

Draft/Post Office/31 January 2018

**[POST OFFICE LIMITED]
SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT**

[Note to BEIS/UKGI: Post Office contracting entity to be confirmed prior to the time this Framework Document is to be signed by the parties. Certain consequential changes may need to be made to this Framework Document depending on the Post Office contracting entity (e.g. 1.1, 2 and 3 would need to be updated if HoldCo is the contracting entity).]

Introduction

This document ("Framework Document") has been drawn up by the Department for Business, Energy and Industrial Strategy (BEIS, the "Shareholder") and UK Government Investments Ltd (UKGI, the "Shareholder's Representative") in collaboration with Post Office Ltd ("POL"). It does not convey any legal powers or responsibilities and is not legally binding on the parties (other than in respect of the confidentiality obligations set out in 12 below). Rather, it describes:

- (i) Certain parameters within which POL is expected to operate;
- (ii) Certain obligations with which POL is required to comply; and
- (iii) Certain aspects of the relationship between the Shareholder, the Shareholder's Representative and POL and how it is expected that the Shareholder, the Shareholder's Representative and POL will interact with each other,

as further set out in the following key governance documents (as applicable): (i) the Articles of Association of POL (the "Articles"); (ii) the "Entrustment Letter" of 16 April 2018; and (iii) the "Funding Agreement" of 16 April 2018. Given that this Framework Document is not legally binding on the parties (other than in respect of the confidentiality obligations set out in 12 below), no reliance should otherwise be placed on the provisions of this Framework Document and reference should be had to the above key governance documents for details of the agreement between the parties. Any amendment, update or replacement of any provision of this Framework Document shall be agreed by the parties in writing and must be consistent with the above key governance documents (as may be amended, updated or replaced). It is expected that this Framework Document will be reviewed on a three-year basis.

References to (including extracts and summaries of) a statute or statutory provision include and shall be read as a reference to that statute or provision as from time to time modified, re-enacted or consolidated whether before or after the date of this Framework Document, and any subordinate legislation made from time to time under that statute or statutory provision which is in force at the date of this Framework Document.

This Framework Document is signed and dated by the Shareholder, the Shareholder's Representative and POL, and will be published on the GOV.UK website.

Ownership of Post Office Ltd

1.1 Ownership and legal framework: the Postal Services Act 2011 provided for a "Post Office company" to continue to be owned by the Crown or a mutual ownership structure after the privatisation of Royal Mail. Under the Act (Part 1, Section 4), the Crown may only dispose of its interest in a "Post Office company" through the issue or transfer of shares or share rights in a Post Office company to a relevant mutual by order of the Secretary of State for Business, Innovation and Skills (now BEIS). The Post Office formally separated

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from Royal Mail Group on 1 April 2012 and became a private company limited by shares. On separation, the Secretary of State was granted a Special Share in POL and the rights and privileges thus conveyed are set out in the Articles.

1.2 Government classification: POL is classified as a Public Non-financial Corporation under the Office for National Statistics national account system and BEIS is its sponsoring department. As a Public Corporation, the POL Board retains responsibility for the operations of the Post Office. Neither the Shareholder nor the Shareholder's Representative have any involvement in the day-to-day operations of POL or in the management of its network of post offices and staff. Whilst the Board retains operational control, it is accountable to the Shareholder for the performance of POL and is required to seek consent for certain matters, as set out in the Articles.

Governance and accountability

2 Overall aims

2.1 POL's public ownership is founded on its social purpose, including protecting the interests of vulnerable customers, providing services of social importance and safeguarding services in rural and urban deprived areas where post offices are not commercially viable. The Shareholder reserves the right to review POL's status periodically as appropriate.

2.2 To deliver its social purpose, the Secretary of State has stipulated that the principal objectives of POL are the following: **[Note to BEIS/UKGI: The following provisions have been amended to more closely reflect the language used in the Entrustment Letter.]**

- (i) to maintain, during the term of the Funding Agreement, a network of post offices beyond its optimal commercial size as detailed in the Entrustment Letter. A specific minimum branch threshold of 11,500 is specified by the Secretary of State in the Funding Agreement;
- (ii) in so doing, meet the minimum access requirements specified for this network of post offices as detailed in the Entrustment Letter; and
- (iii) provide this network of post offices to make available the services of general economic interest (SGEI) detailed in Annex A of the Entrustment Letter.

2.3 The Shareholder may also issue a periodic Chair Letter (the "Chair Letter"), which, while not legally binding, will typically:

- (i) provide clarity over the Shareholder's shorter-term aspirations for POL; and
- (ii) ask POL to ensure strategic alignment with wider BEIS or Government policy objectives, where POL's business is relevant to such policy, such as financial inclusion or the rural economy.

