

Strictly Confidential

POLB 17(3rd)
POLB 17/18 – 17/33**POST OFFICE LIMITED**
(Company no. 2154540)
(the 'Company')Minutes of a meeting of the BOARD
held at 12.30pm on Tuesday 28th March 2017
at 20 Finsbury Street, London EC2Y 9AQ**Present:**

Tim Parker	Chairman (TP)
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	Group Chief Executive (CEO)
Alisdair Cameron	Chief Financial and Operations Officer (CFOO)

In Attendance:

Victoria Moss	Deputy Company Secretary (DCoSec)
Jane MacLeod	General Counsel (GC) (Minutes POLB 17/22, 17/23 and 17/24)
Kevin Gilliland	Chief Executive Retail (KG) (Minute POLB 17/27)
Nick Kennett	Chief Executive Financial Services and Telecommunications (NK) (Minutes POLB 17/25, 17/26 and 17/30(part))
Jonathan Hill	Head of Financial Services Risk and Regulation (JH) (Minute POLB 17/25)
Gary Fitton	Managing Director, First Rate Exchange Services Limited (GF) (Minute POLB 17/26 (part))
Martin Edwards	Group Strategy Director (ME) (Minutes POLB 17/22 to 17/25)
Rob Houghton	Group Chief Information Officer (RH) (Minute POLB 17/28)
Christian Muir	POCa Procurement Lead (CM) (Minute POLB 17/27)
Tom Wechsler	Government and Payment Services Director (TW) (Minute POLB 17/27)
Natasha Wilson	Reward, Pensions and Performance Director (NW) (Minute POLB 17/29 (part))

Apologies for Absence:

Ken McCall	Senior Independent Director (KM)
Alwen Lyons	Company Secretary (CoSec)

POLB 17/18**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.
- (b) The Board noted apologies from KM and CoSec.

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POLB 17/19

MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

ACTION: RC

- (a) The minutes of the Board meeting held on 31st January 2017 and the extraordinary meeting held on 8 March 2017 were approved and the Chairman was authorised to sign them as a true record.
- (b) **Action POLB 17/09(k):** in regard to the technology strategy update and Fujitsu, RC reported that the Government had a satisfactory relationship with Fujitsu and that he would put RH in touch with the appropriate person in the Cabinet Office.
- (c) The actions status report was noted as accurate.

POLB 17/20

CEO REPORT

- (a) The CEO introduced her report, focussing on the following key points.

Financial Performance – Period 11

- (b) The CEO reported that the business was trading well to year end and that the target for 2016/17 of an EBITDAS of (£10m) would certainly be beaten. She was pleased to report this very positive position, the first time in 15 years that the Post Office would have an operating profit.
- (c) The CEO gave thanks and credit to all GE members for this result but in particular commended the work of Martin Kirke who had become HR Director late in the financial year but who had delivered the necessary HR changes and set a high standard with his own team.

(d)

IrrelevantNetwork Transformation

- (e) The CEO was pleased to report that with KG she had attended the opening of the 7,000th branch. The branch at Wheatley in Oxfordshire was a well performing branch, now in a good new location.

(f)

Irrelevant

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(g)

(h)

(i)

Irrelevant

(j)

