

In Strictest Confidence

POLB05(7<sup>TH</sup>)  
POLB 05/116 – 05/147

**Post Office Limited**

(company no. 2154540)

**Minutes of the meeting of the Board**  
**held at Bank of Ireland, Dublin**  
**on December 14<sup>th</sup> 2005**

**Present:**

Sir Michael Hodgkinson	Non-executive Chairman
David Mills	Chief Executive
Ian Anderson	Human Resources Director
Alan Cook	Non-Executive Director
Peter Corbett	Finance Director
Ric Francis	Operations Director
Brian Goggin	Non-Executive Director
Graham Halliday	Banking & Financial Services Director
David Miller	Chief Operating Officer
Gordon Steele	Marketing & Direct Sales Director

**In attendance:**

Neil Owen                      Notes

**Apologies:**

Jonathan Evans	Company Secretary
Allan Leighton	Chairman, Royal Mail Holdings

**POLB05/116      MINUTES OF PREVIOUS MEETINGS POLB(05)6<sup>TH</sup>**

- (a)      The Board approved the minutes of the Board meetings of 19<sup>th</sup> October 2005.

**POLB05/117      STATUS REPORT POLB(05)95**

- (a)      The Board noted the report, and all actions were completed.

**POLB05/118      CHAIRMAN'S BUSINESS – POLB(05)96**

- (a)      Mike Hodgkinson explained that a number of critical issues would have to be considered at the board meeting in relation to Card Account and the effect on the Royal Mail funding issue. The five year plan currently assumed that DWP income from card account would decrease, but at a manageable rate. However, subsequent discussions with Government (through DWP) had made it clear that their intention would now be to manage down the Post Office® card account customer base

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with a target of zero by 2010. As a consequence a £100m worsening in POL profit would result in year 5;

- (b) furthermore, if the DWP went ahead with their plans to manage down Card Account, this would have very serious implications for the rural and social areas of the network. Current understanding was that the Government were moving to firm up their plans for the way ahead, and it was therefore critical that Post Office Ltd moved quickly to highlight the implications to both Royal Mail Group and Government;
- (c) Mike Hodgkinson also asked the Board to have in mind the 3 fundamental roles of the Post Office network, which were to
  - (i) provide a postal front-end for Royal Mail Group products;
  - (ii) distribute Government products at the physical 'face-to-face' end;
  - (iii) sell commercial products.
- (d) the Board should also have in mind the current macro economic background of the retail sector in their discussion. UK consumers were increasingly turning to the internet to buy consumer goods, and many large retailers were now having to reconsider whether the balance they had struck between 'bricks and clicks' was appropriate;
- (e) The agenda items discussed at the Board meeting would need to be considered against the conceptual framework outlined above.

**POLB05/119****CHIEF EXECUTIVE'S BUSINESS – POLB(05)97**

- (a) David Mills reported the following matters to the Board:
- (b) Japan Post: Adam Crozier and David Mills had met the Chief Executive of Japan Post, Mr Ikuta, who had expressed an interest in entering into a Joint Venture with a European partner. The Japan Post Investment Bank was an huge player in the Financial Services markets, and it therefore offered interesting potential. If Royal Mail Group could strike a deal, there was an opportunity for this potential to be realised. Graham Halliday commented that Post Office Ltd's relationship with Japan Post had historically been positive. The Board agreed that Brian Goggin would investigate the options;
- (c) Financial Inclusion: The Treasury Select Committee had announced an enquiry on Financial Inclusion. In our submission to the Inquiry, Post Office Ltd would raise the issue of LINK membership and Card Account.

**Action:**  
**Brian Goggin**

The Board agreed that:

- (i) a letter would be send to Mark Higson at the DTI (copied

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Peter Corbett

to Geoffrey Norris, James Sassoon and the Office of the Deputy Prime Minister) to outline both the macro issues and the specific issues.

Action:

Graham

Halliday

Action:

Neil Owen

Action:

Peter Corbett

Action:

David Miller

- (ii) The DWP would be asked to confirm their position in writing;
- (iii) an additional Board meeting would take place in January to replace the EC meeting, to consider progress in this area;
- (iv) Peter Corbett would write a paper for the 10<sup>th</sup> January Royal Mail Holdings Board to highlight the issues involved;
- (v) David Miller would seek assistance from the PR team at Royal Mail Group to consider the implications.

- (d) Car Tax Renewal: Gordon Steele also reported that the DVLA intended to launch an online car tax renewal service. As a result, it had been estimated that renewal volumes at Post Offices would drop by between 40% and 60%.
- (e) Camelot Board: As a result of David Mills leaving the business, a replacement would be required to sit on the Camelot Board;

POLB05/120

PR REPORT POLB(05)98

- (a) The Board noted the report.

