POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON TUESDAY 28 JANUARY 2020 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ AT 12:30 HRS

Present:	Tim Parker	Chairman **(TP)**
	Nick Read	Group Chief Executive Officer **(NR)**
	Ken McCall	Senior Independent Director **(KM)**
	Tom Cooper	Non-Executive Director **(TC)**
	Carla Stent	Non-Executive Director **(CS)**
	Zarin Patel	Non-Executive Director **(ZP)**
	Alisdair Cameron	Group Chief Financial Officer **(AC)**
In attendance:	Veronica Branton	Company Secretary **(VB)**
	Kathryn Sherratt	Finance Director – FST&I **(KS)** (Item 5.1)
	Chrysanthy Pispinis	Post Office Money Director **(CP)** (Items 5.1)
	Cathy Mayor	Finance Director – Retail **(CM)** (Item 5.1)
	Owen Woodley	Chief Executive Officer – Finance Services, Telecoms & Identity **(OW)** (Items 5.1, 6 & 7)
	Dan Zinner	Chief Transformation Officer **(DZ)** (Item 5.2)
	Meredith Sharples	Telecoms Director **(MS)** (Item 6)
	Ed Dutton	Chief Executive Officer, Post Office Insurance **(ED)** (Item 7)
	Robin Nuttall	McKinsey **(RN)** (Item 8)
	Mathieu Halpin	McKinsey **(RN)** (Item 8)
	Ben Foat	General Counsel **(BF)** (Item 9)
	Ed Tucker	Project SME **(ET)** (Item 9)
	Laurence O'Neill	Senior Legal Counsel **(LON)** (Item 9)

		Action
1.	**Welcome and Conflicts of Interest**	
	A quorum being present, the Chairman opened the meeting. 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.	
2.	**Minutes of Previous Board meetings including Status Report**	
	The Board **APPROVED** the minutes of the Board meeting held on 23 November 2019. The Board **NOTED** the action log and status of the actions shown. IRRELEVANT	
3.	**Committee updates**	
	Irrelevant	

POL00021573

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

4.	**CEO Report**	
	Nick Read introduced his report and highlighted a number of issues: • • • **Irrelevant** • • A number of points were raised, including: • **Irrelevant** • • • It was agreed that the Board needed to be kept abreast of the operational changes associated with the Group Litigation Order (GLO), especially as a sizeable sum had been allocated to this in the budget[1]. It would be helpful to understand how these changes were altering the risk and culture profile of the organisation. We had been reactive in our communications and this had been detrimental to public perception. We needed to make sure that we were delivering in accordance with the settlement agreement and in a timely fashion. NR noted that operational implementation would be led by the Retail Franchise Director and the Operations Director. We were also in the process of appointing an independent programme director to look after th e GLO	**Executive** **Executive**

[1] £10-12m had been included in the P&L for agents' pay and £10m for operational change.

POL00021573

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

	operational changes. It was **AGREED** that the GLO update would be provided for each Board meeting • IRRELEVANT • Irrelevant •	
5.	**Financial Performance**	
5.1	**Financial Performance, 2019-20 outturn incorporating FST&I and Retail insights**	
	IRRELEVANT A number of points were raised, including: • Why did we think the changes to the Bank of England's vault opening times were not having the impact we had anticipated? It was reported that the change had only come into effect on 1 December 2020, our initial estimates had been optimistic but we were looking at week by week projections and would see the benefits come through over time • Why had our profits in peak been less than in Q4 for retail? It was reported that the primary explanation was that Banking Framework revenue was almost doubling with effect from 1 January 2020 so this was having a distorting impact on the profile of this year. This was compounded by raising the associated agents' remuneration earlier in the year. These rises had been budgeted (part in agents' remuneration, part in central GLO costs) so would not cause an adverse performance versus full year budget. It was reported that this was an abnormal picture driven by GLO costs running through our P&L before the effect of increases in fees from BF2 were reflected • Our market share in Verify had not yet increased but this would change as the effect of providers exiting the service was reflected • How could we "square the circle" of needing to spend on marketing while having to cut costs and with underperformance in Telecoms and Insurance? It was reported that we shared 50/50 savings on reduced marketing spend with BoI. Once a decision was reached on the Telecoms RFP/ sale we would need to look at the marketing position in that area again. The judgement on DRTV for Insurance was finely poised; it had not driven the volume of sales we had hoped in the first two weeks of January and we were analysing the reasons for that but the post-Christmas Telecoms performance had been good • What was the Return on Investment for new customers in Telecoms once we had factored in the investment in fibre? It was reported that the positive return on that customer depended in part on our assumptions on longevity. Revenue Per User (RPU) levels were on a downward trend and this, plus the investment required in fibre and an aggressively priced market, would be significant challenges if we did not sell the business. It was noted the one strand of the PSG was to make money out of our non-core businesses and use these profits to support the network, while individuals were often keen to grow their businesses and we needed to direct the right outcomes	

