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POST OFFICE LIMITED BOARD MEETING

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 31 JULY 2018 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 11.45 AM

Present:	Tim Parker	Chairman **(TP)**
	Paula Vennells	Group Chief Executive **(PV)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Tim Franklin	Non-Executive Director **(TF)**
	Shirine Khoury-Haq	Non-Executive Director **(SK)**
	Carla Stent (by phone)	Non-Executive Director **(CS)**
	Alisdair Cameron	Chief Financial and Operations Officer **(AC)**
In Attendance:	Jane MacLeod	General Counsel & Company Secretary **(JM)**
	Veronica Branton	Minute Secretary **(VB)**
	Cathy Mayor	Finance Director, Retail **(CM)** (items 8&9)
	Roger Gale	Network & Sales Director **(RG)** (item 8)
	Martin Kearsley	Banking Director **(MK)** (item 9)
	Ben Foat	Legal Director **(BF)** (item 10)
	Jonathan Hill	Compliance Director **(JH)** (item 10)
	Angela Van-Den-Bogerd	LRG **(A VDB)** (item 11)
	Owen Woodley	CEO – FS&T **(OW)** (item 12)
	Jeff Lewis	IT **(JL)** (item 13)
Apologies:	None	

ACTION

INTRODUCTION AND CONFLICTS OF INTEREST

a) A quorum being present, the Chairman opened the meeting.

b) The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

1. BOARD RE-APPOINTMENT

The Board **NOTED** the decision of the Department of Business, Energy and Industrial Strategy (BEIS) to re-appoint Tim Parker as Chair of Post Office Limited for a four year term until 30 September 2022.

The Board congratulated Tim on his reappointment.

2. ANNUAL REPORT AND ACCOUNTS 2017/18 (ARA):

a) Report from the Audit, Risk and Compliance Committee (ARC)

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Tim Franklin provided an overview of the discussion at the ARC meeting held earlier in the day. Three adjustments had been approved and the EBITDAS figure for 2017/18 had been confirmed as £35.46m. The wording of the group litigation statement had been discussed and a slightly shortened CEO statement had been received. Discussions had taken place with the auditors in the meeting and in the closed session.

The Board **RESOLVED,** on the recommendation of the ARC, to **APPROVE** the ARA 2017/18, subject to finalisation of the CEO's report and other minor changes, and to delegate signing authority to the Chairman, Group CEO and CFOO.

b) Report from the Remuneration Committee ('Remco')

Ken McCall provided an overview of the discussion at the Remco meeting held earlier in the day. The Committee had discussed the outturn of the annual (Short Term Incentive) bonuses for 2017/18; outturn of the LTIP payments for 2015/18; and LTIP measures and targets for the 2018/21 performance period noting the proposed EBITDAS "on target" figure for 2020/21 was £90m. The Committee had agreed also to submit the proposed base pay increase (2.5%) for the CEO and CFOO to UKGI.

The Board

- NOTED the annual bonus outturn for 2017/18 and performance under the LTIP 2015/18 and the resulting payments for the Executive Directors based on an EBITDAS figure for 2017/18 of £35.46m (rounded up to £35.5m)
- **RESOLVED,** on the recommendation of Remco:
  to **APPROVE** the LTIP measures and targets for the 2018/21 performance period.

3. APPOINTMENT OF EXTERNAL AUDITORS

AC reported that EY had not participated in the tender process. Only PwC and Deloitte had bid and based on the scoring criteria, PwC had ranked highest on both service quality and cost. The Board noted the following potential conflicts and proposed mitigations:

- PwC were remuneration advisers to Remco – based on the advice of the Chairman of Remco this was not considered to be a material conflict;
- The lead partner in the PwC team was also the lead partner at Morrisons where Paula Vennells was a Non-Executive Director. To ensure that PwC retained sufficient independence it had been agreed that an additional partner would attend some PO Limited ARC meetings. PwC were also the auditors for each of BoI and FRES (where Paula Vennells was the Chairman of the Board). It was noted that each of those audits was undertaken by a separate team and accordingly the Board considered that although there was a potential conflict, this could be managed.

It was reported that PwC were not on the government framework so potential conflicts with other advisory work were limited.

The Board **RESOLVED**, on the recommendation of the ARC, to **APPROVE** the appointment of PwC as the provider of Post Office Limited external audit services and to delegate authority to the CFOO and Micheal Passmore, Finance Director, to resolve the minor outstanding contractual issues prior to signing the contract, and authorised the signing of the Engagement Agreement.

