

Post Office Limited – Strictly Confidential

POLB 15(5th)
POLB 15/87 – 15/100

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 9.00am on 22 September 2015
at 20 Finsbury Street, London EC2Y 9AQ

Present:

Neil McCausland	Chairman (Interim)
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
Neil Hayward	Group People Director (minutes 15/90 and 15/91)
Nick Kennett	CEO, Post Office Management Services Limited (POMS) (minute 15/92)
Jane MacLeod	General Counsel (minutes 15/92 and 15/95)
Piero D'Agostino	Head of Legal, Commercial (minute 15/92)
Mark Ellis	Supply Chain Director (minute 15/94)

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INTRODUCTION

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

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CEO'S REPORT

- (a) The CEO introduced her report and focused on the following key areas:
- (b) Sparrow
The number of cases withdrawn from the mediation scheme had now reduced to eleven, with all other non-criminal cases being mediated. The Criminal Case Review Commission (CCRC) was reviewing 20 cases but was unlikely to report before December.

The CEO reported that the Minister had asked the new Chairman for his independent review of Sparrow. The Minister had also met Lord Arbuthnot who informed the Minister that he would use Sparrow as the focus of his maiden speech in the House of Lords.

The CEO felt good progress had been made including a meeting with the Chairman of the Parliamentary Select Committee who reported that Sparrow was not on the Committee's current agenda. A formal complaint had been made to the BBC for the inaccuracies in the Panorama programme and meetings to brief MPs about their specific cases continued.

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ACTION:
Mark Davies

The Board recognised the progress made and encouraged the CEO to find different ways to inform MPs about their cases if they refused a meeting.

(c) Sales

The Board were concerned about the effectiveness of the sales growth strategy, specifically FS sales, and asked the CEO to ensure more rigour in this area.

ACTION:
Richard Callard

The Board discussed digital growth and recognised the challenge with Verify sales. Richard Callard offered to contact HMRC to propose a dialogue with the Executive.

(d) Network

The CEO reported that Kevin Gilliland, Network and Sales Director, believed that the Network Transformation (NT) targets would still be achieved despite the delay in issuing the letters to remaining subpostmasters. However he was considering how NT aligned with the wider front office IT transformation to see if a slight delay would make sense. The Board asked the CEO to update the Board with any significant changes to the plan or timing, as this would have implications to the budget and the scorecard.

The Board pointed out that branch numbers now stood at 11582, close to the floor of 11500, the target set in the funding agreement. The CEO thanked the Board for highlighting the issue and recognised that the number of branches had moved closer to the target, but assured the Board that the number was monitored.

(e) CIO

The CFO updated the Board on the CIO recruitment, the external candidates being considered and the interim CIO, Chris Broe, who had started work.

(f)

Having taken the discussion into account, the Board noted the CEO's report.

POLB 15/89

FINANCIAL PERFORMANCE UPDATE

- (a) The CFO confirmed that since the last forecast, which got the business back to its EBITDAS target, a number of challenges had emerged. For example; the good news on Sparrow mediation had reversed a £1m saving; continued low interest rates would increase POCA costs by £300k a month from 1 January; the decision by HMRC reduced the Verify income; and Travel products continued to perform below expectations. The CFO signalled that in his view there was now a £5m risk in EBITDAS. The business would re-forecast again in October and while he was still expecting to hit the target, the Executive would need to make some

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unattractive decisions.

- (b) The CFO recognised the under spend in the transformation budget, but he believed that this was largely down to timing and the large projects would start to catch up in the second half of the year.
- (c)

The CFO reported that the Executive were considering further investment to grow the digital FS sales. The Board stressed that the Post Office's USP was its bricks and mortar channel and suggested that they focus on optimising network FS sales. The CEO assured the Board that she was leading a meeting on leveraging the network for FS sales.

ACTION:
Neil Hayward

- (d) The Board asked for a note to explain the high level of turnover in the new starter population.
- (e)

Initial discussion interim results

The Board discussed the paper setting out the likely narrative and communications for the half year results. It was agreed that the results showed steady progress in tough conditions where the market was uncertain. The Board debated the audience and timing for the report. Mark Davies would coordinate the optimum date of publication with Richard Callard.

ACTION:
Mark Davies

- (f)

Government Spending Review

Richard Callard explained the pressure on BIS to deliver a 40% budget saving. The Board discussed the proposal to write to BIS to explain that market uncertainty may require the Post Office to ask for additional funding beyond the network subsidy payment highlighted in the 2013 strategic plan. It was agreed that a letter be sent to Mark Russell, CEO Shareholder Executive (ShEx) explaining the position and asking for acknowledgement of the contents. Richard Callard explained that officials would, in the normal course of business, inform the Minister, BIS Finance and the Treasury.

