



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON THURSDAY 03 JUNE 2021 AT 20 FINSBURY STREET, LONDON EC2Y 9AQ BY CONFERENCE CALL AT 10:05 AM¹

Present:	Tim Parker	Chairman (TP)
	Tom Cooper	Non-Executive Director (TC)
	Carla Stent	Non-Executive Director (CS)
	Lisa Harrington	Non-Executive Director (LH)
	Zarin Patel	Non-Executive Director (ZP)
	Saf Ismail	Non-Executive Director (SI)
	Elliot Jacobs	Non-Executive Director (EJ)
	Nick Read	Group Chief Executive Officer (NR)
	Alisdair Cameron	Group Chief Finance Officer (AC)
In attendance:	Veronica Branton	Company Secretary (VB)
	Dan Zinner	Group Chief Operating Officer (DZ) (Items 4.2 & 5.)
	Ben Foat	Group General Counsel (BF) (Item 4.2)
	Laurence O'Neill	Senior Legal Counsel - HR & IR (LO'N) (Item 4.)
	Andrew Taggart	External Solicitor – HSF (AT) (Item 4.2)
	Chris Jeans QC	Barrister (CJ) (Item 4.2)
	Max Jacobi	Strategic Financial Planning and Analysis Director (MJ) (Item 5.)
	Tim McInnes	Transformation & Strategy Director (TM) (Item 5.)
	Owen Woodley	Group Chief Commercial Officer (OW) (Item 6. & 7.)
	Martin Kearsley	Product Portfolio Director – Banking, Payments & Transactional Products (MK) (Item 6.)
	Zdravko Mladenov	Head of Business Transformation Unit (ZM) (Item 7.)
	Declan Salter	Historical Matters Director (DS) (Item 9.)
Apologies:	Ken McCall	Senior Independent Director (KM)

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.

Tim Parker welcomed Elliot Jacobs and Saf Ismail to their first Post Office Board meeting.

2. Minutes and Matters Arising

The Board **APPROVED** the minutes of the Board meeting held on 30th March 2021.

The Board **NOTED** the action log and status of the actions shown.

3. Appointment of Elliot Jacobs and Saf Ismail as Non-Executive Directors of Post Office Limited & Re-appointment of Carla Stent as Non-Executive Director and Chair of the Audit, Risk and Compliance Committee

The Board **APPROVED** the appointment of Elliot Jacobs as a Non-Executive Director of Post Office Limited for a period of three years from 03rd June 2021 to the nearest Board meeting three years from that date.

¹ Participation in the meeting was entirely via Microsoft Teams from participants' personal addresses. In such circumstances the Company's Articles of Association (Article 64) require that the location of the meeting be deemed as the chairman's location. However, it was not deemed appropriate to record personal addresses on the Company record. As such, the Registered Office is recorded as the meeting location.



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

The Board **APPROVED** the appointment of Saf Ismail as a Non-Executive Director of Post Office Limited for a period of three years from 03rd June 2021 to the nearest Board meeting three years from that date.

The Board **APPROVED** the re-appointment of Carla Stent as a Non-Executive Director of Post Office Limited for a period of two years from 28th January 2022 to the nearest Board meeting two years from that date. The Board also **APPROVED** that Carla Stent continue to serve as the Chair of the Audit, Risk and Compliance Committee during her re-appointment period.

4. CEO Report

4.1 Report

Nick Read introduced his report. It had been an intensive period and it was clear that two matters needed to be resolved before Post Office could truly embark on the next chapter of its history: blame and compensation. These were the critical components for genuine reconciliation. It was positive that the Horizon Inquiry was now on a Statutory setting. This was important for the 555 Sub-postmasters with whom we had reached a settlement in December 2019. We needed to understand what might be needed by this group to achieve a genuine reconciliation, noting that the funders of the litigation had retained about £45m of the settlement sum. We needed to be clear on our priorities for 2021, the intent for 2025, the behaviours that were expected of employees and how we would run the business. NR added that some issues were deeper rooted than he had first appreciated; there was an underlying mistrust amongst Postmasters of Post Office and that would take some time to resolve. However, the Area Manager population had been resilient; we had made good progress with the Amazon trial, on Banking Framework 3 and in our partnership with Yoti.

NR provided an overview of performance and outlook. There had been a marked decline in on-line retail following the lifting of various restrictions on 17th May 2021, but this was not translating into greater activity for Post Office and in fact there was a 5% shortfall.

The Postmaster engagement activities were described. There had been a Postmaster conference on 27th April 2021. We were consulting with Postmasters on our proposals for MDA2 remuneration rates. A lot of work was required to communicate and engage on this issue. The consultation had the right intent, but we had got the timing wrong. We had deferred the implementation of the MDA2 remuneration framework to April 2022, but Postmasters would benefit from the new rates which were favourable in the meantime. Special delivery and Parcel Force rates, and the approach we had taken to modelling were the principal areas of adverse feedback from Postmasters. The main priority areas flagged by Postmasters in the main consultation that had been run in autumn 2020 were remuneration; IT systems and processes; communication; training; access to senior management; greater innovation; and the establishment of Postmaster working groups. We needed new forums and structures to involve Postmasters and this was the rationale for creating a Postmaster director role. NR added that Tesco had brought branch managers into the business for defined periods of time for a defined project or activity and we were planning to do the same.

Progress was being made with the back-office functions. Tim Perkins was clear about the work that needed to be done but needed the right resource to support this. The process would take time; some individuals had been with POL for a long time and needed to learn to do things differently.

It was anticipated that 11,500 branches would be operating by the end of June 2021, and we expected this to be a sustainable number. A letter had been received this morning from the CWU on DMB engagement. There was a moratorium on DMB franchising until we had discussed the CWU's views. We were increasing our discussions with multiple



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

partners, seeking to understand their position and the risk perspective of each partner for POL.