2.4 In delivering its objectives, the Shareholder expects POL to operate under sound commercial and financial principles, and in accordance with all applicable laws, seeking to deploy its capital, brand and products as a responsible commercial operator and manage risk to deliver positive financial returns. During the term of the Funding Agreement, the Shareholder expects POL to operate in the manner set out in this 2.4, notwithstanding the network requirements in 2.2 above.

3 The Special Share

3.1 Under the Articles, the Secretary of State was granted a "Special Share" in POL, conveying certain rights and privileges to the Shareholder or its representatives.

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3.2 The Shareholder is entitled to attend and speak at any general meeting or any meeting of any other class of shareholders of POL, but the Special Share does not carry voting rights or any other rights at any such meeting. The Special Share may be redeemed at any time by the Shareholder, but POL cannot redeem it without prior consent of the Shareholder.

3.3 The prior written consent of the Shareholder is required for certain decisions (set out in full under Clause 11.1 of the Articles), including but not limited to:

- (i) varying POL's Articles (11.1 (A));
- (ii) voluntary winding up of the company or member of the group (11.1 (B));
- (iii) issuing or allotment of shares or granting of share rights in the company (11.1 (D));
- (iv) appointment or removal from office of any director or the Chief Executive (11.1 (J));
- (v) the adoption or amendment of a Strategic Plan (11.1 (K));
- (vi) any unplanned substantial alteration in the nature of the business (11.1 (L));
- (vii) sale of material assets in the absence of which POL would not be able to continue to perform its business as provided for in the Strategic Plan (11.1 (M));
- (viii) the entry into or implementation of a transaction involving the commitment or liability or the payment of a sum in excess of £50,000,000 (11.1 (O)); **[Note to BEIS/UKGI: The second sentence has been deleted on the basis that Article 11.1(O) (like the other requirements of the Articles) can be amended by way of a special resolution passed by POL's shareholders, and is therefore not a process which is unique to Article 11.1(O).]**
- (ix) the entry into any transaction which is not on commercial terms and is not considered by the directors to be in the interests of the company (11.1 (P));
- (x) alterations to trademark rights (11.1 (Q));
- (xi) any material variation to the remuneration or terms and conditions of employment of any of the directors appointed or approved by the Shareholder (11.1 (R));
- (xii) incurring of any borrowing exceeding pre-set limits and subject to other restrictions as agreed with HM Treasury (11.1 (S)); and
- (xiii) the appointment or removal from office of the chair (11.1 (T)).

4 Shareholder undertaking towards POL

4.1 Where consistent with the aims set out above (see 2 - Overall Aims), as well as with the Articles, Entrustment Letter and the Funding Agreement, and where POL as a public corporation cannot meet the aims or obligations stipulated therein without the Shareholder's support, the Shareholder undertakes to provide the necessary practical support and in particular to:

- (i) on request, provide clarification about the Shareholder's expectations in relation to these aims or on government policy objectives relevant to POL more generally;
- (ii) facilitate regular access to the Responsible Minister and the Principle Accounting Officer, as well as access to other parts of government when required; and
- (iii) in a timely manner review and comment on POL's draft strategic plans and consult with POL on its development.

4.2 The Shareholder also undertakes to provide the following additional support to POL:

- (i) on request, facilitate access to and clarify as needed relevant government-wide corporate governance guidance and instructions (see 8 and Appendix 3 - Government-wide corporate guidance applicable to public corporations); and

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(ii) take due care in handling commercially sensitive and legally privileged information (See 10, 11 and 12 - *Shareholder's right to information, Reporting Performance and POL's Information*).

5 Key roles and accountabilities for POL's governance

Accounting officer responsibilities

Shareholder's Principal Accounting Officer ("PAO")

5.1 The Shareholder's PAO is the BEIS Permanent Secretary. The PAO is accountable to Parliament in respect of POL and for ensuring that arrangements are in place for effective shareholder oversight of POL. The PAO is responsible for advising the responsible minister on various aspects including but not limited to the following:

- (i) an appropriate framework of objectives and targets for POL in the light of BEIS' wider strategic aims and priorities;
- (ii) an appropriate allocation of BEIS' budget for POL in the light of BEIS' overall expenditure priorities; and
- (iii) how well POL is achieving its strategic objectives and if it is delivering value for money.

