



POST OFFICE LIMITED BOARD MEETING
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MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 26 November 2019 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11:45 AM

Present:	Tim Parker	Chairman (TP)
	Nick Read	Group Chief Executive Officer (NR)
	Ken McCall	Senior Independent Director (KM)
	Tom Cooper	Non-Executive Director (TC)
	Tim Franklin	Non-Executive Director (TF)
	Alisdair Cameron	Group Chief Financial Officer (AC)
	Zarin Patel	Non-Executive Director (ZP)
In attendance:	Veronica Branton	Company Secretary (VB)
	Helen Davies QC	(HD) (Item 7.)
	Alan Watts	Herbert Smith Freehills (AW) (Item 7.)
	Ben Foat	General Counsel (BF) (Items 7. & 9.)
	Robin Nuttall	McKinsey (RN) (Item 8.)
	Stuart Shilson	McKinsey (SS) (Item 8.)
	Mathieu Halpin	McKinsey (MH) (Item 8.)
	Debbie Smith	CEO – Retail (DS) (Item 10.)
	Mark Siviter	MD – Mails (MS) (Item 10.)
Apologies:	Carla Stent	Non-Executive Director (CS)

Action

1. Appointment of Non-Executive Director

The Board **RATIFIED** the appointment of Zarin Patel as a Non-Executive Director of Post Office Limited for a period of three years from 26 November 2019 to the nearest Board meeting three years from that date.

The Board **APPROVED** the appointment of Zarin Patel as a member of the Audit, Risk and Compliance Committee.

2. Welcome and Conflicts of Interest

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.

Zarin Patel informed the Board that she was an independent member of the HM Treasury Board.

3. Minutes of Previous Board meetings including Status Report

The Board **APPROVED** the minutes of the Board meeting held on 23 September 2019.

The Board **NOTED** the action log and status of the actions shown. The paper on ensuring compliance with dangerous goods transactions was **NOTED**. Post Office was the first line of defence, not the last line of defence but we still had work to do to improve compliance with checking the contents of parcels with customers. It was noted that branches had a laminated sheet showing information on restricted goods but it was not a straightforward set of restrictions.

4.

4.1

Irrelevant



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4.2 Remuneration Committee

5.

Irrelevant

To do:
executive



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The Board **NOTED** the report.

6. Financial

6.1 Financial Performance Report

Al Cameron introduced the report and highlighted a number of issues:

- Performance in P7 had been slightly better than in P6. Discretionary spend was being restricted. The Insurance and Telecoms businesses were still under pressure and Mails and Banking were performing as expected. We could also improve performance in-year by not undertaking aggregator work in Insurance and Telecoms
- Telecoms – PJT Partners, our advisors on the potential sale of the Telecoms business had advised us to postpone the sale until after the general election. If we were going to sell the business we needed to be focussed on obtaining the maximum price. Driving longer term cost efficiencies became less critical if we decided to sell. We would be meeting PJT Partners again this week. It was noted that we were required to inform Fujitsu of the approach we were going to take by 17 February 2020 if we had not agreed a contract extension in advance of this date
- There had been underspent in Change, much of which was deliberate and linked to tightening our business case approvals
- The position with Cash had returned to normal
- We were planning to include more narrative in the Financial Performance report to Board but dispense with the slide deck as part of the pack. The slides would still be produced for internal use and could put in the Reading Room. Tom Cooper requested the inclusion of the slide which showed the status of larger projects.

To do:
AC

A number of points were raised, including:

- That an overall summary of the positives and the negatives which focussed on the big business lines would be helpful. We also needed a better understanding of the root causes of problems, what action we could take and whether the matter was resolvable. We needed to understand trends better and what was happening with the key business streams, for example with Travel Money it would be good to know whether we were experiencing a decline in-line with the market or if we were losing market share. It was noted that this kind of analysis was part of the focus of the quarterly performance reports for FST&I and Retail



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- That there were too many business lines for a company with a £1bn revenue. This meant that we were overstretched and unlikely to understand our competitors well enough.

6.2 Cash Management and Facility Management

Al Cameron introduced the paper and provided a summary of the main considerations. He noted that the total earned as a combination of EBITDA and network subsidy had not changed greatly over the last few years. We had borrowed significant amounts to fund investment for periods of time while we had the headroom. We had been achieving cash efficiencies but now needed to understand the line by line detail on working capital. The Bank of England (BoE) had promised to review the Note Recirculation scheme to see whether it was suitable for the future.

