

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, Group Director, Financial Services (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The number of cases withdrawn from the mediation scheme had now reduced to eleven, with all other non-criminal cases being mediated.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.

ACTION:

The Board recognised the progress made and encouraged the

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Mark Davies

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 sub-postmasters. 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.

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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 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.

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- (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.

ACTION:
Mark Davies

- (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:
CFO/ Richard Callard

- (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.

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

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Irrelevant

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Irrelevant

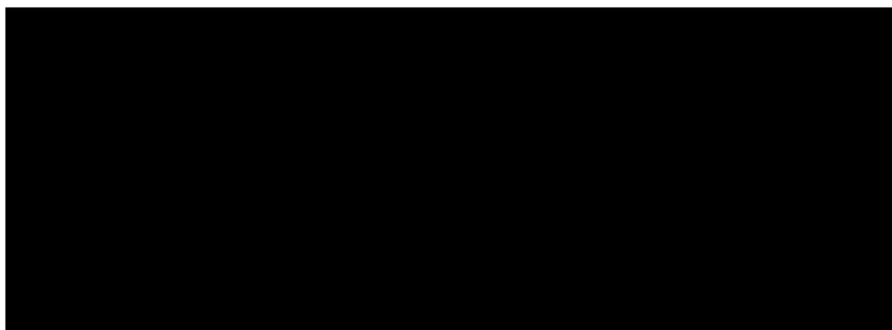
POLB 15/91

ACTION:
Neil Hayward

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POLB 15/92

Irrelevant



Irrelevant

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(h)

(i)

ACTION:
GC/Nick Kennett

(i)

Irrelevant

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Irrelevant

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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

Irrelevant

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(c)

(d)

(e)

(f)

(g)

Irrelevant

ACTION:
Mark Ellis

ACTION:
Mark Ellis

ACTION:
Mark Ellis

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POLB 15/95

ACTION:
Company Secretary

Irrelevant

ACTION:
Company Secretary

POLB 15/96

MINUTES OF THE PREVIOUS MEETING AND MATTERS ARISING

- (a) **Minutes**
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.
- (b) There were no matters arising.
- (c) **Status Report**
The Status Report, showing matters outstanding from previous Board meetings, was noted. Tim Franklin clarified that agendas and

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minutes of all future POAC meetings would be circulated the Board when available, Action 7d (POLB 15/802 (a)).

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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

- (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.

ACTION:
Company Secretary

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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.

GRO

Chairman

28/10/15

Date