POL's Accounting Officer ("AO")

5.2 As a public corporation, following the principles set out by HM Treasury in Managing Public Money ("MPM"), POL has an AO. The PAO has designated POL's Group Chief Executive as POL's AO. The respective responsibilities of the PAO and AO are set out in Chapter 3 of MPM. POL's AO is personally responsible for safeguarding all public funds for which he or she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of POL. In addition, he or she should ensure that POL is run on the basis of the standards of governance, decision-making and financial management set out in MPM, with particular regard to the Standards Expected of the Accounting Officer's Organisation summarised in Box 3.1 of MPM (see Appendix 1 - MPM Box 3.1: *Standards Expected of the Accounting Officer's Organisation*). **[Note to BEIS/UKGI: The sentence in square brackets has been deleted as it relates to delegated authorities which are addressed in the Articles.]**

Shareholder policy and corporate governance roles

Responsible Minister

5.3 The Parliamentary Under Secretary of State and Minister for Small Business, Consumers and Corporate Responsibility provides ministerial oversight and support for key priorities and will typically account for POL-related business in Parliament.

Shareholder Policy Sponsor for POL (the "Policy Sponsor")

5.4 On behalf of the Shareholder, the Policy Sponsor within BEIS will have oversight of POL from a policy perspective. This role includes ensuring that POL's activity is consistent with the wider government policy framework, facilitating POL's access to government as required and responding to parliamentary scrutiny and reporting requirements. The Policy Sponsor will be POL's primary point of contact on policy matters and POL will facilitate the Policy Sponsor in fulfilling this function by providing relevant information in the manner outlined in 11.2 below. The Policy Sponsor is supported at a senior level within BEIS (usually director level) by a Policy Champion who has ultimate accountability for the policy relationship. **[Note to BEIS/UKGI: The review requirement (at the stated frequency) set out in the last sentence is not set out in the Funding Agreement, the Entrustment Letter or the Articles. Nor does it appear to be an express statutory requirement. This**

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has therefore been replaced, and this provision linked, with 11.2 which sets out a general requirement to provide information.]

Shareholder's Representative

5.5 The Shareholder's Representative oversees POL's corporate governance, strategy, and the stewardship of POL's financial and other resources on behalf of the shareholder. On these matters, the Shareholder's Representative is the main source of advice to the Policy Sponsor and the PAO, and the primary contact for POL's interaction with the Shareholder. They will be supported by the Corporate Governance Sponsor in the BEIS Partnerships Team. POL will facilitate the Shareholder's Representative in fulfilling this function by providing relevant information in the manner outlined in 11.2 below. ***[Note to BEIS/UKGI: For consistency with the other provisions in this Framework Document, we have linked this provision to 11.2 which sets out a general requirement to provide information.]***

POL's board

Remit of POL's Board

5.6 POL's board:

- (i) exercises control over the day-to-day operations of POL;
- (ii) remains accountable to the Shareholder for delivery of POL's strategic aims as set out in the strategic plan referred to in the Funding Agreement; and
- (iii) shall have regard to the relevant principles set out in the Government Code of Good Practice for Corporate Governance and in MPM, as well as the requirements under the Articles to seek consent for certain matters (see 3 - *Special Share*).

[The Board's specific responsibilities, including matters reserved for board decision, are set out in the Board's Terms of Reference (see Appendix 2 – *Board Terms of Reference*).]

[Note to BEIS/UKGI: The Board's Terms of Reference are currently under review and will need to be updated.]

Individual board members' responsibilities

5.7 In addition to their statutory and common law duties, which include the duty to promote the success of POL for the benefit of the Shareholder and its wider stakeholder community, Board members should also have regard to the principles set out in the Code of Conduct for Board Members of Public Bodies. The Articles (Clauses 82 to 83) set out the principles to be followed in relation to conflicts of interest of directors. Where there is potential for a perceived conflict of interest between board membership and the shareholder function, the Shareholder Representative NED ("Shareholder NED") will recuse him/herself from the relevant board decision, and prioritise his or her obligations to the Shareholder. [When it is issued, the appointment letter for the Shareholder NED will also contain provisions specifically on the approach to conflicts of interest (including perceived conflicts of interest).]

6 Board composition, appointments, remuneration and review

Composition of board

6.1 In line with the Government Code of Good Practice for Corporate Governance, it is agreed between the Shareholder and POL that the board will include a Non-executive Chair, a Group Chief Executive, a Chief Finance Officer and a number of Non-executive Directors ("NED"), one of whom should be a Senior Independent Director ("SID"). The Shareholder NED will represent the Shareholder's interest and will typically be an employee of the Shareholder's Representative. To assist in execution of corporate governance responsibilities, the board has established three sub-committees – Audit Risk and

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Compliance; Nominations; and Remuneration – each chaired by a NED, and the board will regularly review these arrangements to ensure they remain appropriate.

