

Post Office Limited – Strictly Confidential

POLB 16(4th)
POLB 16/26 – 16/36

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 9.00am on 24 May 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer (<i>excluding minute POLB 16/30</i>)
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive (<i>excluding Minute POLB 16/30</i>)

In Attendance:

Alwen Lyons	Company Secretary
Mark Davies	Communications Director (<i>Minute POLB 16/29 & POLB 16/32</i>)
Jane MacLeod	General Counsel (<i>Minute POLB 16/31</i>)
Andrew Moys	Post Office Advisory Council (<i>Minute POLB 16/32</i>)
Nick Kennett	Financial Services Director (<i>Minute POLB 16/33 to POLB 16/34</i>)
Steve Ashton	Chairman Post Office Management Services (<i>Minute POLB 16/33 to POLB 16/34</i>)
Kevin Gilliland	Network and Sales Director (<i>Minute POLB 16/35</i>)
Kevin Seller	General Manager Network Transformation and Development (<i>Minute POLB 16/35</i>)

Apologies:

Ken McCall	Senior Independent Director
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INTRODUCTION

- (a) The Chairman noted that a quorum was present and opened the meeting.
- (b) Each Director confirmed that they had no conflicts of interest in relation to the business to be considered at the meeting.

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MINUTES OF THE PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

Minutes

- (a) The minutes of the meeting of the Board held on 9th February 2016 were approved as accurate records and the Chairman was authorised to sign them.
- (b) The minutes of the meeting of the Board held on 21st March 2016 were approved as accurate records and the Chairman was authorised to sign them.

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- (c) The minutes of the Audit, Risk and Compliance Committee meeting held on 22nd January 2016 were noted.

Status Report

- (d) POLB 16/02 (g) – The Board noted NFSP Grant Agreement update. The CEO reported that to date no grant project funding had been utilised and that any funding would have to be supported by a business case.
- (e) The Board noted the Status Report dated 16th May 2016.

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CEO REPORT

CEO Report

- (a) The CEO introduced the CEO Report, focusing on the following key points:
- (b) **Period 1 results.** Good trading results for the start of the year and reducing costs have delivered above target results for period 1.
- (c) **IRIS.** The IRIS announcement to withdraw from the supply chain external market had been well managed by the CFO, Mark Ellis, Supply Chain Director, and a team of 'super- briefers'. After the initial leaking of information by the CWU the external communications had been effectively managed and the CEO thanked all those involved. All the units would now have a session with a member of the Group Executive (GE) or the Lead Team, to build on the messages and listen to concerns.
- (d) The 90 day consultation period was underway and despite the excellent work the CEO still expected the CWU to ballot for industrial action. The CEO explained that in the event of industrial action support would be prioritised in the following order; supply chain; NBSC (helpline); then directly managed branches.
- (e) **NFSP Conference.** The CEO thanked the Chairman for attending the NFSP Conference. The debate and questions had been challenging but an opportunity to engage with the NFSP delegates.
- (f) **Horizon outage.** Tim Franklin reported that the ARC had received an update on the Horizon outage and that a full report, including root cause analysis, was being presented at the September ARC.
- (g) The Board noted the CEO report.
- Transformation Update**
- (h) The Board noted the Transformation Update.

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ANNUAL REPORT AND ACCOUNTS (ARA)

- (a) The Chairman welcomed Mark Davies, Communications Director, to the meeting.

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- (b) The CFO introduced the ARA focussing on the following key points:
- (c) **The Accounts.** The numbers in the accounts are almost finalised with a few revenue procedures to complete. The CFO explained the approach to capital expenditure impairment which had been discussed at the ARC and the different treatment for POMS.
- (d) **Disclosures.** As the Company was no longer reporting compliance with the 'spirit' of the UK Code of Corporate Governance, there was an opportunity for more flexible approach to disclosures in the ARA.
- (e) The CFO reported the debate at the ARC and the recommendation from EY to disclose the Sparrow claim. The Board agreed that the note on Sparrow, as detailed in the Board paper, should be included in the 'contingent liabilities'.
- (f) The Board discussed the Directors' Remuneration Report and the level of detail to include in the ARA. It was agreed that the report would include more than the minimum detail required and although it was unusual to provide the maximum stretch target for bonus payments, this would be included as it was included in the past.
- (g) **Timetable.** The ARC would be convened at the end of June for final sign off of the ARA, which would be published in early July.
- (h) Taking into account the discussion topics, the Board:
 - Noted the Briefing Book.
 - Noted the Post Office Annual Report and Financial Statements.
 - Noted the Audit Results Report provided by EY.
 - Delegated authority to the Post Office Audit, Risk and Compliance Committee (ARC) to approve the Annual Report and Financial Statements
 - Delegated authority to the Chairman, the Chief Executive and the Chief Financial Officer to sign the Annual Report and the Financial Statements following approval by the ARC.
- (i) Mark Davies left the meeting.