POLB05/121

BUSINESS &amp; SALES PERFORMANCE POLB(05)99

# Irrelevant

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(f)

(g)

(h)

Action:  
Gordon Steele

(i)

Action:  
David Miller

(j)

# Irrelevant



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Mail Letter operations.

POLB05/122

STRATEGIC PLAN POLB(05)100

(a)

(b)

(c)

(d)

(e)

(f)

(g)

(h)

(i)

(j)

**Irrelevant**

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(k)

(l)

(m)

(n)

(o)

# Irrelevant

**POLB05/123 SOLVENCY POLB(05)100**

- (a) Peter Corbett reported that the key issues in relation to solvency continued to be to ensure:
  - (i) profit and cashflow were at least in line with budget;
  - (ii) the 'route map process' proceeded in line with the agreed timetable.
- (b) Post Office Ltd continued modestly to exceed its profit target and more clearly to exceed its cash target;
- (c) sustained solvency would be dependent on a refinancing agreement being reached, as set out in the interim funding agreement signed at the previous year end;
- (d) the key focus for the plan would be to deliver a sustainable commercial business by Year 5 (2010/11), and included:
  - (i) a PBIT of over £50m;
  - (ii) cashflow positive;

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- (iii) commercial ROCE or commercial segment;
  - (iv) social segment being funded to profit and cash neutral by a Social Network Payment contract for services;
  - (v) breakeven in the Directly Managed Branches and Urban Deprived segments.
- (e) the latest version of the plan incorporated feedback from the Group Chief Executive, and had been reviewed in outline by the Royal Mail Holdings Board. An updated plan would be presented to the Royal Mail Holdings Board on 10<sup>th</sup> January;
- (f) a revised timetable had been agreed for the overall Group plan, including the Post Office Ltd Plan, which targeted the end of February for agreement on all the key points to allow funding documentation to be concluded by the year end. The key points were as follows:
- (i) a Social Network Payment in the form of a contract for services would be essential – value £100m p.a. from April 2008 under the "Natural Attrition" scenario;
  - (ii) further funding of £300m would be required. This was currently the subject of detailed discussions with the Shareholder Executive;
  - (iii) the key outstanding risk was the future of the Card Account post 2010 and the £100m per annum risk this represented. Mitigating actions were being worked up, but in the worst case significant network closures would be inevitable.
- (g) subject to the satisfactory conclusion of the above, the Board agreed that Post Office Ltd continued to be solvent.
- (h) a further key issue was that state aid clearance for the SNP extension from 2006-08 had not yet been obtained. This would need to be delivered within the same timescales;
- (i) without a funding solution the company will have less than 12 months funding in April 2006 – and therefore this subject would be the key focus of the February Board meeting.

POLB05/124

HOMEPHONE UPDATE POLB(05)101

(a)

(b)

# Irrelevant

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(c)

(d)

(e)

**Irrelevant**

(f)

**Irrelevant**

POLB05/125

DIRECTORY ENQUIRIES POLB(05)102

(a)

(b)

(c)

(d)

(e)

**Irrelevant**

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(f)

# Irrelevant

Action:  
Gordon Steele

(g)

POLB05/126

TELEPHONY STRATEGY POLB(05)103

(a)

(c)

(d)

(e)

# Irrelevant

(f)

(g)



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(h)

(h)

Action:  
Gordon Steele

**Irrelevant**

POLB05/127

REVIEW OF THE EFFECTIVENESS OF SALES REORGANISATION  
POLB(05)104

(a)

(c)

(e)

(f)

(g)

**Irrelevant**

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(h)

(i)

(j)

(k)

# Irrelevant

Action:  
David Miller

Action:  
Ian Anderson  
Action:  
Graham  
Halliday

Action:  
David Miller

Action:  
David Miller  
Ian Anderson  
Gordon Steele

POLB05/128

RURAL STRATEGY UPDATE POLB(05)105

- (a) David Miller presented the paper to the Board. The Board noted that:

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- (b) There was an expectation that the business would be able to secure £300m - £350m of funding over the next 3 years;
- (c) Managing the PR and the brand would be very difficult during this period, particular with the current lack of resource;
- (d) The Board agreed that:

**Action:**  
**David Miller**

- (i) the Government would be provided with a suitable form of words which would suggest an approach on formulating their Rural Strategy;

**Action:**  
**David Miller**

- (ii) further work would be conducted to determine the scale of the closures that would result from the decision to not continue with Card Account;

**Action:**  
**David Miller**

- (iii) a physically real network closure plan would be developed, and talks would be held with the Royal Mint and Bank of Ireland.

**POLB05/129 DIRECT PAY TO SUBPOSTMASTERS POLB(05)106**

- (a) The Board noted the paper.
- (b) It had been forecast that a significant proportion of business generally would be conducted online within 10 years. The Board agreed that a paper would be written to determine the business opportunities that this would present Post Office Ltd.

