POLB(06)2nd
POLB 06/06 – 06/29

Post Office Limited

(company no. 2154540)

Minutes of the meeting of the Board held at 148 Old Street, London on February 9th 2006

Present:

Sir Michael Hodgkinson	Chairman, Post Office Limited
Ian Anderson	Human Resources Director (Acting MD)
Alan Cook	Non-Executive Director
Peter Corbett	Finance Director
Ric Francis	Operations Director
Brian Goggin	Non-Executive Director
Graham Halliday	Banking & Financial Services Director
Allan Leighton	Chairman, Royal Mail Group

In attendance:

Richard Barker	Sales Director
Simon Carter	Head of Marketing
Adam Crozier	Chief Executive, Royal Mail Group
Jonathan Evans	Company Secretary
Sue Huggins	General Manager - Rural Agency Network (for POLB06/18)
Neil Owen	Notes
David Smith	General Manager, IT (for POLB06/19)
Jeff Triggs	Lawyer, Slaughter & May (for POLB 06/13)

Apologies:

David Miller	Chief Operating Officer

POLB06/06 **MINUTES OF PREVIOUS MEETINGS POLB(05)7TH AND POLB(06)1ST**

(a) The Board approved the minutes of the Board meetings of December 14th 2005 and January 13th 2006.

POLB06/07 **RESIGNATION AND APPOINTMENT OF DIRECTORS**

(a) The Chairman reported the resignation of David Mills and Gordon Steele, effective 31st December 2005 and 31st January 2006;

(b) the Company Secretary was duly authorised to file the relevant notifications with Companies House.

POLB06/08 **STATUS REPORT POLB(06)05(a) and (b)**

(a) The Board noted the report, and in addition:

Action: Simon Carter

(b) the paper to outline potential online business opportunities for Post Office Ltd over the next 10 years would be deferred to the April 2006 Board meeting.

POLB06/09 **CHAIRMAN'S BUSINESS POLB(06)06**

Action: Simon Carter

(a) Sir Michael Hodgkinson reported that the Board would need to maintain its focus on sales, and a significant part of the April Board would be devoted to this issue;

Action: Neil Owen

(b) in the light of the continuing need to focus on sales in the context of other important strategic developments (such as the demise of Card Account) the Board agreed to the formation of a sub-committee of the Board which would be chaired by Mike Hodgkinson and include all Executive Directors. Neil Owen would arrange and communicate suitable dates. The purpose of the sub-committee would be to keep a close watch on the performance of the Company, reporting to the full Board if necessary between scheduled meetings, of any significant issues which needed to be brought to its attention.

POLB06/10 **MANAGING DIRECTOR'S REPORT POLB(06)07**

(a) Ian Anderson reported the following matters to the Board:

(b) Leadership Meeting: Alan Cook and Adam Crozier had attended the Leadership meeting which had gone well;

(c) POFS: Des Crowley had been appointed as Chairman of POFS;

(d) Industrial Action: It was likely that 1 day strike action would take place at a number of North London offices. Contingency arrangements had been made to ensure the affected offices remained operational.

POLB06/11 **PR REPORT POLB(06)08**

(a) The Board noted the report.

POLB06/12 **BUSINESS SALES AND PERFORMANCE REVIEW POLB(06)09**

(a) Peter Corbett provided the Board with a presentation on Period 10 business performance, and the 2006/07 budget. The Board noted the presentations, and in particular that:

(b) sales stood at £975.7m, £13.7m (1%) lower than budget;

(c) operating profit (after allocations and pension funding) was a loss of £104.7m, £5.9m better than budget;

(d) Year To Date cash outflow was £282m versus a budgeted outflow of £322m, which was £40m better than budget (budget included a £100m reduction in network cash);

(e) sales forecast was lower than the budget of £1.178b by £18.5m;

(f) operating profit was forecast to better the operating loss target of £130.9m by £4.5m (mainly due to lower Group allocated costs);

