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POLB 17(1st)
POLB 17/01 – 17/14

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a meeting of the BOARD
held at 9.30 am on 31st January 2017 at 20 Finsbury Street, London EC2Y 9AQ

Present:

Tim Parker	Chairman (TP)
Ken McCall	Senior Independent Director (KM)
Richard Callard	Non-Executive Director (RC)
Tim Franklin	Non-Executive Director (TF)
Virginia Holmes	Non-Executive Director (VH)
Carla Stent	Non-Executive Director (CS)
Paula Vennells	Chief Executive (CEO)
Alisdair Cameron	Chief Financial and Operations Officer (CFOO)

In Attendance:

Alwen Lyons	Company Secretary (CoSec)
Jane MacLeod	General Counsel (GC) (Minute POLB 17/02)
Kevin Gilliland	Chief Executive Retail (KG) (Minute POLB 17/05 to 17/08)
Nick Kennett	Chief Executive Financial Services and Telecommunications (NK) (Minute POLB 17/05 to 17/08)
Martin Edwards	Group Strategy Director (ME) (Minute POLB 17/07)
Rob Houghton	Group Chief Information Officer (RH) (Minute POLB 17/09)

Apologies for Absence:

None

POLB 17/01

INTRODUCTION

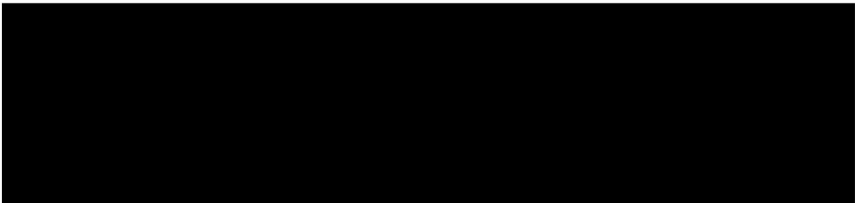
- (a) A quorum being present, the Chairman opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

POLB 17/02

BALANCE SHEET

- (a) Jane MacLeod, General Counsel joined the meeting.
- (b) The CEO explained that the planned closure of the pension scheme in March 2017 would remove from the Balance Sheet the amount attributable to the pension scheme surplus. This would result in a net liability. [REDACTED]
- [REDACTED]

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- (c) The CFOO explained the background to the issue which had arisen as a result of the combination of the Company's accounting policies under which capital expenditure was expensed (noting that c£400 million of capital expenditure over the previous 3 years was not included in the balance sheet), and IAS19 as a result of which the pension surplus had been shown as an asset.
 - (d) Assuming that the Trustee made the decision to close the pension scheme with effect from 31 March, the surplus would be removed from the balance sheet and this, together with the effect of the Company's trading position, would result in a net liability currently estimated to be c£200 million. He reaffirmed that closing the scheme remained the right outcome and best protected the Company going forward.
 - (e) The CFOO noted that under the previous funding arrangements, the Company had committed funding for 2017-18 and that there was no reason to believe that the network subsidy would not be agreed for the next funding period covering 2018-2021. However at this stage the Company was waiting for confirmation from the shareholder as to the timing of the decision regarding the continuation of the Working Capital Facility and investment funding. Both of these would be relevant in any event to the question of going concern which the Board would be required to consider in the normal way as part of the approval of the Annual Accounts. The CFOO stated that longer term commitments would need to be considered if the decision regarding the Working Capital Facility and the investment funding was delayed.
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- (g) The GC agreed to discuss the personal position of the Directors following the meeting.
- (h) The Chairman acknowledged that the Balance Sheet insolvency was a technical issue and noted the importance of ensuring that the Board members were able to discharge their duties as directors.
- (i) The Board also instructed management to approach the Shareholder and request that HMG provide a letter of support to the Company to enable the Directors to have confidence that debts, commitments and expenditure would be met in accordance with contractual obligations.
- (j) The Board required comfort that the Company should continue trading notwithstanding that the balance sheet changes would

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result in the Company have net liabilities. To this end, the Board required the CEO to provide to the Board:

1. Weekly cash flow forecasts
2. assessment of discretionary spend over the next few months pending certainty on the investment funding
3. a paper from the CFOO setting out the options available for recovery of the balance sheet
4. a plan for the next steps

ACTION: CFOO (k) The Board also stated that they wished to receive regular updates on progress and to be informed of any material developments that affected the position.

(l) The GC left the meeting.

POLB 17/03 MINUTES OF THE PREVIOUS BOARD MEETING AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

(a) The minutes of the Board meeting held on 24th November 2016 were approved and the Chairman was authorised to sign them as a true record.