4. MINUTES OF PREVIOUS BOARD AND COMMITTEE MEETINGS INCLUDING STATUS REPORT

The minutes of the meeting of the Board held on 24th May 2018 were **APPROVED** and **AUTHORISED** for signature by the Chairman and the notes taken of the discussions at the

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Strategy Day were **NOTED**.

5. CEO's REPORT

a) Paula Vennells updated the Board on of the following recent issues:

- the deployment of branch counter hardware was due to be completed in September 2018 in line with the current 95%+ roll-out success rate. Jason Black had driven through much of this work and the Board and asked for their thanks to be conveyed to him
- the Everest discussions had moved forward and change control notices were being prepared for signature. Work was underway to operationalise these changes.
- a meeting had taken place with the CEO of Verizon who had agreed service credits for delivery failures
- performance for Travel products was behind plan largely due to the warm weather resulting in increased 'staycations'. Performance in August was not expected to be impacted to the same extent as much of the business in that month related to pre-booked family holidays
- we had advised BoI that we would not discuss the sale of the credit card book until we had agreed the wider negotiations. BoI had agreed that we needed to have signed off a deal by the end of October 2018
- Kelly Tolhurst MP had formally taken on the PO brief
- PV had met Andy Furey from CWU last week. CWU were keen to agree a pay deal and, while they disagreed with DMB franchising, this was not the primary focus of their current discussions with PO Limited.

b) A number of points were raised, including:

- The extent to which underperformance in Travel was linked to disruptors in the market and whether Post Office could challenge market insurgents sufficiently. It was reported that we did adjust rate to be competitive in identified branches. We did not seek to adjust online rates to match firms like Revolut which had very low often zero profit margins. However, our pricing was dynamic and we could adjust quickly when required. This marketplace was changing rapidly and it was requested that the background information provided for the away day should be updated and circulated to the Board. **OW**
- next steps for the negotiations with RM. It was reported that Paula Vennells was going to have a follow up meeting[1] with the new Chief Executive of RM to discuss opportunities for developing the contract. PV was also meeting Sue Whalley, the UK Chief Executive of RM, in the next week. RM had its next Board meeting in September 2018 and were keen to have made progress with contract negotiations by then
- Mo Kang's CV would be circulated to those Board Members who were not Members of the Nominations Committee **VB**
- Martin Edwards should be invited to give a half hour demonstration on the digital identity developments before the next Board Dinner **VB to liaise with ME**
- whether there had been a full shut down test of the Belfast data centre. It was reported that there had not been a full shut down test and that we did not wish to do this until we had migrated off POLSAP. Shirine Khoury-Haq would discuss our hot back-up arrangements with Rob Houghton **RH**
- an item on cyber security would be added to the Board agenda in October or November 2018 **VB to liaise with RH**

[1] The Chairman and Chief Executive had meet the Chief Executive of RM following his appointment to the role.

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c) The Board **NOTED** the CEO's report.

6. FINANCIAL PERFORMANCE REPORT

a) The CFOO introduced the report and highlighted a number of issues:

- trading figures were on target taking account of the Telco budgeting error. Mails were holding up well. FS&T should come back on plan. The higher fees for POca had only just been triggered. Verify was trading well but Government had flagged it wanted to reduce the fee. The main concern was IT costs where it had proved harder to drive costs out than we had initially estimated.

b) The Board **NOTED** the Financial Performance Report.

7. UKGI QUARTERLY REPORT

a) The CFOO introduced the report and highlighted a number of issues:

- we were around £8m underspent against funding in the last quarter. We had involved the Finance Directors from across the business in planning for the next quarter. The nature of the portfolio was changing and we were aware of the need to improve our change planning processes now that much of the work was cross silo
- funding for Payzone would come out of trading profit and not funds provided by UKGI.

b) The Board **APPROVED** the submission of a request for £50m of Q2 funding from UKGI.

