibilities to the Audit, Risk and Compliance Committee ("ARC"), which provides assurance to the Board through review of reports from management, risk, internal audit external advisers and external audit. Responsibility for day to day operations rests with the Group Executive. The Risk and Compliance Committee ("RCC") reviews the effectiveness of the risk management framework and management of principal risks. The outputs are reported to the ARC as necessary.

Our Risk Management Framework

In order to deliver its objectives, the Post Office is required to identify, assess and manage a wide range of risks. These are managed through an overarching framework in order to apply consistency and transparency of risk management across the organisation. The framework identifies roles and responsibilities of key parties in the risk management process, the policies for how risks are managed, the tools and processes used and the reporting outputs that are generated.

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The approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk. The Group Executive has identified and manages the principal risks in the organisation, focusing on the aims of the strategic plan. These risks, with their response plans, are reviewed by the Central Risk team and at the RCC and the ARC to assure the robustness of risk assessment and management. There is an ongoing process of identifying, evaluating and managing the principal risks faced by Post Office.

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During the year we have further improved our oversight over the level of risks being taken across Post Office and effectiveness of our mitigating actions, including close monitoring of emerging risk themes and incidents. Plans are also in place to fully refresh risk appetite to better inform decision making. This is a component within our wider enhancement plan to continue maturing our Risk Management framework.

Our Control Framework

We have an internal control framework in place for both our financial reporting and IT processes, which fall under our self-assessment regime. In addition, we have implemented a suite of Post Office policies which define the minimum control standards we expect to be performed within the applicable business areas. Our risk management efforts are also underpinned by our Executives' Declaration.

What has changed since last year?

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Our principal risks evolve over time, as we progress with our strategy and business plan to achieve £100 million trading profit by 2020/21, new risks emerge and our mitigation activities adapt. Health and Safety has become a new principal risk this year, reflecting the high importance we place on the safety of our staff, colleagues and customers. Litigation is also new, due to the ongoing litigation involving the Post Office. The level of risk has increased for Economic and Political environment, in response to the ongoing political and economic uncertainty. Dependency on strategic relationships remains a principal risk and is in an improving position. We have invested considerably in Technology, Business Interruption and Cyber and residual risk is improving, although the management and Board are not complacent to these risks. Both our Retail Proposition and Regulatory Environment risks are stable. Our Retail Proposition remains fundamental to enabling us to continue to successfully deliver our social purpose and the regulatory environment continues to evolve and introducing new ways of doing business.

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~~Our principal risks evolve overtime, as we progress with the North Star strategy and business plan, new risks emerge and our mitigation activities adapt. Health and Safety has become a new principal risk this year, reflecting the high importance we place on the safety. Litigation is also new, due to the change in posture. The level of risk has increased for Economic and Political environment, in response to the ongoing political and economic uncertainty. Dependency on strategic relationships remains a principal risk and is in an improving position. We have invested considerably in Technology, Business Interruption and Cyber and this principle risk is improving. Both our Retail Proposition and Regulatory Environment risks are stable. Our Retail Proposition remains fundamental to enabling us to continue to successfully deliver our social purpose and the regulatory environment continues to evolve and introducing new ways of doing business.~~

Our Principal Risks and Mitigations

These are our principal risks, detailed with their potential consequences if they were to crystallise and how the Post Office manages them. Any of these risks could have a material impact on our results, condition and prospects. However, these risks should not be regarded as a complete and comprehensive statement of all potential risks; some risks are not yet known and some that are not considered material could later turn out to be material. Our principal risks are regularly re-evaluated and discussed at both a Board and GE level.

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Principal Risk / Movement		Potential Consequences	Key Mitigations
STRATEGIC RISKS			
Dependency on Strategic Relationships Post Office has a number of strategic relationships which are key to delivering its growth and strategic ambitions. The number of such relationships is increasing. We work with our partners to align our direction and interests to enable us to meet evolving customer and market requirements and any misalignment.	⬇ ⬇	Not achieving our strategic ambitions, losing revenue and market share.	• We have established close working relationships with our strategic partners underpinned by formal governance and reporting mechanisms. These ensure commercial objectives are aligned and relationship deliver to expectation. • Regular interaction with strategic partners to improve joint operating efficiency, product offering and service to drive growth and profitability for all parties. This includes regular engagement at Chief Executive Officer / Managing Director level. • We review the relationships with our strategic partners on a regular basis, to ensure long term alignment, with our customer and business outcomes. • Our key Banking Framework contract has been comprehensively re-negotiated to place it on a strategic, commercially sustainable and long term footing. Linkages have been established at Bank Board, POL Board and Government levels to ensure strategic alignment. • [Other mitigations to be added relating to RMG and BOI].

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~~**Retail Proposition**~~ ~~Post Office are committed to maintaining a Retail network of at least 11,500 branches. Critical to this objective is offering an attractive proposition for our retail partners and to continue to operate Post Offices in communities who need us.~~ ~~We continue to review and develop our proposition to enable us to continue to successfully deliver our social purpose, which addresses the impact of:~~ • ~~increased high street costs;~~ • ~~ongoing move to online; and~~ • ~~a decline in traditional income streams.~~	↔	~~Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.~~	• ~~We are continuing to open branch locations where there is a customer need, adding 328 'new network locations' in 2018/19. We are also continuing to improve our support to existing postmasters and have strengthened our field support team this year.~~ • ~~New technology will help our postmasters manage costs and our business remain relevant to customers and we are investing in the next generation of automation for our branches as well as further developing the software that will allow retailers to sell Post Office products on their own tills.~~ • ~~We are developing 15 pilot locations for Post Office Parcel Shop and are continuing to develop automated locals, with the first proof of concept branch.~~
Principal Risk / Movement		**Potential Consequences**	**Key Mitigations**
Retail Proposition Post Office are committed to maintaining a Retail network of at least 11,500 branches. Critical to this objective is offering an attractive proposition for our retail partners and to continue to operate Post Offices in communities who need us. We continue to review and develop our proposition to enable us to continue to successfully deliver our social purpose, which addresses the impact of: • increased high street costs; • ongoing move to online; and	↔	Inability to meet our network commitment, and consequent adverse impact on delivery of our social purpose and consequential financial impacts.	• We are continuing to open branch locations where there is a customer need, adding 328 'new network locations' in 2018/19. We are also continuing to improve our support to existing postmasters and have strengthened our field support team this year. • New technology will help our postmasters manage costs and our business to remain relevant to customers and we are investing in the next generation of automation for our branches as well as further developing the software that will allow retailers to sell Post Office products on their own tills.

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• a decline in traditional income streams.			
STRATEGIC RISKS			
Economic and Political Environment Current uncertainties in the external political, economic and social environment could ~~have a~~ detrimentally impact our strategy and operating model significantly: Brexit itself represents a potential series of risks which would be most pronounced in the event of a no-deal departure from the EU ~~(see below)~~, but has also taken a very serious toll on all aspects of Government and politics more broadly. There remains a possibility that the current impasse will increase the pressure for a General Election, with the attendant risk that Government and our Shareholder's priorities ~~will~~ may change in favour of any new Government's agenda, with potentially significant implications for the business. ~~Labour agenda, with significant implications for the business.~~ ~~Examples include the implementation of Labour's proposals for the renationalisation of RMG, and the creations of a Post Bank.~~	↑ ↑	Spending patterns of our customers during economic uncertainty and potential downturn of the economy e.g. decline in the sale of banking products, particularly mortgages. Disruption to operations (customs labels in branch, accessibility issues for supply chain) Financial resilience of our postmasters and suppliers. Retention of skilled labour and recruitment. New income streams failing to grow.	• We regularly perform horizon scanning to identify external events and assess their potential impact on our business. • Our strategy considers customer requirements, market trends and competitor behaviour. • We continue to invest in the development of our digital capability. • In terms of Brexit arrangements, PO have communications, training and contingency processes in place to deploy in the event of a 'no deal'.
Principal Risk / Movement		**Potential Consequences**	**Key Mitigations**
OPERATIONAL AND FINANCIAL RISKS [to discuss inclusion of a "People" risk at ARC]			
Health and Safety Due to Post Office's wide reach through the size and operation of its Network including fleet, it is essential we invest in our safety procedures and controls. A health and safety incident or failure could result in serious injury, ill health or loss of life.	NEW ~~NEW~~	Exposure to significant costs for reimbursement for damages and remediation, operational disruption, prosecution and reputational damage.	• We have regular Health & Safety training provided to all colleagues and managers including Directly Managed Branches and Supply Chain Managers. • We regularly review, update and monitor~~ing of~~ Local Risk Assessments and safe systems of work. • We have developed a Road Risk Policy. • We regularly review our Health & Safety policy and Property Statutory Compliance policies. • Our Health & Safety Management System has been independently audited and assessed as strong and mature. Initiatives recommended to

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			further strengthen our safety culture have been implemented. • An independent Risk Assessment of high risk building fabric has been undertaken and remediation actions completed. • We undertake a dynamic risk assessment, work closely with industry experts and bodies and have invested heavily in security related interventions to reduce the risk of attack and assault across the Network and Supply Chain.
Principal Risk / Movement		**Potential Consequences**	**Key Mitigations**
			• ~~We undertake a dynamic risk assessment, work closely with industry experts and bodies and have invested heavily in security related interventions to reduce the risk of attack and assault across the Network and Supply Chain.~~
TECHNOLOGY AND INFORMATION SECURITY RISKS			

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Technology, Business Interruption and Cyber ~~As the digitalisation of our business continues to grow,~~ Post Office is dependent on the continued effectiveness, availability, integrity and security of its information systems and associated infrastructure. Post Office, in common with other businesses, is continuing to track the threat "universe" and is aware of increasing risk from cyber-attackers (particularly nation states) seeking to undermine businesses, government and utilities.		Direct impact on our network availability and reliability resulting in adverse customer service and financial performance and/or reputation. A cyber-attack could threaten the confidentiality, integrity and availability of our systems.	• We are continuing to mitigate this risk by migrating some of our aging legacy systems to new infrastructure and this will continue through 2019/20. • We regularly evaluate the adequacy of our IT infrastructure and related controls. • We regularly meet with our key third parties to ensure they fulfil their obligations covering the security, resilience and availability of our IT systems and infrastructure. • We have introduced a Security Improvement Plan enabling our third party suppliers to use their security experience to identify a gap or improvement to a security process or tool that Post Office has not identified, improving our partnership and utilise their experiences to improve our overall security posture. • We have policies in place for cyber, disaster recovery, information security and acceptable use. • We monitor and provide assurance against the minimum controls defined in these policies. • A Security Operations Centre has been built, enabling our IT Security Team to assess and manage vulnerabilities, identify and mitigate the risk of cyber-attacks. • We continue to further invest and further mature our cyber defences including: ➢ increasing capability within our security operations; ~~and~~ ➢ cultural awareness around data protection; and ➢ continuous testing in house and with experience 3rd parties.
Principal Risk / Movement		**Potential Consequences**	**Key Mitigations**
LEGAL & REGULATORY RISKS			

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Group Litigation Post Office Limited is the defendant in *Bates & Others v. Post Office Limited*, Claim Nos. HQ16X01238, HQ17X02637 & HQ17X04248 in the High Court of Justice, Queen's Bench Division ("The Post Office Group Litigation").	**NEW**	Legal findings and court orders which have an adverse impact on financial performance and/or reputation.	• Post Office has instructed specialist legal advisors to advise on and conduct its defence of the litigation, subject to senior management oversight.
Regulatory Environment Post Office operates under an extensive and evolving regulatory environment, including areas such as financial services, transactional services, postal services, telecoms, procurement, competition law, and data security. This environment continues to evolve, particularly in the financial services (e.g. HMRC's requirements around Anti Money Laundering controls, location fees as well as Fit and Proper) and telecoms space, which increases the risk of non-compliance, costs and could impact our financial performance.	⬌	Fines, penalties, litigation and a resulting adverse impact on financial performance and/or reputation.	• We have open dialogue with key regulators to understand and clarify expectations. • We regulatory perform horizon scanning to anticipate future requirements and planning with each business area to undertake appropriate solutions. • On-going training is provided to staff and retail partners on legal and regulatory matters. • Regulatory obligations are supported by policies which define minimum controls that must be operated to mitigate risks. • Internal and external programmes are in place to provide assurance on regulatory compliance.

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~~[The wording in italics in the table above (Technology and Information Security Risks) is with Rob Houghton to approve. The section is also subject to change by Mark Davies and team who will review for style and language.]~~

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Directors' Report

The Directors present the Group Annual Report and Financial Statements and Company Financial Statements for the year ended 31 March 2019.

Expected future developments

Expected future developments are detailed in the Chief Executive's statement on page [X].

Results and dividends

The profit after taxation for the year was £52 million (2018: £17 million). The Directors do not recommend the payment of a dividend (2018: £nil).

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Political contributions

No political contributions were made in the year (2018: £nil).

Research and development

We submitted our first research and development claim during 2018/19 in respect of 2017/18 and 2016/17. The claim relates to IT transformation projects.

Directors and their interests

The following served as Directors during the year:

T C Parker	P A Vennells *(resigned 30 April 2019)*
A C J Cameron	T K G Cooper
T A Franklin	S Khoury-Haq
K S McCall	C R Stent
V A Holmes *(resigned 27 March 2018)*	R J Callard *(resigned 27 March 2018)*

No Director has a beneficial interest in the share capital of Post Office Limited. The emoluments of Directors are set out in note [5] to the financial statements on pages [XX] to [XX].

People

People are critical to our success, whether in branch or in our offices. To attract and retain the right people we:

- Conduct regular employee surveys and use the feedback to make improvements.
- Provide information regularly on company performance, policies and organisational developments through our intranet, briefing sessions and company-wide emails.
- Have a network of engagement champions representing the voices of colleagues from each part of the business.
- Are committed to providing a safe working environment that promotes the health, safety and wellbeing of employees. A range of services is provided to help all employees stay mentally and physically healthy.
- Operate our Learning Academy to provide high quality learning for all employees and postmasters, aiming to ensure that everyone is supported into reaching their full potential.

- Invest in developing the best talent to support our business, including graduate recruitment and active participation in the apprenticeship programme, available for new and existing colleagues.
- Promote diversity and inclusion and celebrate the diversity of the workforce and communities we serve. We have a number of active employee network groups such as: Women in Leadership, to support and nurture female talent; Prism, which supports and celebrates our LGBT+ community; BAME (supporting Black, Asian and Minority Ethnic colleagues) and Return to Work (supporting colleagues returning to work after maternity, other parental leave and long term absences).
- Proactively communicate that we are a Disability Confident Leader and actively try to attract talented people to Post Office from diverse backgrounds. We do this through our corporate careers page, recruitment agencies and other attraction channels such as Vercida who are the world's leading diversity and inclusion employer brand platform.
- Ask all applicants to inform us of any reasonable adjustments we can make to ensure they are not disadvantaged due to a particular disability during the selection process.
- Require all Hiring Managers to complete Effective Interviewing and Unconscious Bias Training to ensure a consistent, fair and unbiased selection process takes place.
- Do not tolerate any form of bullying, harassment, victimisation or discrimination whether written, verbal, visual or physical. We are committed to taking the necessary action to ensure that they do not occur, or where they do occur that they are dealt with quickly and eliminated, by following a consistent, fair and robust Bullying and Harassment Policy and Procedure. All managers are required to complete Dignity at Work training to ensure they understand their responsibilities and that they demonstrate the correct behaviours and treat everyone with dignity and respect at all time.

Disabled employees

As noted above, the Post Office Limited has been recognised as a Disability Confident Leader. We have a Disability Confidence networking group called 'Be You'. This group provides support and advice and helps the business to do the best it can for employees with disabilities. We also make necessary adjustments for colleagues who are disabled or become disabled during the course of their employment to allow them to carry out their role and fulfil their potential, including any specific training needs.

Gender pay gap

Gender pay is not the same as equal pay. Equal pay is about ensuring men and women are paid the same for work of equal value, as set out in the Equality Act 2010. At Post Office we support equal pay through a robust job evaluation process that is free from gender bias.

The gender pay gap relates to the difference between the gross hourly pay of all men and the gross hourly pay of all women across the organisation. The difference between gender pay and equal pay is important to understand as you can have a gender pay gap without having equal pay issues. At Post Office we recognise that more needs to be done to reduce the gender pay gap and we are committed to doing so.

We continue to make progress. Our gender pay gap is 0.5% lower than last year, and smaller than the UK average. We are closer to our goal of filling 50% of senior manager roles with women which was 39% in our last report and is currently 43%. The number of women holding mid-level managerial roles has risen by a third in the last year. We provide tailored coaching and mentoring for female colleagues and run recruitment programmes to encourage more women to pursue careers in IT and Finance. Our commitment has been recognised by The Times as we made their list of Top 50 Employers for Women for the third time.

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Both our mean and median hourly gap has reduced. Our median gender pay gap is 7.9%, (as compared with the national figure of 18.4%) and our mean gender pay gap is 17%. The main reason for the gap is the lower proportion of women in senior roles relative to men. Another reason is part-time working – 45% of female colleagues work part-time, compared with only 12% male colleagues. This especially impacts the bonus pay gap.

However, we are not complacent. There is still work to do to ensure women at Post Office realise their potential. We are taking actions to reduce the gender pay gap further, such as continuing to offer tailored mentoring to female colleagues and making sure we have 50/50 gender balanced shortlists for senior level vacancies and for our next graduate intake. Above all else, we continue to listen to our colleagues and understand what they need to help them to flourish. We will use these conversations, alongside the data contained in our full gender pay report, to improve again next year. Because it is the right thing to do – for the future of Post Office and our people. For our full gender pay report please see: http://corporate.postoffice.co.uk.

6

Post balance sheet events

In accordance with the funding agreement with Government, Post Office Limited received a Network Subsidy Payment of £18~~7.5~~ million on 2 April 2019. The Network Subsidy Payment is received on a quarterly basis and a total of £50 million will be received from Government in 2019/20.

Going concern

After analysis of the financial resources available and cash flow projections for Post Office Limited, the Directors have concluded that it is appropriate that the financial statements have been prepared on a going concern basis. Further details are provided in accordance with the fundamental accounting concept in note 1 to the financial statements on page [XX].

Financial instrument risk

The exposure of the Group to market risk, credit risk and liquidity risk has been disclosed in note 16 to the financial statements on pages [XX] to [XX].

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the auditor is unaware, that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

PricewaterhouseCoopers LLP were appointed as the Company's external auditors on 31 July 2018 following a tender process.

By Order of the Board

Veronica Branton
Company Secretary, Post Office Limited (Company Number 2154540) Finsbury Dials, 20 Finsbury Street, London EC2Y 9AQ
XX XXXX 2019

Registered Number 2154540

Post Office Limited

6

Annual Report

& Consolidated Financial Statements

2018/19

PRESENTED TO PARLIAMENT PURSUANT TO
SECTION 77 OF THE POSTAL SERVICES ACT 2000

Financial Statements

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial 53 week period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations
In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Independent Auditor's Report to the members of Post Office Limited

In our opinion:

- Post Office Limited's Group financial statements and parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's and the parent Company's profit and the Group's cash flows for the 53 week period (the "period") then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the Group consolidated and Company balance sheet as at 31 March 2019; the consolidated income statements and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes to equity for the 53 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors' have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

Independent Auditor's Report to the members of Post Office Limited (continued)

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page [XX], the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent Auditor's Report to the members of Post Office Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

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We have no exceptions to report arising from this responsibility.

Andrew Paynter (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Charted Accountants and Statutory Auditors
Leeds
XX XXXX 2019

Consolidated Income Statement

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

		2019 £m			2018 £m		
	Note	Trading	Investments	Total	Trading	Investments	Total
Revenue from contracts with customers		**972**	**-**	**972**	956	-	956
Costs	2,4	**(958)**	**(129)**	**(1,087)**	(960)	(102)	(1,062)
Costs – exceptional items	19	**(14)**	**-**	**(14)**	(3)	-	(3)
Total costs		**(972)**	**(129)**	**(1,101)**	(963)	(102)	(1,065)
Other operating income		**14**	**-**	**14**	5	-	5
Investment funding	4	**-**	**168**	**168**	-	70	70
Network Subsidy Payment		**60**	**-**	**60**	70	-	70
Depreciation and amortisation	8,9	**(94)**	**-**	**(94)**	(55)	-	(55)
Share of post-tax profit from joint venture	10	**33**	**-**	**33**	34	-	34
Operating profit / (loss)	3	**13**	**39**	**52**	47	(32)	15
Operating profit / (loss) before exceptional items		**27**	**39**	**66**	50	(32)	18
Finance costs	6	**(8)**	**(1)**	**(9)**	(5)	(2)	(7)
Profit / (loss) before taxation	3	**5**	**38**	**43**	42	(34)	8
Taxation credit	7	**9**	**-**	**9**	9	-	9
Profit / (loss) for the financial year		**14**	**38**	**52**	51	(34)	17

For the year ended 31 March 2019 trading profit was £61 million (2018: £35 million).

Trading profit is one of the Group's key financial measures and is calculated by taking operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment. Further detail is given in note [23].

All amounts relate to continuing operations.

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Consolidated Statement of Comprehensive Income

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Note	**2019 £m**	2018 £m
Profit for the financial year		**52**	17
Items that may be reclassified to profit or loss			
Gain on cash flow hedge	16	**3**	-
Items that will not be reclassified to profit or loss			
Re-measurements on defined benefit surpluses	17	**(3)**	2
Asset ceiling effect	17	**1**	(2)
Other comprehensive income		**1**	-
Total comprehensive income for the year		**53**	17

There are no other comprehensive income items that will be reclassified to the profit and loss in future periods.

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Consolidated Statement of Cash Flows

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Note	**2019 £m**	2018 £m
Cash flows from operating activities			
Operating profit		**13**	47
Total profit before investments		**13**	47
Adjustment for:			
Share of profit from joint venture	10	**(33)**	(34)
Depreciation and amortisation	8,9	**94**	55
Pension operating costs	17	**13**	17
Other gains and losses		**7**	-
Working capital movements:		**(30)**	(2)
(Increase)/decrease in trade and other receivables		**(11)**	5
Decrease in contract assets		**5**	-
Decrease in trade and other payables		**(26)**	(3)
Decrease/(increase) in inventories		**1**	(2)
Decrease in trading provision		**(1)**	-
Increase/(decrease) in provisions for discontinued operations		**2**	(2)
Pension costs paid		**(21)**	(26)
Cash payments in respect of investments items:		**49**	(46)
Investment funding		**168**	70
Restructuring costs		**(119)**	(116)
Surrender of tax losses to joint venture		**8**	9
Net cash inflow from operating activities		**100**	20
Cash flows from investing activities			
Dividends received from joint ventures	10	**33**	34
Acquisition of businesses (net of cash acquired)	20	**(17)**	(6)
Proceeds from the sale of property, plant and equipment		**4**	5
Purchase of tangible and intangible non-current assets		**(149)**	(135)
Net cash outflow from investing activities		**(129)**	(102)
Net cash outflow before financing activities		**(29)**	(82)
Cash flows from financing activities			
Finance costs paid		**(8)**	(5)
Proceeds of borrowings from BEIS	14	**(58)**	62
Net cash (outflow)/inflow from financing activities		**(66)**	57
Net decrease in cash and cash equivalents		**(95)**	(25)
Cash and cash equivalents at the beginning of the year	12	**655**	680
Cash and cash equivalents at the end of the year	12	**560**	655

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Consolidated Balance Sheet

at 31 March 2019 and 25 March 2018

	Note	2019 £m	2018 £m
Non-current assets			
Intangible assets	8	**291**	264
Property, plant and equipment	9	**176**	148
Investments in joint venture	10	**66**	66
Retirement benefit surplus	17	**1**	3
Trade and other receivables	11	**6**	12
Total non-current assets		**540**	493
Current assets			
Inventories		**8**	9
Trade and other receivables	11	**344**	324
Cash and cash equivalents	12	**560**	655
Total current assets		**912**	988
Total assets		**1,452**	1,481
Current liabilities			
Trade and other payables	13	**(533)**	(571)
Financial liabilities - interest bearing loans and borrowings	14	**(565)**	(623)
Provisions	15	**(50)**	(36)
Total current liabilities		**(1,148)**	(1,230)
Non-current liabilities			
Other payables	13	**(14)**	(18)
Provisions	15	**(34)**	(30)
Total non-current liabilities		**(48)**	(48)
Net assets		**256**	203
Equity			
Share capital	18	**-**	-
Share premium	18	**465**	465
Accumulated losses		**(214)**	(264)
Other reserves	18	**5**	2
Total equity		**256**	203

The notes on page [XX] to [XX] form an integral part of the consolidated financial statements.

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX XXX 2019 and signed on its behalf by:

A C J Cameron
Interim Chief Executive

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Consolidated Statement of Changes in Equity

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Note	Share capital £m	Share premium £m	Accumulated losses £m	Other reserves £m	**Total equity £m**
At 26 March 2018		**-**	**465**	**(264)**	**2**	**203**
Profit for the year		**-**	**-**	**52**	**-**	**52**
Other comprehensive income		**-**	**-**	**(2)**	**3**	**1**
At 31 March 2019		**-**	**465**	**(214)**	**5**	**256**

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	Note	Share capital £m	Share premium £m	Accumulated losses £m	Other reserves £m	Total equity £m
At 27 March 2017		-	465	(281)	2	186
Profit for the year		-	-	17	-	17
Other comprehensive income		-	-	-	-	-
At 25 March 2018		-	465	(264)	2	203

Notes to the financial statements

1. Accounting Policies

Financial year
The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 53 weeks ended 31 March 2019 (2018: 52 weeks ended 25 March 2018).

Basis of preparation
The Group financial statements on pages [XX] to [XX] have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS interpretations are issued by the International Accounting Standards Board (IASB) and must be adopted into European Law, referred to as endorsement, before they become mandatory under the IAS regulation. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Company is incorporated and domiciled in the United Kingdom. The Group consolidated financial statements are presented in sterling and all values are rounded to the nearest £ million except where otherwise indicated. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Post Office Limited is a private Company limited by shares incorporated in England and Wales.

The income statement presents the results of the Group in a columnar format – in total and split between trading and investments. The trading column represents the underlying performance of the business. Investment funding from Government, restructuring and transformation costs are separately disclosed in the investments column.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings as at 31 March 2019. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. A set of financial statements has been prepared for Post Office Management Services Limited (subsidiary, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ) for the 53 weeks ended 31 March 2019. A separate set of financial statements has also been prepared for Payzone Bill Payments Limited (subsidiary, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ), which was acquired on 24 October 2018, see note [20] for details.

The year-end dates of these subsidiaries are in line with the Company. The subsidiaries use consistent accounting policies where appropriate and their results have been consolidated into the Group financial statements. All intra-group balances, transactions, and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

New and amended standards adopted by the Group

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018/19, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments
IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Notes to the financial statements (continued)

The adoption of IFRS 9 from 2018/19 has not had a material impact on our results, with the key issues for Post Office being around documentation of policies and new hedge documentation.

IFRS 9 operates an expected credit loss model rather than an incurred credit loss model. Providing for loss allowances on our existing financial asset has not had a material impact.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The standard has not had a material impact on revenue recognition at Post Office and therefore, on initial application, no adjustment was required to the opening balance of retained earnings. Presentational reclassifications on the face of the income statement have been required in respect of the Network Subsidy Payment and commission income relating to Government Services. These two items were formerly recognised in revenue and have now been reclassified to other income as they did not meet the recognition criteria from revenue under IFRS 15. Refer to page [XX] for further details of the reclassification. The accounting policies for revenue and for other income are on pages [X] and [X] respectively.

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New standards and interpretations not yet adopted

IFRS 16 Leases
IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for operating leases.

The Group will apply the standard from its mandatory adoption date – for Post Office this is from 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any existing onerous and vacant lease provisions). The Group therefore expects to recognise right-of-use assets of approximately £[XX] million on 1 April 2019 and lease liabilities of £[XX] million. The net impact on the income statement account will be minimal – an increase in trading profit of some £[7-9]m as it will no longer have a charge for operating leases, matched by increases in depreciation, to recognise the usage of the new right-of-use assets, and finance costs, to recognise the unwinding of the discount on the lease liability. There will be no impact on the cash flows of the business.

The Group's activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements.

The Group's current lease commitments are disclosed in note [19].

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Fundamental accounting concept – going concern

The Group has net assets of £256 million at 31 March 2019 (2018: £203 million). At 31 March 2019 £385 million of the Group's working capital facility was undrawn (2018: £327 million). The Group has also been profitable at a trading profit level with current year profit of £61 million (2018: £35 million) and has shown a profit after tax of £52 million (2018: £17 million).

Notes to the financial statements (continued)

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; Network Subsidiary Payment of £50 million for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million as required for the period from April 2018 to March 2020.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Critical accounting estimates and judgements in applying accounting policies
The Group makes certain estimates and assumptions regarding the future. Estimates and assumptions are continually evaluated based on historical experience and other factors. In the future, actual experience may differ from these estimates and assumptions.

In addition the Group has to make judgements in applying its accounting policies which affect the gamounts recognised in the financial statements. The most significant areas where judgements and estimates are made are discussed below:

Critical accounting estimates:

Key assumptions used in impairment tests for non-current assets

The Group assesses whether there are any indicators of impairment for all non-current assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Factors considered important that could trigger an impairment review include the following:

- Significant underperformance compared to historical or projected future operating results.
- Significant changes in the manner of use of the acquired assets or the strategy of the overall Group.
- Significant negative micro- or macro-economic trends.

Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset or cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount is determined based on value in use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a two year period. Cash flows beyond this period are extrapolated using estimated growth rates. Refer to note [9] for the results of the latest impairment test, including sensitivity analysis.

Actuarial assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions.

The pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary and in accordance with published statistics and experience. Refer to note 17 for details of the key assumptions and sensitivity analysis performed.

Pension liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. Judgement has been applied in determining that for these purposes a high quality corporate bond constitutes AA rated or equivalent status bonds.

Property provisions

The Group recognises provisions for property leases that are onerous. Assumptions are made to determine whether the unavoidable costs of meeting the obligations of a lease agreement exceed the economic benefits expected to be received under it. These include estimates around the future trading performance of the site and cost allocations.

Notes to the financial statements (continued)

Critical accounting judgements:

The recognition of a contingent liability in respect of the Group Litigation Order is a key accounting judgement as at the accounting reference date. The key judgement is the level to which a potential liability is deemed possible versus probable and therefore whether a contingent liability is the correct accounting treatment.

Revenue

The following revenue accounting policy relates to the prior year only.

Revenue from Retail, Financial Services and Telecoms comprises the value of services provided from the Group's principal activities in providing a whole range of services through its physical and digital channels. Revenue from Financial Services and some Retail services comprises the commission received. Revenue relating to line rental for telecoms services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made. Revenue from all other transactions is recognised when the transaction is completed. All revenue is derived wholly from within the United Kingdom.

Post Office Management Services revenue comprises the value of services provided from the principal activities in providing insurance intermediary services through its network of Post Office branches across the UK, online and contact centre channels. Revenue comprises commissions received from provision of the intermediary services excluding taxes. Revenue from all transactions is recognised when the transaction is completed.

Revenue from contracts with customers

In 2018/19, the Group adopted IFRS 15.

<u>Retail</u>

The Group provides Mails support services to Royal Mail and Parcelforce. Each Mails product and service has an associated transaction price. The transaction price may vary due to the volume transacted in the period. Revenue from providing Mails support services is recognised in the accounting period in which the services are rendered.

The Group acts as a selling agent and earns commission on the sale of lottery tickets, scratch cards and gift vouchers. The transaction price is a contractual commission rate, which is based on the value of sales in the period. Revenue from the sale of lottery tickets, scratch cards and gift vouchers is recognised in the accounting period in which these sales are made.

Payment services comprise of bill payments (including the subsidiary Payzone Bill Payments Limited). The transaction price is the fee that the Group earns for each bill paid in a branch. Revenue from bill payments is recognised in the accounting period in which the service is rendered and is based on the transaction price multiplied by the volume of bill payments in the period.

Through the Banking Framework Agreement, the Group provides over-the-counter banking services, such as withdrawals, deposits and balance enquiries, on behalf of banks. A transaction price is associated with each banking service provided. Revenue is recognised in the accounting period in which the services are rendered and is based on the transaction price multiplied by the volume of each service provided in the period.

<u>Identity Services</u>

Identity services are provided under contract to Government departments, such as the DWP, DVLA and the Home Office. Each Government service has an associated transaction price. Revenue is recognised in the accounting period in which the services are rendered and is based on the transaction price multiplied by the volume of each service provided in the period.

Notes to the financial statements (continued)

Financial Services & Telecoms

Our Financial Services products include mortgages, credit cards, savings, travel and banking. The Group earns commission on the sale of these products. The transaction price is a contractual commission rate. This commission rate varies by product and is based on volume or value of products sold in the period as well as the channel of sale, for example online or through the branch network. Revenue is recognised in the accounting period in which the new products are sold.

Telecoms includes Post Office HomePhone and Broadband services. The transaction price is the subscription fee, consisting primarily of charges for access to broadband and other internet access or voice services. Revenue is recognised as the service is provided because the customer receives and uses the benefits simultaneously.

Insurance

Through its subsidiary, Post Office Management Services Limited, the Group provides general and life insurance intermediation. The transaction price is a contractual commission rate. This commission rate varies by product and is based on the volume or value of products sold in the period as well as the channel of sale, for example online or through the branch network. Revenue is recognised in the accounting period in which the new products are sold.

For all the revenue streams noted above, a receivable is recognised when the goods are delivered or the services are provided, as this is the point in time that the consideration is unconditional, because only the passage of time is required before the payment is due.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction process for the time value of money.

Other income

The Network Subsidy Payment is received from Government and is recognised as other income to match the related costs of making available the network of public Post Offices that the Secretary of State for BEIS considers appropriate. The subsidy is recognised in the year in which it is received. If the subsidy were to exceed the cost of making the network available, the excess would be repaid to Government. Other income also includes commission income relating to Government Services. This income, along with the Network Subsidy Payment, was previously presented within revenue; however they do not fall within the scope of IFRS 15. As a result these two items have been reclassified to other income. Refer to note [16] for further detail.

Investments column in the income statement

Income statement items are presented in the investments column when they are significant in size or nature, and either they do not form part of the underlying trading of the business or their separate presentation enhances understanding of the financial performance of the Group. Investment funding from Government, restructuring and transformation costs are separately disclosed in the investments column. Refer to note [4] for further detail.

Leases

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis. Provision for dilapidation are made where necessary. Refer to the provisions policy on page [X] and note [15] for further detail.

Notes to the financial statements (continued)

Taxation

The amount charged or credited as current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- On the initial recognition of goodwill.

- On the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.

- On the taxable temporary differences associated with investments in subsidiaries and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Investments in joint ventures

Investments in joint ventures within the Group's financial statements are accounted for under the equity method of accounting. Under this method the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture less any impairment in value. The income statement reflects the Group's share of post-tax profits from the joint venture. The joint venture is an integral part of the Group's operations,

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred, within the investments column.

Property, plant and equipment

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets are depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Plant and machinery	3 – 15 years
Motor vehicles	3 – 12 years
Fixtures and equipment	3 – 15 years

Notes to the financial statements (continued)

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value. They are depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis. Where freehold property and long leasehold includes the fit-out of those properties, then the fit-out is depreciated over its useful economic life in line with fixtures and fittings.

Assets in the course of construction are carried at cost, with depreciation charged on the same basis as all other assets once those assets are ready for their intended use.

6

Intangible assets

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Research and development

Research expenditure and development expenditure that does not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Notes to the financial statements (continued)

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. They are amortised on a straight-line basis over the following useful lives:

	Range of asset lives
Software	3 – 6 years
Customer relationships	5 years
Merchant relationships	5 – 10 years
Brands	15 years

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

Inventories

Inventories include stationery, retail, lottery and Royal mint coin products and are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock.

6

Trade receivables

Trade receivables are recognised and carried at original invoice amount. An allowance is made when collection of the full amount is no longer probable. The Group applies IFRS 9 to measure this allowance for expected credit loses, grouping trade receivables based on shared risk characteristics and days past due. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand, including cash in the Post Office network and short-term deposits (cash equivalents) with an original maturity date of three months or less. Cash equivalents are classified as loans and receivable financial instruments.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

The subsidiaries Post Office Management Services Limited and Payzone Bill Payments Limited hold some fiduciary cash balances, these are held on trust on behalf of third parties, see note [12] for details.

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Group.

The Group is the principal employer of the Post Office Section of the Royal Mail Pension Plan (RMPP), and is a participating employer within the Royal Mail Senior Executives Pension Plan (RMSEPP). RMPP and RMSEPP are both defined benefit plans closed to new members and closed to future accrual. All members of these plans are contracted out of the earnings-related part of the State pension scheme.

A Memorandum of Understanding was executed in 2016/17 which removed the unconditional right to refund from the RMPP. As a result of these events the surplus relating to this Plan was derecognised.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term.

Notes to the financial statements (continued)

Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling). As noted above, the RMPP Plan has been closed and no future refunds will be made to the Group.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income. As the Group has no right to a future surplus in the RMPP, an equal and opposite adjustment to the asset ceiling is recognised in other comprehensive income. There is no effect on the net assets position of the Group.

For defined contribution schemes, the Group's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate.

Foreign currencies

The functional and presentational currency of the Group is sterling (£).

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Due to the nature of provisions the future amount settled may be different from the amount that has been provided. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Financial instruments

Initial measurement of financial instruments
All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Subsequent measurement of financial assets
IFRS 9 divides all financial assets into two classifications – those measured at amortised cost and those measured at fair value.

Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, "FVTPL"), or recognised in other comprehensive income (fair value through other comprehensive income, "FVTOCI)".

The classification of a financial asset is made at the time it is initially recognised. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

Subsequent measurement of financial liabilities
IFRS 9 divides all financial liabilities into two measurement categories: FVTPL and amortised cost. All of the Group's financial liabilities are measured at amortised cost.

Derecognition of financial assets
A financial asset is derecognised when the Group determines that it has transferred substantially all of the risks and rewards of ownership of the asset.

Derecognition of financial liabilities
A financial liability is removed from the balance sheet when it is extinguished; that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is

Notes to the financial statements (continued)

designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges).
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).
- Hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note [16]. Movements in the hedging reserve are shown within other reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

6

Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were previously recognised in the statement of comprehensive income are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

Notes to the financial statements (continued)

2. Staff costs and numbers

Employment and related costs were as follows:

People costs within trading:	2019 £m	2018 £m
Wages and salaries	**162**	154
Social security costs	**18**	18
Other pension costs (note [17])	**13**	17
Total people costs within trading	**193**	189
Other operating costs within trading	**765**	771
Total trading costs	**958**	960

People costs within investments relate to severance costs as part of restructuring and are disclosed within note [4].

6

Period end and average monthly employee numbers were as follows:

	Period end employees		Average monthly employees	
	2019	2018	**2019**	2018
Total employees	**4,397**	5,020	**4,703**	5,066

Total employee numbers can be categorised as follows:

	2019	2018
Administration	**1,205**	1,205
Directly managed branches (DMB)	**2,049**	2,707
Supply Chain	**854**	848
Network programmes	**164**	213
Post Office Insurance	**57**	47
Payzone Bill Payments	**68**	-
Total	**4,397**	5,020

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Notes to the financial statements (continued)

3. Operating profit

The following items are included within operating profit:

	2019 £m	2018 £m
Postmasters' fees	**365**	371
Depreciation and amortisation (notes [8] and [9])	**94**	55
Cost of inventories recognised as an expense	**1**	4
Loss on disposal of fixed assets	**5**	1
Operating lease charges – Land and buildings	**13**	12
Operating lease charges – Motor vehicles	**1**	1
Fees payable to the Group's auditor for audit and other services:	**£000**	£000
- parent Company and Group audit	**440**	773
- audit of subsidiary	**85**	82
- audit related assurance services	**-**	105
- other assurance services	**110**	110

4. Investments

	2019 £m	2018 £m
Investment funding	**168**	70
Restructuring:		
Business transformation	**(14)**	(16)
Network programmes	**(64)**	(63)
IT transformation	**(13)**	(6)
Severance	**(38)**	(17)
Total restructuring costs	**(129)**	(102)
Unwinding of discounts on provisions	**(1)**	(2)
Total investments income / (charge)	**38**	(34)

Investment funding: Investment funding is received from BEIS.

Restructuring: Restructuring costs are transformational spend incurred in order to implement the major transformation programmes. Business transformation is an overarching programme that will transform the business, driving Post Office toward commercial sustainability through technological innovation and the fundamental re-envisaging of long-term contracts. Network programmes is a multi-year initiative designed to simplify the retailer proposition, with key areas of focus being simplification, automation and the extension of the franchising model to some of our directly managed branches. IT transformation includes programmes to restructure our IT operating model and overhaul legacy back office systems, transitioning to a cloud based architecture. As part of the aforementioned transformational activities, severance costs have been incurred.

Unwinding of discounts on provisions: finance costs incurred in order to unwind the discount on onerous lease provisions.

6

Notes to the financial statements (continued)

5. Directors' emoluments

Directors accruing pension entitlements during the period under:	**2019 Number**	2018 Number
Defined benefit schemes	**-**	-
Defined contribution schemes	**1**	1

The Directors received the following emoluments:

Remuneration for each Director for the financial year 2018/19

Name	Annualised salary/fees 2018/19 (note 1)	Actual salary/fees 2018/19	Benefits 2018/19	Cash in lieu of pension 2018/19	STIP 2018/19	LTIP 2018/19	Total 2018/19	Total 2017/18
				Non-Executive Directors				
Tom Cooper (note 2)	-	-	-	-	-	-	-	-
Tim Franklin	40,000	39,800	-	-	-	-	39,800	40,000
Virginia Holmes (note 3)	35,700	300	-	-	-	-	300	35,500
Shirine Khoury-Haq	35,000	30,000	-	-	-	-	30,000	-
Ken McCall	50,000	49,800	-	-	-	-	49,800	50,000
Tim Parker (note 4)	19,230	19,300	-	-	-	-	19,300	75,000
Carla Stent	45,000	44,800	-	-	-	-	44,800	45,000
Richard Callard (note 5)	-	-	-	-	-	-	-	-
				Executive Directors				
Paula Vennells (note 6)	255,000	255,000	9,900	63,800	X	X	X	718,300
Alisdair Cameron	244,800	244,800	9,900	61,200	X	X	X	595,900

Note 1: The annualised fees are shown as at 31 March 2019 or at the date of leaving.

Note 2: Tom Cooper is an employee of UK Government Investments Limited (UKGI).

Note 3: Virginia Holmes ceased her role as Non-Executive Director on 27 March 2018.

Note 4: Tim Parker donates the after tax value of his Board fees to charity. From 1 April 2018, Tim's time commitment has reduced and there has been a corresponding reduction in his annual fee.

Note 5: Richard Callard was an employee of UKGI and ceased his role as Non-Executive Director on 27 March 2018.

Note 6: Paula Vennells resigned as Group Chief Executive on 30 April 2019.

Remuneration Policy Summary

The table below describes the STIP and LTIP available for the Executive Directors.

The remuneration framework for the Executive Directors requires consent from the Special Shareholder (BEIS) each year.

Notes to the financial statements (continued)

Short-Term Incentive Plan (STIP)	The STIP drives and rewards performance over the single financial year against key financial and operational targets taken from the business scorecard. Metrics and targets are determined and set each year according to business priorities. 80% of the STIP plan is determined by business targets, with the remaining 20% linked to the achievement of personal performance objectives. The target opportunities for the Chief Executive and Chief Finance and Operating Officer are 48% and 40% of salary, with a maximum for stretch performance of 80% and 66.66% of salary respectively.
Long-Term Incentive Plan (LTIP)	The LTIP is designed to reward and retain key executives and senior managers on the achievement of strategic longer term targets linked to the development and growth of a sustainable business. The specific performance targets are determined for each LTIP cycle with reference to the three-year plan which is agreed with the Special Shareholder (BEIS). The target opportunities for the Chief Executive and Chief Finance and Operating Officer are 70% and 50% of salary, with stretch performance of 98% and 70% of salary respectively.