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APPROVAL OF 2016/17 ANNUAL BONUS (STIP) DESIGN

- (a) The CEO and CFO left the Meeting.
- (b) A paper highlighting the 2016/17 Annual Bonus (STIP) Design was circulated to the Board, outlining a proposal which had been discussed at the Remuneration Committee on the 23rd May and recommended to the Board. The Chairman explained the proposal included a gateway of 900 branch conversions, and an 'entry point' target.
- (c) The Board approved the annual design and metrics for recommendation to UKGI.

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ACTION:
Neil Hayward

- (d) **2016/17 Annual Bonus design and metrics to be recommended to UKGI.**
- (e) The Board noted the governance agreed by the Remuneration Committee.

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ITEMS FOR NOTING

- (a) The CEO and CFO re-joined the meeting. The Chairman welcomed Jane MacLeod, General Counsel (GC), to the Meeting.

Sparrow.

- (b) The GC introduced the report on Postmaster Litigation and gave a verbal update on the High Court Claim described in the Noting paper.
- (c) The GC noted that the claim although filed in the High Court, had not been formally served on the Company and that service must be effected by 11 August in order to be effective.
- (d) The GC noted that a 53 page letter had been received from Freeths (the solicitors acting for the claimants) and that a response would be sent during July. Initial review of the letter suggested that there were no new areas of concern that had not previously been raised through the Complaint & Mediation Scheme.
- (e) The GC advised that it was proposed to continue to instruct Bond Dickinson, who had detailed knowledge and experience of the claims and that Tony Robinson QC had been interviewed and instructed to act also.
- (f) The Board noted the pro forma litigation timetable set out in the paper.
- (g) The Board noted the report.

Modern Slavery

- (h) Jane MacLeod introduced the report and explained the requirements of the Modern slavery Act 2015, (the Act).
- (i) The Board discussed the requirements of the Act and the proposed statement which would be published on the Company website. The publication of the statement by September 2016 would ensure compliance with the Act.
- (j) The Board asked if the Company needed to ensure all its suppliers, including those based overseas, complied with the Act. The GC stressed that the ongoing work would include a risk analysis of the core business and its related supply chains.
- (k) The GC explained the need to change the subpostmaster contract to pass the obligation down to the individual subpostmasters, who would not be caught by the Act if their turnover was less than £36m per year.

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- (j) Taking all the discussion points into consideration, the Board approved the Modern Slavery Transparency Statement 2015-2016.

- (k) The GC left the meeting.

Sealings

- (l) The Directors resolved that the affixing of the Common Seal of the Company to the documents numbered 1400 to 1421 inclusive in the seal register was confirmed.

Project Paddington

- (m) The Board ratified the decision to delegate authority to the CEO to sign a variation to the existing Collaboration Agreement, a Master Franchise Agreement and a Framework Concession Agreement with WHSmith (WHS) in connection with Project Paddington.

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POST OFFICE ADVISORY COUNCIL (POAC)

- (a) The Chairman welcomed Mark Davies, Communications Director and Andrew Moys, a member of POAC, to the meeting.
- (b) Mark Davies explained the history of the POAC, the backgrounds of the members involved, and the range of issues which had been debated at the meetings.
- (c) Tim Franklin thanked the CEO for her support and recognised that some of the debates at the POAC had been challenging for the Executive team members presenting items. The CEO reinforced her backing for the POAC and welcomed the diversity of the group and the rigour of the challenge.
- (d) Andrew Moys thanked the Board for inviting him and described his role as a POAC member. He explained that the POAC brought together a wide range of experience and had worked most effectively when asked for input early enough to influence Company thinking.
- (e) Tim Franklin thanked the Board for their support and invited them to attend a future POAC meeting.
- (f) The Board noted the report.
- (g) Mark Davies and Andrew Moys left the meeting.

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PROJECT PEREGRINE PHASE 1

- (a) The Chairman welcomed Steve Ashton, Chairman of POMS, and Nick Kennett, Financial Services Director and CEO of POMS, to the meeting.
- (b) Nick Kennett gave a verbal update to the Board on Project Peregrine, the renegotiation of the Bank of Ireland (BoI) contract. After a tender process Macquarie, investment banking group, had been chosen to support the Peregrine process.