Board member appointments, retirement and removal

6.2 The Articles (Clauses 63 to 70 and Clause 81) set out the principles to be followed in relation to appointment, retirement and removal of board members, as follows:

- (i) *Chair*. The Shareholder is entitled to appoint and remove any person as Chair of the company by notice in writing; and
- (ii) *Directors*. The Shareholder is entitled to appoint and remove any person as a director of the company by notice in writing. The Chair is required to consult with and obtain the approval of the Shareholder in relation to the appointment and removal of any person as a director.

6.3 The appointment of the Chair is considered a public appointment. Additionally, BEIS, in agreement with the Commissioner for Public Appointments and Minister for Cabinet Office, has classified the Chair of POL as “significant”, which means that it must follow Office for Public Appointment (OPA) rules and may also be subject to specific approval by the Prime Minister.

Board member remuneration, gratuities and pensions

6.4 The Articles (Clauses 78 to 80) set out the principles to be followed in relation to directors’ remuneration, as well as gratuities and pensions (Clause 84).

6.5 The Remuneration Committee shall recommend to the Board the remuneration policy and any changes to individual elements of the remuneration packages for members of POL’s Board. As per the Articles, the remuneration of all Board members will require approval by the Shareholder. **[Note to BEIS/UKGI: Remuneration of Board members is an issue which is addressed in the Articles. This provision has therefore been amended to reflect the Articles.]**

[Note to BEIS/UKGI: The activities outlined in this provision are consistent with the government’s guidance on corporate good governance. They are not set out in the Funding Agreement, the Entrustment Letter, the Articles or in statute. Post Office would therefore propose that this provision be removed.]

7 Essential publications

Annual report and accounts

7.1 As per the Companies Act 2006, POL is required to publish an Annual Report of its activities and its year-end accounts. It is also required to lay these before parliament. The Shareholder reserves the right to request additional reporting where reasonably needed to meet government-wide accounting requirements.

Network report

7.2 As per Section 11 of the Postal Services Act 2011, a Post Office company must send to the Shareholder each year a report to be laid before Parliament on its network of post offices, detailing:

- (i) the number and location of its post offices;
- (ii) the services provided;
- (iii) the accessibility of post offices to users of those services, particularly the groups specified in the act such as individuals living in rural areas and disadvantaged individuals; and
- (iv) such other information as the Shareholder may from time to time require.

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8 Observance of government-wide guidance on corporate governance

8.1 In acting in accordance with standards of corporate good governance, POL shall have regard to the government-wide corporate guidance listed in Appendix 3 (*Government-wide corporate guidance applicable to public corporations*). [PLACEHOLDER: Shareholder is seeking confirmation from HMT on which government-wide guidance documents are applicable to public corporations like POL and Appendix 3 will be populated accordingly] **[Note to BEIS/UKGI: Guidance to be considered by Post Office once confirmed.]**

8.2 POL, as a public corporation, is exempt from Cabinet Office spend controls, as outlined in the exemptions section of the Cabinet Office Controls Policy paper. POL is also not subject to Civil Service Pay Guidance and, other than as set out in the Articles, POL's Board retains operational freedom to make remuneration decisions in the best interests of the business.

Financial responsibilities and funding arrangements

9 POL's funding framework

Borrowing

9.1 During the term of the Funding Agreement, unless otherwise agreed between the Shareholder and POL, POL is not expected to borrow externally and, in any case, this will be subject to the limits and approval requirements set out in the Articles (Article 11.1(S)). Any borrowing by POL from the Shareholder shall be subject to appropriate documentation to be agreed between the parties. **[Note to BEIS/UKGI: To avoid any confusion between this Framework Document and the Articles, we have amended this provision to reflect the requirements of the Articles which sets out the restrictions on borrowing and details of when Shareholder approval will be required. For further discussion with BEIS/UKGI, including whether this expectation is intended to apply to POL only.]**

Government funding

9.2 The Shareholder has agreed to provide funding directly to POL under the Funding Agreement. Under the Funding Agreement, POL receives a "Network Subsidy Payment" and/or a "Network Investment Payment" (together known as the "SGEI Payment"). The Network Subsidy Payment is designed to cover POL's net cost of maintaining a network of post offices beyond the optimum commercial size and the provision of SGEI over that network. The Network Investment Payment supports the development of POL's operations. The Funding Agreement details the full terms and conditions of such payments. Under the Funding Agreement, the POL Board is required to meet specific requirements in terms of preparing and reporting against a strategic plan covering the relevant funding term. **[Note to BEIS/UKGI: We are conscious that there is also the Working Capital Facility Agreement with BEIS. However, given that the Working Capital Facility Agreement is not a public document, Post Office would propose not to refer to it in this Framework Document.]**

Return on capital

9.3 Since its incorporation, POL has been engaged in a substantial restructuring of its business whilst continuing to meet its obligation to deliver SGEI across a minimum network of post offices. As a result, POL has required financial support for the uneconomic parts of the network of post offices and investment funding to develop the commercial arm of the business and upgrade its ageing infrastructure. POL has therefore not been in a position to consider any return of capital to the Shareholder.