Differences in remuneration policy for the Executive Directors and employees generally

The remuneration policy for the Executive Directors takes account of their level of responsibility and their influence over Post Office's performance. Accordingly, a higher proportion of their total remuneration package is at risk and subject to performance (under the STIP and LTIP). The incidence and potential amounts payable under such incentives across the workforce are determined by their role and grade within the organisation.

Claw-back provision

Executive Directors have claw-back clauses in their contracts, as well as the STIP and LTIP rules, which provide for the return of any over-payments in the event of misstatement of the financial statements, error or gross misconduct on the part of an Executive Director. These provisions are structured in line with market best practice.

6. Finance costs

	2019 £m	2018 £m
Trading:		
Interest payable on loans	**(6)**	(5)
Finance charges	**(2)**	-
Total – trading	**(8)**	(5)
Investments:		
Unwinding of discounts on provisions	**(1)**	(2)
Total – investments	**(1)**	(2)
Total – net finance costs	**(9)**	(7)

Notes to the financial statements (continued)

7. Taxation credit

(a) Taxation recognised in the year

Current and deferred income tax is charged or credited to the income statement as follows:

	2019 £m	2018 £m
Current income tax:		
Corporation tax credit for year	**(8)**	(8)
Deferred income tax:		
Deferred tax income relating to the utilisation of losses brought forward	**(1)**	(1)
Taxation credit	**(9)**	(9)

The current income tax credit recognised in the income statement is £8 million (2018: £8 million) and relates to the surrender of tax losses to the joint venture. The deferred income tax credit recognised in the income statement is £1 million (2018: £1 million) and arises as a consequence of the acquisition of intangible assets as part of a business combination. It corresponds to the deferred tax liability recognised in the business combination.

6

In the current year no deferred income tax has been recognised in other comprehensive income.

No current or deferred tax income tax was recognised directly in equity in the current or prior year.

(b) Factors affecting current tax charge on profit on ordinary activities

As in 2018, the tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
Profit before taxation	**43**	8
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**8**	1
Effect of unutilised losses carried forward	**18**	29
Decrease in tax charge as a result of change in unrecognised deferred tax assets	**(21)**	(24)
Surrender of tax losses to joint venture	**(8)**	(8)
Profits from disposals eligible for relief	**-**	-
Tax effect of share of results of joint venture	**(6)**	(7)
Taxation credit	**(9)**	(9)

(c) Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Acquired intangible assets	**(2)**	(1)	**1**	1
Tax losses	**2**	1	**-**	-
Deferred tax (liability) / asset	**-**	-	**-**	-
Deferred tax income	**-**	-	**1**	1

In the current year a deferred tax liability of £2 million (2018: £1 million) has been recognised on the acquisition of intangible assets as part of a business combination, with a corresponding deferred tax asset of £2 million (2018: £1 million) recognised for the value losses up to the same liability.

The Group has significant tax losses that are available indefinitely for offsetting against future taxable profits. As at the balance sheet date no deferred tax asset has been recognised in relation to these tax losses (2018: £nil).

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Notes to the financial statements (continued)

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £183 million (2018: £190 million), comprising £148 million (2018: £143 million) relating to tax losses that are available to offset against future taxable profits, £32 million (2018: £46 million) relating to fixed asset timing differences and £1 million (2018: £1 million) relating to temporary differences on provisions. The Group has rolled over capital gains of £2 million (2018: £2 million); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

The main rate of corporation tax in the UK will remain at 19% for the year starting 1 April 2019 and reduce to 17% with effect from 1 April 2020.

The Finance (No.2) Act 2017 was substantively enacted on 16 November 2017. This includes a restriction on the utilisation of brought forward tax losses and corporate interest in certain circumstances effective from 1 April 2017.

6

Notes to the financial statements (continued)

8. Intangible assets

	Software £m	Goodwill £m	Other intangibles £m	Total £m
Cost				
At 27 March 2017	323	44	-	367
Reclassification	(2)	-	-	(2)
Additions	125	1	6	132
At 25 March 2018	446	45	6	497
Reclassification	(29)	-	-	(29)
Additions	101	-	-	101
Added on acquisition	1	8	7	16
Disposals	(17)	-	-	(17)
At 31 March 2019	**502**	**53**	**13**	**568**
Accumulated amortisation				
At 27 March 2017	200	-	-	200
Reclassification	6	-	-	6
Amortisation	27	-	-	27
At 25 March 2018	233	-	-	233
Added on acquisition	1	-	-	1
Amortisation	55	-	3	58
Disposals	(15)	-	-	(15)
At 31 March 2019	**274**	**-**	**3**	**277**
Net book value				
At 31 March 2019	**228**	**53**	**10**	**291**
At 25 March 2018	213	45	6	264

Other intangibles includes customer relationships, merchant relationships and brands.

During the current and prior year, a review of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

Additions to software relate to IT transformation projects undertaken during the current year.

Additions to goodwill and other intangibles relate to the Payzone Bill Payments Limited ("Payzone") business combination disclosed within note [20]. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Management determined that no impairment was necessary for the current year (2018: £nil).

Goodwill was not considered to be impaired at the date of the last review. Refer to note [9] for details of the impairment review performed during the year.

Notes to the financial statements (continued)

9. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 27 March 2017	45	41	23	26	1	795	931
Reclassification	1	1	1	-	-	(1)	2
Additions	-	-	-	1	-	18	19
Disposals	(6)	(3)	(2)	(2)	-	(7)	(20)
At 25 March 2018	40	39	22	25	1	805	932
Reclassification	2	-	-	-	-	27	29
Additions	1	1	1	-	-	35	38
Added on acquisition	-	-	-	-	-	4	4
Disposals	(4)	(1)	(2)	-	-	(22)	(29)
At 31 March 2019	**39**	**39**	**21**	**25**	**1**	**849**	**974**
Accumulated depreciation							
At 27 March 2017	32	14	23	26	1	677	773
Reclassification	-	-	-	-	-	(6)	(6)
Depreciation	1	2	-	-	-	25	28
Disposals	(4)	-	(2)	(2)	-	(3)	(11)
At 25 March 2018	29	16	21	24	1	693	784
Depreciation	1	2	-	-	-	33	36
Disposals	(2)	(1)	(2)	-	-	(17)	(22)
At 31 March 2019	**28**	**17**	**19**	**24**	**1**	**709**	**798**
Net book value							
At 31 March 2019	**11**	**22**	**2**	**1**	**-**	**140**	**176**
At 25 March 2018	11	23	1	1	-	112	148

Depreciation rates are disclosed on page [XX] within the accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2018: £2 million) of the total cost of properties.

During the current and prior year, reviews of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

An impairment test was performed during the year. Intangible assets and property, plant and equipment were tested for impairment by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from value in use calculations.

POL00030887

Notes to the financial statements (continued)

Post Office has determined that it has two CGUs: Post Office Limited and Post Office Management Services Limited. Post Office Management Services Limited is a standalone entity with an identifiable asset base and therefore is deemed one CGU. Post office Limited runs a national network of branches which provide a distinct retail offering resulting in a fluid customer base across the network. As such the network as a whole is deemed to be one CGU.

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited and Post Office Management Services Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a two year period (and then continued into perpetuity), with no nominal growth rate assumed outside of this period. Pre-tax discount rates for Post Office Limited of 9.5% (2018: 9%) and for Post Office Management Services Limited of 12% (2018: 12%) have been used to discount the forecasted cash flows.

A sensitivity analysis has been performed in assessing the value in use of property, plant and equipment and intangible assets. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to 12%, zero growth rate and a decrease in forecasted EBITDA by 5%. The sensitivity analysis showed that no impairment would arise under each or a combined scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

Notes to the financial statements (continued)

10. Investments in joint ventures

The following entity has been included in the consolidated financial statements using the equity method:

Joint ventures

During the current and prior year, the Group's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

The principal activity of First Rate Exchange Services Holdings Limited is the supply of foreign currency in the UK, which is seen as complementing the Group's operations and contributing to achieving the Group's overall strategy. The principal risks of the Group are disclosed on pages [XX] to [XX].

6

The financial year-end date of First Rate Exchange Services Holdings Limited is 31 March. For the purposes of applying the equity method of accounting, the financial statements of First Rate Exchange Services Holdings Limited for the year ended 31 March 2019 have been used.

	2019 Joint venture £m	2018 Joint venture £m
Share of net assets		
Total net investment at 26 March 2018, 27 March 2017	**66**	66
Share of post-tax pre dividend profit	**33**	34
Dividend	**(33)**	(34)
Total net investment at 31 March 2019, 25 March 2018	**66**	66

Share of assets and liabilities:	**2019 Joint venture £m**	2018 Joint venture £m
Receivables	**193**	220
Cash and cash equivalents	**22**	14
Non-current assets	**7**	8
Share of gross assets	**222**	242
Current liabilities	**(156)**	(176)
Share of net assets	**66**	66
Share of revenue and profit:		
Revenue	**82**	84
Profit after tax	**33**	34

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Notes to the financial statements (continued)

11. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	**97**	81
Accrued income	**71**	78
Prepayments	**19**	17
Client receivables	**138**	132
Other receivables	**19**	16
Total	**344**	324
Non-current:		
Accrued income	**2**	2
Prepayments	**4**	10
Total	**6**	12

6

The Group receives and disburses cash on behalf of Government agencies and other clients to customers through its branch network. Amounts owed from/to Government agencies and other clients are disclosed separately as client receivables (as above) and client payables (see note [13]).

£5m (2018: £4m) has been recognised within current prepayments for costs incurred to fulfil contracts. Non-current prepayments constitute costs incurred to fulfil contracts, in both the current and prior year.

The Group applies IFRS 9 when measuring expected credit losses. Trade receivables have been grouped based on shared credit risk characteristics and the days past due to measure the expected credit losses. The loss allowance for the current and prior year has been determined as follows:

31 March 2019	Current	>30 days and <60 days past due	>60 days and <120 days past due	>120 days past due	Total
Expected loss rate			21%	65%	
Gross carrying amount - £m	-	-	1	18	19
Loss allowance - £m	**-**	**-**	**1**	**18**	**19**

25 March 2018	Current	>30 days and <60 days past due	>60 days and <120 days past due	>120 days past due	Total
Expected loss rate	-	-	-	95%	
Gross carrying amount - £m	-	-	-	19	19
Loss allowance - £m	-	-	-	19	19

There is a loss allowance in the current, more than 30 days and more than 60 days ageing categories, however it is immaterial for disclosure.

The closing loss allowance for trade receivables as at 31 March 2019 reconciles to the opening loss

Notes to the financial statements (continued)

allowance as follows:

	2019 £m	2018 £m
Opening loss allowance	**19**	14
Increase in loss allowance	**9**	14
Receivables written off as uncollectible	**(7)**	(5)
Unused amounts reversed	**(2)**	(4)
Closing loss allowance	**19**	19

The fair value of trade and other receivables is not materially different from the carrying value.

12. Cash and cash equivalents

6

	2019 £m	2018 £m
Cash in the Post Office Limited network	**537**	643
Short-term bank deposits	**14**	9
Fiduciary cash balances held on behalf of third parties	**9**	3
Total cash and cash equivalents	**560**	655

Cash in the Post Office Limited network represents the note and coin in circulation in branches and cash centres. Refer to note [22] for further detail.

Where interest is earned it is at a floating or short-term fixed rate. The fair value of cash and cash equivalents is not materially different from the carrying value.

The fiduciary cash balances are held within Post Office Management Services Limited or Payzone Bill Payments Limited and are held on trust on behalf of third parties and cannot be called upon should either company become insolvent.

Notes to the financial statements (continued)

13. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	**61**	45
Accruals	**118**	160
Deferred income	**20**	32
Social security	**8**	8
Client payables	**312**	306
Capital accruals	**11**	20
Other payables	**3**	-
Total	**533**	571
Non-current:		
Other payables	**14**	18
Total	**14**	18

The fair value of trade and other payables is not materially different from the carrying value.

14. Financial liabilities – interest bearing loan and borrowings

	2019 £m	2018 £m
Department for Business, Energy and Industrial Strategy	**565**	623

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2018: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2021. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £385 million (2018: £327 million). The average interest rate on the drawn down loans is 1.1% (2018: 0.8%).

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect.

6

Notes to the financial statements (continued)

15. Provisions

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
At 26 March 2018	18	32	7	9	66
Charged to investments	30	25	43	-	98
Charged to trading	-	-	-	9	9
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(6)	(75)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	**12**	**41**	**22**	**9**	**84**

6

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	6	14	22	8	50
Non–current	6	27	-	1	34
	12	41	22	9	84
At 25 March 2018					
Current	11	11	7	7	36
Non-current	7	21	-	2	30
	18	32	7	9	66

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

The Network Programmes provision relates to payments due to postmasters in relation to the major transformation programme. Provisions are recognised when either postmasters agree to terminate their existing contracts or sign the new format contracts under Network Transformation.

Property provisions relate to vacant and onerous leases and dilapidations. Vacant and onerous lease provisions are recognised on leasehold properties when the unavoidable costs of meeting the obligations of the lease agreement exceed the benefits expected to be received under it.

Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date.

Other provisions of £9 million includes £1 million for personal injury claims and £2 million which sits within the subsidiary Post Office Management Services Limited and relates to the repayment of commission received in the event of the cancellation of insurance policies.

Notes to the financial statements (continued)

16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 31 March 2019 and 25 March 2018 is shown below:

	2019			2018		
	Current £m	**Non - current £m**	**Total £m**	Current £m	Non - current £m	Total £m
Financial assets						
Trade and other receivables	**325**	**2**	**327**	307	2	309
Cash and cash equivalents	**543**	**-**	**543**	655	-	655
Financial liabilities						
Trade and other payables	**(505)**	**(3)**	**(508)**	(531)	(4)	(535)
BEIS loan	**(565)**	**-**	**(565)**	(623)	-	(623)
Total financial liabilities	**(202)**	**(1)**	**(203)**	(192)	(2)	(194)

Except for prepayments, social security and deferred income, which have been excluded from the table above, all of the Group's financial assets and liabilities by nature and classification for measurement purposes are considered loans and receivables.

The fair value of the Group's financial assets and liabilities approximate their carrying value due to the short-term maturities of these instruments. The fair value of financial assets and liabilities is defined as the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in a transaction between market participants at the measurement date.

All of the Group's financial assets and liabilities are considered to be Level 2 in the fair value hierarchy. The nature of the inputs used in determining the values of the financial assets and liabilities are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Group has no Level 1 and Level 3 financial instruments and there have been no transfers between the levels of fair value hierarchy during the period.

b. Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits, current account balances, and commission income. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been an £7 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £7 million adverse impact on the Group's equity and income statement.

Notes to the financial statements (continued)

In 2018/19, to hedge its exposure to the variability of commission income linked to 1-month Libor, the Group entered into a three year amortising interest rate swap which has the effect of fixing a proportion of the interest commission income. The qualifying criteria for hedge accounting were met and in accordance with IFRS 9 the swap was designated as the hedging instrument in a cash flow hedge. At year end, the hedging instrument had a fair value of £3 million and has been included within trade and other receivables on the balance sheet.

Foreign currency risk

The Group is exposed to foreign currency risk resulting from balances held to operate Bureau de Change services.

The currencies in which these transactions are primarily denominated are US dollar and Euro. The Group's foreign currency risk management objective is to minimise the impact on the Income Statement of fluctuations in the exchange rates. The Group hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar and Euro exchange rates, assuming they are unhedged and with all other variables held constant, on profit/(loss) before tax and equity.

	Strengthening / (weakening) in US dollar rate % Increase / (decrease)	Effect on profit before tax £m Increase / (decrease)	Effect on equity £m Increase / (decrease)	Strengthening / (weakening) in euro rate % Increase / (decrease)	Effect on profit before tax £m Increase / (decrease)	Effect on equity £m Increase / (decrease)
2019	**10**	**1**	**1**	**10**	**2**	**2**
	(10)	**(1)**	**(1)**	**(10)**	**(2)**	**(2)**
2018	10	1	1	10	3	3
	(10)	(1)	(1)	(10)	(3)	(3)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial credit risk arises from cash balances (including bank deposits and cash and cash equivalents) held by the Group and business credit risk arises from exposures to customers. Business risk includes commission receivable and client related settlements for amounts paid out of the Post Office network on their behalf.

The Group aims to minimise its financial credit risk through the application of risk management policies approved by the Board. Counterparties are limited to major banks and financial institutions. The policy restricts the exposure to any one counterparty by setting appropriate credit limits. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note [11].

Business credit risk is monitored centrally. The level of bad debt provision is 2% (2018: less than 2%) of revenue.

Capital management

The Group's objectives when managing capital (defined as the net of borrowings and cash and cash equivalents excluding cash in the Post Office Network) are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure in order to support the business and maximise stakeholder value. In managing the Group's capital levels the Board and the Group Executive regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Group Executive plan accordingly following this review process in order to meet the Group's capital management objectives.

Notes to the financial statements (continued)

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserves to meet operating requirements in the next 12 months.

At 31 March 2019 the Group has unused facility of £385 million (2018: £327 million). The working capital facility expires in 2021.

In addition to the security interest provided to BEIS in connection with the £950 million Working Capital Facility (note [14]), Post Office Limited has also created a first floating charge over its assets as security for the payment and discharge of certain liabilities arising in the normal course of its client-related activity. The charge under these arrangements is restricted in its ability to take an acceleration action in relation to its debt. As at the balance sheet date the outstanding liabilities amounted to £95 million (2018: £100 million).

The tables below analyse the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, where applicable.

At 31 March 2019	**12 Months £m**	**1-2 Years £m**	**Total £m**
Financial assets			
Trade and other receivables	**325**	**2**	**327**
Cash and cash equivalents	**543**	**-**	**543**
Financial liabilities			
Trade and other payables	**(505)**	**(3)**	**(508)**
Interest bearing loan	**(565)**	**-**	**(565)**
Total financial assets/(liabilities)	**(202)**	**(1)**	**(203)**

At 25 March 2018	12 Months £m	1-2 Years £m	Total £m
Financial Assets			
Trade and other receivables	307	2	309
Cash and cash equivalents	655	-	655
Financial Liabilities			
Trade and other payables	(531)	(4)	(535)
Interest bearing loan	(623)	-	(623)
Total financial assets/(liabilities)	(192)	(2)	(194)

Prepayments, social security and deferred income have been excluded from the table above. There were no financial assets or liabilities in the current or prior year that were due to mature after two years.

Notes to the financial statements (continued)

17. Retirement benefit surplus

The disclosures in this note reflect the two defined benefit schemes: the Post Office section of the Royal Mail Pension Plan (RMPP) which is independent from the Royal Mail section of the RMPP, and a 7% share of the Royal Mail Senior Executives Pension Plan (RMSEPP). Royal Mail Group Ltd is the principal employer of RMSEPP and Post Office Limited became a participating employer with effect from 1 April 2012. This disclosure also includes the Post Office Pension Plan (POPP), which is a defined contribution scheme.

The disclosures in this note show the value of the assets and liabilities that have been calculated at the balance sheet date.

Post Office participates in pension schemes as detailed below.

Name	Eligibility	Type
Royal Mail Pension Plan (RMPP)*	UK employees	Defined benefit
Royal Mail Senior Executives Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Post Office Pension Plan (POPP)	UK employees	Defined contribution

*The RMPP closed to future accrual on 31 March 2017.

6

Defined Contribution

The charge in the income statement for the defined contribution scheme was £13 million (2018: £17 million) and the Group contributions to this scheme were £20 million (2018: £20 million) during the year.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2018 using the projected unit method. For RMPP, this valuation was concluded at £20 million surplus (31 March 2015 valuation: £63 million surplus) on a Technical Provisions basis. Valuations are carried out triennially.

RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971.
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to Section A members who chose to receive Section B benefits.
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

The latest full actuarial funding valuation for RMSEPP was carried out as at 31 March 2018 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £49 million surplus (31 March 2015 valuation: £17 million surplus) on a Technical Provisions basis.

A series of changes to RMPP and RMSEPP have taken effect since 1 April 2008.

The changes encompassed are:

- The Plans closed to new members from 31 March 2008.
- All pensions and benefits earned before 1 April 2008 retained a link to final pensionable salary, benefits accrued from 1 April 2008 were earned on a "career average pensionable salary" basis.
- RMPP employees can continue to take their pension on reaching age 60 but the normal retirement age increased to age 65 for benefits earned from 1 April 2010.
- From 1 April 2010 it was possible to draw pension earned before the change to normal retirement age at age 55 (subject to an actuarial reduction in the pension benefit), and continue working while still contributing to the RMPP until the maximum level of benefits was reached.
- RMSEPP was closed to future accrual on 31 December 2012.

Notes to the financial statements (continued)

- Liabilities accrued in the RMPP to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. The pre-31 March 2012 liabilities are substantially no longer an obligation of Post Office and the transfer therefore resulted in a significant removal of pension risk for Post Office.
- In relation to RMPP only, from 1 April 2014 pensionable salary was amended to the amount in force as at 31 March 2014, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases.
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits have accrued in respect of Post Office employment after that date; however for as long as a member remains in employment with the Group or has not taken pension, pre-1 April 2012 pension benefits are linked to pensionable salary and post-31 March 2012 benefits receive in-deferment increases (linked to CPI). Closure to future accrual means that no contributions in respect of normal service accrual are required after 31 March 2017. However there were redundancy payments of £1 million (2018: £5 million) made to the RMPP during 2018/19, which were paid in order to fund enhanced benefits for the members concerned.
- On 21 March 2017 Post Office executed a Memorandum of Understanding with the Trustee of the RMPP. This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office concluded that it no longer had an unconditional right to refund from the Plan. In light of this, in accordance with IFRIC 14, the RMPP pension surplus was derecognised as at 26 March 2017.

Even though RMSEPP had a funding surplus on a Technical Provisions basis at the date of the latest full actuarial funding valuation, under the associated Schedule of Contributions, payments of £1 million per annum has been made. Post Office's share of these payments is 7% of the total. The payments will continue to 31 March 2025.

The weighted average duration of the Post Office section of the RMPP is around 25 years, and for RMSEPP is around 20 years.

In July 2017 the Trustee of the RMPP invested in two bulk annuity policies with Rothesay Life. Those policies provide an income to the Post Office section of the RMPP that matches the vast majority of the required benefit payments; as shown in the following disclosures, the estimated value of those policies (on the IAS 19 assumptions as at 31 March 2019) is £292 million (2018: £272 million), compared to the RMPP defined benefit obligation of £320 million (2018: £298 million). The £28 million difference in these figures is due to a £20 million reserve for future administration expenses (which are not matched by the annuity policies), plus £8 million in respect of small differences between the insured benefits and the actual benefit obligation.

A bulk annuity policy (with Scottish Widows) is also held by the Trustee of the RMSEPP. As shown in the following disclosures, the estimated value of that policy, on the IAS 19 assumptions as at 31 March 2019, is £28 million (2018: £12 million), compared to the RMSEPP defined benefit obligation of £29 million (2018: £27 million).

Therefore, as at 31 March 2019, 92% of the aggregate defined benefit obligation (i.e. £320 million out of the £349 million) is matched by bulk annuities that provide income matching the required benefit payments. As such, the majority of the investment and longevity risk associated with Post Office's obligations in respect of the defined benefit plans has been removed (noting that the bulk annuity policies are subject to protection from insurance regulations, including access to the Financial Services Compensation Scheme, in the event of insurer insolvency). Nevertheless, to the extent that 8% of the defined benefit obligation is not matched by bulk annuities, some risk remains in respect of that 8%, in particular the risk that members with uninsured benefits live for longer than expected, the risk that inflation is higher than expected, leading to higher than expected increases to the uninsured benefits, the risk that the assets in excess of the bulk annuity polices generate poor investment returns, and the risk that administration expenses are higher than anticipated. However, these risks are expected to be mitigated by the surplus assets shown in the disclosures (before allowing for the fact that the RMPP surplus is not recognised on Post Office's balance sheet due to the Memorandum of Understanding described above).

Notes to the financial statements (continued)

The following disclosures relate to the gains/losses and surplus/deficit in respect of Post Office's obligations to RMPP and RMSEPP:

Major long-term assumptions

The size of the defined benefit obligation shown in the financial statements is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on this value. The overall income statement charge and past service adjustment in the income statement are also sensitive to the assumptions adopted. However, the majority of any change in the defined benefit obligation due to changes in assumptions, will be matched by a corresponding change in the value in the bulk annuity policies (described above).

The major long-term assumptions in relation to both RMPP and RMSEPP were:

	At 31 March 2019 % pa	At 26 March 2018 % pa
Increases to benefits that retain a link to pensionable pay	**3.4**	3.3
Rate of pension increases – RMPP sections A/B	**2.4**	2.2
Rate of pension increases – RMPP section C	**3.4**	3.3
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**2.4**	2.2
Rate of pension increases – RMSEPP all other members	**3.4**	3.3
Rate of increase for deferred pensions	**2.4**	2.2
Discount rate	**2.4**	2.5
Inflation assumption (RPI) – RMPP & RMSEPP	**3.4**	3.3
Inflation assumption (CPI) – RMPP & RMSEPP	**2.4**	2.2

The following table shows the potential impact on the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions. As noted above, the bulk annuities held by the arrangements provide an income that matches the vast majority of the RMPP benefit payments, and a significant proportion of the RMSEPP benefit payments. Therefore the following changes in the defined benefit obligation would be largely offset by a corresponding change in the asset values.

	2019 £m	2018 £m
Changes in RPI and CPI inflation of +0.1% pa	**(8)**	(8)
Changes in discount rate of +0.1% pa	**8**	8
Changes in CPI assumptions of +0.1% pa	**3**	(3)
An additional one year life expectancy	**11**	(9)

The sensitivity analysis has been prepared using projected benefit cash flows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cash flows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

Notes to the financial statements (continued)

Mortality: The mortality assumptions used to calculate the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP are based on the latest self-administered pension scheme (SAPS "S2" series) mortality tables as shown in the following table:

Base mortality tables	**2019**	2018
Male members	**100% x S2PMA**	100% x S2PMA
Male dependants	**100% x S2PMA**	100% x S2PMA
Female members	**100% x S2PFA**	100% x S2PFA
Female dependants	**100% x S2PFA**	100% x S2DFA
Future improvements	**CMI 2018 Core Projections with a 1.5% pa long-term trend**	CMI 2016 Core Projections with a 1.5% pa long-term trend

Average expected life expectancy from age 60:	**2019**	2018
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**29 years**	29 years
For a current 40 year old male RMPP member	**28 years**	29 years
For a current 40 year old female RMPP member	**31 years**	31 years

6

b) Plans' assets

The assets in the plans for the Group were:

Sectionalised RMPP	**Market value 2019 £m**	Market value 2018 £m
Corporate bonds	**-**	16
Private Equity	**4**	6
Cash and cash equivalents	**43**	28
Bond/fixed interest funds	**9**	1
Other loan/debt funds	**10**	10
Alternative asset funds	**4**	5
Bulk annuity policies*	**292**	272
Fair value of RMPP assets	**362**	338
Present value of RMPP liabilities	**(320)**	(298)
Surplus in plan before asset ceiling adjustment	**42**	40
Less effect of asset ceiling	**(42)**	(40)
Surplus in plan after asset ceiling adjustment	**-**	-

* As described above, the Post Office section of the RMPP holds two bulk annuity policies with Rothesay Life PLC. The value ascribed to the policies has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

Notes to the financial statements (continued)

Share of RMSEPP	**Market value 2019 £m**	Market value 2018 £m
Overseas equities	**-**	8
Government bonds	**-**	17
Cash and cash equivalents	**-**	1
Alternative asset funds	**-**	(8)
Property	**1**	2
Bulk annuity policy*	**28**	12
Fair value of share in plan assets for RMSEPP	**29**	32
Present value of share in plan liabilities for RMSEPP	**(29)**	(27)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**-**	5
Less effect of asset ceiling	**1**	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**1**	3

*As described above, RMSEPP holds a bulk annuity policy with Scottish Widows. The value ascribed to this policy has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

6

As described above, no surplus is recognised for RMPP because the Group no longer has an unconditional right to refund from the Plan. A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP only.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. With the exception of the bulk annuity policy described above, all RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets are analysed as follows:

Assets	**Sectionalised RMPP 2019 £m**	Sectionalised RMPP 2018 £m
Assets in sectionalised RMPP at beginning of period	**338**	532
Contributions paid	**1**	5
Finance income	**7**	7
Actuarial gains/(losses)	**21**	(201)
Benefits paid to members	**(5)**	(5)
Assets in sectionalised RMPP at end of period	**362**	338

Assets	**Share of RMSEPP 2019 £m**	Share of RMSEPP 2018 £m
Share of assets in RMSEPP at beginning of period	**32**	32
Contributions paid	**-**	1
Finance income	**1**	1
Actuarial losses	**(2)**	(1)
Benefits paid to members	**(2)**	(1)
Share of assets in RMSEPP at end of period	**29**	32

Notes to the financial statements (continued)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

Liabilities	**Sectionalised RMPP 2019 £m**	Sectionalised RMPP 2018 £m
Liabilities in sectionalised RMPP at beginning of period	**(298)**	(322)
Past service cost	**(1)**	(4)
Finance cost	**(7)**	(7)
Experience adjustments on liabilities	**(6)**	(2)
Financial assumption changes	**(18)**	23
Demographic assumption changes	**4**	9
Benefits paid	**6**	5
Liabilities in sectionalised RMPP at end of period	**(320)**	(298)

Liabilities	**Share of RMSEPP 2019 £m**	Share of RMSEPP 2018 £m
Share of liabilities in RMSEPP plans at beginning of period	**(27)**	(31)
Finance cost	**(1)**	(1)
Experience adjustments on liabilities	**(1)**	-
Financial assumption changes	**(2)**	3
Demographic assumption changes	**1**	1
Benefits paid	**1**	1
Share of liabilities in RMSEPP at end of period	**(29)**	(27)

6

Notes to the financial statements (continued)

d) Recognised charges

An analysis of the separate components of the amounts recognised in the performance statements of the Group is as follows:

	Sectionalised RMPP 2019 £m	Sectionalised RMPP 2018 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to investments:		
Loss due to curtailments	**1**	4
Total charge to operating profit	**1**	4
Analysis of amounts (credited)/charged to net pensions interest:		
Interest on plan liabilities	**7**	7
Interest income on plan assets	**(7)**	(7)
Net pensions credit to financing	**-**	-
Net charge to the income statement	**1**	4
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	**28**	(194)
Less: expected interest income on plan assets	**(7)**	(7)
Actuarial gains/(losses) on assets (all experience adjustments)	**21**	(201)
Actuarial gains arising from changes in demographic assumptions	**4**	9
Actuarial (gains)/losses arising from changes in financial assumptions	**(18)**	23
Actuarial losses arising from experience adjustment	**(6)**	(2)
Actuarial (gains)/losses on liabilities	**(20)**	30
Effect of the asset ceiling	**(2)**	170
Total actuarial losses recognised in the statement of comprehensive income	**-**	(1)

6

Notes to the financial statements (continued)

	Share of RMSEPP 2019 £m	Share of RMSEPP 2018 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	**(1)**	-
Less: expected interest income on plan assets	**(1)**	(1)
Actuarial losses on assets (all experience adjustments)	**(2)**	(1)
Actuarial gains arising from changes in demographic assumptions	**1**	1
Actuarial (losses)/gains arising from changes in financial assumptions	**(2)**	3
Actuarial losses arising from experience adjustment	**(1)**	-
Actuarial (gains)/losses on liabilities	**(2)**	4
Total actuarial (gains)/losses recognised in the statement of comprehensive income before effect of asset ceiling	**(4)**	3
Effect of the asset ceiling	**1**	(2)
Total actuarial (gains)/losses recognised in the statement of comprehensive income after effect of asset ceiling	**(3)**	1

18. Equity

Called up share capital:

	2019 £	2018 £
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued and fully paid		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

Other reserves:

Other reserves of £2 million (2018: £2 million) relate to First Rate Exchange Services Holdings Limited, the joint venture entity, and £3 million (2018: £nil) relates to a cash flow hedge.

Share premium:

On 7 August 2007 one ordinary share of £1 was issued in return for £313 million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £313 million resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £152 million resulted from this subscription.

Notes to the financial statements (continued)

19. Commitments and contingent liabilities

The Group is also committed to the following minimum lease payments under non-cancellable operating leases:

	Land and buildings		Motor vehicles	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Within one year	**11**	13	**1**	1
Between one and five years	**24**	34	**1**	-
Beyond five years	**18**	33	**-**	-
Total	**53**	80	**2**	1

Contingent liabilities: As a large, nationwide retailer operating in dynamic and competitive markets, we may be subject to regulatory investigations and may face damage to our reputation and legal claims.

From time to time, we may be named as a defendant in legal claims or be required to respond to regulatory actions in connection with our activities. This may include claims for substantial or indeterminate amounts of damages from customers, employees, consultants and contractors, or may result in penalties, fines, or other results adverse to us. Like any large company, we may also be subject to the risk of potential employee or postmaster misconduct, including non-compliance with policies and improper use or disclosure of our assets or confidential information.

On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

The Court has ordered two trials to be heard in 2018-19 to determine a subset of the preliminary issues in dispute between the parties. The Court has not yet ordered a process for determining any issues of liability or quantum. To date, the Claimants have not asserted the aggregate value of their claims in any of the Particulars of Claim filed in the litigation.

While the Directors recognise that an adverse outcome could be material, they are currently unable to determine whether the outcome of these proceedings would have a material adverse impact on the consolidated position of the Group, and are unlikely to be able to do so until the Court has made further determinations and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review.

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million). These have been disclosed as exceptional items because we expect costs to remain significant in 2019/20 and 2020/21.

6

Notes to the financial statements (continued)

20. Business combinations

On 24 October 2018, the Group acquired Payzone Bill Payments Limited ("Payzone") for cash consideration of £16 million. Further consideration of £3 million is contingent on the future performance of certain Payzone revenue streams. £1 million has been paid as at 31 March 2019. The acquisition developed the bill payments business and has been accounted for under IFRS 3 Business Combinations.

The fair values of the identifiable assets and liabilities of the business as at the date of acquisition were:

	2018 £m
Property, plant and equipment	4
Trade and other receivables	6
Cash and cash equivalents	1
Trade and other payables	(6)
Net assets acquired	**5**
Intangible assets – merchant relationships	6
Intangible assets – brand	1
Deferred tax liability on acquired intangible assets	(1)
Goodwill	8
Total consideration	**19**
Consideration is represented by:	
Cash	16
Contingent consideration	3
Total consideration	**19**

The goodwill arising from the acquisition represents the opportunity to integrate technology and combine the Group's existing bill payments business with Payzone in order to compete for new and bigger bill payment contracts from a stronger position. The goodwill arising on acquisition is not deductible for income tax purposes. Goodwill has been reviewed for impairment at acquisition and during the year and on both occasions the amount is considered to represent fair value. There are no indicators of impairment.

Associated acquisition expenses were immaterial and have been charged to the income statement, within the investments column.

From the date of acquisition to 31 March 2019, the Payzone business has contributed £4 million of revenue and £1 million to trading profit.

6

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Notes to the financial statements (continued)

21. Related party disclosures

Joint venture

The following Company is a joint venture of the Group:

Company	Country of incorporation	% Holding	Principal activities
First Rate Exchange Services Holdings Limited	United Kingdom	50	Bureau de Change

All shareholdings are equity shares. Summarised financial information for the joint venture is included in note [10].

Related party transactions

During the year the Group entered into transactions with the following related parties. The transactions were in the ordinary course of business. The transactions entered into and the balances outstanding at the financial year-end were as follows:

	Sales / recharges to related party		Purchases / recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
First Rate Exchange Services Holdings Limited	**36**	34	**112**	118	**2**	8	**6**	4

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year-end are unsecured, interest free and settlement is made by cash. First Rate Exchange Services Holdings Limited is a joint venture of the Group.

The Ggoup trades with numerous Government bodies on an arm's length basis, such as the DWP, the DVLA and the Home Office. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted.

Separately:

- The Group has certain loan facilities with Government (page [XX]).
- The Group has received investment funding from Government of £168 million (2018: £70 million), all of which was recognised through the income statement.
- The Group has received the Network Subsidy Payment from Government (page [XX]).

Key management personnel comprises the Executive and Non-Executive Directors of the Post Office Limited Board at 31 March 2019. The remuneration of the key management personnel of the Post Office Group is disclosed in note [5] on pages [XX] and [XX].

Notes to the financial statements (continued)

22. Membership of the Bank of England's Note Circulation Scheme

Post Office Limited is a member of the Bank of England (the 'Bank') Note Circulation Scheme (the 'NCS') which governs the custody of Bank of England notes that are not in issue. The NCS promotes efficiency in the distribution and processing of notes by allowing approved commercial organisations, engaged in the wholesale distribution and processing of cash, such as the Post Office, to hold notes owned by the Bank.

The continued participation in the NCS ensures that Post Office Limited has an adequate supply of notes to meet customer demand across its network.

The NCS mechanisms that enable Post Office Limited to hold Bank of England owned notes comprise of two elements:

Bond Facility Cash (the 'Bond') – this is cash that is permanently owned by the Bank and is stored in secure vaults at our cash centres, physically separate from other cash. Post Office Limited buys cash from and sells cash to the Bond.

Note Recirculation Facility Cash (the 'NRF') – this is cash that is held securely, either in our NCS cash centres or in the branch network and that is sold to the Bank at the end of each day with a commitment from Post Office Limited to buy it back the next morning. In order to sell notes in this way to the Bank, Post Office Limited must ensure that Gilts are lodged each night as collateral. Our ability to sell notes to the Bank under the NRF is constrained by:

a) The amount of eligible notes available for sale.
b) The collateral available.
c) An annual limit imposed by the Bank dependent upon the volume of notes sorted and issued from our cash centres.

In order to support its participation in the NCS, Post Office Limited has bank facilities of up to £400 million in place (the 'Facilities'), comprising:

a) An overnight collateral facility.
b) An intra-day overdraft facility.

The Facilities may be cancelled by the lender with 60 days' notice.

At the end of the year £227 million (2018: £238 million) were held in this way.

Notes to the financial statements (continued)

23. Alternative performance measures

An alternative performance measure is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Trading profit

Trading profit is one of the Group's key financial measures and is calculated by taking operating profit from continuing operations before depreciation, amortisation, exceptional items, closure of activities, investments and Network Subsidy Payment. The table below summarises the calculation of operating profit before exceptional items, trading profit before Network Subsidy Payment and trading profit.

	2019 £m	2018 £m
Operating profit	**52**	15
Adjusted for:		
Exceptional items	**14**	3
Operating profit before exceptional items	**66**	18
Depreciation and amortisation	**94**	55
Investments	**(39)**	32
Trading profit before Network Subsidy Payment	**121**	105
Network Subsidy Payment	**(60)**	(70)
Trading profit	**61**	35

6

24. Post balance sheet events

In accordance with the Funding Agreement with Government signed on 30 March 2017, Post Office Limited received a Network Subsidy Payment of £18 million on 2 April 2019. The Network Subsidy Payment is received on a quarterly basis and a total of £50 million will be received from Government in 2019/20.

25. Ultimate controlling party

The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until it entered voluntary liquidation in June 2017 and the shares in Post Office Limited were transferred to the Secretary of State for BEIS.

BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited (UKGI), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 31 March 2019, the Directors regarded Post Office Limited as the immediate and ultimate parent Company.

The largest Group to consolidate the results of the Company is Post Office Limited, a company registered in the United Kingdom. Post Office Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Post Office Limited
Company
Financial Statements
2018/19

6

Company balance sheet

at 31 March 2019 and 25 March 2018

	Note	**2019 £m**	2018 £m
Non-current assets			
Intangible assets	3	**215**	211
Property, plant and equipment	4	**173**	148
Investment in subsidiaries	5	**74**	50
Investments in joint venture	6	**66**	66
Retirement benefit surplus	12	**1**	3
Trade and other receivables	7	**6**	12
Total non-current assets		**535**	490
Current assets			
Inventories		**8**	9
Trade and other receivables	7	**344**	323
Cash and cash equivalents	8	**541**	644
Total current assets		**893**	976
Total assets		**1,428**	1,466
Current liabilities			
Trade and other payables	9	**(523)**	(565)
Financial liabilities - interest bearing loans and borrowings	10	**(565)**	(623)
Provisions	11	**(49)**	(35)
Total current liabilities		**(1,137)**	(1,223)
Non-current liabilities			
Other payables	9	**(14)**	(18)
Provisions	11	**(33)**	(30)
Total non-current liabilities		**(47)**	(48)
Net assets		**244**	195
Equity			
Share capital	13	**-**	-
Share premium	13	**465**	465
Accumulated losses		**(226)**	(272)
Other reserves		**5**	2
Total equity		**244**	195

The notes on page [XX] to [XX] form an integral part of the financial statements.

The result dealt with in the financial statements of the Company amounted to a profit of £[48] million (2018: £15 million).

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX XXX 2019 and signed on its behalf by:

A C J Cameron
Interim Chief Executive

Company statement of changes in equity

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Share capital £m	Share Premium £m	Accumulated losses £m	Other reserves £m	**Total equity £m**
At 26 March 2018	**-**	**465**	**(272)**	**2**	**195**
Profit for the year	**-**	**-**	**48**	**-**	**48**
Gains on cash flow hedges	**-**	**-**	**-**	**3**	**3**
Re-measurements on defined benefit surplus	**-**	**-**	**(3)**	**-**	**(3)**
Asset ceiling effect	**-**	**-**	**1**	**-**	**1**
At 31 March 2019	**-**	**465**	**(226)**	**5**	**244**

6

	Share capital £m	Share Premium £m	Accumulated losses £m	Other reserves £m	Total equity £m
At 27 March 2017	-	465	(287)	2	180
Profit for the year	-	-	15	-	15
Re-measurements on defined benefit surplus	-	-	2	-	2
Asset ceiling effect	-	-	(2)	-	(2)
At 25 March 2018	-	465	(272)	2	195

Notes to the financial statements

1. Accounting Policies

The accounting policies which follow, set out those which apply in preparing the Company financial statements for the 53 week period ended 31 March 2019.

Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 53 weeks ended 31 March 2019 (2018: 52 weeks ended 25 March 2018).

Authorisation of financial statements

The parent Company financial statements of Post Office Limited (the 'Company') for the year ended 31 March 2019 were authorised for issue by the Board of Directors on XX XXX 2019 and the balance sheet was signed on the Board's behalf by A C J Cameron. Post Office Limited is a company limited by share capital, incorporated and domiciled in England and Wales. The address of the registered office is given on page [XX].

6

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS" 101). These financial statements are prepared under the historical cost convention. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement.

The results of Post Office Limited are included in the consolidated financial statements of Post Office Limited which are available from Companies House.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IFRS 7 'Financial Instruments: Disclosures'.

(b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement.

(c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

  a. paragraph 73(e) of IAS 16 'Property, Plant and Equipment'.

  b. paragraph 118(e) of IAS 38 'Intangible Assets'.

(d) the requirements of paragraphs 10(d), 10(f), 39(c), 40.A and 134-136 of IAS 1 'Presentation of Financial Statements'.

(e) the requirements of IAS 7 'Statement of Cash Flow's.

(f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

(g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'.

(h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Fundamental accounting concept – going concern

The Company had net assets of £244 million at 31 March 2019 (2018: £195 million). At 31 March 2019 £385 million of the Company's working capital facility was undrawn (2018: £327 million). The Company has also shown a profit for the year of £48 million (2018: £15 million).

Notes to the financial statements (continued)

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; NSP of £50 million

for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million as required for the period from April 2018 to March 2020.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Accounting policies

The following accounting policies are consistent with those of the Group as detailed in note 1 of the Group financial statements:

- Critical accounting estimates and judgements in applying accounting policies.
- Revenue.
- Investments column in the income statement.
- Leases.
- Taxation.
- Investments in joint venture.
- Business combinations.
- Property, plant and equipment.
- Intangible assets.
- Inventories.
- Trade receivables.
- Cash and cash equivalents.
- Pensions and other post-retirement benefits.
- Foreign currencies.
- Provisions.
- Financial instruments.
- Derivatives and hedging activities.