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- (c) Nick Kennett explained that the work was in three phases:
 - To understand the value of the Bol contract, as it was currently suboptimal for both parties;
 - To agree a negotiation strategy, a mandate for which would be brought to the June Board away day; and
 - To prepare for the negotiation.
- (d) Nick Kennett clarified that it had yet to be decided if Macquarie would be involved in the negotiation as a different set of skills may be required.
- (e) The Board noted the paper.
- (f) Nick Kennett updated the Board on the good progress being made on the Banking Framework. He also explained that the Payments Strategy, covering bill payments and the digital wallet would be presented at the June away day.

ACTION: ALL

- (g) **Nick Kennett offered 121 sessions to Board members before the June away day.**

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POMS UPDATE TO POST OFFICE BOARD

- (a) Nick Kennett introduced the POMS update paper to the Board reporting the progress made over the last year. Two areas of risk were identified:
 - Branch trading for travel insurance; and
 - Ensuring that branch sales conversations are compliant.
- (b) The Board asked how POMS was trading compared with the market.
- (c) Steve Ashton explained that the market had shifted online and to aggregator sales and that POMS needed to respond. Competitors were very good at acquiring customer life time value through analytics and that this was where the Post Office should focus.
- (d) Nick Kennett reported that work was underway on customer segmentation and product analytics which, along with improvements in the customer journey, should enable POMS to develop a better customer relationship and higher customer value.
- (e) Steve Ashton recognised that POMS could use the Travel Insurance product, linked to the travel money product as an anchor to create awareness and customer momentum. This anchor could then enable product bundling and the development of a customer relationship.
- (f) The Board asked if Network Transformation was hindering the growth of Financial Services. Nick Kennett explained that the most vulnerable area was in travel where the product is currently sold in c9000 branches.
- (g) The Board discussed the sales model of Financial Services products and the CEO explained that a new proposed Target Operating

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Model would be discussed at the June Away day which would recognise the difference between transactional and relationship sales.

- (h) The Board asked about the risks identified by POMS. Steve Ashton stressed that 6 to 9 months ago the POMS Board had been very concerned by the regulatory relationship with Post Office and the lack of engagement to mitigate the conduct risks. However he was pleased to report that the POMS ARC had received a report and presentation from Kevin Gilliland, Network & Sales Director, and Jonathan Hill, Head of Financial Services Risk, on the oversight of Post Office as the appointed representative of POMS. This had given POMS ARC comfort that Post Office is taking steps to address the various issues and concerns. Post Office is due to present an update to the POMS ARC in July.
- (i) The Board noted the progress made and confirmed support to the strategic direction and business intent.
- (j) Nick Kennett and Steve Ashton left the meeting.

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DIRECTLY MANAGED NETWORK STRATEGY UPDATE

- (a) The Chairman welcomed Kevin Gilliland, Network and Sales Director, and Kevin Seller, General Manager Network Transformation and Development, to the meeting.
- (b) Kevin Gilliland introduced the Directly Managed (DM) Network Strategy Update, and explained that although the transformation of the DM branches had produced a £50m turnaround from a loss of £46m per annum to a profit of £2.7m per annum, and that Paddington would deliver a 3yr £18m EBITDAS improvement, the strategy needed to develop further if the network was to become cash generative.
- (c) Kevin Gilliland explained that the Business case was predicated on simplifying the operating model and taking out significant central costs.
- (d) The Board discussed the options for the DM branches and the investment which would be required to deliver the change.
- (e) The CFO recognised that there would be a finite investment pot to right size the Business and that the directly managed transformation should be considered alongside other initiatives. Richard Callard reminded the Board that the Government were not expecting to fund a further big investment. The CFO noted that the earlier plans assumed a much higher level of profitable Government revenue.
- (f) The Board recognised that significant reduction in the DM network would cause serious industrial relations issues but the CEO believed that if this was the agreed strategy it could be delivered.
- (g) Kevin Seller acknowledged that there would be areas of the country where an alternative approach would be required. Large city mails

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branches may require dividing and replacing with automation or smaller cheaper sites. Urban deprived areas, where there are no other solutions, may need to be considered as community branches and require ongoing support.

- (h) The Board noted the update, confirmed its appetite for a transformation programme to further reduce the Directly Managed network and welcomed a fuller debate at the June away day with a business case to returning to the Board in September.
- (i) Kevin Gilliland and Kevin Seller left the meeting.

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CLOSE

- (a) There being no further business, the Chairman declared the meeting close.

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Chairman

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Date