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POLB 17(5th)
POLB 17/51 – 17/64

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a meeting of the BOARD
held at 9.30am on Tuesday 25th July 2017
at 20 Finsbury Street, London EC2Y 9AQ

Present:

| | |
|------------------|---|
| Tim Parker | Chairman (TP) |
| Richard Callard | Non-Executive Director (RC) (Excluding minutes 17/51 and 17/52) |
| Tim Franklin | Non-Executive Director (TF) |
| Ken McCall | Senior Independent Director (KM) |
| Carla Stent | Non-Executive Director (CS) |
| Paula Vennells | Group Chief Executive (CEO) |
| Alisdair Cameron | Chief Financial and Operations Officer (CFOO) |

In Attendance:

| | |
|-----------------|---|
| Alwen Lyons | Company Secretary (CoSec) |
| Martin Edwards | Group Strategy Director (ME) (Minutes 17/52 and 17/59) |
| Nick Kennett | Chief Executive Financial Services and Telecommunications (NK) (Minutes 17/57 and 17/58) |
| Rob Houghton | Group Chief Information Officer (RH) (Minute 17/59) |
| Jeff Smyth | CIO FS&T (JS) (Minute 17/59) |
| Andy Garner | CIO Retail (AG) (Minute 17/59) |
| Kevin Gilliland | Chief Executive Retail (KG) (Minutes 17/60 and 17/61) |
| Lucy Pink | Product Manager - Mails & Retail (LP) (Minute 17/60) |
| Tom Wechsler | Government and Payment Services Director (TW) (Minute 17/61) |
| Christian Muir | Client Director, Commercial (CM) (Minute 17/61) |

Apologies for Absence: Virginia Holmes Non-Executive Director (VH)

POLB 17/51 INTRODUCTION

- (a) A quorum being present, the Chairman opened the meeting.

POLB 17/52 FUNDING UPDATE

- (a) The Chairman welcomed ME to the meeting.
- (b) ME provided a verbal update on the funding negotiations and the likely timetable for a response from the Shareholder.
- (c) The CFOO explained that once the detail of the funding was known a cash flow forecast would be produced to prove sustainability, at which point the Annual Report and Accounts (ARA) could be finalised with the External Auditors including a subsequent events review. **If a letter was received before the**

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ACTION: CoSec summer recess the ARA could be presented at an ARC in September, although an additional meeting might be needed.

- (d) ME explained that work was already underway on the Government's State Aid Submission.
- (e) The format of the funding and the ongoing governance was also under discussion with the Shareholder. The Board stressed the importance that the Shareholder recognise and protect the independence of the Board and challenged the need for additional governance beyond that already incorporated in the Articles of Association.
- (f) The Board thanked ME for his work to date and noted the funding update.
- (g) ME left the meeting.

POLB 17/53 **CONFLICTS OF INTEREST**

- (a) RC joined the meeting.
- (b) 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.

POLB 17/54 **MINUTES OF THE PREVIOUS BOARD MEETING INCLUDING STATUS REPORT**

- (a) The minutes of the Board meeting held on 25th May 2017 were approved and the Chairman was authorised to sign them as a true record.
- ACTION: CoSec** (b) The actions status report was noted as accurate. **The Board asked the Company Secretary to ensure that Identity Services and IT Strategy were included on the September agenda.**
- (c) The Board noted the paper on Health and Safety Directors' duties and recognised that the paper covered the duties to employees

- ACTION: Jane MacLeod** (d) **The Board asked for a separate paper setting out any Directors' duties which apply to agents.**

POLB 17/55 **CEO REPORT**

- (a) The CEO introduced her report, focussing on the following key points.
- (b) Financial Performance Period 3
The CEO reported that the financial performance was on track.

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Awards and External Recognition

- (c) The Business had received a number of awards and recognition over the last month. The CEO highlighted the change in attitude and positive report from Citizen's Advice. The report covered the effect of Network Transformation and the value of the Post Office to consumers and small businesses.

(d) **Irrelevant**

Branch Numbers and Technology Transformation

- (e) The CEO recognised the adverse trend in branch numbers and explained that the work underway to tighten up the cash in the network including an increase in the number of risk based audits had identified a few large losses and meant some branch closures.

The CFOO believed that the work underway might find more losses in the short term but would mean reducing the risk for the future. The roll out of new kit in the Network was an opportunity to audit 10% of the branches during the work. The very limited number of audits to date had not highlighted any systemic issues.