Auditors' remuneration

The remuneration paid to auditors is disclosed in the Group financial statements (note [3]).

Directors' emoluments

The emoluments paid to Directors are disclosed in the Group financial statements (note [5]). Directors for the Company are the same as Group.

Investment in subsidiaries

Investment in subsidiaries are carried at cost less accumulated impairment losses.

Notes to the financial statements (continued)

2. Staff costs and numbers

Employment and related costs were as follows:

People costs within trading:	2019 £m	2018 £m
Wages and salaries	**157**	151
Social security costs	**17**	18
Other pension costs (note [17])	**13**	16
Total people costs within trading	**187**	185
Other operating costs within trading	**733**	751
Total trading costs	**920**	936

Period end and average employee numbers were as follows:

	Period end employees		Average employees	
	2019	2018	**2019**	2018
Total employees	**4,272**	4,973	**4,623**	5,022

6

Total employee numbers can be categorised as follows:

	2019	2018
Administration	**1,205**	1,205
Directly managed branches (DMB)	**2,049**	2,707
Supply Chain	**854**	848
Network programmes	**164**	213
Total	**4,272**	4,973

Notes to the financial statements (continued)

3. Intangible assets

	Software £m	Goodwill £m	Other Intangibles £m	Total £m
Cost				
At 27 March 2017	314	-	-	314
Reclassification	(2)	-	-	(2)
Additions	122	1	6	129
At 25 March 2018	434	1	6	441
Reclassification	(29)	-	-	(29)
Additions	90	-	-	90
Disposals	(17)	-	-	(17)
At 31 March 2019	**478**	**1**	**6**	**485**
Accumulated amortisation and impairment				
At 27 March 2017	199	-	-	199
Reclassification	6	-	-	6
Amortisation	25	-	-	25
At 25 March 2018	230	-	-	230
Amortisation	52	-	3	55
Disposals	(15)	-	-	(15)
At 31 March 2019	**267**	**-**	**3**	**270**
Net book value				
At 31 March 2019	**211**	**1**	**3**	**215**
At 25 March 2018	204	1	6	211

6

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Notes to the financial statements (continued)

4. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 27 March 2017	45	41	23	26	1	795	931
Reclassification	1	1	1	-	-	(1)	2
Additions	-	-	-	1	-	18	19
Disposals	(6)	(3)	(2)	(2)	-	(7)	(20)
At 25 March 2018	40	39	22	25	1	805	932
Reclassification	2	-	-	-	-	27	29
Additions	1	1	1	-	-	35	38
Disposals	(4)	(1)	(2)	-	-	(22)	(29)
At 31 March 2019	**39**	**39**	**21**	**25**	**1**	**845**	**970**
Accumulated depreciation and impairment							
At 27 March 2017	32	14	23	26	1	677	773
Reclassification	-	-	-	-	-	(6)	(6)
Depreciation	1	2	-	-	-	25	28
Disposals	(4)	-	(2)	(2)	-	(3)	(11)
At 25 March 2018	29	16	21	24	1	693	784
Depreciation	1	2	-	-	-	32	35
Disposals	(2)	(1)	(2)	-	-	(17)	(22)
At 31 March 2019	**28**	**17**	**19**	**24**	**1**	**708**	**797**
Net book value							
At 31 March 2019	**11**	**22**	**2**	**1**	**-**	**137**	**173**
At 25 March 2018	11	23	1	1	-	112	148

Depreciation rates are disclosed on page XX within the Group accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2018: £2 million) of the total cost of properties.

During the current and prior year, a review of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

An impairment test was performed during the year. Intangible assets and property, plant and equipment were tested for impairment by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from the value in use calculations.

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a two year period (and then continued into perpetuity), with no nominal growth rate assumed outside of this period. Pre-tax discount rates for Post Office Limited of 9.5% (2018: 9%) have been used to discount the forecasted cash flows.

6

Notes to the financial statements (continued)

A sensitivity analysis has been performed in assessing the value in use of property, plant and equipment and intangible assets. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to 12%, zero growth rate and a decrease in forecasted EBITDA by 5%. The sensitivity analysis showed that no impairment would arise under each or a combined scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

5. Investment in subsidiaries

The carrying value of £74 million relates £55 million to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company with 55,000,000 shares at a nominal value of £1 and 1 share with a nominal value of £100; and £19 million, in Payzone Bill Payments Limited, a 100% subsidiary of the Company with 1 share at a nominal value of £1. The registered address of both Post Office Management Services Limited and Payzone Bill Payments Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

6. Investments in joint ventures

	2019 **£m**	2018 £m
Investment in joint ventures	**66**	66

During the current and prior year, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £66 million (2018: £66 million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

Notes to the financial statements (continued)

7. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	**90**	78
Amounts owed by group undertakings	**8**	6
Accrued income	**70**	74
Prepayments	**19**	17
Client receivables	**138**	132
Other receivables	**19**	16
Total	**344**	323
Non-current:		
Accrued income	**2**	2
Prepayments	**4**	10
Total	**6**	12

6

8. Cash and cash equivalents

	2019 £m	2018 £m
Cash in the Post Office Limited network	**537**	643
Short-term bank deposits	**4**	1
Total	**541**	644

9. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	**53**	40
Amounts owed to group undertakings	**4**	4
Accruals	**113**	155
Deferred income	**20**	32
Social security	**8**	8
Client payables	**312**	306
Capital payables	**10**	20
Other Payables	**3**	-
Total	**523**	565
Non-current:		
Other payables	**14**	18
Total	**14**	18

POL00030887

Notes to the financial statements (continued)

10. Financial liabilities – interest bearing loans and borrowings

	2019 **£m**	2018 £m
Department for Business, Energy and Industrial Strategy	**565**	623

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2018: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2021. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £385 million (2018: £327 million). The average interest rate on the drawn down loans is 1.1% (2018: 0.8%).

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect.

POL00030887

Notes to the financial statements (continued)

11. Provisions

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
At 26 March 2018	18	32	7	8	65
Charged to investments	30	25	43	-	98
Charged to trading	-	-	-	5	5
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(3)	(72)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	**12**	**41**	**22**	**7**	**82**

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	**6**	**14**	**22**	**7**	**49**
Non-current	**6**	**27**	**-**	**-**	**33**
	12	**41**	**22**	**7**	**82**
At 25 March 2018					
Current	11	11	7	6	35
Non-current	7	21	-	2	30
	18	32	7	8	65

Details of the provisions are included in note [15] in the Group financial statements.

12. Pensions

The Company pension's disclosure is consistent with the Group disclosure included in note [17] on pages [XX] to [XX]

6

Notes to the financial statements (continued)

13. Equity

Called up share capital:

	2019 £	2018 £
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

6

Share premium:

On 7 August 2007 one ordinary share of £1 was issued in return for £313 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £313 million resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £152 million resulted from this subscription.

14. Commitments and contingent liabilities

Details of the Company commitments under non-cancellable operating leases and Company contingent liabilities are disclosed in the Group financial statements (note [19]).

15. Related party disclosures

Details of transactions with related parties are disclosed in the Group financial statements (note [21]).

16. Investments expenditure

Details of operating investments expenditure is disclosed in the Group financial statements (note [4]).

17. Taxation

Details of the taxation gains recognised in the year are disclosed in the Group financial statements (note [7]).

18. Business combination

Details of the business combination are included in note [20] in the Group financial statements.

19. Post balance sheet events

Details of post balance sheet events are included in note [24] in the Group financial statements.

On 1 April 2019 Post Office Management Services Limited issued 5,000,000 ordinary shares with a value of £1 each to Post Office Limited.

Notes to the financial statements (continued)

20. Ultimate controlling party

The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until it entered voluntary liquidation in June 2017 and the shares in Post Office Limited were transferred to the Secretary of State for BEIS.

BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited (UKGI), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 31 March 2019, the Directors regarded Post Office Limited as the immediate and ultimate parent Company.

The largest Group to consolidate the results of the Company is Post Office Limited, a company registered in the United Kingdom. Post Office Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

POL00030887

Corporate information

Registered Office
Post Office Limited
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

Actuary
Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Independent Auditor
PricewaterhouseCoopers LLP
29 Wellington St
Leeds
LS1 4DL

Consumer Body
Consumer Focus
4th Floor
Artillery House
Artillery Row
London
SW1P 1RT

Solicitor
Linklaters LLP
One Silk Street
London
EC2Y 8HQ

POL00030887

6

POL00030887

Registered Number 2154540

6

Post Office Limited

Annual Report

& Consolidated Financial Statements

2018/19

PRESENTED TO PARLIAMENT PURSUANT TO
SECTION 77 OF THE POSTAL SERVICES ACT 2000

Financial Statements

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial 53 week period. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations
In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

POL00030887

Independent Auditor's Report to the members of Post Office Limited

In our opinion:

- Post Office Limited's Group financial statements and parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's and the parent Company's profit and the Group's cash flows for the 53 week period (the "period") then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the Group consolidated and Company balance sheet as at 31 March 2019; the consolidated income statements and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and Company statements of changes to equity for the 53 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors' have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

POL00030887

Independent Auditor's Report to the members of Post Office Limited (continued)

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page [XX], the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

POL00030887

Independent Auditor's Report to the members of Post Office Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Andrew Paynter (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Charted Accountants and Statutory Auditors
Leeds
XX XXXX 2019

6

Consolidated Income Statement

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

		2019 £m			2018 £m		
	Note	Trading	Investments	Total	Trading	Investments	Total
Revenue from contracts with customers		**972**	**-**	**972**	956	-	956
Costs	2,4	**(958)**	**(129)**	**(1,087)**	(960)	(102)	(1,062)
Costs – exceptional items	19	**(14)**	**-**	**(14)**	(3)	-	(3)
Total costs		**(972)**	**(129)**	**(1,101)**	(963)	(102)	(1,065)
Other operating income		**14**	**-**	**14**	5	-	5
Investment funding	4	**-**	**168**	**168**	-	70	70
Network Subsidy Payment		**60**	**-**	**60**	70	-	70
Depreciation and amortisation	8,9	**(94)**	**-**	**(94)**	(55)	-	(55)
Share of post-tax profit from joint venture	10	**33**	**-**	**33**	34	-	34
Operating profit / (loss)	3	**13**	**39**	**52**	47	(32)	15
Operating profit / (loss) before exceptional items		**27**	**39**	**66**	50	(32)	18
Finance costs	6	**(8)**	**(1)**	**(9)**	(5)	(2)	(7)
Profit / (loss) before taxation	3	**5**	**38**	**43**	42	(34)	8
Taxation credit	7	**9**	**-**	**9**	9	-	9
Profit / (loss) for the financial year		**14**	**38**	**52**	51	(34)	17

For the year ended 31 March 2019 trading profit was £61 million (2018: £35 million).

Trading profit is one of the Group's key financial measures and is calculated by taking operating profit before depreciation, amortisation, exceptional items, investments and Network Subsidy Payment. Further detail is given in note [23].

All amounts relate to continuing operations.

POL00030887

Consolidated Statement of Comprehensive Income

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Note	**2019 £m**	2018 £m
Profit for the financial year		**52**	17
Items that may be reclassified to profit or loss			
Gain on cash flow hedge	16	**3**	-
Items that will not be reclassified to profit or loss			
Re-measurements on defined benefit surpluses	17	**(3)**	2
Asset ceiling effect	17	**1**	(2)
Other comprehensive income		**1**	-
Total comprehensive income for the year		**53**	17

There are no other comprehensive income items that will be reclassified to the profit and loss in future periods.

6

Consolidated Statement of Cash Flows

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Operating profit		13	47
Total profit before investments		13	47
Adjustment for:			
Share of profit from joint venture	10	(33)	(34)
Depreciation and amortisation	8,9	94	55
Pension operating costs	17	13	17
Other gains and losses		7	-
Working capital movements:		(30)	(2)
(Increase)/decrease in trade and other receivables		(11)	5
Decrease in contract assets		5	-
Decrease in trade and other payables		(26)	(3)
Decrease/(increase) in inventories		1	(2)
Decrease in trading provision		(1)	-
Increase/(decrease) in provisions for discontinued operations		2	(2)
Pension costs paid		(21)	(26)
Cash payments in respect of investments items:		49	(46)
Investment funding		168	70
Restructuring costs		(119)	(116)
Surrender of tax losses to joint venture		8	9
Net cash inflow from operating activities		100	20
Cash flows from investing activities			
Dividends received from joint ventures	10	33	34
Acquisition of businesses (net of cash acquired)	20	(17)	(6)
Proceeds from the sale of property, plant and equipment		4	5
Purchase of tangible and intangible non-current assets		(149)	(135)
Net cash outflow from investing activities		(129)	(102)
Net cash outflow before financing activities		(29)	(82)
Cash flows from financing activities			
Finance costs paid		(8)	(5)
Proceeds of borrowings from BEIS	14	(58)	62
Net cash (outflow)/inflow from financing activities		(66)	57
Net decrease in cash and cash equivalents		(95)	(25)
Cash and cash equivalents at the beginning of the year	12	655	680
Cash and cash equivalents at the end of the year	12	560	655

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Consolidated Balance Sheet

at 31 March 2019 and 25 March 2018

	Note	**2019 £m**	2018 £m
Non-current assets			
Intangible assets	8	**291**	264
Property, plant and equipment	9	**176**	148
Investments in joint venture	10	**66**	66
Retirement benefit surplus	17	**1**	3
Trade and other receivables	11	**6**	12
Total non-current assets		**540**	493
Current assets			
Inventories		**8**	9
Trade and other receivables	11	**344**	324
Cash and cash equivalents	12, 16	**560**	655
Total current assets		**912**	988
Total assets		**1,452**	1,481
Current liabilities			
Trade and other payables	13	**(533)**	(571)
Financial liabilities - interest bearing loans and borrowings	14	**(565)**	(623)
Provisions	15	**(50)**	(36)
Total current liabilities		**(1,148)**	(1,230)
Non-current liabilities			
Other payables	13	**(14)**	(18)
Provisions	15	**(34)**	(30)
Total non-current liabilities		**(48)**	(48)
Net assets		**256**	203
Equity			
Share capital	18	**-**	-
Share premium	18	**465**	465
Accumulated losses		**(214)**	(264)
Other reserves	18	**5**	2
Total equity		**256**	203

Formatted Table

The notes on page [XX] to [XX] form an integral part of the consolidated financial statements.

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX XXX 2019 and signed on its behalf by:

A C J Cameron
Interim Chief Executive

6

Consolidated Statement of Changes in Equity

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

Note	Share capital £m	Share premium £m	Accumulated losses £m	Other reserves £m	**Total equity £m**
At 26 March 2018	**-**	**465**	**(264)**	**2**	**203**
Profit for the year	**-**	**-**	**52**	**-**	**52**
Other comprehensive income	**-**	**-**	**(2)**	**3**	**1**
At 31 March 2019	**-**	**465**	**(214)**	**5**	**256**

Note	Share capital £m	Share premium £m	Accumulated losses £m	Other reserves £m	Total equity £m
At 27 March 2017	-	465	(281)	2	186
Profit for the year	-	-	17	-	17
Other comprehensive income	-	-	-	-	-
At 25 March 2018	-	465	(264)	2	203

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Notes to the financial statements
1. Accounting Policies

Financial year
The financial year ends on the last Sunday in March and for this reason these financial statements are made up for the 53 weeks ended 31 March 2019 (2018: 52 weeks ended 25 March 2018).

Basis of preparation
The Group financial statements on pages [XX] to [XX] have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS interpretations are issued by the International Accounting Standards Board (IASB) and must be adopted into European Law, referred to as endorsement, before they become mandatory under the IAS regulation. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Company is incorporated and domiciled in the United Kingdom. The Group consolidated financial statements are presented in sterling and all values are rounded to the nearest £ million except where otherwise indicated. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Post Office Limited is a private Company limited by shares incorporated in England and Wales.

The income statement presents the results of the Group in a columnar format – in total and split between trading and investments. The trading column represents the underlying performance of the business. Investment funding from Government, restructuring and transformation costs are separately disclosed in the investments column.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings as at 31 March 2019. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. A set of financial statements has been prepared for Post Office Management Services Limited (subsidiary, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ) for the 53 weeks ended 31 March 2019. A separate set of financial statements has also been prepared for Payzone Bill Payments Limited (subsidiary, registered address: Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ), which was acquired on 24 October 2018, see note [20] for details.

The year-end dates of these subsidiaries are in line with the Company. The subsidiaries use consistent accounting policies where appropriate and their results have been consolidated into the Group financial statements. All intra-group balances, transactions, and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

New and amended standards adopted by the Group

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018/19, but do not have an impact on the financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments
IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

6

Notes to the financial statements (continued)

The adoption of IFRS 9 from 2018/19 has not had a material impact on our results, with the key issues for Post Office being around documentation of policies and new hedge documentation.

IFRS 9 operates an expected credit loss model rather than an incurred credit loss model. Providing for loss allowances on our existing financial asset has not had a material impact.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 using the modified retrospective method of adoption. The standard has not had a material impact on revenue recognition at Post Office and therefore, on initial application, no adjustment was required to the opening balance of retained earnings. Presentational reclassifications on the face of the income statement have been required in respect of the Network Subsidy Payment and commission income relating to Government Services. These two items were formerly recognised in revenue and have now been reclassified to other income as they did not meet the recognition criteria from revenue under IFRS 15. Refer to page [XX] for further details of the reclassification. The accounting policies for revenue and for other income are on pages [X] and [X] respectively.

New standards and interpretations not yet adopted

IFRS 16 Leases
IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for operating leases.

The Group will apply the standard from its mandatory adoption date – for Post Office this is from 1 April 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any existing onerous and vacant lease provisions). The Group therefore expects to recognise right-of-use assets of approximately £[XX] million on 1 April 2019 and lease liabilities of £[XX] million. The net impact on the income statement account will be minimal – an increase in trading profit of some £[7-9]m as it will no longer have a charge for operating leases, matched by increases in depreciation, to recognise the usage of the new right-of-use assets, and finance costs, to recognise the unwinding of the discount on the lease liability. There will be no impact on the cash flows of the business.

The Group's activities as a lessor are not material and hence the group does not expect any significant impact on the financial statements.

The Group's current lease commitments are disclosed in note [19].

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Fundamental accounting concept – going concern

The Group has net assets of £256 million at 31 March 2019 (2018: £203 million). At 31 March 2019 £385 million of the Group's working capital facility was undrawn (2018: £327 million). The Group has also been profitable at a trading profit level with current year profit of £61 million (2018: £35 million) and has shown a profit after tax of £52 million (2018: £17 million).

POL00030887

Notes to the financial statements (continued)

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; Network Subsidiary Payment of £50 million for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million ~~as required~~available for the period from April 2018 to March 2020. Investment funding of £168 million was received in 2018/19.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Critical accounting estimates and judgements in applying accounting policies
The Group makes certain estimates and assumptions regarding the future. Estimates and assumptions are continually evaluated based on historical experience and other factors. In the future, actual experience may differ from these estimates and assumptions.

In addition the Group has to make judgements in applying its accounting policies which affect the gamounts recognised in the financial statements. The most significant areas where judgements and estimates are made are discussed below:

Critical accounting estimates:

Key assumptions used in impairment tests for non-current assets

The Group assesses whether there are any indicators of impairment for all non-current assets at each reporting date as well as if events or changes in circumstances indicate that the carrying value may be impaired. Factors considered important that could trigger an impairment review include the following:

- Significant underperformance compared to historical or projected future operating results.
- Significant changes in the manner of use of the acquired assets or the strategy of the overall Group.
- Significant negative micro- or macro-economic trends.

Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset or cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount is determined based on value in use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a two year period. Cash flows beyond this period are extrapolated using estimated growth rates. Refer to note [9] for the results of the latest impairment test, including sensitivity analysis.

Actuarial assumptions

The costs, assets and liabilities of the pensions operated by the Group are determined using methods relying on actuarial estimates and assumptions.

The pension figures are particularly sensitive to changes in assumptions for discount rates, mortality and inflation rates. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary and in accordance with published statistics and experience. Refer to note 17 for details of the key assumptions and sensitivity analysis performed.

Pension liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. Judgement has been applied in determining that for these purposes a high quality corporate bond constitutes AA rated or equivalent status bonds.

Property provisions

The Group recognises provisions for property leases that are onerous. Assumptions are made to determine whether the unavoidable costs of meeting the obligations of a lease agreement exceed the economic benefits expected to be received under it. These include estimates around the future trading performance of the site and cost allocations.

6

Notes to the financial statements (continued)

Critical accounting judgements:

The recognition of a contingent liability in respect of the Group Litigation Order is a key accounting judgement as at the accounting reference date. The key judgement is the level to which a potential liability is deemed possible versus probable and therefore whether a contingent liability is the correct accounting treatment.

Revenue

The following revenue accounting policy relates to the prior year only.

Revenue from Retail, Financial Services and Telecoms comprises the value of services provided from the Group's principal activities in providing a whole range of services through its physical and digital channels. Revenue from Financial Services and some Retail services comprises the commission received. Revenue relating to line rental for telecoms services is recognised evenly over the period to which the charges relate and revenue from calls is recognised at the time the call is made. Revenue from all other transactions is recognised when the transaction is completed. All revenue is derived wholly from within the United Kingdom.

Post Office Management Services revenue comprises the value of services provided from the principal activities in providing insurance intermediary services through its network of Post Office branches across the UK, online and contact centre channels. Revenue comprises commissions received from provision of the intermediary services excluding taxes. Revenue from all transactions is recognised when the transaction is completed.

Revenue from contracts with customers

In 2018/19, the Group adopted IFRS 15.

Retail

The Group provides Mails support services to Royal Mail and Parcelforce. Each Mails product and service has an associated transaction price. The transaction price may vary due to the volume transacted in the period. Revenue from providing Mails support services is recognised in the accounting period in which the services are rendered.

The Group acts as a selling agent and earns commission on the sale of lottery tickets, scratch cards and gift vouchers. The transaction price is a contractual commission rate, which is based on the value of sales in the period. Revenue from the sale of lottery tickets, scratch cards and gift vouchers is recognised in the accounting period in which these sales are made.

Payment services comprise of bill payments (including the subsidiary Payzone Bill Payments Limited). The transaction price is the fee that the Group earns for each bill paid in a branch. Revenue from bill payments is recognised in the accounting period in which the service is rendered and is based on the transaction price multiplied by the volume of bill payments in the period.

Through the Banking Framework Agreement, the Group provides over-the-counter banking services, such as withdrawals, deposits and balance enquiries, on behalf of banks. A transaction price is associated with each banking service provided. Revenue is recognised in the accounting period in which the services are rendered and is based on the transaction price multiplied by the volume of each service provided in the period.

Identity Services

Identity services are provided under contract to Government departments, such as the DWP, DVLA and the Home Office. Each Government service has an associated transaction price. Revenue is recognised in the accounting period in which the services are rendered and is based on the transaction price multiplied by the volume of each service provided in the period.

Notes to the financial statements (continued)

Financial Services & Telecoms

Our Financial Services products include mortgages, credit cards, savings, travel and banking. The Group earns commission on the sale of these products. The transaction price is a contractual commission rate. This commission rate varies by product and is based on volume or value of products sold in the period as well as the channel of sale, for example online or through the branch network. Revenue is recognised in the accounting period in which the new products are sold.

Telecoms includes Post Office HomePhone and Broadband services. The transaction price is the subscription fee, consisting primarily of charges for access to broadband and other internet access or voice services. Revenue is recognised as the service is provided because the customer receives and uses the benefits simultaneously.

6

Insurance

Through its subsidiary, Post Office Management Services Limited, the Group provides general and life insurance intermediation. The transaction price is a contractual commission rate. This commission rate varies by product and is based on the volume or value of products sold in the period as well as the channel of sale, for example online or through the branch network. Revenue is recognised in the accounting period in which the new products are sold.

For all the revenue streams noted above, a receivable is recognised when the goods are delivered or the services are provided, as this is the point in time that the consideration is unconditional, because only the passage of time is required before the payment is due.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction process for the time value of money.

Other income

The Network Subsidy Payment is received from Government and is recognised as other income to match the related costs of making available the network of public Post Offices that the Secretary of State for BEIS considers appropriate. The subsidy is recognised in the year in which it is received. If the subsidy were to exceed the cost of making the network available, the excess would be repaid to Government. Other income also includes commission income relating to Government Services. This income, along with the Network Subsidy Payment, was previously presented within revenue; however they do not fall within the scope of IFRS 15. As a result these two items have been reclassified to other income, as previously referenced in the accounting policy for IFRS 15 Revenue from Contracts with Customers on page XX. ~~Refer to note [16] for further detail.~~

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Investments column in the income statement
Income statement items are presented in the investments column when they are significant in size or nature, and either they do not form part of the underlying trading of the business or their separate presentation enhances understanding of the financial performance of the Group. Investment funding from Government, restructuring and transformation costs are separately disclosed in the investments column. Refer to note [4] for further detail.

Leases

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives are recognised as a reduction of rental expenses over the lease term on a straight-line basis. Provision for dilapidation are made where necessary. Refer to the provisions policy on page [X] and note [15] for further detail.

POL00030887

Notes to the financial statements (continued)

Taxation

The amount charged or credited as current income tax is based on the results for the year as adjusted for items which are not taxed or are disallowed. It is calculated using tax rates in legislation that has been enacted or substantively enacted by the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- On the initial recognition of goodwill.

- On the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.

- On the taxable temporary differences associated with investments in subsidiaries and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly to equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Investments in joint ventures

Investments in joint ventures within the Group's financial statements are accounted for under the equity method of accounting. Under this method the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture less any impairment in value. The income statement reflects the Group's share of post-tax profits from the joint venture. The joint venture is an integral part of the Group's operations,

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred, within the investments column.

Property, plant and equipment

Property, plant and equipment excluding freehold property, long leasehold property and land:

Property, plant and equipment is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets are depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Plant and machinery	3 – 15 years
Motor vehicles	3 – 12 years
Fixtures and equipment	3 – 15 years

6

Notes to the financial statements (continued)

Freehold property, long leasehold property and land:

As with other property, plant and equipment this is recognised at cost, including attributable costs in bringing the asset into working condition for its intended use. These assets have a long useful life and a fair market value. They are depreciated on a straight-line basis over the following useful lives:

	Range of asset lives
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life

The remaining useful lives of freehold buildings are reviewed periodically and adjusted where applicable on a prospective basis. Where freehold property and long leasehold includes the fit-out of those properties, then the fit-out is depreciated over its useful economic life in line with fixtures and fittings.

Assets in the course of construction are carried at cost, with depreciation charged on the same basis as all other assets once those assets are ready for their intended use.

Intangible assets

Goodwill

Goodwill is initially recognised at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is recognised at cost less any accumulated impairment losses. The Group's management undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Research and development

Research expenditure and development expenditure that does not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Notes to the financial statements (continued)

Intangible assets with a finite useful life:

Intangible assets acquired separately or generated internally are initially recognised at cost. They are amortised on a straight-line basis over the following useful lives:

	Range of asset lives
Software	3 – 6 years
Customer relationships	5 years
Merchant relationships	5 – 10 years
Brands	15 years

Assets in the course of construction are carried at cost, with amortisation commencing once the assets are ready for their intended use.

Inventories

Inventories include stationery, retail, lottery and Royal mint coin products and are carried at the lower of cost and net realisable value after adjusting for obsolete or slow-moving stock.

Trade receivables

Trade receivables are recognised and carried at original invoice amount. An allowance is made when collection of the full amount is no longer probable. The Group applies IFRS 9 to measure this allowance for expected credit loses, grouping trade receivables based on shared risk characteristics and days past due. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and on hand, including cash in the Post Office network and short-term deposits (cash equivalents) with an original maturity date of three months or less. Cash equivalents are classified as loans and receivable financial instruments.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

The subsidiaries Post Office Management Services Limited and Payzone Bill Payments Limited hold some fiduciary cash balances, these are held on trust on behalf of third parties, see note [12] for details.

Pensions and other post-retirement benefits

Membership of occupational pension schemes is open to most permanent UK employees of the Group.

The Group is the principal employer of the Post Office Section of the Royal Mail Pension Plan (RMPP), and is a participating employer within the Royal Mail Senior Executives Pension Plan (RMSEPP). RMPP and RMSEPP are both defined benefit plans closed to new members and closed to future accrual. All members of these plans are contracted out of the earnings-related part of the State pension scheme.

A Memorandum of Understanding was executed in 2016/17 which removed the unconditional right to refund from the RMPP. As a result of these events the surplus relating to this Plan was derecognised.

The pension assets of the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term.

Notes to the financial statements (continued)

Full actuarial funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and actuarial valuations are carried out at each balance sheet date and form the basis of the surplus or deficit disclosed. When the calculation at the balance sheet date results in net assets to the Group, the recognised asset is limited to the present value of any future refunds of the plan or reductions in future contributions to the plan (the asset ceiling). As noted above, the RMPP Plan has been closed and no future refunds will be made to the Group.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income. As the Group has no right to a future surplus in the RMPP, an equal and opposite adjustment to the asset ceiling is recognised in other comprehensive income. There is no effect on the net assets position of the Group.

For defined contribution schemes, the Group's contributions are charged to operating profit, as part of staff costs, in the period to which the contributions relate.

Foreign currencies

The functional and presentational currency of the Group is sterling (£).

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Due to the nature of provisions the future amount settled may be different from the amount that has been provided. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate.

Financial instruments

Initial measurement of financial instruments
All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Subsequent measurement of financial assets
IFRS 9 divides all financial assets into two classifications – those measured at amortised cost and those measured at fair value.

Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, "FVTPL"), or recognised in other comprehensive income (fair value through other comprehensive income, "FVTOCI)".

The classification of a financial asset is made at the time it is initially recognised. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

Subsequent measurement of financial liabilities
IFRS 9 divides all financial liabilities into two measurement categories: FVTPL and amortised cost. All of the Group's financial liabilities are measured at amortised cost.

Derecognition of financial assets
A financial asset is derecognised when the Group determines that it has transferred substantially all of the risks and rewards of ownership of the asset.

Derecognition of financial liabilities
A financial liability is removed from the balance sheet when it is extinguished; that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date that a derivative contract is entered

Notes to the financial statements (continued)

into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges).
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).
- Hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

6

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note [16]. Movements in the hedging reserve are shown within other reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other reserves within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses that were previously recognised in the statement of comprehensive income are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

Notes to the financial statements (continued)

2. Staff costs and numbers

Employment and related costs were as follows:

People costs within trading:	2019 £m	2018 £m
Wages and salaries	**162**	154
Social security costs	**18**	18
Other pension costs (note [17])	**13**	17
Total people costs within trading	**193**	189
Other operating costs within trading	**765**	771
Total trading costs	**958**	960

People costs within investments relate to severance costs as part of restructuring and are disclosed within note [4].

Period end and average monthly employee numbers were as follows:

	Period end employees		Average monthly employees	
	2019	2018	**2019**	2018
Total employees	**4,397**	5,020	**4,703**	5,066

Total employee numbers can be categorised as follows:

	2019	2018
Administration	**1,205**	1,205
Directly managed branches (DMB)	**2,049**	2,707
Supply Chain	**854**	848
Network programmes	**164**	213
Post Office Insurance	**57**	47
Payzone Bill Payments	**68**	-
Total	**4,397**	5,020

6

Notes to the financial statements (continued)

3. Operating profit

The following items are included within operating profit:

	2019 £m	2018 £m
Postmasters' fees	**365**	371
Depreciation and amortisation (notes [8] and [9])	**94**	55
Cost of inventories recognised as an expense	**1**	4
Loss on disposal of fixed assets	**5**	1
Operating lease charges – Land and buildings	**13**	12
Operating lease charges – Motor vehicles	**1**	1
Fees payable to the Group's auditor for audit and other services:	**£000**	£000
- parent Company and Group audit	**440**	773
- audit of subsidiary	**85**	82
- audit related assurance services	**-**	105
- other assurance services	**110**	110

6

4. Investments

	2019 £m	2018 £m
Investment funding	**168**	70
Restructuring:		
Business transformation	**(14)**	(16)
Network programmes	**(64)**	(63)
IT transformation	**(13)**	(6)
Severance	**(38)**	(17)
Total restructuring costs	**(129)**	(102)
Unwinding of discounts on provisions	**(1)**	(2)
Total investments income / (charge)	**38**	(34)

Investment funding: Investment funding is received from BEIS.

Restructuring: Restructuring costs are transformational spend incurred in order to implement the major transformation programmes. Business transformation is an overarching programme that will transform the business, driving Post Office toward commercial sustainability through technological innovation and the fundamental re-envisaging of long-term contracts. Network programmes is a multi-year initiative designed to simplify the retailer proposition, with key areas of focus being simplification, automation and the extension of the franchising model to some of our directly managed branches. IT transformation includes programmes to restructure our IT operating model and overhaul legacy back office systems, transitioning to a cloud based architecture. As part of the aforementioned transformational activities, severance costs have been incurred.

Unwinding of discounts on provisions: finance costs incurred in order to unwind the discount on onerous lease provisions.

Notes to the financial statements (continued)

5. Directors' emoluments

Directors accruing pension entitlements during the period under:	**2019 Number**	2018 Number
Defined benefit schemes	**-**	-
Defined contribution schemes	**1**	1

The Directors received the following emoluments:

Remuneration for each Director for the financial year 2018/19

Name	Annualised salary/fees 2018/19 (note 1)	Actual salary/fees 2018/19	Benefits 2018/19	Cash in lieu of pension 2018/19	STIP 2018/19	LTIP 2018/19	Total 2018/19	Total 2017/18
				Non-Executive Directors				
Tom Cooper (note 2)	-	-	-	-	-	-	-	-
Tim Franklin	40,000	39,800	-	-	-	-	39,800	40,000
Virginia Holmes (note 3)	35,700	300	-	-	-	-	300	35,500
Shirine Khoury-Haq	35,000	30,000	-	-	-	-	30,000	-
Ken McCall	50,000	49,800	-	-	-	-	49,800	50,000
Tim Parker (note 4)	19,230	19,300	-	-	-	-	19,300	75,000
Carla Stent	45,000	44,800	-	-	-	-	44,800	45,000
Richard Callard (note 5)	-	-	-	-	-	-	-	-
				Executive Directors				
Paula Vennells (note 6)	255,000	255,000	9,900	63,800	X	X	X	718,300
Alisdair Cameron	244,800	244,800	9,900	61,200	X	X	X	595,900

Note 1: The annualised fees are shown as at 31 March 2019 or at the date of leaving.

Note 2: Tom Cooper is an employee of UK Government Investments Limited (UKGI).

Note 3: Virginia Holmes ceased her role as Non-Executive Director on 27 March 2018.

Note 4: Tim Parker donates the after tax value of his Board fees to charity. From 1 April 2018, Tim's time commitment has reduced and there has been a corresponding reduction in his annual fee.

Note 5: Richard Callard was an employee of UKGI and ceased his role as Non-Executive Director on 27 March 2018.

Note 6: Paula Vennells resigned as Group Chief Executive on 30 April 2019.

Remuneration Policy Summary

The table below describes the STIP and LTIP available for the Executive Directors.

The remuneration framework for the Executive Directors requires consent from the Special Shareholder (BEIS) each year.

6

Notes to the financial statements (continued)

Short-Term Incentive Plan (STIP)	The STIP drives and rewards performance over the single financial year against key financial and operational targets taken from the business scorecard. Metrics and targets are determined and set each year according to business priorities. 80% of the STIP plan is determined by business targets, with the remaining 20% linked to the achievement of personal performance objectives. The target opportunities for the Chief Executive and Chief Finance and Operating Officer are 48% and 40% of salary, with a maximum for stretch performance of 80% and 66.66% of salary respectively.
Long-Term Incentive Plan (LTIP)	The LTIP is designed to reward and retain key executives and senior managers on the achievement of strategic longer term targets linked to the development and growth of a sustainable business. The specific performance targets are determined for each LTIP cycle with reference to the three-year plan which is agreed with the Special Shareholder (BEIS). The target opportunities for the Chief Executive and Chief Finance and Operating Officer are 70% and 50% of salary, with stretch performance of 98% and 70% of salary respectively.

Differences in remuneration policy for the Executive Directors and employees generally

The remuneration policy for the Executive Directors takes account of their level of responsibility and their influence over Post Office's performance. Accordingly, a higher proportion of their total remuneration package is at risk and subject to performance (under the STIP and LTIP). The incidence and potential amounts payable under such incentives across the workforce are determined by their role and grade within the organisation.

Claw-back provision

Executive Directors have claw-back clauses in their contracts, as well as the STIP and LTIP rules, which provide for the return of any over-payments in the event of misstatement of the financial statements, error or gross misconduct on the part of an Executive Director. These provisions are structured in line with market best practice.

6. Finance costs

	2019 £m	2018 £m
Trading:		
Interest payable on loans	**(6)**	(5)
Finance charges	**(2)**	-
Total – trading	**(8)**	(5)
Investments:		
Unwinding of discounts on provisions	**(1)**	(2)
Total – investments	**(1)**	(2)
Total – net finance costs	**(9)**	(7)

6

Notes to the financial statements (continued)

7. Taxation credit

(a) Taxation recognised in the year

Current and deferred income tax is charged or credited to the income statement as follows:

	2019 £m	2018 £m
Current income tax:		
Corporation tax credit for year	**(8)**	(8)
Deferred income tax:		
Deferred tax income relating to the utilisation of losses brought forward	**(1)**	(1)
Taxation credit	**(9)**	(9)

The current income tax credit recognised in the income statement is £8 million (2018: £8 million) and relates to the surrender of tax losses to the joint venture. The deferred income tax credit recognised in the income statement is £1 million (2018: £1 million) and arises as a consequence of the acquisition of intangible assets as part of a business combination. It corresponds to the deferred tax liability recognised in the business combination.

In the current year no deferred income tax has been recognised in other comprehensive income.

No current or deferred tax income tax was recognised directly in equity in the current or prior year.

(b) Factors affecting current tax charge on profit on ordinary activities

As in 2018, the tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
Profit before taxation	**43**	8
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**8**	1
Effect of unutilised losses carried forward	**18**	29
Decrease in tax charge as a result of change in unrecognised deferred tax assets	**(21)**	(24)
Surrender of tax losses to joint venture	**(8)**	(8)
Profits from disposals eligible for relief	**-**	-
Tax effect of share of results of joint venture	**(6)**	(7)
Taxation credit	**(9)**	(9)

(c) Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Acquired intangible assets	**(2)**	(1)	**1**	1
Tax losses	**2**	1	**-**	-
Deferred tax (liability) / asset	**-**	-	**-**	-
Deferred tax income	**-**	-	**1**	1

In the current year a deferred tax liability of £2 million (2018: £1 million) has been recognised on the acquisition of intangible assets as part of a business combination, with a corresponding deferred tax asset of £2 million (2018: £1 million) recognised for the value losses up to the same liability.

The Group has significant tax losses that are available indefinitely for offsetting against future taxable profits. As at the balance sheet date no deferred tax asset has been recognised in relation to these tax losses (2018: £nil).

POL00030887

Notes to the financial statements (continued)

(d) Factors that may affect future tax charges

The Group has unrecognised deferred tax assets of £183 million (2018: £190 million), comprising £148 million (2018: £143 million) relating to tax losses that are available to offset against future taxable profits, £32 million (2018: £46 million) relating to fixed asset timing differences and £1 million (2018: £1 million) relating to temporary differences on provisions. The Group has rolled over capital gains of £2 million (2018: £2 million); no tax liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

The main rate of corporation tax in the UK will remain at 19% for the year starting 1 April 2019 and reduce to 17% with effect from 1 April 2020.

The Finance (No.2) Act 2017 was substantively enacted on 16 November 2017. This includes a restriction on the utilisation of brought forward tax losses and corporate interest in certain circumstances effective from 1 April 2017.

6

Notes to the financial statements (continued)

8. Intangible assets

	Software	Goodwill	Other intangibles	Total
	£m	£m	£m	£m
Cost				
At 27 March 2017	323	44	-	367
Reclassification	(2)	-	-	(2)
Additions	125	1	6	132
At 25 March 2018	446	45	6	497
Reclassification	(29)	-	-	(29)
Additions	101	-	-	101
Added on acquisition	1	8	7	16
Disposals	(17)	-	-	(17)
At 31 March 2019	**502**	**53**	**13**	**568**
Accumulated amortisation				
At 27 March 2017	200	-	-	200
Reclassification	6	-	-	6
Amortisation	27	-	-	27
At 25 March 2018	233	-	-	233
Added on acquisition	1	-	-	1
Amortisation	55	-	3	58
Disposals	(15)	-	-	(15)
At 31 March 2019	**274**	**-**	**3**	**277**
Net book value				
At 31 March 2019	**228**	**53**	**10**	**291**
At 25 March 2018	213	45	6	264

Other intangibles includes customer relationships, merchant relationships and brands.

During the current and prior year, a review of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

Additions to software relate to IT transformation projects undertaken during the current year.

Additions to goodwill and other intangibles relate to the Payzone Bill Payments Limited ("Payzone") business combination disclosed within note [20]. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Management determined that no impairment was necessary for the current year (2018: £nil).

Goodwill was not considered to be impaired at the date of the last review. Refer to note [9] for details of the impairment review performed during the year.

6

Notes to the financial statements (continued)

9. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 27 March 2017	45	41	23	26	1	795	931
Reclassification	1	1	1	-	-	(1)	2
Additions	-	-	-	1	-	18	19
Disposals	(6)	(3)	(2)	(2)	-	(7)	(20)
At 25 March 2018	40	39	22	25	1	805	932
Reclassification	2	-	-	-	-	27	29
Additions	1	1	1	-	-	35	38
Added on acquisition	-	-	-	-	-	4	4
Disposals	(4)	(1)	(2)	-	-	(22)	(29)
At 31 March 2019	**39**	**39**	**21**	**25**	**1**	**849**	**974**
Accumulated depreciation							
At 27 March 2017	32	14	23	26	1	677	773
Reclassification	-	-	-	-	-	(6)	(6)
Depreciation	1	2	-	-	-	25	28
Disposals	(4)	-	(2)	(2)	-	(3)	(11)
At 25 March 2018	29	16	21	24	1	693	784
Depreciation	1	2	-	-	-	33	36
Disposals	(2)	(1)	(2)	-	-	(17)	(22)
At 31 March 2019	**28**	**17**	**19**	**24**	**1**	**709**	**798**
Net book value							
At 31 March 2019	**11**	**22**	**2**	**1**	**-**	**140**	**176**
At 25 March 2018	11	23	1	1	-	112	148

Depreciation rates are disclosed on page [XX] within the accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2018: £2 million) of the total cost of properties.

During the current and prior year, reviews of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

An impairment test was performed during the year. Intangible assets and property, plant and equipment were tested for impairment by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from value in use calculations.

Notes to the financial statements (continued)

Post Office has determined that it has two CGUs: Post Office Limited and Post Office Management Services Limited. Post Office Management Services Limited is a standalone entity with an identifiable asset base and therefore is deemed one CGU. Post oOffice Limited runs a national network of branches which provide a distinct retail offering resulting in a fluid customer base across the network. As such the network as a whole is deemed to be one CGU.

The recoverable amount for Post Office Limited was £370 million (2018: £604 million) and for Post Office Management Services Limited was £35 million (2018: £105 million).

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The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited and Post Office Management Services Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a two year period (and then continued into perpetuity), with no nominal growth rate assumed outside of this period. Pre-tax discount rates for Post Office Limited of 9.5% (2018: 9%) and for Post Office Management Services Limited of 12% (2018: 12%) have been used to discount the forecasted cash flows.

A sensitivity analysis has been performed in assessing the value in use of property, plant and equipment and intangible assets. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to 12%, zero growth rate and a decrease in forecasted EBITDA by 5%. The sensitivity analysis showed that no impairment would arise under each or a combined scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

6

POL00030887

Notes to the financial statements (continued)

10. Investments in joint ventures

The following entity has been included in the consolidated financial statements using the equity method:

Joint ventures

During the current and prior year, the Group's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited, whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

The principal activity of First Rate Exchange Services Holdings Limited is the supply of foreign currency in the UK, which is seen as complementing the Group's operations and contributing to achieving the Group's overall strategy. The principal risks of the Group are disclosed on pages [XX] to [XX].

