

In Strictest Confidence

CB(01)1st
CB01/01 to 13

CONSIGNIA plc
(company no. 4138203)

Minutes of the meeting of the Board of Directors
held at 148 Old Street, London
on 10 April 2001

Present:

Neville Bain	Chairman
John Roberts	Chief Executive
Marisa Cassoni	Group Finance Director
Jerry Cope	Group Managing Director, Strategy & Business Development
John Lloyd	Non-Executive Director
Miles Templeman	Non-Executive Director
Rosemary Thorne	Non-Executive Director

In attendance:

Richard Dykes	Group Managing Director, Mails Services
Stuart Sweetman	Group Managing Director, Customer and Banking Services
Kevin Williams	Group Managing Director, Distribution Services
Jonathan Evans	Company Secretary
Miranda Dodd	Notes

Also present:

Mark Thomson	MD Stamps and Collectibles, for CB01/09
David Marshall	Group Personnel Director, for CB01/10

Apologies

Mike Kinski, non-executive director, was unable to attend.

CB01/01

APPOINTMENT OF DIRECTORS CB(01)01

Consent from the Secretary of State as special shareholder having been received, the Board agreed the following appointments to the Board of Consignia plc:

- Jerry Cope, Mike Kinski, John Lloyd, Miles Templeman and Rosemary Thorne with effect from 26 March 2001
- and Allan Leighton with effect from 2 April 2001.

CB01/02

MINUTES OF THE PREVIOUS MEETING OF CONSIGNIA plc

The Board noted the minutes of the Consignia plc Board held on 22 March.

CB01/03

MATTERS RESERVED TO THE BOARD CB(01)02

The Board noted that the powers previously reserved to The Post Office Board had been updated to conform with the plc status of Consignia, and agreed to the Matters Reserved to the Board as set out in Annex B of the paper. The Board further agreed to retain as a Matter Reserved, decisions on the appointment and removal of auditors: such decisions would be taken with the advice of the Audit Committee, and be subject to ratification at the Annual General Meeting.

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- CB01/04** **MINUTES OF LAST MEETING OF THE POST OFFICE BOARD
POB(01) 3rd**
The Board approved the minutes of the Post Office Board meeting on 13 March.
- CB01/05** **MATTERS ARISING FROM THE LAST MEETING OF THE
POST OFFICE BOARD CB(01)04**
The Board noted the matters arising from the Post Office Board meeting held on 13 March 2001.
- CB01/06** **CHAIRMAN'S BUSINESS**
- (i) The Chairman reported with much disappointment that despite strenuous efforts with the DTI, it had not yet been possible to finalise contractual terms for the executive directors and the Chairman. DTI had undertaken to resolve the matter before the end of June. For non-executive directors, agreement had been reached with DTI on a new fee structure as follows:
- a) base fee: £20,000 per annum
 - b) committee membership: £1,500 per annum per committee
 - c) committee chair and membership: £2,500 per annum per committee
- The appointment of non-executive directors was made on a staggered basis with Rosemary Thorne and Mike Kinski appointed until 25 March 2002 and John Lloyd and Miles Templeman appointed until 25 March 2003. The Board, with the non-executive directors abstaining from the discussion, agreed these revised fees and appointment terms;
- ACTION** (ii) the Chairman discussed the response, circulated to directors
Chairman before the meeting, from Alan Johnson on the Strategic Plan. The Board considered the reply to be unsatisfactory as it failed to recognise the extent of shareholder support which would be required to deliver the Plan, placing an unacceptable level of risk with Consignia. The Chairman agreed to reply to the letter, stressing clearly the Board's concerns;
- ACTION** (iii) the Chairman reported that he had also received a letter from the
Chairman Minister on the subject of corporate governance - the eventual and much-delayed reply to the Chairman's original letter of 27 June 2000, in which he had proposed a clear set of defined roles for the shareholder and the Board. The DTI's reply was inadequate, leaving Consignia without an agreed governance framework in place in respect of its dealing with the shareholder. The Board agreed that the Chairman should pursue the issue with DTI making clear the unacceptability of this situation;
- ACTION** (iv) the Chairman brought to the attention of the Board an article in
Chairman the April edition of the "Subpostmaster" newspaper in which the Secretary of State had been quoted as saying to the NFSP's Executive Council that the Post Office Board had failed in the past to give sufficient support to the interests of subpostmasters and to the post office network in general. The Board felt that these comments, if correctly reported, were without foundation, and

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recalled the considerable time which the Post Office Board had devoted over the past three years in particular to Horizon, the PIU report and the future of the network. The Chairman intended to challenge the Secretary of State about his alleged comments.