Deadlines for the Improvement Development Group's work on matters involving Postmaster detriment in particular had been set for the end of May 2021. We had done well in progressing this work but the additional time afforded by the Public Inquiry becoming a Statutory Inquiry would allow all of these matters to be audited and we wanted to be able to say in the oral evidence to the Inquiry that we could rely on the Horizon system. Good progress had been made on the legacy IT issues but Fujitsu had limited resources which meant that we had to prioritise how we deployed these.

The work from a cultural perspective was very important. There had been a culture of entitlement at Post Office and while things had changed, they had not changed enough. We needed to genuinely pivot the organisation towards supporting Postmasters and enabling our 11,500 branches to thrive.

We were testing ways of working back in the office over the summer. There would be more office working from September 2021, but we had to be thoughtful in our next steps.

A number of points were raised and addressed, including:

- Tim Parker asked whether the adverse publicity around the historical convictions appeared to be affecting our business today. NR said that the Brand team had looked at this and brand resilience had held up well and we were not seeing a decline in footfall linked to the litigation. The shift was at a macro level. Postmaster variable remuneration was up 11% year-on-year but down 7% on the plan for this year. We were excited about the prospect of travel opening up and had a discounted plan for travel insurance. Leisure opening up again would help our banking deposits. The future trend for bills payments was difficult to call. Questions were being asked internally about where the platform products fitted in, but Ed Dutton was doing a good job in re-shaping the insurance business and team, and had taken costs out. Good progress had been made on credit cards. The Yoti deal was doing well.
- Elliot Jacobs noted that he liked the idea of putting Postmasters at the centre of the business but the first thing a Postmaster would ask was "Who is going to run my branch?". NR agreed that we had to be practical about finding relief for any Postmasters coming into the business for a period of time; he had asked Amanda Jones to look at what relief might look like. We had not been able to find the right candidate for the Postmaster director yet, but it was a really critical role and we were adjusting the job specification slightly.
- Elliot Jacobs asked how we would get the right mix of Postmasters involved in the new forums proposed. We had to beware of only those with the loudest voice being heard, particularly where this might not reflect the majority view. We also needed to make sure that different types of branch were represented. NR agreed that we needed these groups to be representative, including the geographical mix.
- Saf Ismail noted that the honesty of NR's approach was refreshing. Postmasters wanted to understand how the MDA2 rates had been quantified. We also needed to factor in Postmasters' costs to the rate as this had been reduced as a percentage. We had to consider the issue of transactions for which Postmasters were not being remunerated. We had to readdress our entire approach, move forward from the litigation mistakes and make significant improvements.
- Elliot Jacobs asked what was happening with any increased margins secured through MDA2 during the year or so before the new rates were introduced for Postmasters. NR confirmed that any Postmaster who would have benefited from the new rates would still receive that benefit for the period prior to the new remuneration framework coming into force.



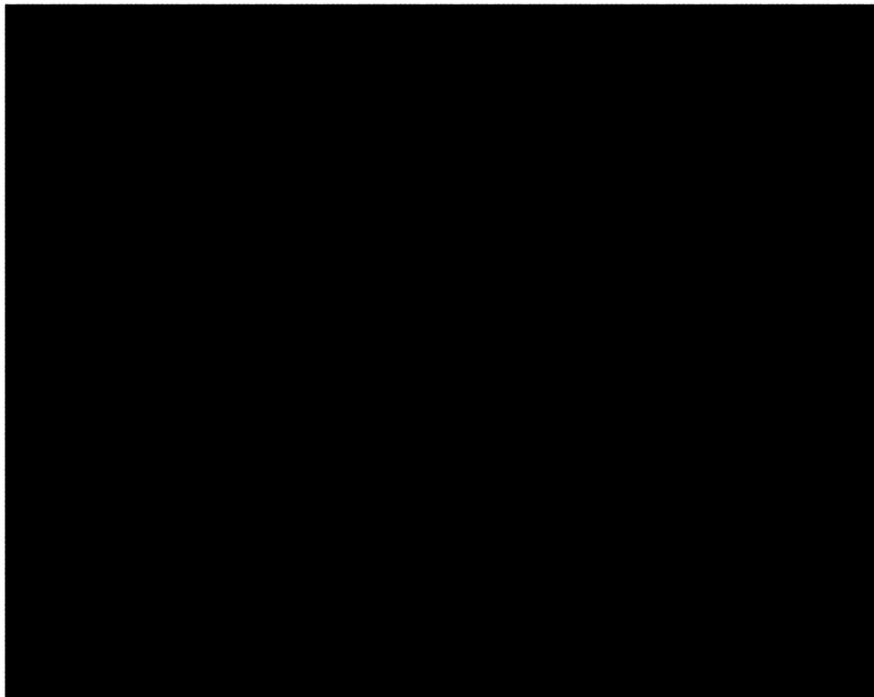
POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

- Al Cameron noted that not all colleagues had embraced the need to change and for the business to support Postmasters as the errors of the past was a difficult message to absorb. Some people had still not acknowledged that the prosecuted Sub postmasters were innocent. We had to acknowledge this and needed to talk about it. NR agreed that we had to pivot our focus to Postmasters and not be paralysed as a business.
- Lisa Harrington wanted to understand mails and parcels performance in more depth, including in the context of the Royal Mail Group’s performance and requested this as a broader topic for the July 2021 strategy sessions. LH would also like to see what was happening in the wider mails market. NR noted that we would be including a deep dive on PUDO for the July 2021 strategy sessions.
- Carla Stent asked about the incident with the Lottery which appeared to have been caused by a basic error on a go live issue. NR reported that we had not yet received the post incident report to understand the root cause in detail. SI noted that the timing of the Lottery change over the Easter weekend had been unhelpful. Postmasters should have been in a position to be at the forefront of explaining the issue, but he had not seen GE leadership on the matter. NR acknowledged that this was a fair challenge and we needed to resolve some of our out-of-hours issues as he had not been able to access the information he needed at the time on the Lottery incident.
- CS asked whether we needed to ask to extend the waivers for branch numbers. NR did not think so as we were confident in the numbers, but this would continue to be monitored.
- Tom Cooper asked about the timing for Belfast Exit which was another critical matter. NR explained that the deadline for the next phase was 30th June 2021 and this was a reason that he and Jeff Smyth were going to Belfast to meet Fujitsu.
- TC noted that it would be useful to repeat the Organisational Health Index study that had been carried out by McKinsey.

