

In Strictest Confidence

**POLB(03)6th
POLB03/57 to 78**

Post Office Ltd

(company no. 2154540)

**Minutes of the meeting of the Board of Directors
held at 80-86 Old Street, London
on 20th August 2003**

Present:

Sir Michael Hodgkinson	Non-Executive Chairman
David Mills	Chief Executive
Ian Anderson	Human Resources Director
Alan Barrie	IT Director
Graham Halliday	Banking & Financial Services Director
Allan Leighton	Chairman, Royal Mail Holdings
David Miller	Chief Operating Officer
Gordon Steele	Sales & Marketing Director

In attendance:

Steve Pollock	Government Relationship Manager
Tony Marsh	Head of Security
Peter Martin	Mergers & Acquisitions Project Director, Royal Mail Group
Vince Mulholland	Head of Financial Management and Control
Ian O'Driscoll	Commercial Director
Neil Owen	Notes

Apologies

Peter Corbett	Finance Director
Jonathan Evans	Company Secretary
Elmar Toime	Executive Deputy Chairman, Royal Mail Holdings

POLB03/57

MINUTES OF PREVIOUS MEETING POLB(03)4th and 5th

The Board approved the minutes of the Board meetings of 19th June 2003 and July 1st 2003.

POLB03/58

APPOINTMENT OF DIRECTOR POLB(03)50a

The Board noted the paper and accordingly resolved to appoint Graham Halliday as Director of the Company with immediate effect. The Company Secretary was duly authorised to file the appropriate forms at Companies House.

POLB03/59

STATUS REPORT POLB(03)50

The status report was noted.

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POLB03/60

CHAIRMAN'S BUSINESS

Irrelevant

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POLB03/61

CHIEF EXECUTIVE'S REPORT

Irrelevant

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Irrelevant

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Irrelevant

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Irrelevant

POLB03/69

**DELIVERING SECURITY STANDARDS IN THE AGENCY
BRANCH NETWORK – STRATEGIC CHOICES POLB(03)57**

Tony Marsh presented the security paper to the Board, on behalf of David Miller. The Board noted that:

- (a) the current and historical position with regard to security equipment provision and investment in sub-offices;
- (b) the potential financial and reputation and personnel impacts of failing to raise standards;
- (c) further to police guidelines issued in 2001, no police call-outs would be made to a Post Office unless it met the prescribed police standards. Currently the police were failing respond to the majority of Post Office call-outs because of a failure to comply with these standards;
- (d) current spend on security was £3.5m per annum. The paper sought an additional £5.2m per annum over 4 years to provide the necessary security upgrades;
- (e) Banks and Building Societies had invested heavily in additional security measures. The risk existed that increasing numbers of Post Offices would be attacked because they would be seen as 'softer' targets by criminals. Furthermore, Network Reinvention would result in additional cash volumes being

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dealt with at Post Offices that remained in the network;

The Board agreed in principal to the suggested security strategy.

However, the Board considered that a further Paper should be submitted to outline in detail the security measures that would be purchased with

- (i) the £3.5m of budgeted security spend in each of the four years (in the current business plan);
- (ii) the additional 1.7m of requested security expenditure in each of the four years.

The Board would consider approval of the spend once a revised paper had been submitted.

Irrelevant

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POLB03/71

RURAL STRATEGY

David Miller presented an update of Rural Strategy to the Board. The Board noted that:

- (a) £150m of funding had been secured up until 2006;
- (b) should the government choose not to commit to a similar level of funding after 2006, approximately 6000 of the 8500 rural outlets would be closed;
- (c) with 2500 rural branches, this would meet Royal Mail's access obligations of 95% and 65% of the rural base;
- (d) it would be politically unthinkable to close 6000 rural offices;
- (e) work was currently underway to establish the options beyond 2006. In order to get into appropriate government thinking, this would need to be done quickly. The various draft options were currently being cleared through the DTI;
- (f) part of the funding included £20m to run trials of the new rural models over the next couple of years

Action:
David Miller

The Board agreed that a Paper would be written to detail how the Network might look post 2006.

POLB03/72

FINANCE REPORT POLB(03)58

The Board noted Peter Corbett's report and in addition noted that:

- (a) the Year to Date Profit and Loss performance is £11m better than budget, although the underlying business as usual figures are relatively flat. The better performance is due to the timing of strategic spend and to favourable interests costs.;
- (b) The top three in year risks include Industrial Action, the Girobank contract renewal and the migration to banking.;
- (c) The opportunity to avoid/delay the arrangement fee on the DTI working capital loan is to be investigated;
- (d) A profit management assessment is to be undertaken in the event that Industrial Action becomes a reality. Risks and opportunities would form part of the agenda for the next Board meeting.

Action:
Peter Corbett

Action:
Peter Corbett

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POLB03/73

OPERATIONS REPORT POLB(03)59

The Board noted the report. In addition the Board noted that:

- (a) Network Reinvention: the business case for accelerating the closure programme would be completed shortly. The aim would be to close 1000 offices this year and 1600-1700 next year. A need existed to ensure Postwatch were on side, and a lunch appointment had been arranged for the end of September between David Mills, David Miller and the Chairman of Postwatch Peter Carr;
- (b) Changes to Pay: the sub-postmasters' bonus would be based on increased profit. However, the NFSP had indicated that no changes to pay would be agreed unless there no sub-postmaster was worse off. The estimated cost to the business would be £8m. Details of the new arrangement would be completed by the end of November 2003 for implementation by April 2004. A Paper would be produced for the next Board meeting.

Action:
David Miller

POLB03/74

SALES & MARKETING REPORT POLB(03)60

The Board noted the report.

Action:
Gordon Steele

- (a) Gordon Steele would collect feedback from managers concerning products that were easy to sell.

POLB03/75

BANKING & FINANCIAL SERVICES POLB(03)61

The Board noted the report. In addition the Board noted that:

Action:
Sir Mike
Hodgkinson

- (a) Error Reports: Progress has been made in reducing the number of error reports. The figure now stood at 13%. The Chairman would discuss with the Head of Compliance at Citibank the need to relax internal rules to help the error rate to drop further.

POLB03/75

INFORMATION TECHNOLOGY POLB(03)62

The Board noted the report. In addition the Board noted that:

- (a) Alan Barrie would now maintain a watching brief over the Banking programme. The focus of his work would now move into the EMV & Chip programme.
- (b) The number of consultants had been reduced to 6:1 from a previous figure of 1:1. Work continued to achieve the target of 10:1.

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Irrelevant

CLOSE

There being no further business, the meeting was closed.