(b) The minutes of the Post Office Advisory Council meeting held on 3rd November 2016 were noted by the Board.

(c) The actions status report was noted as accurate.

POLB 17/04 CEO REPORT

(a) The CEO introduced the CEO Report focussing on the following key points.

Period 9 Performance

(b) The CEO reported a good performance for period 9 and explained that more detail would be provided by the Chief Executives from the two new Business Units who would be attending the Board on a quarterly basis to present their performance report.

(c)

Irrelevant

(d)

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Postmaster Litigation

- (e) The Group Litigation Order (GLO) came to court on the 26th January Detailed information will need to be provided for each claimant. The GLO is likely to return to court in the autumn for further procedural directions.

Network Transformation

- (f) The 7000th transformed branch had now been opened with plans for Margot James, Parliamentary Under Secretary of State at BEIS, to carry out the official opening in due course.

(g)

Irrelevant

(h)

ACTION: KG

Post Office Card Account (POCa)

ACTION: CEO

- (i) **The Board asked for an update on POca which the CEO promised to provide to the March Board.**
- (i) The Chairman thanked the CEO for her report. The Board noted the report from the CEO.

POLB 17/05

CHIEF EXECUTIVE RETAIL PERFORMANCE REPORT

- (a) The Chairman welcomed Kevin Gilliland, Chief Executive Retail, and Nick Kennett, Chief Executive Financial Service and Telecoms, to the meeting. The Chairman thanked the Chief Execs for their reports and explained that the Board was keen to spend more time understanding the operational performance of the two new Business Units

P9 Retail Performance

- (b) KG summarised his report and highlighted the strong Mails performance over the Christmas period, 4% up on budget and 2.5% up year on year. The extended posting period for RMG compared with other carriers had been a real advantage. Government Services was above target by 5% year on year but 12% down on last year driven mainly by loss of POca and DVLA work.

(c)

IRRELEVANT

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IRRELEVANT

ACTION: KG/ME

- (d) The Board discussed the history and growth of competitors in the payments market and asked for a session at the Board away day in June to understand the strategic options in the payments market and how aggressive the Business should be defending the footfall in this area.

- (e) KG assured the Board of the Executive focus on payments and the work underway to win whole estate deals with multiple partners.

Network

- (f) KG updated the Board on the opening of the 7000th Network Transformation branch, he was now sure that the both targets would be achieved for the year.

- (g) Directly Managed Branch (DMB) conversions were behind the stretch target set but there had been good interest in the next tranche of offices advertised.

- (h) Network Development was on track to deliver £4m savings through simplification but the benefits had to be sold to postmasters to enable them to make the savings and counteract the reduction in their remuneration.

ACTION: KG

- (i) KG explained that a new commercial pack had been developed for use in promoting the franchise to prospective postmasters, the pack would be circulated to the Board for information.

(j)

IRRELEVANT

(k)

- (l) KG also explained that he was looking at the potential to site post offices into non retail environments such as large office buildings.

ACTION: KG

- (m) KG was asked to consider approaching building management companies (eg Mitie) who facilitate many of the large buildings in city centres.

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- ACTION: KG/ME
- (n) The Board asked that Network strategy be included on the agenda of the June away day. To consider:
1. What approach would PayPoint (PP) take if it ran the Network
 2. What offer would we need to combat the PP threat and how quickly could we have it in place
 3. What is the cost of mails complexity eg awkward sized parcels
 4. What would Post Office do if it had access to capital

- ACTION: KG
- (o) The Board asked that future BU performance reports include:
1. Performance results, including contribution.
 2. Short term metrics
 3. Competitor information
 4. Key priorities and drives of the BU (30/90 days)
 5. IT priorities (30/90/180 days)
 6. Education appendix to educate the Board on a topic eg Collect+

- POLB17/06
- (p) The Board noted the report.

CHIEF EXECUTIVE FINANCIAL SERVICES AND TELECOMS PERFORMANCE REPORT

- (a) Q3 Commercial Performance
NK summarised his report and pointing out that despite Q3 being the quietest quarter for Financial Services (FS) he was still on track to hit the FS target for the year. Life, Home and Travel insurance products were delivering good performance, but changes in Motor Insurance regulation and the market were proving a challenge to the whole industry, and which POMS were managing.

(b)

(c)

(d)

IRRELEVANT

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IRRELEVANT

Banking Services

- (e) The Board congratulated NK on the Banking Framework announcement and NK reported that the volumes were increasing as expected. Approaches had been made by a couple of the big banks covered by the banking framework to see if the relationship could develop with Post Office providing more services.

