**Post Office Limited
Board Meeting**

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF POST OFFICE LIMITED HELD ON MONDAY 29TH JANUARY 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 12.15PM

Present:	Tim Parker	Chairman **(TP)**	
	Richard Callard	Non-Executive Director **(RC)**	
	Tim Franklin	Non-Executive Director **(TF)**	
	Ken McCall	Senior Independent Director **(KM)**	
	Carla Stent	Non-Executive Director **(CS)**	
	Virginia Holmes	Non-Executive Director **(VH)**	
	Paula Vennells	Group Chief Executive **(CEO)**	
	Alisdair Cameron	Chief Financial and Operations Officer **(CFOO)**	
In Attendance:	Jane MacLeod	General Counsel & Company Secretary **(JM)**	
	Marla Balicao	Minute Secretary **(MB)**	
	Tom Cooper	UKGI Observer **(TC)**	
	Debbie Smith	Chief Executive, Retail **(DS)**	*(items 5,6,7 & 8)*
	Cathy Mayor	Finance Director, Retail	*(item 5 & 7)*
	Martin Kirke	Group HR Director **(MK)**	*(item 6)*
	Julie Thomas	DMB Programme Director	*(item 6 & 8)*
	Tom Wechsler	Programme Manager Mediation Scheme **(TW)**	*(item 7)*
	Andrew Goddard	Head of Payment Services **(AG)**	*(item 7)*
	Rob Houghton	Group Chief Information Officer **(RH)**	*(item 9)*
Apologies:	None		

ACTION

1. INTRODUCTION, CONFLICTS OF INTEREST, MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT

1.1 A quorum being present, the Chairman opened the meeting.

1.2 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.

1.3 Minutes of the meeting of the Board held on 23rd November 2017 were APPROVED and AUTHORISED for signature by the Chairman.

1.4 The actions status report was NOTED as accurate.

2. CEO's REPORT

2.1 The Board NOTED the CEO report. In response to questions, the CEO made the following additional points:

2.2 The CEO:

(a) noted the strong retail trading performance over Christmas, which would be covered in more detail in the report from the CE, Retail later in the meeting.

(b) IRRELEVANT

IRRELEVANT

(c) reported that the payroll module of Success Factors ("SF") had gone live on 8th January with only a minor issues, and congratulated Martin Kirke and his team for their work delivering to that timetable. Overall feedback has been positive.

(d) advised that she had met Stephen Jones, CEO UK Finance in December in relation to the Banking Framework. **A further update would be brought to the Board in May on the further development of the Banking Framework.** **DS/MK**

(e) IRRELEVANT

(f) noted that the L300 event was taking place the next day with three main areas of discussion around IT Strategy, wider digitisation and people change, with a focus on strategy and key priorities.

(g) informed the Board that due to Prime Minister's reshuffle, there is a new Postal Minister – Andrew Griffith MP. This is still to be confirmed officially and PV is still to meet him.

(h) reported that Martin Kirke, Group HR Director has announced his intention to retire later in the year and a search for his replacement has started. Debbie Smith joined as Chief Executive, Retail on 8th January.

The Chairman questioned whether Post Office would seek compensation from Gemalto in relation to the disruption to our AEI services in December. PV responded that contractual compensation had been discussed and that this had been reported at the ARC earlier in the day.

3. FINANCIAL PERFORMANCE REPORT

3.1 The CFOO presented the P9 financial performance report covering December 2017.

3.2 The Board NOTED the financial performance report and in discussion the CFOO made the following points:

(a) There had been strong Christmas trading however he noted that this only added an extra £600k to EBITDAS reinforcing that mails are a low margin business.

(b) EBITDAS for P9 was £6.8m, giving us a £1.7m upside against forecast, but £1.5m adverse to budget, driven by strong mails trading, interest rate rises supporting POCA performance and accelerated IT costs savings, offset by additional agents pay.

(c) Balance sheet headroom in P9 was £127m which was £129m worse than P8 due to Christmas trading, but £36m better than forecast.

(d) POMS trading performance was behind by £(0.5)m predominately due to profit share not being met.