Action:
Executive

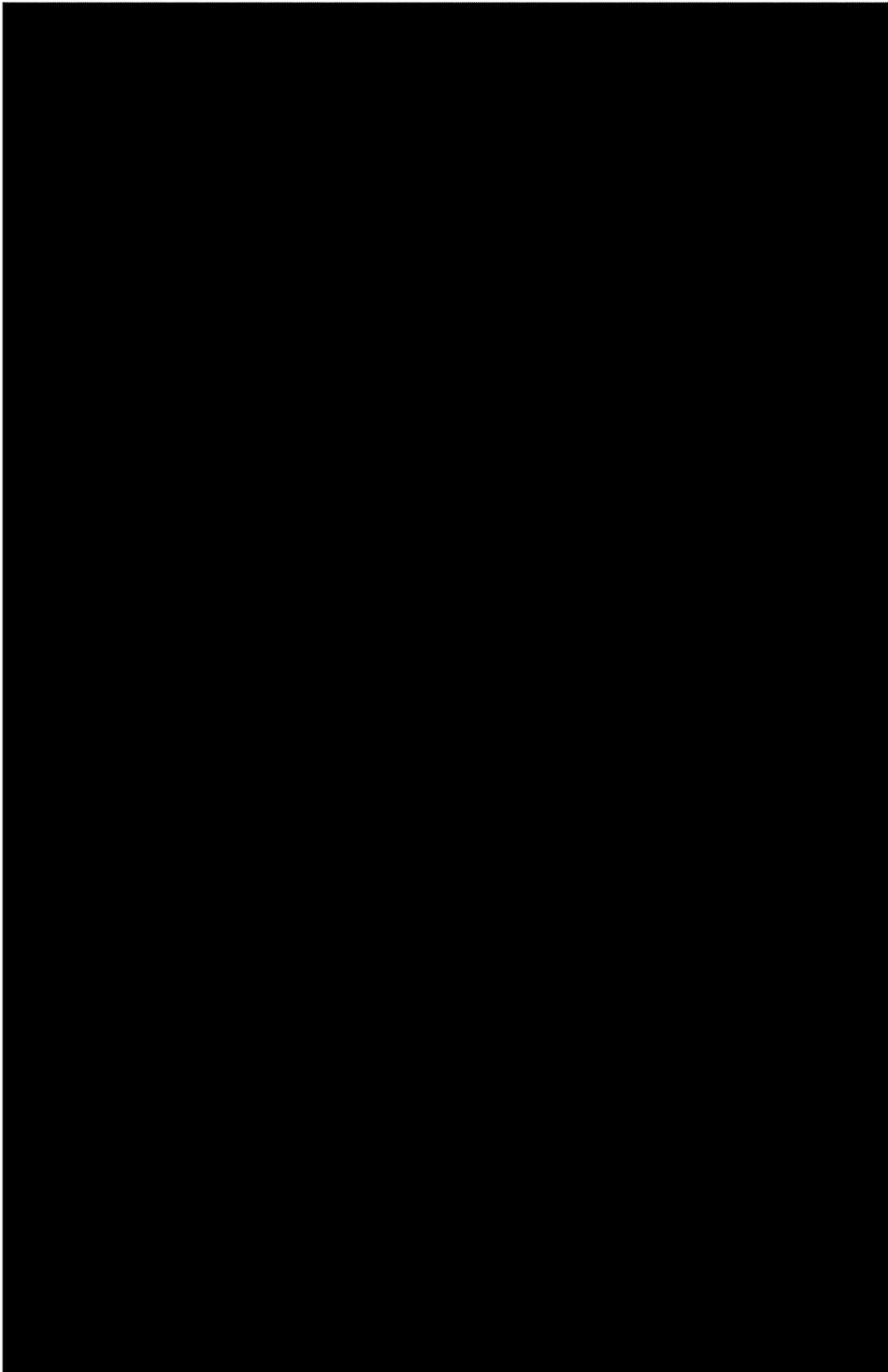
Action:
Executive

4.2 **Starling – subject to legal privilege**





POST OFFICE LIMITED BOARD MEETING
Strictly Confidential





POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

5. Strategic Plan

Al Cameron introduced the discussion on the Strategic Plan, noting that we were working on the basis of this being a three-year funding review. AC wanted to draw out the following points:

- 1) We were seeking the separation of funding for criminal compensation. We were very uncomfortable being in a position where we might be seen to be seeking to limit compensation. We would need to have a Ministerial instruction if separation of funding were not approved.
- 2) We were prioritising the stability of the network and how we worked with Postmasters over pure trading profit. This was reflected in Postmaster remuneration arrangements and less ambitious cost reductions in the business driven by management bandwidth, investment funding availability and the political environment in which we were operating. We had been told that we needed to take a decision in October 2021 on whether to be part of the **IRRELEVANT**

IRRELEVANT

IRRELEVANT

We would not be looking at outsourcing Supply Chain currently. We could not put an optimism bias on the revenue line as this had caused us problems in the past, for example on the revenue we had thought would be generated by the provision of Government services. Postmaster remuneration had continued to fall in 2018-19. We had made a deliberate change to address this and the Banking Framework supported the drive to increase Postmaster remuneration. We were now back to 2015 rates of Postmaster remuneration, but we wanted Postmaster remuneration to increase further over the next few years. This was the biggest issue in all our conversations with Postmasters. We needed to have the right balance on product remuneration and profit share. Increased remuneration for Postmasters was essential for commercial sustainability.