ACTION:
CFO/ Richard Callard

- (g) Having taken the discussion into account, the Board noted the CFO's report.

POLB 15/90

ROYAL MAIL PENSION PLAN (RMPP)

- (a) The Chairman welcomed Neil Hayward, Group People Director, to the meeting.
- (b) Neil Hayward explained the proposed changes to the RMPP to strengthen the long term health of the plan. The proposal had been discussed and agreed by the Group Executive (GE) on the 20 August 2015 and supported by the Pensions Committee on the 8 September 2015.
- (c) He recognised that the proposal was different to the position being taken by RMG, and an earlier change than the RMPP Trustee had anticipated. The RMPP scheme rules mean that closure of the

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scheme is a matter reserved to the Trustee, and that the Business is legally bound to consult members before and decisions is taken.

- (d) Neil Hayward explained that the proposed timescale was realistic and achievable although it did depend on the RMPP Trustee. Neil Hayward assured the Board that the timetable was indicative and that he would push for an earlier closure date if possible.
- (e) Richard Callard asked if there was any flexibility with the timetable. Neil Hayward explained that discussion at the RMPP Trustee meeting on the 29 September was vital and that he would prefer to stick to the proposed timing.
- (f) It was agreed that the initial meeting with Joanna Matthews, RMPP Chair, on the 24 September and the meeting with the Trustees on 29 September should go ahead as planned. However, at both meetings confidentiality should be stressed as the formal union consultation would not take place until the 8th October. Neil Hayward noted that there would be some direct, private conversation with the Unions so they were aware of what was going to be proposed. Richard Callard supported this proposal and did not intend to raise the issue further at BIS.
- (g) The Board:
 - 1. Noted and approved the decision taken by the GE on 20 August 2015, to engage with the Trustee of the RMPP to close the RMPP to future accrual from 1 September 2016;
 - 2. Noted and approved the decision taken by the Group Executive, (same dates as above), on the future DC pension scheme design for all employees, including the ex-RMPP members who may transfer from the RMPP to the Post Office Pension Plan; and
 - 3. noted that any change to the terms of the RMPP were subject to successful engagement with the Trustee and successful consultation with members and their representatives.

POLB 15/91

PEOPLE AND COST TRANSFORMATION ISSUES – INDUSTRIAL RELATIONS RISK MITIGATION AND PLANNING

- (a) Neil Hayward introduced the paper and acknowledged the unprecedented level of change being proposed. He believed that the changes already made to implement the new Collective Engagement & Industrial Relations Framework would help to partially mitigating the risk, and that effective communication was key.
- (b) The Board supported the proposals but asked that individual elements, such as changes to maternity leave, be tested to ensure they deliver enough benefit to be included.

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ACTION:
Neil Hayward

- (c) It was agreed that the planned Vision communication was essential in getting people to understand and believe in the transformation. The Board acknowledged the effectiveness of face to face communication and asked Neil Hayward to ensure as many people as possible saw the message direct from senior managers rather than as a cascade.
- (d) The Board:
 - 1. noted the progress made since the June 2015 strategy session on options for going further on cost;
 - 2. agreed the next steps regarding implementation on each of the cost options;
 - 3. accepted the high IR risk inherent in the activity proposed and endorsed the approach to mitigate it; andasked the CEO to keep the Board updated in her Board report.
- (e) Neil Hayward left the meeting.

POLB 15/92

HAWK APPROVAL

- (a) The Chairman welcomed Nick Kennett, CEO POMS, Jane MacLeod, General Counsel (GC), and Piero D'Agostino, Head of Legal – Commercial, to the meeting.
- (b) Nick Kennett circulated the PwC Post Office Management Services (POMS) Compliance Readiness Review (this report is now available in the Board reading room).
- (c) The GC explained that she and Nick Kennett had jointly commissioned PwC to 'conduct a review of POMS' compliance readiness to accept the transaction of the existing general insurance intermediary business, reflecting regulatory exceptions in the current regime'
- (d) The PwC report concluded that 'based on the scope of the review, and excepting matters set out in the report, we have not identified any other FCA regulatory matters which would prevent POMS taking on the responsibility of Hawk'.
- (e) The GC explained the nine areas which had been highlighted in the PwC report, two of which were mandatory for day one.
- (f) Contractual Arrangement for Agency franchises
The GC explained that the challenge regarded the basis on which agents benefitted from the Appointed Representative (AR) status of the Post Office. PwC had recommended that 'POMS management may wish to consider that the regulatory risk around the issue would be managed more fully by confirming that the assumptions underpinning this legal view are valid'. The GC explained that a year ago external legal advice had been sought

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from Linklaters LLP (LL) to confirm this point and its relation to the subpostmaster contract. In light of the PwC comment LL had recently been asked to verify their advice which they had done.

