

In Strictest Confidence

**CB(01)1st
CB01/01 to 13**

CONSIGNIA plc
(company no. 4138203)

Minutes of the meeting of the Board of Directors
held at 148 Old Street, London
on 10 April 2001

Present:

Neville Bain	Chairman
John Roberts	Chief Executive
Marisa Cassoni	Group Finance Director
Jerry Cope	Group Managing Director, Strategy & Business Development
John Lloyd	Non-Executive Director
Miles Templeman	Non-Executive Director
Rosemary Thorne	Non-Executive Director

In attendance:

Richard Dykes	Group Managing Director, Mails Services
Stuart Sweetman	Group Managing Director, Customer and Banking Services
Kevin Williams	Group Managing Director, Distribution Services
Jonathan Evans	Company Secretary
Miranda Dodd	Notes

Also present:

Mark Thomson	MD Stamps and Collectibles, for CB01/09
David Marshall	Group Personnel Director, for CB01/10

Apologies

Mike Kinski, non-executive director, was unable to attend.

CB01/01

APPOINTMENT OF DIRECTORS CB(01)01

Consent from the Secretary of State as special shareholder having been received, the Board agreed the following appointments to the Board of Consignia plc:

- Jerry Cope, Mike Kinski, John Lloyd, Miles Templeman and Rosemary Thorne with effect from 26 March 2001
- and Allan Leighton with effect from 2 April 2001.

CB01/02

MINUTES OF THE PREVIOUS MEETING OF CONSIGNIA plc

The Board noted the minutes of the Consignia plc Board held on 22 March.

CB01/03

MATTERS RESERVED TO THE BOARD CB(01)02

The Board noted that the powers previously reserved to The Post Office Board had been updated to conform with the plc status of Consignia, and agreed to the Matters Reserved to the Board as set out in Annex B of the paper. The Board further agreed to retain as a Matter Reserved, decisions on the appointment and removal of auditors: such decisions would be taken with the advice of the Audit Committee, and be subject to ratification at the Annual General Meeting.

In Strictest Confidence

**CB01/04 MINUTES OF LAST MEETING OF THE POST OFFICE BOARD
POB(01) 3rd**

The Board approved the minutes of the Post Office Board meeting on 13 March.

**CB01/05 MATTERS ARISING FROM THE LAST MEETING OF THE
POST OFFICE BOARD CB(01)04**

The Board noted the matters arising from the Post Office Board meeting held on 13 March 2001.

CB01/06 CHAIRMAN'S BUSINESS

Irrelevant

ACTION (iii) the Chairman reported that he had also received a letter from the
Chairman Minister on the subject of corporate governance - the eventual and much-delayed reply to the Chairman's original letter of 27 June 2000, in which he had proposed a clear set of defined roles for the shareholder and the Board. The DTI's reply was inadequate, leaving Consignia without an agreed governance framework in place in respect of its dealing with the shareholder. The Board agreed that the Chairman should pursue the issue with DTI making clear the unacceptability of this situation;

ACTION (iv) the Chairman brought to the attention of the Board an article in
Chairman the April edition of the "Subpostmaster" newspaper in which the Secretary of State had been quoted as saying to the NFSP's Executive Council that the Post Office Board had failed in the past to give sufficient support to the interests of subpostmasters and to the post office network in general. The Board felt that these comments, if correctly reported, were without foundation, and

In Strictest Confidence

recalled the considerable time which the Post Office Board had devoted over the past three years in particular to Horizon, the PIU report and the future of the network. The Chairman intended to challenge the Secretary of State about his alleged comments.