(e) ATM performance is being watched as availability has fallen: 420 ATMs have been experiencing issues resulting in 65% availability. This is partly due to the introduction of new £10 notes. Both BoI and Post Office are reviewing performance and seeking to understand the impact of the new interchange fee structures. **AC noted that ATMs would be part of the cash strategy which would be coming to back to the Board in May. The Board requested that this review also consider whether there was value in talking to manufacturers, and review the location strategy.** **DS/ MK**

3.3 The CFOO noted that the Scorecard was showing positive outcomes (slide 3 in the Performance paper), and the following were discussed:

(a) Number of branches and 'trapped Postmasters' and **PV responded that this, together with the 'white space' strategy would be coming back to Board as part of the review of the retail strategy.** **DS**

(b) Branch technology conversions are progressing however there is a need to exit from BT and onto Verizon and this is affecting the shape of the delivery.

(c) Health & safety performance in Supply Chain was starting to cause concern. There are no significant trends or particular issues requiring specific intervention but rather a higher incidence of not taking care, especially on our premises. This will be addressed through activities seeking to engage peoples' hearts as well as their minds.

3.4 Other matters flagged by the P9 report included:

(a) Forecast EBITDAS for the year was still expected to be c£33 million, however there were a number of issues that would need to be managed to achieve this outcome.

(b) Project costs were much closer to forecast than they had been, apart from changes in the timing of DMB announcements.

(c) There is still ongoing work to reduce network cash levels back to the pre-Christmas levels, and branch cash are being managed more proactively.

KM queried the relationship between reductions in staff costs as franchising was rolled out, and increases in agents pay, and queried whether costs were reducing at the expected level? The CFOO noted that there were a number of factors affecting agents' pay including simplification and product mix. On staff and non staff costs, the next step change required the deployment of new technology and this could not be introduced scalably until the underlying systems programmes such as Back office Transformation are complete. He expected costs to be broadly flat in 2018/19, falling in 2019/20 and achieving more significant savings in 2020/21.

4. ANNUAL BUDGET 2018/19

4.1 The CFOO presented the Annual Budget for 2018/19 as set out in the paper which was NOTED by the Board. The CFOO highlighted the following:

4.2 (a) The focus of the paper was on EBITDAS. The GE had reviewed progress during December and January and detailed budget reviews would start the following week.

(b) The CFOO noted that in October, the Board had approved an EBITDAS target of £40m for 2018/19. The impact of accounting changes including the exclusion of the costs of the Group Litigation meant that £47m would be consistent with the 3 year plan and was recommended. This represented significant growth given that there was no profit share from the Bank of Ireland (c£11 million), a significant Ofcom pricing challenge (c.£15 million gross impact) and growth in marketing of c. £15m. The CFOO noted that the gap still to close against the 2018/19 target was £12 million.

(c) The Board discussed the EBITDAS target and indicated that £47m now felt conservative and the target should be at least £50m. It was noted that the FS&T revenue lines were disappointing. The CFOO noted that savings products were still being impacted by low interest rates, and POMS had been struggling due to changes within Post Office relating to the withdrawal of mortgage and financial specialists, and the delay in roll out of marketing plans, as a result of which the 'hockey stick' uptick had been delayed. The CEO noted that a new marketing director has been appointed for POMS which should start to see a difference and she noted the new advertising campaign which had just been launched.

(d) The Board commented that the portfolio should be reviewed to ensure that Post Office could compete effectively in the financial services market, and consideration should be given to focussing efforts in those areas where the Post Office brand would allow us to compete most effectively. The Board challenged whether the balance was right between short and longer term objectives, and whether management were sufficiently ambitious for the POMS business. **The CEO undertook to come back to the Board to update on the POMS acquisition strategy, and the Chairman noted it would be helpful to get some wider background briefings from insurance experts.** **PV**

(e) TP noted that he would like a target figure of at least £50 million for 2018/19, that the Board needed to understand how the growth fund would contribute to this, and there should be some contingency in the plans. He noted that he was encouraged by initiatives however those projects that underpin the plan – and deliver longer term benefits, will be key.