A number of points were raised and addressed, including:

- Lisa Harrington asked whether the change in strategy positioned us more as a social enterprise than a commercial entity and how would this be addressed in our July strategy day. AC said that he would characterise this as slowing down POL's commercial growth which was not the priority for 2025 but we were not suggesting that we did not want to become commercially sustainable. Much work was still required to re-build trust with Postmasters, improvement requirements and the Statutory Inquiry work. LH saw this as a shift in emphasis, including the profit share element. Tim Parker noted that the work proposed was a pre-condition to achieving commercial sustainability, re-building the brand, and the alignment of Postmasters' interests and POL's interests. We had to get these foundations in place by 2025.
- Zarin Patel noted that the next 3 years were going to be very challenging. ZP made the following points: 1) should we be asking for a higher subsidy as it cost us more to run the branch network than the subsidy received? 2) ZP supported profit share but wondered whether it was sustainable in the long term and whether it would really build Postmaster remuneration 3) ZP thought that this was not be the right time to starve ourselves of investment. AC noted that this was not only about not spending enough money on investment but also that we had not identified significant growth opportunities that produced a commercial return.
- Elliot Jacobs noted that digitisation and automation would be critical as we were expecting Postmasters to do more for less money given their cost increases, for example with increases in the minimum wage. We needed to incentivise Postmasters to encourage on-line sales. We were expecting Postmasters to invest in running a Post Office but there had to be a better deal for Postmasters and this had to be a



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

good investment for them. A lot of Postmasters were reaching the end of their career and we needed people who wanted to take on these roles. Carla Stent agreed with these observations. The Plan was written from a POL perspective, but we also had to understand how owning and running a Post Office could be attractive to potential Postmasters for each of the different formats. CS noted that, in order to comply with the 11,550 branch requirement and the associated geographic dispersion, it might be necessary for some branches to deliver our functions as a social enterprise. The Shareholder had to understand this dilemma and the costs associated with this.

- Nick Read noted that we had to fix the past. This was not optional. We also had to further the goal of commercial sustainability and the role we played in high streets and communities. We had to be able to have an appropriate subsidy for fulfilling this role. Running a Post Office had to be an attractive proposition for Postmasters but our churn rates had increased and the costs associated with this were high. There had been an erosion in spend on Government services. Our approach strategically was to “double down” on what we were good at and we had to digitise and automate. We needed to spend more on the core business and we had to remain number 1 in mails and parcels, and maintain our banking and cash position. Tim Parker agreed but added that there was more work to be done on foreign currency/ bureau de change. If we were a social enterprise, we had to be explicit about what we meant by that, for example we had the costs of maintaining a bigger network than would otherwise be the case. The Government should receive the credit for subsidising this service. We had to have directly aligned interests between POL and Postmasters. We had to make explicit the costs we had to bear that we would not have as a typical private sector business.
- Saf Ismail thought there was scope for growth in Foreign Exchange. Morrisons had opened a branch in his local area and the rates had been more competitive than POL's. [IRRELEVANT]
[IRRELEVANT]
[IRRELEVANT] The supermarkets often sold cash at a loss or at cost to drive footfall. A [IRRELEVANT] SI thought that we had to find a way to be more competitive on FX and asked about the [IRRELEVANT] TP thought it would be good to look at [IRRELEVANT] [IRRELEVANT] and what was happening in Post Offices in other countries
- SI noted that being more transparent about our overheads would help Postmasters trust in POL. SI also asked how we were looking at potential innovations and who were we speaking with to drive this. AC explained that we had worked on a number of youth orientated initiatives but had not found a way to invest in these in a commercially beneficial way. SI noted that there was no feedback to Postmasters on these issues. OW noted that we would be bringing some new growth opportunities for branches to the July strategy days but this raised the issue of focus on the core and management bandwidth.
- Tom Cooper thought it had been a good discussion with valuable points made. It would be helpful to come back to what POL was trying to be and the several versions this might take. This included: 1) postponement of commercial sustainability 2) focussing on our social role 3) trying to deliver the social role while also becoming commercially sustainable. We had to be precise in how we communicated our proposals to BEIS and each would elicit a very different reaction. There would be different conversations on remuneration for staff if we were not going to be commercially focussed. POL had been [IRRELEVANT] cash negative over the period and the proposition was not working for Postmasters currently. We had to address these questions and engage with ministers. The conversation brought into sharp focus what we wanted to be at the end of the period. We needed a business that was

Action:
Executive



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

manageable from a cash flow perspective. If Post Office were not an investable proposition that raised major issues, and we had to be clear what we wanted to have achieved by the end of the period. AC noted that this question came back to funding. We could reduce the cost base over the next few years but that would be expensive and would require more investment funding. This had to be a rounded conversation. TP noted that these discussions were partly about understanding the constraints. We also had to understand what more we could do to be an efficient organisation as that affected the share of revenue that would be available to Postmasters. We could not be vague about what we were trying to achieve socially and what the cost of that was.

- Elliot Jacobs noted that we had to have a clear understanding of our purpose. It was not unreasonable to consider ourselves as a B-corp. POL's approach would be very different if not delivering its social purpose.
- Tom Cooper noted that POL had received billions of pounds from the taxpayer since separation from Royal Mail. We had to find a way to fulfil the different strands of work we needed to complete. A deep conversation on this would need to take place over the coming weeks.