(g) cashflow forecast was a £177m outflow, £34m better than the budget of £211m;

Action: Ian Anderson

(h) Have Your Say results had deteriorated to 59%. This was due to the higher expectations placed on staff to perform, coupled with the ongoing franchising programme. Ian Anderson would discuss and work through the options available;

(i) the target of achieving 845,000 financial services sales was tracking slightly ahead of target;

(j) the current proposal for the 2006/07 budget was for a £190m loss (£65m worse than 2005 /06). A review had been held with the Group Chairman and Chief Executive on 30th January. Follow up actions were now in progress before a final decision was made;

(k) traditional income was projected to fall by £100m, and would be partially offset by a £30m increase in commercial income;

(l) cash outflow was projected to worsen by £108m to £285m despite £66m of further reductions in network cash (due to the Fujitsu contract, restructuring, severance payments and the higher operating loss).

POLB06/13 **SOLVENCY POLB(06)10**

(a) Peter Corbett introduced Jeff Triggs to the Board meeting and led a discussion concerning the solvency of the Company;

(b) it was reported that the Board had been advised that, given the concern over the solvency of the Company and the Board's legal duty to run the business with a view to minimising loss to the Company's creditors, it was appropriate that the Board should keep the Company's solvency under regular review with a view to satisfying itself that creditors were not likely to be prejudiced by the Company continuing to trade; in other words that the Company was not likely in the foreseeable future to go into insolvent liquidation leaving creditors unpaid. The Board meeting was an opportunity for the Directors to carry out such a review;

(c) in addition, with the Company's year end approaching, it was noted that the directors needed to be satisfied (and if so satisfied, to convince the Company's auditors) that the Company was in a position to prepare its accounts on a going concern basis;

(d) there were produced to the meeting the following documents:

(i) a paper from Peter Corbett setting out the Company's current financial position and forecast cash flows for the 24 months to 31 March 2008 (the "Working Capital Report");
(ii) a paper prepared by Slaughter and May dated January 2006 entitled "Duties of the Directors of Post Office Limited in Light of the Insolvency of that Company" (the "Insolvency Paper");
(iii) a paper prepared by Slaughter and May dated January 2006 entitled "The Four Options", analysing certain options for addressing the short term solvency requirements of the Company pending finalisation of a long term funding solution (the "Options Paper"); and
(iv) a draft comfort letter from the Government to the Company (the "Comfort Letter"), addressing the sort of comfort which may be requested from the Government pending finalisation of a long term funding solution;

(e) Peter Corbett updated the Board on the current trading and cash flow position of the Company;

(f) it was noted that the Working Capital Report outlined the forecast financing headroom of the Company and the significant dependencies on which that was based. It was clear from the Working Capital Report that in the absence of an acceptable funding package it was unlikely that the Company would have sufficient cash to meet its liabilities as they fell due over the next 24 months;

(g) the Company's ability to perform in accordance with its business plan and achieve long term viability and solvency was dependent on reaching an acceptable long term funding arrangement with Government, including some or all of the following elements:

(i) the Company obtaining access to the remainder of the "Mails Reserve" (approximately £450 million). In this regard it was noted that as Royal Mail Group plc ("Royal Mail") was currently insolvent on a balance sheet basis, the fiduciary duties of Royal Mail's directors to its creditors might make it difficult for the Royal Mail directors to agree to a transfer of the Mails Reserve. Possible bases on which those directors might justify the transfer of the Mails Reserve were referred to in the Options Paper;

(ii) the existing working capital facility from the DTI being extended beyond March, 2010, increased and amended so as to remove the limitation whereby the maximum amount available to be drawn down is limited to the amount of cash in the network;

(iii) state aid clearance of funding for the rural network of up to £300 million until March 2008. It was noted that the Board was confident that the Government would ultimately obtain the necessary clearance by the end of February, 2006; and