CB01/07

CHIEF EXECUTIVE'S REPORT CB(01)05

The Board noted the Chief Executive's report, and in particular that:

- (i) Performance: across the company performance had continued the trend of previous months, and the forecast agreed at the last meeting of the Post Office Board appeared to be secure. The exception was a marked and serious deterioration in the financial situation of the Packages and Express business unit, which was explored in greater depth in the financial overview item;
- (ii) Operating licence: an acceptable licence had finally been agreed in an intense weekend of negotiation at DTI, in which Postcomm had moved their position by some distance. Postwatch's reaction to the licence had been unfavourable, with accusations that Postcomm had capitulated. Postwatch was understood to be contemplating seeking a judicial review of the licence-issuing process, although DTI were making attempts to broker an agreement between Postcomm and Postwatch to head off this threat;
- (iii) DSS: relationships with the DSS had improved following the development of an innovative secure distribution product for order books. The scheme enjoyed ministerial backing and was awaiting final approval;
- (iv) BBC/Envision: a new contract with the BBC had been agreed to replace the Envision contract, which was now dissolved. The Board recognised the huge personal effort of Mena Rego in securing an agreement which decreased the Consignia risk, recovered all fully allocated costs and improved relations with the client. The latest forecast cost, to be treated as an exceptional item, had decreased to £63.8million from £91million set aside in the half year accounts. A settlement to resolve the dispute with Bull was still being pursued with vigour with a settlement expected in the current financial year;
- (v) The Address Interpretation (AI) project was reported to be back on track following an 8 month delay. The contractor, Lockheed Martin, had changed their team, as had Royal Mail, and together the parties had reached a settlement which improved the NPV from £29million to £37million by bringing performance forward and delaying payments. The Board were updated on the lessons to be drawn from the experience, categorised as:
 - the importance of understanding the consequences of a tight business case
 - ensuring the continuity of supplier teams
 - conducting an early search for improvement opportunities
 - maintaining a clear line of sight to the activity of sub-

**ACTION
Chairman**

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- contractors
- ensuring a rapid escalation process in the case of difficulty
- (vi) Delta: the proposed joint venture with TPG and Singapore Post had been approved by the European Commission subject to some divestment by TPG, which would helpfully reduce the entry price for Consignia;
- (vii) Evidence from TPG and from Warburgs about DPWN indicated that both postal administrations were struggling to provide a profitable and comprehensive parcel operation;
- (viii) USPS: the Chief Executive had recently visited Washington for a discussion with the Postmaster General. The USPS was about to announce losses of \$3bn and was considering implementing service cutbacks such as Saturday deliveries. The contract of the current Postmaster General was not being renewed and it was anticipated that the new holder of the post may herald a new approach to entry in to the international letters market;
- (ix) Prices: as agreed at the Post Office Board the previous month, the DTI had been told of the proposed increase in prices, which had been foreshadowed in the Strategic Plan for two years. Postcomm and Postwatch were to be briefed after the Board meeting and a public announcement was scheduled to be made the following morning;
- (x) Industrial Relations: following the last meeting of the Post Office Board, the Chief Executive had again met with the CWU leadership. The incidence of unofficial industrial action had decreased, but a number of ballots were now taking place calling for official action. The position was still volatile, and there was the risk of a major national dispute arising, the direction of which, given the current political scene in the run-up to the next General Election, may not sufficiently be in the hands of management. In these circumstances, the possibility was being explored of conducting over the next few weeks an external enquiry, jointly with CWU, into industrial relations in a limited number of offices which had endured recent unofficial action. The TUC was also being consulted on this idea. While the Board saw the advantages of this approach, it was not without its risks as it could be perceived internally as delaying necessary tough actions with the union. There would also be no certainty that the union would respond adequately to the outcome of such a review. The arguments were finely balanced, and consideration of the most appropriate approach would continue.

CB01/08

FINANCIAL OVERVIEW

The Board noted a presentation by Marisa Cassoni, in particular that:

- (i) Quality of Service forecasts had been revised during the month. In mails services 10 out of 13 forecasts had been revised

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downwards with the second class letters target now being forecast to be failed. Two forecasts in Distribution Services had been revised upwards and three downwards;

- (ii) significant contributors to the variance against forecast for the month had been caused by delays to realising savings in the Gemini hubs, failure to realise negotiated productivity gains in Post Office Network, a reduced write down provision for vehicles and a reduced spend on group centre projects;
- (iii) Group income was showing an 8.6% increase in over the year, the increase stemming mainly from the inclusion of foreign acquisitions. The adverse variance against external income excluding acquisitions was in the main the result of lower than expected volume;
- (iv) turning to the budget for 2001/02, Trading model changes were being planned to ensure that units worked together in partnership to achieve the best results for the company;
- (v) £95m in savings had been identified against £60m external income risk as requested by the Post Office Board at its last meeting. Savings in Purchasing Services, Service Delivery, Business and Consumer Markets, capital expenditure and Business Systems had been included into unit budgets; additional funds would only be released during the year when and if the overall performance of the company allowed it.
- (vi) The Board agreed the full year Group post-tax profit forecast, before ringfenced items, of £175 million should be released to DTL.
- (vii) The Board noted a presentation from Kevin Williams on the significant deterioration in the position of Packages and Express business unit. In particular:
- (viii) the unexpected change in the report to the Board - the profit forecast had worsened by £15m in a single month - had resulted in part from the incompetent actions of a senior accountant who had since left the company. Some other senior staff were having their careers re-assessed;
- (ix) P&E's performance in 2001/02 was now seriously adrift from the targets agreed with the Board under Project Everest. A new five year plan had been constructed which returned the unit to being on track by year 5, but this was very ambitious and risky. A profit improvement of £25million was assumed in 2001/02 alone, which was seen as a very tough task;
- (x) the proposal now was to continue to drive hard on the Everest actions - and there were signs of solid progress, especially in the resourcing area - and in parallel to mobilise a team to build on the earlier Project Apollo work outlined to the Post Office Board, to identify the best commercial options for the future. A report back