CB01/07

CHIEF EXECUTIVE'S REPORT CB(01)05

The Board noted the Chief Executive's report, and in particular that:

- (i) Performance: across the company performance had continued the trend of previous months, and the forecast agreed at the last meeting of the Post Office Board appeared to be secure. The exception was a marked and serious deterioration in the financial situation of the Packages and Express business unit, which was explored in greater depth in the financial overview item;

Irrelevant

In Strictest Confidence

Irrelevant

CB01/08

FINANCIAL OVERVIEW

The Board noted a presentation by Marisa Cassoni, in particular that:

- (i) Quality of Service forecasts had been revised during the month. In mails services 10 out of 13 forecasts had been revised

In Strictest Confidence

In Strictest Confidence

downwards with the second class letters target now being forecast to be failed. Two forecasts in Distribution Services had been revised upwards and three downwards;

- (ii) significant contributors to the variance against forecast for the month had been caused by delays to realising savings in the Gemini hubs, failure to realise negotiated productivity gains in Post Office Network, a reduced write down provision for vehicles and a reduced spend on group centre projects;
- (iii) Group income was showing an 8.6% increase in over the year, the increase stemming mainly from the inclusion of foreign acquisitions. The adverse variance against external income excluding acquisitions was in the main the result of lower than expected volume;
- (iv) turning to the budget for 2001/02, Trading model changes were being planned to ensure that units worked together in partnership to achieve the best results for the company;
- (v) £95m in savings had been identified against £60m external income risk as requested by the Post Office Board at its last meeting. Savings in Purchasing Services, Service Delivery, Business and Consumer Markets, capital expenditure and Business Systems had been included into unit budgets; additional funds would only be released during the year when and if the overall performance of the company allowed it.
- (vi) The Board agreed the full year Group post-tax profit forecast, before ringfenced items, of £175 million should be released to DTI.
- (vii) The Board noted a presentation from Kevin Williams on the significant deterioration in the position of Packages and Express business unit. In particular:
 - (viii) the unexpected change in the report to the Board - the profit forecast had worsened by £15m in a single month - had resulted in part from the incompetent actions of a senior accountant who had since left the company. Some other senior staff were having their careers re-assessed;
- (ix) P&E's performance in 2001/02 was now seriously adrift from the targets agreed with the Board under Project Everest. A new five year plan had been constructed which returned the unit to being on track by year 5, but this was very ambitious and risky. A profit improvement of £25million was assumed in 2001/02 alone, which was seen as a very tough task;
- (x) the proposal now was to continue to drive hard on the Everest actions - and there were signs of solid progress, especially in the resourcing area - and in parallel to mobilise a team to build on the earlier Project Apollo work outlined to the Post Office Board, to identify the best commercial options for the future. A report back

In Strictest Confidence

would be made to the Board in July.

- (xi) The Board expressed intense disappointment that it had been in receipt of misleading performance information in earlier months, together with great concern that the true underlying performance now cast considerable doubt on the ability of the unit to transform itself into running at acceptable levels of profitability. The Board would need to return to this in July, when the Apollo work had been further progressed. The Board would be looking for options which created value for the company, and which the Board could have confidence of being delivered.

Irrelevant

CB01/10

IMPROVING SENIOR MANAGEMENT CAPABILITY CB(01)07

The Board discussed Jerry Cope's paper, supported by a presentation from David Marshall.

- (i) It was intended to facilitate an improvement in company

In Strictest Confidence

performance by completing a major overhaul of the treatment of the "Top Y" managers who comprised in the main business unit executive committee members and group centre directors;

- (ii) over the course of the three year plan outlined, Consignia should become more like other companies subject to market forces in the way that it both treats and is treated by its senior management population;
- (iii) successful work had been undertaken to ensure that Consignia had access to an ethnic and culturally diverse population of applicants from whom the best could be selected;
- (iv) the need for honest appraisal of individuals against the dimensions of performance and potential was paramount, together with supporting individuals who felt threatened by the new process;
- (v) The Board noted and supported with encouragement the progress on the strategy, and the further issues yet to be addressed.

Irrelevant

CB01/12

AUDIT COMMITTEE REPORT CB(01)09

- (i) The Board noted that guidelines on the governance arrangements of overseas subsidiaries were being developed, and would be agreed by the Executive Board prior to implementation;.

In Strictest Confidence

- (ii) The Board noted the audit committee report.

CB01/13

DATE OF NEXT MEETING

The next meeting was scheduled for 9 May 2001.