(iv) agreement by the Government to continue substantial rural funding payments after March, 2008 (and state aid approval for that);

(h) it was noted that none of these dependencies was assured of being met and that the future of the Company was clearly dependent on the success of negotiations with the Government as to the long term funding of the Company;

(i) the Board noted certain consequences flowing from insolvency, including:

(i) the requirement for the directors to have regard primarily to the interests of the Company's creditors – i.e. by ensuring that the business is run with a view to minimising loss to the Company's creditors;

(ii) the various other duties and liabilities imposed upon those directors as outlined in the Insolvency Paper;

(iii) the ability of the Company to raise funding and to enter into other commercial transactions;

(iv) the requirement for the directors to keep under regular review the question of whether the Company should continue to trade and incur new creditors; and

(v) the likelihood of such insolvency causing agreements to which the Company is a party being liable to be terminated;

(j) the directors were reminded that they needed to be satisfied on a continuing basis that the Company remains in a position to meet its liabilities as they fall due over the foreseeable future;

(k) it was noted that work was ongoing with a view to establishing the consequences of the Company's insolvency under various long term contracts – particularly as to whether counterparties currently had a right to terminate such contracts and whether there were grounds to believe

Action:
Peter Corbett

that they were likely to exercise those termination rights. Peter Corbett agreed to update the Board when such work was completed;

(l) it was also noted that negotiations with Fujitsu were ongoing with a view to amending and extending the current IT outsourcing agreement for the Horizon system until 2015. It was agreed that the contract extension should not be formally signed until the directors were satisfied that the Company would be likely to be able to meet its liabilities to Fujitsu for the full extended term of that agreement;

(m) Peter Corbett reported that he had instructed CMS Cameron McKenna to provide independent advice to the Company in relation to solvency issues to address any possible suggestion that there may be a conflict between the interests of the Company and other members of the Royal Mail Group in this area. CMS Cameron McKenna had already attended meetings with Peter Corbett, reviewed the papers produced to the Board and been involved in the formulation of the advice to the Board on the current solvency issues;

(n) Peter Corbett reported that he had also made contact with an insolvency practitioner from PWC on an informal and preliminary basis;

(o) it was noted that so far the directors had been continuing to trade in reliance on coming to an acceptable long term funding arrangement with Government. In addition, it was noted that the Board was also placing reliance on state aid clearance for the network funding currently committed, subject to that clearance, over the next two years;

(p) one of the purposes of the meeting was to review the progress of the negotiations with the Government as to the future funding of the Company to ensure that the Board still believed that such support would be forthcoming;

(q) it was reported that the timetable agreed with Government had originally set a deadline of 30 September 2005 for finalising a long term funding package. This deadline had been extended to 31 December 2005 and then subsequently extended further to the end of February 2006. It now appeared highly unlikely that the Government would be making any firm proposals by the end of February;

(r) it was agreed that it was still the Board's expectation that a funding package would be agreed with the Government and that such package would in the directors opinion restore the solvency and long term viability of the business. However, it was noted that it was unlikely that the Government would be in a position to commit to such an arrangement in the short term;

(s) it was considered that, even though the Board thought it was unlikely that the Government would allow the Company to go into insolvent liquidation, the directors would require additional comfort to enable them to continue trading in the interim period and to approve the Company's accounts for the year ending March 2006 on a going concern basis;

(t) the meeting considered the various options set out in the Options Paper to provide the directors with the comfort they required to enable them to take the view that the Company could, pending finalisation of a long term solution, continue to trade as a going concern and that they could approve the year end accounts of the Company on that basis;

(u) each of the options set out in the Options Paper was considered and it was noted that the paper referred to a number of legal and other obstacles to putting them in place in time for the year end. These obstacles included the fiduciary duties of the directors of Royal Mail Group plc in the light of that Company's insolvency and the limitations imposed by the state aids regime. It was noted that the Government may be considering other options, in particular some form of short term loan from the Mails Reserve, but that no formal proposal had been made and it was not clear how such options would overcome the fiduciary duty and state aid issues (nor that they would in any case produce sufficient funds). It was agreed that Peter Corbett would continue to progress these short term options with Government and keep the Board informed as to progress;