8. CE PERFORMANCE REPORT - RETAIL

a) The Chairman welcomed Cathy Mayor and Roger Gale to the meeting. CM introduced the report on behalf of Debbie Smith, Chief Executive Retail. The following were reported:

b) It was reported that overall Retail performance was holding up well. The following issues were raised:

- POca numbers had now reduced below the threshold at which higher fees were triggered[2].
- RMG had previously flagged that as a result of GDPR they expected mail volumes to reduce (with a consequential impact on their UK trading profit) and it was queried whether this had eventuated?
- the Competition and Markets Authority (CMA) continued to raise questions in relation to the panther acquisition, although the formal Merger Clearance process had not yet been triggered. We continued to believe that the earliest we would receive clearance would be towards the end of September 2018[3]. Market rumours suggested that Paypoint was likely to challenge the acquisition on state aid grounds;
- Discussions with RMG continued and the focus was on loosening exclusivity. It was noted that it would be helpful for the Board to understand what the opportunities might be if this were to happen (for example, what we could do with Payzone, where there other brands/products that may become available that we couldn't engage with today etc.
- there was significant competition in the international mails market and we were watching this closely
- the Board was pleased to see very positive customer feedback. The target had been increased from 78% last year to 82% this year and were running slightly ahead of the new target. Feedback was collected primarily through Voice of the Customer, a service which was managed for us. 36,000 individual pieces of customer feedback had been collected but there was also some focus group feedback. Post Masters were encourage to listen to what customers were telling them and respond to that.

[2] It was reported that we had done an interest rate swap in the Spring so that around 50% of the impact of a rate change was hedged; therefore, we would not gain as much from an interest rate rise as we would have done previously.
[3] provided that we were not required to proceed to stage 2 of their process.

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c) The Board **NOTED** the report.

9. BANKING FRAMEWORK

IRRELEVANT

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IRRELEVANT

c) The Board **NOTED** the report.

10. CORPORATE STRUCTURES I

a) The Chairman welcomed Ben Foat and Jonathan Hill to the meeting. Jane MacLeod provided an overview of the rationale for changing the corporate structure and how this might evolve. The proposal to set up a holding company above Post Office Limited was pre-emptive to facilitate known strategic developments (such as Peregrine). Two parallel work streams were proposed:

1) getting approvals to set up the holding company. This would be required from the Special Shareholder, as would FCA approval because establishing a holding company would lead to a technical change of control for PO Insurance
2) analysis of options for both the development of the group structure and the future group operating model

b) A number of points were raised, including:

- whether there were any alternatives to setting up a holding company. It was reported that theoretically Post Office's current business operations could be hived down into one or more subsidiaries or Post Office Limited itself could, in theory, become regulated, but both of these options was less attractive
- the importance of ensuring that any resultant structure was 'simpler to run'
- the need to replicate the protections the Special Shareholder currently had in place under the current corporate structure and it was **AGREED** that this would be added to our design principles. Oversight of group activities had to remain with the holding company **BF/ JH**
- ensuring that the current VAT arrangements remained in place was critically important

c) The Board **RESOLVED** to **APPROVE**, in principle:

- the creation, of a Holding Company above PO Limited, noting that further approval would be sought before putting into operation the new structure, e.g. transferring / restructuring employees, assets, governance, subsidiaries etc.

11. POSTMASTER LITIGATION (including contingency planning) –Subject to Legal Privilege

a) The General Counsel Jane MacLeod noted that during July Post Office Limited had received a claim from 123 Post Masters that they should be accorded 'worker status' and that they had made an unquantified claim for unpaid holiday pay. Work was underway to assess the impact and defend the claim, and a QC had been appointed. Some claimants were also part of the PM litigation

In relation to the Postmaster Litigation, the GC provided the following update:

- witness statements were being gathered and were due to be exchanged during early August
- Following receipt and review of the witness statements our QCs would be able to update the Merits Opinion
- The application for Security for Costs (arising from our view of the flawed terms in the Claimants' insurance policy) continued. We expected that this issues would be addressed during September 2018

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- the two IT experts continued to review documents relating to the issues to be addressed for the Horizon trial. We expected the scope of the Horizon trail to be agreed in the next month.
- contingency planning was underway stemming from an analysis of the likelihood and impact of any of the implied contractual terms put forward by the claimants being found against us. 'Likelihood' was assessed by reference to the legal advice we had received and 'impact' a business based assessment.

The GC referred to the development of a contingency planning paper – an example of which was shown to the Board. This categorised four potential areas of response to each risk identified: contractual changes; communications; operational changes (e.g. training); and system changes (e.g. Horizon). The contingency planning would identify what responses could and should be implemented ahead of receipt of the trial judgement irrespective of its outcome, as well as those that would only be implemented following receipt of an adverse judgement. The Board would be provided with updates at subsequent meetings.

c) The Board **NOTED** the update.

