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In Strictest Confidence

Brief for meeting with George Thomson/Mervyn Jones on 11/12/2014

Arrangements

- Meeting with Paula at 13.00 for 45 mins in Paula's room.

Purpose of the meeting

- Purpose of meeting is to discuss current/emerging strategic relationship with NFSP senior members.

Key points / messages / outputs for Post Office Ltd at the meeting

- We should acknowledge the recent challenges we have encountered **relating to the Network Development/Expansion** discussions and reiterate that this is a **business critical programme** of work that is a priority for us, both in terms of gathering data from pilots and getting the subsequent network design right.

- Our **rapid launch** of access points reflects the desire of both organisations to **assert a position** in the Mails market which puts us on the **front foot**.

- We should acknowledge their desire to seek comfort that **existing postmasters' interests** are taken account of - in terms of the range of products available at access points, where these access points are located and how many we have. We want to **work together** to establish an agreement between us on how this will function. We have shared our plans in a collaborative manner.

- Our assumption continues that **NFSP are best-placed to represent postmasters**, albeit in a rapidly changing environment that will inevitably influence our relationship.

- Our **recent meetings discussing the MOU and Network Development** have been helpful to clarify the issues and find potential solutions.

Further Background

Grant Agreement (MOU)/Network Development

NFSP have now returned their marked up version of the MOU/Grant Agreement (GA) and there are a number of key elements within their proposed changes to take account of. Critically, as expected, they are asserting a position that they will not engage in any detailed discussions related to Network Development until the GA is signed and that the GA sets out clear parameters that do not provide their support for any Network Development beyond that defined in the current NT plan – i.e. excludes Network Extension (NE).

We have been meeting regularly (every 2 weeks) to discuss the GA and NE and in reality the meetings, which have been constructive in nature and tone, have discussed all these issues and enabled us to gain clarity on the NFSP's position. Signals from George privately are that he understands the reality of the market and uncertainty in the business around signing an agreement binding PO to make payments to NFSP without prior agreement on Network Extension, albeit he is formally asserting a position that the GA is part of NT2 and a dependency on them supporting compulsion in NT.

Whilst it feels that we are pulling the NFSP towards a position that is acceptable for us, this remains finely balanced and gaining an agreement at zero cost/risk to PO is unlikely.

For the GA, the key decision for PO is likely to be around a balance of risk of pushing NFSP too far towards a fall-out versus recognition that agreement is a preferred outcome. The emerging option for PO

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is to sign the GA ensuring it includes a termination clause that was underpinned by a termination payment from PO, thus enabling exit from the agreement in the event of future non-agreements, this in effect becoming a termination event. NFSP themselves are seeking a termination payment to protect them against the consequence of having no membership subscriptions, albeit tied to termination events as currently defined rather than additional.

NOTE – this aspect has been discussed tentatively with George in private but not yet shared with his team – this is anticipated to be discussed at the next meeting on 18/12. As yet, he has not agreed or dismissed such a concept.

For NE, critical is their desire to seek comfort that existing postmasters' interests are taken account of - in terms of the range of products available at access points, where these access points are located and how many we have, as well as seeking to represent these operators. George's financial demands here are reducing and we may be able to satisfy this through the provision of additional discretionary funding for cannibalisation protection (from existing NT budgets) driven by actual implementation of access points.

What we have made very clear (and seems to be accepted by George) is that there is no more additional money (internally or from Government) and that defining explicit parameters in advance (as we have done in the past with defined compensation payments and absolute conversion numbers) is not realistic in the emerging and changing environment.

George has now confirmed that he does not expect 2 special conferences – one for NT, one for NE – and that the latter would be covered by an Executive Council decision. This should be seen as a positive – an indication that he wants to gain an understanding of NE prior to signing the GA. Likely timescale for the Special Conference is now end January/early February.

Opinion remains that NFSP's preferred outcome to their organisational future is an agreement with PO – but it is finely balanced and the recent emergence of a more challenging environment relating to Network Extension has definitely increased the possibility of them merging with CWU. NFSP acknowledge that this would not be a good outcome for subpostmasters – their influence in CWU would be minimal, membership numbers would decline and most of the senior leadership would find it very difficult to remain in post, primarily from an ideological basis.

Other Potential Issues

POCA

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George is aware that we are expecting the POCA announcement next week and he will be briefed on the detail as soon as we have final confirmation. This is obviously a good outcome for all parties.

ATM business rates

Mervyn was advised (directly by the VOA) of the decision not to proceed with the charging of business rates to branches with ATMs.

Both parties agree this was a good outcome and we will be discussing with Mervyn what further, if any, action is required.

(Please note - The meeting with Mervyn to discuss this is on 11/12 so if anything emerges at this meeting, it will be covered in the pre-meet to the George meeting).

Mails advisory council

Terms of reference have now been agreed with RM and NFSP and we are now scoping dates (in January) for the initial session with the working group – anticipated to be 5 reps each from PO, NFSP and RM. In this first session RM and POL will provide an update on key challenges (e.g. view of parcels market, and response to competition) with NFSP presenting feedback from the frontline including some of their key challenges and experiences of selling RM products.

We are aiming for 4 sessions per year, to feed into the sessions proposed for Paula, Moya and George.

Horizon Mediation Scheme

George is looking to avoid making any public statement relating to the Arbuthnot press release, though has been contacted by the press.

He has always maintained a strong position that Horizon is robust and, as we know, was not in favour of the Second Sight investigation or mediation scheme. This was sensitive to him as he felt the report and scheme was inconsistent with the robust position he maintained.

We have not asked for his public support on this subject but should not discount this as an option if the situation demands it. His reaction to this could be tentatively tested at the meeting.

VAT recovery/NI issue – conversion to new status

NFSP have been advised that we have gained clarity from HMRC on the status of Mains operators and that 600 operators will be informed of this shortly.

We have yet to discuss with them the prospect of the voluntary transfer of all remaining traditional subpostmasters and seeking their support to implement this.

The latter issue will be discussed shortly once we have a final position established.

It should not be raised at this meeting.

Nick Beal 9/12/14