The financial year-end date of First Rate Exchange Services Holdings Limited is 31 March. For the purposes of applying the equity method of accounting, the financial statements of First Rate Exchange Services Holdings Limited for the year ended 31 March 2019 have been used.

	2019 Joint venture £m	2018 Joint venture £m
Share of net assets		
Total net investment at 26 March 2018, 27 March 2017	**66**	66
Share of post-tax pre dividend profit	**33**	34
Dividend	**(33)**	(34)
Total net investment at 31 March 2019, 25 March 2018	**66**	66

Share of assets and liabilities:	**2019 Joint venture £m**	2018 Joint venture £m
Receivables	**193**	220
Cash and cash equivalents	**22**	14
Non-current assets	**7**	8
Share of gross assets	**222**	242
Current liabilities	**(156)**	(176)
Share of net assets	**66**	66
Share of revenue and profit:		
Revenue	**82**	84
Profit after tax	**33**	34

6

6

Notes to the financial statements (continued)

11. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	**97**	81
Accrued income	**71**	78
Prepayments	**19**	17
Client receivables	**138**	132
Other receivables	**19**	16
Total	**344**	324
Non-current:		
Accrued income	**2**	2
Prepayments	**4**	10
Total	**6**	12

The Group receives and disburses cash on behalf of Government agencies and other clients to customers through its branch network. Amounts owed from/to Government agencies and other clients are disclosed separately as client receivables (as above) and client payables (see note [13]).

£5m (2018: £4m) has been recognised within current prepayments for costs incurred to fulfil contracts. Non-current prepayments constitute costs incurred to fulfil contracts, in both the current and prior year.

The Group applies IFRS 9 when measuring expected credit losses. Trade receivables have been grouped based on shared credit risk characteristics and the days past due to measure the expected credit losses. The loss allowance for the current and prior year has been determined as follows:

31 March 2019	Current	>30 days and <60 days past due	>60 days and <120 days past due	>120 days past due	Total
Expected loss rate			21%	65%	
Gross carrying amount - £m	-	-	1	18	19
Loss allowance - £m	**-**	**-**	**1**	**18**	**19**

25 March 2018	Current	>30 days and <60 days past due	>60 days and <120 days past due	>120 days past due	Total
Expected loss rate	-	-	-	95%	
Gross carrying amount - £m	-	-	-	19	19
Loss allowance - £m	-	-	-	19	19

There is a loss allowance in the current, more than 30 days and more than 60 days ageing categories, however it is immaterial for disclosure.

POL00030887

Notes to the financial statements (continued)

The closing loss allowance for trade receivables as at 31 March 2019 reconciles to the opening loss allowance as follows:

	2019 £m	2018 £m
Opening loss allowance	**19**	14
Increase in loss allowance	**9**	14
Receivables written off as uncollectible	**(7)**	(5)
Unused amounts reversed	**(2)**	(4)
Closing loss allowance	**19**	19

The fair value of trade and other receivables is not materially different from the carrying value.

12. Cash and cash equivalents

	2019 £m	2018 £m
Cash in the Post Office Limited network	**537**	643
Short-term bank deposits	**14**	9
Fiduciary cash balances held on behalf of third parties	**9**	3
Total cash and cash equivalents	**560**	655

Cash in the Post Office Limited network represents the note and coin in circulation in branches and cash centres. Refer to note [22] for further detail.

Where interest is earned it is at a floating or short-term fixed rate. The fair value of cash and cash equivalents is not materially different from the carrying value.

The fiduciary cash balances are held within Post Office Management Services Limited or Payzone Bill Payments Limited and are held on trust on behalf of third parties and cannot be called upon should either company become insolvent.

6

Notes to the financial statements (continued)

13. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	**61**	45
Accruals	**118**	160
Deferred income	**20**	32
Social security	**8**	8
Client payables	**312**	306
Capital accruals	**11**	20
Other payables	**3**	-
Total	**533**	571
Non-current:		
Other payables	**14**	18
Total	**14**	18

The fair value of trade and other payables is not materially different from the carrying value.

14. Financial liabilities – interest bearing loan and borrowings

	2019 £m	2018 £m
Department for Business, Energy and Industrial Strategy	**565**	623

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2018: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2021. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £385 million (2018: £327 million). The average interest rate on the drawn down loans is 1.1% (2018: 0.8%).

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect.

6

Notes to the financial statements (continued)

15. Provisions

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
At 26 March 2018	18	32	7	9	66
Charged to investments	30	25	43	-	98
Charged to trading	-	-	-	9	9
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(6)	(75)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	**12**	**41**	**22**	**9**	**84**

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	6	14	22	8	50
Non–current	6	27	-	1	34
	12	41	22	9	84
At 25 March 2018					
Current	11	11	7	7	36
Non-current	7	21	-	2	30
	18	32	7	9	66

The Group has recognised provisions where a present legal or constructive obligation exists as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

The Network Programmes provision relates to payments due to postmasters in relation to the major transformation programme. Provisions are recognised when either postmasters agree to terminate their existing contracts or sign the new format contracts under Network Transformation.

Property provisions relate to vacant and onerous leases and dilapidations. Vacant and onerous lease provisions are recognised on leasehold properties when the unavoidable costs of meeting the obligations of the lease agreement exceed the benefits expected to be received under it.

Severance provisions are recognised for business reorganisation where the plans are sufficiently detailed and well advanced and where appropriate communication to those affected has been undertaken at the balance sheet date.

Other provisions of £9 million includes £1 million for personal injury claims and £2 million which sits within the subsidiary Post Office Management Services Limited and relates to the repayment of commission received in the event of the cancellation of insurance policies.

Notes to the financial statements (continued)

16. Financial assets and liabilities

a. Financial assets and liabilities by category

The breakdown of the Group's financial instruments at 31 March 2019 and 25 March 2018 is shown below:

	2019			2018		
	Current £m	**Non - current £m**	**Total £m**	Current £m	Non - current £m	Total £m
Financial assets						
Trade and other receivables	**325**	**2**	**327**	307	2	309
Cash and cash equivalents	**5**56043	**-**	543560	655	-	655
Financial liabilities						
Trade and other payables	**(505)**	**(3)**	**(508)**	(531)	(4)	(535)
BEIS loan	**(565)**	**-**	**(565)**	(623)	-	(623)
Total financial liabilities	**(**202185**)**	**(1)**	**(**203186**)**	(192)	(2)	(194)

Except for prepayments, social security and deferred income, which have been excluded from the table above, all of the Group's financial assets and liabilities by nature and classification for measurement purposes are considered loans and receivables.

The fair value of the Group's financial assets and liabilities approximate their carrying value due to the short-term maturities of these instruments. The fair value of financial assets and liabilities is defined as the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in a transaction between market participants at the measurement date.

All of the Group's financial assets and liabilities are considered to be Level 2 in the fair value hierarchy. The nature of the inputs used in determining the values of the financial assets and liabilities are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Group has no Level 1 and Level 3 financial instruments and there have been no transfers between the levels of fair value hierarchy during the period.

b. Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

The Group is exposed to changes in interest rate on floating rate debt, cash deposits, current account balances, and commission income. Interest rate risk on borrowings is managed through determining the right balance of fixed and floating debt within the financing structure. Market conditions are considered when determining the desired balance of fixed and floating rate debt. Had there been a 50 basis point increase in interest rates, there would have been an £7 million favourable impact on the Group's equity and income statement. A 50 basis point decrease would have resulted in a £7 million adverse impact on the Group's equity and income statement.

Notes to the financial statements (continued)

In 2018/19, to hedge its exposure to the variability of commission income linked to 1-month Libor, the Group entered into a three year amortising interest rate swap which has the effect of fixing a proportion of the interest commission income. The qualifying criteria for hedge accounting were met and in accordance with IFRS 9 the swap was designated as the hedging instrument in a cash flow hedge. At year end, the hedging instrument had a fair value of £3 million and has been included within trade and other receivables on the balance sheet.

Foreign currency risk

The Group is exposed to foreign currency risk resulting from balances held to operate Bureau de Change services.

The currencies in which these transactions are primarily denominated are US dollar and Euro. The Group's foreign currency risk management objective is to minimise the impact on the Income Statement of fluctuations in the exchange rates. The Group hedges its foreign currency risk principally through external forward foreign currency contracts to cover near-term future revenues with a number of providers including First Rate Exchange Services Holdings Limited.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar and Euro exchange rates, assuming they are unhedged and with all other variables held constant, on profit/(loss) before tax and equity.

	Strengthening / (weakening) in US dollar rate % Increase / (decrease)	Effect on profit before tax £m Increase / (decrease)	Effect on equity £m Increase / (decrease)	Strengthening / (weakening) in euro rate % Increase / (decrease)	Effect on profit before tax £m Increase / (decrease)	Effect on equity £m Increase / (decrease)
2019	**10**	**1**	**1**	**10**	**2**	**2**
	(10)	**(1)**	**(1)**	**(10)**	**(2)**	**(2)**
2018	10	1	1	10	3	3
	(10)	(1)	(1)	(10)	(3)	(3)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial credit risk arises from cash balances (including bank deposits and cash and cash equivalents) held by the Group and business credit risk arises from exposures to customers. Business risk includes commission receivable and client related settlements for amounts paid out of the Post Office network on their behalf.

The Group aims to minimise its financial credit risk through the application of risk management policies approved by the Board. Counterparties are limited to major banks and financial institutions. The policy restricts the exposure to any one counterparty by setting appropriate credit limits. The maximum exposure to credit risk is limited to the carrying value of each class of asset summarised in note [11].

Business credit risk is monitored centrally. The level of bad debt provision is 2% (2018: less than 2%) of revenue.

Capital management

The Group's objectives when managing capital (defined as the net of borrowings and cash and cash equivalents excluding cash in the Post Office Network) are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure in order to support the business and maximise stakeholder value. In managing the Group's capital levels the Board and the Group Executive regularly monitor the level of debt in the Group, the working capital requirements and the forecast cash flows. The Board and Group Executive plan accordingly following this review process in order to meet the Group's capital management objectives.

Notes to the financial statements (continued)

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include short term bank deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The Group has adequate cash reserves to meet operating requirements in the next 12 months.

At 31 March 2019 the Group has unused facility of £385 million (2018: £327 million). The working capital facility expires in 2021.

In addition to the security interest provided to BEIS in connection with the £950 million Working Capital Facility (note [14]), Post Office Limited has also created a first floating charge over its assets as security for the payment and discharge of certain liabilities arising in the normal course of its client-related activity. The charge under these arrangements is restricted in its ability to take an acceleration action in relation to its debt. As at the balance sheet date the outstanding liabilities amounted to £95 million (2018: £100 million).

The tables below analyse the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest, where applicable.

At 31 March 2019	**12 Months £m**	**1-2 Years £m**	**Total £m**
Financial assets			
Trade and other receivables	**325**	**2**	**327**
Cash and cash equivalents	**543**	**-**	**543**
Financial liabilities			
Trade and other payables	**(505)**	**(3)**	**(508)**
Interest bearing loan	**(565)**	**-**	**(565)**
Total financial assets/(liabilities)	**(202)**	**(1)**	**(203)**

At 25 March 2018	12 Months £m	1-2 Years £m	Total £m
Financial Assets			
Trade and other receivables	307	2	309
Cash and cash equivalents	655	-	655
Financial Liabilities			
Trade and other payables	(531)	(4)	(535)
Interest bearing loan	(623)	-	(623)
Total financial assets/(liabilities)	(192)	(2)	(194)

Prepayments, social security and deferred income have been excluded from the table above. There were no financial assets or liabilities in the current or prior year that were due to mature after two years.

Notes to the financial statements (continued)

17. Retirement benefit surplus

The disclosures in this note reflect the two defined benefit schemes: the Post Office section of the Royal Mail Pension Plan (RMPP) which is independent from the Royal Mail section of the RMPP, and a 7% share of the Royal Mail Senior Executives Pension Plan (RMSEPP). Royal Mail Group Ltd is the principal employer of RMSEPP and Post Office Limited became a participating employer with effect from 1 April 2012. This disclosure also includes the Post Office Pension Plan (POPP), which is a defined contribution scheme.

The disclosures in this note show the value of the assets and liabilities that have been calculated at the balance sheet date.

Post Office participates in pension schemes as detailed below.

Name	Eligibility	Type
Royal Mail Pension Plan (RMPP)*	UK employees	Defined benefit
Royal Mail Senior Executives Pension Plan (RMSEPP)	UK senior executives	Defined benefit
Post Office Pension Plan (POPP)	UK employees	Defined contribution

*The RMPP closed to future accrual on 31 March 2017.

Defined Contribution

The charge in the income statement for the defined contribution scheme was £13 million (2018: £17 million) and the Group contributions to this scheme were £20 million (2018: £20 million) during the year.

Defined Benefit

Both RMPP and RMSEPP are funded by the payment of contributions to separate Trust administered funds. It should be noted that the assumptions used for these pension disclosures are not the same as the assumptions used for funding the plans. The latest full actuarial funding valuation of the RMPP was carried out as of 31 March 2018 using the projected unit method. For RMPP, this valuation was concluded at £20 million surplus (31 March 2015 valuation: £63 million surplus) on a Technical Provisions basis. Valuations are carried out triennially.

RMPP includes sections A, B and C each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971.
- Section B is for members (or beneficiaries of members) who joined after 1 December 1971 and before 1 April 1987 or to Section A members who chose to receive Section B benefits.
- Section C is for members (or beneficiaries of members) who joined after 1 April 1987 and before 1 April 2008.

The latest full actuarial funding valuation for RMSEPP was carried out as at 31 March 2018 using the projected unit method. For 100% of RMSEPP, the valuation concluded at £49 million surplus (31 March 2015 valuation: £17 million surplus) on a Technical Provisions basis.

A series of changes to RMPP and RMSEPP have taken effect since 1 April 2008.

The changes encompassed are:

- The Plans closed to new members from 31 March 2008.
- All pensions and benefits earned before 1 April 2008 retained a link to final pensionable salary, benefits accrued from 1 April 2008 were earned on a "career average pensionable salary" basis.
- RMPP employees can continue to take their pension on reaching age 60 but the normal retirement age increased to age 65 for benefits earned from 1 April 2010.
- From 1 April 2010 it was possible to draw pension earned before the change to normal retirement age at age 55 (subject to an actuarial reduction in the pension benefit), and continue working while still contributing to the RMPP until the maximum level of benefits was reached.
- RMSEPP was closed to future accrual on 31 December 2012.

Notes to the financial statements (continued)

- Liabilities accrued in the RMPP to 31 March 2012 were largely transferred to the Royal Mail Statutory Pension Scheme. The pre-31 March 2012 liabilities are substantially no longer an obligation of Post Office and the transfer therefore resulted in a significant removal of pension risk for Post Office.
- In relation to RMPP only, from 1 April 2014 pensionable salary was amended to the amount in force as at 31 March 2014, increasing each 1 April thereafter in line with RPI (up to 5% each year), with allowance for certain promotional increases.
- The Post Office section of the RMPP closed to future accrual on 31 March 2017 and so no further defined benefits have accrued in respect of Post Office employment after that date; however for as long as a member remains in employment with the Group or has not taken pension, pre-1 April 2012 pension benefits are linked to pensionable salary and post-31 March 2012 benefits receive in-deferment increases (linked to CPI). Closure to future accrual means that no contributions in respect of normal service accrual are required after 31 March 2017. However there were redundancy payments of £1 million (2018: £5 million) made to the RMPP during 2018/19, which were paid in order to fund enhanced benefits for the members concerned.
- On 21 March 2017 Post Office executed a Memorandum of Understanding with the Trustee of the RMPP. This clarified the Trustee's powers to distribute surplus without Post Office's agreement and Post Office concluded that it no longer had an unconditional right to refund from the Plan. In light of this, in accordance with IFRIC 14, the RMPP pension surplus was derecognised as at 26 March 2017.

Even though RMSEPP had a funding surplus on a Technical Provisions basis at the date of the latest full actuarial funding valuation, under the associated Schedule of Contributions, payments of £1 million per annum has been made. Post Office's share of these payments is 7% of the total. The payments will continue to 31 March 2025.

The weighted average duration of the Post Office section of the RMPP is around 25 years, and for RMSEPP is around 20 years.

In July 2017 the Trustee of the RMPP invested in two bulk annuity policies with Rothesay Life. Those policies provide an income to the Post Office section of the RMPP that matches the vast majority of the required benefit payments; as shown in the following disclosures, the estimated value of those policies (on the IAS 19 assumptions as at 31 March 2019) is £292 million (2018: £272 million), compared to the RMPP defined benefit obligation of £320 million (2018: £298 million). The £28 million difference in these figures is due to a £20 million reserve for future administration expenses (which are not matched by the annuity policies), plus £8 million in respect of small differences between the insured benefits and the actual benefit obligation.

A bulk annuity policy (with Scottish Widows) is also held by the Trustee of the RMSEPP. As shown in the following disclosures, the estimated value of that policy, on the IAS 19 assumptions as at 31 March 2019, is £28 million (2018: £12 million), compared to the RMSEPP defined benefit obligation of £29 million (2018: £27 million).

Therefore, as at 31 March 2019, 92% of the aggregate defined benefit obligation (i.e. £320 million out of the £349 million) is matched by bulk annuities that provide income matching the required benefit payments. As such, the majority of the investment and longevity risk associated with Post Office's obligations in respect of the defined benefit plans has been removed (noting that the bulk annuity policies are subject to protection from insurance regulations, including access to the Financial Services Compensation Scheme, in the event of insurer insolvency). Nevertheless, to the extent that 8% of the defined benefit obligation is not matched by bulk annuities, some risk remains in respect of that 8%, in particular the risk that members with uninsured benefits live for longer than expected, the risk that inflation is higher than expected, leading to higher than expected increases to the uninsured benefits, the risk that the assets in excess of the bulk annuity polices generate poor investment returns, and the risk that administration expenses are higher than anticipated. However, these risks are expected to be mitigated by the surplus assets shown in the disclosures (before allowing for the fact that the RMPP surplus is not recognised on Post Office's balance sheet due to the Memorandum of Understanding described above).

Notes to the financial statements (continued)

The following disclosures relate to the gains/losses and surplus/deficit in respect of Post Office's obligations to RMPP and RMSEPP:

Major long-term assumptions
The size of the defined benefit obligation shown in the financial statements is materially sensitive to the assumptions adopted. Small changes in these assumptions could have a significant impact on this value. The overall income statement charge and past service adjustment in the income statement are also sensitive to the assumptions adopted. However, the majority of any change in the defined benefit obligation due to changes in assumptions, will be matched by a corresponding change in the value in the bulk annuity policies (described above).

The major long-term assumptions in relation to both RMPP and RMSEPP were:

	At 31 March 2019 % pa	At 26 March 2018 % pa
Increases to benefits that retain a link to pensionable pay	**3.4**	3.3
Rate of pension increases – RMPP sections A/B	**2.4**	2.2
Rate of pension increases – RMPP section C	**3.4**	3.3
Rate of pensions increases – RMSEPP members transferred from Section A or B of RMPP	**2.4**	2.2
Rate of pension increases – RMSEPP all other members	**3.4**	3.3
Rate of increase for deferred pensions	**2.4**	2.2
Discount rate	**2.4**	2.5
Inflation assumption (RPI) – RMPP & RMSEPP	**3.4**	3.3
Inflation assumption (CPI) – RMPP & RMSEPP	**2.4**	2.2

The following table shows the potential impact on the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP of changes in key assumptions. As noted above, the bulk annuities held by the arrangements provide an income that matches the vast majority of the RMPP benefit payments, and a significant proportion of the RMSEPP benefit payments. Therefore the following changes in the defined benefit obligation would be largely offset by a corresponding change in the asset values.

	2019 £m	2018 £m
Changes in RPI and CPI inflation of +0.1% pa	**(8)**	(8)
Changes in discount rate of +0.1% pa	**8**	8
Changes in CPI assumptions of +0.1% pa	**3**	(3)
An additional one year life expectancy	**11**	(9)

The sensitivity analysis has been prepared using projected benefit cash flows as at the latest full actuarial valuation of the plan. The same method was applied as at the previous reporting date. The accuracy of this method is limited by the extent to which the profiles of the plan cash flows have changed since those valuations although any change is not expected to be material in the context of the above sensitivity analysis.

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Notes to the financial statements (continued)

Mortality: The mortality assumptions used to calculate the value of Post Office's defined benefit obligation in respect of RMPP and RMSEPP are based on the latest self-administered pension scheme (SAPS "S2" series) mortality tables as shown in the following table:

Base mortality tables	**2019**	2018
Male members	**100% x S2PMA**	100% x S2PMA
Male dependants	**100% x S2PMA**	100% x S2PMA
Female members	**100% x S2PFA**	100% x S2PFA
Female dependants	**100% x S2PFA**	100% x S2DFA
Future improvements	**CMI 2018 Core Projections with a 1.5% pa long-term trend**	CMI 2016 Core Projections with a 1.5% pa long-term trend

Average expected life expectancy from age 60:	**2019**	2018
For a current 60 year old male RMPP member	**27 years**	27 years
For a current 60 year old female RMPP member	**29 years**	29 years
For a current 40 year old male RMPP member	**28 years**	29 years
For a current 40 year old female RMPP member	**31 years**	31 years

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b) Plans' assets

The assets in the plans for the Group were:

Sectionalised RMPP	**Market value 2019 £m**	Market value 2018 £m
Corporate bonds	**-**	16
Private Equity	**4**	6
Cash and cash equivalents	**43**	28
Bond/fixed interest funds	**9**	1
Other loan/debt funds	**10**	10
Alternative asset funds	**4**	5
Bulk annuity policies*	**292**	272
Fair value of RMPP assets	**362**	338
Present value of RMPP liabilities	**(320)**	(298)
Surplus in plan before asset ceiling adjustment	**42**	40
Less effect of asset ceiling	**(42)**	(40)
Surplus in plan after asset ceiling adjustment	**-**	-

* As described above, the Post Office section of the RMPP holds two bulk annuity policies with Rothesay Life PLC. The value ascribed to the policies has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

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Notes to the financial statements (continued)

Share of RMSEPP	**Market value 2019 £m**	Market value 2018 £m
Overseas equities	**-**	8
Government bonds	**-**	17
Cash and cash equivalents	**-**	1
Alternative asset funds	**-**	(8)
Property	**1**	2
Bulk annuity policy*	**28**	12
Fair value of share in plan assets for RMSEPP	**29**	32
Present value of share in plan liabilities for RMSEPP	**(29)**	(27)
Surplus in plan for the share of RMSEPP before asset ceiling adjustment	**-**	5
Less effect of asset ceiling	**1**	(2)
Surplus in plan for share of RMSEPP after asset ceiling adjustment	**1**	3

*As described above, RMSEPP holds a bulk annuity policy with Scottish Widows. The value ascribed to this policy has been calculated using the same assumptions as used to calculate the present value of the defined benefit obligation.

As described above, no surplus is recognised for RMPP because the Group no longer has an unconditional right to refund from the Plan. A retirement benefit surplus of £1 million is disclosed on the balance sheet, representing the surplus in the RMSEPP only.

There is no element of the above present value of liabilities that arises from plans that are wholly unfunded. With the exception of the bulk annuity policy described above, all RMPP and RMSEPP assets are securities with a quoted price in an active market.

c) Movement in plans' assets and liabilities

Changes in the fair value of the plans' assets are analysed as follows:

Assets	**Sectionalised RMPP 2019 £m**	Sectionalised RMPP 2018 £m
Assets in sectionalised RMPP at beginning of period	**338**	532
Contributions paid	**1**	5
Finance income	**7**	7
Actuarial gains/(losses)	**21**	(201)
Benefits paid to members	**(5)**	(5)
Assets in sectionalised RMPP at end of period	**362**	338

Assets	**Share of RMSEPP 2019 £m**	Share of RMSEPP 2018 £m
Share of assets in RMSEPP at beginning of period	**32**	32
Contributions paid	**-**	1
Finance income	**1**	1
Actuarial losses	**(~~3~~2)**	(1)
Benefits paid to members	**(~~2~~2)**	(1)
Share of assets in RMSEPP at end of period	**29**	32

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Notes to the financial statements (continued)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

Liabilities	**Sectionalised RMPP 2019 £m**	Sectionalised RMPP 2018 £m
Liabilities in sectionalised RMPP at beginning of period	**(298)**	(322)
Past service cost	**(1)**	(4)
Finance cost	**(7)**	(7)
Experience adjustments on liabilities	**(6)**	(2)
Financial assumption changes	**(1~~8~~7)**	23
Demographic assumption changes	**4**	9
Benefits paid	**~~6~~5**	5
Liabilities in sectionalised RMPP at end of period	**(320~~0~~)**	(298)

Liabilities	**Share of RMSEPP 2019 £m**	Share of RMSEPP 2018 £m
Share of liabilities in RMSEPP plans at beginning of period	**(27)**	(31)
Finance cost	**(1)**	(1)
Experience adjustments on liabilities	**(1)~~(1)~~**	-
Financial assumption changes	**(2~~2~~)**	3
Demographic assumption changes	**1~~1~~**	1
Benefits paid	**1~~1~~**	1
Share of liabilities in RMSEPP at end of period	**(29)**	(27)

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Notes to the financial statements (continued)

d) Recognised charges
An analysis of the separate components of the amounts recognised in the performance statements of the Group is as follows:

	Sectionalised RMPP 2019 £m	Sectionalised RMPP 2018 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to investments:		
Loss due to curtailments	**1**	4
Total charge to operating profit	**1**	4
Analysis of amounts (credited)/charged to net pensions interest:		
Interest on plan liabilities	**7**	7
Interest income on plan assets	**(7)**	(7)
Net pensions credit to financing	**-**	-
Net charge to the income statement	**1**	4
Analysis of amounts recognised in the statement of comprehensive income		
Actual return on plan assets	**28**	(194)
Less: expected interest income on plan assets	**(7)**	(7)
Actuarial gains/(losses) on assets (all experience adjustments)	**21**	(201)
Actuarial gains arising from changes in demographic assumptions	**4**	9
Actuarial (gains)/losses arising from changes in financial assumptions	**(17~~8~~)**	23
Actuarial losses arising from experience adjustment	**(6)**	(2)
Actuarial (gains)/losses on liabilities	**(19~~20~~)**	30
Effect of the asset ceiling	**(2)**	170
Total actuarial losses recognised in the statement of comprehensive income	-~~-~~	(1)

Notes to the financial statements (continued)

	Share of RMSEPP 2019 £m	Share of RMSEPP 2018 £m
Analysis of amounts recognised in the income statement		
Analysis of amounts charged to net pensions interest:		
Interest on plan liabilities	**1**	1
Interest income on plan assets	**(1)**	(1)
Net pensions credit to financing	**-**	-
Net charge to the income statement before deduction for tax	**-**	-
Analysis of amounts recognised in the statement of comprehensive income		
~~Actual return on plan assets~~	~~(1)~~	-
Actual return on plan assets	(1)	-
Less: expected interest income on plan assets~~Less: expected interest income on plan assets~~	**(~~1~~1)**	(1)
Actuarial losses on assets (all experience adjustments)	(2)~~(2)~~	(1)
Actuarial gains arising from changes in demographic assumptions	**1**	1
Actuarial (losses)/gains arising from changes in financial assumptions	**(~~2~~2)**	3
~~Actuarial losses arising from experience adjustment~~	~~(1)~~	-
Actuarial (gains)/losses on liabilities	**(1~~2~~)**	4
Total actuarial (gains)/losses recognised in the statement of comprehensive income before effect of asset ceiling	**(3~~4~~)**	3
Effect of the asset ceiling	**1**	(2)
Total actuarial (gains)/losses recognised in the statement of comprehensive income after effect of asset ceiling	**(2~~3~~)**	1

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18. Equity

Called up share capital:

	2019 £	2018 £
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued and fully paid		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

Other reserves:

Other reserves of £2 million (2018: £2 million) relate to First Rate Exchange Services Holdings Limited, the joint venture entity, and £3 million (2018: £nil) relates to a cash flow hedge.

Share premium:

On 7 August 2007 one ordinary share of £1 was issued in return for £313 million cash paid by the Secretary of State for Business, Enterprise and Regulatory Reform. A share premium of £313 million resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £152 million resulted from this subscription.

Notes to the financial statements (continued)

19. Commitments and contingent liabilities

The Group is also committed to the following minimum lease payments under non-cancellable operating leases:

	Land and buildings		Motor vehicles	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Within one year	**11**	13	**1**	1
Between one and five years	**24**	34	**1**	-
Beyond five years	**18**	33	**-**	-
Total	**53**	80	**2**	1

Contingent liabilities: As a large, nationwide retailer operating in dynamic and competitive markets, we may be subject to regulatory investigations and may face damage to our reputation and legal claims.

From time to time, we may be named as a defendant in legal claims or be required to respond to regulatory actions in connection with our activities. This may include claims for substantial or indeterminate amounts of damages from customers, employees, consultants and contractors, or may result in penalties, fines, or other results adverse to us. Like any large company, we may also be subject to the risk of potential employee or postmaster misconduct, including non-compliance with policies and improper use or disclosure of our assets or confidential information.

On 11 April 2016, a High Court claim was issued on behalf of a number of postmasters against Post Office in relation to various legal, technical and operational matters, many of which have been the subject of significant external focus for a number of years. Post Office is robustly defending the claim, believes it lacks merit, but welcomes the opportunity to have these matters resolved through the Court managed Group Litigation Order.

The Court has ordered two trials to be heard in 2018-19 to determine a subset of the preliminary issues in dispute between the parties. The Court has not yet ordered a process for determining any issues of liability or quantum. To date, the Claimants have not asserted the aggregate value of their claims in any of the Particulars of Claim filed in the litigation.

While the Directors recognise that an adverse outcome could be material, they are currently unable to determine whether the outcome of these proceedings would have a material adverse impact on the consolidated position of the Group, and are unlikely to be able to do so until the Court has made further determinations and the Claimants have provided the necessary information about the value of their claims. The Directors continue to keep this under close review.

The costs of £14 million included in exceptional items relate to Post Office defending the Post Office Group Litigation (2018: £3 million). These have been disclosed as exceptional items because we expect costs to remain significant in 2019/20 and 2020/21.

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Notes to the financial statements (continued)

20. Business combinations

On 24 October 2018, the Group acquired Payzone Bill Payments Limited ("Payzone") for cash consideration of £16 million. Further consideration of £3 million is contingent on the future performance of certain Payzone revenue streams. £1 million has been paid as at 31 March 2019. The acquisition developed the bill payments business and has been accounted for under IFRS 3 Business Combinations.

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The fair values of the identifiable assets and liabilities of the business as at the date of acquisition were:

	2018 £m
Property, plant and equipment	4
Trade and other receivables	6
Cash and cash equivalents	1
Trade and other payables	(6)
Net assets acquired	5
Intangible assets – merchant relationships	6
Intangible assets – brand	1
Deferred tax liability on acquired intangible assets	(1)
Goodwill	8
Total consideration	19
Consideration is represented by:	
Cash	16
Contingent consideration	3
Total consideration	19

The goodwill arising from the acquisition represents the opportunity to integrate technology and combine the Group's existing bill payments business with Payzone in order to compete for new and bigger bill payment contracts from a stronger position. The goodwill arising on acquisition is not deductible for income tax purposes. Goodwill has been reviewed for impairment at acquisition and during the year and on both occasions the amount is considered to represent fair value. There are no indicators of impairment.

Associated acquisition expenses were immaterial and have been charged to the income statement, within the investments column.

From the date of acquisition to 31 March 2019, the Payzone business has contributed £4 million of revenue and £1 million to trading profit.

Notes to the financial statements (continued)

21. Related party disclosures

Joint venture

The following Company is a joint venture of the Group:

Company	Country of incorporation	% Holding	Principal activities
First Rate Exchange Services Holdings Limited	United Kingdom	50	Bureau de Change

All shareholdings are equity shares. Summarised financial information for the joint venture is included in note [10].

Related party transactions

During the year the Group entered into transactions with the following related parties. The transactions were in the ordinary course of business. The transactions entered into and the balances outstanding at the financial year-end were as follows:

	Sales / recharges to related party		Purchases / recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
First Rate Exchange Services Holdings Limited	**36**	34	**112**	118	**2**	8	**6**	4

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year-end are unsecured, interest free and settlement is made by cash. First Rate Exchange Services Holdings Limited is a joint venture of the Group.

The Ggoup trades with numerous Government bodies on an arm's length basis, such as the DWP, the DVLA and the Home Office. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted.

Separately:

- The Group has certain loan facilities with Government (page [XX]).
- The Group has received investment funding from Government of £168 million (2018: £70 million), all of which was recognised through the income statement.
- The Group has received the Network Subsidy Payment from Government (page [XX]).

Key management personnel comprises the Executive and Non-Executive Directors of the Post Office Limited Board at 31 March 2019. The remuneration of the key management personnel of the Post Office Group is disclosed in note [5] on pages [XX] and [XX].

6

Notes to the financial statements (continued)

22. Membership of the Bank of England's Note Circulation Scheme

Post Office Limited is a member of the Bank of England (the 'Bank') Note Circulation Scheme (the 'NCS') which governs the custody of Bank of England notes that are not in issue. The NCS promotes efficiency in the distribution and processing of notes by allowing approved commercial organisations, engaged in the wholesale distribution and processing of cash, such as the Post Office, to hold notes owned by the Bank.

The continued participation in the NCS ensures that Post Office Limited has an adequate supply of notes to meet customer demand across its network.

The NCS mechanisms that enable Post Office Limited to hold Bank of England owned notes comprise of two elements:

Bond Facility Cash (the 'Bond') – this is cash that is permanently owned by the Bank and is stored in secure vaults at our cash centres, physically separate from other cash. Post Office Limited buys cash from and sells cash to the Bond.

Note Recirculation Facility Cash (the 'NRF') – this is cash that is held securely, either in our NCS cash centres or in the branch network and that is sold to the Bank at the end of each day with a commitment from Post Office Limited to buy it back the next morning. In order to sell notes in this way to the Bank, Post Office Limited must ensure that Gilts are lodged each night as collateral. Our ability to sell notes to the Bank under the NRF is constrained by:

a) The amount of eligible notes available for sale.
b) The collateral available.
c) An annual limit imposed by the Bank dependent upon the volume of notes sorted and issued from our cash centres.

In order to support its participation in the NCS, Post Office Limited has bank facilities of up to £400 million in place (the 'Facilities'), comprising:

a) An overnight collateral facility.
b) An intra-day overdraft facility.

The Facilities may be cancelled by the lender with 60 days' notice.

At the end of the year £227 million (2018: £238 million) were held in this way.

Post Office also has an arrangement in Scotland with a commercial banking partner whereby surplus Scottish notes are sold to the partner overnight for repurchase the next day. At the end of the year a total of £3 million (2018: £17 million) was outstanding under this arrangement.

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Notes to the financial statements (continued)

23. Alternative performance measures

An alternative performance measure is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Trading profit

Trading profit is one of the Group's key financial measures and is calculated by taking operating profit from continuing operations before depreciation, amortisation, exceptional items, closure of activities, investments and Network Subsidy Payment. The table below summarises the calculation of operating profit before exceptional items, trading profit before Network Subsidy Payment and trading profit.

	2019 £m	2018 £m
Operating profit	**52**	15
Adjusted for:		
Exceptional items	**14**	3
Operating profit before exceptional items	**66**	18
Depreciation and amortisation	**94**	55
Investments	**(39)**	32
Trading profit before Network Subsidy Payment	**121**	105
Network Subsidy Payment	**(60)**	(70)
Trading profit	**61**	35

24. Post balance sheet events

In accordance with the Funding Agreement with Government signed on 30 March 2017, Post Office Limited received a Network Subsidy Payment of £18 million on 2 April 2019. The Network Subsidy Payment is received on a quarterly basis and a total of £50 million will be received from Government in 2019/20.

25. Ultimate controlling party

The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until it entered voluntary liquidation in June 2017 and the shares in Post Office Limited were transferred to the Secretary of State for BEIS.

The Secretary of State for BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited (UKGI), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 31 March 2019, the Directors regarded Post Office Limited as the immediate and ultimate parent Company.

The largest Group to consolidate the results of the Company is Post Office Limited, a company registered in the United Kingdom. Post Office Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Post Office Limited

Company

Financial Statements

2018/19

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Company balance sheet

at 31 March 2019 and 25 March 2018

	Note	**2019 £m**	2018 £m
Non-current assets			
Intangible assets	3	**215**	211
Property, plant and equipment	4	**173**	148
Investment in subsidiaries	5	**74**	50
Investments in joint venture	6	**66**	66
Retirement benefit surplus	12	**1**	3
Trade and other receivables	7	**6**	12
Total non-current assets		**535**	490
Current assets			
Inventories		**8**	9
Trade and other receivables	7	**344**	323
Cash and cash equivalents	8	**541**	644
Total current assets		**893**	976
Total assets		**1,428**	1,466
Current liabilities			
Trade and other payables	9	**(523)**	(565)
Financial liabilities - interest bearing loans and borrowings	10	**(565)**	(623)
Provisions	11	**(49)**	(35)
Total current liabilities		**(1,137)**	(1,223)
Non-current liabilities			
Other payables	9	**(14)**	(18)
Provisions	11	**(33)**	(30)
Total non-current liabilities		**(47)**	(48)
Net assets		**244**	195
Equity			
Share capital	13	**-**	-
Share premium	13	**465**	465
Accumulated losses		**(226)**	(272)
Other reserves		**5**	2
Total equity		**244**	195

The notes on page [XX] to [XX] form an integral part of the financial statements.

The result dealt with in the financial statements of the Company amounted to a profit of £[48] million (2018: £15 million).

The financial statements on pages [XX] to [XX] were approved by the Board of Directors on XX XXX 2019 and signed on its behalf by:

A C J Cameron
Interim Chief Executive

Company statement of changes in equity

for the 53 weeks ended 31 March 2019 and 52 weeks ended 25 March 2018

	Notes	Share capital £m	Share Premium £m	Accumulated losses £m	Other reserves £m	**Total equity £m**
At 26 March 2018		**-**	**465**	**(272)**	**2**	**195**
Profit for the year		**-**	**-**	**48**	**-**	**48**
Gains on cash flow hedges		**-**	**-**	**-**	**3**	**3**
Re-measurements on defined benefit surplus	12	**-**	**-**	**(3)**	**-**	**(3)**
Asset ceiling effect	12	**-**	**-**	**1**	**-**	**1**
At 31 March 2019		**-**	**465**	**(226)**	**5**	**244**

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	Notes	Share capital £m	Share Premium £m	Accumulated losses £m	Other reserves £m	Total equity £m
At 27 March 2017		-	465	(287)	2	180
Profit for the year		-	-	15	-	15
Re-measurements on defined benefit surplus	12	-	-	2	-	2
Asset ceiling effect	12	-	-	(2)	-	(2)
At 25 March 2018		-	465	(272)	2	195

Notes to the financial statements

1. Accounting Policies

The accounting policies which follow, set out those which apply in preparing the Company financial statements for the 53 week period ended 31 March 2019.

Financial year

The financial year ends on the last Sunday in March and accordingly, these financial statements are made up to the 53 weeks ended 31 March 2019 (2018: 52 weeks ended 25 March 2018).

Authorisation of financial statements

The parent Company financial statements of Post Office Limited (the 'Company') for the year ended 31 March 2019 were authorised for issue by the Board of Directors on XX XXX 2019 and the balance sheet was signed on the Board's behalf by A C J Cameron. Post Office Limited is a company limited by share capital, incorporated and domiciled in England and Wales. The address of the registered office is given on page [XX].

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Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS" 101). These financial statements are prepared under the historical cost convention. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

As permitted by Section 408 of the Companies Act 2006 Post Office Limited has not presented its own income statement.

The results of Post Office Limited are included in the consolidated financial statements of Post Office Limited which are available from Companies House.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IFRS 7 'Financial Instruments: Disclosures'.

(b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement.

(c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

   a. paragraph 73(e) of IAS 16 'Property, Plant and Equipment'.

   b. paragraph 118(e) of IAS 38 'Intangible Assets'.

(d) the requirements of paragraphs 10(d), 10(f), 39(c), 40.A and 134-136 of IAS 1 'Presentation of Financial Statements'.

(e) the requirements of IAS 7 'Statement of Cash Flow's.

(f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

(g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'.

(h) the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Fundamental accounting concept – going concern

The Company had net assets of £244 million at 31 March 2019 (2018: £195 million). At 31 March 2019 £385 million of the Company's working capital facility was undrawn (2018: £327 million). The Company has also shown a profit for the year of £48 million (2018: £15 million).

Notes to the financial statements (continued)

We have the following funding agreed with BEIS: a working capital facility of £950 million to 31 March 2021; a further £50 million facility available to provide same day liquidity to 4 April 2020; NSP of £50 million

for 2019/20 and 2020/21 respectively; and we also have investment funding of up to £210 million as required for the period from April 2018 to March 2020.

After careful consideration of the plans for the coming years, the Directors continue to believe that Post Office Limited will be able to meet its liabilities as they fall due for the next 12 months. Accordingly, on that basis, the Directors consider that it is appropriate that these financial statements have been prepared on a going concern basis.

Accounting policies

The following accounting policies are consistent with those of the Group as detailed in note 1 of the Group financial statements:

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- IFRS 9 Financial Instruments.
- IFRS 15 Revenue from Contracts with Customers.
- IFRS Leases.
- Critical accounting estimates and judgements in applying accounting policies.
- Revenue.
- Other income.
- Investments column in the income statement.
- Leases.
- Taxation.
- Investments in joint venture.
- Business combinations.
- Property, plant and equipment.
- Intangible assets.
- Inventories.
- Trade receivables.
- Cash and cash equivalents.
- Pensions and other post-retirement benefits.
- Foreign currencies.
- Provisions.
- Financial instruments.
- Derivatives and hedging activities.

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Auditors' remuneration

The remuneration paid to auditors is disclosed in the Group financial statements (note [3]).

Directors' emoluments

The emoluments paid to Directors are disclosed in the Group financial statements (note [5]). Directors for the Company are the same as Group.

Investment in subsidiaries

Investment in subsidiaries are carried at cost less accumulated impairment losses.

Notes to the financial statements (continued)

2. Staff costs and numbers

Employment and related costs were as follows:

People costs within trading:	2019 £m	2018 £m
Wages and salaries	**157**	151
Social security costs	**17**	18
Other pension costs (note [1[illegible]])	**13**	16
Total people costs within trading	**187**	185
Other operating costs within trading	**733**	751
Total trading costs	**920**	936

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Period end and average employee numbers were as follows:

	Period end employees		Average employees	
	2019	2018	**2019**	2018
Total employees	**4,272**	4,973	**4,623**	5,022

Total employee numbers can be categorised as follows:

	2019	2018
Administration	**1,205**	1,205
Directly managed branches (DMB)	**2,049**	2,707
Supply Chain	**854**	848
Network programmes	**164**	213
Total	**4,272**	4,973

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Notes to the financial statements (continued)

3. Intangible assets

	Software £m	Goodwill £m	Other Intangibles £m	Total £m
Cost				
At 27 March 2017	314	-	-	314
Reclassification	(2)	-	-	(2)
Additions	122	1	6	129
At 25 March 2018	434	1	6	441
Reclassification	(29)	-	-	(29)
Additions	90	-	-	90
Disposals	(17)	-	-	(17)
At 31 March 2019	**478**	**1**	**6**	**485**
Accumulated amortisation and impairment				
At 27 March 2017	199	-	-	199
Reclassification	6	-	-	6
Amortisation	25	-	-	25
At 25 March 2018	230	-	-	230
Amortisation	52	-	3	55
Disposals	(15)	-	-	(15)
At 31 March 2019	**267**	**-**	**3**	**270**
Net book value				
At 31 March 2019	**211**	**1**	**3**	**215**
At 25 March 2018	204	1	6	211

Notes to the financial statements (continued)

4. Property, plant and equipment

	Land and Buildings						
	Freehold	Long leasehold	Short leasehold	Motor vehicles	Plant and machinery	Fixtures and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 27 March 2017	45	41	23	26	1	795	931
Reclassification	1	1	1	-	-	(1)	2
Additions	-	-	-	1	-	18	19
Disposals	(6)	(3)	(2)	(2)	-	(7)	(20)
At 25 March 2018	40	39	22	25	1	805	932
Reclassification	2	-	-	-	-	27	29
Additions	1	1	1	-	-	35	38
Disposals	(4)	(1)	(2)	-	-	(22)	(29)
At 31 March 2019	**39**	**39**	**21**	**25**	**1**	**845**	**970**
Accumulated depreciation and impairment							
At 27 March 2017	32	14	23	26	1	677	773
Reclassification	-	-	-	-	-	(6)	(6)
Depreciation	1	2	-	-	-	25	28
Disposals	(4)	-	(2)	(2)	-	(3)	(11)
At 25 March 2018	29	16	21	24	1	693	784
Depreciation	1	2	-	-	-	32	35
Disposals	(2)	(1)	(2)	-	-	(17)	(22)
At 31 March 2019	**28**	**17**	**19**	**24**	**1**	**708**	**797**
Net book value							
At 31 March 2019	**11**	**22**	**2**	**1**	**-**	**137**	**173**
At 25 March 2018	11	23	1	1	-	112	148

Depreciation rates are disclosed on page XX within the Group accounting policies note. No depreciation is provided on freehold land, which represents £2 million (2018: £2 million) of the total cost of properties.

