

Royal Mail – Strictly Confidential

POLB(10)8th
POLB 10/10 – 20

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 100 Victoria Embankment, London, EC4Y 0HQ on
3rd November 2010

Present:

Donald Brydon	Chairman
Moya Greene	Group Chief Executive
David Smith	Chief Customer Officer, Royal Mail Group
Mike Moores	Finance Director
Paula Vennells	Managing Director
Les Owen	Non Executive Director

In attendance:

Jon Millidge	Company Secretary, Royal Mail Group
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POLB10/10

MINUTES OF PREVIOUS MEETINGS

- (a) The Board noted the minutes of the meetings of 21st May 2010, 4th August 2010, 21st September 2010 and 19th October 2010;
- (b) the Board approved the minutes of 29th October 2010.

POLB10/11

CONFLICT OF INTEREST

- (a) The Board was concerned that it was able to demonstrate that it was acting in the best interests of Post Office Ltd. There was a full discussion where each member outlined their potential conflicts of interest. The Board agreed that this would be kept under review.

POLB10/12

APPOINTMENT OF DIRECTORS POLB(10)01

- (a) The Board approved the appointments of Moya Greene, Les Owen and Paula Vennells to the Board effective from 18th October 2010.

POLB10/13

HEALTH & SAFETY REPORT

Action:
Jon Millidge

- (a) The Chairman asked that future board meetings should have health and safety as its first item;
- (b) the Managing Director advised the Board that there had been 5 RIDDOR accidents in the period and that these were being investigated;
- (c) the Board noted that an employee had sustained a gunshot wound in a recent attack but had recovered well. The Board also noted that a move to single operation of vehicles was expected to reduce the

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number of such attacks as the scope for hostage taking was reduced.

POLB10/14**TERMS OF REFERENCE POLB(10)02**

Action:
Jon Millidge

- (a) The Board noted the paper on the terms of reference for the Board and its sub committees. It also noted that its minutes would be submitted to the Royal Mail Group Holdings Board as the parent company;
- (b) the Board agreed the Terms of Reference for the Board;
- (c) the Board agreed the Terms of Reference for the Audit and Risk Committee and that it should be established well in advance of separation; but in the meantime asked that the Chair of the Holdings Board Audit and Risk Committee be asked to include the Terms of Reference in his remit;
- (d) the Board agreed the Terms of Reference for the Remuneration Committee and that it should be established well in advance of separation. In the meantime it was agreed that the Remuneration Committee for the Holdings Board would perform this function.

POLB10/15**STRATEGIC PLAN AND FUNDING AGREEMENT POLB(10)03**

Action:
Mike Moores

- (a) The Board noted the funding deal agreed with the Government and congratulated the Post Office executive team on a successful result;
- (b) Dave Smith outlined the key elements of the deal:
 - (i) the deal covered the period from 2012/13 to 2014/15;
 - (ii) the financial difference between this deal and the one noted by the Royal Mail Holdings plc Board at 1 September could be explained by the period of the deal and the slower pace of change;
 - (iii) all payments from the Government were subject to State Aid clearance;
 - (iv) receipt of the funding was dependant upon achievement of milestones that were regarded by the Post Office team as straight forward to achieve;
 - (v) there was some question about the involvement of the Government in setting bonus targetry for senior managers. This was unclear to the Board and was to be resolved;
 - (vi) the terminology of the payments had been constructed with a State Aid case in mind and Dave Smith confirmed that there would be no repayment of the funding to the Government;
- (c) the Board noted that the State Aid process for the 2010/11 funding would start shortly and that it was explicit that Post Office Ltd would be expecting to conduct further discussions with the Government on the funding arrangements for 2015/16 and 2016/17. The Board

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Action:
Dave Smith

noted that if this further funding were not forthcoming then it would not be held to the number (11,500) of Post Offices required by the Government, and this should be made clear to Government;

- (d) the Board noted that the funding for 2011/12 had yet to receive State Aid clearance but there was confidence that this would be achieved. The Board further noted that if State Aid clearance were not granted then there was a risk that Post Office Ltd would no longer be a going concern;
- (e) the Board noted that both Royal Mail Group and Post Office were seeking a long term contract for the provision of mail services by Post Office.

POLB10/16

FINANCE UPDATE POLB(10)04

- (a) The Board noted the finance report and expressed concern that sales performance was still adrift of target. The Board discussed the action taken to improve sales and noted that Post Office Ltd had parted company with the Marketing Director. It also noted that an intense training programme had improved sales effectiveness by 20% for the 1000 agents who had completed it;
- (b) the Board further noted that the executive team expected to achieve its profit target but that this would be through tight cost control compensating for lower sales.

POLB10/17

BANK OF IRELAND UPDATE

- (a) Mike Moores briefed the Board on the Bank of Ireland relationship. He advised the Board that the BOI were coming to the view that the current joint venture did not provide the best way forward for selling their products within post offices. He also advised that BOI were keen to review the Gamma payments (made for selling Financial Services);
- (b) the Board noted that BOI wished to maintain exclusivity in their relationship with Post Office Ltd;
- (c) the Board agreed that metrics to check that the BOI products were fit for purpose should be established and reported back to the Board.

Action:
Mike Moores

POLB10/18

POL TENDER FOR SMOts POLB(10)05

- (a) The Board noted Mike Moores' paper on Simple Money Transmission Services and that there was an opportunity arising from the comprehensive spending review by Government to review the bid already submitted. The Board further noted that the Company was confident that its bid would provide a much higher qualitative specification than that provided by PayPoint (the other bidder), but that it was unlikely to beat the competitor on price;

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- (b) the Board noted the strategic importance of this contract to the Company and noted that it would have been able to offer a reduction in price to the Government had their requirement been for the service to be offered in the core network of 4,500 offices;
- (c) the Board agreed that the compliant bid should not be reviewed but that the variant bid would be reviewed in line with the proposal. The Board noted that this would reduce the Net Present Value of the bid from £4.6m to £2.9m and that the unit pricing would be reduced from 45p to 31.5p for the first two years from April 2012 and then to 24p;
- (d) the Board agreed that a strategy paper would be produced for a future meeting to look at the options for managing the competitive challenges from PayPoint.

Action:
Paula Vennells

POLB10/19

FORWARD PLAN FOR THE BOARD

Action:
Jon Millidge

- (a) The Board agreed the proposed dates for meetings in 2011 and asked for a further meeting to be arranged for December 2010.

POLB10/20

CLOSE

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

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