Action: Peter Corbett

(v) in the meantime it was agreed that in the time available the most practical solution would be to seek a comfort letter from the Secretary of State giving the directors assurance as to the prospects of achieving an acceptable long term funding solution and agreeing that, pending such arrangement being entered into, the Company would be supported to the extent necessary to enable it to meet its liabilities as they fell due;

(w) the form of Comfort Letter which had been tabled to the meeting was considered. Although it was pointed out that the draft letter had been prepared on behalf of the Company and Government had given a preliminary indication that it would be unacceptable to Government if proposed in its current form, it was agreed that in the time available the most sensible option would be to try to obtain the best comfort available from the Secretary of State, so as to allow the directors to come to the view that the Company could continue to trade as a going concern and to approve the year end accounts of the Company on a going concern basis;

(x) however, it was agreed that the progress towards obtaining such a Comfort Letter and the wider discussions with the Government should be kept under regular review with a

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view to taking appropriate action should the position change. In particular, the position would need to be carefully considered before the directors could sign the 2005/6 accounts on a going concern basis;

(y) after considerable discussion and having regard to:

(i) the current and projected financial position of the Company, including its financial performance and cash flows;
(ii) the contents of the Working Capital Report;
(iii) the duties of directors as outlined in the Insolvency Paper;
(iv) the risk of action being taken by counterparties to terminate contractual arrangements on the grounds of the Company's insolvency and the directors assessment of the likelihood of such action being taken;
(v) the current status of negotiations with the Government towards entering into a satisfactory long term funding arrangement;
(vi) the directors continued expectation that a long term funding package would be agreed with Government; and
(vii) the prospects of achieving satisfactory short term funding commitments or comfort pending the entry into such a long term arrangement,

it was agreed that:

(viii) it was appropriate for the Company to continue to trade on a going concern basis for the time being;
(ix) the Company should continue to pursue the short term options with a view to obtaining sufficient comfort to enable the Company to continue trading pending entry into a satisfactory long term funding arrangement with Government, including in particular a comfort letter from Government on terms acceptable to the Board;
(x) the Chairman should write to Government to seek reassurance that the Board's confidence that a long term funding solution would ultimately be forthcoming was not unfounded, and to put forward the Board's request for a comfort letter from Government pending that solution being implemented; and

Action: Mike Hodgkinson

(xi) the solvency of the Company should continue to be kept under regular review, particularly with regard to the continuing discussions with Government both as to the long term funding solution and of the Company's short term financing requirements pending entry into such a long term arrangement.

POLB06/14 **A&L SECURITY AND INTER-CREDIT AGREEMENT POLB(06)11**

(a) Peter Corbett presented the A&L security and inter-credit agreement overview paper to the Board, together with the draft agreements. The Board noted that:

(b) when the Department for Work and Pensions withdrew the pre-funding of network cash, the Company had signed a loan agreement with the Department of Trade and Industry (DTI) of £1,150m in order to fund this cash. As security for this facility the DTI had a floating charge over all the Company's assets;

(c) Post Office Ltd provided a number of intermediary banking services on behalf of Alliance & Leicester (A&L) which were renegotiated in 2004. As part of these new terms of business it was agreed that Post Office Ltd would settle funds received from A&L customers on a Day B basis, being the day after receipt, instead of the current long standing Day A basis;

(d) negotiations between Post Office Ltd, A&L and the DTI on the terms of the Security, Intercreditors and Ancillary documents were nearing completion, and the intention would be to complete them before the year end;