During the current and prior year, a review of property, plant and equipment and intangible assets took place and resulted in reclassifications between categories.

An impairment test was performed during the year. Intangible assets and property, plant and equipment were tested for impairment by comparing the carrying amount of each Cash Generating Unit (CGU) with the recoverable amount determined from the value in use calculations.

~~The recoverable amount for Post Office Limited was £370 million (2018: £604 million).~~

The discounted net cash flows from the value in use calculations were used to determine the recoverable amount of the CGU's identified, being Post Office Limited. Value in use is determined using the Group's net cash inflows from the continued use of the assets within each CGU over a two year period (and then continued into perpetuity), with no nominal growth rate assumed

Notes to the financial statements (continued)

outside of this period. Pre-tax discount rates for Post Office Limited of 9.5% (2018: 9%) have been used to discount the forecasted cash flows.

A sensitivity analysis has been performed in assessing the value in use of property, plant and equipment and intangible assets. This has been based on changes in key assumptions considered to be possible by management. This included an increase in the discount rate of up to 12%, zero growth rate and a decrease in forecasted EBITDA by 5%. The sensitivity analysis showed that no impairment would arise under each or a combined scenario.

Management therefore believes that any reasonably possible change in the key assumptions would not cause the carrying amount of any CGU's to exceed their carrying value.

5. Investment in subsidiaries

The carrying value of £74 million relates £55 million to the Company's investment in Post Office Management Services Limited, a 100% subsidiary of the Company with 55,000,000 shares at a nominal value of £1 and 1 share with a nominal value of £100; and £19 million, in Payzone Bill Payments Limited, a 100% subsidiary of the Company with 1 share at a nominal value of £1. The registered address of both Post Office Management Services Limited and Payzone Bill Payments Limited is Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

6. Investments in joint ventures

	2019	2018
	£m	£m
Investment in joint ventures	**66**	66

During the current and prior year, the Company's only joint venture investment was a 50% interest (1,000 £1 ordinary A shares) in First Rate Exchange Services Holdings Limited with a carrying value of £66 million (2018: £66 million), whose principal activity is the provision of Bureau de Change. First Rate Exchange Services Holdings Limited is a company registered in the United Kingdom. The registered address of First Rate Exchange Services Holdings Limited is Great West House, Great West Road, Brentford, Middlesex, TW8 9DF.

Notes to the financial statements (continued)

7. Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	**90**	78
Amounts owed by group undertakings	**8**	6
Accrued income	**70**	74
Prepayments	**19**	17
Client receivables	**138**	132
Other receivables	**19**	16
Total	**344**	323
Non-current:		
Accrued income	**2**	2
Prepayments	**4**	10
Total	**6**	12

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8. Cash and cash equivalents

	2019 £m	2018 £m
Cash in the Post Office Limited network	**537**	643
Short-term bank deposits	**4**	1
Total	**541**	644

9. Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	**53**	40
Amounts owed to group undertakings	**4**	4
Accruals	**113**	155
Deferred income	**20**	32
Social security	**8**	8
Client payables	**312**	306
Capital payables	**10**	20
Other Payables	**3**	-
Total	**523**	565
Non-current:		
Other payables	**14**	18
Total	**14**	18

Notes to the financial statements (continued)

10. Financial liabilities – interest bearing loans and borrowings

	2019 £m	2018 £m
Department for Business, Energy and Industrial Strategy	**565**	623

The loan under the facility is short dated on a programme of liquidity management and matures 1 day after the year-end (2018: 1 day). The fair value of borrowings approximate their carrying value due to the short term maturities of the loan. On maturity it is expected that further loans will be drawn down under this facility, which expires in 2021. The undrawn committed facility, in respect of which all conditions precedent had been met at the balance sheet date, is £385 million (2018: £327 million). The average interest rate on the drawn down loans is 1.1% (2018: 0.8%).

The facility is currently restricted to funding the cash and near cash items held within the Post Office Limited network.

The facility (including drawn down loans) is secured by a floating charge over all assets of Post Office Limited and a negative pledge over cash and near cash items. The negative pledge is an agreement not to grant security over the assets or to set up a vehicle that has the same effect.

Notes to the financial statements (continued)

11. Provisions

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
At 26 March 2018	18	32	7	8	65
Charged to investments	30	25	43	-	98
Charged to trading	-	-	-	5	5
Transfers	-	-	-	3	3
Utilisation	(36)	(9)	(24)	(3)	(72)
Provisions released in the year – investments	-	(7)	(4)	(1)	(12)
Provisions released in the year – trading	-	-	-	(5)	(5)
At 31 March 2019	**12**	**41**	**22**	**7**	**82**

	Network Programmes £m	Property £m	Severance £m	Other £m	Total £m
Disclosed as:					
At 31 March 2019					
Current	**6**	**14**	**22**	**7**	**49**
Non-current	**6**	**27**	**-**	**-**	**33**
	12	**41**	**22**	**7**	**82**
At 25 March 2018					
Current	11	11	7	6	35
Non-current	7	21	-	2	30
	18	32	7	8	65

Details of the provisions are included in note [15] in the Group financial statements.

12. Pensions

The Company pension's disclosure is consistent with the Group disclosure included in note [17] on pages [XX] to [XX]

Notes to the financial statements (continued)

13. Equity

Called up share capital:

	2019	2018
	£	£
Authorised		
Ordinary shares of £1 each	**51,000**	51,000
Total	**51,000**	51,000
Allotted and issued		
Ordinary shares of £1 each	**50,003**	50,003
Total	**50,003**	50,003

Share premium:

On 7 August 2007 one ordinary share of £1 was issued in return for £313 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £313 million resulted from this subscription. In April 2008 two ordinary £1 shares were issued in return for £152 million cash paid by the Secretary of State for Business, Energy and Industrial Strategy. A share premium of £152 million resulted from this subscription.

14. Commitments and contingent liabilities

Details of the Company commitments under non-cancellable operating leases and Company contingent liabilities are disclosed in the Group financial statements (note [19]).

15. Related party disclosures

Details of transactions with related parties are disclosed in the Group financial statements (note [21]).

16. Investments expenditure

Details of operating investments expenditure is disclosed in the Group financial statements (note [4]).

17. Taxation

Details of the taxation gains recognised in the year are disclosed in the Group financial statements (note [7]).

18. Business combination

Details of the business combination are included in note [20] in the Group financial statements.

19. Post balance sheet events

Details of post balance sheet events are included in note [24] in the Group financial statements.

On 1 April 2019 Post Office Management Services Limited issued 5,000,000 ordinary shares with a value of £1 each to Post Office Limited.

Notes to the financial statements (continued)

20. Ultimate controlling party

The Post Office Limited was a wholly owned subsidiary of Postal Services Holding Company Limited until it entered voluntary liquidation in June 2017 and the shares in Post Office Limited were transferred to the Secretary of State for BEIS.

The Secretary of State for BEIS holds a special share in Post Office Limited and the rights attached to that special share are enshrined within Post Office Limited Articles of Association. BEIS, through UK Government Investments Limited (UKGI), has no day to day involvement in the operations of Post Office Limited or in the management of its branch network and staff. As such, at 31 March 2019, the Directors regarded Post Office Limited as the immediate and ultimate parent Company.

The largest Group to consolidate the results of the Company is Post Office Limited, a company registered in the United Kingdom. Post Office Limited financial statements can be obtained from Finsbury Dials, 20 Finsbury Street, EC2Y 9AQ.

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Corporate information

Registered Office
Post Office Limited
Finsbury Dials
20 Finsbury Street
London
EC2Y 9AQ

Actuary
Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Independent Auditor
PricewaterhouseCoopers LLP
29 Wellington St
Leeds
LS1 4DL

Consumer Body
Consumer Focus
4th Floor
Artillery House
Artillery Row
London
SW1P 1RT

Solicitor
Linklaters LLP
One Silk Street
London
EC2Y 8HQ

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Post Office Limited is registered in England and Wales. Registered number 2154540.
Registered Office is Finsbury Dials, 20 Finsbury Street, London, EC2Y 9AQ.

POST OFFICE LIMITED

BOARD PAPER **SUBJECT TO LEGAL PRIVILEGE**

Operational Responses to the GLO: Update

Rob Houghton & Ben Foat Meeting date: 28 May 2019

Context

The Common Issues Trial Judgment was 'handed down' on 15 March 2019. The GE and Board have sought and received regular updates on the various legal developments since then, as well as the planned initiatives which will enable Post Office to continue to improve its relationship with agents and commercial partners. This paper provides an update on that received by the Board in March.

Questions this paper addresses

1. What have been the legal developments since the Common Issues trial Judgment (CITJ) was received in March and what is the timetable over the coming months?
2. What has been the impact of the CITJ on our day to day operations and brand?
3. What operational improvements have been made since the CITJ to mitigate the impact on the network and enable us to continue to be an attractive proposition for agents and commercial partners? What further initiatives are planned?
4. How much money has been allocated in the 19/20 change plan to accelerate and deliver these operational improvements? How much of this has already been earmarked by initiatives? How will progress be tracked?
5. What are we doing to mitigate the impact of a similar adverse Judgment in the Horizon Issues Trial (HIT)?

7

Conclusions

1. Post Office's application to the Court of Appeal for the Managing Judge to be recused was dismissed on 10 May 2019. There is no right to appeal or challenge a refusal to grant permission to appeal. The recusal application has therefore reached its conclusion and the Horizon Issues Trial will resume on 4 June 2019. Before then, Post Office will seek permission from the Managing Judge to appeal the CITJ on 23 May 2019. If the Managing Judge does not grant permission to appeal, Post Office will, as it had done in relation to the Recusal application, be able to seek permission to appeal from the Court of Appeal.
2. There has been no notable change in the behaviour of agents in terms of the support they require or their level of compliance. Coverage in the media has been limited and results from the latest wave of consumer research concluded that 74% of respondents felt positively about the Post Office Brand – the highest score recorded since the research began last year.
3. A range of activities are being mobilised as part of an Operations Transformation Programme. The programme is organised into value streams which reflect the end to end lifecycle of an agent with a full business case expected to be ready by the end of June. The Legal team has been supporting the business to 'operationalise' the judgment, ensuring that changes made or planned are consistent with the judgment and designed and introduced in a manner which is fair and reasonable. These include how we issue new contracts, process improvements to the suspension, termination

and recovery of loss processes including revised policies, scripts and associated documentation as well as guidance in these areas. Further work is being undertaken to develop and embed these enhancements in the relevant teams through workshops planned at the end of May followed by training to teams responsible for these issues. The immediate priority or focus has and should continue to be on areas where there is the biggest financial and reputational risk to Post Office i.e. processes and procedures relating to recovery of losses, suspension and termination, signing new contracts and the tone and style of communication with agents more generally.

4. Within the £173m 19/20 change plan, £10m has been allocated to delivering operational improvements. A further £12m of opex spend will, at least in part, be used to improve the relationship with agents. £22m of both change and opex spend in 19/20 has already been identified. The progress of these initiatives and their specific and measurable business outcomes will be tracked and reported on at each Board.
5. We are working with Deloitte, who have relevant experience in crisis preparedness and response work, to ensure the business is suitably prepared to prevent the legal, reputational and operational risks associated with an adverse judgement from the Horizon Issues trial from crystallising. We anticipate this work will be complete by early July, leaving us some time to refine plans prior to the earliest possible date for judgment.

7

Input Sought

The POL Board is asked to note the contents of the paper.

The Proposal

1. What have been the legal developments since the Common Issues trial Judgment (CITJ) was received in March and what does the landscape look like over the coming months?

1. The Board has received regular briefings on material developments since the CITJ - of which there have been a number - most recently at the Board Sub-Committee of 9 May 2019.

Recusal Application

2. Subsequent to Post Office's recusal application being dismissed by the Managing Judge, Post Office sought permission for the Court of Appeal to lodge an appeal of that decision. This was refused by the Court of Appeal on 10 May 2019. There is no right to appeal or challenge a refusal to grant permission to appeal. The recusal application has therefore reached its conclusion.

Appeal of the Common Issues Trial Judgment

3. Post Office will appeal all material legal points of the judgment that it disagrees with. In order to lodge an appeal, permission to appeal the CITJ can be sought from either the Managing Judge or the Court of Appeal. If permission is not granted by the Managing Judge, then permission to appeal can be sought from the Court of Appeal.

4. Ahead of a hearing for permission to appeal the CITJ, in front of the Managing Judge on 23 May 2019, draft Grounds of Appeal will be sent to the Claimants and filed at the Court w/c 13 May 2019.

Horizon Issues Trial

5. As the Court of Appeal has now refused Post Office permission to seek to have the Managing Judge recused, the Horizon Issues Trial is expected to resume with the cross examination of expert witnesses on 4 June 2019. Cross examination will continue until 13 June 2019, followed by closing submissions on 1 and 2 July 2019.

Further Issues Trial

6. The Further Issues Trial is listed for November 2019 and will determine breach, limitation and discrete points of loss for four lead claimants. Preparations (Disclosure, Witness statements etc) continue.

2. What has been the impact of the CITJ on our day to day operations and brand?

7. To date, we have not seen a notable change in the behaviour from agents in terms of the support they require or their level of compliance. Customer complaints have also not increased. c90% branches continue to complete cash declarations and average losses at balance remain low (c£100). Tier 2 balancing support is a new service which is well received by branches, however the numbers are very low with the highest number of cases being 33 in w/c 08 April.

8. In terms of brand, results from the latest wave of consumer research suggests the level awareness of the litigation has reduced to levels similar to those seen in October 2018 (i.e. before the first trial began) with overall positivity towards Post Office still being strong. Only a quarter (25%) of respondents had heard about the alleged treatment of Postmasters with almost three quarters of respondents (74%) feeling positively towards the brand – the highest score recorded since the research began last year.

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3. What operational improvements have been made since the CITJ to mitigate the impact on the network and enable us to continue to be an attractive proposition to agents and commercial partners? What further initiatives are planned?

Legal

9. The Judgment makes numerous changes to Post Office's contractual relationships with its network of agents, including a general obligation of good faith, striking out various rights of Post Office, and introducing many new terms. The key impacts from an operational perspective are that Post Office's rights to recover losses and to suspend and terminate agents are restricted.

10. Post Office will be appealing the Judgment. However, in the meantime the Judgment is effective.

11. The judgment does not prohibit Post Office continuing to contract using its existing templates but rather how it operates those contracts. Processes have been reviewed and new documents have been developed. A covering notice is

now attached to new contracts pending the outcome of the appeal. A new draft contract template is in the process of being finalised which expresses the two implied terms that Post Office has admitted (necessary cooperation and not to inhibit/prevent performance) but expressly disavowing the legal duty of good faith. In parallel to the appeal, the Operational Transformation Programme will further consider how to develop simpler contracts which, in due course, can be automated. Further analysis of the application to corporate postmasters, for example multiples, is also being undertaken.

12. Variations may also need to be made to Post Office's contracts with its agents (both existing and new) in due course. However, as varying the contracts is not a requirement of the Judgment, the first priority should be to change the way the contracts are operated in practice.

13. Although the CITJ finds that Post Office can recover losses, absent a successful appeal, it is unable to do so unless it is able to prove that i) a loss has been suffered by Post Office and (ii) it was caused by the fault of a Postmaster or their assistant. As a result, the recovery of £3m from former agents and £70k from current agents will resume subsequent to a workshop which has been scheduled to develop and embed the new process and which meets the fair and reasonable test. Legal has reviewed the new policy and associated scripts and documents. This is being worked through with an expected June delivery date.

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14. Further, Post Office's right to withhold remuneration during a period of suspension has been struck down. Again, pending a successful appeal, Post Office must now pay all suspended Postmasters. Currently we have 17 postmasters suspended on full pay. If the cumulative run rate (c5 suspensions per month) continues, this will equate to an additional £1.5m per year. We believe it is fair and reasonable to offset some remuneration costs against the cost of paying a temp and processes are being streamlined to reduce the average period of time Postmasters are suspended for (currently 12 weeks), to limit this exposure.

15. Guidance has been given on the new process for terminating postmasters with or without notice although a further workshop is needed to map out the various categories of potential grounds as well as socialising that training to the relevant teams.

1.

16. Changes to the recovery of loss process have already been introduced together with guidance on what will be required operationally to satisfy the requirement of a "reasonable and fair investigation". A further series of workshops are to be conducted at the end of May led by the Operational Director and team leaders impacted, supported by Legal, to test these changes and embed the new approach.

Operations / Agents

17. A range of activities are being mobilised as part of an Operations Transformation Programme. The programme is organised into value streams which reflect the end to end lifecycle of an agent with a full business case expected to be ready by the end of June. In summary however, and in addition to being more transparent

in everything we do and sharing more information with Postmasters, the programme is also looking to:

Help people open Post Offices through improving and digitising the on boarding process with the pre-vetting of applicants and smoother, risk based business plan assessments. The interview and contracting process will also shift from formal meetings to relationship based site meetings, ensuring applicants are sighted on the contract from an early stage in the process and have the necessary time to be able to obtain legal advice, should they choose to.

Help people work in Post Offices with, for example:

- Cash, coin and stock orders and 'How To' support guides available via Branch Hub.
- Language simplified across all communications and support, and available in various languages.
- Product or System changes impacting branches being managed and controlled specifically to avoid errors.

7

Help people manage Post Offices through improved branch accounting, reconciliation and loss recovery processes and better MI and performance analytics (which is available to both POL and the Postmaster). Training will also be re-visited and various touchpoints and refresher training offered throughout the duration of a contract, including simple video tutorials and online help.

18. A number of these initiatives will be supported and delivered by the network teams in Retail, not just operations – the focus of which is for Post Office to be seen as a strong franchise partner, offering fair remuneration and recognition, underpinned and supported by strong relationships built by capable fields. By the end of May we expect to have scoped a deep dive strategic review of how we could evolve the current transaction based remuneration model, presenting an update to the Board in October.

4. How much money has been allocated in the 19/20 change plan to accelerate and deliver these operational improvements? How much has already been earmarked by initiatives? How will progress be tracked?

19. The 19/20 change plan is costed at c£173m, with projected benefits totalling £76m. Within this, £10m of change spend has been 'carved out' to fund initiatives which deliver the operational improvements noted above.

20. There is a further 'pot' of £12m of opex spend which, in part at least, will be used to improve the relationship with agents through, for example, re-visiting their remuneration. At this stage however, agents pay plans are tactical and implementation will be deferred until Q3/Q4, so that plans can be aligned with the outputs of the agents pay 'deep dive' work which is going to the Board in October.

21. £22m (£10 'Change' Spend, £12m Opex) of spend has already been identified, which would <u>not</u> have otherwise been delivered in 19/20.

Type	LEAD	Initiative	£m
OPEX	Amanda Jones	Agents Rem - Reverse Mails simplification (From Q2)	3.5
OPEX	Amanda Jones	Agent Rem - Travel Money Online Agent Remuneration Trial (One-Off)	0.4
Opex	Julie Thomas	GLO - Communication (One off)	0.5
Opex	Julie Thomas	GLO - Legal Contract changes (One off)	2.0
OPEX	Amanda Jones	Simpler Business - Training & Engagement	1.2
Opex	Julie Thomas	GLO – Agents Rem for suspended Post Masters	1.5
OPEX	Various	GLO - Change plan reprioritisation, benefit impact	2.0
Change	Amanda Jones	Simpler Business - HotHousing2 Accelerate field structure benefits	3
Change	Julie Thomas	Branch Hub Initiatives	1.5
Change	Julie Thomas	Horizon Changes (Quick Wins)	2.5
Change	Julie Thomas	Design of New Processes (Including Loss Prevention)	2
Change	Julie Thomas	POL Workforce Changes (Restructures etc.)	1
Total			22.0

22. Pre-established governance (e.g. Board Sub-Committee meetings) and regular briefings / exceptional meetings gives the Board visibility of legal developments and these will continue. Further, as operational improvements are fully 'stood up' with projects mobilised, they will follow the Change Excellence Framework with their own respective programme teams adhering to the required level of governance. Rather than duplicate governance or reporting, we intend to ensure GE and the Board remain sighted on the initiatives being delivered through developing an instrument which delivers a helicopter view of all of the improvements being made, easily and at a glance, focussing on tracking progress against specific and measurable business outcomes and success criteria. Measurement and tracking will also be aligned to the new seven strategic portfolios – this will enable greater accountability.

5. What are we doing to mitigate the impact of a similar adverse Judgment in the Horizon Issues Trial (HIT)?

23. We are preparing the business for an effective immediate and short-term response to the verdict in the Horizon Trial phase of the GLO proceedings. We have asked Deloitte, who have relevant experience in crisis preparedness and response work, to assist us in this work.

24. The approach consists in defining possible trial outcomes on a spectrum of severity, including that the system is not fit for purpose. Each part of the business needs to be clear on, and planning for, the immediate and short term steps which need to be undertaken to present a workable and well calibrated comprehensive response to be deployed. Following a short immersion phase, Deloitte will hold individual and group sessions to surface all relevant concerns, and help the teams to develop sensible mitigations both in the individual and aggregate.

25. We anticipate this work will be complete by early July, leaving us some time to refine plans prior to the earliest possible date for judgment.

Retail CE's Report – May 2019

Author: Cathy Mayor Sponsor: Debbie Smith Meeting date: 28 May 2019

Executive Summary

Context

The Period 12 Retail Commercial Performance Report for the Board.

Questions this paper addresses

1. How are our sales and revenues performing against our targets and prior year?
2. What's happening in the relevant markets?
3. How are we progressing around delivery of strategy and plans?

Conclusion

8.1

1. Retail income is +2% year on year (+0.3% excluding week 53), ahead of Income budget by +£7m and ahead of profit budget by +£10.2m, +£2.7m better than forecast.
2. Network customer sessions in 18/19 were -1% down year on year, averaging 10.3m sessions per week vs 10.4m in 17/18 slightly better than the BRC reported 12 month footfall decline of -1.4%.
3. Mails volume growth continues to come from Home Shopping Returns (+24%), supported by the launch of labels to go in Nov and Click and Collect (+36%), with core products such as stamps (-5%), labels (+1.4%) and international all trading to plan.
4. In Banking, volume growth trends continue with withdrawals +7% and deposits +22% in the year, fuelled by 2 major automation (RBSG and LBG) programmes, 2 new banks added to the Framework and over 15 new product combinations with our various bank customers.
5. Customer service metrics improved throughout the year, maintaining our Network Ease (Effort) performance for P12 at 89.5% +5.3% year on year. Full year average is 84.8%, +2.8% against target and +4.5% year on year.
6. Delivery of our retail strategy and plan is on track. The new Field Structure is now in place to better support our partners and drive performance across the whole network. We have successfully trialled a 'Hothouse' approach in 6 branches to build capability and drive performance/change bottom up and are now transitioning to Phase II to build the capability in our Regional and Area Managers, scale solutions and drive benefits faster and more widely.

Input Sought

For the Board to review and note.

Input Received

RLT & GE

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The report

Overview of Financial performance

	Period 12				FULL YEAR			
Gross Income (£m)	**Actual**	**Var Bud**	**Var Fcst**	**YoY%**	**Actual**	**Var Bud**	**Var Fcst**	**YoY%**
Mails Trading	**27.7**	2.3	2.7	33%	**292.5**	3.4	3.8	7%
Mails Non-Trading	**5.3**	0.2	0.1	14%	**57.4**	1.6	0.1	-4%
Banking Services	**10.8**	1.4	1.5	46%	**101.4**	4.4	2.8	15%
ATMs	**2.7**	(0.2)	(0.2)	20%	**29.0**	(2.2)	(0.7)	-3%
POCA	**2.3**	0.2	0.1	-30%	**30.2**	0.5	0.3	-25%
Payment Services	**1.2**	(0.5)	(0.4)	-22%	**23.0**	(3.8)	(1.7)	-15%
Retail & Lottery	**3.7**	0.2	0.0	24%	**41.8**	2.8	1.0	-6%
Retail Total	**53.8**	**3.6**	**3.9**	**25%**	**575.3**	**6.7**	**5.6**	**2%**
Retail DPC (£m)								
Mails	**15.0**	1.2	(0.9)	-40%	**161.5**	10.0	0.3	-51%
Cash and Banking Services	**10.0**	1.5	2.3	-8%	**88.5**	(0.4)	4.3	-35%
Payment Services	**(0.8)**	(0.6)	(0.5)	-301%	**0.4**	(0.4)	(1.6)	-97%
Retail & Lottery	**(0.6)**	(2.2)	(2.2)	-122%	**12.3**	(2.0)	(2.4)	-69%
Retail Total DPC	**23.7**	**(0.1)**	**(1.3)**	**-39%**	**262.7**	**7.2**	**0.6**	**-49%**
Fixed Agents Pay	**(3.9)**	(0.3)	(0.3)	86%	**(42.0)**	1.9	(2.9)	89%
Retail Director	**(6.1)**	(0.8)	(0.4)	-2%	**(73.2)**	(1.3)	0.2	8%
Retail Programme Costs	**(0.3)**	(0.0)	0.2	33%	**(4.5)**	1.0	4.1	-153%
Retail Central Costs	**(0.4)**	0.0	0.1	36%	**(5.9)**	0.1	0.8	-20%
Retail Profit	**13.0**	**(1.2)**	**(1.6)**	**195%**	**137.1**	**8.9**	**2.7**	**17%**
Payzone	0.3	0.3	0.0		1.2	1.2	(0.1)	
Total Profit	**13.2**	**(1.0)**	**(1.6)**	**201%**	**138.2**	**10.1**	**2.6**	**18%**

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1. Retail has grown year on year income 2% (+0.3% excluding week 53) and exceeded Income budget by +£7.0m driven by Mails and Banking, the latter of which has tripled in the last 3 years to over £101m. Profit exceeded budget +£9.0m, £10.2m including Payzone.

2. The £9.0m profit upside vs budget is driven by more accurate Agents pay methodology enabled by ART, £5m; conclusion of commercial negotiations with RMG re SSK over-billing and stamps under-billing facilitating the release of a £1.5m accrual; a successful Mails annual count process generating £1.6m, lower card processing fees saving £1.5m and £1m Programme delays/savings. Issues with ageing Coin stock led to a -£2m inventory provision being made in P12. As one-offs, this upside should not be regarded as repeatable in 19/20, closing the current £3m stretch gap embedded in the 19/20 retail budget will be challenging.

3. Excluding the £1.5m accrual release, overall income is +1.8% up on prior year, exceeding the expected trend set for budget by 80 bps. Continuing positive trends in Home Shopping Returns (albeit slowing in H2) and Banking deposit growth driven by automation and bank branch closures are mitigating long term volume decline in other retail products. The decline in bill payments mainly stems from the Co-Op exit from the reseller market during 2018, driving transaction volume to PayPoint before the completion of the Payzone acquisition.

Market Update

4. Key market trends have continued into 2019. Well known retailers going into administration including Debenhams and Office Outlet (was Staples) contrasts with the strong growth and store opening programmes in the convenience retail sector reported by several of the Co-Op societies, McColls and Tesco. NISA's recruitment of new retailers is up 25% since their acquisition by Co-Op and Tesco has reported over 11% growth in Booker. Competition for space within convenience stores is also intensifying. For example, BP have recently announced a trial to offer their Wild Bean Café concept on a market wide franchise basis.
5. Royal Mail share price has remained suppressed in the 250p to 270p range reflecting concerns over its ability to reduce costs in line with declines in mail volumes and a possible reduction in dividends. RMG's latest annual results are due on 22nd May.
6. RM have announced the imminent launch of single item postage purchase function via their app. While this increases the choice of online channels aimed at our core consumer market, we believe immediate impact is likely to be low as customer demand is currently limited. It does however reinforce the need for our own digital route for customers.
7. Recent competitor results saw Amazon growing volumes +10%, and Hermes growing income by 16% to £665m (£30m EBit). However, many operators continue to struggle with intense price competition and increasing costs. Yodel posted operating losses of £112m, a 36% increase on prior year, and DHL's UK parcel subsidiary, UK Mail, is expected to withdraw from UK domestic parcel operations.
8. Industry sources continue to expect a further 1,500-2,000 bank branches to close by 2022, although some anecdotal evidence suggests all banks are expecting to halve the number of counter positions in the remaining branch estate, in some cases moving to completely unstaffed sites.

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Customers

9. Network customer sessions have averaged 10.3m per week for the year, a -1.0% reduction year on year, slightly better than BRC reported footfall decline of -1.4%. Network performance was strong in Q4, +7% vs target compared to +2% FY, particularly pleasing in the context of significant organisational change as well as responding to Postmasters reaction to the GLO judgement.
10. Customer Experience KPIs performed strongly across the year. The 'how easy is the Post Office to do business with' score was 2.8% ahead of target at 84.8%, +4.5% YoY. 96.1% of customers thought their wait time was acceptable, up 2.1% YoY. Customers' rating of counter teams being Friendly, Professional, Knowledgeable, having understanding, acting efficiently and meeting expectations improved by 2.5% in the 2nd half year.

Mails performance

11. Trading income growth of 7% was driven by RPI (3.5% on all products except stamps), 53rd week (£5.5m, 2.8%) and one off benefits (£1.5m). Long term volume trends

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continue with core products such as stamps (-5%), labels (+1.4%) and international (-4.4%) all trading to plan.

12. Home shopping returns finished the year +24% vs prior year, although the second half saw a slowdown in growth partly due to House of Fraser ceasing to offer free returns (c. 80-100k items per month) as well as an overall slowing of online UK retail growth. Since launch in November, Labels-to-Go now accounts for 10% of total return volumes through organic customer adoption. We expect that an increased e-tailer focus on reducing returns e.g. ASOS, may have an impact going forward. Local collect saw continued strong growth of 36% from existing client growth and new customer acquisition.

Cash & Banking performance

13. IRRELEVANT

14. IRRELEVANT

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16. In POca, customer volumes continue to decline but at a slower rate due to a temporary pause in the DWP migration efforts (to restart again soon). DWP have stated they will not extend the POca contract beyond 2021 and will go to tender in 2019 for a POca replacement, which we will bid for. Our main strategy and direction is to ensure POL remains the channel for any new service, whether provided by us or not. This will ensure existing footfall remains in branch and continue to support our social purpose.

Payment Services performance

17. Payzone trading performance continues in line with business case expectations (Profit £1.2m). Excellent engagement with key clients continues. We have secured the first exclusive only contracts in circa 20 years with Scottish Power (800k customers) and Shell Energy (ex-First Utility) and signed first time access to Thames Water & Anglian Water. All go live in Summer 2019 and will take market share from PayPoint.

18. Similar positive engagement with major retail groups continues. IRRELEVANT have agreed to IRRELEVANT They are willing to negotiate termination of IRRELEVANT IRRELEVANT f we can demonstrate IRRELEVANT IRRELEVANT

19. Day 1-100 period has been completed with the separation from Payzone UK ("remain co") delayed to July, due to delays in transfer to new Vodafone data servers. Key issues and challenges are;

    a. Internal audit report concluded "Needs Improvement" with regards to completion of Day 100 tasks, insufficient resource to complete the separation activities, and the outstanding Master Services Agreement between POL and Payzone. We have updated the plan and restructured the program team to bring closer to the BAU teams.

    b. Completion of all IT security remediation and business continuity activity, notably the results of vulnerability testing requiring additional infrastructure security enhancements.

    c. There has been greater effort required to enable all Post Office and Payzone clients to operate across both retail networks, due to unforeseen complexity with transaction processing and client settlement from both respective processing platforms. There is now a program of work to technically enable all ~800 clients to be operational across both PO and PZ networks by mid Nov.

Retail Strategy delivery

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20. In response to the GLO judgement, an Agents Relationship workstream has been set up. Whilst much of the activity was already underway as part of our Retail Strategy, the judgement has challenged us to go faster. The areas of focus are: Agent Remuneration; Field team support; Agent Onboarding, Training and Communication.

21. We have been holding listening groups with Postmasters across the country to better understand the reality. Common themes are emerging, predominantly relating to remuneration rate decreases, declining government services, inadequate training and communication and a general lack of support from the Post Office.

22. On Agents remuneration we are undertaking a further deep dive as agreed at the board meeting in April. An earlier review was more tactical and didn't address all the issues, hence the need for a more strategic, radical review. Scope definition of this work is underway and will be presented to the GE for input early June with a report to the Board in October.

23. To better support Postmasters, the new field team structure was put in place at the beginning of this financial year, including bringing the Network Operations team into retail. Each Postmaster now has a nominated local point of contact (an Area Manager) who will visit regularly and offer support to improve performance and help them grow sustainable businesses.

24. In Q4 we ran a 1st phase of a 'hothousing' programme to test how to improve performance and build capability with Area teams and Postmasters, driving change from the 'ground up'. We are measuring success in a number of ways: improving remuneration (Trial achieved 5.6% increase on mails and 4.4% on banking); improving retail sales by 1-2% through increasing footfall and basket size; accelerating Area Manager competence and confidence in building trusted relationships with Postmasters to improve retention and avoid cost of churn (target

£0.5m pa). We have now transitioned to Phase II to build area and regional management capability and test how we can scale solutions to drive benefits faster.

25. We are overhauling the onboarding experience, increasing on-site training for new Postmasters and introducing classroom refresher training for longer serving Postmasters and their teams. We will continue to hold local and regional listening groups throughout the year to listen and update on progress in response to the issues raised. Postmaster written communications are under review to simplify and improve.

26. The Network Transformation Programme closed at the end of March as planned. The programme has delivered against all its original objectives, notably delivering opening hours increases of over 40% and consistently high customer satisfaction scores of 95% and above across both transformed mains and local branches. A provision of £20.4m remains to deliver a further 132 branches over the next two years.

27. The DMB Programme exited 67 branches in 2018/19, delivering c.£5.5m of benefits in year including 40 franchises to WHS (Edgware) and 27 network shape branches. Momentum has continued with 7 exits already delivered in Q1 and a strong pipeline of opportunities in place to deliver the 69 planned for 19/20 (inc 34 to WHS).

28. The Network grew +91 to 11,638 branches at year end. 328 New network locations were added and 294 branch re-openings and outreaches added, mitigating churn of 531. Churn comprised c.60% planned closures (mainly resignations driven by financial/personal reasons) and 40% unplanned closures (i.e. suspensions and terminations via audit activity).

29. The Parcel Shop format trial starts imminently with a concept in Finsbury Dials (Prepaid Returns), and the first 'in branch' at the end of June. Low risk locations are being selected for the initial trial in urban areas/commuter hubs where our competitors are located, and at least 0.25 miles away from the nearest PO, so as to minimise impact on existing branches.

30. Good progress is being made on the 14 trial main to local branches this year and on track to complete all by the end of October. 1 successful conversion has taken place within a Southern Coop branch with a further 5 agreed with McColls and Spar for July and August implementations.

31. Digitisation of mails continues with a focus on a revised MVP providing online postage purchase. This includes the successor platform for Drop and Go and potential data capture for new Customs requirements. Delivery timescales have been affected by the technical design complexity and continued dependency on RM API specifications.

32. Plans are on track to develop and deploy the next generation of customer facing self-service kiosks across the network to meet customer demand and improve financial viability for our agents. A design contest procurement approach for the new hardware will begin in May to identify the preferred supplier(s) and commercial terms have been agreed for 15 machines in 7 branches, with contracts signed and returned.

Appendix 1 – Retail Scorecard

P12

AREA	MEASURE	Unit	Prior Month	Actual Month	Target Month	PY Month	Actual YTD	Target YTD	PY YTD	Full Year Budget	Full Year Forecast
	Gross Income	£m	42.7	53.8	49.9	43.1	575.3	569.7	563.8	568.6	569.7
	Trading Profit	£m	10.0	13.0	14.6	4.4	137.1	134.4	106.1	128.2	134.4
	Mails - Priority	Vol m	0.8	1.0	0.8	0.8	10.5	10.2	10.1	11.6	10.2
PERFORMANCE	Mails - Total Labels	Vol m	12.4	16.0	15.1	12.5	166.7	163.2	161.1	163.4	163.2
	Mails - Click & Collect	Vol m	0.4	0.5	0.4	0.3	5.1	4.7	3.6	4.1	4.7
	Mails - Home Shopping Returns	Vol m	3.4	4.4	4.6	3.0	47.9	50.7	39.5	45.0	50.7
	Banking All Transactions	Vol m	10.8	14.1	12.6	9.9	137.4	133.4	123.4	130.2	133.4
	Payments ****	Vol m									
	No. of Customer Sessions per week *****	m	10.0	10.5	8.1		10.3	10.2			
	No. of Retail Transactions per session**	Ratio	1.6	1.6	1.7						
CUSTOMER	Ease of Doing Business With (Effort) *	%	88	90	82	85	85	82		82	82
	Customer Drivers *	%	91	91			88				
	Complaints* *****	#	2,720	2,506			30527				
	Branch Numbers*	#	11,613	11,660	11,600	11,547				11,600	11,600
NETWORK	NNL Builds	#	45	75	80		328	338		338	338
	Branch standards - Losses Identified in Audit*	£m	0.5	0.5		0.7	7.0		7.4		
	Diversity inc Women (Level 4 & above)***	%	25	24	43	0				43	43
PEOPLE	Trust our people (Line Manager Index)	%					75		65		
	Engagement as at P1 survey	%					50		36		

** New measure
*** PO target 43% for level 3A & above. Retail at 38%, PY 31% (one month in arrears)
**** No data due to Credence data issues
***** To stay above/below the previous year

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Appendix 2 – Retail Income by Product

Period 12		FULL YEAR		
Income (£m)	Act	Var Fcst	Var Bud	YoY%
IRRELEVANT				
Total Mails	IRRELEVANT			
IRRELEVANT				
Total Retail	IRRELEVANT			
IRRELEVANT				
Total Lottery				
IRRELEVANT				
IRRELEVANT	IRRELEVANT			
Total Banking	IRRELEVANT			
IRRELEVANT				
Total Payments				
Gross Income				

Appendix 3 – Customer KPIs

KPIs	SOURCE	CURRENT PERIOD (P12)	LAST PERIOD (P11)		Full Year	Prior Year	Target
Customer Driver	VOC	90.2%	90.5%	-0.3%	88.4%	n/a	N/A
Effort (% saying Post Office is Easy to do business with)	VOC	89.5%	87.4%	+2.1%	84.8%	80.3%	82%
Wait time Acceptability	VOC	96.6%	96.7%	-0.1%	96.1%	94.0%	N/A

8.1

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Appendix 4 – NNL Performance (Board action)

1. Our aim is for all New Network Locations (NNL) to achieve at least 150 customer sessions each week, the amount required to enable 'break even' for Post Office. 92% are already achieving this threshold after 6 months trading, with the average weekly customer sessions across all the new branches sitting at over 300. Our top 3 branches are achieving over 1,500 customer sessions per week, 2 in London (New Oxford Street & Poland St) and 1 in Oldham (London Rd).
2. Steps are being taken to improve performance at branches serving under 150 customer sessions per week, with every NNL now receiving dedicated in branch support during the first 6 months before then being handed over to an Area Manager who will continue to monitor overall performance and work with the postmaster to resolve any issues.
3. We work closely with the NFSP to monitor the impact of new branches on the existing network and hold monthly review meetings with them. Existing branches tend to see an average of 2% - 3% reduction in customer sessions as a result of a new branch opening nearby. Of the circa. 460 NNLs already implemented over the past two years, POL has identified 3 branches that may have been affected by > 10% and in these cases, we work with the Postmasters to understand how we can better support them and their overall business.

FST&I Board Report - March 2019

Author: Owen Woodley Meeting Date: 28th May 2019

Executive Summary

Context

This report provides an update to the Board on the current performance of the products across FS&T together with a full year outlook and an update on strategic initiatives.

Questions this paper addresses

1. How are our products and marketing performing?

Conclusion

IRRELEVANT

8.2

Looking forward into the new financial year we are expecting the new IRRELEVANT to take effect from June and we are reviewing our strategy on IRRELEVANT (to be presented in July) and POI strategy refresh to be presented in June.

Input Sought

The Board is requested to review and note the report.

The Report

How is our Balance Sheet product set performing?

1. The Market

Competitive pressures in retail banking remain. The continuing low rate environment (notwithstanding the further base rate increase last summer), ring-fencing and the BoE funding schemes have put major pressure on mortgage margins and savings rates.

2. Product P&L P12 FY

	Gross Income (£m)					
	Period 12			Full Year		
	Act	6+6F	Var.	Act	6+6F	Var.
Mortgages	0.3	0.2	0.1	2.6	2.0	0.6
Cards & Lending	0.2	0.1	0.1	2.3	1.8	0.5
Savings	3.7	3.7	(0.0)	40.6	40.6	0.0
Balance Sheet Products	4.2	4.0	0.2	45.5	44.4	1.1

	Profit Contribution (£m)					
	Period 12			Full Year		
	Act	6+6F	Var.	Act	6+6F	Var.
Mortgages	0.2	0.1	0.1	1.9	1.3	0.7
Cards & Lending	0.2	0.0	0.2	1.3	0.6	0.7
Savings	3.5	3.2	0.3	35.9	35.2	0.6
Balance Sheet Products	3.9	3.3	0.6	39.1	37.1	2.0

3. Review of Performance

Savings income is underpinned by the short-term Value Share agreement signed with IRRELEVANT covering 2018/19, which locks in minimum income of £40.55m. Lending outperformed expectations, despite Mortgage volumes being made difficult by the Bank's pricing position. The expansion of the Post Office brand in the Broker channel has compensated for some of this weakness. Personal Loans volumes continued to show strong growth.

4. Customers

There are four key customer projects underway in Post Office Money:

- Customer Advocacy Programme which aims to enhance end-to-end customer journey experiences – NPS continues positive upwards trend
- External Benchmarking Survey to highlight areas for improvement vs peer group – results due later this year
- Customer Research Panel to support new product markets & innovation
- Post Office Money 'North Star' Metric to identify a customer centric indicator of performance that fits across both 'Customer' and 'Commercial' metrics.

8.2

How is our Transactional product set performing?

1. The Market

Mintel expects growth in the Travel Money market to be slow over the next five years, at around 2% annually, with the market reaching £50.4 billion by 2023. The forecast period will be heavily defined by the outcome of Brexit. However, whatever the terms of the withdrawal from the EU, the travel money sector will tend to stabilise after the initial shock as markets, consumers, and businesses adapt to the 'new normal'.

Any further devaluation of the Pound is likely to impact the way British holidaymakers go about paying for and spending during their visits abroad. It will also influence the type of trips and destinations they choose as people try to make the most out of their money.