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9.4 POL and the Shareholder hold a shared aspiration for POL to become commercially sustainable in the future. Should POL become commercially sustainable, the Shareholder holds a further aspiration for POL to pay the Shareholder a dividend, subject always to the requirements of applicable law and the financial position of POL at the relevant time. The precise mechanism by which the amount of any dividend would be determined will be agreed at the relevant time.

Reporting performance, information exchange and confidentiality

10 Shareholder's right to information

10.1 Under the Articles (Articles 12A and 12B), the Shareholder may "request such information in relation to the affairs of the group ... as it may consider necessary or desirable. The company shall use its reasonable endeavours to comply promptly ... but only in so far as the company has such information within its possession or such information can reasonably be obtained by it" and may meet with "such specified or other relevant directors and senior managers of the company ... to discuss the affairs of the group". The Shareholder may make such requests itself or via the Shareholder's Representative. The Shareholder and Shareholder's Representative may use the information as necessary to properly exercise the shareholder function on the understanding that due care will be taken in handling POL's information, as set out in 12 below. [When it is issued, the appointment letter for the Shareholder NED will contain further provisions specifically on the sharing of confidential information between POL and the Shareholder NED].

11 Reporting performance

Regular reporting against the targets and budgets set out in the Strategic Plan

11.1 As well as meeting, and subject to, the requirements set out in the Entrustment Letter and the Funding Agreement, on a quarterly basis POL shall provide a report to the Shareholder setting out:

- (i) a summary of its performance over the previous quarter;
- (ii) information on its expected draw-down on any available SGEI Payment for the remaining duration of the strategic plan referred to in the Funding Agreement; and
- (iii) an update on deliver against its approved business cases.

[Note to BEIS/UKGI: The Funding Agreement sets out quarterly (as opposed to monthly) reporting requirements. The above provision has been amended to reflect the reporting requirements set out in the Funding Agreement.]

[Note to BEIS/UKGI: The update requirement (at the stated frequency) set out in this provision is not set out in the Funding Agreement, the Entrustment Letter or the Articles. Nor does it appear to be an express statutory requirement. This has therefore been replaced with 11.2 which sets out a general requirement to provide information.]

[Note to BEIS/UKGI: Post Office will look into a process for sharing reports and information with BEIS/UKGI. However, given that this is not a requirement which is set out in the Funding Agreement, the Entrustment Letter, the Articles or in statute, we would propose deleting the requirement from this Framework Document.]

Additional information and report requests

11.2 POL shall use its reasonable endeavours to fulfil requests for additional information and reports received by it from time to time from the Shareholder, Shareholder's

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Representative or the Policy Sponsor. The Shareholder and Shareholder's Representative shall ensure that such requests are made on reasonable notice and are not overly onerous.

[Note to BEIS/UKGI: The update requirement (at the stated frequency) is not set out in the Funding Agreement, the Entrustment Letter or the Articles. Nor does it appear to be an express statutory requirement. This has therefore been replaced with 11.2 which sets out a general requirement to provide information.]

12 POL's information

POL's information

12.1 The Shareholder and Shareholder's Representative each acknowledge that they shall ensure that:

- (i) any information received or obtained from POL (including any Special Category Information as defined in 12.4 below) shall be treated as strictly confidential;
- (ii) any such information is treated with at least the same degree of care that it uses for its own confidential information; and
- (iii) any such information is not disclosed or used without POL's prior written consent.

Legally Privileged Information

12.2 The parties acknowledge the importance of maintaining the status of legally privileged documents, while at the same time ensuring that legal risks are communicated appropriately to the Shareholder.

12.3 In respect of any substantial piece of litigation involving POL, the parties will agree a litigation protocol which will include specific provisions to ensure the protection of legally privileged information which may be transmitted to the Shareholder from time to time in relation to that litigation. The parties will ensure that:

- (i) legally privileged documents and information are clearly marked as such;
- (ii) individual employees handling the privileged documents and information (including documents and information which are not marked legally privileged but by their nature are legally privileged or which the recipient knows or ought to reasonably know is legally privileged) are familiar with principles to which they must adhere to protect legal privilege; and
- (iii) circulation of privileged documents and information within HMG is kept to the minimum necessary.

