

Post Office Limited – Strictly Confidential

POLB(11)6th
POLB11/38-52

Post Office Limited
(company no. 2154540)
Minutes of the meeting of the Board of Directors
held at 148 Old Street, London EC1V 9HQ on 22nd September 2011

Present:

Donald Brydon	Chairman, Royal Mail Holdings plc
Alice Perkins	Non Executive Director, Post Office Ltd
Les Owen	Non Executive Director, Royal Mail Holdings plc
Paula Vennells	Managing Director, Post Office Ltd
Chris Day	Chief Financial Officer, Post Office Ltd

In attendance:

Neil McCausland	
Alwen Lyons	Company Secretary, Post Office Ltd
Jon Millidge	Company Secretary, Royal Mail Group

Apologies:

Matthew Lester	Chief Finance Officer, Royal Mail Group
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POLB11/38

MINUTES OF PREVIOUS MEETINGS

- (a) The minutes of the meeting of 4 July 2011 were agreed;
- (b) the minutes of the FRES Board, 28 July 2011 were noted.

POLB11/39

MATTERS ARISING

- (a) The Chairman updated the Board on the changes to the RMG structure and the POL Board which had been agreed with the Shareholder. Paula Vennells will continue her current reporting structure into the RMG CEO until the Spring of 2012. At this point, the current RMG Holdings Board would become the RMG Board and it is likely that a thin top company, consisting of the Chairmen of both businesses would be put in place. The Shareholder has agreed to the structure of a new POL Board and work is under way to fill the NED positions;

ACTION:

Alice Perkins

- (b) the Chairman emphasised the need to ensure the new Articles being drafted for POL were fit for purpose and that any draft was reviewed by the new Chairman;

ACTION:

Alwen Lyons

- (c) Les Owen asked that the BIS 'Letter of Comfort' (POLB11/30(b)) for UKBA be circulated to the Board;
- (d) the pay review paper was noted and it was re-emphasised that RMG CEO still needs to have sign-off of any agreement. The Board noted that joint RMG pay negotiations were under way with Unite. It was agreed that during Matthew Lester's absence, Jon Millidge

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would replace him on the Pay Subgroup;

ACTION:
Alwen Lyons

- (e) the Board noted the Telephony Customer Survey results and it was agreed that the Telephony Strategy should return to the Board in November for a more detailed discussion before an award is made following the tender process;

ACTION:
Paula Vennells

- (f) Les Owen asked for a wider strategic analysis of the POL brand and its attributes to understand what markets the business should be in, in the future. The Board agreed this should feed into a strategic review session.

POLB11/40

APPOINTMENT OF DIRECTORS

The Board approved the appointment of the following Directors:

- Alice Perkins;
- Chris Day;
- Neil McCausland (subject to final sign off by Shareholder)

ACTION:
Alwen Lyons

and authorised the Company Secretary to file the necessary AP01 forms with Companies House.

POLB11/41

HEALTH & SAFETY REPORT

- (a) The Board noted the Health and Safety report. Paula Vennells drew attention to the area of Road Traffic Accidents where POL 'drivers were at fault' and explained that additional research had taken place over the last month. Drivers who were shown to be at risk had been retrained and received additional coaching. This programme was 90% complete;
- (b) Paula Vennells informed the Board that a decision had been taken not to insist on CiT drivers wearing protective body armour, but this would be reviewed on a quarterly basis;
- (c) the Chairman asked if the recent riots would have changed the statistics in the H&S report. Paula Vennells reassured the Board that they would have had no effect;

ACTION:
Paula Vennells

- (d) Paula Vennells explained that a review of the Health and Safety Report was underway to include a wider remit of monitoring the safety of POL's working environment including security. Paula Vennells would agree the future structure of the report with the new Chairman.

POLB11/42

MANAGING DIRECTOR'S UPDATE

- (a) Paula Vennells updated the Board on the pensions overpayments (noting paper POLB(11)43) explaining that whilst awaiting the Internal Audit report, manual checks were being undertaken to ensure that the process problem could not recur. The estimated exposure was less than £300k and more detail would be available in

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mid October;

- (b) the Board was also informed of a loan for £3m from POL to the charity responsible for running the Postal Museum. The Chairman stressed that there was an obligation on RMG to maintain an archive but that repayment of the loan would force some financial rigour onto the charity;

ACTION:
Paula Vennells

- (c) the Board was updated on POL Separation (noting paper POLB(11)44). It was noted that the Directors will need a full brief for both the Distribution Agreement and the Master Services Agreement and their effect on the strategic plan. The Chairman stressed that progress should be made as soon as possible but that the Board should ensure it had time to give both agreements due diligence, with a signing before Christmas. Alice Perkins would like the POL Chair of Audit to be appointed before the agreements were finalised;