POST OFFICE

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

	• That there ought to be opportunities for Post Office in upselling and that we should be aligning Postmaster incentives in areas we wished to prom ote. It was reported that the hothousing programme was showing encouraging results with sales up by 6 -8% in participating branches. There was potential for the hothousing approach to benefit around half the network. The programme was increasing the skills and knowledge of the area managers who in turn were helping to increase the skills and knowledge of branch managers • It was noted that the explanations within the report on activities such as Mystery Shopping were very helpful. In addition, it would be helpful for the financial and business performance reports to include a summary of the key initiatives and priorities for each business and be able to understand trends, where we did or did not have the scope to affect delivery and performance and where so what our levers were, as well as our cost overheads. More attention should also be given to the network (e.g. what was happening in the bigger branches, regional breakdowns etc.) Less detail was needed for smaller contributors to revenue and trading profit.	**To do: Executive**
5.2	**Quarterly Change Report**	
	The Quarterly Change Report was **NOTED** and **APPROVED** for submission to UKGI.	
5.3	**Draft Budget 2020/21**	
	Al Cameron introduced the draft budget for 2020/21. We would normally be further ahead with both the draft budget and the draft Five Year Plan than was the case but we needed the PSG outputs which in turn needed to be translated through to staff costs. There were limits on what we could do to accelerate cost savings because of the constraints on investment spend. The GLO operational spend requirements were uncertain at the moment. Nevertheless, significant underlying work had been done. A number of points were made, including: • An explanation was requested on the BF contribution from the 2019/20 year to the 2020/21 year and our previous estimate of the contribution versus our current assumptions; it would be helpful to see the bridge between the two and to understand what was happening with the rest of the cost structure that was bringing the contributions down overall. The same information was requested for change spend. The impact of low profitability in the deposits business, higher IT costs than estimated, GLO spend and other elements were discussed • That we needed to understand where we were proposing revenue investment spend, noting the limited funds available, the costs associated with the GLO and the impact on our security headroom.	**AC to arrange for the information requested to be provided.**
5.4	**Draft Five Year Plan and future funding**	
	Al Cameron introduced the draft Five Year Plan and future funding request to Government. We were working to align with the Government Spending Round and HM Treasury timelines. Unless we could secure an agreement on working capital early we would not be in a position to review our going concern in the Summer at the Audit, Risk and Compliance Committee. We wanted to have a broader conversation with Government than the funding request. Three risks to Post Office would be flagged: a high numbers of the convicted claimant cases proving to have been unsound, a high of number workers' rights (Starling) claims proving to have foundation, and the Bank of England funding facility continuing to fall. A list of requests would also been included, not all of which were financial, and the Board was asked to comment on these. We would not be able to add to this list once submitted. **Irrelevant** It was noted that approval of State Aid had to be agreed before the next loan was put in place. It was not yet clear how this would work but Tom Cooper advised that there was limited appetite to seek approval of the State Aid before the loan had been approved. TC also noted that the communication	**To do: AC**