12. FRES UPDATE

IRRELEVANT

c) The Board NOTED the update and next steps.

13. EVEREST

a) The Chairman welcomed Jeff Lewis to the meeting. JL introduced the report and highlighted the following:

- The objectives for Project Everest (being the re-negotiation of the Fujitsu relationship) had been delivered and were now being operationalised. In particular:
- g the decision to move from Fujitsu's proposed K5 platform to Microsoft Azure. Change notes had been signed which would begin to deliver savings

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- an update on the move from the Belfast Data Centre would come to the September Board
- Fujitsu had agreed to move £3m spend from opex to capex although we had been aiming for £5m.

b) The following points were discussed:

- JL explained that we were working together with Fujitsu to develop digital delivery capability. Fujitsu were not advanced in this area but were developing quickly and bringing in new people with expertise in agile
- JL reported that we were having workshops with Fujitsu regarding the Belfast exit plan. We had received a proposal from Fujitsu which set out a very cautious approach with a long delivery time. We had asked to look at other options.
- The current contract continued until 2023 but the moving to cloud architecture and our ownership of the intellectual property gave us much greater scope to choose a different path in the future.
- whether the penalty measures for any failure by Fujitsu to deliver were appropriate and sufficiently onerous. JL reported that we had built in penalty measures/ service credits but that these were not perfect; however, we were in a good position on intellectual property rights. The risk of non-renewal would become a more effective bargaining chip over time
- whether we were ensuring a modular build such that we would transition more easily to one or more new suppliers over time, and whether there were exit provisions that allowed this. It was noted that the exiting the Belfast data centre and moving onto the cloud was a critical component of being able to move to a new provider in the longer term. **JL**

c) The Board **NOTED** that we would:

- close Everest as a project, complete transition and embed the new service models and operating processes
- separate out the Belfast data centre refresh/transition to cloud, and run this as a programme for which would seek separate approval from the Board.

The Board had already agreed the principle of moving to variable cost and migration to cloud architecture and the Belfast exit programme would set out how and when this should take place.

14. BACK OFFICE TRANSFORMATION

a) AC introduced the report and highlighted a number of issues:

- we had said at the May Board that September 2018 was the earliest feasible migration date from POLSAP and we were now targeting October 2018
- integration testing was underway. Some elements including agents' pay and cash processing had already been transitioned from POLSAP and were now being run on different systems. Issues identified in the internal audit report were being addressed. DMW had not identified any red items and most 'amber' items were turning green. We would be testing against 120% of our peak volumes. Prior to go-live we would be getting additional assurance from Accenture's QA team over the deployment plans and would ask DMW to validate test results against our go/no-go criteria. The go live plan has several roll back opportunities.
- Contingency planning was being addressed. POLSAP was not customer facing and would not impact Horizon performance. There were already known manual work arounds in place already to deal with specific types of failures. We therefore anticipated that operational activity could continue through manual interventions and these would allow key processes to continue albeit via labour intensive processes. Cash reconciliations

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across the Network would become more challenging and in all likelihood we would need to further fund the network on a temporary basis in the event of issues. Increased resources in the Bristol cash centre were also being considered, and we were working with Accenture to review whether we could use their offshore resources to build a reconciliation team
- Should it be determined that we could not safely migrate in October, it would be most likely that migration would be delayed until January or February 2019. This was an unattractive proposition as it would cost a further c£5m to run the project that long. We had POLSAP spares for a period of time but would have to look at building more if we were run to February 2019 and this would cost a further £5-6m.
- the report would be circulated to the Board. **RH/ AC**

b) The Board **NOTED** the report.

15. ITEMS FOR NOTING

15.1 **Sealings**

The Board **RESOLVED** that the affixing of the Common Seal of the Company to the documents set out against items numbered 1682 to 1696 inclusive in the seal register was confirmed.

15.2 **Health and Safety**

The Health and Safety report was **NOTED**.

15.3 **Future Meeting Dates**

The future meeting dates were **NOTED**.

15.3 **Forward Agenda**

The forward agenda was **NOTED**. An update on the Banking Framework would also be included on the September agenda and Mails Strategy would be covered under the Retail Strategy item.

Meeting closed at 3.30 pm.

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Chairman **Date**