Requests for Disclosure

12.4 For the purposes of this section, Special Category Information shall mean:

- (i) legally privileged information; and
- (ii) commercially sensitive information,

in each case, as marked by POL ("LEGALLY PRIVILEGED" or "COMMERCIALLY SENSITIVE", as relevant) prior to the distribution of such information to the Shareholder or the Shareholder's Representative, or which is not marked as such but which by its nature is legally privileged or commercially sensitive information or which the recipient knows or ought to reasonably know is legally privileged or commercially sensitive information.

12.5 The parties acknowledge that the Freedom of Information Act 2000 (FOIA) and the Environmental Information Regulations 2004 (SI 2004/3391) (EIR) potentially apply both to information disclosed by POL to the Shareholder or the Shareholder's Representative and

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to information held by POL that is not disclosed to the Shareholder or the Shareholder's Representative. If the Shareholder or the Shareholder's Representative receives a request for the disclosure of any information that includes within its scope Special Category Information, it shall:

- (i) inform POL of the request; and
- (ii) allow a reasonable period for representations to be made by POL as to whether prejudice to its interests would occur were the Special Category Information to be disclosed, provided that POL shall make such representations within 10 Business Days from the date of the notification by the Shareholder or the Shareholder's Representative.

12.6 The Shareholder or the Shareholder's Representative will have regard to any representations received pursuant to the above part (ii) and act reasonably when deciding whether any Special Category Information falls to be disclosed under FOIA or EIR.

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LIST OF APPENDICES TO THE FRAMEWORK DOCUMENT

- Appendix 1** Managing Public Money Box 3.1 – Standards Expected of the Accounting Officer's Organisation
- Appendix 2** Board Terms of Reference – Including the Schedule of Matters Reserved for Board Decision
- Appendix 3** List of Government-wide Corporate Guidance Applicable to Public Corporations

Signed.....

Signed.....

Date.....

Date.....

(On behalf of the Shareholder)

(On behalf of POL)

Signed.....

Date.....

(On behalf of the Shareholder's Representative)

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APPENDIX 1 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

HM Treasury Managing Public Money Box 3.1: Standards Expected of the Accounting Officer's Organisation

Acting within the authority of the minister(s) to whom he or she is responsible, the accounting officer should ensure that the organisation, and any ALBs it sponsors, operates effectively and to a high standard of probity. The organisation should:

governance

- have a governance structure which transmits, delegates, implements and enforces decisions
- have trustworthy internal controls to safeguard, channel and record resources as intended
- work cooperatively with partners in the public interest
- operate with propriety and regularity in all its transactions
- treat its customers and business counterparties fairly, honestly and with integrity
- offer appropriate redress for failure to meet agreed customer standards
- give timely, transparent and realistic accounts of its business and decisions, underpinning public confidence;

decision-making

- support its ministers with clear, well-reasoned, timely and impartial advice
- make all its decisions in line with the strategy, aims and objectives of the organisation set by ministers and/or in legislation
- take a balanced view of the organisation's approach to managing opportunity and risk
- impose no more than proportionate and defensible burdens on business;

financial management

- use its resources efficiently, economically and effectively, avoiding waste and extravagance
- plan to use its resources on an affordable and sustainable path, within agreed limits
- carry out procurement and project appraisal objectively and fairly, using cost benefit analysis and generally seeking good value for the Exchequer as a whole
- use management information systems to gain assurance about value for money and the quality of delivery and so make timely adjustments
- avoid over defining detail and imposing undue compliance costs, either internally or on its customers and stakeholders
- have practical documented arrangements for controlling or working in partnership with other organisations, as appropriate
- use internal and external audit to improve its internal controls and performance.

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APPENDIX 2 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

[Note to BEIS/UKGI: The Board's Terms of Reference are currently under review and will need to be updated.]

Board Terms of Reference – Including the Schedule of Matters Reserved for Board Decision

In addition to its statutory and common law duties, which include the duty to promote the success of POL for the benefit of the Shareholder and its wider stakeholder community, the Board of POL is collectively responsible for setting POL's primary business objectives, for establishing a proper governance framework to manage and monitor risk and for ensuring that POL has the resources and leadership required to achieve its stated objectives.

The Board remains accountable for performance to UKGI. The Board is required to notify UKGI of certain activities and capital commitments and to seek the consent of UKGI, as Shareholder, for certain actions, as set out in the Articles.

A. BOARD COMPOSITION

The Board is made up of two executive directors and six non-executive directors, including the Chairman.

