

Post Office Limited – Strictly Confidential

**POLB(11)7th
POLB11/53-66**

**Post Office Limited
(company no. 2154540)**

**Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 10th November 2011**

Present:

Alice Perkins

Chairman, Post Office Ltd

Neil McCausland

Senior Independent Director, Post Office Ltd

Les Owen

Non Executive Director, Post Office Ltd (part meeting:

Papers 11/53-11/58)

Paula Vennells

Managing Director, Post Office Ltd

Chris Day

Chief Financial Officer, Post Office Ltd

In attendance:

Alwen Lyons

Company Secretary, Post Office Ltd

Apologies:

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MINUTES OF PREVIOUS MEETINGS

- (a) The minutes of the meeting of 22nd September 2011 were agreed;
- (b) the minutes of the POL Board Sub Committee – Project Eagle, 12 October 2011 were noted;
- (c) the minutes of the POL Board Health & Safety Sub Committee were noted;

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MATTERS ARISING – Status Report

(a)

Irrelevant

(b)

Irrelevant

(c)

ACTION:
Neil McCausland/
Les Owen

ACTION:
Paula Vennells/
Susan Crichton

ACTION:
Susan Crichton

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ACTION:
**Paula Vennells/
Martin Moran**

(d)

ACTION:
**Chris Day/
Paula Vennells**

(e)

Irrelevant

ACTION:
Paula Vennells

(f)

ACTION:
Nick Kennett

(g)

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RESIGNATION OF DIRECTOR

- (a) The Board noted the resignation of Matthew Lester as Director of the Board, with effect from 1 November 2011;

ACTION:
Alwen Lyons

the Company Secretary was authorised to file the necessary TM01 form with Companies House;

the Chairman said she had agreed with Donald Brydon that if any issue arose, before separation, in which the Group Finance Director should be involved, he would of course be invited to the Board.

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EAGLE UPDATE – HEADS OF TERMS

ACTION:
Alwen Lyons

- (a) Nick Kennett provided an oral update to the Board on the progress of the Eagle negotiations. The Board Sub-Group, (Minutes noted at the POL Board), had agreed a negotiation mandate on 12th October 2011 which provided the basis of a proposal subsequently tabled with the Bank of Ireland.

The proposal would generate a significant increase in fees to POL, with a commitment by POL to invest in its financial services capability; it also proposed that Bank of Ireland is granted a three year contract extension beyond 2020, combined with granting POL explicit termination rights in the event that the financial position of Bank of Ireland (UK) deteriorates markedly. The proposal also removed various obligations on POL that restrict flexibility in implementing Network Transformation and impose unnecessary investment requirements (eg in sales force numbers).

Meetings have also been held with Edward Davey MP and Stephen Lovegrove, BIS to share the proposal.

Nick Kennett explained that in an initial, informal, response the

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Bank of Ireland (UK) plc raised concerns regarding the use of rating agency measures to act as the trigger for the contract extension and termination. It proposed that the mechanism should be based on the Bank maintaining a buffer above its target Core Tier 1 Capital Ratio, thereby confirming that it was meeting its regulatory and stress test requirements.

Nick Kennett confirmed to the Board that, while this could be an appropriate basis for setting the triggers, POL also needed a measure of the Bank's liquidity, suggesting that adherence to the Bank's Individual Liquidity Guidance (ILG) - a ratio set by the FSA - combined with an active program of information sharing from the Bank (in particular regarding its Recovery & Resolution Plan) should be included in the trigger measure and monitoring.

POL received the Bank's formal response on 9th November which confirmed a significant increase in commissions to POL (broadly in line with the minimum acceptable position approved by the Board – a brief summary was tabled and attached to the Minutes), as well as termination rights.

Nick Kennett advised the Board that POL will revert to the Bank next week with an updated proposal.

The Board discussed the position with Chris Day challenging whether abandoning the credit agency rating was appropriate. Nick Kennett explained that in his view a capital-based measure was acceptable as long as it was supported by the liquidity measures.