(g) Conduct risk – agency franchises

The GC explained that this compliance risk of mis-selling Travel Insurance or Over 50's life Insurance already existed for the Bank of Ireland and that this risk was now passing to POMS.

PwC recommended that 'as part of the Hawk transaction, the POMS Board needs to recognise that whilst the risk profile is not changing, the risk owner is. As such POMS must put in place a plan to understand the risk and mitigate them going forward.'

The Board recognised that changing risk ownership did not change the risk, but acknowledged that Post Office continued to bear the reputational risk, and Nick Kennett explained that POMS Board would be putting together a plan to mitigate the risk.

(h) Governance

Three areas in the PwC report were marked for POMS Board attention; the Appointed Representative; the drafting of the Matters Reserved to the Board; and appointment of an individual responsible for complaints.

The Board discussed the three areas and asked for evidence that POMS had considered the Appointed Representative position including benchmarking how other companies might overcome the issue.

**ACTION:
GC/Nick Kennett**

(i) The Board approved the acquisition proceeding, subject to the POMS Board approving the acquisition and approving an action plan to address the recommendations of the PwC assurance review; this plan should be circulated to the Post office Board.

(j) Subject to the provision of the POMS Board approved action plan, the Board:

1. approved the subscription, on or before 27th September 2015, for up to two million (2,000,000) ordinary £1 shares in the capital of POMS at nominal value for an aggregate subscription amount of £2million in cash;
2. authorised the CEO and the CFO to do all acts and things required to perfect the resolution at 1 above, at such time and in such manner as they consider appropriate in their absolute discretion;
3. approved the acquisition of the interest in the POI general insurance business under the Financial Services Joint Venture Agreement from Bank of Ireland (UK) plc in consideration of the sum of £43.9million;
4. approved the subsequent on-sale of that business to POMS in consideration of the sum of £46million to be satisfied by an

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5. issue of 46 million (46,000,000) ordinary £1 shares in the capital of POMS at nominal value to be subscribed for by Post Office;
6. approved “the transaction” which resolutions 3 and 4 together describe;
7. noted the description of the documents listed in Appendix A to the paper (together “the Documents”) which will give effect to the Transaction and authorised the CEO and CFO to finalise the Documents;
8. authorised the execution of the Documents in accordance with Post Office usual procedures; and
9. authorised and gave delegated authority to the CEO and the CFO to do all acts and things regarded by him or her to be necessary, desirable or appropriate (in their absolute discretion) so as to carry into effect the purposes of these resolutions or the transactions contemplated by them.

The Board congratulated the team and Nick Kennett, Jane MacLeod and Piero D’Agostino left the meeting.

POLB 15/93**IT TRANSFORMATION (BACK OFFICE PROCUREMENT)**

- (a) The CFO explained that work was underway to deliver a detailed Transformation plan by the end of October and that there was a need to align the IT back office transformation to that plan. Because of this and the need to understand the timing of the obligations the Post Office were accepting the CFO proposed a delay in the signing of the Accenture contract.
- (b) The Chairman reported the discussion on contract management which had taken place at the ARC and the need for the business to manage the Accenture contract effectively.
- (c) The Chairman asked if the 7 year Accenture contract contained a break clause and was flexible enough to protect the Business if it outsourced significant areas. The Board recognised that although Accenture had won the tender on price this advantage could erode quickly if the in-life contract was not managed effectively and did not contain effective change clauses.
- (d) The Board:
 1. approved the award of the Back Office contract to Accenture at a total cost of £35m over seven years, subject to a note from the CFO clarifying the issues raised; the length of the contract and break clauses; flexibility to change in areas included in the plan; and the deployment of effective contract management.