(e) as this would give A&L a credit risk on the Company they were only prepared to allow a maximum £150m to be settled on Day B subject to them having security over our assets and there being a buffer of at least £100m. If at any time Post Office Ltd fell below this buffer, A&L could cancel the facility and return to Day A settlement or reduce the facility on a pro rata basis;

(f) Post Office Ltd had already given the DTI a charge over its assets, and this would require the DTI to enter into an Intercreditors agreement with A&L to share such security on a pari passu basis;

(g) Brian Goggin raised the concern that such an agreement would provide other creditors with notice of potential problems with Post Office Ltd, and this may impact on its trading position;

(h) Mike Hodgkinson explained that an opportunity existed for the Government to provide an additional £100m of funding by changing the security requirements. A need existed to ensure this money was not included as part of the £1.25b working capital requirement;

(i) the Board agreed that further details of the benefits of this arrangement for Post Office Ltd would be circulated for information, but in any event further agreed that Peter Corbett would be authorised to conclude the negotiations, and authority was delegated to Peter Corbett and Graham

Action:
Peter Corbett

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Halliday to sign the Security, Intercreditors and ancillary documents on behalf of the Board.

POLB06/15 **SALES RESULTS REVIEW POLB(06)12**

(a) Simon Carter circulated a short presentation which demonstrated the impact of various sales incentives and marketing initiatives against the sales volumes of Post Office Ltd's focus products. The Board noted the following:

(b) over the year, there had been limited levels of advertising support behind any of the core Post Office® products, especially in relation to the highly competitive markets, with significant investment only taking place during initial launch periods;

(c) whilst there appeared to be no direct link between advertising spend and sales capability, at this low background investment, such spend was below the critical "cut through" levels, for products where the Post Office® had low customer awareness;

(d) there was also no clear link between "Primary" in-branch focus, and sales uplift. However, HomePhone and Car Insurance sales had increased 400% (from 8,000 a week to 24,000 & 1,750 to 7,000 sales respectively), since the start of the calendar year. Credit Card sales had now returned to launch levels (1,700 a week);

(e) Direct Sales of all three products were at record levels, especially on-line, largely due to specific "aggregator"/"affiliate" activity;

(f) all three products had received intense sales focus, with a specific branch incentive scheme. In addition, HomePhone and Car Insurance had benefited from a market-leading "£50 off" sales incentive. Credit Card had been the "Primary" in-branch campaign;

(g) possible explanations for these results included:

(i) the use of sales incentives had given colleagues something to promote to customers;
(ii) the £50 discounts represented significant market leading offers;
(iii) the branch incentive scheme ("Treasure Chest") had had a positive motivating effect on colleagues, beyond prevailing remuneration;
(iv) the focus on just three products, rather than thirteen Focus Products (and around 170 counter products) had simplified matters for colleagues;
(v) the intense sales activity and a level of passion and enthusiasm across Head Office support teams, Sales Account Managers, internal communication

had garnered activity to new levels;

(h) whilst the immediate focus was delivering the year-end sales numbers, all of these lessons were being incorporated into the plans for 2006/7;

(i) Peter Corbett pointed out that the Board should still have in mind that the three biggest products accounted for only 2% of Post Office Ltd's business, and therefore further growth of these products was essential;

(j) Alan Cook stated that when he commenced his role as MD, he would be looking at what the Post Office was for, the links between the most successful products, and the need for strong brand associations;

(k) Brian Goggin stated that there would be a continuing need to weigh up the complexity and profitability of the products. Allan Leighton further highlighted the need to keep the products and offers simple and straightforward for customers to ensure their success;

(l) Adam Crozier highlighted the importance of good product design, and for the Board not to become complacent and lose the market share that had been obtained. Customers were now doing their own research using the internet which was playing an ever increasing role;

(m) Graham Halliday stated that further opportunities would present themselves as sales volumes continued to grow. The signs were that providers were getting behind the products and would offer better deals as the volumes increased;