Neil McCausland questioned the issue further. Nick Kennett explained that although credit rating agencies were transparent and independent, their analysis is subjective and includes risks associated with Bank of Ireland (UK)'s parent as well as the sovereign rating of Ireland – this is despite the Bank of Ireland UK being a separate entity with financial and operational 'ring-fencing' in place.

Les Owen emphasised that he would prefer a credit rating measure but was happy to accept the alternatives being proposed. Paula Vennells requested that the contract specifically required the Bank to match the latest 'best' capital and liquidity measures as they are upgraded by the FSA.

The Board noted the briefing and confirmed support for the negotiating strategy being followed by management.

Nick Kennett advised the Board that, subject to the forthcoming discussions with the Bank, he would request a Board Eagle Sub-Committee in the next two weeks;

- (b) The Chairman asked if there was a possibility that the Bank's financial rating would impact the Post Office's status regarding Universal Credit development. Paula Vennells explained that there had been some concern expressed by David Freud (Minister for

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Welfare Reform, DWP).

The Chairman stressed the need to ensure that POL's legal and operational relationship with the Bank of Ireland (UK), the ring-fencing of its financial assets (including POL's customers' deposits) and the operational protection from its parent, are clearly understood across Whitehall. Nick Kennett confirmed that he had prepared a note for Stephen Lovegrove as part of the briefing for the meeting with Treasury that set out the protections in place;

ACTION:
Alwen Lyons (c) the Chairman asked that Nick Kennett and Kevin Gilliland present a joint paper to the Board in the New Year covering the Financial Services future sales plan.

POLB11/57 FINANCE PERFORMANCE / HALF YEAR FORECAST

- (a) The Board noted the Performance Report;
- (b) Chris Day gave an overview of the half year results and an update of Period 7. He explained that the Business was now investing at a faster rate and major projects were being actively managed, whilst maintaining business as usual cost control;

ACTION:
Neil McCausland/
Les Owen (c) the Board discussed the treatment of the Network subsidy payment and the use of the term 'profit' in the Report. The Chairman asked the Directors to feed their reporting suggestions into Chris Day;

ACTION:
Chris Day (d) the Chairman asked Chris Day to arrange briefings for the Board on Working Capital;

ACTION:
Paula Vennells/
Kevin Gilliland (e) the Chairman emphasised that reductions in queuing times was one of the most important measures for the Business and should continue to be monitored carefully by the Board. Paula Vennells stressed that it was an area on which the Business focussed heavily and suggested a strategy paper comes to the Board on this topic.

POLB11/58 MUTUALISATION – RESPONSE TO CONSULTATION

- (a) The Board noted the key considerations for POL in respect of mutualisation;
- (b) Susan Crichton asked for authority to set up a sub-committee of the Board to help give direction on the Post Office response to the mutualisation agenda. The Chairman agreed that there should be at least one non-executive director on the sub-committee with a Terms of Reference to:
 - draft a private letter to the Minister setting out POL's position;
 - scope a study from first principles of the fundamental effect of mutualisation for the Business and its governance.

Les Owen stressed that it is the Board's job to highlight the important issues with mutualisation to ensure we are still able to

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manage and maximise success;

the Chairman emphasised the need to resource this work effectively. Paula Vennells suggested that Susan Crichton would look for an industry expert to be used as a consultant (in the same way as the Business has used Susan Barton for the Distribution Agreement);

ACTION:
All (c) the Board were asked to feed back any comments on mutualisation to Susan Crichton.

POLB11/59 **DATA PROTECTION POLICY**

(a) The Board approved the POL Data Protection Policy (POLB(11)52)

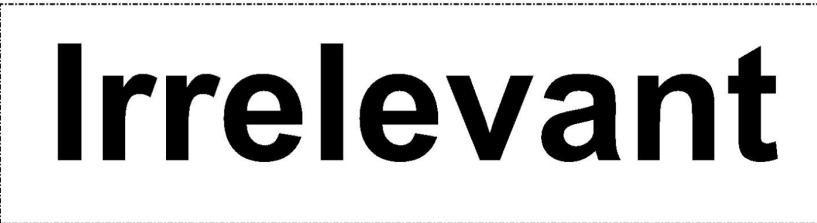
POLB11/60 **MANAGING DIRECTOR'S REPORT**

ACTION:
**Paula Vennells/
Kevin Gilliland** (a) Network Transformation
Paula Vennells shared feedback on the Subpostmasters' sessions jointly hosted with NFSP. The Chairman asked that part of the Strategy Day be spent on how we work with the NFSP and the Unions.