POL00021573

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

	we were proposing to Government would be difficult because they would not differentiate the subsidy requirement, investment spend requirements and loan requirements significantly. We needed to consider the 5 year horizon. The GLO costs were exceptional but the business had received transformation funding and needing to continue making returns on this investment and grow. The absence of borrowing capacity was a constraint on our ability to deliver investment returns and we needed to look at alternative sources of cash. Freeing up security headroom through not including the Santander liability was seen as a sensible approach if it could be achieved.	
6.	**Telecoms Update**	
	Irrelevant The Board **RESOLVED**: • To **APPROVE** a 12-month Fujitsu ('FJT') Extension, should reasonable terms be agreed, ready for contract signature by 7th February 2020 • That should a FJT extension not be acceptable, to **provide authority** to issue a Termination for Convenience notice during week commencing 10th February 2020. This would secure Post	

[1] The interim service contract would be a sunk cost.

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

	Office the right to exit services and to extend the exit period to 24 months (from the date of the termination notice) • To APPROVE the Sale and RFP Decision Costs of £5.4m for the financial year 19/20 (following approval at the Investment Committee on 21st November 2019) • That MS should set out the different positions and options and show the potential costs and risks associated with each • That we should ask PJT to provide a refined valuation • That we should explore further the appetite in the market to purchase our Telecoms business (e.g. was it likely that there would only be two bidders?) • That a Board call would be convened if required when were in a position to discuss the additional information requested.	**MS** **VB**
7.	**Insurance Strategy**	
	Irrelevant	
8.	**Purpose, Strategy, Growth**	
	Irrelevant	

POL00021573

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

Irrelevant

The development of our digital proposition was important and the d igital offer combined with physical locations was synergistic.

Pillar 1 was focussed on simplifying to improve our agility and delivery. There were around 130 active projects and this needed to reduce significantly. The size of central functions, including the commercial and franchising functions as well as traditional support areas like HR, needed to be the right size and shape for the business. There was scope for further a utomation and use of analytics. We needed to complete DMB franchising and futureproof branch structures, rebalancing through converting mains to locals. A joint discovery process with Fujitsu on Horizon to determine how to proceed after 2023 would start. NR was having conversations with Fujitsu about a sensible migration plan, not discounting the possibility of a longer term relationship with Fujitsu post 2023. We were recommending a close look at postmaster support and the financial cost of support for the network.

Taking out products did not help to take out central costs and would reduce the absolute contribution to the business. It was possible to move to a leaner operating model without cutting products. Project rationalisation was essential and we proposed to reduce to 20-30% of the current 130. A number would be discontinued or put on hold with the associated resources stopped. We had looked at a set of adjacencies that we did not recommend Post Office invest in such as energy supply. Bill payments would be important for the maintenance of the network and to deliver SGEIs but investment to grow was not recommended and investment to grow digital identity from the current model was not recommended.

Pillar 2 would focus on bolstering our core market and Pillar 3 on developing platform business opportunities.

A number of points were raised, including:

- If we rolled these proposals forward were we doing enough to reimagine what Post Office might look like in the future? We needed to look further than a three year time horizon and build flexibility into our strategy. It was reported th an this strategy was focussed on a timeframe of around 5 years but we would need to contin ue to adapt
- We were evolving into a franchise business. We needed to be think about the impact of the decline in cash. Growth in parcels could move quickly but it was difficult to predict the longer term trajectory. We needed to have the flexibility to diversify but it was hard to buy full optionality
- We needed to invest in our core areas where we had the capability and market share and had further scope to digitise and automate. We needed to aspire to be the leader in mails and parcels. We retained options because we operated in several markets. We had to create a more efficient business and getting the IT right would make a fundamental difference to both cost and flexibility. Addressing pillars 1 and 2 would give us the ability to progress with pillar 3 and focus on the highest return platform options
- That we were basing the strategy on the current market position but there were potential market disruptions and the demand for such an extensive physical network in the future was uncertain
- We still needed to understand more about what we would not be doing. It was noted that a small number of people were working in the areas generating the majority of the contribution. We needed to stop activities which did not add contribution and drive accountability and not waste resource and management time in areas where this was disproportionate to the benefits
- That network developments were significant and fast moving. We needed to make our networks agile as well as automated and efficient. The scope for offering a "Post Office in a Box" was promising and could enable us to respond quickly in the event of a partner going into administration or withdrawing from the franchise. The market was driven by convenience so we