2. Product P&L P12 FY

	Gross Income (£m)					
	Period 12			Full Year		
	Act	6+6F	Var.	Act	6+6F	Var.
Travel Money (inc App)	2.1	2.2	(0.0)	28.3	28.2	0.0
Moneygram	2.5	2.6	(0.1)	26.3	27.0	(0.7)
Postal Orders	1.3	1.3	0.0	13.1	14.0	(0.9)
Transactional Products	5.9	6.1	(0.1)	67.7	69.3	(1.6)

8.2

	Profit Contribution (£m)					
	Period 12			Full Year		
	Act	6+6F	Var.	Act	6+6F	Var.
Travel Money (inc App)	2.2	2.8	(0.6)	36.0	36.6	(0.6)
Moneygram	1.5	1.4	0.2	14.6	14.7	(0.1)
Postal Orders	0.9	1.0	(0.1)	9.8	10.9	(1.1)
Transactional Products	4.7	5.2	(0.5)	60.5	62.2	(1.7)

3. Review of Performance

Travel Money gross income performed largely in line with the 6+6 forecast in P12 and performed slightly better in the full year. MoneyGram revenue came in behind forecast due to transaction volumes being lower than forecast; revenue per transaction caught up with forecast after falling behind during the year. Postal Orders are a profitable product with a low level of costs however volumes are not currently performing in line with forecast.

4. Customers

IRRELEVANT We ran IRRELEVANT IRRELEVANT IRRELEVANT The activity IRRELEVANT generating an estimated IRRELEVANT IRRELEVANT IRRELEVANT we are in the process of IRRELEVANT and then will look at IRRELEVANT

IRRELEVANT

How is our Telecoms business performing?

1. The Market

The industry continues to focus on Fibre with BT Openreach (the main network provider) now actively incentivising further uptake on this product, enabling a long term strategy to retire the Broadband (ADSL) network.

Our core product ADSL accounts for only 30% of the total market of new Broadband subscriptions sold, and in the next financial year the Post Office will move into a period of accelerated Fibre growth with improved commercials and increased marketing.

Growth Fund investment has delivered 7.9k customer adds, which is 3.2k better than our budgeted position. Our churn position was more challenging due to end of financial year promotions from Talk Talk, BT, Plus Net, EE & Virgin Media where Fibre pricing dropped below £20 for the first time.

P12 Churn closed 10.2k vs budget of 7.6k (broadly flat YoY on an underlying basis).

Looking ahead to the new financial year we will be more competitive on Fibre and ADSL, with a plan to accelerate base conversion to Fibre whilst maximising margin.

2. Product P&L P12 YTD

	Gross Income P12			Direct Contribution P12				
£m's	Act	6+6F	Var.	Act	6+6F	Var.	Act Direct Margin	6+6F Direct Margin
Telecoms	14.5	14.9	(0.4)	2.1	3.2	(1.2)	14.2%	21.6%

8.2

3. Review of Performance

The above P&L shows the underlying Telecoms performance, excluding the FIN11 issue. Full year gross revenue is behind forecast, despite customer numbers running favourable to forecast. ARPU was lower than expected, notably driven by increased discounts as a result of tougher trading conditions, and customers making fewer calls. Cost of Sales are £1.2m adverse to full year forecast, with the key drivers being increased wholesale charges as well as increased base size.

4. Customers

The Customer First programme is now live across all lines of Business. This new way of working places the customer at the heart of our conversations and ensures we strike the right balance between commercials and customer experience.

We continue to see record Customer Satisfaction (CSAT) scores at 80% overall and 82% in Customer Services. Our best ever Ofcom scores are projected to continue to be <10 keeping us below market average. The recent Which? Best Broadband provider survey noted that we were the most improved provider year on year.

How is our Insurance business performing?

1. The Market

The Travel Insurance market is expected to shrink over the next 5 years due to the continuation of intensified price competition from a crowded market (market share is 7.6%). There is continued market uncertainty in relation to Brexit, with the outcome likely to impact on how EHIC operates and travel demand. POI are well placed to grow market share of Impaired and enhance margins across the portfolio. The Home Insurance market is expected to fall by 2% p.a. over the next three years driven by changes in home ownership – POI's new model will enable us to grow market share. Our Disruption proposition provides access to the growing rental market. The Car Insurance market is expected to grow by 1% p.a. to 2020; our current market share is 0.4% and we intend to invest in growth this year to capitalise on our new arrangement with BGL. The Protection market is stable and little growth is expected over the next year. Acceleration of channel defection towards direct is expected to continue and POI's plans will capitalise on this growth in direct to consumer Life Insurance. The FCA is investigating the industry's approach to pricing however POI is well placed versus competitors to react if required. Brexit creates major market uncertainty, both positive and negative, and we estimate an annualised impact of a hard exit as circa £7m reduction in EBITDAS.

2. POI P&L P12 FY

	PO Insurance											
	Period 12					P12 YTD					FY	
£m	Act.	For.	Var.	PY.	Var.	Act.	For.	Var.	PY.	Var.	Bud.	For.
Gross Revenue	**6.4**	**6.1**	**0.3**	**4.3**	**2.1**	**55.6**	**55.8**	**(0.2)**	**47.8**	**7.8**	**57.9**	**55.8**
Cost of Sales	(1.5)	(1.1)	(0.4)	(0.7)	(0.8)	(10.9)	(10.0)	(0.9)	(8.9)	(2.0)	(8.5)	(10.0)
Net Revenue	**4.9**	**5.0**	**(0.1)**	**3.6**	**1.3**	**44.7**	**45.8**	**(1.1)**	**38.9**	**5.8**	**49.4**	**45.8**
Agents' Pay	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Staff Costs	(0.2)	(0.5)	0.3	(0.5)	0.3	(6.0)	(6.4)	0.4	(4.0)	(2.0)	(7.6)	(6.4)
Non-Staff Costs	(1.7)	(1.9)	0.2	(0.9)	(0.8)	(18.8)	(19.9)	1.1	(15.3)	(3.5)	(21.5)	(19.9)
Total Expenditure	(1.9)	(2.4)	0.5	(1.4)	(0.5)	(24.8)	(26.3)	1.5	(19.3)	(5.5)	(29.1)	(26.3)
Direct Contribution	**3.0**	**2.6**	**0.4**	**2.2**	**0.8**	**19.9**	**19.5**	**0.4**	**19.6**	**0.3**	**20.3**	**19.5**
Direct Profit Margin	47%	43%				36%	35%				35%	35%

8.2

3. Financial Performance

During this financial year we have delivered our expected direct contribution of £19.9m which is £0.4m favourable to forecast. Adding back allowable additional investment costs (£0.4m) this achieves our budgeted direct contribution of £20.3m.

Direct contribution in P12 was £3.0m, £0.4m up against forecast and £0.8m up against prior year. Overall, a very strong Q4 was delivered with a number of initiatives performing as expected, for example Travel price optimisation, Protection DRTV and Lead Generation.

Group EBITDAS is broadly in line with prior year on a reported basis and 18% favourable on a normalised basis. Re-engineered products showed strong gross revenue growth (Travel +29%, Protection +45%). Net income growth was offset by continued investment in the capability of the business (Staff) and direct sales (Marketing).

4. Sales Performance

Total sales of £88k in P12 were 31k (53%) higher than prior year and 11k (32%) ahead of plan. Travel and Protection sales grew significantly YoY. Protection sales of 5k were 51% up against plan reflecting the impact of DRTV, Outbound Telemarketing and an increase in Digital Marketing. For the year as a whole total sales volumes of 992k were in line with plan and 138k (16%) up against prior year.

How is our Identity business performing?

1. Review of Performance

Identity has performed strongly against forecast in 2018/19, delivering a Trading Profit upside of £6.2m. The main drivers are Home Office and DVLA product volumes. Identity increased expenditure is related to Agents Pay and Postage which is in line with the higher volumes.

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	YTD	
£m	Act	Var Fcst
Home Office	27.6	3.6
DVLA	9.0	2.6
Identity Services	5.5	0.5
Verify	14.9	0.8
Environment Agency	1.0	0.2
Gross Income	**57.9**	**7.7**
Direct Costs	(6.4)	0.5
Net Income	**51.5**	**8.2**
Expenditure	**(17.3)**	**(2.1)**
Trading Profit	**34.2**	**6.2**

Home Office: Over performance is primarily driven by UK Visa & Immigration's delayed switch (forecasted for P9) to a new supplier, Sopra Steria, for the Biometric Residence Permit service (+£2.3m), and Digital Check and Send Passports (+£0.9m). Since launching Digital Check and Send in P7, POL has increased its market share for this service to 4.5%, with overall POL market share at 29% YTD.

DVLA: Strong performance against forecast is primarily driven by International Driving Permits volume upside (£1.9m) relating to uncertainty of BREXIT, and 10 year licence renewals (£0.3m) due to renewal cycles and ongoing DVLA compliance activity (e.g. customer reminder letters).

8.2

IRRELEVANT trend of IRRELEVANT Post office IRRELEVANT market share of IRRELEVANT service.

IRRELEVANT

Other Identity Products: Over performance against forecast is driven by higher volumes for Security Industry Authority (SIA) licences (£0.3m) and the Post Office Document Certification service (£0.2m).

How is Marketing performing?

Please see Appendix I for an update on performance against original objectives set out in November last year.

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Appendix I – Group Marketing Presentation

8.2

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Board Group Marketing Update

Emma Springham – Chief Marketing Officer, Group Marketing

May 2019

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Recap of November Board

Key marketing issues highlighted eight weeks into the business:

- **Marketing Strategy** - no Group Marketing strategy in place.
- **Data** – no investment in data marketing strategy or data FTE. No cross or upsell marketing strategy. Basics not in place – control cells, propensity and lookalike modelling.
- **Marketing Management Information** – partner structure adds complexity to reporting. No end to end marketing funnel tracking in place for all products and services. Manual processes and limited FTE.
- **Customers & Postmasters** – limited investment in customer insights and profiling our community stories.
- **Slow to respond to market opportunities** - no marketing processes in place to respond quickly to market events.
- **Creative** – no stand out in the market and inconsistencies in branding across products.
- **Brand, Customer Insight and Social Media** - teams aligned outside of the Group Marketing function.
- **Propositions** – no market leading or innovative propositions. Product silo marketing approach.
- **Limited Marketing Channels** – performance based marketing channels (affiliates, aggregators, paid search).

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Starting to lay down the Marketing Strategy

Pillars and Enablers

Customer-first approach	Modernise our brand	Drive our routes to market	Grow and optimise performance marketing
A customer-first approach to drive proposition awareness, consideration, customer retention and cross-sell	*Modernise and protect the Post Office brand*	*Digital, Mobile, Branch, Contact Centre, Customer Service*	*Trade performance across Post Office product portfolio and Speed to Market*
• Build a customer and data driven marketing team • Best in class customer on-boarding and cross-sell processes/customer journeys • Create magical customer moments in the community • Launch differentiated propositions into the market utilising the strength of our partners and breath of our product range	• Consistent and cohesive approach to brand across all customer touchpoints • Focus on Postmasters and employees to create brand advocacy and reappraisal of the Post Office brand • Place Postmasters and Social Purpose at the centre of our brand • Ensure our partner relationships support our brand values of social purpose, modern and innovative	• Expand the marketing team to drive leads from the SME market • Open up new marketing channels, e.g. programmatic marketing • Target younger segments to protect the future of the Post Office • Own the social and inclusion market in the UK	• Drive efficiencies and optimisation in marketing channels • Provide decision making performance data to the Business, Postmasters and Partners • Utilise partner data to drive insights and revenue • Enable timely reactions to market changes and events

Enabler: Data & Insight- driven
Data and Insight as the bedrock to move from tactical executions, to strategy-driven marketing and finally to audience-driven marketing

Enabler: Innovative Propositions & Partnerships
Pipeline of propositions and partners that drives the reappraisal of the Post Office brand

Behaviour

Test & Learn Approach

Empower our People and Postmasters in the Community

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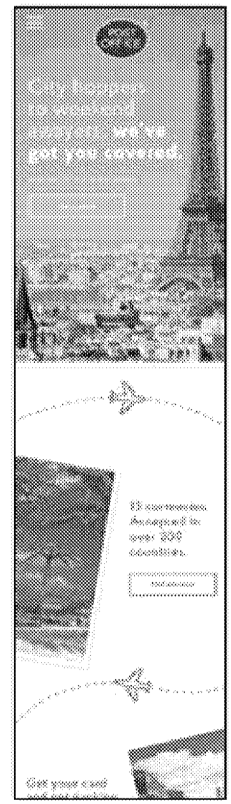
Data – fixing the basics

With a new central CVM team in place (7 FTE), we are now beginning to work our database and direct marketing channels harder and with greater success.



Propensity modelling is delivering better conversion

- The development of the Loans Propensity Model allowed us to go beyond basic segmentation and identify customers who are more likely to buy based on their expected behaviour.
- Results from monthly loans email programme have shown that the top 3 deciles of our new model (the top three 'highest propensity' customers for a loan) accounted for 62% of our total responses - 65 out of 105 Loans acquired.
- **We must replicate this approach across other products and programmes to ensure that we're speaking to the right customers with the right message, in order to maximise the potential cross-sell opportunities within our database.**

New mobile first email template design has seen improved email engagement

- Working with an interim new design for our most recent mortgages email, we've already seen email engagement increase - from 3.47% (and the most clicked link being unsubscribe), to 5.49% (and the most clicked link being 'find out more').

We are beginning to automate recurring campaigns

- Our monthly General Insurance campaigns (email and letters) are now 80% automated.
- **We must replicate this approach across all campaigns in order to shift balance of resource from where it is now - manual delivery of campaigns to future facing initiatives.**

Using data to personalise and target branches with the right messaging

- Branch geographical data being used to align out of home messaging to network retail data.

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Data – fixing the basics

The Post Office marketable database is shrinking due to GDPR impacts and limited data feeds:

Marketing opt-ins from Branch transactions have halved over the last 12 months, vs. the same period the previous year:

- Email opt-ins from Branch transactions decreased from **174k to 93k** in the last 12 months.
- Direct Mail opt-ins from Branch transactions decreased from **261k to 94k** in the last 12 months.

Call-centre data feeds and strategy not built around cross-sell – no information passed back into BRANDs marketing database for existing customers phoning up about other Post Office products.

Little consideration given to marketing data within partner contracts or in customer journeys – Limited management information or data tracking and sharing agreements in place. For example - no data feed agreed as part of Money Gram and Payzone contracts.

Support Required

- Business case - 2 FTE - Data Analyst and CVM Manager to accelerate the implementation of propensity models across all Post Office products. Work with external agencies to develop test and learn marketing plans to drive revenue.
- Business case - 1 FTE to fix the Post Office data architecture – improving our marketing database, improving data flows and data sharing from partners, will give us a consistent data strategy that allows us to harness our data more effectively.
- Central project resource required to develop a Group opt-in strategy across all channels and review e-receipt opportunities – network, mobile, digital, call centres.

Management Information – fixing the basics

We need to work across Business Units and Partners to achieve greater control of the end-to-end customer experience and its performance:

Our customer journeys are complex and we often don't own them end-to-end:

- Internally: Marketing, Digital, Retail and Internal Comms own different touchpoints of the customer journey.
- Partners are often responsible for the online purchase funnels, call centre management, fulfilment of the orders and post-sale servicing - with Post Office only influencing.

End-to-end reporting is impacted:

- We rely on Partners to open up access to their funnels for measurement and pass transactional data back to our database.

Limited reporting automation and measurement of marketing effectiveness

- Manual reporting due to multiple disjointed data sources.
- Limited investment in Performance and Data Teams: 3x Marketing Performance Team and 1x Digital implementation.
- Complex to identify the true value of a sale and the marketing efficiency.

Priorities:

- A central project to map and align existing end-to-end customer journeys: Marketing, Digital and Branch teams with relevant Product teams and Partners.
- Gap analysis of tracking and data sources: joint effort between Marketing and Digital with internal BUs to map gaps in reporting and data feeds.
- Gather all historic branch/call centre/digital and marketing data in one place. Move towards reporting automation – in progress through Marketing Performance team. *Dependency on Post Office centralised data repository project (Project Arrow) – delivery timeline TBC.*

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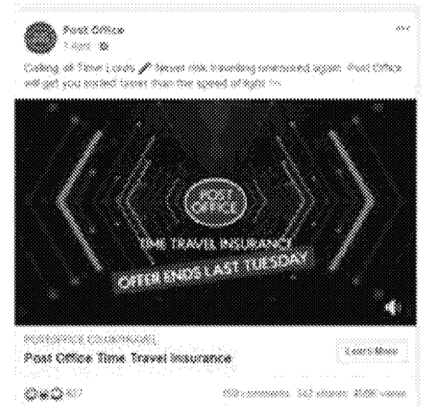
Responding quicker to market events

We have started to move towards event triggered marketing:

Marketing team challenge – To launch an April Fools Day campaign with commercial benefits in four days.

Output – Time Travel Insurance video launched across social media and email channels. Employee competition to encourage content sharing to their networks - https://www.youtube.com/watch?v=bDz5vlsw



Results

Channel	Reach	Video views	Website traffic	Quotes	Travel insurance sales	Travel app downloads	Travel app regs	Linked travel money card
Facebook Twitter Travel app notifications	2.1m	400,000	2,671 homepage 636 insurance	161	52	834	644	213
Email	1.2m	282,000 open rate	3,638 homepage	860	101			

More testing underway

Social media channel (Facebook, Twitter, Instagram, Pinterest)

Product	Live dates	Audience reach	Viewed, liked, shared, comment	Website traffic	Sales to date
Everyday banking	March - April	1.5m	366,881*	9,699 (+1968% previous campaign)	NA Need to overlay Network MI
Travel money Saving Broadband Insurance Combined content campaign	Feb - May	5.2m	500,000	117,000 49 applications	Travel Money Online - 177 Savings - 4 Broadband - 14 Free parent cover - 3 Re-targeting underway

*92,311 people took part in our two Twitter polls which were developed to highlight that the Post Office provides the UK's largest fee free cash withdrawal network and you can access your bank account at any local Post Office.

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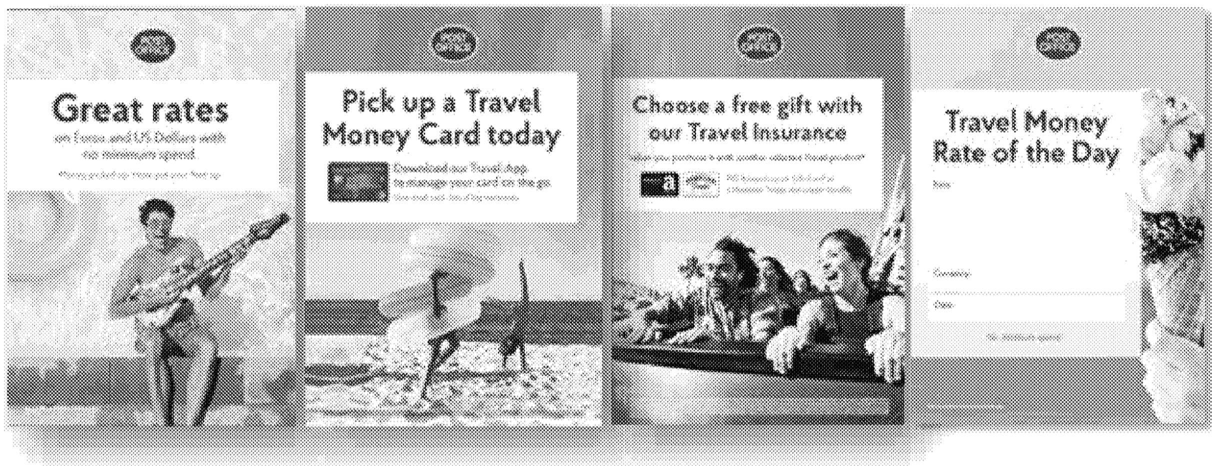
Modernising the Post Office brand



We have started to move perceptions towards modern through our external wrapper:

- Delivering a modern and more consistent approach to creative.
- Launched interim Brand guidelines to drive consistency across our marketing collateral going forward.
- Modernising the way we attract talent through LinkedIn posts showcasing our staff and values.
- Currently no brand team, 1 FTE approved and recruitment underway.

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But we have a legacy of poor brand management

No brand consistency across our literature range…

…or Apps

- Post Office GOV.UK Verify — Post Office Limited — 3.3 ★
- Post Office Travel — Post Office Ltd — 4.3 ★
- Post Office Essentials — Post Office Ltd
- Post Office Current Account — Bank of Ireland
- Post Office Currency… — Finance
- Post Office Branch Fi… — Branch Finder
- Post Office Money Credit Cards — Bank of Ireland UK — 1.8 ★

Key Priorities:

- Fix literature range.
- Standardise App branding.
- Remove legacy branding.
- Launch proposition based leaflet range: **Travel Essentials, Home Essentials, Everyday Essentials, Business Essentials.**

Customer First logo is still used across the business

POST OFFICE customer FIRST

Post Money branding was stopped over 12 months ago but still in existence internally and externally:

POST OFFICE Money

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External assets owned across the business

External facing assets are owned across the business. Digital channels need to be aligned and brand approval's in place to ensure a consistent look and feel.

www.postoffice.co.uk (Digital & Innovation Team)

www.corporate.postoffice.co.uk (PR & Comms team)

www.postofficeshop.co.uk (Retail Sales Team)

www.blog.postofficeshop.co.uk (Retail Sales Team)

Recommendations

- Move FTE & budget into Group Marketing for agency run websites – www.corporate.postoffice.co.uk and www.postofficeshop.co.uk
- £100k budget required to launch a consistent brand across all web assets.

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Social Media can damage our brand

Social media channels have a high impact on brand perceptions but are underinvested with 2 FTE.

Key Priorities:

- Build business case for social media FTE to drive leads into the business, enable prompt social media responses and embed the social media strategy across the Post Office and partners.
- Provide guidance, tools and support to Postmasters to mange their local social media content to protect the Post Office brand.
- Announce our partnerships with more impact to remove confusion for customers. Utilise PR and content to share the Post Office story. Create Post Office spokespeople across the Post Office and partners.

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Our employees have views on our brand

Employees Current Vision

- Recognise the value of the brand and its heritage
- Viewed as part of the community, trusted and reliable
- Old fashioned, queues, outdated
- Miserable customer moments
- Limited innovation in the network, mobile or digital
- Behind competitors
- Limited investment in the brand and customer processes

Employees Future Vision

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Choosing the right partners for our brand

The Post Office is building strong corporate relationships with key High street Retailers, partners and digital brands:

High Street Brand Associations

WHSmith
co op
Robert Dyas

45 Retail Partners

In-branch Brand Associations

MoneyGram
Royal Mail
OneCall
Parcelforce Worldwide
payzone

Digital Brand Associations

Google
ebay
airbnb
CRYSTAL SKI HOLIDAYS

Partner Brand Associations

Bank of Ireland
FIRST RATE
TalkTalk

Customers and employees are confused over what we stand for today, the products and services on offer and the future vision

- **Recommendation** - launch a UK wide door drop campaign to tell customers where there local branches are located, the services on offer and the role of the Post Office in the community. Utilise augmented technology within the door drop to drive customers to mobile and digital channels. **Budget requirement £1.2 million.**
- Utilise internal communications channels, PR and Social Media channels to tell the Post Office story.

We are not utilising partners marketing channels:

- Integrate Post Office content into partners digital screens, email/direct mail, social media channels (align marketing budget to Postmasters).
- Set up a feed to share Postmaster/Community stories. Align marketing to CSR programme and North Star relaunch (PR & Communications).
- Recommendation - test a partner marketing role (1 FTE required) to align marketing plans and data with Retail partners such as WHSmith.

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The future of the Post Office brand

POST OFFICE

BROADBAND OFFICE

TRAVEL OFFICE

COMMUNITY OFFICE

BUSINESS OFFICE

INSURANCE OFFICE

In the Community, for the Community

Customer First	Postmasters & Partners	Community	Innovative	Commercial
Effortless to do business with Creating magical customer moments	Driving footfall and revenue into the High Street Treating Postmasters fairly	Providing the right propositions, at the right time, through the right channel	Using innovation to support Postmasters Employees Customers Partners	Delivering £150m trading profit Driving costs out the business

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Brand priorities

Modernising and protecting the Post Office brand

- Employee Engagement – high impact internal launch of the Post Office brand guidelines, values and rules to stop all future work going off brand. Link into wider initiatives such as Corporate Social Responsibility and North Star Strategy relaunch.

- Utilise Travel summer and Retail Christmas campaigns to create noise in the market internally and externally. With limited budgets we need to be brave to stand out in the market. Link campaigns to exclusive employee offers to create engagement and awareness.

- Recruit brand marketing vacancy and brand agency (current FTE allocation 1 Senior Brand Manager). Business case to increase the brand team from 1 FTE to 2 FTE to protect and evolve the Post Office brand.

- Remove out-of-date legacy branding internally and externally, for example Post Office Money branding.

- Reduce branch literature and move towards proposition-led range (Travel Essentials, Home Essentials, Everyday Essentials). Test augmented technology in leaflets to drive mobile and web sales. Align direct mail and email communications to a Postmaster community level.

- Reach an agreement with Royal Mail to educate the market on how we work together and to address dual branding of in-branch materials to enable consistency in look and feel (in-branch materials currently branded Royal Mail and Parcelforce which clash against Post Office marketing, confusing customers).

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Next steps

Since November the marketing team has been formed into a Group function and has started to move the dial on marketing strategy, data, customer insights, brand consistency and modernising external communications.

- Embed the Post Office brand guidelines and rules to protect our brand, alongside CSR and North Star initiatives. Drive reappraisal of the Post Office brand amongst customers.
- Fix customer journey and data issues to create best in class and personalised experiences. We need to invest in our data capability and address opt-in strategy issues to protect our database.
- Utilise Travel summer and Retail Christmas campaigns to create noise in the market and inside the organisation. With limited budgets we need to be brave to stand out in the market.
- Support from Product areas to launch modern and innovative propositions that create stand out in the market.
- Continue to test market reaction campaigns, e.g. Help for Heroes, Black Friday, Cyber Monday.

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Thank you

IRRELEVANT

IRRELEVANT

Author: Mark Siviter Sponsor: Debbie Smith Date: 28th May 2019

Executive Summary

Context

The IRRELEVANT provisions of the IRRELEVANT will IRRELEVANT Post Office IRRELEVANT IRRELEVANT In support of this IRRELEVANT detailed IRRELEVANT position on IRRELEVANT and plan to share IRRELEVANT IRRELEVANT

Questions addressed in this report

1. What has changed since the last board update?
2. What are the implications?
3. What are we doing next?

9

Conclusion

1. We have received IRRELEVANT proposed commercial structure for IRRELEVANT which we are in the process of analysing. IRRELEVANT requested IRRELEVANT but have indicated that IRRELEVANT IRRELEVANT
2. IRRELEVANT opening position IRRELEVANT IRRELEVANT Post Office aspirations. In particular the proposed IRRELEVANT
3. We will continue with discussions IRRELEVANT IRRELEVANT returning to the board in July with an update on progress, with recommendations for next steps.

Input Sought

Board to note the update

Input Received

1. Group Executive

IRRELEVANT

The Report

1. What has changed since the last board update?

1.1 We received IRRELEVANT commercial structure, and IRRELEVANT IRRELEVANT We are seeking clarification on various elements IRRELEVANT which IRRELEVANT however what is clear at this stage is IRRELEVANT IRRELEVANT

IRRELEVANT

1.4 IRRELEVANT and they have asked IRRELEVANT IRRELEVANT

1.5 The other change since the last board update is that in addition to IRRELEVANT IRRELEVANT they have indicated that they will IRRELEVANT IRRELEVANT

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1.6 However IRRELEVANT IRRELEVANT

1.7 PO's position IRRELEVANT and we are seeking the following IRRELEVANT IRRELEVANT

IRRELEVANT

IRRELEVANT

2. What are the implications?

2.1 In the September 2018 board update we confirmed IRRELEVANT
IRRELEVANT returning to the board for a decision on: IRRELEVANT
IRRELEVANT

IRRELEVANT

IRRELEVANT
IRRELEVANT Our position remains unchanged in
that IRRELEVANT Notwithstanding the fact that we expect a
IRRELEVANT

IRRELEVANT reflects our
aspiration and will provide more clarity IRRELEVANT

2.5 Moving to an IRRELEVANT
IRRELEVANT

IRRELEVANT could present an opportunity for PO to develop
IRRELEVANT but equally presents a potential risk if for example IRRELEVANT
IRRELEVANT

2.7 More importantly, IRRELEVANT
IRRELEVANT

2.8 There are no implications at this time for IRRELEVANT
IRRELEVANT

IRRELEVANT

IRRELEVANT

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IRRELEVANT

3. What are we doing next?

3.1 On completion of our analysis of IRRELEVANT we will respond to IRRELEVANT IRRELEVANT

IRRELEVANT

3.3 In summary, IRRELEVANT IRRELEVANT

3.4 We will return to the board in July with an update on progress, IRRELEVANT IRRELEVANT

3.5 Alternatively, IRRELEVANT IRRELEVANT

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IRRELEVANT

Appendix 1. Risks and Mitigations

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IRRELEVANT We therefore should avoid the risk of IRRELEVANT IRRELEVANT and will update on this risk at the July board.

Other risks and considerations

IRRELEVANT

IRRELEVANT PO will consider whether any changes would be needed IRRELEVANT

IRRELEVANT

Competition; Advice will be tabled before the parties close in on a headline deal, if needed.

IRRELEVANT

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IRRELEVANT it is still unclear what the arrangement would be at the IRRELEVANT The current working assumption is that Post Office IRRELEVANT that Post Office will IRRELEVANT that Post Office IRRELEVANT IRRELEVANT Post Office in future in the provision of IRRELEVANT IRRELEVANT depending on various factors including Post Office Limited profit levels.

Brexit; the possible implications of Brexit for Post Office, IRRELEVANT and the regulatory environment are still unclear. The assumption at this stage is that IRRELEVANT Post Office State Aid, and IRRELEVANT will remain in place in the immediate future. It will be necessary to evaluate the Brexit implications when they become clearer.

IRRELEVANT one of the goals of the IRRELEVANT is to consider the experience IRRELEVANT for example parts of the IRRELEVANT or principles that were found to be IRRELEVANT and to consider amendments to those points for the future in support of the PO strategy in the context of a new agreement.

July Strategy day update

Author: Jonathan Lewis   Sponsor: Al Cameron   Meeting Date: 29 May 2019

Executive Summary

Context

The strategy day provides us with an opportunity, as a Board, to reflect on the longer term direction of the business and make the difficult decisions that will be required to guide the business towards commercial success and freedom from subsidy.

We plan to start the session with a view of the long term financial plan for the Group. This will help us understand how close (or otherwise) we are to long term financial sustainability, and what key levers we have at our disposal to accelerate towards it.

IRRELEVANT

The remaining papers will present difficult choices for us to make – particularly around the extent we want to invest in growth at the expense of short term profitability.

Debbie will bring an interim update on the Agent Remuneration work which was due to report back in October. There may be some decisions we should make now to align better the incentives of POL and its Agents and improve the sustainability of Agents' businesses.

Owen will bring work currently underway that will allow us to debate the future path for IRRELEVANT IRRELEVANT We should discuss whether we should invest to grow this business, or run it for yield.

IRRELEVANT has been very profitable for us, particularly given the limited resources it consumes. IRRELEVANT keeping pace with the market IRRELEVANT IRRELEVANT Owen will bring work to the Board to allow us to discuss whether we should IRRELEVANT IRRELEVANT

We are one of the IRRELEVANT major networks moving cash around the UK. It is widely accepted that cash usage will continue to decline, and the current infrastructure will need to be rationalised. Owen will bring work to set out IRRELEVANT and a recommendation IRRELEVANT IRRELEVANT

IRRELEVANT IRRELEVANT Building that opportunity further, however, will require us to IRRELEVANT

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IRRELEVANT Owen will bring a paper that will allow us to discuss how aggressive we want to be in capturing these opportunities.

As you can see, we have some important decisions to make as a Board that will have defining impacts on the future direction of the group and its finances.

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The Report

Draft timing of Strategy Day

We are proposing the following agenda and will take feedback during the May Board meeting:

Strategy Day - draft Agenda
Date 30th / 31st July

Topic	Time
Tuesday 30th July	
Board meeting	xx-1530
Break	1530-1600
Financial Strategy for POL	1600-1700
Branch technology demonstrations	1700-1800
Break	1800-1900
Drinks/Dinner	1900 onwards
Wednesday 31st July	
Breakfast / coffee	0715-0815
Agent Remuneration - interim update	0815-0945
Break	0945-1000
Addressing the Incumbency Trap in Travel Money	1000-1100
Options for our Telecoms business	1100-1200
Lunch	1200-1245
The opportunity to create a cash utility	1245-1415
Break	1415-1430
Winning in Identity	1430-1600
Departures	1600 onwards

10

Current Progress

Financial Strategy

Work Sponsor	Alisdair Cameron
Project Lead	Jonathan Lewis
External Support	KPMG
Context	The Group secured a three year funding agreement from HMG which lasts until the end of March 2021. Since the funding package was agreed, however, there have been substantial changes in our business and the market in which it operates. We may need to engage with HMG at short notice regarding funding/dividend requirements post March 2021 and it is therefore imperative that we have a view on the longer term financial performance of the Group and the levers with which we can affect it.

Key question(s) to be answered	• What does the plan mean for future funding requirements / dividend capacity? • What other priorities does it suggest for the next 12 months?

Key topics being explored to support board in making a decision	• Financial forecasts by line of business over next 5 years with key assumptions
	• Detail around cost savings opportunity
	• Set of scenarios and choices, and impact on financial forecasts, to include:
	  ○ IRRELEVANT
	  ○ Outcomes on litigation
	  ○ Agents' Pay
	  ○ Other commercial opportunities IRRELEVANT
	IRRELEVANT

Progress to date	KPMG engaged and meeting with FDs w/c 20 May

Agent Remuneration – interim update

Work Sponsor	Debbie Smith / Amanda Jones
Project Lead	Nick Beal
External Support	TBC
Context	Having strong relationships with Agents is key to our long term success as a business. We rely on them to deliver excellent customer service selling our products, and we need existing and new Agents to maintain network reach for us to fulfil our statutory and strategic social purpose. While around 500 Agents have engaged in the GLO process, we also believe that there is growing unrest with many of our partners who have seen significant remuneration decreases predominantly through reductions we have imposed and declining government services. This along with increasing costs from NMW/NLW and rents/rates is making an increasing number of our Post Offices vulnerable. As previously indicated to the Board, we have started a detailed piece of work to develop our Agent remuneration strategy – this work is due to report back in October. However, we may need to act more quickly than this. This session, therefore, will provide an interim update together with some options to accelerate key decisions.
Key question(s) to be answered	• How do we ensure that a Post Office remains viable for Agents at the smaller end of the network? • How do we ensure that Agents see digital sales as an opportunity and not a threat? • How should we share the upside from the Banking Framework? • What should we do to support and incentivise Agents to earn more (rather than be paid more)?
Key topics being explored to support board in making a decision	• Overview of current remuneration agreement, and key sources of friction between Agents and POL • Economics of Agents by segment • Product economics for Agents

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	• Costed options to address the key questions above with recommendation
Progress to date	Work underway

Telecoms

Work Sponsor	Owen Woodley
Project Lead	Meredith Sharples
External Support	IRRELEVANT
Context	The Telecoms business contributes around IRRELEVANT gross revenue and IRRELEVANT to POL's profits. A strategy was agreed at the January board to IRRELEVANT IRRELEVANT IRRELEVANT The process will identify options to IRRELEVANT The strategy will also consider the IRRELEVANT therefore exploring IRRELEVANT t IRRELEVANT
Key question(s) to be answered	• Should we: ○ IRRELEVANT ○ ○
Key topics being explored to support board in making a decision	• Initial outcome of IRRELEVANT • Outcome of IRRELEVANT d IRRELEVANT
Progress to date	• IRRELEVANT •

Travel Money

Work Sponsor	Owen Woodley
Project Lead	Chrysanthy Pispinis
External Support	IRRELEVANT
Context	IRRELEVANT Travel Money business currently generates IRRELEVANT contribution per year and is also important component of remuneration for our agents IRRELEVANT With IRRELEVANT IRRELEVANT Furthermore, we currently IRRELEVANT IRRELEVANT

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Key question(s) to be answered	• Should we: ○ ○ IRRELEVANT ○
Key topics being explored to support board in making a decision	• • • IRRELEVANT • •
Progress to date	IRRELEVANT

Cash Utility

Work Sponsor	Alisdair Cameron / Rob Houghton
Project Lead	Russell Hancock / Gayle Peacock
External Support	IRRELEVANT
Context	Post Office plays a vital role within the UK's cash infrastructure distributing cash to serve communities in over IRRELEVANT via our branch counters and IRRELEVANT free to use ATMs. We are IRRELEVANT IRRELEVANT Note Circulation Scheme, contracting with the Bank of England to ensure bank notes are circulated within the UK. Post Office is the only organisation able to collect coins directly from the Royal Mint. The Supply Chain provides this access IRRELEVANT IRRELEVANT The estimated cost of distributing and managing this cash across all providers is IRRELEVANT Whilst Post Office a IRRELEVANT IRRELEVANT It has been acknowledged that access to cash and being able to make cash payments will and need to continue in the future. Industry participants and IRRELEVANT are considering how the cost of cash can be reduced, including whether the cash processing and distribution network should be consolidated towards a regulated monopoly provider. Running in parallel, IRRELEVANT IRRELEVANT
Key question(s) to be answered	IRRELEVANT
Key topics being explored to support	

10

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board in making a decision	IRRELEVANT
Progress to date	

Identity

Work Sponsor	Owen Woodley
Project Lead	Martin Edwards
External Support	n/a
Context	The Post Office is IRRELEVANT IRRELEVANT To date, IRRELEVANT IRRELEVANT We have IRRELEVANT IRRELEVANT However, IRRELEVANT IRRELEVANT
Key question(s) to be answered	• • • IRRELEVANT
Key topics being explored to support board in making a decision	• • • •
Progress to date	Project team stood up

10

POST OFFICE LIMITED BOARD OF DIRECTORS

NOTING PAPER

July Strategy day update

Author: Jonathan Lewis   Sponsor: Al Cameron   Meeting Date: 29 May 2019

Executive Summary

Context

The strategy day provides us with an opportunity, as a Board, to reflect on the longer term direction of the business and make the difficult decisions that will be required to guide the business towards commercial success and freedom from subsidy.

We plan to start the session with a view of the long term financial plan for the Group. This will help us understand how close (or otherwise) we are to long term financial sustainability, and what key levers we have at our disposal to accelerate towards it.

IRRELEVANT

The remaining papers will present difficult choices for us to make – particularly around the extent we want to invest in our longer term future at the expense of short term profitability.

Debbie will bring an interim update on the Agent Remuneration work which was due to report back in October. There may be some decisions we should make now to align better the incentives of POL and its Agents and improve the sustainability of Agents' businesses.

Owen will bring work currently underway that will allow us to debate the future path for IRRELEVANT IRRELEVANT We should discuss whether we should invest to grow this business, or run it for yield.

IRRELEVANT has been very profitable for us, particularly given the limited resources it consumes. IRRELEVANT keeping pace with the market IRRELEVANT IRRELEVANT Owen will bring work to the Board to allow us to discuss whether we should IRRELEVANT IRRELEVANT

Our Insurance business has grown strongly leveraging our brand and building a loyal customer base. However, despite strong top line growth, profits have not kept pace. The market is becoming more sophisticated on multiple dimensions and we have asked Deloitte to provide an outside-in view on our future options for the business.

We are one of the IRRELEVANT major networks moving cash around the UK. It is widely accepted that cash usage will continue to decline, and the current infrastructure will need to be rationalised. We will bring work to set out IRRELEVANT

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a recommendation IRRELEVANT IRRELEVANT IRRELEVANT IRRELEVANT Building that opportunity further, however, will require us to IRRELEVANT IRRELEVANT. Owen will bring a paper that will allow us to discuss how aggressive we want to be in capturing these opportunities.

As you can see, we have some important decisions to make as a Board that will have defining impacts on the future direction of the group and its finances.

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The Report

Draft timing of Strategy Day

We are proposing the following agenda and will take feedback during the May Board meeting:

Strategy Day - draft Agenda	
Date 30th / 31st July	
Topic	**Time**
Tuesday 30th July	
Board meeting	xx-1530
Break	1530-1600
Financial Strategy for POL	1600-1700
Branch technology demonstrations	1700-1800
Break	1800-1900
Drinks/Dinner	1900 onwards
Wednesday 31st July	
Breakfast / coffee	0700-0800
Agent Remuneration - interim update	0800-0900
Addressing the Incumbency Trap in Travel Money	0900-1000
Break	1000-1015
Options for our Telecoms business	1015-1115
Options for our Insurance business	1115-1245
Lunch	1245-1330
The opportunity to create a cash utility	1330-1430
Winning in Identity	1430-1530
Summary of key decisions made and next steps	1530-1600
Departures	1600 onwards

10

Current Progress

Financial Strategy

Work Sponsor	Alisdair Cameron
Project Lead	Jonathan Lewis
External Support	KPMG
Context	The Group has changed substantially over recent years with the modernisation of the network and the return to profitability. While the Banking Framework provides further upside, this won't last forever and we face challenging dynamics in other areas of our business – we therefore need to have a longer term view of our financial position in order to make some difficult choices regarding the future of our business. Furthermore, we may need to engage with HMG at short notice regarding funding/dividend requirements post March 2021 and it is therefore imperative that we have a view on the longer term financial performance of the Group and the levers with which we can affect it.
Key question(s) to be answered	• What does the plan mean for future funding requirements / dividend capacity, and how is it affected by the choices we make? • What other priorities does it suggest for the next 12 months?

