

**In Strictest Confidence**

CB(01)3rd  
CB01/28 to 41

**CONSIGNIA plc**

(company no. 4138203)

**Minutes of the meeting of the Board of Directors**  
**held at the Consignia Technology Centre, Swindon**  
**on 12 June 2001**

**Present:**

Neville Bain	Chairman
John Roberts	Chief Executive
Marisa Cassoni	Group Finance Director
Jerry Cope	Group Managing Director, Strategy & Business Development
Mike Kinski	Non-Executive Director
Allan Leighton	Non-Executive Director
Miles Templeman	Non-Executive Director
Rosemary Thorne	Non-Executive Director

**In attendance:**

Richard Dykes	Group Managing Director, Mails Services
Stuart Sweetman	Group Managing Director, Customer and Banking Services
Kevin Williams	Group Managing Director, Distribution Services
Jonathan Evans	Company Secretary
Anna Malley	Notes

**Also present:**

Roger Tabor	Strategic Information Director, Group Centre for CB01/33
Ian Swann	Public Sector Director, SAP UK, for CB01/33
Colin Burnside	Commercial Director, SAP UK, for CB01/33
Paul Bateson	Managing Director, Logistics and Contract Distribution, for CB01/34
Sue Huggins	Transition Director, Group Centre, for CB01/35

**Apologies:**

John Lloyd, non-executive director, was unable to attend.

CB01/28

**MINUTES OF PREVIOUS MEETING CB(01)2<sup>nd</sup>**

The Board approved the minutes of its 9 May 2001 meeting.

**Irrelevant**

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# Irrelevant

CB01/30

## CHAIRMAN'S BUSINESS

- (a) The Chairman reported the appointment of Patricia Hewitt as the new Secretary of State for Trade & Industry, and the retention of Alan Johnson within the DTI, as Minister for Employment Relations and the Regions. *(Secretary's note: it was subsequently announced by the Government that the DTI Minister with responsibility for postal services would be Douglas Alexander MP.)* The Chairman intended to seek an early meeting with the Secretary of State and the Minister to discuss a range of issues faced by Consignia, including Project Olympus, pursuing commercial freedom, contracts and remuneration;

**ACTION:**  
**The Secretary**

- (b) the Chairman intended to instigate the annual review of the performance and effectiveness of the Board, the results of which would be discussed at the July Awayday;
- (c) the Chairman raised the Board's role given the current difficult and unprecedented circumstances that Consignia was facing, and whether any change in decision making would add to the Board's effectiveness. The Business was making operational losses, sustaining negative cash flow in an uncertain and hostile regulatory regime, where the industrial relations climate had worsened and where significant change must take place;
- (d) it was also noted that achievement of the £63m tariff increase was a serious risk in the current year and that major change programmes were taking a substantial amount of management resource. These were seen as very challenging circumstances and the question the Chairman raised was "does this merit a different approach to the business, compared to that envisaged in the Plan";
- (e) it was noted that the Business had a strategic plan and agreed targets, yet the risk profile was very high for a business that was not making operational profits or generating cash. After discussion the Board agreed to ask the Executive to consider this, and what steps could be taken to reduce the risk profile and in particular to review major projects that could possibly be halted without unduly damaging the Business. It was agreed that this would be addressed at the July Awayday. The Group Finance Director agreed to prepare a schedule of the current major projects and the extent to which it may be possible to reduce expenditure without unduly restricting the

**ACTION:**  
**Marisa Cassoni**

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ability of the Business to achieve its strategic ambitions. A schedule of the current major projects would be produced, identifying:-

- i) their purpose;
- ii) the total investment funding required for each project, and the amount remaining to be spent;
- iii) the external resource being used;
- iv) strategic consequences of delay or termination;
- v) exit costs associated with termination.