POLB 15/94**PROJECT IRIS**

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- (a) The Chairman welcomed Mark Ellis, Supply Chain Director, to the meeting.
- (b) Mark Ellis explained that since joining the Business four months ago he had undertaken a review of the Supply Chain, with the help of KPMG, exploring four operational scenarios and focused on:
 - Optimising the current 'as is' model
 - A shrink model retaining the existing constraints within the operation
 - A shrink model removing constraints; and
 - A grow model.
- (c) Mark Ellis noted that there was limited planning and modelling capability, with no accurate CViT data. He explained that he was implementing a series of no regret fixes which would improve the efficiency of the operation.
- (d) The Board discussed project IRIS and the approaches from Armaguard and Vaultex. Mark Ellis explained that Vaultex operated cash processing for HSBC and Barclays and were looking for a relationship to enable them to offer processing and distribution. Post Office would benefit by improving productivity in cash processing and sharing, therefore reducing, unit costs in distribution.
- (e) The Board discussed the proposal to enter into a 3 month UK exclusive dialogue with Vaultex and its shareholders. There was concern that after the three months work the business would not be ready to decide on the future strategy as the timing would need to align with the rest of the transformation. The CFO considered that there was limited dependency on IT transformation but confirmed that plans would be assessed against that and the potential for Industrial Relations issues.
- (f) The Chairman asked if the Business was still considering outsourcing the whole supply chain operation. Mark Ellis thought it unlikely that the Business would find a buyer for the cash distribution arm of the Supply Chain. The Board agreed that the Supply Chain work was not a core activity for the Post Office and asked the Executive to engage with Corporate Financing institutions to explore their appetite for full outsourcing alongside the Vaultex work.
- (g)

ACTION:
Mark Ellis

The Board:

ACTION:
Mark Ellis

1. noted the work undertaken to date, particularly the emerging direction, which was likely to lead to a smaller Supply Chain, operating at a lower net cost, and supported the no regrets changes;
2. approved entering into a three month, exclusive dialogue with Vaultex and its shareholders to develop and assess a potential

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ACTION:
Mark Ellis

3. business combination, being open about the parallel approach to Corporate Finance institutions asked to explore the appetite for outsourcing ;
4. approved approaching Corporate Finance institutions to explore their appetite for outsourcing; and
5. noted the work to be completed in the next four months and requesting the submission of detailed recommendations in January 2016.

(h) Mark Ellis left the meeting.

POLB 15/95

GOVERNANCE – COMMITTEE CHANGES

- (a) The Chairman welcomed Jane MacLeod, General Counsel, to the meeting.
- (b) The GC explained the proposal and the discussion which had taken place at the ARC and FS Committee and with individual NEDs. The proposed changes had been welcome subject to the following observations:

ACTION:
Company Secretary

- The current FS Committee members would still be available for FS discussions on an adhoc basis
- Nick Kennett should be invited to attend the ARC
- There would be 2 FS deep dives a year at the ARC, to which either the POMS Board Chairman or POMS ARC Chairman would be invited
- Time would need to be made available to ensure Board members were up to speed on FS issues.

(c) The changes would be effective from the 1st October

(d) The Board:

1. agreed to dissolve the Financial Services Committee and the Pensions Committee with immediate effect; and
2. approved the proposed changes to the terms of reference of the Audit, Risk and Compliance Committee, subject to an amendment to include Cyber Security as well as Technology risk in the Risk Management framework.

ACTION:
Company Secretary

(e) Jane MacLeod left the meeting.

POLB 15/96

MINUTES OF THE PREVIOUS MEETING AND MATTERS ARISING

Minutes

- (a) The minutes of the meeting of the Board held on 15 July 2015 and the two meetings of the Board held by correspondence on 17 July 2015 and 23 August 2015 were approved as accurate records and the Chairman was authorised to sign them.

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- (b) There were no matters arising.

Status Report

- (c) The Status Report, showing matters outstanding from previous Board meetings, was noted. Tim Franklin clarified that agendas and minutes of all future POAC meetings would be circulated the Board when available, Action 7d (POLB 15/802 (a)).

POLB 15/97

COMMITTEE MEETING MINUTES FOR NOTING

- (a) The Board noted the draft minutes of the following meetings:
1. Audit, Risk and Compliance Committee held on 20 May 2015;
 2. Financial Services Committee held on 30 June 2015;
 3. Nominations Committee held on 8 July 2015 and 14 July 2015 (by correspondence);
 4. Remuneration Committee held on 8 July 2015 and 13 August 2015 (by correspondence); and
 5. Pensions Committee held on 26 June 2015 and 8 September 2015 (extraordinary).

POLB 15/98

ITEMS FOR NOTING

- (a) The Board noted the Report on Sealings and resolved that the affixing of the Common Seal of the Company to the documents set out against items numbered 1331 to 1345 inclusive in the seal register was hereby confirmed.
- (b) The Board noted the Health and Safety report.

POLB 15/99

ANY OTHER BUSINESS

**ACTION:
Company Secretary**

- (a) The CEO recognised that this Board meeting would be the last for Neil McCausland, who was stepping down as SID and Interim Chairman. The CEO thanked Neil McCausland for his significant contribution to the Board and the Business over the last four years.
- (b) The CEO asked the Company Secretary to make the necessary filing at Companies House.

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DATE OF THE NEXT MEETING

- (a) It was noted that the next meeting of the Board would be on 28 October 2015.

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Chairman

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Date