(n) Mike Hodgkinson stated that the foreign currency market research had indicated that customers with higher incomes would holiday in the winter, whereas those on lower incomes would holiday in the summer. Post Office Ltd had been less successful at attracting customers from the higher income groups. Adam Crozier stated that this highlighted the need for proper management of the portfolio of products, and that it should not be assumed that the entire customer base wanted financial services products. Higher income groups tended to research the best deals using the internet;

(o) Allan Leighton explained that one of the key barriers to achieving the sales targets was the inconsistency of sales performance within the branch network. The issue of branches not prepared to dedicate effort to sell the products would need to be addressed. The costs to the Company would not be increased by effectively addressing these performance issues. However, Peter Corbett pointed out that the importance of reducing costs should not be underestimated;

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(p) Alan Cook explained that when Directly Managed Branches became franchised offices, sales of financial services products decreased, but profitability of the branch increased;

(q) The Board agreed that:

Action: Richard Barker Ian Anderson

(i) consideration should be given to excluding sub-postmasters who refused to sell new products from the next 'Share in Success' scheme;

Action: Simon Carter

(ii) further analysis of product and agent sales would be produced for the April 2006 Board meeting. Alan Cook requested that he be given more time, on becoming MD in March, to review the sales and product strategies. Sir Mike accepted that the Board's consideration of these issues in April would only be preliminary to a full review of the strategies which Alan Cook and his team would need to consider in much more depth.

POLB06/16 **LIFESTYLE PROTECTION POLB(06)13**

(a) Graham Halliday presented the Lifestyle Protection paper to the Board. The Board noted that a similar paper had been presented to the Royal Mail Holdings Board, and in addition noted that:

(b) in October 2005, the POFS Board approved the development and implementation of "Lifestyle Protection", an income replacement product designed to attack and compete with current payment protection products;

(c) due to the concentration of activity in Post Office branches in the first half of the 2006/07 calendar year, the product would be launched as a direct proposition via the telephone and Internet in May 2006. The phase 2, in-branch launch would take place in September 2006. Target sales of 100,000 had been agreed with POFS for 2006/07;

(d) the current market was valued at £5.5bn gross written premium with 12m people holding 20m policies. Market research indicated that 61% of customers would consider buying the product, with 43% saying they would switch. This would be a new market and there were no historic benchmarks, but against the opportunity identified the target was considered realistic;

(e) the Lifestyle Protection product would be manufactured and serviced by AXA, who would operate to a fully outsourced, white labelled model, with full Post Office branding;

(f) the Board agreed that:

(i) the product offered considerable potential and rollout should commence;

Action: Adam Crozier
Action: Ian Anderson

(ii) Adam Crozier would discuss the PR opportunities with Mary Fagan;
(iii) Ian Anderson would provide a response to the questions raised by Bob Wigley at the Royal Mail Holdings Board;

POLB06/17 **CARD ACCOUNT UPDATE POLB(06)14**

(a) Graham Halliday circulated a paper and highlighted the following matters:

(b) DWP reconfirmed that the current card account contract would not be extended beyond March 2010, moreover that no payments would be made by Government to Post Office Ltd for any card accounts still in operation after 31st March 2010. Post Office Ltd therefore need to ensure they manage their card account operations accordingly;

(c) DWP also confirmed that the last credit would be made to an active customer card account in September 2009. This was with the intent of providing customers with sufficient time to withdraw all their funds and close their accounts prior to 31st March 2010;

(d) Government reconfirmed that the pilots to test migration strategies would be commencing during February and that results would be shared with Post Office Ltd when these were available;

(e) DWP did not rule out contracting with a new supplier for a low – end customer product. The Government was likely to view positively a solution provider that included within its solution access to cash via Post Office branches. If Post Office Ltd could bring a product forward that matched the Government's expectations on cost per account, product attributes, and service requirements, then they would be in a very strong position to win the business;

(f) The Board noted the formation of:

(i) a cross business-working group to develop the potential solutions for the card account; also identifying and assessing the most suitable suppliers for such a solution;
(ii) a card account EC Steering Group with responsibility for directing and agreeing the strategic solution for the business.