Challenges

- (f) Good progress had been made in the End User Management (EUM) project and the POMS Board had agreed to continue to accept the risk relating to Travel Insurance sales through to September 2017, subject to regular reporting and continued progress in line with the plan. The EUM progress would continue to be monitored until the technology solution was delivered.

- (g) Project Finch had been announced and 150 in-branch Financial Specialists had been given notice which would have an effect on the POMS performance and the sales of Life Insurance. POMS would take an income hit of £2.6m pa, whilst the Post Office Group would benefit by £5m.

- (h) The Board noted the report.

POLB 17/07

FUNDING UPDATE

- (a) The Chairman welcomed Martin Edwards, Strategy Director, to the meeting.
- (b) ME provided a verbal update on the funding process.
- (c) The Board discussed the funding plan and the specific investment required to convert DMBs. Richard Callard pointed out the long payback period on some of the DMB closures and acknowledged that this might be an area of concern for Ministers and Treasury. The CFOO explained the high one off costs of closing DMB branches, which could be mitigated by the challenging option of renegotiating MTSF terms. KG explained that if MTSF terms were reduced this would have a knock on effect on the appetite of franchisees to take on branches, as TUPE would apply and their costs would increase.
- (d) The Chairman understood the challenge and political unease but stressed that the structural changes to the DMB network were a fundamental part of the business restructure to right size the cost base. The Board asked for assurance that BEIS were presenting the case to Ministers and Treasury as approved by the Board. The Chairman gave assurance that the Executive and BEIS were working closely to present the strongest case possible; both he and the CEO were meeting Ministers and advisors. The Board took comfort from this approach.

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- (e) The CFOO stressed the importance of retaining flexibility within the funding package to enable the Business to deliver the agreed returns. Changes to the cash facilities rules could enable the use of network cash to fund a small proportion of the restructuring costs.
- (f) The Board noted the verbal update.
- (g) ME left the meeting.

POLB 17/08

2017/18 BUDGET AND SCORECARD

- (a) The CFOO presented the 2017/18 EBITDAS plan and explained that after rigorous debate the GE had agreed to recommend an EBITDAS target of £28m for 2017/18.
- (b) The decline in legacy income decline would continue, leading to a £43m reduction in underlying net income. However long term cost saving initiatives already in place would deliver a year on year improvement of £49m. The plan had been structured to hit an aggressive £38m target generating a contingency of £10m to be spent in the second half of the year to support growth.
- (c) The Board were disappointed by the FS growth in the plan and hoped that the £10m growth fund would be available to realise the potential growth in FS.
- (d) The Board asked for assurance that the plan was not too ambitious and would not mean taking regretted decisions. The CFOO recognised the challenges in the plan but supported the decision reached by the GE, who believed that it was right to aim for £28m the number agreed in the current funding.
- (e) NK and KG reported the discussion at GE and the time taken to debate the risks included in the plan.
- (f) STIP Proposals
The Board discussed the Bonus proposal presented as a strawman by the CFOO and agreed that the bonus structure should be discussed and agreed by the Remuneration Committee (RemCo) on the 9th Feb. The Board were comfortable with the RemCo considering some relief in the EBITDAS target for known, quantifiable one-off risks such as pension costs and postmaster litigation.
- (g) The Board approved the recommended EBITDAS profit of £28m for 2017-18, and the Chairman thanked the CEO and CFOO for presenting an ambitious budget.
- (h) KG and NK left the meeting.

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POLB 17/09

TECHNOLOGY STRATEGY UPDATE

- (a) The Chairman welcomed Rob Houghton, Group Chief Information Officer, to present his report.
- (b) RH explained that negotiations were underway with the five key technology suppliers.
- (c) ATOS
Discussions were proceeding to bring some of the services back in house either through a partial or full termination of the contact. The decision and timeline should be known within the next few weeks. Partial termination would help mitigate potential TUPE. RH stressed that the Business should not be afraid of full termination if that proved the right solution. Moving away from ATOS would help to simplify the interface with vendors.
- (d) Computacenter & Verizon
Negotiations to move to a Price x Volume model are progressing well, this will enable variable service levels for different branches in future.
- (e) **The CEO proposed that the proposition that postmasters be offered differing support levels be included for discussion at the Board Away day in June.**

ACTION: ME

- (f) Accenture CDP
The Accenture contract is due for renewal in August 2017. The COI in each BU will need to ensure the necessary challenge to reduce the complexity in the Business as the new contract is negotiated.
- (g) FUJITSU (FJ)
There are three current issues:
 - 1. The long term contract is very favourable for FJ
 - 2. The operational risk is outside our risk appetite
 - 3. There is a need to re-architect and to move to the cloud; ideally through assisted transformation with FJ
- (h) RH is continuing to have discussions at a senior level within FJ to try to challenge the existing contract and get FJ comfortable with a declining revenue stream offset by payment for assisted transformation. The commercial negotiation and the procurement risk of changing the contract are both challenging.
- (i) Work is underway to produce the timeline for moving to the cloud before the Belfast datacentre lease expires.
- (j) The Board asked RH if he was getting the support and resource he needed to deliver a very challenging plan, and whether he would benefit from help with the negotiation. RH explained that he had already brought in two procurement experts to help with the strategic negotiations.