We could manage within the facility headroom and drive further cash efficiencies but this did not help us with the security headroom because this was limited to the cash in the network, client liabilities and the Santander liability. Cash efficiencies reduced the cash in the network and therefore the security headroom. We were trying to minimise our borrowing period and the longer vault opening hours agreed by BoE meant that we should be able to remove both sets of REMs entirely on a working day. We also should be able to fund a potential GLO settlement (within the assumptions proposed) from within the headroom facility but this would make our security headroom very limited. One option to consider was negotiating an exclusion of the Santander liability from the security headroom. We were also analysing the figures associated with retaining cash from RBS for a longer period at a fee but this would effectively be borrowing. If one of the big bets was focussed on automation of the network we could consider asking Government to allow us to create some investment funding.

IRRELEVANT

A number of points were raised, including:

- # IRRELEVANT
- the likelihood of us selling the Telecoms business was increasing but this capital would be offset by the potential costs associated with a GLO settlement
- a more detailed account of the cash flow through the business and more information on working capital was requested.

Action: AC

The Board **NOTED** the progress made on cash and facility management.

6.3 Borrowing Limits

Al Cameron introduced the paper and noted that we were unlikely to need to reduce the buffer headroom but that it was prudent to have the option available.

The Board **APPROVED** a derogation to draw the Government Loan up to £850 million (i.e. to reduce the headroom buffer from £200 million to £100 million), subject to approval by the CFO, for the period from 27 November 2019 to 2 February 2020.

7. Group Litigation Update – subject to legal privilege

Ben Foat provided an update on the Group Litigation:

- the embargoed judgment on the Horizon Issues trial was likely to be handed down this week. We would activate our Horizon contingency planning
- the first mediation would take place on 27 and 28 November 2019. The Postmaster Litigation Subcommittee had recommended to the Shareholder approval of a settlement of up to £48m with a mechanism in place for seeking approval of up to £65m. Shareholder approval for *Group Litigation November 2019 Mediation Parameters* had been confirmed by letter on 25 November 2019
- the statements of fact for the Further Issues trial had been signed



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- the decision not to allow an appeal hearing on the Common Issues trial judgment was disappointing but reaffirmed our revised litigation strategy.

Alan Watts reported that the claimants' funders were seeking to obtain three times their costs before starting to make pay outs to claimants (i.e. the funders were seeking £45m for their £15m investment). The claimants' starting position for settlement was £145m upwards but the difference between the parties was not unusual at this stage. The claimants' solicitors had not analysed the claims to be able to underpin these figures and had concentrated on the post-termination losses. We had looked at the individual cases and that might assist in reducing the numbers gap between the parties. The mediators had been focussed on the 26 months which had been the fee paid to postmasters exiting as part of the network transformation programme. We had a further meeting with the mediator this evening and were clear on our strategy and financial limits.

Helen Davies QC reiterated the disappointment at the decision on appeal. There were a number of points that were clearly of relevance for the court of appeal and it was surprising that we had not been given permission to appeal on these grounds. We were entering uncharted territory but should assume that the Managing Judge would take a position that was as favourable as possible for the claimants within legal constraints. The more reasonable we were in our approach, the more likely we were to achieve a sensible outcome.

We now needed to implement the findings of the Common Issues trial in full. This would entail asking Subpostmasters to sign a new contract. This would be a focus of attention for the coming year.

The Horizon Issues trial judgment was expected to be adverse. The question would be the extent to which it was ruled that system bugs could have led to shortfalls and how we could prove system shortfalls if we could not rely on Horizon.

The judgment was likely to be handed down in the middle of mediation. We would not be arguing over liability and needed to advise the claimants why this was a deal they should consider. The duty of good faith and the notice period would be key issues. The Common Issues trial judgment had referred to a 12 month notice period but we could not be sure that this position would be maintained by the Managing Judge in subsequent trials. We would have a two to three month window to settle after the first mediation and would need to select the right lead cases for the next trial. Tier 1 and Tier 2 had already been identified.