Key topics being explored to support board in making a decision	• Financial forecasts by line of business over next 5 years with key assumptions
	• Detail around cost savings opportunity
	• Set of scenarios and choices, and impact on financial forecasts, to include:
	  ○ IRRELEVANT
	  ○ Outcomes on litigation
	  ○ Agents' Pay
	  ○ Other commercial opportunities IRRELEVANT
	IRRELEVANT

Progress to date	KPMG engaged and meeting with FDs w/c 20 May

Agent Remuneration – interim update

Work Sponsor	Debbie Smith / Amanda Jones
Project Lead	Nick Beal
External Support	TBC - will be required for benchmarking and facilitation of data/information gathering
Context	Having strong relationships with our franchise partners is key to our long term success as a business. We rely on them to deliver excellent customer service selling our products, and we need existing and new partners to maintain network reach for us to fulfil our statutory and strategic social purpose. While around 500 Agents have engaged in the GLO process, we also believe that there is growing unrest with many of our partners who have seen significant remuneration decreases predominantly through reductions we have imposed and declining government services. This along with increasing costs from NMW/NLW and rents/rates is making an increasing number of our Post Offices vulnerable. As previously indicated to the Board, we have started a detailed piece of work to develop our Agent remuneration strategy – this work is due to report back in October. However, we may need to act more quickly than this. This session, therefore, will provide an interim update together with some options to accelerate key decisions.
Key question(s) to be answered	• How do we ensure that a Post Office remains viable for Postmasters at the smaller end of the network (including Hard to Place branches)? • How do we ensure that Postmasters see digital sales as an opportunity and not a threat? • How should we share the upside from the Banking Framework? • What should we do to support and incentivise Agents to earn more (rather than be paid more)? • Should/how should we segment the network to ensure geographical and other demographic considerations are taken account of?
Key topics being explored to support board in making a decision	• Overview of current remuneration agreement, and key sources of friction between Postmasters and POL • Economics of remuneration by segment – including analysis for multiple operators

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	• Product economics for Agents • Establishing the minimum level of profitability considered reasonable for the post office operation from a Postmasters perspective • Costed options to address the key questions above with recommendations
Progress to date	• RLT have approved scope (GE to discuss 3/6) • Interim changes agreed for Banking and Mails to support addressing immediate challenge

Travel Money

Work Sponsor	Owen Woodley
Project Lead	Chrysanthy Pispinis
External Support	IRRELEVANT
Context	IRRELEVANT / Travel Money business currently generates IRRELEVANT contribution per year and is also important component of remuneration for our agents IRRELEVANT With IRRELEVANT IRRELEVANT Furthermore, we currently IRRELEVANT IRRELEVANT
Key question(s) to be answered	• Should we: IRRELEVANT
Key topics being explored to support board in making a decision	IRRELEVANT
Progress to date	IRRELEVANT

Telecoms

Work Sponsor	Owen Woodley
Project Lead	Meredith Sharples
External Support	IRRELEVANT
Context	The Telecoms business contributes around IRRELEVANT of gross revenue and IRRELEVANT to POL's profits. A strategy was agreed at the January board IRRELEVANT IRRELEVANT IRRELEVANT The process will identify options to IRRELEVANT

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	The strategy will also consider the IRRELEVANT therefore exploring IRRELEVANT IRRELEVANT
Key question(s) to be answered	• Should we: IRRELEVANT
Key topics being explored to support board in making a decision	• Initial outcome o IRRELEVANT • Outcome of IRRELEVANT IRRELEVANT
Progress to date	• IRRELEVANT

Insurance

Work Sponsor	Owen Woodley
Project Lead	Rob Clarkson
External Support	Deloitte
Context	IRRELEVANT While we are a small player within the overall insurance market, our proposition is valued by customers and our brand gives us strong competitive advantage. Through this, POI has been able to grow its top line rapidly in recent years – profit, however, has not kept pace. The market is becoming ever more sophisticated in terms of pricing, marketing and customer acquisition and we can not rely on our brand and loyal customer base to keep us relevant. We have therefore asked Deloitte to provide an external view on our Insurance business so that we can either move forward with confidence that we are on the right path or pursue other options for the business.
Key question(s) to be answered	• Should we consider a disposal of our Insurance business? • If we retain the business, do we have the optimal strategy? • What options are there for us to accelerate growth?
Key topics being explored to support board in making a decision	• Outside-in review of POI's performance and market position • Options for divestment of the business • Assessment of POI's strategy and plans, and ability to execute • Options for further investment
Progress to date	• Deloitte work presented to POI Board w/c 20 May and POL Board w/c 27 May • Work ongoing to refine conclusions for POL Strategy day in July

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Cash Utility

Work Sponsor	Alisdair Cameron / Rob Houghton
Project Lead	Russell Hancock / Gayle Peacock
External Support	IRRELEVANT
Context	Post Office plays a vital role within the UK's cash infrastructure distributing cash to serve communities in over IRRELEVANT our branch counters and IRRELEVANT free to use ATMs. We are IRRELEVANT IRRELEVANT Note Circulation Scheme, contracting with the Bank of England to ensure bank notes are circulated within the UK. Post Office is the only organisation able to collect coins directly from the Royal Mint. The Supply Chain provides this access IRRELEVANT IRRELEVANT The estimated cost of distributing and managing this cash across all providers is IRRELEVANT. Whilst Post Office IRRELEVANT IRRELEVANT It has been acknowledged that access to cash and being able to make cash payments will and need to continue in the future. Industry participants and IRRELEVANT are considering how the cost of cash can be reduced, including whether the cash processing and distribution network should be consolidated towards a regulated monopoly provider. Running in parallel, IRRELEVANT
Key question(s) to be answered	IRRELEVANT
Key topics being explored to support board in making a decision	
Progress to date	

Identity

Work Sponsor	Owen Woodley
Project Lead	Martin Edwards
External Support	n/a

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Context	The Post Office is IRRELEVANT IRRELEVANT To date, IRRELEVANT IRRELEVANT We have IRRELEVANT IRRELEVANT Howeve IRRELEVANT IRRELEVANT
Key question(s) to be answered	IRRELEVANT
Key topics being explored to support board in making a decision	
Progress to date	Project team stood up

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IRRELEVANT

POST OFFICE LTD
BOARD

IRRELEVANT

Authors: Chrysanthy Pispinis & Colin Stuart Sponsor: Owen Woodley Meeting date: 28th May 2019

Executive Summary

Context

- Our negotiations with IRRELEVANT IRRELEVANT a new proposal IRRELEVANT
- We signed IRRELEVANT and are progressing towards IRRELEVANT IRRELEVANT IRRELEVANT the update to the Board in March 2019.
- The negotiations to IRRELEVANT have progressed on a parallel track:
  - IRRELEVANT
  - Management's recommendation, supported by GE and Board, IRRELEVANT IRRELEVANT
  - At its January meeting, the Board delegated authority for the approval of IRRELEVANT
  - IRRELEVANT

Questions addressed in this report

- What is the latest position in IRRELEVANT next steps and timelines?
- What are the final parameters IRRELEVANT
- How will the IRRELEVANT be managed IRRELEVANT IRRELEVANT risk for Post Office.

Conclusion

- IRRELEVANT good progress has been made on IRRELEVANT
- IRRELEVANT

11

Input Sought

The Board is asked to note the updates on the IRRELEVANT negotiations and IRRELEVANT and provide its steers and challenges. The Board is asked to: 1. Approve IRRELEVANT IRRELEVANT 2. Provide its delegated authority to the Board sub-committee for the approval IRRELEVANT IRRELEVANT

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Digital Progress update

Authors: Henk Van Hulle, Jeff Smyth, Priyanka Dewan Sponsor: Owen Woodley Meeting date: 28th May 2019

Context

This paper provides an update on the consumer digital activity in Post Office and covers the following items:

IRRELEVANT

- Our progress so far IRRELEVANT
- Forthcoming developments and wider strategic considerations

Key questions addressed in this report

1. What is our digital ambition?
2. What are we currently doing to IRRELEVANT IRRELEVANT
3. What are the next steps in terms of developing our digital strategy?

Conclusions

1. Our ambition IRRELEVANT

   IRRELEVANT

   i.
   ii.
   iii.
   iv. IRRELEVANT
   v.
   vi.

2. We are currently engaged in a number of activities IRRELEVANT IRRELEVANT IRRELEVANT We are also engaged in IRRELEVANT IRRELEVANT Further short term plans include IRRELEVANT IRRELEVANT

   i. IRRELEVANT

   IRRELEVANT The creation of our IRRELEVANT

12

IRRELEVANT

IRRELEVANT However, we are seeing IRRELEVANT IRRELEVANT The addition of IRRELEVANT IRRELEVANT will now be assessed under their own standalone business cases.

ii. IRRELEVANT we have employed measures to IRRELEVANT IRRELEVANT IRRELEVANT what can be achieved IRRELEVANT we are extrapolating this approach more widely across the organisation IRRELEVANT IRRELEVANT IRRELEVANT t also highlights the importance of IRRELEVANT IRRELEVANT

3. To plan for the future, IRRELEVANT and themes are emerging about IRRELEVANT IRRELEVANT Example initiatives include the digitisation of particular processes with Postmasters (through the Branch Hub initiative), IRRELEVANT IRRELEVANT

Input sought

The Board is asked to note this paper and the progress we are making IRRELEVANT

12

The Report

1. What is our digital ambition?

Our ambition is clear and unambiguous - IRRELEVANT

IRRELEVANT

i.

ii.

iii.

iv.

v.

vi.

IRRELEVANT

The journey to deliver this ambition will iterate and evolve, but it has commenced with a number of examples below...

a) IRRELEVANT

b) IRRELEVANT

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c) IRRELEVANT

d) Agent Effectiveness Enablement & Operations Transformation - Branch Hub forms a critical strand of how we will digitally power our agents and make day to day branch support transactions easier to execute. These include easy access to operational/management information, problem resolution requesting for branch kit and execution of resource intensive (call centre facing) business activities like cash/coin ordering. Branch Hub acts as an enablement portal for all operational transformation activities, either stimulated by internal process digitisation objectives (like delivering an improved agent on-boarding experience) or to focus on how we improve in-branch process efficiency and operational controls.

e) IRRELEVANT

2. What are we currently doing to IRRELEVANT IRRELEVANT IRRELEVANT

So far we have implemented a number of measures to deliver IRRELEVANT

- Enhancement of IRRELEVANT IRRELEVANT
- Launch of IRRELEVANT

Enhancements of IRRELEVANT

a) IRRELEVANT the team have made significant progress in IRRELEVANT IRRELEVANT

b) IRRELEVANT we identified and shared a programme of IRRELEVANT IRRELEVANT

12

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IRRELEVANT

c) IRRELEVANT, there are a number of other successes that have been delivered IRRELEVANT The graphic below shows the
IRRELEVANT

IRRELEVANT

d) Once implemented, IRRELEVANT
IRRELEVANT

IRRELEVANT

Customer Hub

Following IRRELEVANT the customer hub has acquired IRRELEVANT
IRRELEVANT

a) On latest forecast (details in Appendix A), IRRELEVANT
IRRELEVANT

IRRELEVANT

b) IRRELEVANT

12

IRRELEVANT business cases.

c) IRRELEVANT

d) New verticals will IRRELEVANT
IRRELEVANT

e) Customer Hub IRRELEVANT
IRRELEVANT

3. What are the next steps in terms of digital strategy?

a) IRRELEVANT
digital Post Office of the future and IRRELEVANT
Post Office. IRRELEVANT
IRRELEVANT

b) IRRELEVANT initiated a project to IRRELEVANT can bring to Post Office. We are IRRELEVANT d challenges, opportunities and views on potential digital initiatives that could have a IRRELEVANT
IRRELEVANT
Business cases IRRELEVANT will be prepared during the second quarter.

c) IRRELEVANT exercise is in flight and themes are emerging about IRRELEVANT
IRRELEVANT
Example initiatives include the digitisation of processes in particular with postmasters and colleagues e.g. Cash in Transit and Branch Hub, IRRELEVANT
IRRELEVANT

d) In parallel with IRRELEVANT we have commenced build out of IRRELEVANT
IRRELEVANT

12

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Appendices

Appendix A: Customer Hub (Mobile Distribution Channel) Financials

A1. Original Business Case

10/2017 BC (Baseline)								
Benefits (£m)	**Sunk costs (in Year)**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**
Benefits	IRRELEVANT							
Direct Product Cost								
Total Benefits								
Total POL Cash flow								
Customer Hub Investment (£m)								
Capex								
Exceptional								
Opex								
Client Funded								
Unforeseen Costs								
Total (Annual)								
Total (Cumulative)								

5y Total NPV IRRELEVANT

A2. IRRELEVANT Change Reques IRRELEVANT

2018 CR (Drawdown)								
Benefits (£m)	**Sunk costs (in Year)**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**
Benefits	IRRELEVANT							
Direct Product Cost								
Total Benefits								
Total POL Cashflow								
Hub Investment (£m)								
Capex								
Exceptional								
Opex								
Client Funded								
Unforeseen Costs								
Total (Annual)								
Total (Cumulative)								

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A3. Revised Forecast

Benefits (£m)	Prior Years	2018/19F	2019/20	2020/21	2021/22	2022/23	Total
Benefits							
TMC							
TI							
Dividend TMC							
Dividend TMO							
Direct Product Costs							
Agents Pay							
Other							
Cost Savings							
Recurring Costs							
Total Benefits							
Total POL Cash flow							

IRRELEVANT

Investment (£m)	Prior Years	2018/19	2019/20	2020/21	2021/22	2022/23	Total
CAPEX							
Horizontal							
CAPEX Sub-Total							
Opex Non-Staff							
Opex Staff							
Total (Annual)							
Total (Cumulative)							

IRRELEVANT

5y Total revised NPV: IRRELEVANT

e) Total investment IRRELEVANT due to:
   a.
   b.
   c.
   d.
   e.

IRRELEVANT

f) Total benefit IRRELEVANT
   a.
   b.
   c.
   d.
   e.
   f.
   g.

IRRELEVANT

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h. IRRELEVANT

g) Dependencies for current forecast include:
a.
b.
c.
d.
e.
f.

IRRELEVANT

h) The Digital teams IRRELEVANT

IRRELEVANT

i) IRRELEVANT rance proposition the application of Customer Hub approaches to Branch Hub IRRELEVANT

IRRELEVANT

j) IRRELEVANT

Appendix B: IRRELEVANT

k) The investment IRRELEVANT

IRRELEVANT

IRRELEVANT The diagram below depicts the IRRELEVANT

IRRELEVANT

l) Search engine optimisation (SEO) is an internet marketing strategy that spans research, analysis and refinement of webpages (such as optimising technical performance, publishing relevant and engaging content, and accumulating reputable links to the site) to achieve the best ranking possible in search engine result pages for our chosen search terms.

m) IRRELEVANT

n) IRRELEVANT
IRRELEVANT Conversion Rate Optimisation (CRO) uses many tools to achieve this – IRRELEVANT
IRRELEVANT

o) IRRELEVANT team have made great progress in the IRRELEVANT to increase IRRELEVANT Analysis showed that for IRRELEVANT

p) Technical improvements were made to IRRELEVANT
IRRELEVANT

q) The table below shows IRRELEVANT

IRRELEVANT

r) A direct consequence of IRRELEVANT
IRRELEVANT

s) IRRELEVANT approach to driving online traffic IRRELEVANT IRRELEVANT As the table shows below IRRELEVANT

IRRELEVANT

IRRELEVANT

t) SEO techniques IRRELEVANT e now have 11,400 branch location pages visible to search engines and ranking in the top 3 search positions for location-based searches. IRRELEVANT IRRELEVANT

u) Further SEO efforts IRRELEVANT

IRRELEVANT

v) IRRELEVANT Conversion Rate Optimisation (CRO) strategies IRRELEVANT

IRRELEVANT

w) This exemplar shows how critical it is for POL to have control of the user experience IRRELEVANT

IRRELEVANT

12

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IRRELEVANT

IRRELEVANT

Author: Nick McCowan   Sponsor: Rob Clarkson   Meeting date: 28th May 2019

Executive Summary

Context

1. The Post Office Insurance ("POI") Board had reviewed the business case and released the funding for the development of IRRELEVANT as it fell within its delegated authority in 2018. The project was incepted IRRELEVANT IRRELEVANT
2. As part of the review of p IRRELEVANT IRRELEVANT options were considered but GE ratified a preference to IRRELEVANT
3. As a result of IRRELEVANT IRRELEVANT
4. The total costs IRRELEVANT IRRELEVANT Total amount spent so far is IRRELEVANT
5. The Board will is requested to ratify the decision of the POI Board, IC and GE to IRRELEVANT
6. This programme supports IRRELEVANT IRRELEVANT
7. It forms one part IRRELEVANT IRRELEVANT
8. Building the capability IRRELEVANT IRRELEVANT
9. The delivery of IRRELEVANT is dependent on IRRELEVANT IRRELEVANT This capability is IRRELEVANT IRRELEVANT IRRELEVANT this is detailed in a separate business case being submitted concurrently. The consolidated business case results are included for completeness.

13.1

Questions addressed in this report

1. What do we propose to do and why?
2. What is the supporting business case?
3. What do we need to do next to progress?

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IRRELEVANT

Conclusion

1. Build IRRELEVANT
   IRRELEVANT
2. Delivery IRRELEVANT
3. Secure Board approval for IRRELEVANT

Input Sought

The Board is asked to approve the

IRRELEVANT

Input Received

Business case approval IRRELEVANT

IRRELEVANT

The Report

What do we propose to do and why?

The Proposal

1. IRRELEVANT
2. These solutions will include IRRELEVANT
   IRRELEVANT
3. We plan to IRRELEVANT
   IRRELEVANT
4. We will IRRELEVANT
5. We will IRRELEVANT
6. IRRELEVANT
   IRRELEVANT Benefits from these are subject to a separate business case.

13.1

IRRELEVANT

The Business Case

IRRELEVANT

7. Table 1 highlights IRRELEVANT IRRELEVANT the current model and our revised forecast IRRELEVANT IRRELEVANT

8. IRRELEVANT

9. Due to the strategic nature IRRELEVANT economics have been measured IRRELEVANT IRRELEVANT The business case IRRELEVANT

10. IRRELEVANT

11. Following comparison analysis IRRELEVANT IRRELEVANT the business case demonstrates IRRELEVANT IRRELEVANT

12. IRRELEVANT

13.1

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IRRELEVANT

13. IRRELEVANT

14. Procurement IRRELEVANT
IRRELEVANT

15. Planning for IRRELEVANT detailed requirements are being worked through.

IRRELEVANT

16. Following approval of IRRELEVANT in order to support implementation IRRELEVANT

IRRELEVANT

IRRELEVANT The combined business case is illustrated below.

Table 3

IRRELEVANT

13.1

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DMB Business Case

Author: Kathleen Griffin   Sponsor: Debbie Smith   Meeting date: 28 May 2019

Executive Summary

Context

In January 2018 the DMB Strategy was signed off by GE and Post Office Board, accelerating our DMB exit plans through further franchising activity. The DMB Programme delivered a further 67 DMB exits in 18/19, over 30 of which were franchises to IRRELEVANT as part of Project Edgware, taking the DMB network down to 188.

For 2019/20, we plan to franchise 34 branches to IRRELEVANT to complete Project Edgware and exit a further 35 DMBs, bringing the total number of DMB exits to 69. Our immediate request is to secure funding of £27.7m, which will deliver in year benefits of £6.4m.

Questions addressed in this report

1. What do we propose to do and why?
2. What do we need to do next to progress?

Conclusion

1. We propose to exit a further 69 DMB exits during 2019/20, predominantly franchising to retail partners, resulting in improved customer convenience with longer opening hours, simplification of our operating models and the creation of a more sustainable network in line with our IRRELEVANT The delivery of 69 DMB exits during 2019/20 will realise £6.4m of in year benefits in return for £27.7m investment.
2. This business case will allow us to continue engagement with interested retailers to build a pipeline of activity for delivery in 2019/20 and beyond, and retain the resources required to deliver this.

13.2

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Input Sought

- Approval from the Post Office Board for final sign off

Input Received

- This revised business case has been reviewed by Finance, IT, DA and CAG and spend has been included in the GE- prioritised change spend for 19/20.
- Finance concurrence provided on 17th April 2019
- CAG approval provided on 23rd April 2019
- IC approval provided on 29th April 2019

The Report

What is the need or opportunity and why now?

Financial imperative: DMBs have high staff costs with inflexible contracts and fixed property costs. They also drive complexity leading to other central overhead costs.

Customer imperative: Agency branches offer our customers extended opening hours at a more affordable, variable cost to Post Office. Retailers give access to Post Office services across their retail opening hours, often 7 days a week.

Strategic alignment: The continuation of our already approved DMB exit strategy will improve customer convenience through the introduction of longer opening hours and new network locations in surrounding areas, it simplifies our operating model and creates a more sustainable network in line with our IRRELEVANT It is also in line with the business' wider Retail Strategy.

Not funding for 2019/20 would leave us unable to complete Project Edgware, would result in the loss of, or delay to Trading Profit benefit and retention of high fixed staff costs as well as property costs.

What do we propose to do and why?

We start 2019/20 with a network of 188 DMBs and our plans for 2019/20 involve the exit of a further 69 DMBs. With 34 Project Edgware branches already scheduled, a further 35 exits are required. The successful conclusion of Project Edgware has allowed us to implement more permanent operator franchise solutions in 18/19 than originally planned, reducing the reliance on the use of alternative approaches such as fixed term contracts with operators. As such, this remains a largely untested approach with plans currently being developed to pilot 5 branches in Q1/early Q2. We will learn from the rollout of these branches and adapt our approaches for future use.

In the context of the above, our approach is to secure as many permanent operator solutions as possible to enable delivery of 69 exits in 2019/20. Based on our current pipeline of activity we believe we will see 28 exits in Q1, 18 in Q2, 14 in Q3 and 9 in Q4.

The delivery of 69 branch exits will leave a network of 119 DMBs. Our previous plan included an assumption that all DMBs would be exited over the next two years however our updated assumption is that we will aim to exit all DMBs over the next three years as follows: 69 exits in 19/20, 60 exits in 20/21 and 59 exits in 21/22.

13.2

We plan to complete a GE 'checkpoint' at the end of Q1 and again at the end of Q2, to review DMB progress generally and discuss future options.

Benefits Classification

Benefits Classification (Delete as appropriate)			
~~**Income Growth** / Decline~~	~~Revenue Protection~~	**Cost Savings** / ~~Increase~~	Cost Avoidance

Benefits Map

Solution	Impact	Benefit (financial and non-financial)	Benefit Owner
Exit a DMB through franchising or area plan solutions	Removal of branch staff costs	£52.6m estimated staff cost savings through exiting all DMBs	Tracy Marshall
Exit a DMB through franchising or area plan solutions	Removal of property overhead costs	£10m estimated property cost savings through exiting all DMBs	Tracy Marshall
Establish new franchise branches or NNLs	Improved customer convenience through longer opening hours	Opening hours increased by at least 4 hours on Saturday afternoons, but often early mornings, evenings and Sundays	Tracy Marshall

Risks & mitigations

Details of the key Risks that may have an adverse impact on benefits realisation (taken from programme/project Risk Log)

Risk ID	Risk Title / Descript-ion	Current I (Impact) L (Likelihood)			Target I (Impact) L (Likelihood)			Mitigation Action	Due Date
		I 1 - 5	L 1- 5	Current Score (I x L)	I 1 - 5	L 1 - 5	Target Score (I x L)		
DMB-02	The risk of adverse local, political and union reaction, including industrial action.	3	4	12	3	3	9	1. Continued engagement with UKGI (UK Government and Investment) to ensure commercial decisions are supported publicly by our Minister. Regular correspondence and meetings are held. 2. Use of the Public Affairs team to engage with MPs and local opinion formers. 3. Communications strategy shared on a regular basis with GE and IRSG for agreement. 4. Effective detailed communication strategy for DMB colleagues.	31/3/21
DMB-01	There is a risk of not finding suitable partners to franchise DMBs or to migrate customers away from DMBs in order to transfer the DMB as a smaller main or	4	3	12	2	3	6	1. Programme team fed the programmes requirements into the field team structure to ensure they manage the programme's needs. Ring-fenced team now in place. 2. Review team resources and recruit where required to provide additional skills and support.	31/3/21

13.2

	close it.							3. Ongoing review of franchise offer to understand potential weaknesses and address where possible.	
DMB-26	The risk of income loss due to franchising. This business case assumes 82.8% of total income will migrate to the new branches, consistent with the observed migration levels in independent franchise cases in the last 2 years.	3	2	6	2	2	4	1. The case allows investment in customer migration support and marketing activity which can be directed to product specific marketing, CRM support or local awareness activity. 2. Income and migration rates monitored and analysed monthly and reported to SteerCo for review and action. 3. To date, migration rates have been higher than expected. For example, Edgware branch migration is 108% above target, delivering an additional 3100k benefits so far.	31/3/21

What options did we consider?

With our strategic intent already agreed, the options we have considered relate to the pace of implementation. Options included the implementation of committed activity only (Project Edgware) through to full scale exit of all DMBs in 2019/20.

What do we need to do next to progress?

DMB Programme is well underway in delivering our proposed approach for 19/20 and beyond with a ring-fenced field team in place, planned completion of Project Edgware, detailed partner engagement ongoing, and new Fixed Term contract solutions already in the pipeline.

What would the impact be of delaying or rejecting the decision to progress?

- Loss of, or delay to Trading Profit benefits and maintenance of associated DMB staff and property costs.
- Inability to franchise branches or create more locations around the DMB – failing to improve customer convenience through longer opening hours and responding to competitive threat from other mails providers.
- With Government funding only available over the next few years, this is our opportunity to exit a large proportion of our remaining DMB estate, in line with the wider Retail Strategy.

13.2

Appendix

1. Funding overview
2. High Level Plan

1. Funding overview

FUNDING OVERVIEW

£m	Existing Approval: Prior Years	Existing Approval: FY18/19	Total Approved	New Request: FY18/19	New Request: FY19/20	New Request: FY20/21	Total New Request	Total Project
Opex	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Exceptional	0.00	27.91	27.91	0.00	19.82	0.00	19.82	47.74
Capex	0.00	0.86	0.86	0.00	7.88	0.00	7.88	8.73
Total Funding	**0.00**	**28.77**	**28.77**	**0.00**	**27.70**	**0.00**	**27.70**	**56.47**

BUSINESS CASE FINANCIALS

£m	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	**0.00**	-0.30	-3.59	-4.27	-4.27	-4.27	-4.27	-20.99
Income Growth		-0.30	-3.59	-4.27	-4.27	-4.27	-4.27	-20.99
Revenue Protection		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cost of Sales		0.46	7.29	8.94	8.94	8.94	8.94	43.49
Total Direct Contribution	**0.00**	**0.16**	**3.70**	**4.66**	**4.66**	**4.66**	**4.66**	**22.51**
Operating Expenses (OpEx)	0.00	0.27	3.14	4.61	4.61	4.61	4.61	21.83
Project Related	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Recurring		0.21	1.53	2.42	2.42	2.42	2.42	11.41
Reduction		0.07	1.61	2.19	2.19	2.19	2.19	10.42
Avoidance		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trading Profit	**0.00**	**0.43**	**6.83**	**9.27**	**9.27**	**9.27**	**9.27**	**44.34**
Trading Profit [%]	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Capital Expenditure (CapEx)	0.00	0.86	7.88	0.00	0.00	0.00	0.00	8.73
Exceptional	0.00	27.91	19.82	0.00	0.00	0.00	0.00	47.74
Net Cash Flow	**0.00**	**29.21**	**34.53**	**9.27**	**9.27**	**9.27**	**9.27**	**100.81**

2. Key Delivery Milestones

Milestone Level	Name/Title	Completion Date
0	Fixed term contract pilot implemented	31/07/2019
0	Implementation of Project Edgware completed	14/07/2019
0	Identification of other permanent solutions completed, including smaller deal constructs	30/06/2019
1	Q1 benefits target achieved	30/06/2019
0	GE checkpoint – Q1	31/06/2019
1	Q2 benefits target achieved	30/09/2019

13.2

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0	GE checkpoint – Q2	30/09/2019
1	Q3 benefits target achieved	31/12/2019
0	Q4 benefits target achieved	31/03/2020

Network Development (year 3)

Author: Peter Johnson Sponsor: Debbie Smith Meeting date: 28 March 2019

Executive Summary

Context

Maintaining network numbers above 11,500 while also changing the shape of the network to increase convenience, particularly in urban areas, is critical to business strategy and a requirement for continued Government funding. Having identified the activity needed to achieve this in 2019/20, we now need to secure funding to commit to contracts and branch openings in 2019/20. The total spend requirement is £7.56m.

Questions addressed in this report

1. What do we propose to do and why?
2. What options did we consider?
3. What do we need to do next to progress?

Conclusion

1. We propose to maintain our Post Office network numbers and change our branch network to better match customer demand by delivering a total of 220 new branches. Network Operations have restructured the field and will focus on supporting existing branches to remain open to reduce churn. We will also transition c30 small Mains to Locals through natural "churn" in the network.
2. The performance provides a positive EBITDAS impact of £4.9m at steady state. It is vital to note that this activity is essential to maintaining our branch numbers at more than 11,500. The total investment is £7.56m for 2019/20.
3. This business case will allow us to continue establishing a pipeline of new branches for delivery in 2019/20 and retain the team we need to deliver it.

13.3

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Input Sought

1. Approval from the Post Office Board for final sign off.

Input Received

2. This business case has been reviewed by Finance, IT and CAG and DA and spend has been included in the GE-prioritised change spend for 19/20.
3. IT concurrence provided on 31st October 2018.
4. DA Concurrence provided 01st Nov 2018
5. Finance concurrence provided on 22nd Nov 2018
6. CAG approval provided on 24th April 2019
7. IC approval provided on 29th April 2019.

The Report

What is the need or opportunity and why now?

We have a customer and competitive imperative to 'be where our customers are'; opening new outlets in both the urban and rural areas. We also have a continuing requirement to maintain our network of SGEI-compliant branches at over 11,500. We have ended the year on 11,638 (18/19), an increase of 91 over the year, due largely to the 328 new branches that this programme has delivered. During 19/20 and in line with previous years we expect 350-400 branches to close; the implementation of 220 new network locations will therefore help to maintain and hopefully grow our network further. Continuing this activity is therefore both an opportunity to continue making our network better matched to customer needs, and is essential to maintaining network numbers.

Not funding for 2019/20 would leave us unable to fulfil our commitment to honour signed contracts with new Agents (140 by year-end March 19 with planned opening dates in early 2019/20). We would also have to make redundant the programme support team (26 people), losing experienced resource, knowing we would almost certainly need to recruit a similar team in the near future to deliver this type of activity.

What do we propose to do and why?

The focus of our work will be identifying and opening 220 SGEI-compliant Post Offices in new network locations. These will all be Locals as this is currently our best model for providing customers with a convenient service which is both sustainable for the agent and for Post Office. In addition to the build activity we will continue to sign up new Post Office operators throughout 19/20 – c160 new contracts – around half of which will be built in the following financial year.

Our key activity is as follows.

- **Re-shaping the Network:** We aim to deliver 220 new Locals, in mainly urban areas. The headroom off-sets most of the expected churn in branches.
- **Small Mains to Locals:** transition ~30 small Mains to Locals (through churn).

13.3

Current build costs are around £18k per branch build and £3k for dilapidations. The majority of these costs are based upon fixed prices within our contracts with third party suppliers including CBRE, and we are actively working with Operations (who own these contracts) to reduce build costs for future activity and underspend against the build cost budget where possible. We believe that costs can be reduced by up to 11% in total, bringing the average build spend down to circa. £16k per branch. Discussions so far have been positive with an agreement already in place with CBRE to reduce costs by 4% overall, a reduction that should start to materialise for builds in Q3 onwards. We aim to achieve further savings through value engineering where possible, transference of some of the non-essential branch works on to the retailer and a review of our governance and escalation processes regarding authorisation of any overspends. Assuming that an average saving of 11% on build costs is applied for implementations from late Summer onwards, there is an opportunity to save circa. £260k, although we would aim to bed in savings earlier where possible – this will be reviewed on a quarterly basis.

Benefits Classification (Delete as appropriate)			
Income Growth / ~~Decline~~	~~Revenue Protection~~	**Cost Savings** / ~~Increase~~	~~Cost Avoidance~~

Benefits Map

Solution	**Impact**	**Benefit (financial and non-financial)**	**Benefit Owner**
Local branch opened in new location	*Branch in a better location providing longer opening hours & greater accessibility for customers.*	*£1.5k pa. additional profit per branch to POL after 6 months of trading. In year benefit £350k.Total recurring benefit of c£1m p.a from 21/22. *Based on an average of 300 customer sessions*	*Tracy Marshall*
Small main converted to the local model	*Savings in remuneration costs @ avge £6.5k per branch(these are all small mains)*	*Total saving of £270k by 20/21 Total saving £1.76m by 20/21*	*Tracy Marshall*
Churn in community & traditional SPSO branches (replaced by NNL'S)	*Savings in fixed pay costs @ avge of £8.5k per branch.*	*Total programme recurring saving small main to local + churn = £4.04m by 20/21*	*Tracy Marshall*

The Network Development programme is approaching its third year of operation and all of the implementation processes are very well established. Opening Post Offices in new locations where there is known demand makes things better for customers by offering greater accessibility to the products and services they require.

Risks & mitigations

Details of the key Risks that may have an adverse impact on benefits realisation (taken from programme/project Risk Log)

Risk ID	**Risk Title / Descript-ion**	**Current I (Impact) L (Likelihood)**			**Target I (Impact) L (Likelihood)**			**Mitigation Action**	**Due Date**
		I 1-5	**L 1-5**	**Current Score (I x L)**	**I 1-5**	**L 1-5**	**Target Score (I x L)**		
Prog 019	As a result of a lower than expected conversion rate in 18/19, there is a risk that we have insufficient opportunities remaining	4	4	16	3	3	9	The Field are testing a self-generating approach to leads and looking at other options to raise interest for 19/20.	Additional 200 new opportunities required

13.3

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	based on existing criteria. This may result in failure to achieve the build target for 19/20 putting network numbers at risk.							NDA have identified up to 400 opportunities (Oct 18) and confirmed that it is possible to identify a further 200 sustainable PO leads from temporary closed branch lists	by April 2019
005	As a result of NNL branches opening there is a risk that existing branches in the vicinity could lose /perceive to lose business.	4	3	12	3	2	6	Proximity impact analysis (reviewed by Steerco) continues to prove that the current approach is minimising cannibalisation. Review Panel established with the NFSP to deal with concerns and deploy support.	Review panel to continue in 2019/20 and resource to run the panel is in this case
010	As a result of an adverse PR campaign there is a risk that it could have a negative impact on the level of PNO interest	4	3	12	3	3	9	Communication plan in place and reviewed monthly at the Delivery leads meeting. - c.20 flag cases raised to-date (relatively low).	Review of comms in March 19

What options did we consider?

A number of alternative scenarios were considered for each of the categories of agency branches, in line with the network strategy approach set out to the Board in October 2016 and re-validated in the Retail Strategy in June 2017. We have also ensured that this approach aligns with the emerging Retail Strategy.

What do we need to do next to progress?

Implement the proposed option:
Network Development Programme is currently implementing the solution; this is a continuation for a further year. The Programme is in its implementation phase and therefore the next appropriate Gate would be Gate 5. The Programme will have the previous gates Mandatory documentation in Project Server, including the Programme plan (level 0 and level 1 reporting milestones) for reference. This approach was agreed with the Change team on the 15th March 2017.

Operate the proposed option:
New Network location branches will be passed to BAU for ongoing operational support and compliance. It is expected that new network locations will generate new customers and this will take around 6 months from go live to establish the customer base. During this period branches will be supported by a team of Business Support Managers to optimise performance. This will also demonstrate the benefit of a Post Office to potential new operators and customers.

13.3

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What would the impact be of delaying or rejecting the decision to progress?

If we did not get approval for the programme we would likely see the following due to our inability to maintain a pipeline of activity:

- Failure to maintain the current network numbers obligation (11,500)
- Failure to compete as effectively in the banking and mails markets
- Failure to meet customer demand and maximise overall network potential
- As a minimum we need the funds to build c.140 branches that we have committed to in 18/19 (signed contracts and engaged new Agents) - £4.32m already approved.
- Resources will need to be re-deployed or released from the business

Appendix

1. Funding Overview
2. High Level Plan

13.3

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1. Funding Overview

FUNDING OVERVIEW

£m	Existing Approval: Prior Years	Existing Approval: FY18/19	Total Approved	New Request: FY18/19	New Request: FY19/20	New Request: FY20/21	Total New Request	Total Project
Opex	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Exceptional	-7.412	-12.090	-19.502	0.000	-4.333	0.000	-4.333	-23.835
Capex	-2.159	-5.454	-7.613	0.000	-3.222	0.000	-3.222	-10.835
Total Funding	**-9.571**	**-17.544**	**-27.115**	**0.000**	**-7.555**	**0.000**	**-7.555**	**-34.670**

BUSINESS CASE FINANCIALS

£m	Sunk Cost	FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	TOTAL
Gross Income	**0.000**	**0.191**	**0.614**	**0.940**	**0.990**	**0.990**	**0.990**	**4.715**
Total Direct Contribution	**0.000**	**0.191**	**0.614**	**0.940**	**0.990**	**0.990**	**0.990**	**4.715**
Operating Expenses (OpEx)	0.000	2.190	2.970	4.004	4.004	4.004	4.004	21.176
Trading Profit	**0.000**	**2.381**	**3.584**	**4.944**	**4.994**	**4.994**	**4.994**	**25.891**
Trading Profit [%]	*0.000*	*0.012*	*0.006*	*0.005*	*0.005*	*0.005*	*0.005*	*0.005*
Capital Expenditure (CapEx)	-2.159	-5.454	-3.222	0.000	0.000	0.000	0.000	-10.835
Exceptional	-7.412	-12.090	-4.333	0.000	0.000	0.000	0.000	-23.835
Net Cash Flow	**-9.571**	**-15.163**	**-3.971**	**4.944**	**4.994**	**4.994**	**4.994**	**-8.778**

	With Intangible benefits	With tangible benefits
Discount Rate [%]	12.0%	12.0%
NPV / Net Present Value (5 years)	8.5	8.5
IRR / Internal Rate of Return [%]	-9%	-9%
PBP / Payback Period [years]	N/A	N/A

13.3

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2. High Level Milestone Plan

Milestone Level	Name/Title	Completion Date
1	Re-baseline churn assumptions	01/10/18 - Completed
1	19/20 Q1 Contracts target achieved	30/06/19
1	19/20 Q1 Openings target achieved	30/06/19
1	19/20 Q2 Contracts target achieved	30/09/19
1	19/20 Q2 Openings target achieved	30/09/19
1	Check point to review that we have secured funding by Q3 start for spend in 20/21 (to build the remaining 80 NNLs signed in 19/20 to be built 20/21).	30/09/19
0	Funding (Business Case) for 20/21 approved	20/11/19
1	19/20 Q3 Contracts target achieved	31/12/19
1	19/20 Q3 Openings target achieved	31/12/19
0	19/20 opening target achieved	29/03/20
0	19/20 Contracts target achieved	29/03/20
0	Gate 5 (Operate to BAU) Approved	Tbc
0	Project Closed	Tbc

13.3

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Governance Report

Author: Elizabeth Hallissey/ Veronica Branton, Secretariat
Meeting date: 28h May 2019

1. Executive Summary

1.1. The report incorporates the annual review of the following, which require consideration, and if thought fit, approval:

(a) Delegated Authorities including subsidiary companies;
(b) Authorised Signatories;
(c) Authentication of the Company Seal;
(d) Board Committee Terms of Reference; and,
(e) Directors' conflicts of interest register.

1.2. The report also includes a review of the Conflicts of Interest, following confirmation at the meeting on 30th October 2019 that this would be aligned with the review of directors' conflicts of interest.

1.3. The following documents are appended to this report:

Appendix 1 – Delegated Authorities
Appendix 2 – Authorised Signatories
Appendix 3 - Treasury Policy
Appendix 4 – Conflicts of Interest Register
Appendix 5 – Conflicts of Interest Policy

14

2. Delegated Authorities

Context

2.1. The Board is required to act within the authorities set out in the Post Office Limited ("the Company") Articles of Association. Excluding those matters specifically reserved to the Board or which require Shareholder approval, the Board has delegated appropriate levels of authority to the Executive to enable the Company to operate effectively.

2.2. The current delegated authorities are included in Appendix 1 of the report and were approved by the Board at its meeting on 27 March 2018. No changes are proposed to the authorities but the delegation previously to the Chief Finance and Operations Officer is now to the Chief Finance Officer. Job titles have been updated to reflect recent organisational changes.

2.3. In addition to the delegated authorities there is a Treasury Risk Management Framework, Policies and Authorities. This policy was last reviewed and approved by the Post Office Limited ARC on 25th March 2019. The table setting out the summary of delegated authorities is at Appendix 3.

2.4. The Board has delegated appropriate levels of authority to its subsidiary companies, it is proposed these remain unchanged and are also included in Appendix 1.

Input

2.5. The Board is requested to consider and, if thought fit, approve that the following levels of authority remain unchanged:

(a) Chief Executive Officer (up to and including £5 million);
(b) Chief Finance Officer (up to and including £4 million);
(c) Group Executive Members (up to and including £2 million); and,
(d) Group Executive Members have authority to sub-delegate up to the limit of their delegated authority.

2.6. The Board is requested to consider and, if thought fit, approve the Treasury Risk Management delegated authorities as set out in Appendix 3.

2.7. The Board is also requested to consider and, if thought fit, approve the delegated authorities to subsidiary companies, as set out in Appendix 1.

14

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3. Authorised Signatories

Context

3.1. As part of the Contract Approval Process, Company Secretariat arrange signatures of documents such as contracts, statements of work, order forms and terms and conditions. The list of authorised signatories is included at Appendix 2 for your information.

Action

3.2. The Board is asked to consider, and if thought fit, approve the updated authorised signatories list, as set out in Appendix 2.

4. Authentication of the Affixing of the Company Seal

Context

4.1. Board approval is sought to revise those persons with delegated authority to authenticate the affixing of the common seal of the Company in accordance Section 45 of the Companies Act 2006.

4.2. The Company Seal is principally used to execute documents as deeds (most commonly in relation to trust documents and property transactions).

4.3. The Directors receive and confirm the list of documents executed under the Company seal at each Board meeting.

4.4. To reflect recent changes within the organisation and to meet future business needs, it is requested that authority to attest the seal be delegated to General Counsel, the Company Secretary and Senior Assistant Company Secretaries in addition to any current Director of the Company.

Input

4.5. The Board is asked to consider, and if thought fit, approve that the affixing of the Company Seal can be authenticated by any one of the following;

(a) A Director;
(b) General Counsel;
(c) Company Secretary; and,
(d) Senior Assistant Company Secretary.

5. Committee Terms of Reference Reviews

Context

5.1. Terms of Reference are in place for the Company's Remuneration, Nominations and Audit, Risk and Compliance Committees ("the Committees"). The UK Corporate Governance Code (Section 3, Provision 21) recommends that an evaluation of the activities of each Committee against the Terms of Reference should be completed annually. This report provides an overview of the results of each of the evaluations conducted this year.

5.2. The full reports are available in the Diligent Reading Room, for your reference and have already been considered by each of the Committees on the following dates:

Committee	**Meeting Date**
Audit, Risk and Compliance Committee	29 January 2019
Remuneration Committee	9 February 2019
Nomination Committee	12 February 2019

The Committees

5.3. Following a review of the agenda and minutes of each the Committees for 2018/19 against the Terms of Reference, it was concluded that the Committees had fulfilled their requirements to the Board. Specifically that:

(a) The purpose of each Committee was clear;
(b) The composition and terms of office had been adhered to throughout the year;
(c) All meetings had been convened in accordance with the Terms of Reference; and,
(d) All duties and responsibilities had been discharged in accordance with the Terms of Reference.

Input

5.4. The Board is asked to note the conclusion of the Committee Terms of Reference Evaluations.

14

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6. Conflicts of Interest Register

Context

6.1. In accordance with Section 175 of the Companies Act 2006 ("the Act"), a Director must avoid a situation in which they have or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

6.2. In accordance with the Act and with Section 82 of the Company's Articles of Association, the Board may authorise any matter which would otherwise involve a director breaching his duty under the Act to avoid conflicts of interest.

Input

6.3. Directors are asked to review and note the information held on the register of interests (Appendix 4) and advise the Board and Secretariat of any additions or changes.

7. Conflicts of Interest Policy

Context

7.1. The Post Office Group Conflicts of Interest Policy was last reviewed and approved by the Board on 30 October 2018. The Board also agreed that the policy would be reviewed in line with the directors' register of interests in March 2019 (and this was later agreed to be deferred until May 2019).

The Review

7.2. The Post Office Group Conflicts of Interest Policy, included in Appendix 5, has been reviewed and the following changes are proposed:

(a) Change of format to align with the agreed format for all Post Office Group Key Policies;
(b) Inclusion of definitions of a conflict of interest and related parties; and,
(c) Inclusion of core principles, in line with updated policy format.

14

7.3. No significant changes to the policy in practice are proposed.

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Effectiveness and Controls

7.4. The Board reviews the Directors' register of conflicts of interest annually. Board members are reminded at the start of each board meeting to disclose any changes to their conflicts of interest to the Board and Group Secretariat. The Articles of Association include the processes for managing conflicts of interest.

7.5. Group Secretariat holds a register of employees' external directorships and interests. Arrangements will be made for an update to be sent to all employees communicating the updated conflicts of interest policy, reminding employees of the requirement to inform the Company Secretary of any external directorships or interests.

7.6. As part of ongoing work by Elizabeth Adams, Regulatory Policy Manager, and HR, training and awareness of the conflicts of interest policy is under review, along with all Post Office Group key policies.

7.7. Procurement policies and procedures require procurement employees working with Post Office suppliers to declare any conflicts of interest.

Input

7.8. The Board is asked to consider, and if thought fit, approve the Post Office Group Conflicts of Interest Policy, as included at Appendix 5.