To do:
Executive to consider points raised in developing the Strategic Plan

6. Banking Framework 3 pricing framework

Owen Woodley introduced the discussion on Banking Framework 3 (BF3) and the decisions being sought. We had taken a different approach to these negotiations because of the strain in our relationships with the banks that had arisen during BF2 negotiations and our

IRRELEVANT

IRRELEVANT

Martin Kearsley explained that there had been three main changes since the Board discussions in March 2021: 1)

IRRELEVANT

IRRELEVANT

A number of points were raised and addressed:

- Carla Stent asked whether Barclays were likely to wait until the deadline to notify us of their decision. MK thought that could be the case with cash withdrawals again. Barclays had been looking hard to find alternative provision and if they succeeded some other banks were likely to pull away from withdrawals which would
- IRRELEVANT Much of the conversations had been driven by the LVNR issue so we needed to resolve that to the banks' satisfaction. We were also considering what additional support and training we could provide for Postmasters on LVNRs to get this in check. Saf Ismail noted that the message on Horizon with respect to LVNRs was in the wrong place and this had been raised several times. SI



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

asked how not charging the banks for LNVRs would affect Postmasters and OW explained that POL would continue to pay for those transactions. MK added that LNVRs were not a cash back issue and were a mixture of a retail purchase and cash withdrawal but he could discuss the issue further with SI offline. Some customers depended on LNVRs but we would not charge the banks for LNVRs [IRRELEVANT] Elliot Jacobs queried this cut-off point when we had ATMs that allowed people to withdraw £5. MK explained that the sums could be greater than this, but it was more a non-round issue than the sum per se.

- MK noted that Barclays were asking for access to Post Office data on the costs of providing its service, but this was commercially sensitive data which we were not proposing to divulge.
- Nick Read thought our long-term positioning in providing cash was crucial. TC agreed so we should be focussing on BF4 swiftly.
- CS asked whether there had been any movement on Anti Money Laundering (AML) and understanding the issues the banks had raised about customer service. MK reported that UK Finance [REDACTED]

[REDACTED] The banks had struggled to find evidence of “red” Service Level Agreements (SLAs). Sometimes our SLAs did not align with those of the banks and we were focussing on where this was the case. The gaps in customer service referred to had related to a very small number of customer queries.

- Al Cameron reminded the Board that BF1 had generated [IRRELEVANT] in trading profit, BF2 was set to deliver [IRRELEVANT] and BF3 could deliver [IRRELEVANT] if volumes grew as predicted, although there was still a risk of Barclays not using POL for withdrawals.

The Board **DELEGATED AUTHORITY** to Nick Read, Group Chief Executive, Owen Woodley, Group Chief Commercial Officer and Martin Kearsley, Product Portfolio Director, Banking, Payments and Transactional Products to:

- Release the proposed final BF3 commercial offer to all existing partner banks;
- Continue discussions with Government and industry stakeholders about strategic alliances that may deliver a longer- term multi-year solution;

IRRELEVANT

7. Strategic Platform Modernisation (SPM)

Zdravko Mladenov introduced the discussion noting that he was asking for approval to proceed with discussions with BEIS and was not seeking approval for a spending drawdown. Drawdowns would be sought in the usual way and a progress update would be provided for each scheduled Board meeting. Top down and bottom up estimates of funding had been included in the paper. The payback period for SPM was estimated at 6 or 7 years depending on whether or not we used the contingency fund. The scope of the SPM work was described. We were aiming to have completed the migration from the Horizon system by March 2024 to avoid a “cliff edge” and this would also allow us to realise [IRRELEVANT] in savings.

A number of points were raised and addressed:

- Elliot Jacobs noted that it had been useful to read the presentation in tandem with the Deloitte review. The timeframe for the delivery of the programme seemed fast but did not seem to be prioritising automation and that meant that the Postmasters would still carry the people costs, which would continue to increase as the minimum wage rates increased. There was a risk of failure if a number of branches could not afford to operate the new system. Zdravko Mladenov thought that the



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

plan was fast but achievable. We had drawn up detailed plans and we had limited choice as the only other option was to in-source Horizon and the Horizon system had severe limitations.

- In response to a question, ZM explained that our nearest comparison for costs was with the work IBM had undertaken for POL in 2016, once the IBM profit element had been stripped out. It should take around three years to achieve greater automation rather than six years because we would not wait until SPM had been completed to start this work.
- Zarin Patel noted that the benefits case was still developing and would depend on elements like product simplifications. ZP wanted to be clearer on the benefits case over the next few months and she also wanted reassurance that the organisation had the energy and capacity for this work given the other areas of focus. Nick Read explained that the SPM work had to be progressed as this was a “cliff edge” situation. We were making the prioritisation calls at the right time. We were bringing in the skill set needed for the SPM team. ZM agreed that benefit capture was not mature and we would come back to the Board as this developed. We also had to pursue the non-financial benefits.
- Lisa Harrington noted that we needed to do the work required to move to a new platform but would then be able to build on the platform. LH asked ZM what he was most worried about. ZM reported that he had five principal concerns: 1) the system being too difficult to build. We had a “black box” at the moment that even Fujitsu did not fully understand; 2) our mitigations, because we were being aggressive in our approach to testing; 3) deployment to 12,000 locations around the UK. We had to get all these Postmasters off the Horizon system and were deliberately taking a “gold plated” approach to deployment 4) too much time spent on governance 5) the devices we needed to buy, which we needed to decide on quickly because of supply issues with microchips.
- Al Cameron noted a number of matters linked to the SPM programme: 1) contracts, which had the scope to derail the 2024 timetable 2) data and data governance which had to develop in tandem with SPM. 3) deployment at a time when Postmasters lacked trust in POL. In addition to this, running two systems was always difficult. We had to gain Postmasters’ trust so this process had to be transparent and we had to respond to queries quickly. We had to be emotionally engaged, not just technically proficient.
- Carla Stent noted that we needed to be able to validate what we were building and we should leverage SI and EJ’s experience. We had to get this right first time. CS asked how we would assess that we were getting things right, that we had the right level of assurance and understood which the critical areas were where we needed enhanced assurance. We did not want to tie the team up with governance requirements that were not necessary but did need to have the right levels of assurance in place.
- Tom Cooper noted that cooperation between the Network team and the SPM team would be critical. It would be helpful for these teams to present their plans together to get assurance on how these areas of work were aligned. TC added that the SPM work could not be delayed.
- Tim Parker noted that we did not want to outsource this work to a third-party provider. We needed to have confidence in being able to build the right team. We needed the right people at the top who were able to attract others and could manage the third-party providers. ZM had set his mind at rest somewhat on this point. We had to do all we could to migrate off Horizon and get this right, supported by a “gold plated” approach to deployment. We could then add on to