The Shareholder letter approving the mediation parameters for settlement was discussed. The letter stated that "Shareholder approval is conditional on the settlement being fully funded by POL and has no bearing on any current or future subsidy agreement". Tom Cooper reported that BEIS had thought we were indicating that our funding of the settlement was dependent on future government funding and seeking a commitment to future funding which could not be given in advance of a spending round. It was confirmed that POL was not seeking a funding commitment in advance of the normal submission process but funding to deliver its SGEIs was part of its budgeting assumptions. POL and UKGI/ BEIS recognised that the starting point on debt was going to be higher and therefore the need for future financial support was more likely after a settlement of the group litigation order. In addition, while the letter stated that any offer above £48m (and up to the £65m limit) should only be made "if it ensures a final settlement takes place with all the claimants" UKGI/ BEIS recognised that a settlement offer could not be made directly to the criminally convicted but it was understood that a global sum could be offered and the claimants could determine its distribution.

A number of points were raised, including:

- that we faced the operational challenge of implementing the changes required by the Common Issues trial judgment. We needed to be able to track this and should not be dilatory
- when issuing new contracts how bound were we by the Managing Judge's interpretation of the current contract? It was reported that we could specify the period of notice within the new contracts but would still have an overriding duty of good faith. We would need to think carefully about how we constructed the liability clause within the contract. We also needed to consider carefully how we on-boarded our Subpostmasters; they needed to be given enough time to understand the contracts prior to signature and the contracts needed to be written in plain English.

The Board **NOTED** the updates in the paper and the next steps to be taken in the litigation, namely:



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- attend to the courts' decisions on the Horizon trial and not to allow an appeal on the Common Issues judgment
- filing Post Office's Defences for the Further Issues trial by 25 November 2019 (completed)
- attending mediation on 27-28 November 2019
- draw up proposed criteria for selecting Test Claimants for later trials.

8. Purpose, Strategy, Growth (PSG)

Robin Nuttall introduced the presentation which was split into five chapters. We were currently in the discovery phase of work and would be diving deeper into some of these work streams.

Irrelevant

A number of points were raised, including:

- how had the costs been allocated in FS? For example, Travel Money was an integral part of our network. Were we painting an unfair picture of the mails position and allocating too high a cost? A minor reallocation of costs could change the apparent contribution of business lines. AC noted that this was why we focussed on direct contributions rather than net contributions
- that we needed to identify the permanent profit drivers
- we were too dependent on the Banking Framework and needed to find different footfall drivers
- that the information provided could not currently show us the gain from taking out loss making elements because we could not show how this impacted our fixed costs. The immediate focus would be on retaining a network of 11,600 but moving branches to better locations and formats (including outreach). It was helpful to be able to spread fixed costs over as wide a network as possible

Irrelevant

Irrelevant



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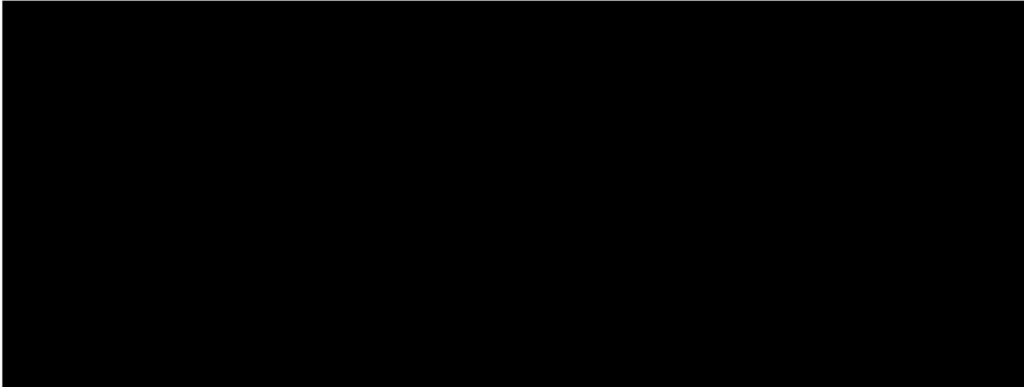
Irrelevant



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Irrelevant

9. Framework Document and Articles of Association



10.

Irrelevant

15



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11. **Irrelevant**

12.

12.1

12.2 **Sealings**

The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 1842 to 1853 inclusive in the seal register.

12.3 **Future Meeting Dates**

The future meeting dates were **NOTED**.

12.4 **Forward Agenda**

The forward agenda was **NOTED**.

13. Date of next meeting

- 19 December 2019 (further PSG session). Requirement to proceed to be confirmed nearer the date.
- 28 January 2020.

GRO

Chairman

28/01/20

Date