ACTION:
Chris Day

- (d) POL are carrying out a piece of work to define how the Business needs to change as it moves from a subsidiary to an autonomous Business, including the shape of the Executive Team. The standard format and forms of reporting is to be reviewed by the CFO. This would be brought back to the Board for discussions;

ACTION:
Alwen Lyons

- (e) Paula Vennells informed the Board that POL are working on a long term incentive plan for senior employees, hoping to replicate the RMG LTip which has now been agreed by Government. Les Owen questioned whether ShEx would agree such a scheme, although the Board agreed that there needed to be some form of incentive to retain and attract new talent. Jon Millidge pointed out that POL would have to check any scheme was permissible within the funding agreement. Alice Perkins asked for a note to the Board explaining the current arrangement, what is proposed and any funding implications;
- (f) the Minister's speech at the Liberal Democrats conference and his launch of the Mutualisation consultation was discussed. The Post Office stand and AEI demonstration had been well received. A similar presence is planned for the Labour and Conservative conferences;
- (g) Paula Vennells emphasised the need for greater publicity to support the Front Office of Government debate and hoped to have an AEI and Post & Go machine available in Portcullis House, and possibly a PO Local in the café next door;
- (h) Consumer Focus have started a campaign about the complexity of travel money markets commission and charging. POL is using this as an opportunity to show that the Post Office is a market leader for transparency. Paula Vennells thanked Shane O' Riordain and the RMG Communications team for their support in countering any negative publicity;

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Martin Moran /
Susan Crichton**

- (i) the Board was informed that the business continues to focus on Government contracts and is working on a supplier framework with DVLA which could be used across other departments. The Chairman asked that POL take the initiative in reviewing the procurement procedure to see if there is any way to challenge its application across all Government departments;

**ACTION:
Paula Vennells**

- (j) it was reported that Camelot had approached the Post Office with an offer to work in a joint venture for bill payments. This would present an opportunity to extend Lottery sales across the Network and a possible replacement for 15,000 paystations over the next two years. The Chairman asked that an analysis of the Paypoint Strategy be brought back to the Board. This will also be incorporated into a strategy day early in the New Year;
- (k) Paula Vennells updated the Board on the effects of the recent civil unrest. Six offices had been closed by the riots but all except Tottenham are now reopened. Following a suggestion from the Chairman, some financial support has been given to those subpostmasters who lost their businesses and homes. The total cost of the riots would be £350k;
- (l) the Board was informed that the Executive Team were spending the following day at a Customer Experience workshop and that the outcome would be fed into the strategy day.

POLB11/43**FINANCE PERFORMANCE**

- (a) The Board noted the Performance Report;
- (b) Chris Day explained that the Full Year Forecast would be updated at the next Board;

**ACTION:
Chris Day**

- (c) Les Owen asked if the business had received any compensation for DVLA not marketing their product whilst in dispute with another third party. Chris Day agreed to look at the contract to see if this was a claim we could pursue;

**ACTION:
Paula Vennells**

- (d) the Chairman highlighted that the Telephony numbers had worsened significantly since the last Board and emphasised the need to review the strategy;

**ACTION:
Chris Day**

- (e) the good performance on operating profit was noted and Chris Day reported that his first impressions of the Business' financial controls were good and certainly fit for purpose; its people were competent but its commercial finance capability was an area for development.

POLB11/44**IT AUDIT (SAS70)**

- (a) The IT Audit paper was noted but Les Owen clarified that the original question from the ARC was questioning why Fujitsu did not have a SAS70 audit. The ARC was not suggesting we should push Fujitsu to do a SAS70 audit if it meant POL would pick up the costs;

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- (b) Chris Day emphasised that Fujitsu do not undertake a SAS70 audit but they recognise customers, including POL, would expect it. He explained that POL were looking at any costs which would be passed on from Fujitsu before going down this route;
- ACTION:**
Chris Day
- (c) the Chairman suggested that we should align ourselves with other Fujitsu customers to ensure Fujitsu realised this standard was a customer requirement;
- ACTION:**
Mike Young /
Chris Day
- (d) Alice Perkins stressed that the Business needed to be influenced by the cost as to which route was pursued. Further clarification is required as to POL's recommendation and a noting paper needs to go to the next Board;

POLB11/45

TECHNOLOGY UPDATE INCLUDING TACTICAL AND STRATEGIC RELATIONSHIP WITH FUJITSU

- (a) The Board noted the paper. Neil McCausland asked if the IT architecture for supporting Network Transformation was clearly defined. Les Owen stressed the need to be confident in the economics of the new branch models before investing in the IT infrastructure. Mike Young explained that the Network would need an integrated EPOS system and that the pilots currently being run would help shape the solution;
- ACTION:**
Mike Young
- (b) Neil McCausland asked that the IP ownership issue be checked to ensure there is no risk in the Fujitsu contract;
- ACTION:**
Mike Young
- (c) The Chairman asked that an integrated Network & IT strategy be presented at a future Board, following a discussion about the future strategy of the business.