**Action:**  
**David Miller**

**POLB05/130 ONLINE DISCOUNT STRATEGY POLB(05)107**

- (a) The Board noted the paper.

**POLB05/131 [REDACTED] - THIRD PARTY ACCESS TO THE NETWORK POLB(05)108**

- (a) The Board noted the paper, and particular that:
- (b) [REDACTED] the Board agreed that all enquiries concerning third party access would be referred to Royal Mail Group for a decision;
- (c) the Board further agreed that Peter Corbett would write a paper for the next Board meeting to provide an analysis of the 'price per service' and the 'fixed fee' for access. This information would be required in the event that the question was asked by either a third party or Postcomm.

**Action:**  
**Peter Corbett**

**POLB05/132 HEALTH & SAFETY POLB(05)109**

- (a) The Board noted the paper, and agreed the proposed actions to continue to address the issues raised.

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**Action:**  
**Ian Anderson**

(b) The Board further agreed that the statistics on firearms incidents and iron bar attacks would be included in future Health & Safety reports.

**POLB05/133 HORIZON NEXT GENERATION UPDATE POLB(05)110**

- (a) The Board noted the paper. Ric Francis reported that:
- (b) the principles of the new deal had now been agreed which included:
- (i) the objectives of both parties, the cost curve and strive;
  - (ii) ways of working (The SI Partnership);
  - (iii) key commercial principles, including IPR, market testing, price variability, incentives and penalties, open book, commitment to future improvements.
- (c) The path to contract would be subject to obtaining the various approvals and funding;
- (d) The next steps would be to:
- (i) release interim funding from Fujitsu;
  - (ii) commence production of a detailed contract;
  - (iii) produce a business case for submission in January-February 2006;
  - (iv) sign the contract subject to approval and funding.

**POLB05/134 INTERNET INFRASTRUCTURE IMPROVEMENT POLB(05)111**

- (a) The Board noted the paper.

**POLB05/135 CARD ACCOUNT STRATEGY POLB(05)112**

- (a) The Board noted the paper. Graham Halliday emphasised the following additional matters to the Board:
- (b) assuming a static state of 4.2m cards, Post Office Ltd's annual net contribution was c£80m. However, given Government's intention to wind down card account, this would clearly not be sustainable. It was therefore essential that work continued to influence Government activity, whilst maintaining as large a share of the current customer base for Post Office Ltd as possible, and contribution through alternative products;
- (c) The effect of an £80m loss of net contribution would have serious implications for the current plan, and would affect the due diligence of the proposal being considered by Royal Mail to sell a 20% stake in the company to its employees;
- (d) work continued with the Bank of Ireland on a Prepaid card, but

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the initial interest expressed by POFS was waning because of the expense and resources required;

(e) The Board agreed that:

**Action:**  
**Graham**  
**Halliday**

(i) alternatives would be explored with Government, which would include the possibility of offering Post Office Card Account at half of the current price, subject to investigation;

**Action:**  
**Gordon Steele**  
**Action:**  
**Peter Corbett**

(ii) Gordon Steele and Crispin Beale would provide the next Board meeting with the latest market research in this area;

(iii) Peter Corbett would determine the number of branch closures that would result from the loss of income, and write a appropriate paper for the Royal Mail Holdings Board on January 10th.

**Action:**  
**Gordon Steele**  
**Action:**  
**Graham**  
**Halliday**

(iv) Gordon Steele would investigate the viability of a dual currency card which used 2 magnetic strips.

(v) Discussions with the DWP could continue to explore the way forward, but they would be advised of Post Office Ltd's intention to write regarding the impact on the branch network. Post Office Ltd would be reluctant to take the risk inherent of any contractual buy-out.

**POLB05/136 RISK AND COMPLIANCE COMMITTEE POLB(05)113**

(a) The Board noted the Risk and Compliance Committee Minutes of 29<sup>th</sup> September 2005.

**POLB05/137 ASSOCIATE COMPANY ITEMS FOR NOTING POLB(05)114**

(a) The unapproved FRTS Ltd minutes of 24<sup>th</sup> August 2005 and FRTS Holdings Ltd minutes of 24<sup>th</sup> August 2005 were noted. Gordon Steele explained that FRTS profit would be unlikely to increase from £80m, and as a result the FRTS Board were looking at diversifying with services such as International Payments.

**Action:**  
**Graham**  
**Halliday**

(b) The unapproved POFS minutes of 12<sup>th</sup> – 14<sup>th</sup> October were noted. In addition, the Board agreed that Des Crowley would succeed David Mills as Director and Chairman of POFS.

**FUNCTIONAL REPORTS**

**POLB05/138 FINANCE FUNCTIONAL REPORT POLB(05)115**

(a) The Board noted the report.

(b) There were no further issues raised given Business Performance and Solvency had already been discussed in some detail.