POLB06/18 **CARD ACCOUNT MARKET RESEARCH - POLB(06)15**

(a) Graham Halliday provided a presentation which was noted by the Board.

POLB06/19 **POST-CARD ACCOUNT DECISION STRATEGY - POLB(06)16**

(a) Richard Barker introduced Sue Huggins to the Board. A presentation was circulated to update the Board on the progress of the alternative network scenarios given the Government's recent decision to manage down the Card Account;

(b) many stakeholders now accepted that the network was too large, and the expectation that POL/RMG could financially support anything other than a commercial network was increasingly untenable. Any network required for social purposes would need to be funded by Government. There was an inevitability about the need for network size reduction and the need for policy decisions to determine the extent of that reduction. It was acknowledged that this was difficult and sensitive and that it remained a matter for Government;

(c) a 'thought-piece' of five policy scenarios from a Government perspective were presented for discussion;

(d) the Board considered each of the scenarios which included options to:

(i) continue to support current network but remove need for 'like for like' replacement activity;
(ii) replacing rural branch overprovision with outreach;
(iii) a mix of closure and outreach activity in urban and rural social areas;
(iv) a mix of closure and outreach activity with more emphasis on closure so that future social provision was primarily via outreach;
(v) a major closure programme resulting in a purely commercial network with no ongoing funded social provision;

(e) after some discussion the Board agreed that option (ii) was the most appropriate, and would be the most effective means of providing a viable structure to the network. The Board further agreed that the scenario would be discussed with Alex Smith and communicated to Government in the appropriate manner.

Action:
Sue Huggins
Adam Crozier

(f) In addition, the Board agreed that discussions of the options with Government, the term 'Base Case' and 'scenarios' would be used.

POLB06/20 **HORIZON NEXT GENERATION BUSINESS CASE POLB(06)17**

(a) Ric Francis introduced David Smith to the Board and the Horizon Next Generation Business Case was discussed.

The Board noted that:

(b) it was essential that Post Office Limited achieved significant reductions in IT costs to return the business to sustainable profitability. The major opportunity to do this resided with the Horizon system that was provided by Fujitsu Services under a contract that expired in March 2010;

(c) in March 2005 Fujitsu Services proposed a major investment in application, branch and data centre hardware which would simplify the solution enabling significant reductions in recurring operating costs on the basis that the term of the existing contract was extended to March 2015. However, this proposition gave no scope for further reductions once the benefits of the upfront investment had been realised;

(d) Post Office Limited had negotiated a new deal with Fujitsu that delivered significant guaranteed cost reductions on radically different terms to those in the current contract. Under these revised terms Post Office Limited would be able to market test all components of the contract and Fujitsu Services were incentivised to achieve further year on year reductions in costs;

(e) Alan Cook raised the matter of network size and cost variability. Ric Francis clarified that variability was primarily driven by the number of transactions rather than number of branches;

(f) having considered the P&L and pre-tax cashflow impact for Horizon Next Generation, the Board agreed a further £4m investment (in addition to the £6m already authorised) to continue development work in order to maintain the necessary progress to meet the Post Office Business Plan. The Board agreed the deal with Fujitsu in principle, but the board noted that it would be necessary to make the next investment decision in the April-May timeframe when the overall position on the potential to sign the long-term contracts would be clearer.

POLB06/21 **ASSOCIATE COMPANY ITEMS FOR NOTING POLB(06)18**

(a) The Board noted the POFS minutes of 8th November 2005. Graham Halliday clarified that synergies between financial services products were being examined by Project Rainbow;

(b) there were no further FRTS Board minutes available for noting.

