

In Strictest Confidence

**POB(00)4th
PO00/44 to 55**

POST OFFICE BOARD

**Minutes of the meeting held at 148 Old Street
on 3 May 2000**

Dr Neville Bain	Chairman
John Roberts	Chief Executive
Malcolm Kitchener	Group Finance Director
Jerry Cope	Group Managing Director Strategy & Business Development
Mike Kinski	Non-Executive Member
John Lloyd	Non-Executive Member
Rosemary Thorne	Non-Executive Member
Jonathan Evans	Secretary
Teresa Redler	Notes
Richard Dykes	Group Managing Director, Mails Services
Stuart Sweetman	Group Managing Director, Customer and Banking Services
Kevin Williams	Group Managing Director, Distribution Services
Apologies:	Miles Templeman, Non-Executive Member
Others attending:	John Modd, Managing Director, International Services, for PO00/49

RICHARD CLOSE



MALCOLM KITCHENER On behalf of the Board the Chairman welcomed Malcolm Kitchener to his first meeting as temporary Group Finance Director.

GROUP FINANCE DIRECTOR The Chief Executive advised the Board that Odgers had been appointed to manage the resourcing of the Group Finance Director position. The current plan was for a recommended short list to be forwarded to Ministers before the summer recess, and for an appointment to be made in the autumn.

MINUTES OF PREVIOUS MEETING **PO00/44**
The Board approved the minutes of its 3 / 4 April 2000 meeting.

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**MATTERS ARISING
 POB(00)38**

PO00/45

(i) The Board noted the matters arising from its meeting held on 3 / 4 April 2000.

Action
 Kevin
 Williams

(i) Present to the September Board meeting a report on progress with the contingency plan for Packages and Express

CHAIRMAN'S BUSINESS

PO00/46

(i) The strategic plan had been finalised and submitted. A copy of the executive summary would be sent to Board members immediately, with the full version sent when it had been printed.

(ii) The Chairman and Chief Executive had had a useful meeting with Michael Scholar, Permanent Secretary, DTI to discuss the challenges and opportunities ahead for The Post Office and had invited him to join the October Board meeting.

(iii) With the start of the new financial year the Chairman restated the importance of aligning individual objectives with the strategic plan. To this end a meeting had already been held with Managing Directors to cascade the plan. The Executive Board had identified its key priorities, which would be communicated widely.

Action
 Jerry Cope

(i) Final version of the strategic plan to be distributed to Board members.

**CHIEF EXECUTIVE'S
 REPORT POB(00)39**

PO00/47

(i) Project Zircon The Board confirmed its approval to the acquisition, following agreement from Board members in earlier correspondence. The Government had also approved the project, subject to some minor conditions. Completion of the acquisition was expected by 5 May.

(ii) Liberalisation There was some uncertainty about the European Commission's likely proposals for further liberalisation of postal markets. Speculation suggested that a 50g limit would be proposed together with the liberalisation of cross-border and direct mail, a proposal which would severely affect the profitability of The Post Office. In addition the policing of direct mail if liberalised would be difficult to achieve. The views of postal administrations across Europe were divided on the issue and it was expected that there would be considerable debate before a clear position was reached.

(iii) PIU Study The PIU report on the viability and future of the Post Office network had been delayed and

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publication was now not expected until the end of May at the earliest. The National Federation of Sub Postmasters had led a sub postmasters lobby on Parliament in April, with some impact. Government officials had been charged with looking at alternative ways forward. It was noted that the general concern about the potential reduction in revenue from benefit payments business was adversely affecting the market for sub offices.

- (iv) Parcelforce Discussions on alternative resourcing approaches had been held with the CWU. Broad acceptance of the issues had been gained, although deliverability was likely to be a problem.
- (v) Envision The BBC had requested a meeting with the Chief Executive to discuss the future of Envision. The Post Office was already reviewing possible options.
- (vi) IT Projects The first of the new style reports on IT projects would be included in the July Board.