(f) The Board then discussed how other initiatives such as Panther, New Call acquisition and Identity would contribute to the overall strategy. **The CEO noted that the strategy for the retail business was being reviewed by the new Chief Executive, Retail who had only recently joined and would be covered at the Board away day in June, however an update would be provided at the March board.** **DS**

4.3 The CFOO noted that proposals would be brought to the Remco at its meeting the following week, for the STIP and LTIP measures. He noted that management's view was that the measures for the two incentive schemes should be different, and that following discussion at Remco, the recommended measures would be brought back to the Board in March. He noted that the GE had debated supplementing a retained EBITDAS with two critical pieces of delivery: (i) the replacement of legacy and outdated infrastructure including POLSAP, HRSAP and HNGX; and (ii) the delivery of customer hub functionality with products available for customers in Travel and Identity.

5. CE PERFORMANCE REPORT – RETAIL SBU

5.1 The Chairman welcomed Debbie Smith, the new Chief Executive, Retail and Cathy Mayor and the Board NOTED the paper.

5.2 DS noted that she had attended the recent opening of the first 24 hour branch in New Oxford Street.

5.3 CM reported on the following:

a) Christmas trading had been strong with increased customer sessions and trading as compared with the previous year, although these had come through later in the trading period, and reflected structural changes in the market.

b) Customer services levels had improved year on year, including customer effort scores and wait time acceptability. The no queues at Christmas initiative had brought wait times down by an average of 2 minutes, an improvement by 4%.

c) Mails performance was underpinned by continued growth in home shopping returns and local collect which help offset ongoing decline in stamps.

d) Overall, the trading trends are positive and the current forecast is that Retail will end the year £7m ahead of EBITDAS budget.

e) The Board brought up the discussion of Agents pay and it was agreed **DS would be looking into this and come back to the Board in June with a strategy.** **DS**

5.4 The Board NOTED that transaction simplification was a key enabler for much of the network and was materially important to the larger multiples. DS commented that being able to convince retailers of the footfall benefits that Post Office could deliver through the Banking Services Framework, click and collect, etc, was key to leveraging the Post Office brand. Further work remained to be done on quantifying the DPC of the various products – presently many of the central costs are not well understood and therefore are not taken into account which may mean that products look more profitable than they actually are.

6. DMB STRATEGY

6.1 The Chairman welcomed Julie Thomas and Martin Kirke to the meeting.

6.2 The following points were highlighted to the Board:

a) DS introduced the paper and noted that it was clear that DMB's are not meeting customers' needs due to the restrictions on opening hours, and are not profitable due in part to the significant central costs required to support them. Work is ongoing to consider options to reduce costs including property options, reviewing employment terms. franchising options etc; nevertheless exiting DMBs becomes progressively more expensive due to the related central costs.

b) JT reported that the proposed revised franchising programme has been designed to enable the franchise of all 227 DMB's and staff over a three year period, however at this point approval was only being sought for the first phase of the roll out. JT explained the model worked in two stages: (i) temporary operators would be approached to operate a franchised DMB in the same premises, with flexible lease terms. This should enable immediate staff cost savings while the recruitment of the long-term operator and branch location is progressed in parallel.

c) While there are currently 3 well established organisations who each can manage approximately 30 branches on a temporary basis at any time, it is proposed that a compliant procurement process should be undertaken for operators of temporary branches across the network. The proposition should be attractive for temporary operators as it is low risk and involves minimal investment.

d) The Chairman queried the impact on employees and whether union consultation would be required? JT noted that under the current structures, it can take up to six months to complete a franchise and that employees are often keen to leave but are prevented from doing so because of the local consultation processes. She advised that the plan was to start the staff consultation process by telling staff about new Branches being advertised in the area and the strategy of replacement of DMB's over the next three years.

e) The Board queried the impact of the proposal on the underlying costs of the business and JT replied that the benefits step down over time as set out in the table on page 5 of the paper.

The Board was supportive in principal of the revised strategy however approval was only sought for a one year roll out following which the strategy would be re-assessed. **APPROVAL** was given on this basis including drawdown of the first year of funding of £23.1m for 2018/19 which would allow the roll out of the Franchise Programme to 56 branches.

