

In Strictest Confidence

**POLB(02)4th
POLB02/13 to 29**

Post Office Limited

(company no. 2154540)

**Minutes of the meeting of the Board of Directors
held at Gavrelle House, London
on 26th September 2002**

Present:

Allan Leighton
David Mills
Peter Corbett
Alan Barrie
John Main
Gordon Steele

Chairman
Chief Executive
Finance Director
Director Change & IS
Director Human Resources
Director Customer Services

In attendance:

Graham Halliday
Richard Barker
Jonathan Evans
Anna Malley

EC Director Banking & Innovations
General Manager, Commercial Branches
Company Secretary
Notes

Others attending:

Mike Wells
Keith Baines

IS Director, for POLB02/17
IS Service Manager, for POLB02/17

Apologies:

David Miller, Chief Operating Officer

POLB02/13

MINUTES OF PREVIOUS MEETING

The Board approved the minutes of the meeting of 25th July 2002.

POLB02/14

STATUS REPORT

The status report was noted. The Board noted further:

Irrelevant

- (c) the Consignia Board had not provided the Post Office Limited Board with any delegated authority over and above that

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granted to the Chief Executive. The Board questioned this approach, and would keep the matter under review pending further clarification of its powers following the restructuring of the Consignia group. The Secretary noted that the Memorandum and Articles of the Company were being revised as part of this restructuring, and these would be tabled before the Board and at an Extraordinary General Meeting of the Company in due course.

POLB02/15**CHAIRMAN'S BUSINESS**

The Chairman reported the following matters to the Board:

- (a) interviews had taken place with several candidates for the position of Post Office Limited Chairman, and for Non Executive Directors of Consignia. Consideration was also being given to the appointment of a Non Executive Director on to the Board of Post Office Limited. It was anticipated that announcements would be made in the next few weeks;
- (b) discussions with Government on funding were ongoing. Pending the outcome of these discussions, the Board noted that the Directors of Consignia plc at their September meeting had reviewed their funding position and had considered their company to be a going concern. Accordingly, the letter of support from Consignia plc to Post Office Limited currently continued to give sufficient comfort to satisfy the Board that Post Office Limited was a going concern at this point in time;
- (c) a strategic plan for the Royal Mail business was due to be produced in the next few weeks. It was anticipated that this plan may worsen the financial projections compared with the mails elements in the Consignia renewal plan, due to slippage in major programmes. It was noted that the revised Post Office Limited plan had a requirement for increased funding compared with the previous assumptions;
- (d) the Chairman had met the General Secretary of the National Federation of Sub-Postmasters, who had set out his aspirations for clarity with regard to the ongoing pay structure for sub-postmasters. The Chairman and the Chief Executive had agreed to conduct a special review into sub-postmasters' pay arrangements.

POLB02/16**CHIEF EXECUTIVE'S REPORT**

The Board noted in discussion that:

- (a) Strategic Plan: the Strategic Plan had been submitted to Government, who had now requested various supporting information to assist them in their review of the plan;

Irrelevant

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Irrelevant

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FUJITSU SERVICES RECOMMENDATION

The Board noted Alan Barrie's presentation, which provided an update on the renegotiation of the current Horizon contract with Fujitsu. The Board:

- (a) noted that a significantly improved offer had been negotiated, which would enable the IT costs for 2002/3 to be achieved and those planned for 2003/4 and later to be extended. The revised arrangements would reconfigure the system so that it more closely represented the needs of the business, and the simplification of the systems architecture was a key driver of the reduced cost. The IT costs associated with the deployment of debit cards would now be handled by Fujitsu - free of charge;
- (b) agreed that a deal should be concluded with Fujitsu based on the proposal in front of the Board, with a view introducing a revised contract by the end of December;
- (c) thanked Alan Barrie and his team for their efforts throughout a difficult set of negotiations.

POLB02/18

BUSINESS PROPOSITION

The Board noted Gordon Steele's presentation, which set out a

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recommended business proposition for the Company. The Board:

ACTION:
Gordon Steele

- (a) supported the general direction of the business proposition of 'simple ways through important matters', but identified a number of areas where further work was required. There was some lack of clarity about the purpose of the slogan representing the proposition, and for whom it was intended. A more customer friendly way of expressing the proposition was required, and the source of competitive advantage for the Post Office needed to be better defined. The proposition would need to be reflected in the business plan and decisions would need to be taken on what current activities would fall outside of the proposition, and therefore be stopped;
- (b) noted the importance of the internal communications on the proposition, given that the experience of sub-postmasters was often one of managing complexity. The Chairman did not want the proposition to become a mantra: it should instead unify why people shop with, or work for, the company;
- (c) noted the intention to use external consultants in the change process. Some Directors registered scepticism that the consultants would add value commensurate with their cost.

POLB02/19

INTERNAL COMMUNICATIONS FEEDBACK

The Board noted Gordon Steele's paper, which provided information on the outputs of focus groups conducted during August, and a summary of the issues raised during the Head Office open forum in September. The Board noted further:

- (a) a generic theme from the feedback was a desire for more information by our people, particularly in relation to changes in the operation;
- (b) the feedback should be used to support further work on the business proposition.

POLB02/20

CHRISTMAS AND NEW YEAR ARRANGEMENTS

The Board noted Richard Barker's report, which recommended arrangements for balancing and opening hours for Christmas and New Year. The Board:

- (a) agreed the proposal that branches closed at 12.30 on 24 December 2002, and 16.00 on 31 December 2002, with balancing to take place on 27 December 2002 and 3 January 2003;
- (b) noted that the closing arrangements were based on historical practice, rather than best practice of competitors. The Board agreed that the communication advising of the closing times

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ACTION:
Richard Barker/
John Main

should make it clear that offices would be expected to stay open where there was demand, and that in future years the company would look to replicate the closing arrangements of banks or other local retail businesses at Christmas.

POLB02/21

FINANCE FUNCTIONAL REPORT

The Board noted Peter Corbett's report. The Board noted further:

- (a) the year to date loss of £93m was better than budget by £5m. The budget in the second half of the year would be more of a challenge to meet;
- (b) debate was ongoing with Consignia over the cash flows in the POL strategic plan, which were worse than contained in the POL element of the renewal plan. This was not a entirely due to increased discretionary expenditure, as had been reported elsewhere, but the result of a more realistic approach to revenue projections and efficiency savings ;
- (c) consideration was being given to the acceleration of a proposed move from Day A to Day B funding relationship with Girobank, which would improve cash flows;

Irrelevant

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Irrelevant

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Irrelevant

POLB02/28

REGISTERED OFFICE OF POST OFFICE LIMITED

The Board agreed that the Registered Office of Post Office Limited be changed to 80-86 Old Street, London, EC1V 9NN.

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DATE OF NEXT BOARD MEETING

14 November 2002 at 80-86 Old Street, London.

Allan Leighton