FINANCIAL OVERVIEW PO00/48

- (i) Provisional profit results for March were:
 - Royal Mail £441m
 - POCL £29m (exec Horizon)
 - Parcelforce £(36) (inc Special Delivery)
- (ii) The group full-year post-tax profit forecast was currently £352m against a target of £350m, excluding the impairment of Parcelforce assets at a cost of £50m. There was a risk to the forecast from the potential impairment of goodwill on German Parcel. Discussions were still ongoing with the auditors on the issue and if unresolved they would be invited to meet with the Chairman and Chief Executive to discuss further.
- (iii) The Board agreed that the declared operating profit should not include the Parcelforce impairment, although it was recognised that this would ultimately require DTI approval. ✓
- (iv) The Board noted that in view of the complexity and size of some exceptional items in the 1999/2000 accounts, internal and external communication of the results would need to be carefully constructed to ensure an accurate picture of underlying performance was portrayed.
- (v) An analysis of Group capital expenditure and the property estate was requested after the annual accounts had been completed.
- (vi) Agreed that the following full year Group post-tax profit forecast be released to DTI:

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- £352m (excluding Horizon and Parcelforce impairment)
- Action**
Malcolm (i) Provide for the July Board meeting:
Kitchener
- Analysis of capital programme showing split between core infrastructure projects and one-off projects together with depreciation effects.
 - Analysis of the opportunity for maximising the financial efficiency of the property estate.

INTERNATIONAL LETTERS: STRATEGIC INTENT POB(00)40

PO00/49

- (i) In light of changing market conditions, a review of the strategy in the International letters market had been undertaken.
- (ii) The effects of technology, liberalisation and regulation were uncertain in the letters market; therefore, the strategy was more tentative with some focused opportunities.
- (iii) The vision would focus on the “development of owned or partnered pick up and delivery networks in major countries and cities world-wide to create end to end control of key liberalised mail flows, domestic and international”.
- (iv) A potential issue that had been highlighted was transfer pricing. It was considered that our in-house pricing was not competitive for pricing within a joint venture.
- (v) It was expected that the market would be price sensitive with value adding taken for granted.
- (vi) There was some evidence that existing companies were looking to acquire global mail capability.
- (vii) The Board supported the proposals as a first step and would next need to know how the strategic intent would be taken forward and how the priorities would be assessed.

- Action**
Jerry Cope (i) Present to the Board a further paper exploring how the strategic intent will be taken forward, together with an assessment of priorities.

POST IMPLEMENTATION REVIEW POB(00)42x PO00/50

- (i) The Board noted the report.

MAJOR IS/IT INVESTMENT PROJECTS PO00/51

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**QUARTERLY REVIEW
 POB(00)43x**

- (i) The Board noted the report. Future reports from July onwards would be in a revised format, as requested earlier by the Board. This would include plans for recovery of any slipped milestones.

**PREPARING THE POST OFFICE FOR ECONOMIC AND MONETARY UNION
 POB(00)44x**

- (i) The Board noted the report
- Action**
- Malcolm (i) Present to the July Board a paper on Group Treasury policies and focus.
- Kitchener

**THE EVEREST PLAN FOR PACKAGES AND EXPRESS – KEY MILESTONES
 POB(00)45x**

- (i) The Board noted the report.
- Action**
- Kevin (i) Quarterly report on progress against milestones to be presented to the Board starting in July.
- Williams

ANY OTHER BUSINESS PO00/54

- Report and (i) The annual Report and Accounts were due to be delivered to the Secretary of State on the 16 June 2000. Accounts The Chairman's and Chief Executive's reports would be circulated to Board members for comment.
- Action**
- Secretary (i) Chairman's and Chief Executive's draft reports to be circulated to all board members for comment.

DATE OF NEXT MEETING PO00/55

The next meeting was scheduled for the 5 June 2000.