Action: ZM



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

- this platform. This should provide a good economic return that would allow us to put resources in the right areas.
- Saf Ismail noted that he thought March 2024 looked very optimistic given the diversity in the network. He was interested in how we had arrived at this date and what lessons we had learnt from previous implementations. ZM explained that an extensive exercise was being undertaken with Internal Audit to look at previous deployments and the mistakes of the past. Insufficient deployment had been a mistake of the past. The March 2024 date was driven by wanting to have a 12-month buffer before the contract with Fujitsu ended. We had to look at product set by product set and rebuild these, and then deploy the changes in the network. We would be slow to start and learn from any mistakes before increasing the migration rate. We needed things to go right to meet the March 2024 deadline. SI asked what our contingency was and what strategy we had to gain Postmasters' support. ZM noted that we had a 12-month contingency because the extended contract with Fujitsu ran until 2025. We were planning ahead if things went wrong. A small unit had been set up to deliver the programme. We needed ambassadors to help get buy-in from Postmasters. SI thought that it was vital that the reception of the change was not clouded by any negative feedback and asked whether there could be confidential testing in a particular area prior to a wider roll out. ZM thought that piloting in a geographical area was an option but we did not want to be without Post Offices in a particular area if something went wrong during testing. Drop off and collect services were a good test of the back-office functions working, but this was a small sub-set of the solution. There would be emphasis on testing, including external support and assurance.
 - EJ thought that a test bed approach was sensible but not all of his concerns had yet been addressed. He had seen these kinds of projects go wrong before because of unrealistic deadlines, and he still did not have comfort that March 2024 was realistic. TP had sympathy with that view and asked what would happen if an additional year proved to be insufficient time: could Fujitsu continue to support us for longer? ZM noted that we were still in the business case phase so there was a chance to increase confidence in the programme and the assurance around it. ZM would be concerned about retaining Fujitsu for a longer period of time because they had little interest in supporting POL and had few people left who understood the system fully; that diminished our faith in them being able to deliver the support we would need. We were taking some elements off Horizon but if we had to take the remainder of the Horizon system in-house we would. AC noted that the position with Fujitsu was weaker even than a year ago and there was a real business risk around Fujitsu delivery. LH explained that if faced with this dilemma the scope of the programme had to be reduced while still hitting the deadline in order to de-risk the situation. ZM said that we should consider the risk of continuing to make improvements to the current Horizon system. TP thought we also had to ask what problem we were trying to solve. Nick Read noted that we had the issue of ensuring conformance with the Judgments and being able to report to the Statutory Inquiry that the current Horizon system was stable. The concerns raised around the challenges with deployment were acknowledged. TP noted that we should lay out early plans for taking Horizon in-house if we hit problems. TC asked whether we could encourage Fujitsu to train people and take them on after the end of the contract to ensure continuity of support. He added that there was a lot of focus on Fujitsu following the Court of Appeal judgment. The Minister could be asked to meet the CEO of Fujitsu to get across the message that they needed to support Post Office fully in the migration off Horizon and that this was a system of national importance. ZM cautioned that the more we moved off the Horizon system, the
- To do: TC



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

less Fujitsu would be responsible for the system. EJ asked why we would not seek to take the Horizon system in-house now to be in charge of the timeline. ZM noted that we did not have confidence in our ability to execute currently and AC added that this was a system that even Fujitsu did not understand fully. We could lose six months through early exit payment issues. TP noted that we would need to give these issues further consideration. Trying to bring the system in-house could place further pressure on an organisation already under pressure. ZM agreed to come back with an in-house option but probably not in time for the July Board meeting. TP noted that this might be a question of choosing the least bad risk.

Action: ZM

The Board **APPROVED** proceeding with the Strategic Platform Modernisation Programme (SPMP) multi-year business case as presented to the Board for approval by BEIS.

Zdravko Mladenov left the meeting.

AC noted that we might need to think about the team below ZM. LH cautioned that SPM was not just an IT task and that IT was not the hardest element of the programme. The difficult aspects were where the business could not be clear on what it wanted; not getting the priorities right; and being over governed, tying up resource. TC noted that ZM would need to be able to decline requests on occasion and would need support from Nick Read to do so. NR noted that ZM did not have the burden of being a GE member or managing the legacy IT but was finding taking people on this journey slow.

SI asked whether we should be using a third party for deployment. LH explained that it was important to have some sub-contractors in the team to provide areas of expertise we did not have but we should not cede control of any parts of the project which would dilute our accountability. We would not want to hire all the people who would be used to deploy the new system. EJ noted that this brought us back to the question of culture again. We needed to be clear on our purpose, and our strategic direction which would enable us to get better buy-in. There were many challenges facing the organisation in addition to SPM.

SI thought that it was vital that we brought our IT system in-house. We had been paying a premium for IT for many years but NR thought that bringing the Horizon in-house would not be desirable. SI asked what lessons NR had learnt from NISA. NR explained that there had not been a systems move at NISA, but his experience there had been that there was no "one size fits all" solution for deployment. SI asked about the experience of other government bodies in changing IT systems. TC noted that all these systems were unique but that there was a Fujitsu IT champion at Cabinet Office. We had to trust the Team and with ZM in post and Lisa Harrington on the Board our confidence levels were increased. These were classic deployment and execution issues. TC sympathised with the point raised on governance but we could not afford to overspend and underdeliver. Learnings had to come through the IT specialists. The quality of these professionals was the key thing. TP noted that there needed to be proper oversight from management that the job was being done and for people to be able to speak out frankly when things were not going well.