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would be made to the Board in July.

- (xi) The Board expressed intense disappointment that it had been in receipt of misleading performance information in earlier months, together with great concern that the true underlying performance now cast considerable doubt on the ability of the unit to transform itself into running at acceptable levels of profitability. The Board would need to return to this in July, when the Apollo work had been further progressed. The Board would be looking for options which created value for the company, and which the Board could have confidence of being delivered.

CB01/09

2003 STAMP PROGRAMME CB(01)06

The Board discussed Stuart Sweetman's paper, supported by a presentation from Mark Thomson.

- (i) The role of the Stamps and Collectibles business unit was to strike a careful balance between securing a financial contribution from broadening the appeal of stamps to new customers, whilst maintaining the support and revenue from the existing more traditional philatelic community, who provide most of the unit's revenue at good contribution levels. The indications were that this was being achieved: revenue was showing substantial growth, and customer satisfaction very high;
- (ii) to further the attractiveness of stamps for the new generation of customers, the paper proposed that the criteria and conventions for new stamps be updated to enable living people to be featured on stamps as part of a crowd or sporting team, but not to be depicted individually unless the individual was a member of the Royal family. It was recognised that this change could lead to potential controversy, particularly if, subsequent to the stamp issue, the reputation suffered of those depicted. However with sensitive treatment, it was considered that this change in the conventions was worth making.
- (iii) The Board:
- congratulated Mark Thomson on the progress his unit had made to date
 - noted the progress on the development of the 2001 and 2002 Special Stamp Programmes
 - noted the proposals for the 2003 Stamp Programme
 - endorsed the proposed amendments to criteria for subject selection, and asked that the drafting of the revised convention 2 be made explicit to exclude the possibility of identifiable individuals who were not members of the Royal family from being depicted.

CB01/10

IMPROVING SENIOR MANAGEMENT CAPABILITY CB(01)07

The Board discussed Jerry Cope's paper, supported by a presentation from David Marshall.

- (i) It was intended to facilitate an improvement in company

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performance by completing a major overhaul of the treatment of the "Top Y" managers who comprised in the main business unit executive committee members and group centre directors;

- (ii) over the course of the three year plan outlined, Consignia should become more like other companies subject to market forces in the way that it both treats and is treated by its senior management population;
- (iii) successful work had been undertaken to ensure that Consignia had access to an ethnic and culturally diverse population of applicants from whom the best could be selected;
- (iv) the need for honest appraisal of individuals against the dimensions of performance and potential was paramount, together with supporting individuals who felt threatened by the new process;
- (v) The Board noted and supported with encouragement the progress on the strategy, and the further issues yet to be addressed.

CB01/11

**INVESTMENT BOARD - THE ENTERPRISE SYSTEM
PROGRAMME CB(01)08**

- (i) The ESP programme was approved by the Investment Board in June of 2000 and was now subject to a staged approval process;
- (ii) the Board noted in discussion that the ESP programme was proceeding well and that the Board's concerns about the project's manageability had been addressed;

**ACTION
Marisa
Cassoni**

- (iii) some directors expressed surprise at the scale of investment required, but did not wish to delay authorisation of this key programme. However the Board sought further information on how the implementation by Consignia of the system compared to similar installations in other organisations. SAP would be invited to present their views to the Board.

The Board:

- noted the overall programme spend of £176m, of which £41m was sunk, authority was sought for £49m, with future spend remaining of £86m;
- endorsed the Investment Board's approval for 2001/02 spend of £49m with future spend for the remainder of the Enterprise Systems Programme estimated at £86m, which will be subject to further business case authorities.

CB01/12

AUDIT COMMITTEE REPORT CB(01)09

- (i) The Board noted that guidelines on the governance arrangements of overseas subsidiaries were being developed, and would be agreed by the Executive Board prior to implementation;

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- (ii) The Board noted the audit committee report.

CB01/13

DATE OF NEXT MEETING

The next meeting was scheduled for 9 May 2001.