

In Strictest Confidence

POLB05(6TH)
POLB 05/91 – 05/115

Post Office Limited

(company no. 2154540)

Minutes of the meeting of the Board
held at 80-86 Old Street, London
on October 19th 2005

Present:

Sir Michael Hodgkinson	Non-executive Chairman
David Mills	Chief Executive (for POLB05/92 – POLB05/106)
Ian Anderson	Human Resources Director
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 Holdings (for POLB05/92 – POLB05/106)
David Miller	Chief Operating Officer
Gordon Steele	Marketing & Direct Sales Director

In attendance:

Jonathan Evans	Company Secretary
Ian O'Driscoll	Commercial Director (for POLB05/104)
Neil Owen	Notes
Derek Rocholl	Category Manager (for POLB05/114)
David Smith	IT Delivery Director (for POLB05/104)

Apologies: None

POLB05/91 MINUTES OF PREVIOUS MEETINGS POLB(05)5TH

- (a) The Board approved the minutes of the Board meetings of 17th August 2005.

POLB05/92 STATUS REPORT POLB(05)75

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

(b)



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Irrelevant

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POLB05/104

HORIZON PROPOSITION POLB(05)84

- (a) Ric Francis introduced Dave Smith and Ian O'Driscoll. A presentation was provided on Horizon Next Generation. The Board noted that:
- (b) the current proposal would almost halve the cost of Horizon and then reduce ongoing costs year on year. The original Fujitsu proposal had not met this objective, and the new proposal had been achieved after hard negotiation;
- (c) the original proposal would have resulted in a front-end spend of £150m, in addition to a fair amount of risk. The current proposal had removed £140m of cost by 'sweating' the existing assets within the operation for as long as possible. This would remove the need to have such a large initial capital outlay, but would still result in the rolling out to all 14,500 branches;
- (d) the proposal would still require a £50m front-end cost to pay for a shared data centre and a 'lights out' facility. However, it would not result in a penalty payment for breach of contract;
- (e) the current proposal resulted in an acceptable and achievable cost profile, and an agreement had been reached in principle with Fujitsu of new ways of working. The alternative would be to buy out the existing contract at a cost of £80m, disaggregate the services, and select an SI partner to manage the development and integration. This could deliver lower cost but would result in a significantly higher risk and a longer delivery time;
- (f) The other key features of the new proposal were:
 - (i) improved availability;
 - (ii) cost effective service management;
 - (iii) significant network savings;
 - (iv) SI Partnership;
 - (v) the duration of the contract would be until 2015.
- (g) David Burden had been briefed on the proposals;
- (h) the Board noted the progress that had been achieved, and agreed to the approach and to £6m investment that would be

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required to cover the period to full authorisation. Peter Corbett stated that this investment would be capitalised and impaired. The Board further agreed that a strategy paper would be written for noting at the Royal Mail Holdings Board in December 2005, and that the proposal would return for full authorisation to the Royal Mail Holdings Board in April 2006.

Action:
Ric Francis

Irrelevant

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POLB05/111 OPERATIONS REPORT POLB(05)91

- (a) The Board noted the report. There were no further issues raised given the Horizon Next Generation project and the Cash In Transit IR strategy had already been discussed in detail.

Irrelevant

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POLB05/115 CLOSE

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

Sir Michael Hodgkinson