8. Financial Performance Report

Al Cameron introduced the Financial Performance Report. AC did not want to overread the P1 results but we were £1m - £2m behind budget, predominantly driven by labels. A more detailed deck showing product-by-product performance was available in the Reading Room. We had a dependence on the Banking Framework. We were not seeing the growth in business deposits that we had hoped to see by this time and withdrawal volumes were not on track. We had benefited from higher energy bills but international travel had yet to open up. Postmaster remuneration had been good over the year but was below budget for P1. The numbers of branches open would be close to the minimum required under the



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

Funding Agreement. We had done well to hold cash levels down but there was constant pressure to get the notes back to the Bank of England. There had been some issues with accruals but that position would improve.

A number of points were raised and addressed, including:

- Saf Ismail noted that business customers were still not back to Pre-Covid numbers and asked what we thought was happening. AC noted that hospitality and leisure were still not trading very much but that there should be a clearer picture after 21st June 2021 if restrictions were lifted. Lisa Harrington noted that a lot of businesses had not survived, and more were likely to fail in the next period as financial support was withdrawn, and we needed to monitor this.
- Elliot Jacobs asked what we were spending on top-up payments for Postmasters. AC noted that we had scope to help out on a case-by-case basis, but we were not receiving many enquiries from Postmasters. EJ asked whether we had any visibility on the risks around business rates and furlough ending for Post Offices and what our strategy was. He also wondered whether there was any scope for us to obtain a carve out for business rates for Post Offices. AC noted that this was an issue we could re-visit, though discussions with MPs on this previously had not led anywhere.
- SI asked about personal deposits. AC reported that personal deposits had only dropped by about 5% over the lockdown periods. SI asked what scope there was for growth in personal deposits; banks were closing early and that had driven more customers into Post Offices. SI asked whether we were putting our marketing budget in the right place. AC noted that the banks continued to want to shut more branches and use POL for deposits and we thought there would be growth in this area in BF3. We had debated the value of advertising our role in cash but the Banking Team's experience was that people only took notice when it affected them directly and POL and the banks closing tended to be effective at re-directing customers. Nick Read added that we wanted to position POL to be central to the provision of cash. HM Treasury's access to cash paper was being written over the summer and we were having conversations with NatWest. SI thought we should be re-positioning ourselves as the first point of contact for banking. We wanted customers to come to Post Offices because we provided a better service.

9. Historical Matters Report

Declan Salter introduced his report and the decisions sought from the Board on the scope of the shortfall loss and accepting late applications for the Historical Shortfalls Scheme (HSS). DS noted that in his view the HSS's terms were wide enough to encompass any form of loss. Tim Parker noted that option one in the paper appeared compelling as it would not be optimal to have to write to the claimants again.

The Board **APPROVED** the recommendation that matters raised in claims in addition to shortfalls should be remediated on a case-by-case basis as soon as the data analysis required to do so was complete.

The acceptance of late applications to the HSS was discussed. The recommendation was to consider this for individuals who had genuinely been unaware of the existence of the HSS or had not been able to submit a claim in time for concrete reasons. If not resolved, individuals would still have a claim against the company. DS noted that BEIS were not keen on the idea of accepting late claims but if the Board supported the recommendation, they would consider a paper. Tom Cooper explained that the concern at BEIS was that if de minimis claims were being paid without being investigated and the HSS application deadline was not being adhered to we could be flooded with claims. A closing date should be adhered to while being sympathetic and considering exceptions in special circumstances. The number of claims kept increasing so there needed to be some



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

reassurance that the HSS had closed. TP asked whether we were clear what we meant by special circumstances. DS explained that it could be situations such as an individual having been unable to submit a claim because they had been ill or that they had not received the Scheme details in the first place. AC noted that it was clear that the HSS had not closed in practice as the number of claims continued to increase. However, the HSS could be closed while still considering late applications in exceptional circumstances. TP noted that we needed some criteria for exceptional circumstances and to understand what we were saying to people who had applied after the closing date. Carla Stent added that as we would continue to receive claims in the future, we needed to understand how these would be dealt with. Lisa Harrington noted that she was comfortable either with the HSS being shut or being shut but considering new claims in exceptional circumstances, but whichever approach were taken all claims needed to be dealt with sympathetically. It was agreed that the Board should be sent the letter we were sending if rejecting a claim after the closing date.

Action: DS

Elliot Jacobs noted that he was not sure where the line was between the historical issues and the current policy. DS explained that a remediation process was underway for HNG-A errors and that for the majority of Postmasters who had experienced detriment under HNG-A the position would be resolved in September 2021.

Saf Ismail noted that we also had to consider these matters from an external and media perspective, and asked if we could share what our press lines would be if we were criticised about not accepting late claims. It was agreed that these media lines should be circulated to the Board. We also needed to share with BEIS what we meant by exceptional circumstances.

Actions: DS

DS reported that we had written to 540 Potential Future Applicants (PFAs) and had received 80 responses directly. Other PFAs may have gone to solicitors directly. We were checking that the letters had been signed for. SI asked how we were communicating our efforts to contact these individuals. It was reported that we had included this information in press releases. SI noted that it was also important to include this kind of information in our communications to current Postmasters and it was agreed that we would do so.

Action:
Executive

Al Cameron noted that the earlier we could get alignment on the processes we were going to follow with Hudgell solicitors the better.

Declan Salter left the meeting.

Nick Read reported that Declan Salter would be leaving POL at the end of July 2021 and the skill set required for the HMBU director role had changed. Angela Williams was working on obtaining the resources we needed but there were two main pillars of work: 1) to support the preparation for the Statutory Inquiry and recommendations flowing from its report; and, 2) compensation. The Horizon IT team currently in the HMBU would move back into BAU and the Improvement Development Group's (IDG) work would continue. Ryan Williams from the BF3 team would move into the programme management role in the HMBU. Job descriptions had been produced.