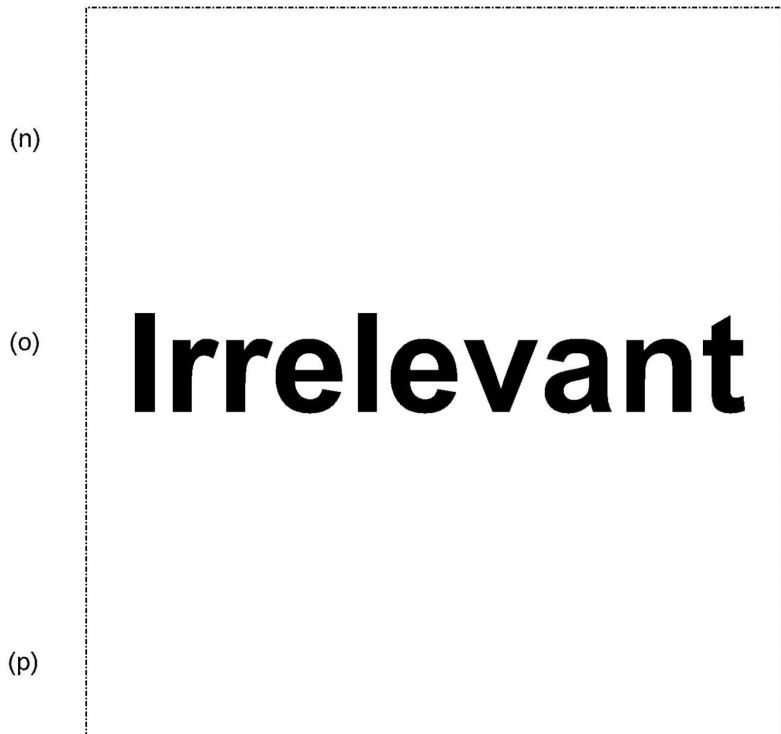
ACTION: KG

(k)

(l)

(m)

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- (q) Project Sparrow
The CEO confirmed that JM would provide an update on Project Sparrow when she attended for a later item on the agenda.
- (r) The Chairman thanked the CEO for her report. The Board noted the report from the CEO.

POLB 17/21

FINANCIAL REPORT

- (a) The CFOO presented the financial performance report for period 11 2016/17. He confirmed that the performance ahead of Plan that had been visible over the past few months had been maintained and that the Bank of Ireland profit share had been confirmed. He was therefore forecasting breakeven for 2016/17 on a like for like basis.
- (b) The CFOO continued that accounting for the closure of the DB pension scheme and Project Iris had been discussed by the Audit, Risk and Compliance Committee on 28 March 2017. It had been agreed that the prior year pension credit and the net cost of the discontinued supply chain operation, neither of which were in the management reporting, would both be accounted for below EBITDAS. The detailed numbers were subject to audit.
- (c) The CFOO reported that branch targets had been hit and that the cashflow close to forecast. The Chairman queried the focus on the forecast comparison rather than with the budget. The CFOO explained that through most of the year the variance

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analysis focused on budget and prior year. The additional focus on forecast happened only towards the end of the year as it was usually more informative. This was accepted.

- (d) The CFOO continued that three products which had performed consistently behind in 2016/17 were lottery, POca and telecoms. There was very little to be done about lottery as Camelot was aggressively driving sales online. POca was a product in decline and more detail was presented later on the agenda.
- (e) Regarding telecoms, the CFOO reported that Ofcom had given a ruling on BT, enforcing a price reduction. Post Office currently priced 10 per cent below BT on home phone which was the most profitable product for telecoms. Strategic choices would be presented in the summer.
- (f) RC commented that HM Treasury was likely to question any change around telecoms strategy versus the funding request and care was needed around the communication of the preferred position. While he supported proper exploration of all options he emphasised the need to consider the government position.
- (g) CS stated that she had raised some concerns around the acquisition of New Call, approved by the Board by correspondence on 22 March 2017. Her concern had been primarily around whether it was a strategic move but she had reached a position of comfort after receiving further information. The Board had agreed that the acquisition added value and made the telecoms business more saleable.
- (h) The Board noted the financial performance report for period 11 2016/17.

POLB 17/22

2017/18 PLAN, FUNDING AND CASTLE UPDATE (INCLUDING 2017/18 INCENTIVES)

- (a) The GC and ME joined the meeting.
- (b) The CFOO introduced the paper which addressed:
 - the proposed 2017/18 Operating Plan;
 - an update on EBITDAS expected outturn;
 - planned capital and investment spend;
 - proposed business scorecard;
 - proposed STIP targets;
 - the current status of funding discussions; and
 - implications should investment funding not be received to the requested level.
- (c) 2017/18 Operating Plan
The CFOO noted that the paper summarised the key components of the Operating Plan for 2017/18 and noted the following updates:

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- change activities were not progressing as quickly as had been anticipated and these were being reviewed. The Chairman stated that the overall shape of the Plan should remain and emphasised the need to continue to focus on costs pending delivery of planned growth in financial services performance.
 - Funding discussions were ongoing with the Shareholder and the Plan assumed full funding, although it had been reviewed to determine which elements could be stopped. The CFOO noted that the elements easiest to stop were those which supported the growth strategy which would take Post Office to a position of sustainability. The Board emphasised that the Shareholder needed to decide whether it wished the Post Office to grow to sustainability, as the consequence of short term affordability would be that Post Office would require funding over a longer period. It was also noted that a sharp decline in the business after three or four years was inevitable without adequate investment. RC confirmed that those messages were being communicated and emphasised to government. Cross governmental buy in was required, ME confirmed that a meeting with the Secretary of State would take place later that day.
- (d) The CFOO noted that the major commercial opportunity over time to drive revenue was in identity services.
- (e) During discussion the following points were made:
- the need to monetise the value of the Post Office brand, for example with Bank of Ireland;
 - the need to review options to increase telecoms revenue;
 - **Management would consider how best to undertake work to consider locality plans, related remuneration, valuation of the Post Office franchise and an understanding of the footfall equation.**
- ACTION: ME**
- the 2017/18 Plan included franchising of 37 directly managed branches (DMBs); discussions were underway with Ryman which could increase this number.
 - the CFOO reminded the Board that £10m had been allocated for a 'growth fund', however, dependent on the current negotiations, this might be required to support POca or other challenges.
 - Growth plans for Post Office Management Services Limited (POMS) were under review. **The CEO committed to provide the Board with a further update on POMS' longer term plans.**
- ACTION: NK**

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- The CFOO informed the Board that Steve Ashton (Chairman of POMS) and NK (POMS CEO) had raised concerns that the marketing provision by Post Office to POMS through the Master Services Agreement had not been reaching the required standard. It was hoped that actions now put in place would bring improvements. It was also noted that Fintech developments were changing the nature of the financial services marketplace and that Post Office needed to understand these developments.

EBITDAS

- (f) The CFOO noted that in January 2017 the Board had approved and EBITDAS target of £28m for 2017/18 and that although there had been minor changes to a number of components of the Plan, including timing of New Call, delays to Peregrine negotiations and expected Sparrow costs, the £28m EBITDAS target still looked appropriate. However it had also been discussed that the Board recognised the headwinds on income and would support an on target bonus performance, as discussed in January at £19m.

(g)

(h)

(i)

Irrelevant

Funding Update

- (j) The Board noted the update on Project Castle set out in the paper and the potential implications for the 2017/18 Plan. The CFOO reminded the Board that its approval of the 2017/18 Plan was required to allow BEIS to release the £140m of network subsidy and investment funding due in April 2017. If funding was very different from what was expected there might be a need to amend the Plan.
- (k) The Board approved the financial and operating plans for 2017/18 and confirmed the proposed STIP targets with the shift to £19m as set out above.

POLB 17/23

APPROVAL OF FUNDING AGREEMENTS

- (a) ME introduced the paper which set out the current position with the funding documentation to give effect to the approval from BEIS of funding totalling £110m, comprising the network

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subsidy funding for 2018/19 and 2019/20 as well as the extension of the £950m 'working capital' facility through to March 2021. It was expected that these documents would be signed before 31 March 2017 which would assist the Board in satisfying the rolling 12 month look forward test for going concern for the purpose of the audited accounts and the view on the financial certainty of Post Office.

- (b) ME noted that the requirements were substantially the same as the previous arrangements, however, there was some additional flexibility to recognise the ongoing funding uncertainty.
- (c) In particular, the contractual requirement for a minimum number of branches (which remained at 11,500) had been changed to a shareholder expectation which would be set out in a letter to the Chairman and the requirement for development of mutualisation plans had been removed.
- (d) ME advised that it was expected that investment funding would be finalised by the end of May 2017, however, if this was delayed or changed significantly, it would create significant challenges for the State Aid funding process which needed to start in early June 2017. The CFOO continued that as more clarity emerged on investment funding there might be a need to reconsider the investment strategy.
- (e) Regarding the matter of Post Office being a going concern, CS confirmed this had been discussed in detail at the 28 March 2017 meeting of the Audit, Risk and Compliance Committee. She explained that with the recently confirmed network funding and working capital there was sufficient funding to give certainty to the going concern assessment for the next 12-18 months.
- (f) RC confirmed the Government's agreement to sign the funding documentation subject to minor final amendments. **Management was requested to email the Board to confirm when signing had taken place.** The Chairman thanked RC for his contributions.
- (g) The Board:
 - 1. noted the timetable for agreeing the Funding Documents;
 - 2. approved the terms of, and the transactions contemplated by, the following draft documents:
 - i. Funding Agreement between the Secretary of State and Post Office Limited contemplating a total of £110m network subsidy payments for 2018/19 and 2019/20 (the 'Funding Agreement');
 - ii. Entrustment Letter being a letter from the Secretary of State for the Department of Business, Energy and Industrial Strategy addressed to Paula Vennells as Chief Executive Officer of Post Office Limited and headed 'Entrustment of Post Office Limited with the