**CB01/31**

**CHIEF EXECUTIVE'S REPORT CB(01)19**

**Irrelevant**

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# Irrelevant

- (h) Horizon: the Board also expressed its congratulations and thanks to the team working on the Horizon programme, on the successful completion of the installation of over 40,000 machines and training of over 60,000 people in Post Office Network;

# Irrelevant

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# Irrelevant

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# Irrelevant

CB01/32

## FINANCIAL OVERVIEW

The Board noted a presentation from Marisa Cassoni, in particular that:

- (a) before interest, tax and pension credit, the underlying performance of the business was loss making, and the trend was worsening. The benefit of the pensions credit would be offset in 2003/4 by increased charges when FRS 17 became mandatory;
- (b) cash generated from operations was insufficient to fund capital expenditure, with funding from the National Loans Fund required for acquisitions activity. As a result the gearing of the balance sheet had increased to 16%;
- (c) all Business Unit Managing Directors had signed up to their budgets for 2001/02, although there remained some minor discrepancies in unit cash flows and balance sheets;
- (d) profit after tax of £5.9m in the month was £6.3m below target. Results for May were expected to show a further variance from target due to the impact of significant industrial action in the month. The Executive Board was looking at options to hold back expenditure in the early months of the year to bring performance back on target and to provide a contingency against shortfalls in the latter months of the year which have more stretching profit targets. The full year profit forecast remained as budget, at £181m;
- (e) the net risk position for the business was £61m. The majority of the risks sat within the Mails cluster of business units;
- (f) the Board agreed that financial performance reporting to DTI should now be provided via the "Quarterly Shareholders Meetings", rather than on a monthly basis to reflect the move to a more arms length relationship with the Shareholder.

**ACTION:**  
**Marisa Cassoni**

# Irrelevant

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# Irrelevant

CB01/35

**BOUNDARY AND SCOPE DECISIONS IN THE CONTEXT  
OF CREATING POST OFFICE LTD CB(01)20**

- (a) The Board noted Stuart Sweetman's paper, which identified the outstanding issues of boundary and scope related to the creation of Post Office Ltd under partial and total separation, along with the high level implications for Consignia and Post Office Ltd associated with each scenario;



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- (b) the Board recognised that final decisions on total separation could not be taken until the precise purpose of total separation, and associated valuation issues, were known; therefore at this stage any decisions would be limited to being “in principle”. Within that context, the Board:
- (c) ratified the recommendations contained in Annex A of the paper;
- (d) agreed that only minor changes would need to be made to property ownership given existing responsibilities to reflect the principle that ownership of a property should be vested with the prime user of the site;
- (e) agreed that ownership of Camelot shareholding should remain with Consignia under partial separation;
- (f) agreed that control of Cash Handling & Distribution should transfer to Post Office Ltd under partial separation;
- (g) agreed that responsibility for the development of web sites, including that for Post Office Ltd, should continue to reside with the e-enterprise unit in Consignia within an overarching Group strategy. However the strategy should be geared as much as possible to accommodate the possible full separation of Post Office Ltd, by looking to minimise the future difficulties for Post Office Ltd to develop e-commerce capabilities on its own. Further detailed work on options in this area would need to be done prior to taking a final decision;
- (h) noted that the approach taken to the four outstanding issues would need to be agreed with the Shareholder for both partial and total separation.

**Irrelevant**



# Irrelevant

CB01/37

## AUDIT COMMITTEE REPORT CB(01)22x

The Board:-

- (a) noted the contents of the Audit Committee Report;
- (b) requested circulation of the minutes of Audit Committee to all Directors;
- (c) thanked Marisa Cassoni and the finance teams for their work on the preparation of the accounts.

**ACTION:**  
**The Secretary**

# Irrelevant

CB01/39

## ADOPTION OF THE NEW COMPANY SEAL CB(01)24x

The Board endorsed the recommendations set out in the paper.

CB01/40

## ANY OTHER BUSINESS

The Board wished to thank Paul Bateson and his team for accommodating the Consignia Board and for hosting the tour of the Logistics warehousing and order processing facilities.

CB01/41

## DATE OF NEXT MEETING

9/10 July 2001