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- ACTION RC**
- (k) **The Chairman offered to meet the FJ Chairman if that would be helpful and asked Richard Callard to determine the status of any relationship with FJ within government.**
 - (l) The Board asked RH if he needed technical expertise to challenge his ideas and thinking. RH assured the Board that the GE provided good challenge in non-technical areas and that he was strengthening his team by introducing a Chief Technical Officer who would have the IT architectural skills to both challenge his thinking and support the delivery.
 - (m) The Board noted the update, supported the proposed strategic direction, and thanked RH.
 - (n) The Board requested a further update to be submitted to the Board for consideration in July 2017.
 - (o) RH left the meeting.
- POLB 17/10 BOARD COMMITTEE CHAIR VERBAL UPDATES**
- Audit, Risk and Compliance Committee (ARC)
- (a) It was noted that all Board members other than VH had been at the ARC, and were therefore aware of the matters discussed. It was agreed that CS would brief VH separately.
- POLB 17/11 BOARD EFFECTIVENESS REVIEW**
- (a) KM and CoSec presented the Board Effectiveness report and the proposed actions to the Board.
 - (b) The Board endorsed the actions:
 - 1. Business Unit Chief Execs to provide quarterly updates to the Board
 - 2. A training session on the Mails Market, was requested, possibly at the June away day
 - 3. The ARC agenda should ensure appropriate time and focus is spent on Internal Audit work.
 - (c) The Board discussed the fourth proposed action, to provide an independent advisor to the Board to review IT strategy and give assurance to the Board. Some Board members recognised the advantage of such independent assurance but it was agreed to defer the action for six months and then reassess the proposal.
- ACTION: KM**
- (d) **Reconsider the proposal for an independent advisor to the Board after the IT strategy presentation at the July Board meeting.**
 - (e) The Board noted the results of the Board Effectiveness Review, and the Chairman thanked KM and CoSec for the work.

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POLB 17/12

BOARD DECISION RATIFICATIONS

- (a) The Board received a report from the Company Secretary.
- (b) The Board noted the decision taken by email on (9/12/16) to approve the Treasury Policy.
- (c) The Board noted the decision taken by email on (15/12/2016) to approve a temporary reduction in the facility buffer from £200m to £100m, increasing POL effective working capital facility to £850m until the end of January 2017.
- (d) The Board noted the decision taken by email on (22/12/2016) relating to Project Finch, namely that POL should move away from the Financial Services Specialists in the Directly Managed Branches and focus on improving capabilities through the CRMs across the Network.
- (e) The Board noted the decision taken by email on (22/12/2016) to invest in the EUM (End User Management Project) to enable POL to demonstrate appropriate vetting and training of colleagues. This request was for investment before the January Board as part of the full business case for £7.8m.
- (f) The Board noted the decision taken by email on (22/12/2016) to issue a letter of intent to Computacenter, for a capital payment of £6.4m in 2016 and a contract extension of one year to 2021. In doing so, the Board had sought clarification that the £6.4m was committed spend and therefore the net benefit was £7.8m, which the CFO had agreed. The Board had also asked for assurance that the contract extension compared favourably with what could be negotiated from another provider in March 2020, and that the CFO and CIO had confirmed their view that the extension of the contract would be equivalent to any potential market solution.

POLB 17/13

ITEMS FOR NOTING

- EUM Business Case
 - (a) The Board noted the EUM Business Case which has supported the approval given by the Board on 22 December 2016.
- Sealings
 - (b) The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1462 to 1482 inclusive in the seal register was confirmed.
- Health and Safety
 - (c) The Board noted the safety and wellbeing performance, risks and mitigating activity within the Health and Safety report.
- Meetings Dates and Forward Agenda
 - (d) The Board noted the future meeting dates and proposed Board forward agenda.

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ANY OTHER BUSINESS

- (a) There being no further business the Chairman closed the meeting.

GRO

Chairman

28/3/17
Date