ACTION: GC

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Delivery of Certain Public Services' (the 'Entrustment Letter'); and

- iii. the Deed of Amendment relating to the Post Office Limited £950m Credit Facility Agreement between Post Office Limited and the Secretary of State for the Department of Business, Energy and Industrial Strategy;

(together: the 'Funding Documents')

- 3. noted the terms of the "Chairman's" letter being a letter from Mark Russell, Chief Executive of UK Government Investments addressed to Tim Parker as Chairman of the Board of Post Office Limited;
- 4. resolved to execute and perform each of the Funding Documents;
- 5. authorised any director or Authorised Signatory to execute each of the Funding Documents on behalf of Post Office Limited; and
- 6. authorised any director, Authorised Signatory or the Company Secretary to sign and/or dispatch all documents and notices to be signed and/or dispatched by it under or in connection with each of the Funding Documents.

POLB 17/24

SPARROW UPDATE

- (a) The GC provided a verbal update on Sparrow.
- (b) The GC explained that the group litigation order was heard in January 2017 and the order had been signed in the week beginning 20 March 2017. Accordingly there would be further advertising by Freeths in order to advertise that Postmasters could apply to join the litigation group and therefore it was likely that there would be further adverse press. Postmasters had until the end of June 2017 to apply to join the action.
- (c) The General Particulars of Claim were expected imminently which would set out in more formal terms the legal basis of the Postmasters' claims. Following receipt of that document, Post Office would have until the end of June 2017 to prepare and file its Defence. Subsequently, there would be a case management conference (expected to be in October 2017) at which the Court would determine how the claim should proceed thereafter.
- (d) The GC noted that there was still no quantification of the Postmasters' claims.
- (e) The Board noted the verbal update on Sparrow and thanked the GC.
- (f) The GC left the meeting.

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POLB 17/25

FS GROWTH AND UPDATE ON PEREGRINE

- (a) NK and JH joined the meeting.
- (b) NK introduced the paper which provided the Board with an update on the Post Office Money strategy, including the incubator activities and proposed approach.

New Normal

- (c) NK reported that the 'new normal' customer positioning was in use for mortgages and for some of the insurance products delivered by Post Office Management Services Limited (POMS).

(d)

IRRELEVANTFalcon

- (e) In relation to Project Falcon, NK confirmed that the world of fintech was moving extremely fast. His team was taking a strategic check of all different models and options and it had been confirmed that Post Office building its own solution was not feasible. A number of fintech providers had been engaged with in the assessment of the range of solutions and options to deliver the 'Strong Integrator' model.

- (f) **Initial due diligence was being completed and NK would return to the Board with a concept for consideration in June 2017.**

ACTION: NK

- (g) NK explained that in order to deliver the Post Office Money strategy, it was likely that regulatory permissions as a principal firm would be needed from the FCA and this would be better positioned via a regulated subsidiary, as with POMS, than for Post Office to become a regulated principal firm.

POMS

- (h) NK confirmed the current figure for general insurance policies as around 1.2 million, half of which were travel policies. NK confirmed that POMS' FCA licence allowed the Company to underwrite customer risk and this had been anticipated in long term planning. He added that to commence underwriting the Post Office Board, as well as the POMS Board, would need to approve the change in strategy and risk appetite.

- (i) **As part of the long term financial services strategy, this potential future move into underwriting activities would be brought to the Board for further discussion at the appropriate time.**

ACTION: NK

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Mortgages

- (j) NK confirmed that figures on mortgages had improved, with February 2017 being the best performing month in the financial year. However, February's numbers were still less than those seen 18 months previously and remained less than the level required. NK assured the Board that improvement was anticipated with the launch of the new product structures and with a focus on specific customer segments.

- (k) The Board noted the progress with the Post Office Money strategy and:

1.

IRRELEVANT

2.

- (l) ME and JH left the meeting.

POLB 17/26

FRES BUSINESS UPDATE AND STRATEGIC OVERVIEW

(a)

IRRELEVANT

(b)

- (c) GF joined the meeting.

- (d) The Chairman welcomed GF to the meeting and noted apologies from Gordon Gourlay, FRES CEO.

- (e) GF explained that his presentation would provide an update and review of FRES performance together with a strategic overview. Foreign exchange was what Post Office was known for after mails and he reminded the Board that trading had begun in the 1990s with the arrangement formalised with FRES in 2002 under a Joint Venture Agreement (JVA).