Appendices

Appendix 1 – Delegated Authorities
Appendix 2 – Authorised Signatories
Appendix 3 - Treasury Policy
Appendix 4 – Conflicts of Interest Register
Appendix 5 – Conflicts of Interest Policy

14

Appendix 1 - Delegated Authorities

Post Office Limited – Delegated Authorities

Role	Commitment /Spend	Liabilities/Indemnities	Notes
UKGI	>£50m		UKGI (Shareholder) consent is required: - where the transaction is not in the ordinary course of business or has not been approved in the Strategic Plan; - There is actual commitment, liability or payment of more than £50m (where there is a real prospect of liability arising over £50m); - The transaction would require an entry in the company accounting records of a liability or more than £50m; - all major strategic acquisitions and disposals (these should be set out in the Strategic Plan as required by the Funding Agreement 2018-2021); and - all proposals to enter into financial instruments, bank borrowing and any proposed loan facility (above £20m) [refer to the Treasury Risk Management Framework Policy]
Board	<£50m	There are certain matters where there is a risk of loss or liability which should be escalated to the Board: - a granting of a security in excess of [£5m]; - a new area of business which might bring Post Office within the scope of oversight of a regulatory to which it has not previously been subject; - a matter which gives rise to risk [in excess of £5m] in	

14

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		maintaining service commitment to customers in line with Post Office's social purpose (for which POL has an averse risk statement); - a matter which could risk disruption to Post Office's credit facility (averse risk appetite – POL is to ensure loan remains below £950m with maintenance of £200m headroom); and - A matter where there is realistic possibility of CMA intervention.	
CEO	£5m	£5m*	*The CFO together with the General Counsel can authorise any transaction or contract containing: - a higher capped liability and/or indemnity or - an non-standardised unlimited liability and/or indemnity
CFO	£4m	£4m*	
GE	£2m	£2m*	
SLT/GE-1	GE members may delegate up to their individual limits to individuals within their directorates to give those within the organisation a sufficient level of authority to deliver their accountabilities.		

14

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Post Office Management Services Limited

Financial Limits

	Commitment / spend[1] authorised in the AOP	Liabilities (incl. indemnities)	Notes
UKGI	Above £50m		UKGI consent will be required where there is actual commitment, liability or payment of more than £50m (where there is a real prospect of liability arising over £50m) or where the transaction would require an entry in the company accounting records of liability more than £50m.
Post Office Board	Above £5m	"Exceptions" referred to POL Board to confirm	POL consent will be required for the giving of any guarantee or indemnity which is not in the
IRRELEVANT			
Managing Director	Up to £2m	£2m*	indemnity or - a non-standardised unlimited liability and/or indemnity.
POMS Chief Finance Officer	Up to £1m	£1m*	
Senior Management[2]	Up to £250k	£250k*	

Payzone Bill Payments Limited

Financial Limits

	Approval level for spend*/liabilities* authorised in the AOP
Post Office Board	>£2m
PZBPL Board	<£2m
Managing Director	<£1m
POL Finance Director - Retail	<£1m
Senior Management**	<£250k

*Over the life of the contract and whichever amount is the greater.
**As defined under authorised signatories.

Note: Delegated authorities for First Rate Exchange Services Holding Limited (Joint Venture 50% owned with the Bank of Ireland (UK) Limited) are included in the Joint Venture Agreement.

14

[1] Over the life of the contract.
[2] As defined under Authorised Signatories

POL00030887

Appendix 2 - Authorised Signatories

Post Office Limited – Authorised Signatories

Job Title	Current Postholder
Chief Executive	Alisdair Cameron
Chief Financial Officer	POSITION VACANT
Chief Executive – Retail	Debbie Smith
Chief Executive Officer – Financial Services, Telecoms, Identity, Group Marketing and Group Digital Innovation	Owen Woodley
Chief Operating Officer	Rob Houghton
Group HR Director	Mo Kang
Communications & Corporate Affairs Director	Mark Davies
Managing Director – Identity Services	Martin Edwards
Managing Director – Mails & Retail	Mark Siviter
Network Development & Central Strategy Director	Tracy Marshall
Banking Director	Martin Kearsley
Financial Controller	Micheal Passmore
Business Improvement Director	Angela van den Bogerd
Operations Director	Julie Thomas
General Counsel	Ben Foat
Compliance Director	Jonathan Hill
Managing Director – Post Office Money	Chrysanthy Pispinis
Business Performance & IT Transition Director	Catherine Hamilton
Head of Secretariat	Veronica Branton

The following people are permitted to sign employment contracts or similar HR related agreements as set out below:

Job Title	Current Postholder	Purpose
Employment Recruitment, Leavers & MI Manager	Kay Perry	New Joiners' Contracts
Payroll Manager	Amanda Taylor	Contract Changes
Agents On-boarding Team	Sheinaze Aboobaker	Agents' contracts
	John B Jenkinson	
	Liesl Jackson	
	Paul O'Leahy	
	Olivia Farrelly	

14

POL00030887
POL00030887

POST OFFICE LIMITED - Treasury Risk Management Framework, Policies and Authorities
Appendix F - Summary of Delegated Authorities - from March 2019

Appendix 3 - Treasury Risk Management Framework Delegated Authorities

	Reserved Matter	Ref.	Notes	Shareholder Consent	POL Board	Audit, Risk & Compl. Comm.	Treasury Comm.	FX Currency Hedging Comm.	CFOO	POL FD	Head of Treasury, Tax & Insuranc	Treasury Manager	Treasury Authorisation Panel (Authorisation Panels)	Dealing Panel (Authorisation Panels)	Banking Auth. Panel (Authorisation Panels)	Internet Banking Systems (Payment Panels)	Treasury Mgt. System (Payment Panels)	SAP (Payment Panels)
GENERAL	**General**																	
	Approve treasury risk management framework, policies and authorities	2.7	Must be			√												
	Approve amendments to or derogations from treasury risk management framework, policies and authorities (1)	2.7	Must be			√												
3. SHORT-TERM CASH AND LIQUIDITY MANAGEMENT	**Bank Account Structures**																	
	Approve addition of bank account to existing pooling arrangement	3.4.2	Any 1 from						√	√	√							
	Approve removal of bank account from existing pooling arrangement	3.4.2	Any 1 from						√	√	√							
	Approve creation of new pooling arrangement	3.4.2	Any 1 from						√	√								
	Committed Short-term Funding																	
	Approve change to Investment Reserve																	
	- in the range nil to £20m / for up to 2 weeks	3.6.8	Any 1 from						√	√	√							
	- up to £50m / for more than 2 weeks	3.6.8	Must be						√									
	Propose drawdown - under existing credit facilities	3.6.8	Any 1 from											√				
	Approve drawdown - under BEIS Facility																	
	- up to 1 day	3.6.8	Any 1 from						√	√	√		√					
	- over 1 day and up to 12 months	3.6.8	Any 1 from						√	√								
	- over 12 months	3.6.8	Must be						√									
	Approve drawdown - under Other External Borrowings (up to £50m)																	
	- overnight	3.6.8	Any 1 from						√	√	√		√					
	- up to 1 week	3.6.8	Any 1 from						√	√	√							
	- up to 6 months	3.6.8	Any 1 from						√	√								
	- over 6 months	3.6.8	Must be						√									
	Short-term Cash & Liquidity Arrangements with Subsidiaries																	
	Approve margin on intra-group loans to/from Subsidiaries on behalf of POL	3.7.8	Must be both						√		√							
	Execute documentation for intra-group loans to/from Subsidiaries on behalf of POL																	
	- up to £20m and up to 3 months	3.7.8	Must be						√									
	- over £20m or over 3 months	3.7.8	Must be		√													
4. MEDIUM AND LONG-TERM FUNDING MANAGEMENT	**Headroom**																	
	Approve amendment to Facility Headroom Buffer	4.8.4	Must be		√													
	Borrowing Policy																	
	Approve new medium and long-term funding	4.9.4	Must be both	√	√													
5. COUNTERPARTY CREDIT RISK MANAGEMENT	**Counterparty Credit Risk Management**																	
	Approve new financial institution counterparty	5.11	Must be			√												
	Approve financial institution counterparty limit	5.11	Must be			√												
	Approve temporary increase to financial institution counterparty limit	5.11	Must be						√									
6. INVESTMENT RISK MANAGEMENT	**Investment Risk Management**																	
	Approve new investment counterparty - within approved credit rating bands	6.14	Any 1 from						√	√								
	Approve changes to credit rating bands for counterparties	6.14	Must be			√												
	Approve temporary increase to investment counterparty deposit limit	6.14	Must be						√									
	Approve new permitted investment instrument	6.14	Must be						√									
	Propose investment of surplus cash balances	6.14	Any 1 from											√				
	Approve investment of surplus cash balances																	
	- Amount - < £300m / Term - up to 1 month	6.14	Any 1 from						√	√	√		√					
	- Amount - < £100m / Term - up to 3 months	6.14	Any 1 from						√	√	√		√					
	- Amount - < £50m / Term - up to 6 months	6.14	Any 1 from						√	√	√		√					
	- Amount - < £300m / Term - up to 1 year	6.14	Any 1 from						√	√								
	- Amount - < £50m / Term - up to 1 year	6.14	Must be both *		√				√									
	- Amount - < £50m / Term - up to 1 year	6.14	Must be		√													
7. FOREIGN EXCHANGE EXPOSURE MANAGEMENT	**Foreign Exchange Exposure Management**																	
	Execute FX hedge trades, within policy, in accordance with instructions issued by FX Committee	7.10	Any 1 from											√				
	Approve new permitted FX hedging instrument	7.10	Must be						√									
	Approve FX hedge trades for exposures not created by currency note inventory holdings																	
	- up to £50m	7.10	Must be						√									
	- above £50m	7.10	Must be		√													
8. INTEREST RATE EXPOSURE MANAGEMENT	**Interest Rate Exposure Management**																	
	Approve new permitted interest rate hedging instrument	8.9	Must be			√												
	Approve execution of interest rate hedging strategy	8.9	Must be		√													
9. BANK RELATIONSHIP MANAGEMENT	**Bank Relationship Management**																	
	Approve entering into relationship with new bank	9.9	Must be				√											
	Approve entering into relationship with new bank - prior to Treasury Committee approval	9.9	Must be						√									
	Approve entering into NDA with bank	9.9	Must be						√									

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Treasury Policy_DA Matrix_03.2019 (ARC)

POST OFFICE LIMITED - Treasury Risk Management Framework, Policies and Authorities
Appendix F - Summary of Delegated Authorities - from March 2019

	Reserved Matter	Ref.	Notes	Shareholder Consent	POL Board	Audit, Risk & Compl. Comm.	Treasury Comm.	FX Currency Hedging Comm.	CFOO	POL FD	Head of Treasury, Tax & Insuranc	Treasury Manager	Authorisation Panels: Treasury Authorisation Panel	Authorisation Panels: Dealing Panel	Authorisation Panels / Payment Panels: Banking Auth. Panel	Authorisation Panels / Payment Panels: Internet Banking Systems	Authorisation Panels / Payment Panels: Treasury Mgt. System	Authorisation Panels / Payment Panels: SAP
10. COMMODITY PRICE EXPOSURE MANAGEMENT	**Commodity Price Exposure Management**																	
	Execute commodity price hedges within policy	**10.7**	Must be											√				
	Approve new commodity price hedge counterparty	**10.7**	Must be						√									
	Approve execution of commodity price hedges within policy	**10.7**	Any 1 from						√	√	√							
OTHER	**Operational Banking**																	
	Approve amendments to existing operational banking facilities (2)	**11.6**	Any 1 from						√									
	Approve new operational banking facilities (2)	**11.6**	Any 1 from						√									
	Approve opening of new bank account	**11.6**	Must be						√	√	√							
	Approve closure of bank account	**11.6**	Must be						√	√	√							
	Payments																	
	Sign manual payment instruction - < £50k	**12.1.6**	Must be 1 from												√			
	Sign manual payment instruction - < £50k	**12.1.6**	Must be 2 from												√			
	Release payment from Internet Banking System - < £50k	**12.4.7**	Must be 1 from													√		
	Release payment from Internet Banking System - > £50k	**12.4.7**	Must be 2 from													√		
	Release payment from Treasury Management System	**12.4.7**	Must be Treasury check and 1 from												√			
	Release payment from SAP	**12.4.7**	Must be 1 from															√
	Guarantees / Group Support																	
	Approve and execute a direct guarantee to a commercial third party for the benefit of a subsidiary (**See Group Delegated Authorities**)	**13.1.4**	Must be															
	Approve bank guarantee to support financing arrangement	**13.2.4**	Must be		√													
	Approve bank guarantee to support commercial arrangement (**See Group Delegated Authorities**)	**13.2.4**	Must be															
	Execute counter-guarantee to bank in support of commercial arrangement (**See Group Delegated Authorities**)	**13.2.4**	Must be															
	ISDA Master Agreements																	
	Agree changes to an ISDA Schedule	**15.4**	Any 1 from						√	√	√							
	Approve and execute ISDA agreement on behalf of POL	**15.4**	Must be						√									

** Must be CFOO and one other POL Board member*

(1) unless specifically stated as the Board (2) including overdrafts, fax lines, BACS limits, intra-day limits and similar arrangements

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Appendix 4 - Conflicts of Interest Register

Conflicts of Interest & External Directorship Register

Name	Last Confirmation of Conflicts of Interest	Company/ organisation & Company Number	Summary of Company/Organisation Activities	Role (note if indirect interest)	Date from	Date to	Comments inc. Any Board Approvals
Tim Parker	27/03/2018	Samsonite International S.A.	American luggage manufacturer and retailer	Chairman	08/11/2014	Current	
		National Trust	Conservation Charity	Chairman	08/11/2014	Current	
		The Grange Festival (09828929)	Performing Arts	Director	27/03/2017	Current	
		The Brand Foundation (09718331)	Education	Chairman	18/11/2015	Current	
		Royal Academy of Music	Conservatoire providing undergraduate and post graduate training in music	Member of the Governing Body	01/11/2015	Current	
		HM Courts & Tribunal Service	Courts & Tribunals Service	Chairman	27/04/2018	Current	
		British Pathé Film Archive	Film Archives	Director & Owner	N/A	Current	
Al Cameron	27/03/2018	Dover Harbour Board	Cross Channel Ports	Non-Executive Director	01/02/2017	Current	
Tom Cooper	27/03/2018	East West Railway Company Limited (11072935)	Passenger rail transport	Director	09/10/2018	Current	
		TKGC Consulting Limited (11115943)	Management Consultancy	Director	18/12/2017	Current	
Tim Franklin	21/03/2019	HM Landy Registry	Government	Audit Committee Chair	21/02/2017	Jan-18	
		PCF Group plc (02863246)	Financial Services	Director	06/12/2016	Current	
		PCF Bank Limited (02794633)	Financial Services	Director	22/05/2017	Current	
		Sunsitive Limited (08024745)	Management Consultancy	Director & Owner	11/04/2012	Current	Dormant Company
		Post Office Limited (02154540)	Group Company	Director	19/09/2012	Current	
		Post Office Management Services Limited	Group Company	Director	20/03/2018	Current	
		Enville Court Management Company Limited (01120014)	Flat Rental	Director & Owner	13/04/2016	Current	For management of flat rental
		Topaz Finance Limited (05946900)	Business Support Services	Director	12/10/2017	Current	
		Doris IT Limited (08104008)	IT and Change management recruitment	Partner is Director & Owner	13/06/2012		instructed by Post office HR regarding graduate recruitment
Shirine Khoury-Haq	24/05/2018	Co-Operative Group Limited	Retail	Chief Financial Officer (Start date August TBC)	TBC	TBC	
Ken McCall	27/03/2018	Europcar Groupe S.A (incorporated in France)	Mobility and Rental	Director	20/02/2017	31/03/2019	Various directorships of Group Companies
		Sustenir Group Pte Ltd (incorporated in Singapore)	Produces agricultural products	Chairman		31/12/2018	
Carla Stent	27/03/2018	MCS Advisory Limited (08861745)	management consultancy	Director	27/01/2014	Current	
		Power to Change Trustee Limited (08940987)	Charity - community business	Vice Chair	23/01/2015	Current	
		Savernake Management Limited (incorporated in Guernsey)	Emerging manager fund	Director	19/01/2017	Current	
		Savernake Capital Limited (incorporated in Guernsey)	Emerging manager fund	Director	18/05/2016	Current	
		Savernake Technology Limited (09196590)	Emerging manager fund	Chair	30/08/2014	Current	
		This Is The Big Deal Limited (08867458)		Director	20/02/2014	Current	
		Malherbe Limited (10169969)	financial management	Director	09/05/2016	Current	
		JPMorgan Elect plc (03845060)	Investment Trusts	Director	20/04/2015	Current	
		Marex Spectron Group Limited (05613060)	Financial Intermediation	Director	09/12/2014	Current	
		Littlefish FX Limited (07847854)	Business Support Services	Director	01/02/2013	Current	

POL00030887

Appendix 5

GROUP POLICIES

Conflicts of Interest Policy

Version – 2.0

Chief Executive's Endorsement

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

14

POL00030887

1. Overview

1.1. Introduction by the Policy Owner

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

1.2. Purpose

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

1.3. What are Conflicts of Interest?

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

i) Actual

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

ii) Potential

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

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

iii) Direct interest

Includes an employee's own conflicts of interest.

iv) Indirect interest

Includes the interests of individuals, groups or companies that the employee is, or was, closely associ~~a~~ited.

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

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

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

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

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

1.4. Core Principles

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

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

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

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

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

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

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

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

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

1.5. Application

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

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

1.6. Legislation, Regulation & Industry Guidance

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

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

The Companies Act 2006

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

S. 175 – Duty to Avoid Conflicts of Interest

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

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

Articles of Association of each Post Office Group entity

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

14

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

Public Contract Regulations 2015

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

Regulation 24

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

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

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

Nolan Seven Principles of Public Life

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

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

Financial Conduct Authority Handbook

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

The FCA Handbook (Chapter 10, 10.1.3):

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

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

14

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

2. Risk Appetite and Minimum Control Standards

2.1. Risk Appetite

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

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

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

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

2.2. Policy Framework

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

2.3. Who must comply?

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

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

14

POL00030887

2.4. Reporting

All employees and statutory directors must:

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

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

POL00030887

2.5. Minimum Control Standards

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

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

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

POL00030887

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

POL00030887

		regarding any potential or actual conflicts of interest.		
Training & Competence	Failure to provide appropriate training and awareness of the policy to effectively manage conflicts of interest	Conflicts of Interest training is a mandatory part of employee inductions. Directors' duties and conflicts of interest training is provided to statutory directors. Contractors and suppliers are required to comply with this policy where they are engaged to participate in a procurement process. ~~, in accordance with the procurement policies and procedures.~~	Company Secretary & HR Training Manager	Ongoing
Governance	Failure to ensure effective oversight of the policy and its effectiveness	The Policy is reviewed annually and presented to the appropriate Boards. Conflicts of Interest registers are annually reviewed by Boards. Post Office Internal Audit retains independent third line oversight of the Policy.	Company Secretary	Ongoing

3. Definitions

1. **FCA** – Financial Conduct Authority
2. **Grapevine** – 24/7 Security Support Centre provided by Kings Ltd. Grapevine provides security advice and records all security incidents across the business including burglaries, robberies and suspicious activity.
3. **Speak Up Service** – Can be accessed by telephone: 0800 048 4531 or via a secure online web portal: http://www.intouchfeedback.com/postoffice

POL00030887

4. Where to go for help

4.1. Additional Policies

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

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

4.2. How to raise a concern

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

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

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

~~4.4.~~4.3. Who to contact for more information

If you need further information about this policy or wish to report an issue in relation to this policy, please contact Veronica Branton~~Jane MacLeod~~, Secretariat~~Company Secretary, Group Director of Legal, Risk & Governance~~.

14

POL00030887

5. Governance

5.1. Governance Responsibilities

The Policy sponsor, responsible for overseeing this Policy is~~–~~ Veronica Branton~~Jane MacLeod~~, ~~Company Secretary, Group Director of Legal, Risk & Governance~~.

The Policy owner is the~~–~~Veronica Branton~~Jane MacLeod, Company Secretary, Group Director of Legal, Risk & Governance~~. who is responsible for ensuring that the Company Secretariat conducts an annual review of this Policy. Additionally the Company Secretary, ~~Group Director of Legal, Risk & Governance~~ is responsible for providing appropriate and timely reporting to each Companies' ~~Risk and Compliance Committee and the~~ Board ~~Audit, Risk and Compliance Committees~~.

The ~~Audi, Risk and Compliance Committees~~ Board of each Company are responsible for approving the Policy and overseeing compliance.

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

14

6. Control

6.1. Policy Version

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

6.2. Policy Approval

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

Committee	Date Approved
POL Risk & Compliance Committee	**TBC**
IRRELEVANT Risk & Compliance Committee	**TBC**
Post Office Limited Audit, Risk & Compliance Committee	**TBC**
Post Office Management Services Limited Audit, Risk & Compliance Committee	**TBC**
Post Office Limited Board	**TBC**
Post Office Management Services Limited Board	**TBC**
Payzone Bill Payments Limited Board	**TBC**

Policy Sponsor: Veronica Branton~~Jane MacLeod~~, ~~Company Secretary, Group Director of Legal, Risk & Governance~~

Policy Owner: Veronica Branton~~Jane MacLeod~~, ~~Company Secretary, Group Director of Legal, Risk & Governance~~

Policy Author: Elizabeth Hallissey, Senior Assistant Company Secretary

Next review: XX March ~~April~~ 2020

14

POL00030887

Company Details

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

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

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

POL00030887

Post Office Limited Sealings

Author: Rebecca Whibley, Company Secretarial Administrator Sponsor: Veronica Branton, Head of Secretariat
Meeting date: 28 May 2019

Executive Summary

Context

The Directors are invited to consider the seal register and to approve 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.

Input Sought

For the Directors to resolve that the affixing of the Common Seal of the Company to the documents set out against items numbered 1760 to 1781 inclusive in the seal register is hereby confirmed.

15.1

POL00030887

POST OFFICE LIMITED

Register of Sealings

Date
20.05.2019

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1760	26/03/2019	26/03/2019	Licence to Occupy in respect of Sutton DMB, 19 Grove Road, Sutton, SM1 1DX between Post Office Limited and Potent Solutions Limited.	Veronica Branton, Head of Secretariat	Jean Reynolds
1761	28/03/2019	28/03/2019	Underlease of whole relating to Post Office Unit at Parkstone DO, 27 Bournemouth Road, Poole BH14 0EL between Post Office Limited (Landlord) and Mr Tejas Shah (Tenant).	Veronica Branton Head of Secretariat	Jean Reynolds
1762	01/04/2019	28/03/2019	Lease of Ground Floor 190 Kensington Church Street London W8 between Chestnut estates Limited and Post Office Limited	Jane MacLeod, Company Secretary	Legal
1763	01/04/2019	29/03/2019	Deed of Variation between Post Office Limited and Vow Retail Limited dated 21 March 2019 relating to Agreement for the Supply of Goods for Wholesale and Online Sales and Associated Services (contract date 01/08/2011) x 2 Relates to eCAF63	Jane MacLeod, Company Secretary	Retail
1765	09/04/2019	08/04/2019	Form of Release in respect of 57/58 High Street Banbury, Oxfordshire, OX16 5LB. Landlord: Panbrook (Banbury) Limited. Tenant: Post Office Limited. Lease dated 17 March 2009. The lessee shall pay the lessor £80k by way of liquidated damages as compensation for the breach by the lessee of the covenants in the lease relating to the state and condition of the property in full and final settlement of those obligations. EXECUTED UNDER SIGNATURE.	Veronica Branton, Head of Secretariat	Jean Reynolds
1764	11/04/2019	08/04/2019	Settlement Agreement - £75,000 in settlement of the dilapidations claim. Premises: 72 High Street, Hoddesdon, Hertfordshire. Landlord: Nicola Trigg and Graeme Ross Atkinson as Executors for Elizabeth Fowler. Tenant: Post Office Limited. EXECUTED UNDER SIGNATURE. (Note: originally signed on 09/04/2019 but this was the incorrect version, correct version was resigned on 11/04/2019 and legal were asked to dispose of incorrect version).	Veronica Branton, Head of Secretariat	Jean Reynolds
1765	09/04/2019	08/04/2019	Form of Release in respect of 57/58 High Street Banbury, Oxfordshire, OX16 5LB. Landlord: Panbrook (Banbury) Limited. Tenant: Post Office Limited. Lease dated 17 March 2009. The lessee shall pay the lessor £80k by way of liquidated damages as compensation for the breach by the lessee of the covenants in the lease relating to the state and condition of the property in full and final settlement of those obligations. EXECUTED UNDER SIGNATURE.	Veronica Branton, Head of Secretariat	Jean Reynolds
1766	15/04/2019	12/04/2019	Agreement for lease relating to Suite 2, Elm Court, Bridgend CF31 3SR between POL & Michael Thomas Lincez & Valerie Rosalind Lincez.	Veronica Branton, Head of Secretariat	Legal
1767	17/04/2019	17/04/2019	Deed of variation of agreement for sale between Post Office Limited and Mayfair 500 (Buzzard) Limited in respect of 7-9 Church Square, Leighton Buzzard, LU7 1AA. POL and Mayfair are party to an agreement conditional on planning permission for the sale and leaseback of the property dated 12 July 2018 and wish to amend the agreement as set out in the deed of variation.	Veronica Branton, Head of Secretariat	Jean Reynolds
Jean Reynolds	24/04/2019	18/04/2019	Licence to occupy in respect of Post Office at 33 Broadway, Sheerness ME12 1AA between Post Office Limited and Potent Solutions Limited (licensee).	Veronica Branton, Head of Secretariat	

POST OFFICE LIMITED

Register of Sealings

Date
20.05.2019

Company Number
21554540

Seal Number / File Ref.	Date of Sealing	Date of Authority	Description of Document	Persons Attesting To Document	Destination of Document
1769	24/04/2019	23/04/2019	Licence to occupy on short term basis relating to the area where the Rosewall sculpture by Dame Barbara Hepworth is situated, know as the part of the Post Office at West Bard, Chesterfield, S40 1AA between Post Office Limited and Chesterfield Borough Council (licensee).	Veronica Branton, Head of Secretariat	Jean Reynolds
1770	25/04/2019	08/04/2019	Sub Lease between Post Office Limited (Landlord) and GB Realty Ltd (Tenant) in respect of ground floor premises, 4 Meadowside, Dundee DD1 1AA. Scottish deed, therefore the common seal of the company is not recognised. Executed under signature by Company Secretary and witnessed by Senior Assistant Company Secretary.	Jane MacLeod, Company Secretary	Jean Reynolds
1771	25/04/2019	08/04/2019	Deposit Agreement between Post Office Limited (Landlord) and GB Realty Ltd (Tenant) in respect of ground floor premises at 4 Meadowside, Dundee, DD1 1AA. Scottish deed, therefore the common seal of the company is not recognised. Executed under signature by Company Secretary and witnessed by Senior Assistant Company Secretary.	Jane MacLeod, Company Secretary	Jean Reynolds
1774	26/04/2019	25/04/2019	Deed of Participation relating to BUPA Healthcare Fund between Post Office Limited and BUPA Trustees Limited. Approved by eCAF 102, POL contract Register 1262 x 2	Jane MacLeod, Company Secretary	Victoria Milford, Clarita Earnshaw, HR
1775	01/05/2019	30/04/2019	Disposition by Post Office Limited in favour of Amber Taverns Limited in respect of Coatbridge Post Office, 132 Main Street, Coatbridge.	Jane MacLeod, Company Secretary	Legal
1776	07/05/2019	03/05/2019	Agreement for sale between Post Office Limited and Ben Rask Rosenberg and Jonas Rask Rosenberg Eilersen, relating to freehold property known as 138 Stoke Newington High Street, London.	Veronica Branton, Head of Secretariat	Karima Karger
1777	07/05/2019	03/05/2019	TR1 in respect of 138 Stoke Newington High Street, London N16 7JN. Title number EGL494993	Veronica Branton, Head of Secretariat	Karima Karger
1778	07/05/2019	03/05/2019	Section 198 capital allowances election in relation to 138 Stoke Newington High Street, London, N16 7JN	Veronica Branton, Head of Secretariat	Karima Karger
1779	07/05/2019	03/05/2019	Non-crystallisation letter in respect of premises at 138 Stoke Newington High Street, London, N16 7JN debenture over the property. Executed under signature, by the Head of Secretariat on behalf of the Company Secretary.	Veronica Branton, Head of Secretariat	Karima Karger
1780	08/05/2019	07/05/2019	Lease relating to Suite 2, Elm Court Cowbridge Road, Bridgend, CF31 3SR between Mr Michael Thomas Lincez and Mrs Valerie Rosalind Lincez and Post Office Limited	Veronica Branton, Head of Secretariat	Karima Karger
1781	14/05/2019	10/05/2019	Letter Licence for Excavation Works of 7-9 Church Square, Leighton Buzzard, LU7 1AA made between Post Office Limited and Mayfair 500 (Buzzard) Limited.	Ben Foat, Legal Director	Karima Karger

Performance Review – Health & Safety

Author: Martin Hopcroft   Sponsor: Mo Kang   Meeting date: 28th May 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

What are the trends on accidents and on violence?

Conclusion

The prevention of accidents has improved materially year on year. There were a 28% reduction in accidents reported in 18/19 compared to 17/18 (81 v 112). Whilst we have also seen a reduction in year on year robberies and CViT incidents, a recent increase in violent robberies, including ATM rip-outs raised our concerns. A review has been undertaken and we are mitigating risk through the roll out of upgrade equipment.

Post Office robberies showed an overall 3.5% decrease in 2018/19 compared to previous year 17/18 (139 v 144). Injuries were level (14 vs 14), the majority were relatively minor with punches, kicks and cuts. There was a 11% decrease in weapons carried during robberies compared to the same point in 17/18 (107 vs 120). Included within this figure, the number of blades being carried has seen a 11% reduction (55 vs 61). Engagement with the wider community is already progressing through the British Retail Consortium, ACS and BSIA. To mitigate risk further, we rolling fogging and IP cameras out to high risk branches. In response to abusive and aggressive behaviour, temporary IP cameras with automatic aggression detection will be made on a case by case basis. **CViT robberies** showed a 23% reduction YTD (17 v 22), 6 of these were at Chester. Police have also attended a number of depots to discuss threats and mitigations with staff. We are piloting a new iBox design on 6 high risk routes, where the cash will be destroyed if snatched. **ATM attacks** are currently showing an overall 154% increase year on year, (61 vs 24). We have identified some 700 high risk branches and are rolling out gas suppression technology. In the meantime we are asking branches to significantly reduce ATM cash holdings overnight. For both ATMs and CViT

15.2

we are pushing a variety of suppliers to deliver technology in the carry case that can guarantee the destruction of the cash in the event of a theft.

Safety performance continues to improve. In April there were 5 accidents (2 DMB, 2 Supply Chain and 1 in Support teams), with 2 lost time accidents (1 SC and 1 Support). The seriousness of accidents can be measured by the amount of lost time per 1000 employees. There were 32 lost days in April vs 36 in 18/19. There was a 46% reduction from 94 (17/18) to 51 lost days per 1000 employees (18/19) across the business. Supply Chain have reduced from 270 lost days to 107 per 1000 employees this year and DMBs reduced from 89 days to 59 this year. Total lost days are 245, reduced 49% from 480 in 17/18 (see chart on Page 3). A review of our risk assessments in Supply Chain has identified inconsistency in the loading and unloading of heavy coin cages. Action has been taken to ensure assistance is provided to crew at all POL depots to reduce risk of injury, and conversations will be had with external sites. We are commencing a review of fatigue in Supply Chain (both physical and mental) with the support of our Occ health provider.

The **HSL audit** action plan covered 6 main areas with 30 sub actions, including the development of competence across all business areas, through a mix of online and face to face training, workshops and coaching, more recognition and evidence of compliance. Actions have been completed with a small number flowing through to 19/20, including development of digital tools inc. accident reporting, PiC training and a hearts and minds campaign in Supply Chain, sponsored by BSIA.

We continue to see a reduction in **road risk** through the introduction in telemetry and analysis of driving behaviour in Supply Chain. The MPO Compliance Manager is working with individuals to coach on their poor driving behaviours. We are working to strengthen a number of areas including driver safety training, guidance for alleviating fatigue and the introduction of Alcolock (breathalyser integration with key management). Other initiatives include the reissue of driver handbooks (CViT, Company Car, Grey Fleet), profiling drivers from Selenity data, capturing maintenance records.

The overall risk for **Property** Statutory Compliance remains low at 96.61%. External Fire Risk Assessments have been completed for 2018 with 100% PiC actions closed and therefore the risk profile has reduced significantly. Fabric Surveys have been completed and mainly showed a satisfactory condition. A programme will commence to inspect signs over 3 yrs old and/or located in harsh weather areas, inc c3800 local agency signs, low risk lozenges and will communicate with branches once Legal approve letters.

Lone working guidance has been incorporated into the general H&S Training for Personal Safety and issued through Success Factors in April. A new training plan has been agreed for 19/20 and will be supported by the H&S, including a requirement to re-introduce some face to face training in the workplace where appropriate eg higher risk activities.

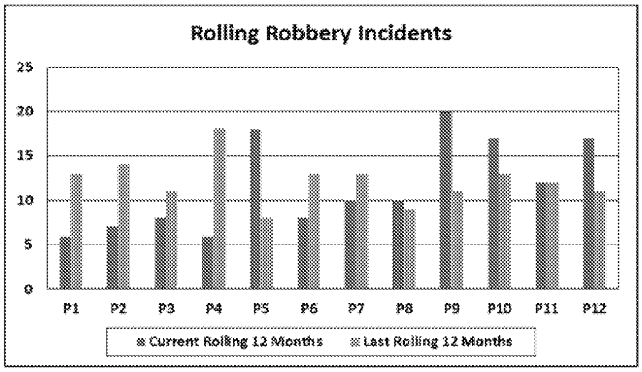
Input Sought

The Board are requested to note and comment on the current safety performance.

15.2

Report

A review of robberies and violence was undertaken to help us understand current trends, whether our approach to profiling risk and current level of intervention is sufficient and whether our plan for upgrading branch security and equipment is robust. Post Office robberies show an overall 9% decrease from last year (122 v 134) but an increase over the most recent 3 month period.



Risk Programmes – We are undertaking three security equipment initiatives.

1. We are **upgrading alarms** in 676 high & medium risk branches. W**e will be completed by 30 Sept 2019.**
2. As the Board is aware, we are rolling out **fogging equipment and IP cameras to 1200 high risk branches. We will finish in Sept 2019**, delivered 6 months ahead of the original plan.
3. Given the threat to ATMs we are installing **700 gas suppression devices by mid July 2019** and may require more national coverage if the threat spreads. **625 will be installed in all the high risk branches, with 75 to deal with risk score changes.** Barclays are following a similar strategy.

The total cost of these initiatives is £4.7m and is within the agreed signed-off budgets.

Activity:

a. Improve the insight into the level of aggressive behaviour and enhance risk assessments with a 2-3 years horizon scan by engaging with third party agencies BRC, BSIA, ASC and Kings Intelligence Service 'KIS' (Grapevine) to obtain a dynamic overview of all incidents and instances of aggression, allowing analysis and better response activities.

b. Funding approved to extend some of the stronger security measures such as fogging to some more high risk branches.

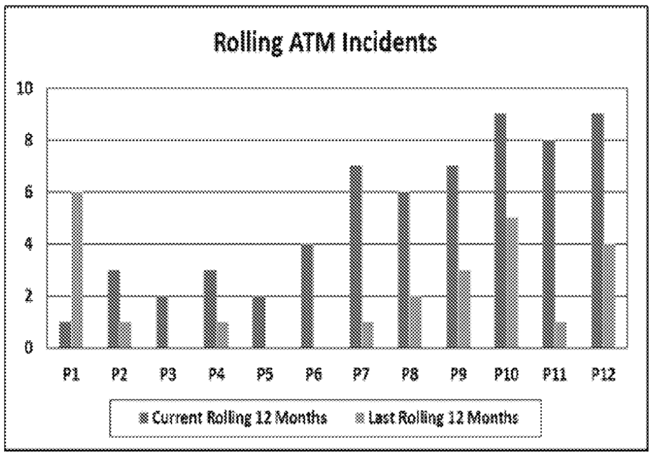
c. We have rolled out the body worn camera trial to all high risk CViT routes at a cost of £50K, and will extend remote vehicle monitoring and extend the roll out of cameras in high risk branches to alert Grapevine and enable real time monitoring when aggressive behaviour is detected.

d. We have reviewed, updated and reissued 'Harassment by Customers' training for employees and will signpost agents in 19/20 to HSE guidance and our best practice and provide guidance on not fighting back.

15.2

ATM gas attacks remain a major concern and work is underway to scope opportunities to destroy cash. We have developed an ATM risk model, based on similar underlying trends and analysis as the Burglary and Robbery Risk model, showing 707 of 2545 as high risk. We are continuing to roll out the gas suppression system which prevents any build-up of gas.

Various discussions are taking place to consider options to destroy cash in ATM cassettes, such as glue, dye, foam and pyrotechnics, along with new anchoring plate technology to support the recent brute force attacks.



What are our priorities for 2019/20

1. To progress the Safety Plan for Supply Chain with the introduction of Safety Champions and a Safety Forum to develop a 'hearts and minds' culture, share best practice, videos and visuals and provision of tool kit and self-audit tool.
2. To continue the development of our Managers to ensure compliance with safety calendar activities, completion of training and local risk assessments.
3. To progress the recommendations from the Robbery and Violence review and Road Risk Action Plan.
4. Digitalise H&S tools including Accident reporting (ERICA) and the Safety Calendar, working closely with Ben Cooke's team.
5. Update content of training and closely support deployment of Harassment by Customers policy, implementing procedures to mitigate risk and reduce likelihood and impact of violence.
6. To review lone working guidelines for Support Centres, guidance to alleviate driver fatigue and compliance to the mobile phone whist driving policy.
7. Undertake an independent audit of the Property Compliance Framework with support from HSL/HSE, building on our previous H&S audit.
8. To extend the 'mental health first aid' initiative to provide support to the wider business and network colleagues.
9. Reintroduce mobile health checks for DMB and Supply Chain colleagues.

15.2

4 Year Safety Performance

Year/KPI	15/16	16/17	17/18	18/19
All accidents	198	129	112	81
All accidents/1000	29.3	21.0	22.0	16.95
Absence accidents	38	16	21	15
Absence Accs/1000	5.62	2.61	4.13	3.14
LTIFR	0.367	0.168	0.271	0.184
Days lost due to accidents	792	259	480	245
Days lost/1000	117	36	94	51
RIDDOR	14	9	14	7
Supply Chain				
All accidents	104	60	64	35
All accidents/1000	74.8	48.4	78.8	41.97
Absence accidents	24	12	11	9
Absence Accs/1000	17.3	9.7	13.5	10.79
LTIFR	1.040	0.586	0.820	0.586
Days lost due to accidents	470	157	219	89
Days lost/1000	338	140	270	107
Days lost trauma	288	144	4	280
DMBs				
All accidents	84	62	44	41
All accidents/1000	23.1	19.0	15.6	16.70
Absence accidents	13	4	8	5
Absence Accs/1000	3.58	1.22	2.84	2.04
LTIFR	0.307	0.103	0.206	0.145
Days lost due to accidents	316	96	250	145
Days lost/1000	86.91	14	89	59

Post Office Limited Board Meetings

Author: Veronica Branton

Meeting date: 28 May 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

Date			Time	Meeting
Tuesday	28 May	2019	16.15 – 18.00	Remuneration Committee
Wednesday	29 May	2019	14.00 – 16.30	ARC
Monday	29 July	2019	15.30 – 17.30	ARC
Tuesday	30 July	2019	09.00 – 13.00 [timings to be reviewed]	Board
Tuesday	30 July	2019	15.30 – 18.00	Board Away Day – Day One
Wednesday	31 July	2019	08.00 – 16.00	Board Away Day – Day Two
Monday	23 September	2019	08.30 – 10.30	ARC
Monday	23 September	2019	10.30 – 11.00	Nominations Committee
Monday	23 September	2019	11.00 – 12.00	Remuneration Committee
Monday	23 September	2019	12.30 – 17.30	Board
Tuesday	29 October	2019	11.45 – 16.30	Board
Monday	25 November	2019	16.00 – 18.00	ARC
Tuesday	26 November	2019	09.30 – 10.00	Nominations Committee
Tuesday	26 November	2019	10.00 – 11.00	Remuneration Committee
Tuesday	26 November	2019	11.15 – 16.30	Board

15.3

Strictly Confidential

POL00030887

Forward Agenda

Item	GE Sponsor / Presenter	Outcome	Strategy 30/31 July	30/31-Jul	24-Sep	29-Oct	26-Nov
Performance Management							
CEO Report	Al Cameron	Noting & Input		20	20	20	20
Financial Performance Report	Al Cameron	Noting & Input		20	20	20	20
Retail and FST&I Quarterly Reports	Debbie Smith / Owen Woodley/ Cathy Mayor/ Colin Stuart/ Emma Springham	Noting & Input			40		40
UKGI Quarterly Report	Al Cameron	Approval		20		20	
Cash Management & Funding (Borrowing Limits over Christmas)	Al Cameron	Approval					10
Health and Safety (incl. violence and robberies)	Mo Kang	Noting & Input		20			20
Succession Planning II	Mo Kang			30			
Strategic Delivery							
Banking Framework 2	Debbie Smith/ Al Cameron/ Martin Kearsley	Noting & Input					
IRRELEVANT	Owen Woodley / Chrysanthy Pispinis	Approval for Board					
Network Reporting	Debbie Smith/ Tracy Marshall	Noting & Input					
Strategic choices							
RM Negotiations mandate	Debbie Smith/ Mark Siviter	Approval					
IT Strategy	Rob Houghton				30		
Agents' pay in the long term	Debbie Smith/ Rob Houghton/ Cathy Mayor/ Alastair Roman	Approval				30	
Legal Enterprise Optimisation	Ben Foat	Approval					
Brand/ Marketing (requested by Board at Jan 19 meeting at some point over next 12 months) (placeholder)	Owen Woodley/ Emma Springham						
Group Litigation	Ben Foat/ Alan Watts	Noting & Input		30	30	30	30

POL00030887

Item	GE Sponsor / Presenter	Outcome	Strategy 30/31 July	30/31-Jul	24-Sep	29-Oct	26-Nov
Strategy Day: strategic development							
Telco	Owen Woodley/ Meredith Sharples						
Network/ Retail Strategy, including DMBs	Debbie Smith/ Tracy Marshall						
Digital wallet (placeholder)	Owen Woodley						
Forex Strategy	Owen Woodley/ Chrysanthy Pispinis						
Cash Utility	Rob Houghton/ Russell Hancock/ Martin Kearsley						
Costs and Structures	Al Cameron/ Jonathan Lewis						
Branch Hub Demo	Julie Thomas						
Standing items and Governance							
Welcome and Conflicts of Interest	Chairman	Noting		5	5	5	5
Minutes of Previous Board and Committee Meetings (incl. Status Report)	Veronica Branton	Approval		5	5	5	5
Contracts for Approval / Funding:		Approval		10	10	10	10
Items for Noting (Health & Safety; Sealings)		Noting		10	10	10	10
Verbal Updates from Committees		Noting		10	10	10	10
Board and Committee Evaluation Reports	Veronica Branton	Approval					
Annual Governance report (reviews against terms of reference; delegated authorities; conflicts of interest)	Veronica Branton	Approval					
Modern Slavery Act	Debbie Smith	Approval			10		
AOB				10	10	10	10

POL00030887

A number of areas for additional focus were identified in the Board evaluation, some of which may fit within Committee agendas and some within existing papers as well as standalone items.							
Mangement updates:							
CIO Update	IT Strategy on September Board agenda						
HR Director Update	Included on RemCo agendas						
Succession Planning & Talent Management	Discussed at Board on 30 April 2019 and included on July forward agenda						
Updates on material strategic initiatives and the management of financial and delivery risks							
Areas for more agenda time/ focus:							
Digital Identity	Digital Update included on the May Board agenda.						
Telco	Discussed at Board in January and on Strategy Day agenda for July 2019						
Further Board briefings:							
Franchising Operating Model							
Retail Operating Model							
Technological Development Updates							
Postmaster Requirements Update	Branch Hub Demo included on July Strategy agenda						