FUNCTIONAL REPORTS

POLB06/22 **FINANCE FUNCTIONAL REPORT POLB(06)19**

(a) The Board noted the report;

(b) issues in relation to business performance, sales performance, and solvency had already been discussed;

(c) Impact: The programme to replace Post Office Ltd's legacy systems was nearing completion. Preparations were being made to hand over to business as usual. All planned financial benefits were forecast to be delivered.

POLB06/23 **SALES & SERVICE REPORT POLB(06)20**

(a) The Board noted the report, and also noted that:

(b) Restrictions: on 16th December Post Office Ltd provided its response to comments on Postmasternet's publicised response to the OFT's provisional decision to close its case file. Earlier this month the OFT advised that a further meeting with Post Office Ltd was unlikely to be necessary. The OFT hoped to be in a position to inform of the "next steps" by the end of January and no later than mid-February. It was thought likely that the Company's position would be supported and the matter closed;

(c) Instant Saver: The instant saver product had been launched and a positive reaction had been received. Over 600 events had been organised to promote the product.

POLB06/24 **MARKETING & DIRECT SALES POLB(06)21**

(a) The Board noted the report and in addition that:

(b) Direct Sales Channels: Sales through Direct Channels continued to grow, especially of the newer products where over 30% of HomePhone, Credit Card, Car Insurance, Personal Loans, Travel Insurance and Flowers were now Direct. 17 on-line campaigns went live during December, principally around the core focus products, including an e-mail "newsletter" to 70,000 "opted-in" customers. Web visitors continued to grow and reached a peak of 275,000 a week with no website stability problems during the busy December period. 8m on-line visitors were expected this year.

POLB06/25 **BANKING & FINANCIAL SERVICES POLB(06)22**

(a) The Board noted the report and in addition that:

(b) ATM Strategy: 20 Post Office® / Bank of Ireland free ATMs had now been installed. Bank of Ireland were still experiencing problems with BT in terms of communication lines, although the target for the end of the year was still 75. An issue concerning the branding of the ATMs had meant it had not been possible to provide much publicity to the launch.

POLB06/26 **OPERATIONS REPORT POLB(06)23**

(a) The Board noted the report, and in addition that:

(b) Cash Services: Negotiations continued around exiting unprofitable activities. The Have Your Say score for Cash Services had increased to 65%, but it was thought that this could decrease if the issue was balloted. VSS was being considered on a depot by depot basis. Ian Anderson and Tony McCarthy were providing advice as necessary;

(c) Network Resilience: Software to enable network improvements was now in advanced stages of testing and was on track for deployment in April. Prolonged loss of network connectivity in individual branches continued on a downward trend.

POLB06/27 **HUMAN RESOURCES REPORT POLB(06)24**

(a) The Board noted the report and in addition that:

(b) Have Your Say: Work was in progress on the revision of the Agents' survey. This would launch in the first quarter of 2006-07. Analysis of Cash Services figures was needed to determine the statistical significance (or otherwise) of the steady rise in results. The Directly Managed Branches, which were the cause for most concern, required the heaviest engagement and advice to assist in turning around their scores. This had been planned for the first quarter of 2006. HYS-related interventions in certain administration units (e.g. IT and Marketing) offered the basis for reviewing Improvement Planning and engagement across other such teams: this would be researched, and workable options cascaded later in the year;

(c) IA ballots for London North and Thornaby: Both ballots closed on 1 February. Despite extensive engagement activity to win the ballot both ballots were comfortably in favour of Industrial Action. Industrial Action was likely to be on 13 February. Contingency planning was in place to minimise disruption. Mary Fagan had been linked in to provide appropriate PR support.

POLB06/28 **SEALINGS POLB(06)25**

(a) The directors approved the affixing of the common seal of the Company to the documents set out against item number 01/06 and 47/06 inclusive in the seal register;

(b) the directors agreed the amendment to the list of authorised signatories to Neil David Owen, Andrew Philip Poole and Elizabeth Paterson Schumann.

POLB06/29 **CLOSE**

(a) There being no further business, the meeting was closed.