7. PROJECT PANTHER

7.1 The Chairman welcomed Tom Wechsler and Andrew Goddard to the meeting.

7.2 DS summarised the benefits of Project Panther and TW and AG took the Board through the progress of negotiations to date. The Board raised a number of questions about Payzone and the proposed transaction, and in the course of addressing those questions the following points were made:

a) the biggest hurdle would be CMA approval as the effect of the transaction would be to reduce the market to 2 participants and to increase Post Office's market share. Additionally Paypoint would be incentivised to challenge the transaction. The deal team were working with legal advisers to prepare for these issues.

b) Significant due diligence had been undertaken on the Payzone technology and added security costs on implementation had been factored into the business case. There was also potential value add from their technology and an opportunity cost on building on their technology.

c) State Aid challenges had been considered, however analysis confirms that there are sufficient financial resources independent of State funding that should enable any challenge to be successfully rejected.

d) Significant additional value to Post Office has been identified resulting from the transaction – included avoided cost, which would provide 'upside' over and above the actual assets being acquired, and this supports management's valuation of the business.

e) The model assumed a 12% cost of capital and a 3 year RoI which were the standard Post Office investment metrics.

7.3 The Board discussed the implications of the proposed transaction and were in agreement that this was a good opportunity for Post Office and that management should be authorised to proceed to the next stage including entry into non-binding Heads of Terms. **Management were however requested to review the language in the Heads of Terms regarding conditions to the CMA clearance.** **TW/ AG**

It was proposed that a further update on progress should be provided to the Board later in February which would, seek to confirm the valuation, satisfy outstanding questions and recommend that we proceed to signing Heads of Terms. This could be supported by a Board call if considered appropriate.

7.4 It was **RESOLVED** that the Board authorised management to progress Project Panther in line with recommendations set out in the Board paper. It was further agreed that once valuation had been confirmed and outstanding questions resolved then a further Board meeting be called in February to sign Heads of Terms.

8. EUM

8.1 The Chairman welcomed Julie Thomas back to the meeting to present the business case for EUM paper.

8.2 Debbie Smith introduced the paper which was noted by the Board.

a) JT explained that since the Board approved the initial EUM business case of £7.8m in January 2017, it had become clear that a key design assumption that all training could be delivered through Success Factors could not be delivered and the current Horizon system does not support web-enabled training.

b) This updated Business Case requests £2.53m of additional funding to deliver: new IT developments needed to ensure EUM will work for agents using the current Horizon system.

c) Approval of funding will allow the programme to rollout to the entire network of c11,600 branches by November 2018 with a workable design, allowing us to be fully compliant with all relevant sales-related regulation and contractual requirements.

d) To the extent possible, EUM had been designed to ensure compatibility with HNGT.

e) Data collection regarding postmasters and their assistants was taking longer than expected, however those branches which were critical for POMS sales were being prioritised and it was still expected that the target of July 2018 which POMS were relying on, would be achieved.

8.3 The Board noted their concerns over the delay in the roll out of this programme, and queried what could be done to accelerate delivery to ensure delivery for POMS by the July target date? The Board also commented that management needed to review the project and understand what could have been done differently.

8.4 It was **RESOLVED** to approve the revised scope and business case including the further funding of £2.53m, including an immediate draw down of £1.3m. The Drawdown of the balance £1.23m in due course should be brought to the Investment Committee.

9. BACK OFFICE TRANSFORMATION

9.1 The Chairman welcomed Rob Houghton to the meeting and the CFOO presented the replacement Back Office Transformation business case.

9.2 a) The CFOO gave an update on the progress of Back Office Transformation since the last update in September and explained the proposed changes to the Business Case with a request for a further drawdown of funds that will allow the programme to complete Phase 1.

b) Phase 1 remains focused on ensuring we exit from POLSAP by June 2018, delivering as much transformation as possible. In the next 2 months deliveries include: Agent Remuneration process transformation & data migration from HRSAP to CFS, and Cash Processing functionality migrated from POLSAP to Transtrack for Belfast cash centre (soft launch).

c) It was noted that while costs have increased slightly by £0.3m to an expected total of £21.2 million, the annualised IT benefits have reduced by £0.8m to £3.1m as set out in the Board paper

d) RH noted that Credence had now transitioned and that this creates further capacity in the Fujitsu environment, which of itself, decreases the risk.