The announcement on new white space branches would be made this week which would help to increase branch numbers especially in urban areas.

(f) **Irrelevant**

(g) **Irrelevant**

- (h) The Chairman thanked the CEO for her report. The Board noted the report from the CEO.

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FINANCIAL REPORT

- (a) The CFOO presented the financial performance report for June 2017.
- (b) The cash report comparing the June performance with March

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2017 was presented in the same format produced for the Board away day, and showed a deterioration in headroom. However the headroom remained £166m above target. The main change had been an increase in cash in transit awaiting processing at cash centres caused by higher inflows, work is underway to reduce the balance by deploying additional resource.

- (c) The Board asked about the renegotiation of the security rules. The CFOO explained that discussion with Santander might produce some helpful changes.
- (d) The Board discussed agent's debt and challenged why small branches were allowed to accumulate large amounts of cash. The CFOO explained that this was a complex issue reflecting inadequacies in systems and MI, compounded by the lack of prosecutions and the drive to ensure trading at all branches versus the impact of a few criminals. Work was underway to improve the situation but would some of the solutions would take longer to implement.
- (e) The CEO explained that the decision not to prosecute agents if they could use the Horizon system as a defence would be reconsidered once Deloitte had completed their work on Horizon and could be used in court as an expert witness.
- (f) **The Board asked that the lessons learned on agent's losses, including recruitment processes, be presented at the ARC.**
- (g) The Board noted that Capital investment was £3.6m behind target and asked if the Business had the capacity to deliver the planned investment. The CEO recognised the scale of the investment and assured the Board that programmes would only be implemented if the pilots were successful, and this had slowed some of the investment.
- (h) The CFOO recognised the capacity issue and explained that by September the Executive and the Board would have some critical choices to make on the investment for the rest of the year.
- (i) The Board noted the financial performance report.

ACTION: CFOO

POLB 17/57

Irrelevant

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Irrelevant

POLB 17/58

Irrelevant

Irrelevant

ACTIONL NK

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Irrelevant

POLB 17/59

POLB 17/60

Irrelevant

POLB 17/61

POST OFFICE CARD ACCOUNT (POCa)

- (a) The Chairman welcomed TW and CM to the meeting.
- (b) KG reminded the Board of the position presented at the March 2017 Board meeting with a loss of £17.8m for POca in the 5 year plan. However recent negotiations look as if they will deliver a saving of £24m to 2021.
- (c) The Board discussed the LIBOR position and the consideration being given to a 3 year interest rate SWAP. RC was unsure how the Shareholder would respond to the proposed SWAP. The CFOO reminded the Board that the Business already uses hedging for FOREX and fuel, and that there was no governance requirement to obtain Shareholder approval.
- (d) **The CFOO stressed that no decision on the use of SWAPs would be taken without approval by the ARC, and offered to take the Shareholder through the rationale if it would be helpful.**

ACTION: CFOO

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- (e) The Board delegated authority to the Group CEO to sign a new contract with DXC and to authorise the Group CFOO, following ARC approval, to execute an interest rate swap if considered advantageous.
- (f) The Board thanked KG and the team for the improvements they had negotiated.
- (g) KG, TW and CM left the meeting.

POLB 17/62

RESIGNATION AND APPOINTMENT OF THE COMPANY SECRETARY

- (a) The Secretary presented the report.
- (b) The Board noted with regret the resignation of Alwen Lyons as Post Office Company Secretary effective from 30 August 2017.
- (c) The Board appointed Jane MacLeod as Post Office Company Secretary with effect from 31 August 2017 and authorised Alwen Lyons to make the appropriate filings at Companies House.

POLB 17/63

ITEMS FOR NOTING

- (a) Pensions Plan
The Board noted the trustee proposal.
- (b) Register of Sealings
The Directors resolved that the affixing of the Common Seal of the Company to documents numbered 1522 to 1543 inclusive in the seal register was confirmed.

(c)

Irrelevant

The CFOO reported that Post Office had four properties categorised as high rise which were covered in cladding, including Finsbury Dials. Samples of the cladding at all four properties has been sent for testing.

- (d) Meeting Dates and Forward Agenda for September 2017
The Board noted the future meeting dates and proposed forward agenda.

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ANY OTHER BUSINESS

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

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GRO

Chairman

Date

26/9/17