ROLE	INCUMBENT
Chairman <i>(Chairman of Nominations Committee)</i>	Tim Parker
Senior Independent Director <i>(Chairman of Remuneration Committee)</i>	Ken McCall
Non-Executive Director <i>(Chairman of Audit, Risk & Compliance Committee)</i>	Carla Stent
Non-Executive Director	Tim Franklin
Non-Executive Director	Tom Cooper from 27 March 2018 <i>(Government appointee)</i>
Non-Executive Director	Virginia Holmes' replacement is to be confirmed
Chief Executive	Paula Vennells
CFO	Alisdair Cameron

The Company Secretary (Jane MacLeod) acts as Secretary to the Board.

The composition of the Board is monitored by the Nominations Committee, which makes recommendations to the Board for the appointment or retirement of directors, taking into account the need for a diverse board membership with a range of appropriate skills and experience. All appointments are subject to the consent of the Shareholder.

Non-executive directors form the majority of the Board. The term of office of each non-executive director is set by the Shareholder. Non-executive Directors are usually appointed for a minimum period of three years. The initial term of office may be renewed for a further period but normally non-executive directors will not serve for longer than six years.

B. BOARD MEETINGS

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The Board meets as often as required. Typically, 8 Board meetings are held each year. In addition, separate Strategy sessions are held twice a year. Board dinners are held the evening before the Board meeting from time to time.

The quorum for the transaction of business at a Board meeting is two directors (one executive, one non-executive).

The Board may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.

Meetings may be convened by the Secretary, at the request of the Chairman, or by any director, at any time.

Notice of each meeting shall be given to all directors and, unless there are special circumstances, shall be given at least 3 working days before each meeting.

The Secretary (or a nominated deputy) shall attend all Board meetings and keep minutes and records of all decisions and actions.

Other Post Office employees and/or external consultants may attend for part or the whole of any Board meeting at the invitation of the Chairman.

The Secretary will be accountable to the Chairman for the provision of relevant and timely information to the Board and for ensuring regular reporting from Board Committees and the Group Executive to the full Board.

The non-executive directors will meet twice at least once each year without the executive directors being present.

C. DUTIES AND RESPONSIBILITIES

In addition to its legal duties, the Board has the following specific responsibilities:

- Setting the strategic direction of POL
- Establishment of POL's vision and values
- Setting POL's risk appetite and ensuring a proper framework exists for the management of risk
- Maintenance of proper accounting and tax records, as required by the Companies Act 2006
- Maintenance of a sound system of internal control so that POL can meet its statutory and regulatory obligations
- Maintenance of the reputation of the Post Office as a public institution, including consideration of new products and activities which may attract public interest or have an impact on the value of the Post Office brand
- Ensuring regular and active communications with the Shareholder, particularly on POL's performance against the Strategic Plan and other key indicators
- Delegation of authority to Board Committees and to the Group Executive, according to their respective Terms of Reference
- Formal evaluation of the performance of the Board, Board Committees and individual directors.

The Board may delegate authority to the Group Executive or to any Board Committee to deal with any matter or to complete a project or task on behalf of the

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Board. A Board Committee includes both standing committees such as the Audit, Risk and Compliance Committee (ARC), the Nominations and Remuneration Committees and any ad-hoc sub-committees. The Board approves the terms of reference for all its committees and receives reports on their activities, including copies of the minutes. Directors of the Board constitute the majority of members of any Board Committee.

D. SCHEDULE OF MATTERS RESERVED FOR BOARD DECISION

The following matters are reserved specifically for Board decision. Where indicated (*), the Board may delegate authority to a Board Committee to bring forward a recommendation for approval or to complete a project or task on behalf of the Board.

Section 1: Strategy and management

- Approval of the annual operating plan and budget.
- Approval of the Strategic Plan to be submitted to Government and any changes to it.
- Approval of the Funding Agreement with Government and monitoring of the achievement of milestones contained within the plan.
- Approval of the criteria for measurement of performance (Key Performance Indicators) and annual review of such criteria.
- Ensuring that any necessary corrective action is taken in the light of reviews of performance against budget and against the Strategic Plan and Funding Agreement.
- Setting the policy for diversity, talent management and succession planning within POL.
- Approval of any extension of the Group's activities into new business areas or outside the UK.
- Any decision to cease to operate all or any material part of the Group's business.

Section 2: Ownership, capital structure and constitution

- Consideration of any recommendations for major changes to the Group's ownership and/or control structure.
- Approval of changes to the Group's capital structure including any proposal to issue new classes of shares, to redeem, consolidate or redesignate existing shares or to reduce the share capital.
- Proposals for changes to the Articles or other constitutional documents applicable to POL from time to time.
- Approval of the incorporation of any new Group company, partnership or joint venture entity, including any subscription or application for allotment of shares.
- Approval for the dissolution of any Group company, partnership or joint venture entity.