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

	needed to be able to access customers in densely populated areas and deliver convenience. Our view of the network had been one dimensional but there were opportunities to re-think and re-design with modular and bolt-on options, pop up locations and with more retailers attracted by a simpler, less space demanding Post Office proposition • Further work was needed on the numbers and aligning these with the Five Year Plan. The Board would like to see more detail on both numbers and sequencing • Whether there were any off the shelf options for replacing Horizon. It was reported that the diagnostic work planned jointly with Fujitsu would be critical to our understanding of this • We needed to be alert to the fact that the strategy proposed would spur new projects while we were seeking to reduce the burden overall. We would need to ensure that we had the right resource to deliver the projects and be determined to stop activities. In addition, maintaining a large number of products and product lines drove complexity because of the regulatory and compliance burdens.	
9.	***Subject to Legal Privilege – DO NOT FORWARD*** [redacted]	**BS/ ED/ LON**
10.	**Approvals**	
10.1	**Articles of Association and Framework Document**	
	The Board **APPROVED** the following resolutions: (i) the Framework Document and the obligations therein were **approved** for execution by Post Office Limited (POL) with effect from 1 April 2020; (ii) the requirement for performance of the obligations within the Framework Document from 1 April 2020 was **noted**;	

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

	(iii) any director or the secretary was hereby **authorised** to sign (by wet signature or electronically) the Framework Document for delivery to the Shareholder and Shareholder Representative; (iv) the written resolution passed by BEIS approving the adoption of the new Articles of Association for POL was hereby **noted** as effective from 1 April 2020; (v) it was **noted** that the implementation and 'operationalisation' of the Framework Document and Articles of Association for POL, Post Office Management Ser vices Limited (Post Office Insurance, POI) and Payzone Bill Payments Limited (PZBPL) would take place following the execution of the Framework Document and adoption of the Articles of Association for POL. (vi) that the template Articles of Association for Post Office Insurance and Payzone Bill Payments Limited were hereby **approved by POL as Shareholder**; (vii) the CEO or CFO and General Counsel (GC) had **delegated authority** to finalise and approve the Articles of Association for Post Office Insurance and Payzone Bill Payments Limited for adoption with effect from 1 April 2020; and (viii) any director or the secretary was hereby **authorised** to sign two separate special written resolutions adopting the finalised Articles of Association for Post Office Limited and Payzone Bill Payments Limited respectively, to be effective from 1 April 2020, on behalf of POL as Shareholder. These resolutions were subject to: a) Shareholder (BEIS) approval of the FD and AoA and b) Shareholder (BEIS) adoption of the AoA for POL by way of written resolution.	
10.2	**Payzone Bill Payments Limited - Capital Equity Injection Request**	
	Irrelevant	
10.3	**Global Payments Contract Extension**	
	Irrelevant	
10.4	**GDPR Spend**	
	Irrelevant	
11.	**Noting and governance items**	
11.1	**Health & Safety Report**	
	The Board **NOTED** the Health & Safety Report.	
11.2	**Sealings**	
	The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 1854 to 1900 inclusive in the seal register.	
11.3	**Future Meeting Dates**	
	The future meeting dates were **NOTED.**	
11.4	**Forward Agenda**	
	The forward agenda was **NOTED.**	
12.	**Date of next meeting**	
	24 March 2020. An additional Board meeting had been scheduled for 10 March 2020.	

1

POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

GRO

-- 29/04/2020
18/05/2020 23:27

CHAIRMAN DATE

POL00021573

Voting Results for Board Minutes 28/01/2020

The signature vote has been passed. 1 votes are required to pass the vote, of which 0 must be independent.

Vote Response	Count (%)
For	1 (100%)
Against	0 (0%)
Abstained	0 (0%)
Not Cast	0 (0%)

Voter Status

Name	Vote	Voted On
Parker, Tim	For	18/05/2020 23:27