Zarin Patel asked about progress on interim payments. It was reported that a letter had been drafted by Linklaters that we proposed sending to Minister Scully tomorrow. We



Tom Cooper noted that we would need BEIS approval first and then approval from HM Treasury. UKGI/ BEIS wanted to have these approvals in place by the Summer Recess. It was noted that not having a resolution until July 2021 could cause problems because claimants might choose to pursue further litigation in the meantime.



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

10. Approvals

10.1 External Auditor Fees & Scope of Engagement (2020/21)

The Board **REVIEWED** and **APPROVED** the scope and proposed fee structure for the audit and assurance work to be performed by PriceWaterhouseCoopers ("PwC") for the financial year ended 31 March 2021 ("FY20/21"), being [RELEVANT] per hour (estimated total at [RELEVANT]) for audit fees and [RELEVANT] for agreed upon procedures work plus possible fees for a further piece of work on network numbers reporting to be agreed by Finance (with no further Board approval required).

10.2 Post Office Operating Model (Organisational Changes) funding approval

The Board **APPROVED** an additional [RELEVANT] (**exceptional spend**) to progress the next phase of Organisational Design work and strategic operating model review, in line with the newly launched seven strategic pillars, through to December 2021.

Carla Stent asked about the pay back on this project so far and noted that most benefits seemed to be coming from T1 and T2. Al Cameron reported that for redundancies there was generally a 2 to 2.5-year payback period. CS noted that the benefits for T3 were a lot lower than for the previous tranches and it was agreed that an update paper would be provided to explain this.

Action:
Executive

10.3 Matters Reserved and Terms of Reference changes

The Board **APPROVED:**

1. the revised Matters Reserved to the Board;
2. the revised Audit, Risk & Compliance Committee Terms of Reference;
3. the revised Nominations Committee Terms of Reference; and
4. the Remuneration Committee Terms of Reference (no changes); effective from 4th June 2021.

10.4 PUDO update

The Board **APPROVED** a further [RELEVANT] (in addition to current approved spend of [RELEVANT] for FY21/22 to deliver PUDO (Total project spend: [RELEVANT]).

It was reported that we wanted DPD to be in place as a partner having completed a pilot before our peak trading period. We had made good progress in these discussions. Tom Cooper asked if we could get the management team to focus on market share. There was an opportunity to grow our market share more than set out in the Plan. We should be measuring ourselves against Royal Mail Group (RMG). Lisa Harrington added that this was part of her request to bring this topic back for further discussion at the Strategy Day. We needed to consider how operationally manageable our development plans were.

Action:
Executive

Elliot Jacobs noted that PUDO was a missing piece in the MDA2 communications while understanding the we did not want to over promise when PUDO was at an embryonic stage. He added that we needed to be careful how we positioned the benefits of footfall. There was a lack of marketing spend to advertise the services Post Office was offering but PUDO should be one of our big peak messages. Nick Read noted that we were still in the trial phase and Amazon did not want to advertise the partnership widely until the trial had been completed. Saf Ismail asked about POL's capacity to partner with a number of carriers; who we were selecting and why; and, how we had modelled our figures. NR explained that Jack Bertram, a partner at McKinsey, and formerly a Royal Mail employee, had led on the modelling work. We needed to bolster our Mails and Parcels Team for the next phase of work. Tim Parker thought it could be helpful to engage an entrepreneurial



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

Postmaster in this work and NR explained that this sort of input was part of the purpose of the Postmaster secondments we were proposing.

SI noted that the Amazon trial was working well in his branches and that the devices were easier to use than Horizon.

Noting and governance items

11.1 Health & Safety Report

Al Cameron introduced the report and noted that there had been a couple of incidents with CVIT drivers. We were looking at cab driving on a random basis and some concerns were arising from this review. We had to take a decision on whether to introduce random alcohol testing for drivers. We did not think that we would obtain CWIU agreement to this but might nevertheless implement the measure after the summer.

A number of points were raised and addressed, including:

- Saf Ismail noted that he was surprised that POL did not have a policy in place for random alcohol testing and asked whether we should proceed notwithstanding CWU objections.

[REDACTED]
[REDACTED] Lisa Harrington noted that she would be happy to put AC in touch with the person who had dealt with this issue at BT. AC thought that we would proceed with random alcohol testing for cab drivers and Tim Parker requested that he update the Board on the position in a couple of months' time.

Action: AC

- TP observed that the number of robberies and accidents had decreased and asked whether this was solely Covid related. AC reported that there had been an upward trend for robberies and accidents post lockdown but that we had not reached pre-Covid levels.
- Elliot Jacobs asked about AIE machines catching fire. AC explained that we had not been able to identify the root cause and were asking people to switch off the machines overnight and would be phasing them out over the next year.
- Elliot Jacobs noted that in non DMB branches SSKs were only being used to post mail that was not trackable and asked what was different with the SSKs being used in DMBs during pandemic. AC said that he would find out and respond to EJ.

To do: AC

11.2 Improvement Development Group Report

The report was **NOTED**.

11.3 Sealings

The Board **APPROVED** the affixing of the Common Seal of the Company to the documents set out against items number 2057 to 2070 inclusive in the seal register.

11.4 Future Meeting Dates

The future meeting dates were **NOTED**.

11.5 Forward Agenda

The Forward Agenda was **NOTED**.

12. Any Other Business

Lisa Harrington asked about the appointment of a Non-Executive Director with a legal background. Tim Parker reported that we had a preferred candidate who was a chair of a major law firm but would be stepping down from this position shortly.

TP thanked everyone for their contributions but especially SI and EJ at their first POL Board meeting.



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

There being no other business the Chairman declared the meeting closed at 17.00 hrs.

13. Date of next scheduled meeting

27th July 2021

GRO

Chairman

11/08/2021 08:53



POST OFFICE LIMITED BOARD MEETING
Strictly Confidential

Appendix 1 – Legally Privileged



Voting Results for Board Minutes from 03.06.2021 (approved on 27.07.2021)

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	11/08/2021 08:53