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POLB05/139

SALES & SERVICE REPORT POLB(05)116

(a) The Board noted the report, and also noted that:

(b)

**Irrelevant**

- (c) Service: The project to improve the recruitment process for subpostmasters, and temporary subpostmasters was progressing well. In Directly Managed branches, ten refurbishments had been completed, security upgrade and ventilation projects are being progressed and the new careerwear contract with Dimensions was in place. Work was taking place with Property Holdings and the cleaning companies to improve the standards in 122 branches where identified improvements were required. David Flowers had personally visited some of our worst sites;
- (d) Network Compliance and Conformance: A major piece of work was underway to ensure that Post Office Ltd would achieve compliance with the requirements of the new Postcomm Licence.
- (e) Crown Strategy: the forecast for this financial year stood at "45" at an average steady-state benefit of £150k per annum per branch. In terms of engagement by major high street retailers, Boots had agreed to a trial of six branches on a hosted ("concession franchise") basis. This was a new approach, but may be part of the answer to franchising large city centre locations. The WHSmith and Woolworths Executive Boards had also agreed, in principle, to trials, subject to acceptable deals being struck.
- (h) Agents Pay Round 2005: The latest projection from Finance confirmed that the likely outturn was below £525m for year end as per the original plan. Final outturn will depend on sales performance.

POLB05/140

MARKETING & DIRECT SALES POLB(05)117

(a)

(b)

**Irrelevant**

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Action:  
Gordon Steele

Action:  
Gordon Steele

**Irrelevant**

(c)

POLB05/141

**BANKING & FINANCIAL SERVICES POLB(05)118**

(a) The Board noted the report and in addition that:

(b)

**Irrelevant**

(c)

**Irrelevant**

POLB05/142

**OPERATIONS REPORT POLB(05)119**

(a) The Board noted the report and in addition that:

(b) Service Specification Programme: Christmas services this year would be a test for the fleet mix, generated as a result of the revisions and cost reduction measures. The big issue would be whether the move from armour to soft skin and the resultant loss in coin carrying capacity when coupled with RTR would cause service tension, during this critical retailing period.

(c) Cags Strategy: Plans shared with the staff associations, the frontline managers & staff and external customers. A period of consultation is now in progress. The CWU fundamentally oppose the proposal to exit the external Cash in Transit market and have prepared counter proposals.

(d) Impact: The Impact Programme remained on schedule. The roll out of Branch Trading had been completed and the decommissioning of legacy systems was at an advanced stage.

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The new POL FS (back-end branch and product accounting) and MI systems had suffered a brief period of performance problems relating to both overnight batch processing and within business day reporting. The systems were restored to satisfactory performance levels and the process of fine tuning continued. These performance related issues had frustrated progress in getting to a reliable production of Sales MI.

(e)

# Irrelevant

Action:  
Peter Corbett

POLB05/143

## HUMAN RESOURCES REPORT POLB(05)120

- (a) The Board noted the report and in addition that:

Conversions: The four conversions announced this week had caused some anger from the CWU leadership, and ballots for industrial action were expected at these Directly Managed Branches. The six conversions due to be announced on 6<sup>th</sup> December would almost certainly initiate ballots for industrial action. The earliest any official industrial action could take place would be 28 December, although it was more likely to take place in late January. Two of the six Directly Managed Branches, Dumfries and Irvine, had collocated with the RMUK sorting offices and there was the possibility of unofficial wildcat industrial action. Gareth Evans had been supportive of the Company's situation. The large surplus that could result from this exercise would be challenging to manage.

- (b) Have Your Say: 'I enjoy working here' (IEWH) was down 3% against last year – currently at 60%. Overall scores for Directly Managed Branches were once again poor this month, with IEWH down 11% compared to last November – this year scoring 53%. Working Parties continued to focus on key issues such as: facilities (all segments), sales culture, and the future for Cash Services.

- (c) Headcount: Headcount reduced by 91 in November which brought the annual total to 458 lower this year. This was well ahead of plan. Full Time Earners were down by 119 (200 better than target) which reflected the fall in overtime, casual and agency staffing. Surplus numbers stood at 106, but solutions were already in place for 50 of these cases. Staff Expenditure had been brought back on Budget.

POLB05/144

## SEALINGS POLB(05)121

- (a) The Directors approved the affixing of the common seal of the company to the documents set out against item number 184/05 and 232/05 inclusive in the seal register.

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**POLB05/145 DAVID MILLS**

- (a) David Mills would be leaving the company on the 31<sup>st</sup> December 2005. The Board conveyed their warmest thanks for the excellent work he had done as Chief Executive of Post Office Ltd over the previous 4 years.

**POLB05/146 ANY OTHER BUSINESS**

- (a) None at this time.

**POLB05/147 CLOSE**

- (a) There being no further business, the meeting was closed.