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(f)

IRRELEVANT

- (g) GF gave the Board a demonstration of the new multi-currency travel money card, which could hold 13 different currencies on a single contactless card. The website had been built and was run in house and had migrated one million customers. Real time identification had been enabled, ahead of the fourth money laundering directive.

(h)

IRRELEVANT

- (i) The Board noted the update provided on FRES.
- (j) NK and GF left the meeting.

POLB 17/27

POCA

- (a) KG, CM and TW joined the meeting.
- (b) KG introduced the paper which set out the current position with the procurement to select new POca suppliers and the current contingency recommendation to indefinitely extend the current contract and negotiate commercial terms under that contract.
- (c) KG continued that the existing contract Post Office had with suppliers to provide POca was due to expire in April 2017 and no bank had expressed interest in becoming a supplier. JP Morgan (JPM) was the current provider and was obliged by the regulator to continue to provide services to POca customers.



- (e) The Chairman noted the detailed negotiations and advised that KG and his team should be as firm as possible in pushing the Post Office's favoured position as negotiations continued. He

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questioned whether the amount paid to Postmasters could be reduced.

- (f) The Board discussed the possible future options for POca, including: ATM functionality; basic bank accounts; and the digital wallet developments.
- (g) The Board noted the update on POca and delegated authority to the Group CEO to give notice to extend the current POca contract with HP Enterprise Services indefinitely.
- (h) KG, CM and TW left the meeting.

POLB 17/28

IT NETWORKS PROGRAMME UPDATE

- (a) RH joined the meeting.
- (b) RH introduced the paper which provided an update on the IT networks programme and asked the Board to approve the changes to cost and savings as agreed at the ESG or Group Executive. He explained that Board submission was required as the scoping change fell outside the ten per cent tolerance level. He confirmed that there was no viable alternative to the proposal presented.
- (c) The Board approved the changes to the IT transformation programme's changes to cost and savings as agreed at ESG or Group Executive, to bring the total investment spend to £31.9m with annual operational cost savings of between around £2.3m to £2.9m.
- (d) RH left the meeting.
- (e) The Board was pleased to note its confidence in RH and the great progress being made with the IT transformation programme.

POLB 17/29

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.

ACTION: CoSec

- (b) **It was agreed that going forwards VH should be provided with the ARC papers for her information.**

Remuneration Committee

- (c) In KM's absence, NW joined the meeting to provide an update on remuneration.
- (d) NW reported good progress with the executive remuneration strategy which KM had submitted to Margot James, Under

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Secretary of State for Business, Energy and Industrial Strategy.
She thanked RC for his assistance and he confirmed that the remuneration arrangements for 2016/17 had been signed off.

ACTION: NW/
CoSec

- (e) The design principles for 2017/18 were in final stage and now required Remuneration Committee approval. Since the next meeting of the Committee was scheduled for May, the Board agreed that this approval could be sought by correspondence.

- (f) NW left the meeting.

POLB 17/30

ACTION: Martin
Kirke

Irrelevant

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POLB 17/31

Irrelevant

POLB 17/32

ITEMS FOR NOTING

Committee Terms of Reference Reviews

- (a) The Board noted that the Nominations, Remuneration and Audit, Risk and Compliance Committees had reviewed their performances against their respective Terms of Reference. No gaps had been identified and no changes were currently proposed.

Register of Sealings

- (b) The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1483 to 1501 inclusive in the seal register was confirmed.

(c)

(d)

Irrelevant

(e)

ACTION: GC

Meeting Dates and Forward Agenda for May 2017

- (f) The Board noted the future meeting dates and proposed Board forward agenda.
- (g) The Chairman asked for the timing of the meetings of the Board and its Remuneration and Nominations Committees on 24 May 2017 to be amended. The committees to be held between 9.00am and 10.20am to allow for the Board to begin at 10.30 for a finish by 4.00pm.

ACTION: CoSec

Proposed Board and Committee Dates for 2018

- (h) The Board noted the proposed meeting dates for the Board and its committees in 2018.

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**ACTION: All/
CoSec**

- (i) **Directors were asked to contact CoSec if any dates were not convenient and for CoSec to amend dates as necessary.**

POLB 17/33

ANY OTHER BUSINESS

- (a) There being no further business the Chairman closed the meeting at 3.50pm.

GRO

Chairman

Date

25/3/17