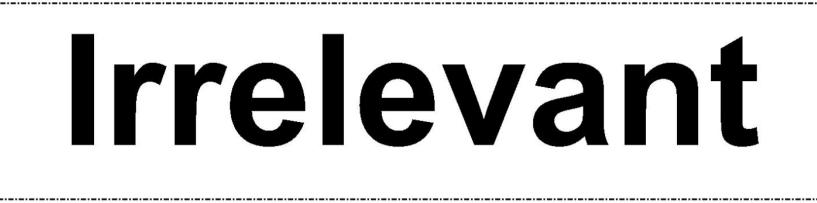
Neil McCausland asked that the Board be informed of the financial implications of the different Network Transformation models. Paula Vennells agreed to ensure Kevin Gilliland includes this in his update to the December Board;

(b) Crowns
The issue of returning the Crown network to break-even will be included in the December Board presentation;

ACTION:
Chris Day

(c)  **Irrelevant**

ACTION:
Alwen Lyons

(d)  **Irrelevant**

ACTION:
Paula Vennells

(e)  **Irrelevant**

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(a)

Irrelevant

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ANY OTHER BUSINESS

ACTION:
Chris Day

(a) The Board was very uncomfortable about the Pin Pad procurement sign off process. Neil McCausland challenged why decisions had been taken outside the process. Chris Day explained that since the POL Board papers were circulated, another meeting had taken place with Group Procurement at which agreement had been reached over what had happened. Royal Mail Group/Group Investment Committee (GIC) suggested Chris Day put a note on the file explaining the Pin Pad value for money assessment used to make the decision. Chris Day was asked to circulate the note and the GIC agreement to the decision;

ACTION:
Chris Day

(b) the Chairman asked for a lessons learnt paper along with a timetable of how a similar case would be treated today;

ACTION:
Chris Day/
Mike Young

(c) Neil McCausland asked for the terms of the contract to be revisited and Fujitsu to be challenged regarding the 17% margin as highlighted in the Investment Appraisal. The Chairman stressed that this was a very important issue and asked for a deep dive to be organised to cover procurement and governance;

ACTION:
Chris Day

(d)

Irrelevant

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DISTRIBUTION AGREEMENT

(a) The Chairman reported that she had met with Donald Brydon, RMG chairman, to discuss three areas of the Distribution Agreement negotiations, Property, Tax Losses and Exclusivity. It looks as though solutions would be found for Tax Losses and Property – but Exclusivity was difficult for both Businesses.

Exclusivity was a particular issue in the collections and returns market where RM would like POL to remain exclusive to them despite RM's relatively low market share. The Chairman asked Mike Young, POL's lead negotiator, to ensure POL has the necessary analysis ready to discuss further with RM. Neil McCausland stressed the size of the market opportunity and his reticence to sign up to any exclusivity in the area.

The Chairman explained Donald Brydon's view was that the Businesses should remain wholly exclusive and that there was a risk to the whole contract if POL could not sign up to this.

The Chairman has another meeting with Donald Brydon in a week's

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time to discuss further.

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(a)

Irrelevant

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NOTING PAPERS

All the noting papers were duly noted.

- NS&I Strategy Update (POLB(11)53)
- Insurance Update (POLB(11)54)
- Fujitsu – Viability of introducing a SAS70 or (POLB(11)55)
Equivalent audit report
- Post Office Ltd – Sealings (POLB(11)56)

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CLOSE

- (a) There being no other business, the Chairman closed the meeting.