9.3 The Board queried whether the CIO had now addressed the resourcing challenges in his team, and whether he was confident in the capability and capacity of that team to deliver the necessary changes required? RH advised that the Chief technology Officer had been the last key role to fill however there now remained a challenge to recruit the necessary IT architecture skills, although this was underway, with a much better operational team in house now in place.

9.4 It was **RESOLVED** that the Board approve the revised business case and additional £5m drawdown of budgeted spend to enable the completion of Phase 1, noting the reduction in IT cost benefits.

10. BOARD COMMITTEE CHAIR UPDATES (VERBAL)

10.1 ARC

CS as Chair of the ARC noted that all directors other than VH had attended the ARC which had been held that morning, and accordingly agreed to provide a separate brief to VH.

11. ITEMS FOR NOTING

11.1 Sealings

It was RESOLVED that the affixing of the Common Seal of the Company to documents numbered 1604 to 1636 inclusive in the seal register was confirmed.

Irrelevant

11.3 **Conflicts of Interest**

The Board NOTED that the Company secretary would circulate details currently held about other directorships and conflicts and that these would be updated and presented to the March board. **JM**

11.4 **Meeting Dates and Forwards Agenda**

The Board NOTED the future meeting dates and January's agenda.

Irrelevant

12.2 **IT WAS RESOLVED THAT**:

POL00021553

1) The terms of and the entry by the Company into the Amended and Restated Facilities Agreement with RBS and Nat West ('ARA') and the other 2018 Ring-fencing Documents, and all other documents which are required to be entered into by the Company from time to time in connection with or pursuant to any of the foregoing (the "Ancillary Documents"), be and are hereby approved;

2) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to agree such amendments (whether additions, deletions or other changes) to the ARA and the other Ring-fencing Documents and the Ancillary Documents as they shall deem appropriate subject to them being satisfied that the credit standing of any new legal entity counterparty is equal to or better than the existing legal entity (and whether such amendments are agreed before such documents have been entered into or are agreed after such documents have been entered into and are effected by entering into new documents or otherwise);

3) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to execute and enter into (and in the case of any deed, to execute and deliver) the ARA and the other Ring-fencing Documents and the Ancillary Documents (including any and all amendments as detailed in the preceding paragraph);

4) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to do all such acts and things as may be required in connection with the ARA and the other Ring-fencing Documents and the Ancillary Documents (and any such amendments thereto) and to carry into effect the purposes of the resolutions passed at this meeting, and to give or execute any notices, communications and other documents on behalf of the Company in connection therewith;

5) The CEO or CFOO be and is hereby authorised for and on behalf of the Company and in its name to approve and execute other documentation with any other UK regulated bank which is of a similar nature and has a similar effect as the ARA and the other Ring-fencing Documents and the Ancillary Documents, and to which the Company and such other UK regulated bank (being one of the Company's bankers) is a party subject to the CFOO being satisfied that the credit standing of any new legal entity counterparty is equal to or better than the existing legal entity, and the terms of these resolutions shall be deemed to apply equally to such other documentation as if passed specifically in respect of thereof.

12.3 **Postmaster Litigation Update**

JM provided the Board with a verbal update on the Postmaster Litigation noting that there was a procedural hearing scheduled for Friday 2 February. At that hearing the Court would be requested to determine the scope of disclosure required to be given by Post Office to support the trial in November 2018.

The Board NOTED the update and RESOLVED to establish a sub-committee for the purposes of monitoring the development in and strategy for the litigation. The members of that sub-committee would be the Chairman, Ken McCall and Tom Cooper (once appointed as a director). **JM was requested to provide the committee members with details of the key dates mandated by the Court so that appropriate time could be scheduled for the sub-committee to be briefed.** JM

12.4 There being no further business the Chairman declared the meeting closed at 16:00pm.

GRO

Chairman

27/3/14

Date