Section 3: Financial reporting and controls

- Approval of the annual report and accounts, including any corporate governance statement and any specific reports required by Company law* (*Board-appointed sub-committee*).
- Approval of any half year financial report or trading statement for publication* (*Board-appointed sub-committee*).
- Approval and declaration of any dividends or other proposed distributions, subject to the Articles and confirmation of the sufficiency of distributable reserves.

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- Approval of any significant changes in accounting policies or practices* (ARC).
- Approval of treasury and banking policies, including methods of mitigating against foreign currency exposure and any use of financial derivatives * (ARC).
- Monitoring of the independence of internal and external auditors * (ARC).
- Approval of the appointment or removal of the external auditor* (ARC).
- Ensuring that an effective risk management system is maintained as part of a sound system of internal controls and internal risk management * (ARC).

Section 4: Financial commitments

Shareholder consent is required for:

- contracts > £50m (other than in the ordinary course of business)
- all strategic acquisitions and disposals
- all proposals to enter into financial instruments, bank borrowings and any proposed loan facility (above £20m)
- approval of major asset disposal.

Any of these categories would need to be recommended by the POL Board to the Shareholder.

- Contracts of £5m or more (excluding operational BAU expenditure such as agents' remuneration bill).
- Contracts where there is a risk of liability or loss or a wider risk that requires escalation to the Board, including:
 - a granting of a security in excess of £5m;
 - a new area of business which might bring POL within the scope of oversight of a regulator to which it has not previously been subject;
 - a matter which gives rise to risk [in excess of £5m] in maintaining service commitment to customers in line with POL's social purpose (for which POL has an adverse risk statement);
 - a matter which could risk disruption to POL's credit facility (adverse risk appetite – POL is to ensure loan remains below £950m with maintenance of £200m headroom);
 - a matter where there is realistic possibility of CMA intervention.
- Consideration of any material changes to pension arrangements for POL employees, in particular affecting the rate of contributions required to be made.
- Determination of the appropriate investment strategy for POL pension funds and monitoring of performance by the investment managers.

Section 5: Appointments and Senior Remuneration

- Recommendation of the appointment of any person as a Director * (*Nominations Committee*).
- Following receipt of consent from the Shareholder, formal appointment of any person as a Director, including the designation of an individual to serve as Chairman, Senior Independent Director, Chief Executive, CFOO or Chairman of any Board Committee.
- Confirmation of the division of responsibilities between the Chairman and the Chief Executive.
- Appointment and any termination of appointment of the Company Secretary.
- Recommendations to the Shareholder on changes to remuneration policy and packages for Executive Directors * (*Remuneration Committee*).
- Recommendations to the Shareholder on fees to be paid to Non-Executive Directors.
- Introduction of any long-term incentive scheme and approval of the performance criteria and the amount of any awards to be made under any long term incentive scheme * (*Remuneration Committee*).

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- Approval of any annual bonus schemes involving participation by Directors* (*Remuneration Committee*).
- Confirmation of the terms of any suspension or termination of service of an Executive Director as an employee of the Company, subject to the law and their Director's contract * (*Remuneration Committee*).
- Appointments to the Boards of subsidiary and joint venture companies.
- Appointment of specified individuals to authenticate the POL seal.
- Appointment of the Group's principal professional advisers.

Section 6: Governance

- Ensuring delivery of the obligations on the Post Office set by the Postal Services Act 2011, including the publication of an annual Network Report and Postal Heritage Report.
- Approval of the Group's overall corporate governance arrangements.
- Performance evaluation of the Board, Board Committees and individual Board members (or confirmation of why this has not occurred).
- Approval of Group policies including, but not limited to, the Health and Safety Policy, Anti-Money Laundering Policy, Whistle-Blowing policy and/or Code of Conduct and Anti-Corruption Policy.
- Approval of the overall levels of insurance for the Group, including directors' and officers' liability insurance and any arrangements for indemnity of directors.
- Any proposal to make political donations.
- Changes to the Schedule of Matters Reserved for Board decision.

APPENDIX 3 TO SHAREHOLDER RELATIONSHIP FRAMEWORK DOCUMENT

Government-wide Corporate Guidance Applicable to Public Corporations

POL shall have regard to the principles set out in the following guidance documents:

[PLACEHOLDER: Shareholder is seeking confirmation from HMT on which government-wide guidance documents are applicable to public corporations like POL.] [**Note to BEIS/UKGI: Guidance to be considered by Post Office once confirmed.**]