

IN STRICTEST CONFIDENCE

CB(02)06

CONSIGNIA plc BOARD

GOVERNANCE OF POST OFFICE LIMITED

Purpose

1. The need to change the Chairman of Post Office Limited (POL), and to establish a corporate governance framework to regulate the relationship between Consignia plc as parent, and POL, as subsidiary, was highlighted at the Board meeting on 11 December 2001. This paper sets out a framework, including delegation of areas of responsibility and to POL, and matters that will continue to be reserved to the Board of Consignia plc.

Board Meetings

Quarterly, minuted meetings are recommended.

2. Company Law sets out a minimum requirement for a board to meet once a year, to approve the accounts and recommend a dividend. The Combined Code on Corporate Governance recommends that the Board meets as frequently as is required to discharge its duties.
3. The Articles of Association for POL provide that the business of the company is a matter for its Board of Directors, and that this may be delegated to individuals or committees (including an Executive Committee comprising some, but not exclusive to, Directors of the Company) as appropriate.
4. It would be prudent for the Board of POL to ensure that the Directors have a direct input to decisions likely to have a significant impact on the company, particularly in view of the trading circumstances of the company. Whilst the Articles of Association permit written resolutions or Board meetings, or telephone Board meetings, it would be appropriate for actual meetings to be convened where there is material business to be transacted, rather than relying on paper meetings or sub-committees. A suitable frequency for these meetings to demonstrate active governance of the company would be quarterly, but the decision here is for the POL Board.
5. The Board of POL is required to keep formal minutes of its meetings, and the quorum for these meetings is two Directors, as set out in the POL Articles.

Control of Post Office Limited

Control of appointments to the POL Board will remain with Consignia, who can also issue directions to POL.

6. The power to appoint and remove Directors of POL, a Chairman and a Deputy Chairman is reserved to Consignia. This is incorporated into the Matters Reserved to the Consignia Board document, and the Articles of Association for POL.

IN STRICTEST CONFIDENCE

7. The Consignia Board at its December meeting recommended that Allan Leighton be appointed as the Chairman of POL. This paper therefore seeks formal approval to appoint Allan Leighton as a Director of POL.
8. The Articles of Association for POL require the company to comply with any direction issued from time to time by Consignia in writing.

Delegated Powers - Principles

The Matters Reserved to the Consignia Board continue to apply, but a new list clarifying matters to be delegated to the POL Board is proposed.

9. It is proposed that a list of Matters Reserved to the POL Board is agreed, incorporating some issues which were previously reserved to the Consignia Board. Other than where expressly delegated to POL, the Matters Reserved to the Consignia Board will continue to apply to POL. Annex A summarises the proposed boundaries of this delegation, alongside the powers that will be retained by Consignia in respect of POL. Any matters not explicitly covered by either list are to be treated as delegated to POL.
10. Day to day management of POL will reside in an Executive Committee (EC), which will in turn be delegated powers from the POL Board. The POL EC has already established a governance structure through its Unit Charter, which identifies accountabilities and items reserved to the EC.
11. The Articles of Association for POL set out a number of governance requirements, which must be complied with, in addition to the proposed delegation of powers from Consignia. POL will also be required to comply with the policy on Corporate Governance for Subsidiary Companies, agreed recently by the Executive Board. This sets out the key Consignia policies or processes which subsidiary companies are required to comply with as part of the Consignia Group. This means that even where the Board of POL is formally responsible for taking decisions about the Company, in some cases these decisions, or the way in which they are arrived at, may need to be consistent with practice in the rest of the Group.

Proposed Delegation of Matters Reserved to POL - Other Issues

12. The POL delegated powers list incorporates statutory functions which its Board must carry out, such as approving annual accounts, along with a number of management activities central to governance, which it is appropriate to consider periodically at Board level for Directors to demonstrate they are exercising their duty of care to the Company.
13. The Matters Reserved for the Consignia Board include capital projects with costs in excess of £20m. Capital sums less than this can be authorised by POL, which plans to set up an Investment Board similar to that operated within Consignia.
14. It is proposed that approval of pay strategy for POL staff and agents is delegated to POL, although the approval of the Consignia Board will still be required for the POL strategic plan and annual operating budget of which pay assumptions will be an integral part. This is at present a matter reserved to the Consignia Board.