POLB11/46

PIN PAD REPLACEMENT BUSINESS CASE

- (a) The Chairman explained that in the current Group structure, approval for the Pin Pads would be made at the Group Investment Committee;
- ACTION:**
Mike Young
- (b) Neil McCausland asked that the Investment Committee paper be circulated;
- ACTION:**
Mike Young
- (c) Neil McCausland asked for assurance that we were not over specifying the product and if a differentiated solution for various types of branches had been considered.

POLB11/47

NETWORK TRANSFORMATION PROGRAMME UPDATE

- ACTION:**
Kevin Gilliland
- (a) The Board noted the paper and asked for a paper explaining the economic benefits of the new branch models for the Business and Subpostmaster;

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- (b) Kevin Gilliland explained that the pilots would provide case studies which would enable the Business to explain the benefits to the wider network, which it planned to do at a series of roadshows in November alongside the NFSP;
- (c) Kevin Gilliland emphasised the need to keep a positive relationship with the NFSP as their support for the Network Transformation is vital;
- (d) Alice Perkins stressed the need to maintain the positive story on Network Transformation and its effects as it would need to continue to be funded by Government beyond the current funding agreement.

POLB11/48**FIRST IMPRESSIONS OF FINANCIAL SERVICES BUSINESS**

- (a) The Board noted the first impressions paper and Nick Kennett explained that he saw a big opportunity in Financial Services but only if the Business had an effective sales model. His proposal would be to have qualified Financial Services Specialists in branch who advise customers;

**ACTION:
Nick Kennett**

- (b) the Chairman emphasised that this would require significant training and queried whether an on-line strategy would be easier to implement. Nick Kennett suggested that the sales model would be most effective with a mix of both channels;

**ACTION:
Nick Kennett**

- (c) Nick Kennett discussed the NS&I Premium Bond issue and was asked whether the BoI agreement enabled POL to provide a white label Premium Bond from another provider;

**ACTION:
Nick Kennett**

- (d) Nick Kennett supported the introduction of a Current Account, as this was the product which gave the Business the relationship with the customer. The target for introduction was 2013. A full proposition needed to be presented to the Board;

**ACTION:
Chris Day**

- (e) Nick Kennett updated the Board on the Insurance product risk if the number of policies falls below 300k. At this point, a penalty could be enforced by Junction which could cost the Business £21m. The Business has put measures in place to reduce the customer attrition and the decline has flattened. This is reviewed on a weekly basis. Neil McCausland asked for the metric to be added to the Board Performance pack.

POLB11/49**PROJECT EAGLE UPDATE**

- (a) Les Owen reported that he had been through the Project Eagle analysis with Nick Kennett and was in agreement with the approach;

**ACTION:
Alwen Lyons**

- (b) an update paper was circulated at the Board and will also be attached to these minutes;

**ACTION:
Alice Perkins**

- (c) the Board noted the approach and agreed to form a sub-committee to ratify this. Alice Perkins and Les Owen would agree on the members of the sub-committee.

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POLB11/50

**BOARD RESOLUTION: APPOINTMENT OF HSBC BANK PLC
AS BANKERS TO POST OFFICE LIMITED**

**ACTION:
Alwen Lyons**

- (a) The Board approved the appointment of HSBC Bank Plc, however, the Chairman asked that Shane O’Riordain (RMG Director of Communications) be advised as this appointment could trigger press interest after Edward Davey’s conference speech.

POLB11/51

POST OFFICE LIMITED – SEALINGS

- (a) The Board noted the Sealings Register.

POLB11/52

RESIGNATION AND APPOINTMENT OF BOARD CHAIRMAN

- (a) The Board noted the resignation of Donald Brydon as Chairman and Director of the Board, with effect from 22 September 2011. The Board approved the appointment of Alice Perkins as Chairman of the Board, with effect from 22 September 2011;
- (b) Paula Vennells thanked Donald Brydon for his time as POL Chairman.

POLB11/53

ANY OTHER BUSINESS

- (a) The following papers were noted:
- Multi Growth Bond
 - BT Termination Notice – Summary
 - Pensions Overpayment Report
 - POL Separation - RMH(11)88
 - Travel Money Card – Fraud Update
 - POL Board – Devolved Powers

POLB11/52

CLOSE

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