IN STRICTEST CONFIDENCE

15. It is also proposed that Consignia retains control of the remuneration, development and succession planning for 'Top Y' personnel within POL, as all POL staff are Consignia secondees and this will promote movement between businesses for senior executives. The POL Board will however be delegated the power to determine development and succession below 'Top Y'.
16. In accordance with the subsidiary governance policy, the power to create any future POL subsidiary, and to appoint directors of it will rest with the POL Board.
17. Although it is proposed that the POL Board takes formal responsibility for risk management strategy and internal control arrangements within the Company, it is envisaged that the Audit Sub-Committee of the Consignia Board will continue to deal with any POL audit issues, by virtue of its role overseeing financial probity across the whole of the Consignia Group. It is not therefore proposed to convene an Audit Sub-Committee of the POL Board.

Recommendations

18. The Consignia Board is invited to:
 - (i) endorse the commencement of active proceedings of the POL Board;
 - (ii) agree Allan Leighton be appointed as a Director of POL, and Chairman of the POL Board
 - (iii) agree the list of powers to be delegated to the POL Board, and the matters which will continue to be reserved to the Consignia plc Board, as set out in Annex A.

Jonathan Evans
January 2002

Governance Boundaries - Post Office Limited

1. Post Office Limited is required to comply with the Articles of Association of Post Office Limited, and the policy on Corporate Governance for Subsidiary Companies.
2. A number of areas of Post Office Limited governance are reserved to the Consignia plc Board - see the left hand column below.
3. Areas of governance delegated to the Post Office Limited Board are indicated in the right hand column.

<u>Matters Reserved to the Consignia plc Board in respect of Post Office Limited</u>	<u>Matters Delegated to Post Office Limited Board</u>
Statutory Requirements	Statutory Requirements
• Approval of financial forecasts for the Group as a whole to the DTI • Approval of any significant change in accounting policies or practices on the recommendation of the Audit Committee • Nomination or removal of Directors • Approval of any amendment to the Articles of Association for Post Office Limited.	• Approval of half year and full year accounts • Appointment of directors, once nominations are received from the Consignia plc Board • Appointment or removal of the Company Secretary
Combined Code Requirements	Combined Code Requirements
• Approval of major capital projects (with costs in excess of £20m) • Approval of material contracts of the company in the ordinary course of business (the acquisition and disposal of assets in excess of £20m) • Approval of contracts of the company not in the ordinary course of business (including all strategic acquisitions or joint ventures where the transaction total is in excess of £10m) • Approval of any transaction for which Special Shareholder consent is required • Approval of major investments, including the acquisition or disposal of interests of more than 5% in the voting shares of any company or the making of any takeover bid	• Approval of major capital projects (with costs lower than £20m) • Approval of material contracts of the company in the ordinary course of business (the acquisition and disposal of assets lower than £20m) other than where Special Shareholder consent is required • Approval of risk management strategy including internal control arrangements

Management	Management
• Approval of Post Office Limited's commercial strategy and annual operating plan • Approval of the Group's commercial strategy and annual operating budget • Any amendment of the matters delegated to the Post Office Limited Board. • Approval of plans for 'Top Y' development and succession	• Recommendation of Post Office Limited's commercial strategy and annual operating budget to the Consignia plc Board • Approval of pay/compensation policy for Post Office Limited staff and agents • Approval of changes to Post Office Limited's management and control structure, including major restructurings • Approval of plans for senior management development and succession below 'Top Y' • Establishment of Board Sub-Committees, their terms of reference and membership • Approval of creation of Post Office Limited subsidiaries • Appointment to Boards of Post Office Limited subsidiaries • Approval of the health and safety policy • Approval of the environmental policy • Approval of the equal opportunities policy
Miscellaneous	Miscellaneous
• Approval of amendments to trust deeds of Consignia pension schemes • Appointment and remuneration of the chairman and trustees of main Consignia pension schemes	• Appointment of specified individuals to authenticate the Post Office Limited seal • Adoption of a new Post Office Limited seal